

# The Emperor's Tax Reform Plan has no Clothes

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As the US Congress confronts choices on tax reform, how best to stimulate the economy and to target assistance to “the working people, and the working poor” one needs to take note that there are no studies to support that this proposed “tax cut / tax reform plan” will deliver on its stated promise. Indeed there are many studies that suggest that this “plan” could do exactly the opposite of what is intended – it could increase federal deficits in the extreme and deregulation of all sorts can help set the table for disasters to follow. Economists Emmanuel Saez and Gabriel Zucman estimate that wealth and income gaps are now the highest since 1929, itself a warning bell. **(See figures 1-3).**<sup>i</sup> It would make sense to me that national financial markets would be skeptical of such plans, rather than “giddy over potential tax cuts and windfalls”. Taking the Reagan Administration tax cuts and combining the Clinton Administration financial deregulations as a model, we should be aware that this combination “laid the foundation” for the national economic meltdown and the Great Recession that followed in the period 2007 to 2011. Wealth and income gaps have become wider from the 1970's onward. In simple language an economic rebound where benefits are broadly shared is healthy for the national economy, while an economic rebound where wealth and income benefits are limited to “the fortunate few” bodes ill for a broad and sustaining rebound and a stimulus that contributes to economic mobility of “the many”, which is the stated goal. Indeed it is very hard to see how tax-cuts for the wealthiest will “rebuild infrastructure and create lasting economic mobility” for US citizens and workers.<sup>ii, iii, iv, v, vi</sup>

Enlightened government policy builds on past successes, rather than “tearing it all down” and replacing current policy with “who knows what”, based on a hunch or longshot gambles for a “big-score”. Truly the current plan looks like a longshot gamble rather than a seasoned and rational approach to rebuilding and guiding the US economy forward. Looking at the major components of the US economy, US health care is about 20% of the national economy, while real estate, construction and housing are also about 20%. While the Federal Reserve System uses monetary policy to stabilize the economy, it does not “guide the economy” into effective ways of curing major drags like: the increasing lack of affordable housing for all but the wealthiest families; wealth and income gaps that concentrate benefits to the few rather than the many and the flip-side of higher debt levels that can crush economic expansion and economic

mobility; literacy gaps that limit economic mobility and feed higher incarceration-rates just to name a few.

So this memo recommends more substantive efforts and plans for rebuilding the US economy over the next 100-200 years, and begs more sure-footing rather than longshot gambles. The Affordable Care Act (ACA) should be built-up and built-out rather than abandoned. It is too important to the US health care system to tear-down without thoughts to effects on both individuals and the national economy. A second prong of economic policy aimed at economic expansion, infrastructure and improving economic mobility for many is an expansion of the Low Income Housing Tax Credit (LIHTC). The LIHTC could be a very useful tool, given its demonstrated success in generating new affordable housing units.

The LIHTC is a powerful tool to increase affordable housing in conjunction with the Rental Assistance Demonstration Program (RAD) initiated in 2011. RAD has become HUD's primary program for addressing the critical needs of lower-income households, but affordable housing is now a central-issue across the national economy.<sup>vii,viii, ix</sup> Mixed-income and mixed-use projects that contain affordable housing-units and allow for the leveraging of public, non-profit and private funding sources have become an important component. During the period 1991–2013 tenant-based housing vouchers increased from 1.2 to 2.2 million units, and Low Income Housing Tax Credits (LIHTC) generated 2.2 million affordable housing units.<sup>x</sup>

A recent report on the Trump Administration's proposed budget and policy-changes and effects on housing by the Center on Budget and Policy Priorities (CBPP) indicates it would exacerbate problems for low-income households, and it would be disproportionate by punishing those most in need. **(See figures 4, 5).** The U.S. government has determined that the older Public Housing Model results in poor outcomes for its residents, leading to the development of different initiatives for government subsidized housing, such as the creation of mixed-income and mixed-use projects and neighborhoods using the LIHTC and RAD. It is hoped that these newer models for subsidized housing will create better outcomes, as ultimately, new solutions leading to trajectories of moving-up and out of subsidized housing are in critical need.<sup>xi, xii, xiii</sup>

