

TESTIMONY BEFORE THE  
COMMITTEE ON FINANCE

UNITED STATES SENATE  
WASHINGTON, D.C.

DENNIS MEHIEL

SEPTEMBER 14, 2011

FIRSTLY, PLEASE ALLOW ME TO EXPRESS MY GRATITUDE TO THE MEMBERS AND STAFF OF THE COMMITTEE FOR PROVIDING ME THIS OPPORTUNITY TO SHARE MY VIEWS AS YOU CONSIDER CHANGES TO OUR NATION'S TAX CODE. I BELIEVE MOST OF OUR COUNTRY'S CITIZENS UNDERSTAND OUR CURRENT MODEL NO LONGER FUNCTIONS AS EFFECTIVELY AS IT MUST IF OUR FREE ENTERPRISE SYSTEM IS TO CONTINUE TO FLOURISH FOR THE BENEFIT OF SOCIETY AS A WHOLE. YOUR TASK IS A CRITICAL ONE AND THE ACTIONS YOU TAKE NOW WILL LIKELY SHAPE OUR FUTURE FOR DECADES TO COME. FOR AN AVERAGE CITIZEN LIKE ME IT IS AN EXTRAORDINARY EXPERIENCE TO BE ABLE TO ADD MY VOICE TO SUCH AN IMPORTANT DEBATE.

SECONDLY, IN THE INTEREST OF FULL DISCLOSURE, LET ME SAY AT THE OUTSET, I DO NOT SHARE THE DISDAIN FOR OUR FEDERAL GOVERNMENT THAT SEEMS TO PERMEATE SO MUCH OF OUR PUBLIC DISCOURSE TODAY. I KNOW THIS IS THE RESULT OF MY LIFE EXPERIENCE. I WAS RAISED

DURING THE 1940'S AND 1950'S. MY FATHER SERVED OUR COUNTRY'S MILITARY AS A PILOT DURING WORLD WAR II AND THEN IN MILITARY INTELLIGENCE UNTIL HIS RETIREMENT IN THE 1970'S. OF GREEK IMMIGRANT PARENTS, HE WAS IMBUED WITH A CLEAR UNDERSTANDING OF WHAT A PRIVILEGE IT IS TO BE AN AMERICAN, AND THAT WAS PASSED ON TO HIS CHILDREN INTACT.

WHEN MY BROTHER AND I WANTED TO START OUR OWN BOX MANUFACTURING BUSINESS IN 1966 WE HAD SAVED SOME MONEY BUT ALSO NEEDED TO BORROW. THE SMALL BUSINESS ADMINISTRATION TYPICALLY WOULD GUARANTEE UP TO 90% OF WHAT A COMPANY BORROWED FROM A BANK, BUT EVEN WITH THAT GUARANTEE NO BANK WOULD APPROVE A LOAN FOR OUR START-UP ENTERPRISE. FORTUNATELY FOR US, THE SMALL BUSINESS ADMINISTRATION ALSO HAD A PROGRAM UNDER WHICH WE COULD BORROW DIRECTLY FROM THE GOVERNMENT AN AMOUNT EQUAL TO WHAT WE HAD TO INVEST. WITH OUR \$8,000 IN SAVINGS, WE BORROWED \$8,000, PURCHASED OUR MACHINES, RENTED THE PROVERBIAL GARAGE (LITERALLY) AND OUR BUSINESS WAS BORN. FOR A TWENTY FOUR YEAR OLD WITH ONLY A HIGH SCHOOL DIPLOMA, IT WAS A LIFE CHANGING OPPORTUNITY.

OVER THE YEARS OUR COMPANY PROSPERED. WE BUILT NEW BOX FACTORIES AND PURCHASED EXISTING ONES, CREATING AND SAVING

THOUSANDS OF JOBS. WHAT NEVER CROSSED OUR MIND WAS HOW MUCH OUR TAXES MIGHT BE IF WE MADE MORE MONEY. I CAN ASSURE THE COMMITTEE MY EXPERIENCE IS NOT UNIQUE; IT HAS BEEN REPLICATED MANY THOUSANDS OF TIMES OVER THE DECADES AS THE SMALL BUSINESS ADMINISTRATION FULFILLED ITS MANDATE TO HELP ENTREPRENEURS BEGIN OR GROW THEIR COMPANIES. SO WITH ALL ITS FLAWS, OUR FEDERAL GOVERNMENT, AND THE PEOPLE WHO SERVE US, HAVE A SPECIAL PLACE IN MY HEART.

THIRDLY, I TURN TO THE ISSUE AT HAND, OUR PROGRESSIVE INCOME TAX SYSTEM AND THE MARGINAL RATES PAID BY OUR HIGHER INCOME CITIZENS. AT ITS CORE, I BELIEVE OUR PERSONAL INCOME TAX REGIME EXPRESSES OUR VALUES AS A SOCIETY. THE SAME CAN BE SAID FOR THE OTHER HALF OF THE LEDGER, EXPENDITURES, BUT TODAY WE CONCERN OURSELVES WITH TAXES, WHO PAYS AND HOW MUCH. I KNOW THERE ARE MANY WHO DO NOT BELIEVE IN PROGRESSIVE INCOME TAX RATES. THEY BELIEVE ALL SHOULD PAY THE SAME PERCENTAGE. THEY BELIEVE THE LOWER THE RATE THE STRONGER THE ECONOMIC ACTIVITY WILL BE. THIS THEORY HOLDS THAT GOVERNMENT REVENUE WILL INCREASE AS RATES GO DOWN AND ECONOMIC GROWTH ACCELERATES. DEPENDING WHERE ONE STARTS THERE CAN BE MERIT TO THIS ARGUMENT. I WILL LEAVE IT TO MY MORE LEARNED COLLEAGUES HERE TODAY TO MAKE THE CASE FOR OR AGAINST THAT THEORY IN THE ABSTRACT.

