CED Public Policy Watch

10.29.2021

1. UNEMPLOYMENT CLAIMS EDGE CLOSER TO PREPANDEMIC NORMAL

New weekly unemployment insurance (UI) claims declined for the week ending October 23. The headline seasonally adjusted number fell by 10,000 to 281,000 (and was revised marginally higher for the previous week). The four-week moving average, which removes some of the volatility in the data and reflects the longer-term trend, fell for the third consecutive week. It also dipped just under the 300,000 mark for the first time post-pandemic, inching closer to the 2019 average of 218,000 per week and signaling sustained labor market improvement.

The number of individuals receiving regular state benefits (reported with a one-week lag) fell by nearly 10 percent to its lowest level (2.2 million) since the beginning of the pandemic. Continuing claims for special pandemic-related UI programs fell at the fastest rate of decline (-39 percent) since the programs officially ended in September, but over half a million individuals are still receiving these benefits because of ongoing technical backlogs. All in all, 2.8 million people are receiving UI benefits, compared to a weekly average of 1.7 million in 2019.

2. Q3 GDP GROWTH SURPRISINGLY SLOW

Economic pundits' estimates of third-quarter GDP growth have been slipping for weeks, but Thursday's initial ("Advance") estimate surprised most economy watchers on the downside. Growth came in at only 2.0 percent (the "consensus" forecast was 3.6 percent), which is the lowest rate since the enormous drop in the second quarter of last year, in the wake of the impact of the pandemic. Growth in several sectors of the economy was not bad. Services spending overall grew by 7.9 percent, indicating that the consumer still has an appetite (sorry) to buy restaurant meals, for example. Investment overall grew by 11.7 percent, boosted by intellectual property products and by inventories (as sellers try to restock their shelves). However, there were conspicuous nodes of weakness as well. Most notably, spending on durable goods fell by a remarkable 26.2 percent; that was almost entirely accounted for by a drop in motor vehicles and parts, which by itself took 2.39 percentage points from total GDP growth. Similarly, residential investment fell by 7.7 percent, and nonresidential investment in structures fell by 7.3 percent.

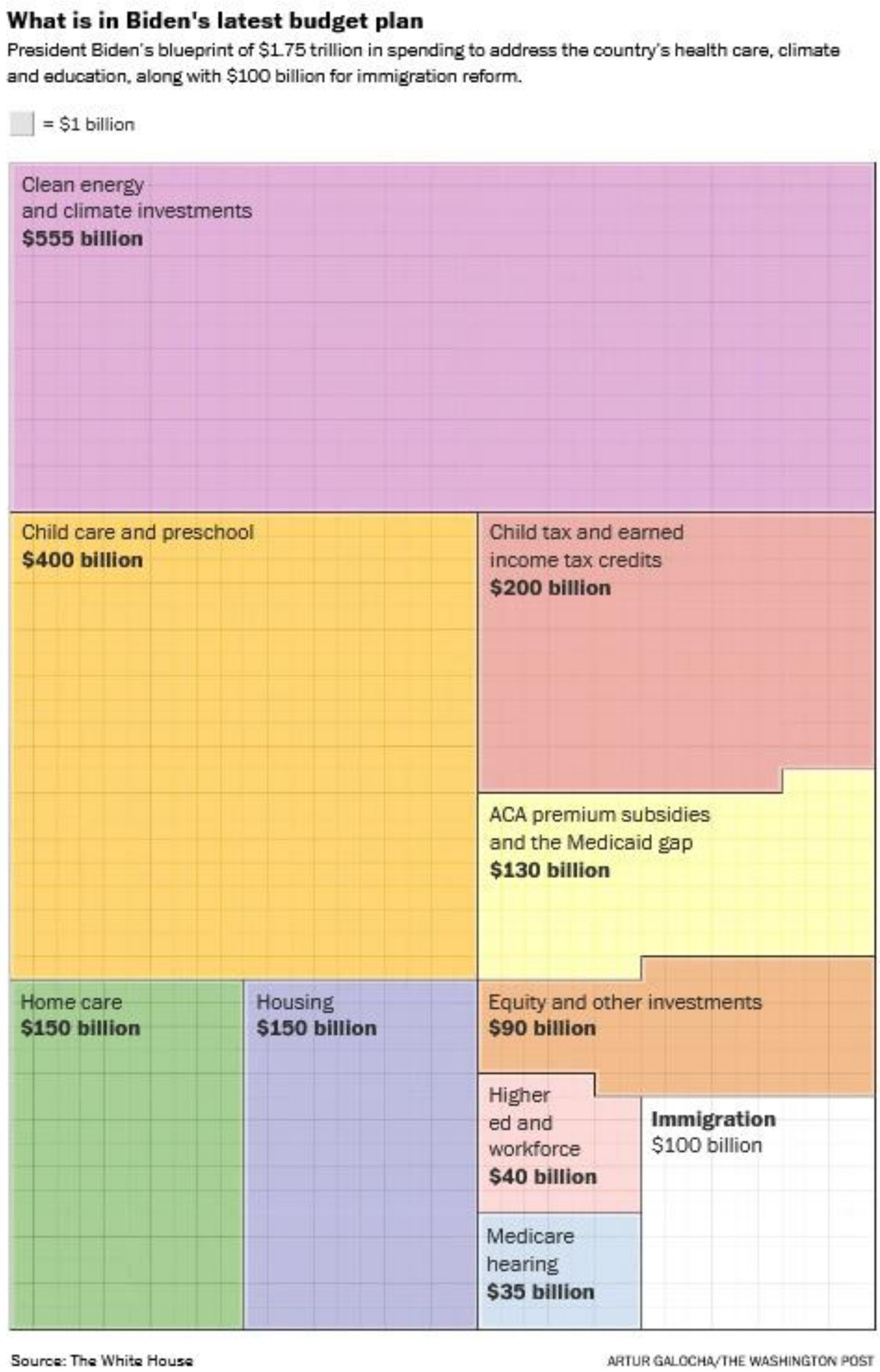
The causes of this slowdown clearly include the breakdown of supply chains and the resulting shortages of semiconductor chips, which were felt directly in the drop in motor vehicles sales, and of building supplies, which may be behind the weakness in structures. There is little doubt that consumers are eager to buy cars; there simply are too few new cars for sale. Similarly, consumers have borrowed to buy or renovate homes, but availabilities of supplies and of labor are bottleneck issues. The federal government is withdrawing its stimulus, and that change was clearly felt (while state and local government spending grew, but probably at less than normal rates). And in the background, the persistent coronavirus inhibits at least some commerce, as consumers limit their activity to some degree even without government-imposed restrictions.

The Conference Board's economic forecasters believe that growth will pick back up in coming months—subject to the uncertainty of the path of the virus and of vaccinations against it; and to the freeing of supply bottlenecks and the return of idled workers to the labor force, and their hoped-for downward influence on inflation. The Federal Reserve also has decisions to make about "tapering" its purchases of financial securities, that hitherto have been holding down longer-term interest rates.

3. PAULINE (STILL) IN PERIL; TRAIN (STILL) RUMBLES DOWN TRACK

The president's two-part economic agenda continues to limp toward the rescue, but the melodrama now has more time to reach its conclusion. The president intervened at the last minute, but did not receive the necessary assist from the Congress.

The president supplied a new "framework" for the partisan reconciliation bill, which he hoped would inspire enough confidence to convince the House to pass his bipartisan infrastructure agreement. And the proposed framework did inspire confidence. At this stage, for those keeping score even before the inevitable tiebreaker, paid family leave and free community college are out, to leave more of the scarce resources for climate interventions, preschool, child care, home care, housing, tax credits, health insurance premium subsidies, and a few other initiatives.



There were positive noises from both the progressive and the middle-of-the-road factions in the congressional majority. But the noises were not sufficiently positive for the progressives to free the bipartisan infrastructure bill for a vote, to give the president a near-term win. The infrastructure bill included a must-pass extension of the federal highway program, which otherwise would expire over the weekend. The House leadership formally and publicly waved the white flag by passing a freestanding extension of the program's authorization to December 3. Therefore, Pauline could remain tied to the tracks for an extended broadcast season of a full month. Tune in again next week...