Other more powerful forces to ignite the economy could be steps to reduce the wealth and income gaps and to increase literacy for all US citizens and this can be done by linking national economic policy and tax reforms with economic mobility goals. Boston Mayor Marty (Martin) Walsh explicitly acknowledges that "income and wealth inequality are the biggest challenges facing our nation. What's more, they have negative impacts on our collective economic health and future." Much research has been done on wealth and income gaps, including studies by the PEW Charitable Trusts, The London School of economics (LSE), The Federal Reserve System

(FRS), The Organization for Economic Cooperation and Development (OECD) and others. While a capitalist system should and does generate differentiation in income and wealth, extreme-levels create drags on the economic-engine, just as failures to promote higher literacy-rates do.

HUD's Worst Case Housing Report 2017 states, "Worst Case Housing Needs are defined as renters with very low incomes (below half the median in their area) who do not receive government housing assistance and who either paid more than half their monthly incomes for rent, lived in severely substandard conditions, or both. HUD's report finds that housing needs cut across all regions of the country and include all racial and ethnic groups, regardless of whether they live in cities, suburbs or rural areas. In addition, HUD concluded that large numbers of worst case needs were also found across various household types including families with children, senior citizens, and persons with disabilities." <sup>xiv,xv</sup>

The HUD Worst Case Housing Report 2017 goes on to say, "Despite continued signs of a strengthening national economy, severe housing problems are on the rise. In 2015, 8.30 million households had worst case needs, up from 7.72 million in 2013 and approaching the record of 8.48 million in 2011. **(See figure 6)**. High rents in proportion to renter incomes remain dominant among households with worst case needs, leaving renters with substantial unmet need for affordable housing. Severe housing needs have grown 41 percent since the beginning of the Great Recession in 2007 and 66 percent since 2001. Worst case needs continue to affect all subgroups, whether defined by race and ethnicity, household structure, or location within metropolitan areas or regions."

Thank you for the opportunity to engage this challenging subject area.

George by 2025, by George

Citizen candidate for President

Moving from the darkness towards the light ...

