Reality Check: Raising Revenue for Structural Reform and Large-Scale Public Investment

Our debate about what is possible in U.S. policy is severely constrained by the assumption that our public resources are scarce and already overspent, meaning we are not capable of the large-scale social investments needed to provide every American with income security and a dignified life. This assumption is misguided and false.

Implementing tax policies that would curb the disproportionate concentration of wealth in the corporate and financial sectors could simultaneously create the capacity for real public investment and promote economic growth. Even if the policies we analyze for their revenue potential raised no revenue, they would still be worthwhile reforms to create a healthier economy with proper incentives.

We analyze in detail the following tax policy reforms and gather a range of government and academic estimates of their potential revenue. It is important to note these revenue estimates cannot necessarily be added to one total sum, as some are mutually exclusive and all are subject to interacting effects if implemented jointly.

Financial transaction tax:
- The FTT would curb speculative trading, tame the outsized growth of the financial sector, and reduce income inequality.
- The revenue potential: $35.2-300 billion annually.

Taxing bank leverage:
- Taxing the amount of debt banks use to finance transactions would reduce systemic risk in the banking sector to prevent future financial crises.
- The revenue potential: $9.8-11 billion annually.

Reducing the corporate debt bias:
- The current incentive to fund business operations through debt rather than equity decreases those entities’ ability to sustainably absorb losses.
- The revenue potential: up to $81.5 billion annually.

Taxing capital gains as ordinary income:
- Eliminating preferential treatment of capital gains would reduce incentives for rent-seeking, lessen income inequality, and bring us closer to a rate of taxation optimal for economic growth.
- The revenue potential: $84.9-135.5 billion annually.

Reforming carried interest:
- Eliminating the special tax treatment for partners in private equity and hedge funds would properly classify labor income as such.
- The revenue potential: $2-8 billion annually.

Fair corporate taxation:
- Eliminating loopholes that distort where businesses make their revenue (and removing subsidies for activities that harm the environment) will align corporation’s productive activity and profits.
- The revenue potential: $147.5-252.9 billion annually.

Reducing the passthrough entity bias:
- Allowing too many businesses to be classified as passthroughs instead of corporations opens an arbitrary preferential tax treatment at the entity level, which has been a driving force for the dramatic rise in the income share of the top 1%.
- The revenue potential: up to $31 billion annually.

It is unlikely these reforms can pass in today’s political climate. However, the fact remains that America has enormous wealth currently captured by a small minority. By realigning the incentive structures built into our tax code, we can promote productive economic behavior while raising billions of dollars.