4. WHAT MIGHT HAVE BEEN (AND MIGHT STILL BE): MARK-TO-MARKET TAXATION OF CAPITAL GAINS

To supply the needed revenues for the reconciliation bill (which of course by no means meets the needs to make the budget sustainable for the long term), the administration and the majority party in the Congress rushed one hitherto untried idea into consideration (but then dropped it): taxation of capital gains upon *accrual*, not upon *realization* as they are taxed (at much reduced rates) under current law.

Although this idea is almost certainly out of the running for now, there is reason to anticipate that it (or a close substitute) may appear in the future. So it is worth taking a look at what such ideas involve.

How are capital gains taxed today? Today, and throughout the history of the income tax, capital gains have been taxed upon *realization*, which is another way of saying upon *sale* of the asset. Historically, there has almost always been a preferentially low tax rate applied to capital gains as opposed to "ordinary" income, like wages earned. But the profit from the capital gain has always been entered into taxable income only when the asset was sold. Incidentally, if the asset is not sold in the owner's lifetime, then the gain—as such—is *never* subject to *income* tax though it may be subject to estate tax upon the owner's death.

Why is capital gains taxation controversial today? Capital gains taxation has always been controversial, because the preferential lower rate on capital gains has always been a subject of controversy. To some, money made by money (the capital gain) should not be taxed more lightly than money made by people (like wages and salaries), and capital gains have always been disproportionately the income source of very-high-income persons. On the other hand, capital gains are seen by some as the reward to essential risk taking, and therefore more than worthy of a preferential rate over labor or interest on low-risk assets. Furthermore, because capital gains are taxed only upon sale of the underlying asset, they are in some sense voluntary; asset owners can choose not to sell and pay no tax, and so a higher rate might not yield the full expected measure of additional revenue. This debate could go on forever—and in fact, it already has.

However, the controversy over capital gains taxation has heightened in recent years because the concentration of receipt of capital gains has been growing markedly. In 2018, the latest year for which data are available, tax filers with at least $10 million of adjusted gross income—the highest-income 0.01 percent of tax filers—received 34.5 percent of all capital gains, which constituted 48.6 percent of their total incomes. A quarter-century earlier, in 1993, tax filers with at least $1 million of adjusted gross income were the highest 0.06 percent of tax filers (tax filers did not line up neatly in the same proportions in the income categories that the IRS presented in those two years), and they received 31.1 percent of all capital gains, which constituted 27.3 percent of their total incomes. So in 1993, the top slice of the population identified in the IRS data was proportionately about six times as large, but received a 10-percent smaller proportion of the total realized capital gains among the taxpaying public. Clearly, receipt of capital gains was highly concentrated even in 1993, but over time, capital gains have become even more concentrated, and have become a greater share of the income of the very-high-income population. Adding to the debate is the fact that income tax on accrued capital gains can be avoided, for example, by borrowing against holdings of stock, rather than selling the stock.

This is a complex situation because the US has an income tax, not a wealth tax or a consumption tax, and that fact will become a constitutional issue if this process proceeds to the enactment of a new law.

What is being proposed? From the earliest scraps of details, the proposal is a tax on any appreciation in the value of assets. The tax would apply to the assets of only the very wealthiest individuals; according to press accounts, the expectation is that about 800 individuals, those owning more than $1 billion of assets and have earned over $100 million in income (somehow defined—considering that the entire exercise is being undertaken because of the perceived mismeasurement of "income" for very wealthy individuals) for three consecutive years would be affected. Reportedly, only assets (like stocks and bonds) that are actively traded in markets would be included. (Nontradable assets, such as privately owned companies or works of art, would also be subject to tax—but the tax would be deferred until the time of sale, because of the impossibility of verifying the true value of the assets without a sale, and there would be an interest charge equal to the federal funds rate plus 1 percentage point until that time.)

The tax imposed would be the same income tax imposed today on capital gains, at its preferentially low tax rate (which for persons with the highest incomes today is 23.8 percent). Reportedly, there would be a five-year phase-in period before any tax would be due, after which the tax would be imposed annually. The phase-in is suggested because the initial imposition of the tax would apply to all of the appreciation in the assets since the individuals acquired them, potentially decades ago, and so the amount that is taxable initially could be enormous. In contrast, the appreciation subject to tax in each subsequent year would be only one year's increase, and so would come in much smaller increments.

The amount of tax due from each individual taxpayer who would be affected by this proposal is so large that—from a purely monetary perspective—there would be an enormous incentive to find ways to avoid it. And on the other side of the coin, there is surely enormous effort being undertaken by Treasury and congressional experts to make the proposal air-tight.

The borderlines between assets that are tradable and assets that are not would be microscopically explored and exploited. (This is especially true if there is a sense that nontradable assets will at the end of the day be treated more leniently than tradable assets. For example, if a nontradable asset is *never* sold in the individual's lifetime, and as the provision has been described in the press is therefore never subjected to the new tax, what happens? Could people borrow against nontradable assets to raise near-term cash with no tax consequences? But note that converting a taxpayer's tradable assets into nontradable assets likely would require the realization of the accrued capital gain—or would there be some loophole to avoid it?)

Similarly, the borderlines with respect to the amounts of asset holdings and the amounts of income that are required to trigger the new tax will also be searched for loopholes. (If passing assets on to spouses, or future generations, or anyone else or any other entity can avoid an individual's being subject to the tax, it could save a very large tax bill.)

But from the point of view of tax policy, it is not only the potential tax avoidance that matters. The economically inefficient things that people do to avoid the tax could be equally costly. So for example, if there is an incentive to move large amounts of equity in businesses into nontradable assets like art, that could be highly wasteful for society as a whole. Even if businesses merely go private to convert their outstanding equity into nontradable forms, that could be economically wasteful—because it could reduce the scope of investment choices available to individual investors, and because it could restrict the access of the underlying businesses to capital for investment and growth. And in the meantime, all of the effort being devoted to either avoiding the tax or preventing such avoidance provides no true economic benefit.

Would taxation of capital gains on accrual be constitutional? Now to the fine script: The first attempt at creation of a federal income tax in the early days of the 20th century was derailed on the ground that it would not comply with Article 1, Section 9 of the Constitution, which requires that "No capitation, or other direct, Tax shall be laid, unless in Proportion to the Census or Enumeration herein before directed to be taken." And so the 16th Amendment was ratified to provide that "The Congress shall have power to lay and collect taxes on incomes, from whatever source derived, without apportionment among the several States, and without regard to any census or enumeration." So we are empowered to have a "tax on incomes." Is the unrealized appreciation on a capital asset "income?" There is precisely no doubt that this question will be adjudicated all the way to the Supreme Court if the currently discussed provision is enacted into law. And no one knows what the answer to that question would be. It would indeed be awkward if a reconciliation bill should be enacted with substantial flows of spending in year one but if then a major financing vehicle for the program would be ruled unconstitutional before it collected its first dollar in year five.