## FIGURES

Figure 1

### WEALTH INEQUALITY IN THE UNITED STATES SINCE 1913 521

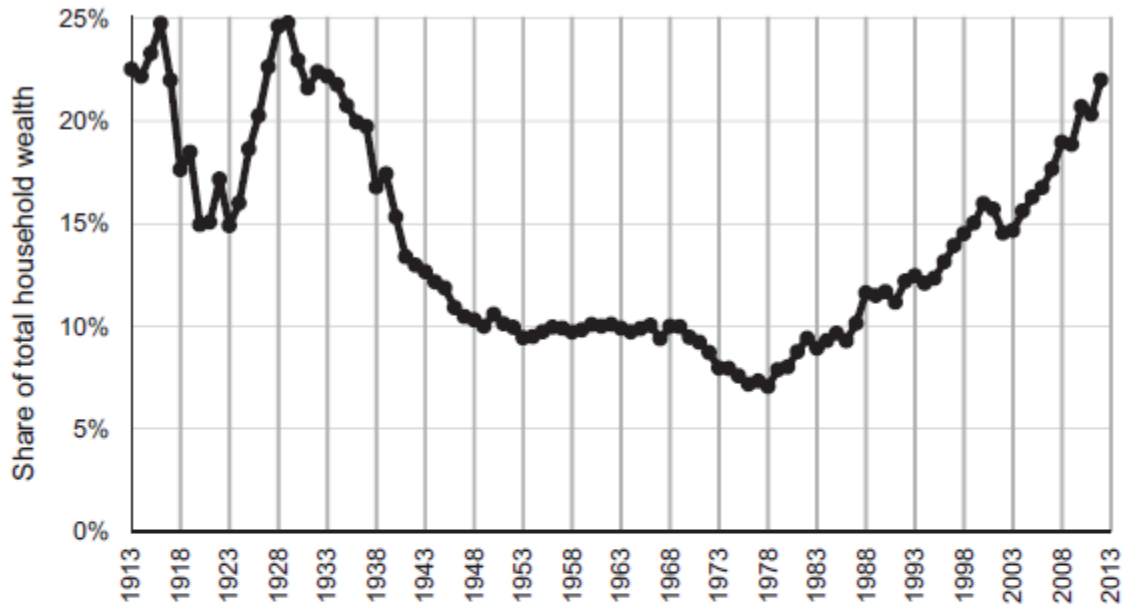


FIGURE I

#### Top 0.1% Wealth Share in the United States, 1913–2012

The figure plots the share of total household wealth owned by the richest .1% of families in the United States from 1913 to 2012. The unit is the family (either a single person aged 20 or above or a married couple, in both cases with children dependents if any). The top .1% is defined relative to the total number of families in the population. In 2012, the top .1% included about 160,000 families with a net wealth above \$20.6 million. Source: Online Appendix Table B1.

Saez, Emmanuel and Gabriel Zucman. 2016. "Wealth Inequality in the United States since 1913: Evidence from Capitalized Income Tax Data." *The Quarterly Journal of Economics* 131 (2): 519-578.  
doi:10.1093/qje/qjw004. <https://academic-oup-com.ezproxy.neu.edu/qje/article/131/2/519/2607097>.

Figure 2

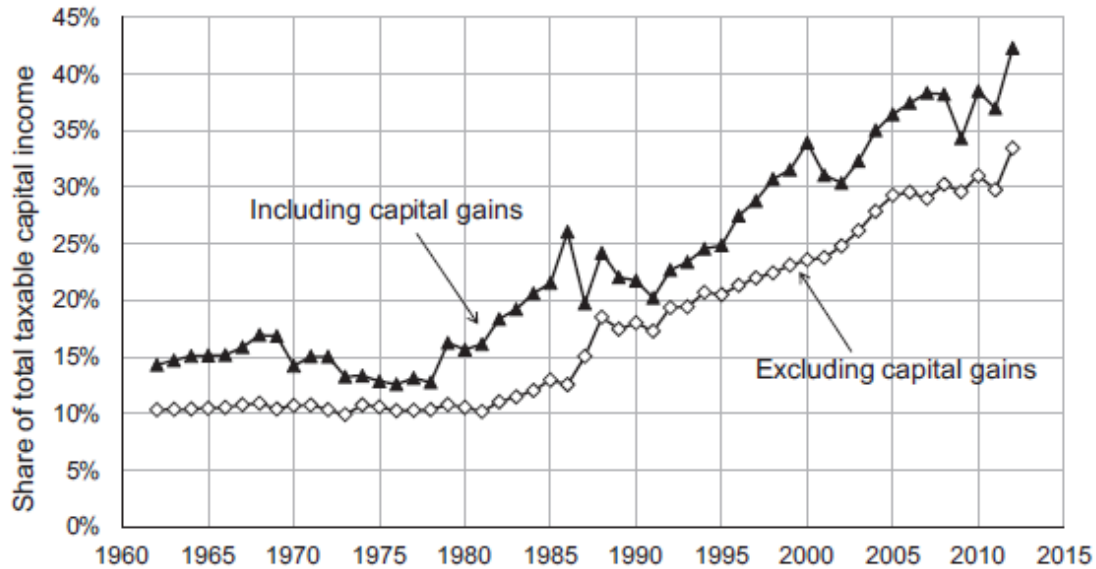


FIGURE III

The Top 0.1% Taxable Capital Income Share in the United States, 1962–2012

The figure plots the top 0.1% taxable capital income share in the United States from 1962 to 2012. Taxable capital income includes dividends, taxable interest, positive rents, estate and trust income, as well as the positive profits of S-corporations, sole proprietorships, and partnerships (negative profits and negative rental income are disregarded). Taxable capital income excludes tax exempt interest paid by state and local bonds (munis). The top series includes positive realized capital gains. The unit is the family (either a single person aged 20 or above or a married couple, in both cases with children dependents if any). The top .1% is defined by ranking families by capital income (either including or excluding capital gains). Source: Online Appendix Tables B21 and B22.

