

A conversation with Daniel Shaviro on July 17, 2014

Participants

- Daniel Shaviro – Wayne Perry Professor of Taxation, New York University School of Law
- Ruth Levine – Research Analyst, GiveWell
- Howie Lempel – Research Analyst, GiveWell

Note: This set of notes was compiled by GiveWell and gives an overview of the major points made by Professor Shaviro.

Summary

GiveWell spoke with Professor Shaviro about strategies for tax reform. Professor Shaviro believes that there is sufficient work being done on translating academic research on possible tax reforms into actionable policy agendas and that additional work is probably not needed; barriers to tax reform are political, not technical.

Changes in tax reform strategy

Previous goals for tax reform aimed to broaden the tax base while lowering tax rates, so that policies would be revenue-neutral. This strategy was used in the tax reforms of 1986. Though the 1986 reforms were important, modern tax policy requires different strategies for the following reasons:

- The U.S. government will develop a fiscal deficit if it continues spending and taxing at current rates, so revenue-neutral plans such as the National Commission on Fiscal Responsibility and Reform (Simpson-Bowles) recommendations are less desirable than plans that increase revenue.
- Previously, there was widespread consensus that tax rates should be lowered. However, if one wants to reduce wealth inequality, it is unclear whether tax rates on high-income individuals should be decreased. Peter Diamond and Emmanuel Saez believe that the income tax rate for high-income individuals should be 70%.
- The major tax expenditures in 1986 differ from the current major expenditures, which include deductions for home mortgage interest, state and local taxes, charitable contributions, and employer-provided health insurance. These deductions involve additional policy issues, because they relate to policy objectives that may have widespread support. Many of the gains from tax reform would result from re-designing misdirected or inappropriate tax preferences.

Examples of tax reform strategies

Professor Shaviro suggested that a lot of good work has already been done in developing tax reform proposals, often viewed sympathetically by experts across the ideological

spectrum, that have languished for political reasons. But some relatively limited changes that could merit from further advocacy or development include the following:

- There is room to work on improving the structure of inheritance and gift taxes. Lily Batchelder has proposals related to inheritance taxes.
- Congress should empower local jurisdictions to collect sales taxes for products sold by out-of-state sellers.
- There are good arguments for encouraging or even requiring state and local income taxes to use the same tax base as the federal income tax. In general, however, state and local taxes should be less progressive than federal income taxes, because high-income people can leave a state or municipality in response to high taxes more easily than they can leave the U.S.

Former Senator Max Baucus and Congressman Dave Camp have developed international and other tax reform plans that generally attract greater sympathy from experts than Congress or either party's leadership.

Tax reform advocates could devote more energy to criticizing Grover Norquist's interpretation of his anti-tax increase stance as applying to special tax breaks that are functionally equivalent to government spending..

Other people and organizations working on tax reform

There is not a significant amount of additional work that needs to be done in developing intellectually plausible plans for major tax reform. This has already been a major focus of the tax policy community for many years. Technical barriers to implementation are generally not as formidable as political obstacles. If the next president were committed, say, to implementing a value-added tax (VAT) in two years, it would be technically feasible if the political process of enactment went smoothly. The main reason for a lack of political progress on tax policy is the lack of consensus.

Professor Shaviro co-organized the 2013 National Tax Association Annual Conference on Taxation, the headline session of which focused on tax reform. As the speakers themselves would surely have agreed, all of the alternatives presented are well-known in the tax policy community. Again, the chief barriers to implementation of tax reform are political, rather than reflecting a lack of ideas.

Calvin Johnson, a professor at the University of Texas School of Law, has been directing the Shelf Project, which lists tax proposals to increase revenue. This list is well worth focusing on, although views may differ as to particular proposals.

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