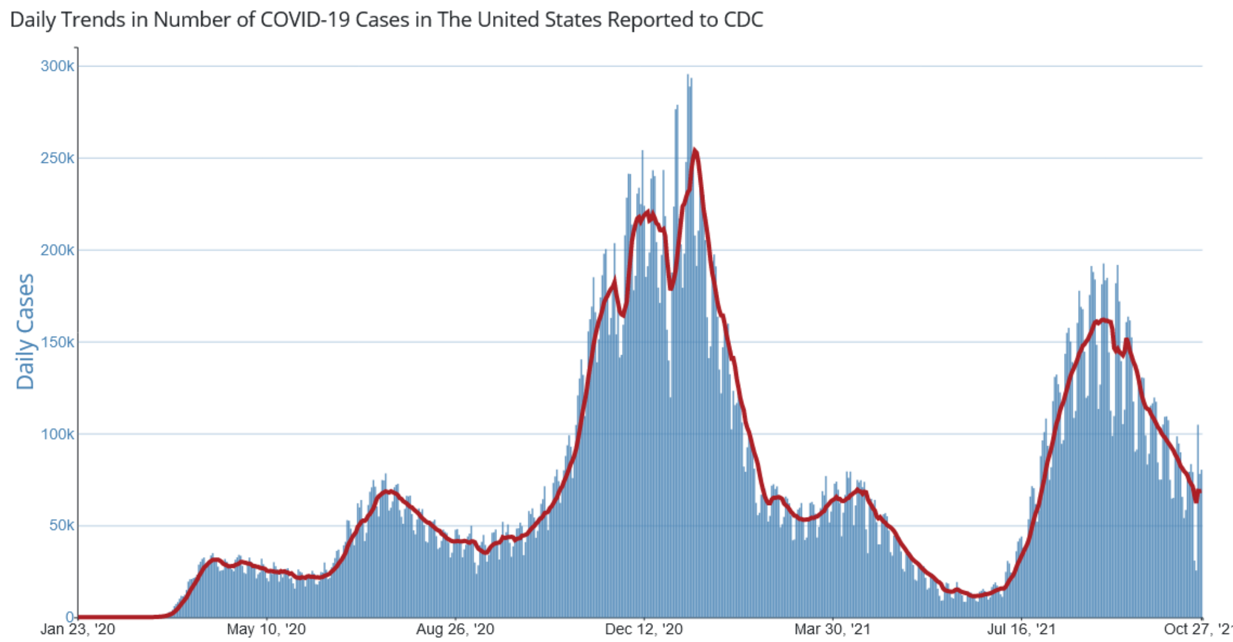
An alternative: a wealth tax. A similar idea which has been discussed is a tax on wealth itself—not on the annual increases in the values of assets that constitute wealth. Thus, under a wealth tax, the entire value of each share of stock owned by the selected wealthy population would be subject to a tax—presumably at a significantly lower rate than would apply to just the *increase* in the value of the share of stock under the nascent proposal for reconciliation. A wealth tax would raise many of the same issues as the tax on accrued capital gains—there would be the same problems in valuing nontradable assets like art or unique pieces of real estate, for example, or the same issue of a tax due on an asset that might not have generated cash income to pay that tax. Also, a wealth tax might seem more aggressive in that a tax would be due on the full value of an asset even if that value declined in the past year, whereas under the tax on accrued capital gains there would actually be deductible (according to some complex rules) capital losses if markets declined in a given year.

Another alternative: carryover of basis. Yet another approach to taxation of unrealized capital appreciation would be to change the capital gains tax rules for people who inherit appreciated property. Under current law, the inheritor uses as his or her basis for the asset its value at the time of bequest (which is called "step-up of basis"). Thus, my parent buys a share of stock for $1, it goes up to $100, and my parent without selling it bequeaths it to me. If I sell the stock for $100, my gain is $0. The tax law was changed in 1976 to instead require "carryover of basis," such that in the same scenario, my gain upon sale would be $99—the excess of the sales price over the basis of my parent. Under a hail of protest, including but not limited to the complexity of the heir learning what the cost basis of the decedent was possibly decades before, "carryover basis" was repealed before it ever took effect. The 2001 tax cuts repealed the estate tax effective in 2010 and imposed a carryover-basis regime instead, but the estate tax and step-up of basis were restored in 2010, again before carryover of basis took effect.

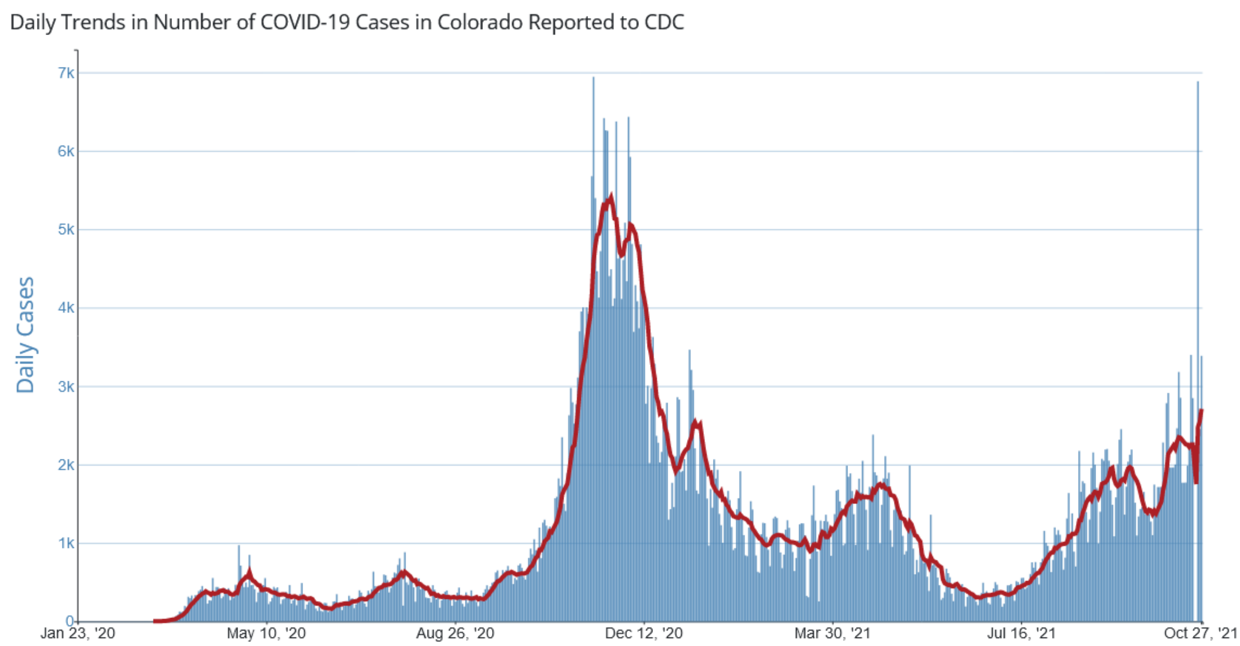
Conclusion. In the president's new "framework" of Thursday, the taxation of capital gains upon accrual was nowhere to be found. The hurried formulation of the idea (which is by no means to understate the talent and effort brought to bear), its untested nature, the uncertainty of the revenue yield, and the risk of constitutional rebuke were surely all involved in that decision. However, the press has already noted that the provisions substituted by the president would not at all address the conspicuous tax avoidance by the spectacularly wealthy; rather, the new tax provisions would increase taxes on so-called "working millionaires," people who earn high salaries or business incomes in cash, and who in most instances already pay significant amounts of income tax. If that concern becomes more widely recognized, it is likely that "mark-to-market" or similar ideas will return to the active policy debate. Stay tuned.

5. PANDEMIC NEWS

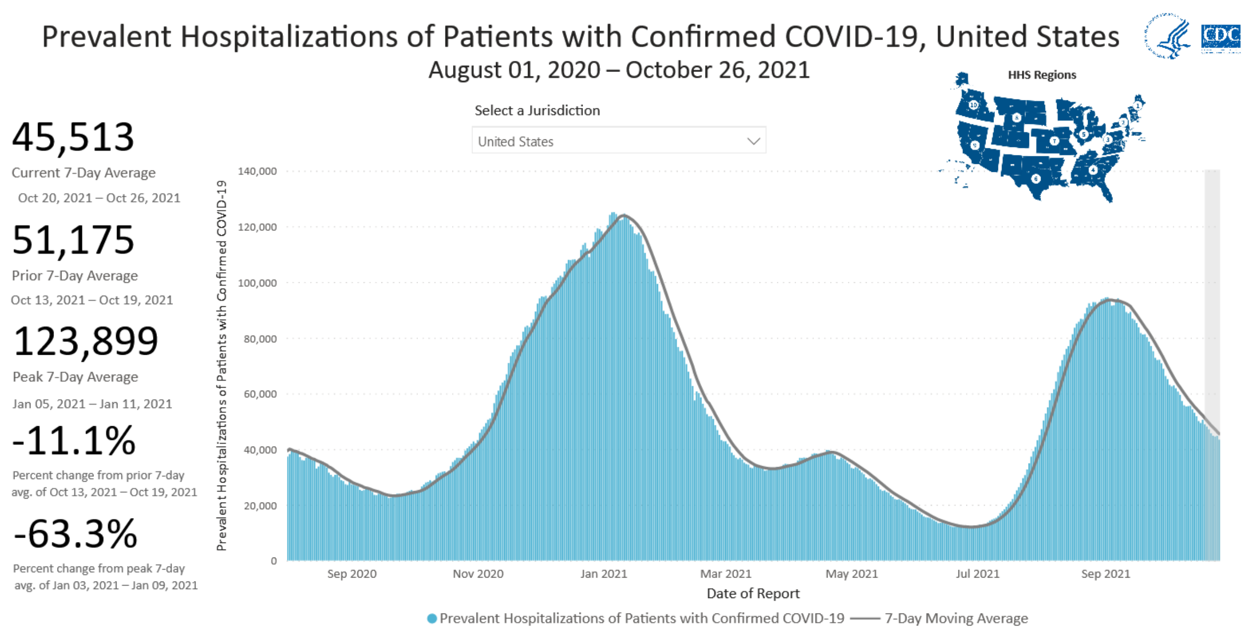
Nationally, the US COVID case count continues, to decline—which is good news.