Saez, Emmanuel and Gabriel Zucman. 2016. "Wealth Inequality in the United States since 1913: Evidence from Capitalized Income Tax Data." *The Quarterly Journal of Economics* 131 (2): 519-578. doi:10.1093/qje/qjw004. <https://academic-oup-com.ezproxy.neu.edu/qje/article/131/2/519/2607097>.

Figure 3

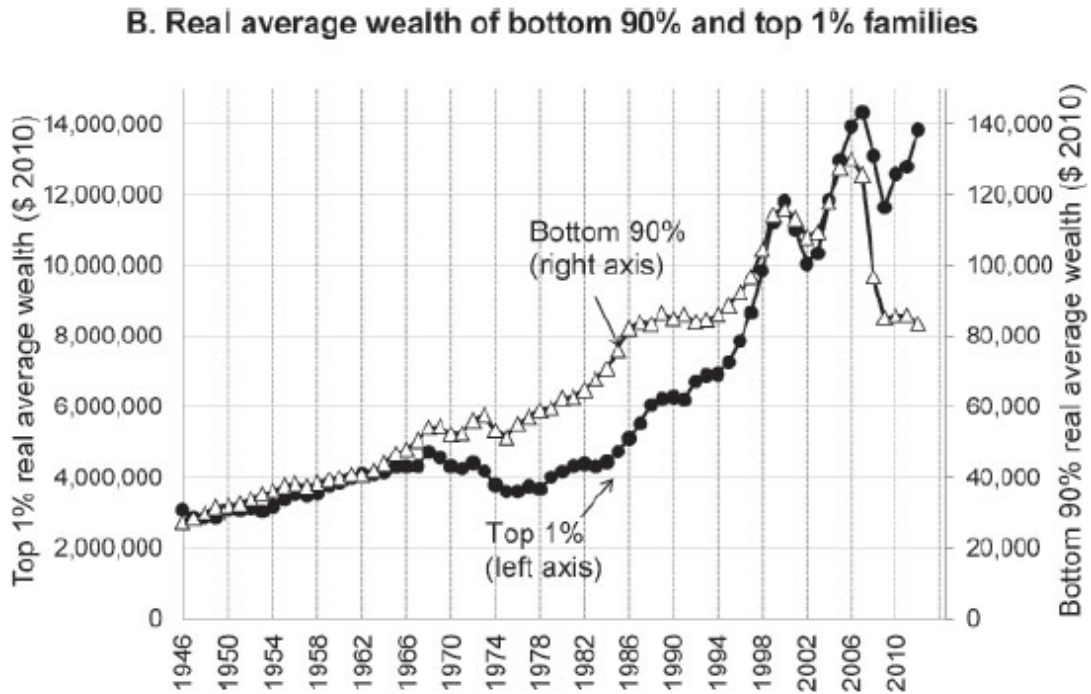


FIGURE VII

**Wealth of the Bottom 90% of the Distribution**

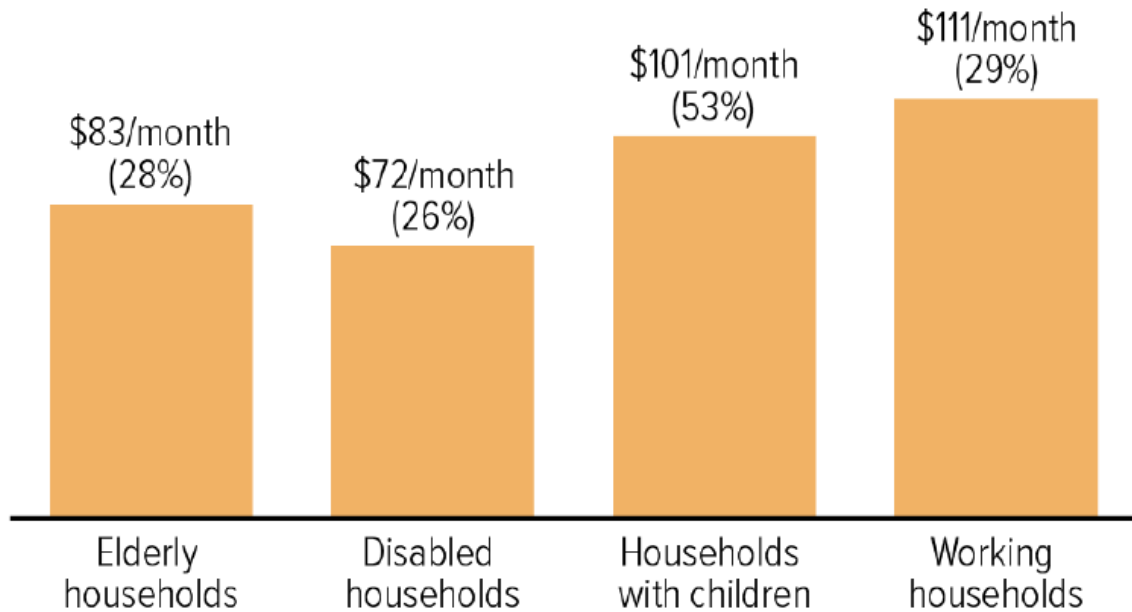
Panel A plots the wealth share of the bottom 90% and its composition from 1917 to 2012 lumping together the category of equities, fixed claim assets net of all non-mortgage debt. Panel B depicts the average real wealth of families in the bottom 90% (right y-axis) and families in the top 1% (left y-axis) from 1946 to 2012. Wealth is expressed in constant 2010 dollars, using the GDP deflator. Source: Online Appendix Tables B3 and B5.

Saez, Emmanuel and Gabriel Zucman, 2016. "Wealth Inequality in the United States since 1913: Evidence from Capitalized Income Tax Data." *The Quarterly Journal of Economics* 131 (2): 519-578.  
doi:10.1093/qje/qjw004. <https://academic-oup-com.ezproxy.neu.edu/qje/article/131/2/519/2607097>

Figure 4

## Trump 2018 Budget Would Raise Rents for Wide Range of Low-Income Households

Average rent increase for HUD-assisted households



Note: Disabled households are headed by a person with a disability. Elderly households are headed by a person age 62 or older. Working households had at least one member with earnings in 2016.

Source: CBPP analysis of 2016 Department of Housing and Urban Development (HUD) administrative data

