Senate Committee on Finance
U.S. Senator Orrin Hatch (R-UT), Ranking Member
http://finance.senate.gov

FOR IMMEDIATE RELEASE **CONTACT: Julia Lawless, Antonia Ferrier**
March 1, 2011 (202) 224-4515

HATCH STATEMENT AT FINANCE COMMITTEE HEARING EXAMINING THE INEFFICIENCIES OF U.S. TAX CODE

WASHINGTON – U.S. Senator Orrin Hatch (R-Utah), Ranking Member of the Senate Finance Committee, released his opening statement from a committee hearing today examining how changes to the Tax Reform Act of 1986 have affected the tax code. Today's hearing is the first in a series this Congress examining America's inefficient and burdensome tax code and ways to improve it to spur economic growth and job creation.

A full copy of Hatch's remarks, as prepared for delivery, follows:

Mr. Chairman, thank you for calling this hearing.

At the start, I want everyone to know how much I appreciate the bipartisan spirit with which you are starting the tax reform process. You and your staff have indicated a great willingness to put in the time and energy. You and your staff, along with those on this side, will ask the tough questions about our current tax system. The notion is that we're not going to simply be treating the tax system as a big ugly piñata.

We will methodically examine every feature of the tax system. I expect that we will conduct that examination with President Reagan's three criteria as our guide posts. We will be looking at the fairness of the system. We will be looking at the efficiency of the system, with a particular emphasis on the anti-growth features of the systems. We will be looking at the complexity of the current system. After that examination, I'm optimistic that we will be in a position to re-build the system in a way that meets President Reagan's three criteria.

Today, we will take a look back at the almost quarter century that has elapsed since tax reform. As the hearing title indicates, we will be asking how did get to here, in 2011, from there, in 1986?

Tax Reform achieved the bipartisan goal of lower rates and a broader tax base. At that time, the tax system raised revenue roughly in line with the historical average of roughly 18% of the economy. That is what the Congressional Budget Office tells us would be raised if we define revenue neutrality by reference to current policy. It seems to me to be a good bench mark to use. I have a chart. The chart shows that, despite many movements up or down in the marginal rate structure, the American taxpayer tends to yield that much revenue.

The motivational speaker Harvey Mckay once quipped:

> Day in and day out, your tax accountant can make or lose you more money than any single person in your life, with the possible exception of your kids.

There's a lesson in there for all of us policymakers. No matter how much we may tinker with the law and squeeze revenue of one or more disfavored groups, they react.

Tax policy driven primarily by politics will have to meet that reality.

For instance, it is very easy politics to attack the top 5% of earners. Target them for a tax increase and everybody else is fine. As the chart shows, they are not automatons. They will employ talented tax people to minimize the effect. Often that advice channels productive resources into tax-favored activities.

Once you get past the politics, the reality is that one sector of society reacts and the other sector may not get the revenue they desire.

As we look back over the last 25 years, I'm sure some will say I'm wrong. They will point to the 1993 partisan tax hike where the grand bipartisan bargain of 1986 was dramatically undone. How was it undone? Here's how.

Two new marginal rates of 36% and 39.6% were added. Those rates were pushed up from the 31% rate that Congressional Democrats and Republican President George H.W. Bush agreed to in 1990. Under current policy those two marginal rates rest at 33% and 35%. That's two and four percentage points above where they were in 1990.

And to listen to some on the left in the punditry you'd think these two marginal rates are the cause of the decline of Western Civilization. Yet they are significantly higher marginal rates than either the grand bargain of 1986 or the 1990 deal between Congress and President George H.W. Bush.

Some on the left will say, wait a minute. The surpluses of the late Clinton Administration were entirely attributable to the partisan 1993 tax hike. Unfortunately for them, the Clinton Administration's Office of Management and Budget says differently. OMB concluded those tax increases were a minor factor in the surpluses that appeared at the end of the 1990's.

Here's a chart that demonstrates it. Only thirteen percent of the deficit reduction in the 1990's was attributable to the partisan tax hike.

Or we might hear some on the left say I'm wrong because all fiscal calamities of this decade were attributable to the 2001 and 2003 tax relief plans.

Again, fiscal facts suggest otherwise. According to the CBO, only 25% of the fiscal change in the last decade was attributable to the 2001 and 2003 tax relief plans.

While marginal rates have gone up significantly since tax reform, another big change has occurred. Tax expenditures have grown.

The pamphlet produced by the Joint Committee on Taxation catalogs the growth. As an aside, unlike spending, tax expenditures generally grow as tax rates grow. With rates rising considerably since 1986, there's growth attributable to that factor. On the other hand, lower marginal rates will reduce the tax expenditures related to those rates.

Tax expenditures do affect the tax base. Refundable credits have proliferated for low-income folks. Middle-income people have more benefits though they're subject to complicated phase-outs and the nightmare of the Alternative Minimum Tax ("AMT"). Higher income people are also using some tax expenditures, including many designed to ultimately benefit lower income people.

History also has not been kind to the simpler structure of the 1986 reform.

Mr. Chairman, I'm pleased to hear the testimony of these distinguished former Assistant Secretaries of Tax Policy. Hopefully, they can help us find a path back to President Reagan's criteria of fairness, growth, and simplicity.

###