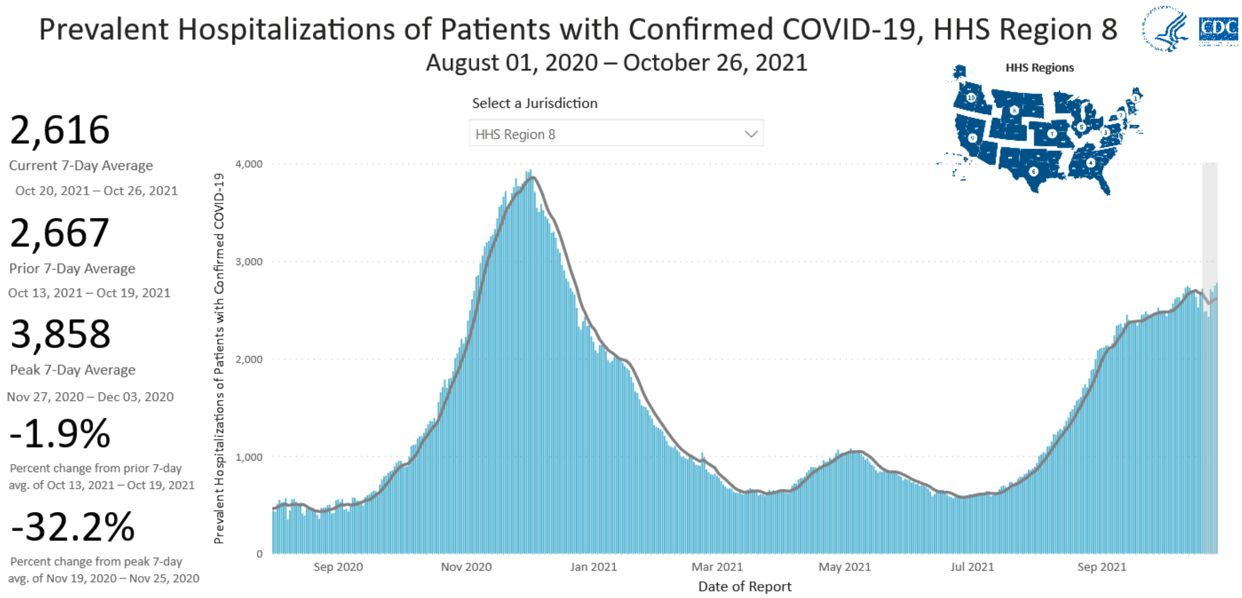
But regionally, there remain hotspots where both victims and caregivers are suffering, and that serve as breeding grounds for further infections that can spread to the vulnerable (even, and notably, the vaccinated vulnerable) in other parts of the country. In recent months, as the virus has burned itself down in the southeast, focus has shifted to the mountain states. And within the region, the pain has shifted somewhat. Infections in Colorado have not risen to the level of the winter surge, but they continue to rise even today.



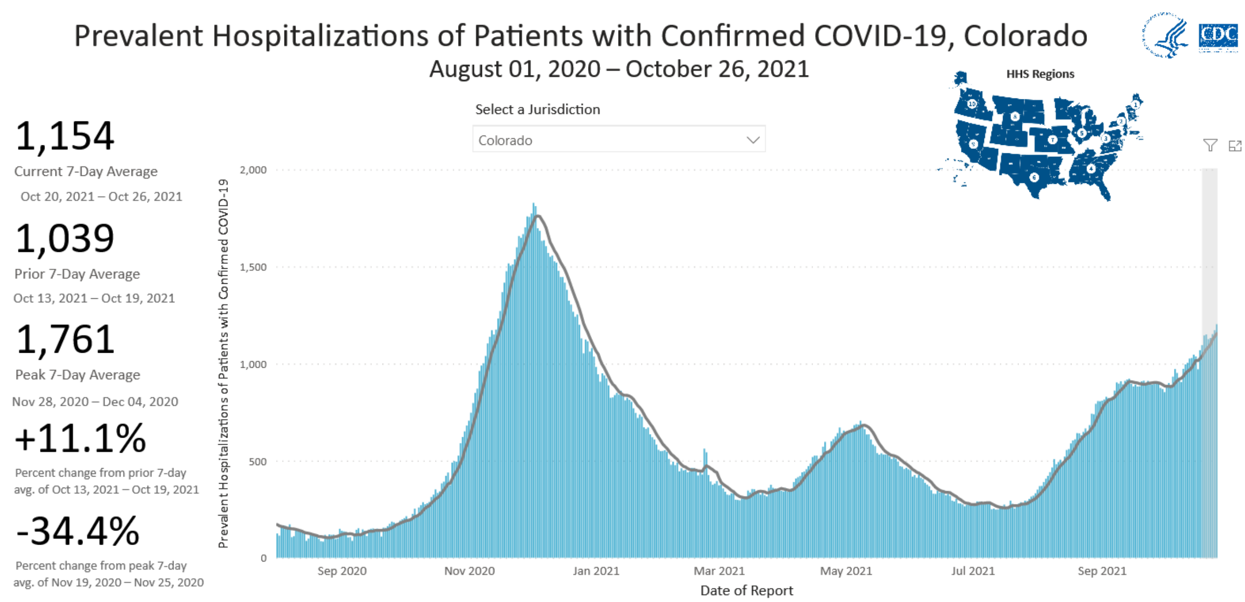
Meanwhile, nationally, hospitalizations also continue to decline.



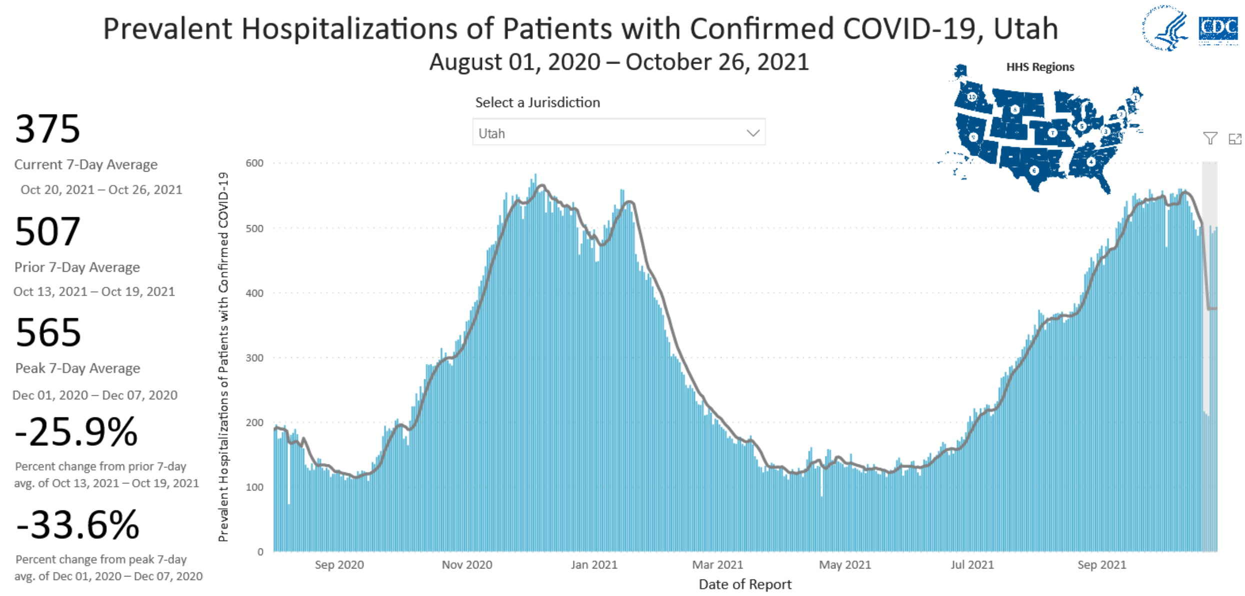
But again, the mountains states are faring far worse than the nation as a whole. The chart below reflects the Dakotas, Montana, Wyoming, Colorado, and Utah.