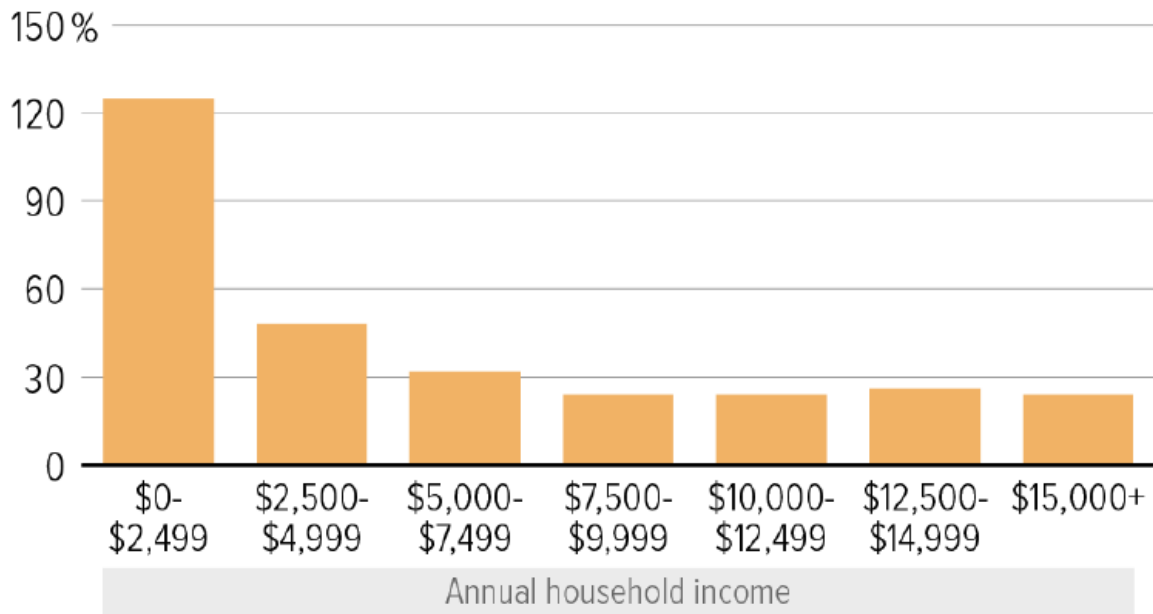
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Fischer, Will Sard, Barbara Mazzara, Alicia. "Trump Budget's Housing Proposals would Raise Rents on Struggling Families, Seniors, and People with Disabilities." Center on Budget and Policy Priorities. Center on Budget and Policy Priorities, last modified -07-11T14:51:17-04:00, accessed Oct 25, 2017, <https://www.cbpp.org/research/housing/trump-budgets-housing-proposals-would-raise-rents-on-struggling-families-seniors>.

Figure 5

## Trump 2018 Budget Would Impose Biggest Rent Hikes on Lowest-Income Households

Percent increase



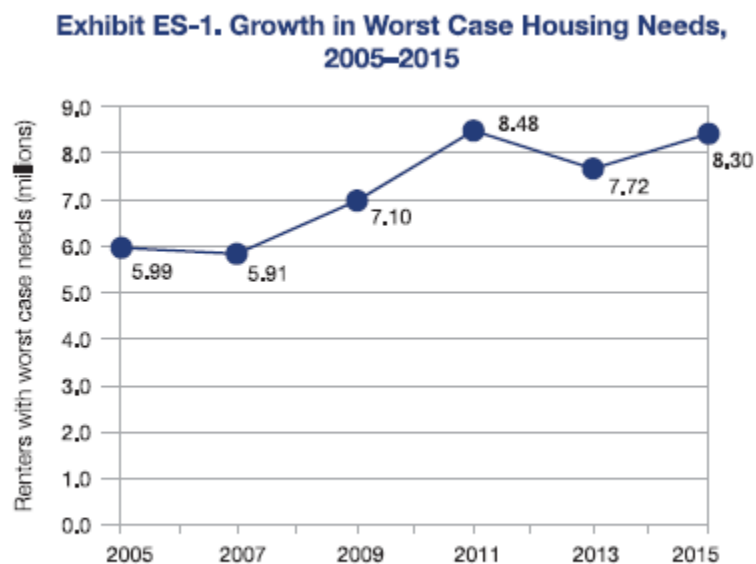
Source: CBPP analysis of 2016 Department of Housing and Urban Development administrative data

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Fischer, Will Sard, Barbara Mazzara, Alicia. "Trump Budget's Housing Proposals would Raise Rents on Struggling Families, Seniors, and People with Disabilities." Center on Budget and Policy Priorities. Center on Budget and Policy Priorities, last modified -07-11T14:51:17-04:00, accessed Oct 25, 2017, <https://www.cbpp.org/research/housing/trump-budgets-housing-proposals-would-raise-rents-on-struggling-families-seniors>.



