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HATCH STATEMENT AT FINANCE HEARING EXPLORING THE TAX CODE'S IMPACT ON ECONOMIC GROWTH & JOB CREATION

WASHINGTON – U.S. Senator Orrin Hatch (R-Utah), Ranking Member of the Senate Finance Committee, today delivered opening remarks at a committee hearing examining how the current U.S. tax code supports economic growth and job creation. Today's hearing is the second 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:

Tax reform is greatly, desperately needed by our nation, and these hearings are a necessary first step in the reform process.

I want to make clear that I do indeed believe that the tax system supports job creation ... for CPAs and tax attorneys. And I'm also confident that the tax system leads to broad-based economic growth ... in China.

Our guiding principle for tax reform should be: "Do no harm." As bad as our current tax code is, it could actually be worse. (That's an awful thought, I know.) These many hearings we will have on tax reform should reduce the chance of making the tax code worse, and increase the chance of making it better. The topic for this hearing is economic efficiency, job creation, and growth. I am really looking forward to what our witnesses have to say on these topics, and I'm sure we will gain some helpful insights. Allow me to first share, however, a few of my initial thoughts on this topic.

There are necessary and proper functions for our federal government to perform. Those functions should promote economic efficiency, job creation, and growth. A good example of a necessary and proper function of our federal government is providing for the national defense. By creating a secure environment at home and abroad for Americans, the military promotes economic efficiency, job creation and growth.

Federal taxation exists to fund these necessary and proper functions.

In general, I am inclined to believe that the effect of federal taxes upon the taxpayer is to reduce economic efficiency, job creation, and growth.

I acknowledge that there may be very limited circumstances where taxes could reduce a given activity that has what economists call “negative externalities.” Negative externalities exist when individuals sometimes engage in activity that, although helpful to the individual, has harmful consequences to society at large. Tax can discourage such harmful activity. That is, a tax applied to negative externalities could actually enhance economic efficiency. The circumstances where this would be the case are quite rare. Very rare, indeed, Mr. Chairman.

I want to reiterate that, in general, the effect of taxes upon taxpayers is to reduce economic efficiency, job creation, and growth. But there is still a question of degree. Does one particular tax system reduce economic efficiency more or less than some other tax system?

It is my belief that high marginal taxes can discourage, at the margin, productive activity and encourage more leisure and consumption. This can reduce efficiency and growth, and, along with it, job creation.

Many call for a more progressive tax system. I think this just means higher marginal income tax rates for higher-income people. (If it means something other than that, I would like someone to just tell me.) Higher taxes for high-income people can in turn mean that such people opt for consumption and vacation, rather than investment and work. The investment such people would have done, in new plant and equipment, in new business ventures, would have led to additional job creation for others. But because of progressive taxation, certain high-income persons will not invest.

By not investing, some jobs that would have been created are not created. Some of these jobs would have been filled by lower-income people. So, ironically and sadly, progressive taxation sometimes may hurt lower-income people the most. I’m sure that is not what anybody wants, but that’s an unintended consequence of progressive taxation. President Kennedy had it right when he said that “a rising tide lifts all boats.”

Again, Chairman Baucus, thank you very much for this important series of hearings you have called on tax reform.

Thank you.

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