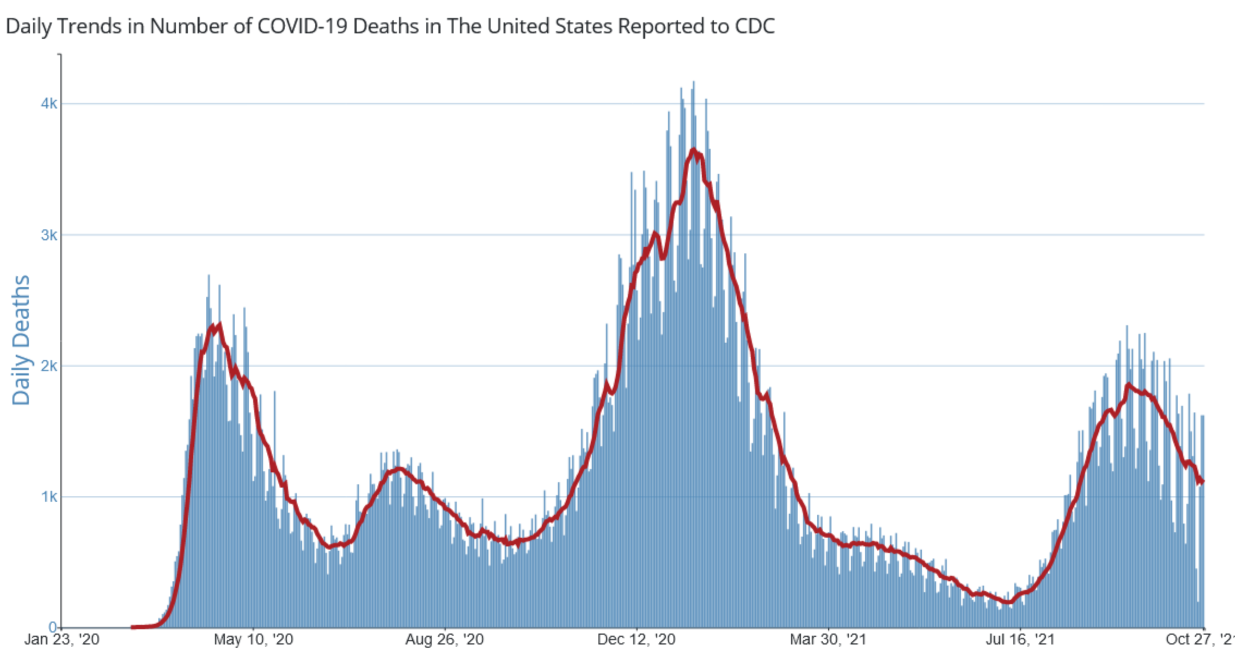
Again, Colorado (with noisier data because of the smaller size of the population) appears to be suffering a growing number of hospitalizations for COVID—currently about two-thirds of its level from the winter peak.



And in a curious (and painful) turn, Utah virtually duplicated its winter-peak level of hospitalizations despite much less of an increase in infections. Fortunately, the number of hospitalizations appears to have begun to turn down (in contrast to the continuing rise in Colorado; note that the last few days of reporting from Utah appear to be incomplete).

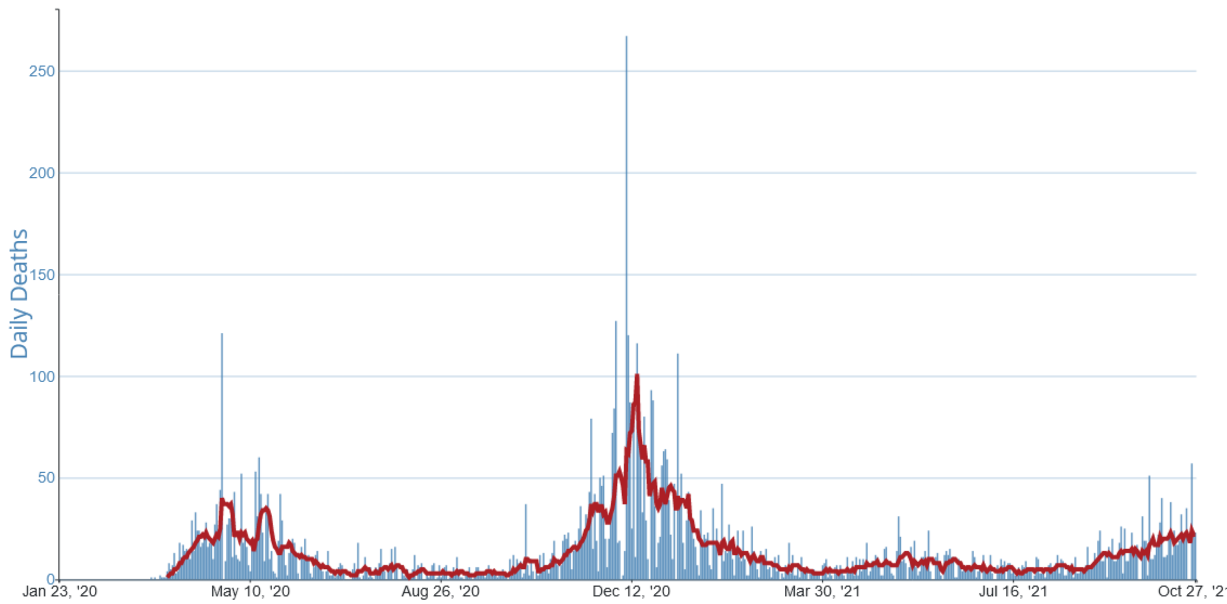


The national death toll continues to improve, but remains at painful levels.

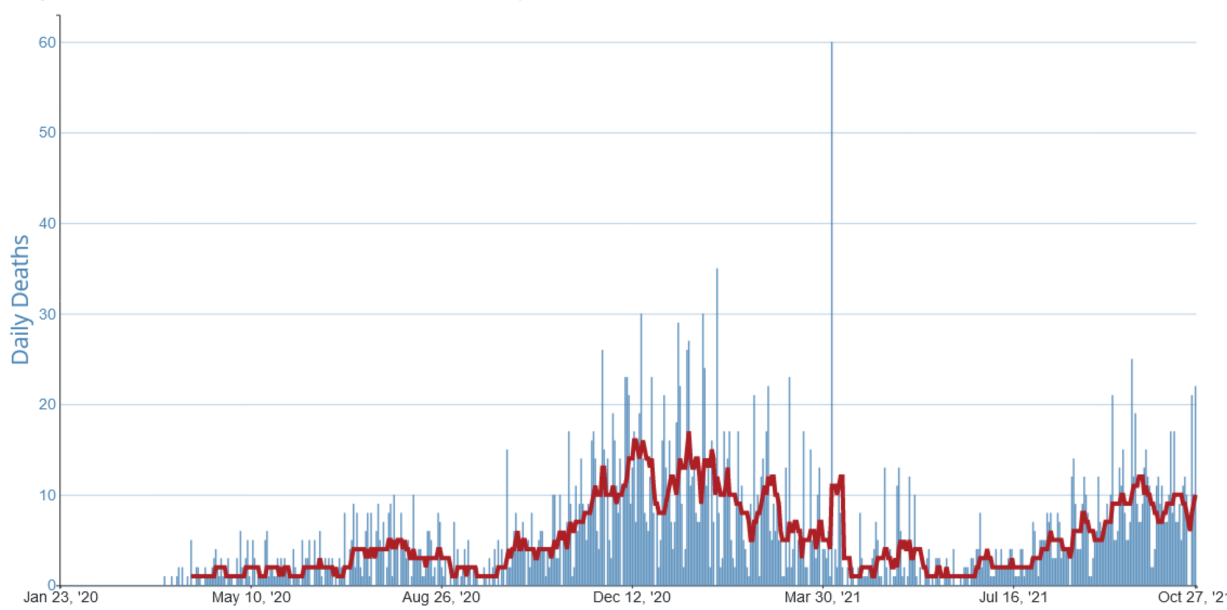


But yet again, deaths in Colorado and Utah remain high, and appear to be rising.