**Figure 6**



Source: HUD-PD&R tabulations of American Housing Survey data

HUD, PD&R, 2017. "HUD Reports "Worst Case Housing Needs" Increased in 2015 8.3 Million Households Paid More than Half their Income for Rent Or Lived in Substandard Housing." Department of Housing and Urban Development, Office of Policy Development and Research, last modified Aug 9, accessed 10/25/, 2017, [http://ezproxy.neu.edu/login?url=http://go.galegroup.com.ezproxy.neu.edu/ps/i.do?p=AONE&sw=w&u=mlin\\_b\\_no\\_rthest&v=2.1&it=r&id=GALE%7CA500217561&asid=f63bf5603f237505389e563eed2f105f](http://ezproxy.neu.edu/login?url=http://go.galegroup.com.ezproxy.neu.edu/ps/i.do?p=AONE&sw=w&u=mlin_b_no_rthest&v=2.1&it=r&id=GALE%7CA500217561&asid=f63bf5603f237505389e563eed2f105f).

## Footnotes

<sup>i</sup> Economists Emmanuel Saez and Gabriel Zucman estimate that wealth and income gaps are now the highest since 1929, itself a warning bell.

<sup>ii</sup> OECD Publishing. In It Together: Why Less Inequality Benefits All. Paris: OECD Publishing, 2015. Accessed November 3, 2017. ProQuest Ebook Central. <https://ebookcentral.proquest.com/lib/northeastern-ebooks/detail.action?docID=3564375#>

<sup>iii</sup> Bernstein, Jared. 2017. "Perspective | Barriers to Opportunity in Today's America." *Washington Post*, -04-03T06:00-500, NA. <https://www.washingtonpost.com/posteverything/wp/2017/04/03/barriers-to-opportunity-in-todays-america/>.

<sup>iv</sup> Sharkey, Patrick 2009. "Neighborhoods and the Black-White Mobility Gap, PEW 2009. [http://www.pewtrusts.org/~media/legacy/uploadedfiles/wwwpewtrustsorg/reports/economic\\_mobility/pewsharkeyv12p\\_df.pdf](http://www.pewtrusts.org/~media/legacy/uploadedfiles/wwwpewtrustsorg/reports/economic_mobility/pewsharkeyv12p_df.pdf)

<sup>v</sup> The Federal Reserve Bank of St. Louis, and The Board of Governors of the Federal Reserve System. Economic Mobility. 2016. Accessed 10/25/17 from [https://www.stlouisfed.org/~media/Files/PDFs/Community%20Development/EconMobilityPapers/EconMobility\\_Book\\_508.pdf](https://www.stlouisfed.org/~media/Files/PDFs/Community%20Development/EconMobilityPapers/EconMobility_Book_508.pdf)

