



United States Senate Committee on the Budget

Full Committee Hearing on “Making Wall Street Pay Its Fair Share: Raising Revenue,
Strengthening Our Economy”

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Thank you, Chairman Whitehouse, Ranking Member Grassley, and members of the Committee. It is a great pleasure to be able to discuss future directions of tax policy with you. In the few minutes I have, I want to emphasize four directions for reform. They all center on making our tax code more equitable and helping it to create a more dynamic economy that promotes the well-being of all Americans, rather than just Wall Street and other corporate giants or the wealthiest individuals.

In my remarks below, I will illustrate how the tax code has explicitly contributed to inequality and excessive financialization of the economy, and distorted the allocation of investment towards fossil fuels and real estate and away from investments that would sustainably raise living standards. In particular, US tax policy provides considerable advantages for unproductive activity from Wall Street firms and wealth investors.

The first set of reforms should be obvious, but there are strong forces pushing the other way: We need to close the loopholes and eliminate the special provisions that result in the richest individuals and most profitable firms not paying their fair share of taxes. Those at the top pay a smaller proportion of their true income (especially if we were to include unrealized capital gains) than do the less well off.¹ Today, remarkably, billionaires in the United States have a lower effective tax rate than working class Americans.

It makes no sense that dividends and capital gains should be taxed at lower rates than wages—it is fundamentally inequitable that someone who is receiving dividends in his beach resort from inherited stocks should pay a fraction of the

¹ See, for example: Leiserson and Yagan (2021); Eisinger, Ernsthausen, and Kiel (2021); Gale and Vignaux (2023); and Saez and Zucman (2019).

taxes of a nurse who is working long hours to take care of us during the COVID-19 pandemic. Or that a hedge fund manager uses the carried interest loophole so she, too, can escape much of the taxes she would otherwise have to pay.

Fair taxation of capital gains would eliminate their tax advantages over other forms of income by at least equalizing tax rates. Further, we should implement a constructive realization policy, where gains are taxed based on the current value of assets, rather than only when gains are realized (entailing mark-to-market for marketed assets).² At a bare minimum, failing to implement a fully effective system of constructive realization, we need to tax fully unrealized capital gains at death. As it now stands, we tax capital gains only upon realization, which can give rise to a locked-in effect and marked de facto preferential treatment.

To start, Congress should implement President Biden’s proposed “Billionaire Minimum Income Tax,” which would require households worth more than \$100 million to pay a 25 percent annual minimum tax on their full income, including realized and unrealized gains. Because wealth can be easily shifted from one country to another, international coordination is needed to ensure that every country can impose an effective minimum tax on the rich. Brazil’s G20 initiative, for example, proposes a global minimum capital income tax of at least 2 percent of wealth. These two policies would go a long way to support efforts to tax the ultra-rich and reduce today’s extreme levels of inequality.³

The more profitable the corporation and the richer the individual, the more they avail themselves of the opportunity to avoid taxation. Corporations, for instance, shift their reported profits to low-tax jurisdictions.⁴ While I commend the efforts to curtail such activities, for instance through the imposition of a global minimum corporation tax, what has been done so far falls far short of what needs to be done. In particular, the minimum corporate tax rate should be significantly increased from the current levels in US law and the levels in the proposed OECD pillar II.⁵

Worse, many of these special provisions not only deprive the country of revenues needed for critical investments—they work in ways to weaken the economy. They have enabled and incentivized shareholder payouts, including share buybacks,

² There are many details of such a system which I do not have time to expound on today.

³ Stiglitz and Ghosh (2024).

⁴ See, for example: Alstadsæter, Godar, Nicolaidis, and Zucman (2024); Gravelle (2009); and Dowd, Landefeld, and Moore (2017).

⁵ Independent Commission for the Reform of International Corporate Taxation (2024).

which means that companies have fewer resources to invest.⁶ They reward companies for devoting their energies to tax avoidance rather than becoming more innovative. Companies that excel in tax avoidance or in garnering for themselves monopoly profits grow at the expense of others, leading to a less dynamic, less efficient, and more distorted economy—and a more inequitable society, which feeds into the growing inequality in our country and into a pervasive sense of a system that is unfair and rigged.

The second category of tax reforms are centered on eliminating special provisions that are directly distortionary. The most obvious example are the large subsidies we provide through the tax system for fossil fuels, as this Committee has previously examined.⁷ Our tax system has also encouraged the excessive financialization of the economy, with preferential treatment especially provided for debt finance, making the economy less stable, increasing inequality, and providing tremendous payouts for Wall Street firms.⁸ These distortions became manifest in the 2008 financial crisis, and the country paid an enormous price.⁹ But that was just the easily visible tip of the iceberg.