Daily Trends in Number of COVID-19 Deaths in Colorado Reported to CDC



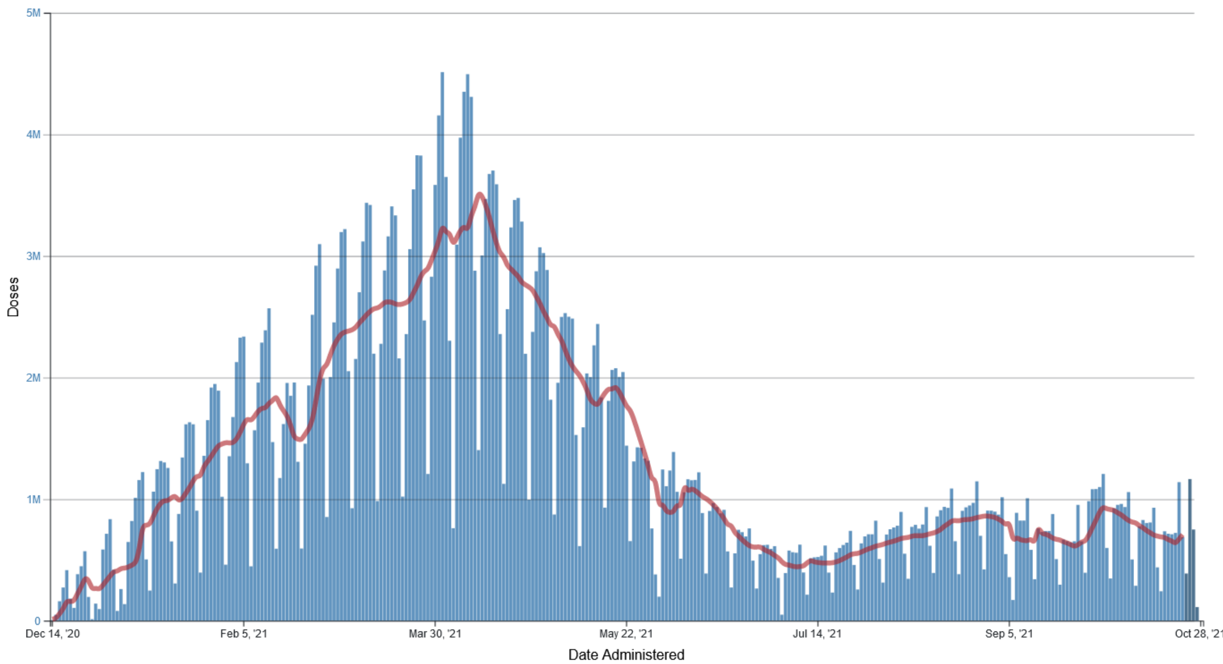
Daily Trends in Number of COVID-19 Deaths in Utah Reported to CDC



6. VACCINE NEWS

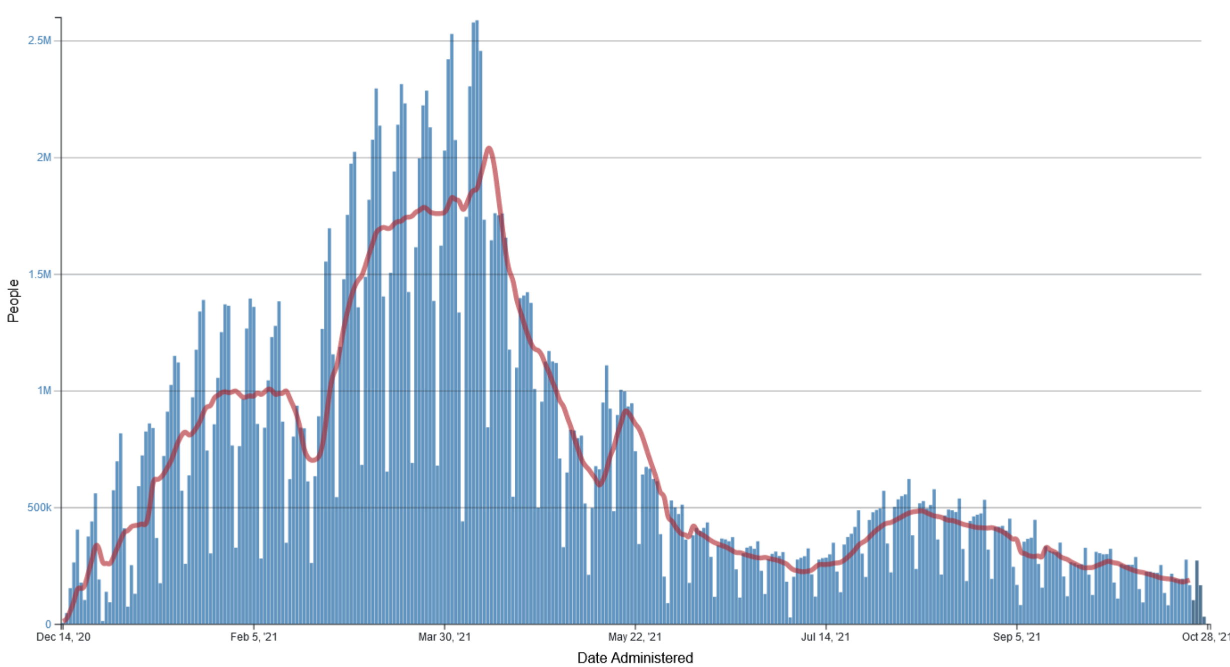
Vaccination data remain mostly glass-half-empty. The number of vaccinations is trailing off, and from a level that experts believed was well too low to achieve something like “herd immunity.” (Authorities had hoped for a sustained period of million-dose days, which we have not achieved.)

Daily Count of Total Doses Administered and Reported to CDC by Date Administered, United States

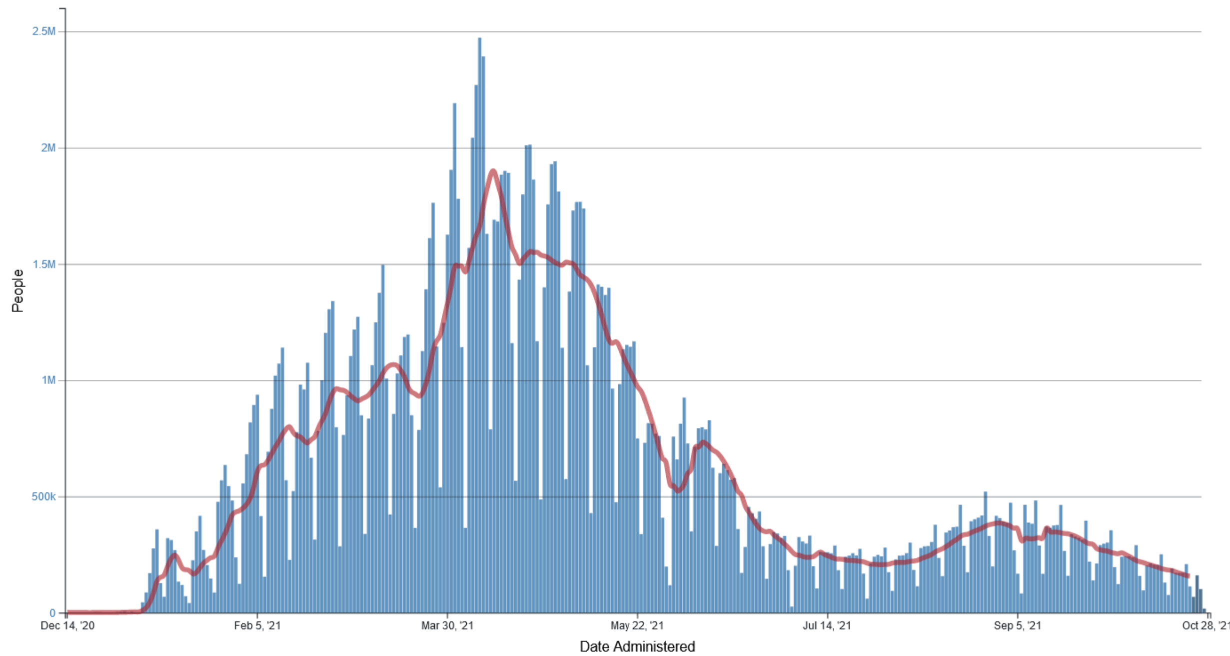


And worse, the doses have gone into the wrong arms. First doses, and even second doses, have declined. New injections have gone to boosters, which are fine for providing an additional layer of protection for those already relatively well protected, but do not prevent community spread as would first doses administered to the hitherto vaccine-hostile. The following charts show well under a quarter-million daily injections for either first or second doses. By exclusion, a third to a half of new injections these days are boosters.