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- <sup>vi</sup> Taylor, Paul; Fry, Richard; Kochhar, Rakesh; Velasco, Gabriel; Motel, Seth. "Wealth Gaps Rise to Record Highs Between Whites, Blacks and Hispanics". PEW Research Center (PEW) 07/26/2011. Accessed 10/18/17. <http://www.pewsocialtrends.org/2011/07/26/wealth-gaps-rise-to-record-highs-between-whites-blacks-hispanics/>
- <sup>vii</sup> HUD, PD&R, 2017. "HUD Reports "Worst Case Housing Needs" Increased in 2015 8.3 Million Households Paid More than Half their Income for Rent Or Lived in Substandard Housing." Department of Housing and Urban Development, Office of Policy Development and Research, last modified Aug 9, accessed 10/25/2017, [http://ezproxy.neu.edu/login?url=http://go.galegroup.com.ezproxy.neu.edu/ps/i.do?p=AONE&sw=w&u=mlin\\_b\\_northeast&v=2.1&it=r&id=GALE%7CA500217561&asid=f63bf5603f237505389e563eed2f105f](http://ezproxy.neu.edu/login?url=http://go.galegroup.com.ezproxy.neu.edu/ps/i.do?p=AONE&sw=w&u=mlin_b_northeast&v=2.1&it=r&id=GALE%7CA500217561&asid=f63bf5603f237505389e563eed2f105f).
- <sup>viii</sup> Woetzel, Jonathan, Mischke, Jan, Peloquin, Shannon and Weisfield, Daniel. "Closing California's Housing Gap | McKinsey & Company." Last modified October 01, accessed Oct 14, 2017, <http://www.mckinsey.com/global-themes/urbanization/closing-californias-housing-gap>.
- <sup>ix</sup> NLIHC. "The Gap." National Low Income Housing Coalition. NLIHC, last modified 03/01/, accessed Oct 14, 2017, <http://nlihc.org/research/gap-report>.
- <sup>x</sup> Hanlon, James. 2017. "The Origins of the Rental Assistance Demonstration Program and the End of Public Housing." *Housing Policy Debate* 27 (4): 611-639. doi:10.1080/10511482.2016.1262445. [http://www-tandfonline-com.ezproxy.neu.edu/doi/full/10.1080/10511482.2016.1262445](http://www.tandfonline-com.ezproxy.neu.edu/doi/full/10.1080/10511482.2016.1262445).
- <sup>xi</sup> Knickman, James R. and Anthony R. Kovner, Jonas and Kovner's Health Care Delivery in the United States, 11th ed. (New York: Springer Publishing Company, 2015). ISBN 978-0-8261-2527-9 RA395.A3
- <sup>xii</sup> Ibid., Hanlon, James, 2017
- <sup>xiii</sup> Abt Associates, "Evaluation of the Compass Family Self-Sufficiency (FSS) Programs Administered in Partnership with Public Housing Agencies in Lynn and Cambridge, Massachusetts", 09/2017, <http://abtassociates.com/AbtAssociates/files/3c/3c791568-51a4-4934-9d99-0c9cef7fdbb9.pdf>
- <sup>xiv</sup> HUD, PD&R, 2017. "HUD Reports "Worst Case Housing Needs" Increased in 2015 8.3 Million Households Paid More than Half their Income for Rent Or Lived in Substandard Housing." Department of Housing and Urban Development, Office of Policy Development and Research, last modified Aug 9, accessed 10/25/2017, [http://ezproxy.neu.edu/login?url=http://go.galegroup.com.ezproxy.neu.edu/ps/i.do?p=AONE&sw=w&u=mlin\\_b\\_northeast&v=2.1&it=r&id=GALE%7CA500217561&asid=f63bf5603f237505389e563eed2f105f](http://ezproxy.neu.edu/login?url=http://go.galegroup.com.ezproxy.neu.edu/ps/i.do?p=AONE&sw=w&u=mlin_b_northeast&v=2.1&it=r&id=GALE%7CA500217561&asid=f63bf5603f237505389e563eed2f105f).
- <sup>xv</sup> States News Service, 2017. "HUD Reports "Worst Case Housing Needs" Increased in 2015. 8.3 Million Households Paid More than Half their Income for Rent Or Lived in Substandard Housing." States News Service. last modified Aug 9, accessed 10/25/2017. [http://ezproxy.neu.edu/login?url=http://go.galegroup.com.ezproxy.neu.edu/ps/i.do?p=AONE&sw=w&u=mlin\\_b\\_northeast&v=2.1&it=r&id=GALE%7CA500217561&asid=f63bf5603f237505389e563eed2f105f](http://ezproxy.neu.edu/login?url=http://go.galegroup.com.ezproxy.neu.edu/ps/i.do?p=AONE&sw=w&u=mlin_b_northeast&v=2.1&it=r&id=GALE%7CA500217561&asid=f63bf5603f237505389e563eed2f105f).