The third category of tax reforms are those that use the tax code actively to create a better economy and society, most importantly by curtailing activities that generate negative externalities and encouraging those that generate positive externalities. Carbon and other environmental taxes are the most obvious examples of the former, the subsidies embedded in the Inflation Reduction Act (IRA) and R&D tax credits (when appropriately designed) are good examples of the latter. A financial transactions' tax should also be considered: It would discourage unproductive speculation that can sometimes lead to macroeconomic instability, which imposes enormous costs on our society.¹⁰

The final category of reforms would improve the efficiency of the tax system by focusing more on non-distortionary areas, where elasticities are low. These are of several kinds. The first are windfall profits taxes—the huge profits, for instance, that accrued to oil and other energy companies in the months after Russia's invasion of

⁶ See, for example: Hager and Baines (2023); Palladino (2018); and Korinek and Stiglitz (2009).

⁷ See, for example: Friedman (2024); Erickson and Achakulwisut (2021); International Energy Agency (2022); and Brind'Amour (2024).

⁸ See, for example: Lin and Tomaskovic-Devey (2013); Palladino (2018); and Gordon (2010).

⁹ See, for example: Hemmelgarn and Nicodème 2010; Keen, Klemm, and Perry (2010); and Slemrod (2009).

¹⁰ See Lincoln (2015) and Wamhoff, Roque, and Schieder (2019). For an early discussion, see Stiglitz (1989).

Ukraine.¹¹ While ordinary Americans struggled to pay their energy bills, oil companies were raking in unprecedented profits, and not through any work on their part. It was a big mistake not to have imposed a tax on those profits and used some of the revenue to help those who were suffering because of these price surges.¹²

The second kind of non-distortionary taxes includes the speculative returns to land. Preferential taxation of land doesn't result in more land. Savings diverted to land speculation is savings that could have gone into productive capital accumulation or R&D. No country became prosperous on the basis of real estate speculation. Yet, we give real estate strong preferential treatment.

The same thing is true for natural resources more generally. The rents generated by such resources should be taxed at higher—not lower—rates than those imposed on other sources of income.

This is true, too, for other forms of rent—most notably, monopoly rents. Taxing monopoly rents would doubly benefit the economy. First, it would discourage monopolies, leading to a more competitive, dynamic economy. The equity value of these monopoly rents (their present discounted value) also diverts savings from more productive uses, just as land speculation does.¹³

These are all reforms that would improve equity while they increase the efficiency of our tax system. There are still others that I could have discussed, which contribute greatly to our country's inequality and simultaneously hurt economic performance. The provisions that allow CEOs to pay a lower tax rate are an example: This is money that would have been better spent on investments in people, research, and equipment. Disparities of pay undermine morale. The non-transparent dilution of shareholders is taking money away from retirees.

The comprehensive reform agenda I've laid out will take time and effort to implement fully. But in the meanwhile, there are some simple reforms that could be done quickly:

1. Remove the tax advantage for capital gains over other forms of income;

¹¹ McCormick (2022) and Ziady (2023).

¹² Independent Commission for the Reform of International Corporate Taxation (2022); As Senator Whitehouse and a number of members of this committee suggested.
<https://www.whitehouse.senate.gov/news/release/after-record-year-for-big-oil-whitehouse-reva-mps-bill-to-claw-back-windfall-profits-and-send-relief-to-the-american-public/>.

¹³ Mitchell and Holmberg (2023); Hager and Baines (2023); and Lusiani and DiVito (2024).

2. Implement a constructive realization policy, taxing assets based on their current value rather than only when the gains are realized, and fully tax any unrealized/untaxed capital gains at death;
3. Implement a minimum income tax, along the lines of President Biden's proposed "Billionaire Minimum Income Tax" and Brazil's proposed 2 percent global minimum wealth tax now being discussed within the G20;¹⁴
4. Increase the minimum corporate tax rate;
5. Eliminate tax subsidies for fossil fuels and implement carbon and other environmental taxes;
6. Expand and make permanent subsidies that increase productive economic activity, such as R&D tax credits;
7. Implement a financial transactions tax;
8. Implement windfall profits taxes;
9. Reverse preferential tax treatment for income from land and other natural resources;
10. Require greater transparency requirements for stock options, including disclosure of dilution of existing shareholders and eliminate preferential treatment (including their being subject to payroll and Medicare taxes) of pay, including retirement benefits, for all high-income individuals, including CEOs.

We can create a more equitable tax system that generates substantially more revenue and promotes growth. The principles are clear, and in many cases, their application is straightforward. Vested interests, reflected through the power of money in our politics, are what stand in the way.

Thank you for your time, and I look forward to your questions.

¹⁴ [14] Elliott (2024) and Stiglitz and Ghosh (2024).

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