Daily Count of People Receiving Dose 1 Reported to CDC by Date Administered, United States



Daily Count of Fully Vaccinated People Reported to CDC by Date Administered, United States



The cumulative count of vaccinations remains well short of what is needed to stop community spread and extinguish the virus. And in good news that is also bad news, booster doses are going gangbusters.

Total Vaccine Doses

Delivered 510,735,525

Administered 417,795,537

Learn more about the distribution of vaccines.

191.2M

People fully vaccinated

15.4M

People received a booster dose**

At Least One Dose | Fully Vaccinated | Booster Dose

Vaccinated People	Count	Percent of US Population
Total	221,348,530	66.7%
Population ≥ 12 Years of Age	221,113,746	78%
Population ≥ 18 Years of Age	206,144,216	79.8%
Population ≥ 65 Years of Age	53,014,862	96.9%

***For surveillance purposes, COVID Data Tracker counts people as being "fully vaccinated" if they received two doses on different days (regardless of time interval) of the two-dose mRNA series or received one dose of a single-dose vaccine.**

****The count of people who received a booster dose includes anyone who is fully vaccinated and has received another dose of COVID-19 vaccine since August 13, 2021. This includes people who received booster doses and people who received additional doses.**

About these data

CDC | Data as of: October 28, 2021 6:00am ET. Posted: Thursday, October 28, 2021 2:46 PM ET

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At Least One Dose | Fully Vaccinated | Booster Dose

Fully Vaccinated* People	Count	Percent of US Population
Total	191,242,432	57.6%
Population ≥ 12 Years of Age	191,109,061	67.4%
Population ≥ 18 Years of Age	178,635,217	69.2%
Population ≥ 65 Years of Age	46,428,087	84.9%

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Fully Vaccinated* People with a Booster Dose**	Count	Percent of Fully Vaccinated*
Total	15,417,340	8.1%
Population ≥ 18 Years of Age	15,392,104	8.6%
Population ≥ 50 Years of Age	12,696,037	13.5%
Population ≥ 65 Years of Age	9,494,596	20.5%

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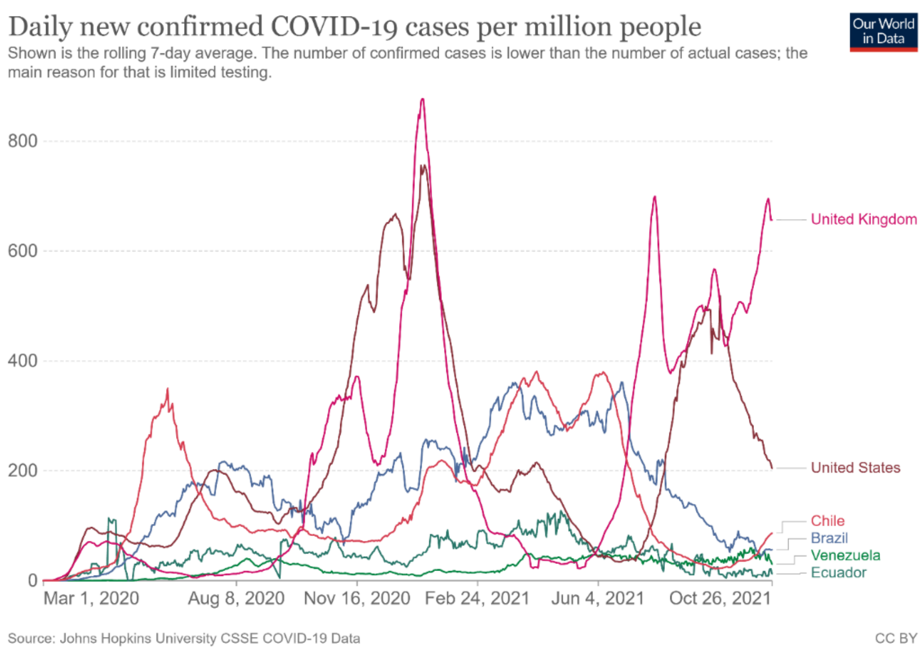
There is a prospect for a quantum leap in protection of the community. Because young persons are not cleared for vaccination but can contract or spread the virus, they remain a sore spot in our campaign against community spread. However, the FDA advisory panel has recommended a smaller dose of Pfizer vaccine for 5- to 11-year olds, finding it effective in producing antibodies. The panel noted that COVID was the eighth-highest killer of children in this age group over the past year, which lends importance in terms of self-protection as well as community-protection in obtaining the vaccine. Now the FDA must approve the recommendation, which then must pass through a CDC panel and the CDC itself to obtain approval of a specific protocol for administering the vaccine.

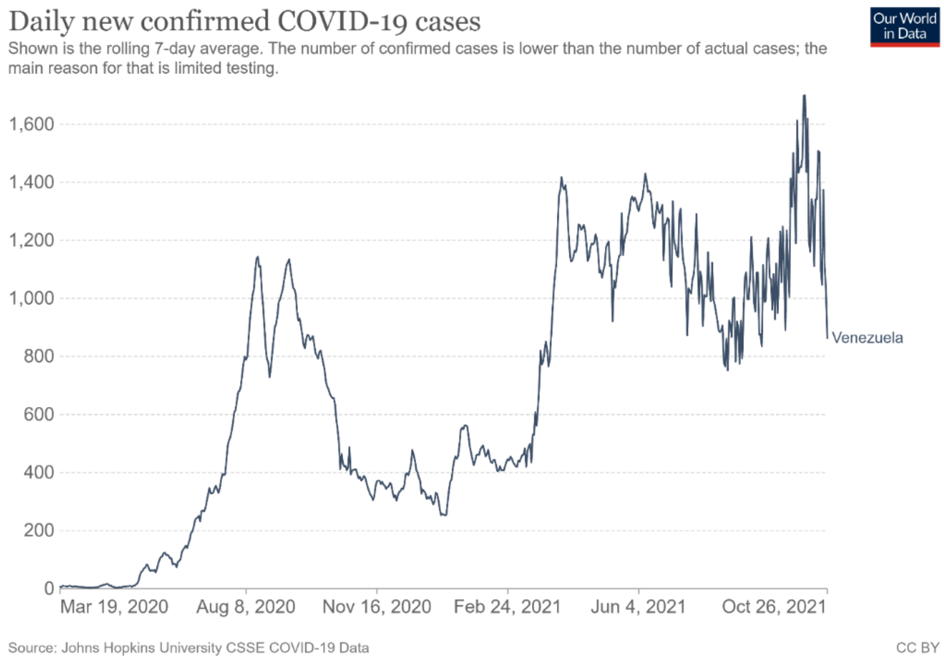
Vaccination of this age group could add 28 million to the resistant US population, giving the virus fewer targets to infect and to in turn pass on the virus to others. Thus, vaccinating children is potentially an important contributor to "herd immunity." However, it is worth noting that inoculation of children of inoculated parents in already highly protected parts of the country would not add nearly as much to the drive toward herd immunity. If parents who refuse vaccination in turn refuse vaccination of their children, their families and neighborhoods will remain COVID hotspots and centers of community spread.

