U.S. Senator Bill Nelson
Opening Statement
September 13, 2011

This week marks the third anniversary of the collapse of Lehman Brothers, an event that triggered our Nation's worst financial crisis since the Great Depression. Three years later, we've yet to fully recover.

Simply put, if Congress does not get serious, the structural budget imbalances facing the U.S. economy could permanently reduce labor productivity and economic growth for years to come.

A launching point for getting our fiscal house in order should be an overhaul of the federal income tax. And that means lowering tax rates, eliminating tax expenditures and loopholes, and simplifying the tax code.

We hear a lot about two entitlement programs – Social Security and Medicare. What we don't hear about are the 250 entitlement programs cooked into the tax code. Tax expenditures – the various tax credits, deductions, and exclusions grafted onto the tax code – are entitlement programs, pure and simple. If you are eligible, you can claim the benefit. There is no application process. And there is no annual or even periodic review of their efficacy by Congress. In short, tax expenditures are entitlement spending run amok.

Some of these tax expenditures, particularly those related to drilling for oil and gas, date back to the early 1900s and have little if any justification today.

The last time Congress tackled tax expenditures and other tax loopholes in a systematic way was 25 years ago, in the Tax Reform Act of 1986. That legislation took a hatchet to the special interests and lowered the top individual tax rate from 50 to 28 percent. But the special interests came back stronger than ever. Since 1986, according to the Joint Committee on Taxation, Congress has enacted 158 new tax expenditures.

Is it right that an oil company could reap a $11 billion tax windfall from the worst environmental disaster in our history? I don't think so; I don't think oil spill clean-up costs should be treated as an ordinary and necessary business expense. And that's one tax break I've already introduced legislation to change.

Is it right that large multinational corporations can report record profits yet still pay no federal income taxes? Last year, for example, General Electric reported worldwide profits of $14.2 billion. And how much was the federal corporate tax bill for America's largest firm? Zero. Nothing. Nada.

I don't think it's right.

Or, is it right that Wall Street executives can avoid millions in taxes using complex deferred compensation schemes while the average taxpayer can put no more than $5,000 a year into their Roth IRA?

Or, is it right that a special tax rule allows oil and other commodities speculators to treat a portion of their short-term trading profits as long-term capital gains subject to a lower tax rate?

In fiscal year 2008, tax expenditures like these totaled $1.2 trillion in lost revenue. That sum is greater than the entire amount raised by the individual income tax in 2008. It is also greater than all federal discretionary spending in 2008 and twice as much as all nondefense discretionary spending.

Between 1972 and 2008, the number of tax expenditures more than quadrupled from 60 to 247. And over a 25-year period from 1974 until 2008, tax expenditures climbed from 5.7 percent to 8.6 percent of GDP. If we simply reverted to the 1974 level of tax expenditures, we could wipe more than $400 billion off our annual deficit this year and more than $4 trillion over 10 years.

Tax expenditures can be characterized more accurately as "tax earmarks" because they represent favors for special interests at the expense of average taxpayers.

Tackling tax expenditures is not just about deficit reduction and increasing revenue. It is also about getting rid of distortions that act as a drag on investment and economic growth.

Over the last two decades, our foreign trading partners have moved rapidly to modernize their tax systems to make them more relevant in a global economy where capital moves at the touch of a button, intellectual property is easily transferred, and goods are manufactured in global production chains that transcend borders.

The United States, on the other hand, plods along with an antiquated tax system in which the rules for taxing international trade and investment were developed in the 1920s. The time for tinkering has passed, we need to overhaul the way we tax U.S. companies that operate around the world.

Tackling tax expenditures is also about ensuring the tax code is simple, fair, and equitable. Today's code is so complex many taxpayers simply throw up their hands and give up on trying to figure out their taxes on their own. Taxpayers and businesses spend an estimated 7.6 billion hours each year complying with filing requirements. In monetary terms, these costs were roughly $140 billion in 2008. 60 percent of taxpayers pay tax preparers to fill out their returns.

Between 1987 and 2009, the instruction booklets sent to taxpayers for the Form 1040 increased in length from 14 pages to 44 pages of text. And, more than 15,000 changes to the tax code have been made since 1986.

Thus, comprehensive deficit reduction should include well-designed fundamental tax reform that lowers tax rates, simplifies the tax code, brings our system of business taxation into the 21st century, promotes job creation, and repeals or limits unnecessary tax expenditures and loopholes. This was the recommendation of the bipartisan Bowles-Simpson Commission and the bipartisan "Gang of Six."

With fundamental income tax reform and spending reductions, we can turn this ship around and generate the revenue necessary to protect our bedrock commitments to seniors and working Americans.

Today, we are fortunate to have several of the country's greatest economic minds with us to share their views on whether tax reform should have a role in comprehensive deficit reduction. The first witness, Alan Greenspan, managed U.S. monetary policy under four presidents during his five terms as Chairman of the Federal Reserve Board of Governors from 1987 until 2006. During that time, the United States grew from a $5 trillion to a $13 trillion economy.

Our second witness, John Taylor served as a member of the Council of Economic Advisors in the George H.W. Bush Administration and as Undersecretary of Treasury for International Affairs in the George W. Bush Administration. He is currently a professor of economics at Stanford University.

The third witness, Martin Feldstein, served as chairman of the White House Council of Economic Advisors in the Reagan Administration, from 1982 until 1984. Dr. Feldstein has written more than 300 research articles in the field of economics, founded the National Bureau of Economic Research, and is currently a professor of economics at Harvard University.

Our fourth witness is John Engler, President of the Business Roundtable and a former three-term governor of Michigan. Prior to the Business Roundtable, Mr. Engler was president and CEO of the National Association of Manufacturers.

The fifth and final witness is Edward Kleinbard, who served as Chief of Staff of the Joint Committee of Taxation from 2007 to 2009. Mr. Kleinbard has 20 years of experience practicing tax law in New York and is currently a professor of law at the University of Southern California.

Welcome to all of you. Senator Crapo?