And there is more threatening news on the horizon. According to a [Kaiser Family Foundation poll](), only 27 percent of parents of 5-11 year olds say that they will have their children vaccinated right away. Fully 30 percent say "never." The reason for this resistance is truly saddening. Fully 66 percent of all parents express fears about their children's future fertility—a totally baseless allegation that has only mass repetition on social media to speak for it. Separately, 76 percent and 71 percent say that they fear either long-term effects or side-effects of the vaccine—concerns that surely should be debunked by the experience of billions of individuals who have been vaccinated. So at every turn, the prospect of cutting off community spread of the virus has been frustrated, and this latest opportunity might follow that unfortunate pattern.

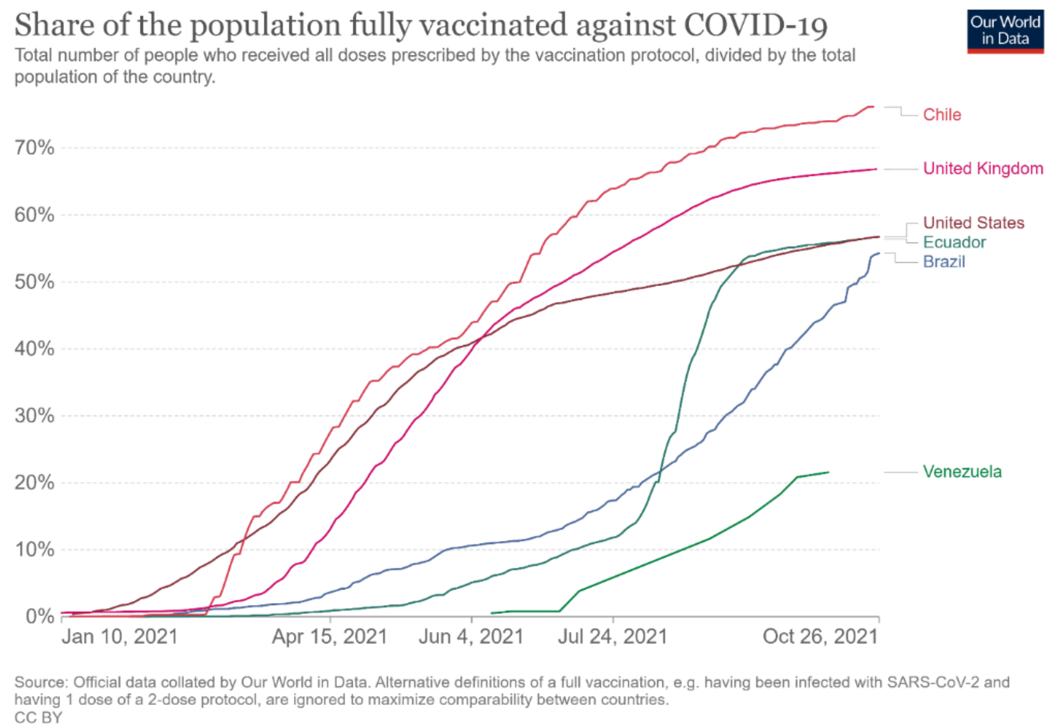
7. SPOTLIGHT ON REOPENING: A SPIKE IN VENEZUELA

This past month, just as South America was finally catching a break, Venezuela hit a spike in COVID-19 cases. On October 8, the country of 28 million reported its highest weekly increase in new cases since the start of the pandemic, with more than 10,000 infections. These infections overwhelmed hospitals and clinics, forcing infected patients to hunt for treatment. Venezuela's situation makes it an outlier on the continent, which saw an easing in cases in August as vaccination campaigns took off and immunity grew. South America has accounted for 24 percent of COVID-19-related deaths worldwide, despite representing only 6 percent of global population.

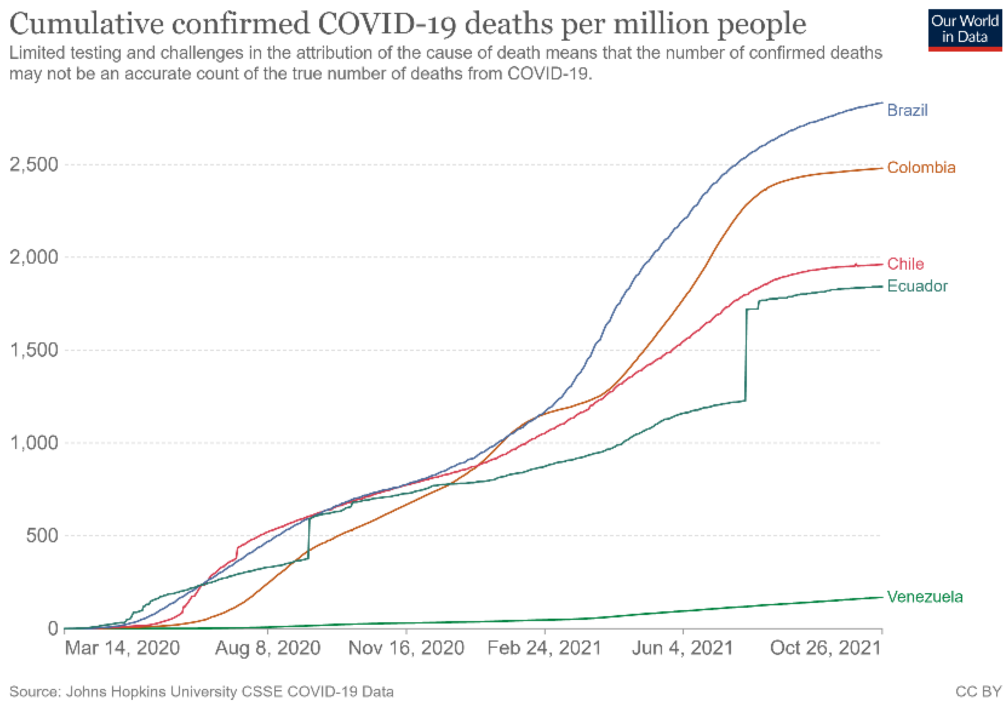




Amid the rise in cases, Venezuela on Monday reopened public schools and universities. President Nicolas Maduro's government delayed the restart of in-person schooling several times amid peaks in infection and vaccination delays. Experts say Venezuela's increase in case numbers is caused by the spread of the Delta variant and the slowest vaccine rollout in South America. Venezuela's vaccination rate remains the lowest in South America, with just over 21 percent of the population fully vaccinated. The vaccine campaign lagged due to supply delays and purchasing problems – which the government blamed on US economic sanctions. Recent rallies for the upcoming November 21 elections, where hundreds of people gather, are also exacerbating virus spread. Venezuela ordered 10 million doses of Russia's Sputnik V in December 2020, but have since received less than 4 million. Despite the delay, Venezuela claims that it has enough Russian, Chinese, and Cuban vaccines to protect 70 percent of the population.



Health care workers are fighting COVID-19 despite a lack of basic medical equipment, steady electricity and water, and reliable COVID-19 data. Government data do not align with reports collected at hospitals. According to Médicos Unidos Venezuela, a collective of Venezuelan doctors monitoring the country's COVID-19 situation, more than 736 Venezuelan health care workers have died from COVID-19 since last year. The collective sometimes reports higher weekly death rates for Venezuela's health care workers than the government reports for the entire population. "It's evident that the government data are completely misguided, incorrect, and unhelpful," says Pedro Delgado, Vice President of the Institute for Healthcare Improvement, an NGO based in Boston, Massachusetts.



In the absence of trustworthy government data, researchers have been trying to get a handle on the situation in Venezuela from outside its borders. Last year, the Vector Borne Disease Control Network – Venezuela, an international group of researchers funded by the British government's Global Challenges Research Fund (GCRF), wanted to take nasal samples from people in the country suspected of having COVID-19, and sequence the SARS-CoV-2 genome, but were barred from doing so by the Venezuelan Ministry of Health. The researchers instead analyzed samples from Venezuelans who had recently fled the economic crisis and migrated to Colombia. The network confirmed for the first time that six coronavirus variants—Beta and Gamma, both of which are classified as variants of concern—had been circulating in Venezuela. The Venezuelan government has not released any genomic surveillance data.