HOWEVER, I CAN TELL YOU FROM PERSONAL EXPERIENCE, THE REDUCTION IN MY MARGINAL TAX RATE THAT I RECEIVED IN 2002 HAD NO MEASURABLE IMPACT ON MY CONSUMPTION OF GOODS AND SERVICES. WHEN MY MARGINAL TAX RATE WAS INCREASED IN 1994, THERE WAS ALSO NO MEASURABLE IMPACT ON MY PERSONAL CONSUMPTION OF GOODS AND SERVICES. I WOULD REMIND THE COMMITTEE, AFTER THE 1994 INCREASE IN PERSONAL TAXES WAS IMPLEMENTED, THEN CURRENT INTEREST RATES DROPPED BY ABOUT THREE (3%) PERCENTAGE POINTS, BECAUSE THE CAPITAL MARKETS UNDERSTOOD OUR NATION HAD DECIDED TO RESTORE FISCAL BALANCE.

AS INTEREST RATES CAME DOWN, WE WERE ABLE TO BORROW AND INVEST MORE IN OUR BUSINESS. IN 1993 WE EMPLOYED APPROXIMATELY 1,200 PEOPLE. BY 1998 WE EMPLOYED OVER 12,000 PEOPLE. BECAUSE WE WERE IDENTIFYING AND REHABILITATING TROUBLED COMPANIES WITHIN OUR INDUSTRY I CAN ASSURE THE COMMITTEE THAT ALMOST NONE OF THOSE JOBS WOULD HAVE EXISTED ABSENT OUR EXPANSION. AGAIN, OUR EXPERIENCE WAS ANYTHING BUT UNIQUE. THE EXPLOSION IN INVESTMENT AND THE RESULTING ECONOMIC GROWTH CREATED 22 MILLION JOBS DURING THE SEVEN YEARS FOLLOWING THE INCREASE IN OUR PERSONAL MARGINAL INCOME TAX RATE. IRONICALLY, IN THE CONDITIONS THAT PREVAILED IN 1993, AN INCREASE IN PERSONAL

INCOME TAX RATES BECAME A KEY DRIVER OF SIGNIFICANT ECONOMIC GROWTH AND NEW JOB CREATION.

I BELIEVE MY EXPERIENCE IS NO DIFFERENT THAN THOUSANDS, INDEED MILLIONS OF MY FELLOW CITIZENS. MANY DID MUCH BETTER THAN I DID, BUILT MUCH BIGGER ENTERPRISES, MANY MORE WERE SMALLER. WHAT WE HAVE IN COMMON WAS THE OPPORTUNITY TO BENEFIT FROM AN ENLIGHTENED CAPITALIST SYSTEM THAT CREATED ECONOMIC MOBILITY FOR ITS CITIZENS UNEQUALED IN HUMAN HISTORY. THAT SYSTEM IS UNDER ENORMOUS PRESSURE TODAY FOR A VARIETY OF REASONS, WHICH INCLUDES THE CHANGES IN OUR TAX SYSTEM ENACTED OVER RECENT YEARS AS WELL AS THE FAILURE TO CORRECT SIGNIFICANT INEQUITIES THAT GO BACK FURTHER.

I HAVE HEARD MORE THAN ONCE THE PROPOSITION ADVANCED THAT SMALL BUSINESS OWNERS WILL NOT INVEST IN AND GROW THEIR BUSINESSES IF WE RESTORE THE MARGINAL RATES THAT PREVAILED IN THE 1990'S. LET'S TEST THAT THEORY:

IF A BUSINESS PERSON CURRENTLY HAS ANNUAL PRE-TAX INCOME OF \$500,000, THE CHANGE WOULD INCREASE HIS OR HER INCOME TAX BY \$10,000 PER YEAR. ARE WE TO BELIEVE A RATIONAL PERSON, EARNING A HALF MILLION DOLLARS A YEAR, WILL REFUSE TO GROW THE BUSINESS

AND HIRE PEOPLE BECAUSE THEIR TAX WENT FROM \$135,000 PER YEAR TO \$145,000 PER YEAR. I WOULD ARGUE THE ANSWER IS NO.

IT IS MY RECOMMENDATION THE COMMITTEE TAKE THE FOLLOWING ACTIONS:

- RESTORE MARGINAL TAX RATES TO THOSE THAT PREVAILED DURING THE 1990'S
- CREATE A NEW MARGINAL RATE OF 43% ON ADJUSTED GROSS INCOME ABOVE ONE MILLION DOLLARS PER YEAR
- ELIMINATE THE "CARRIED INTEREST" LOOPHOLE THAT ALLOWS FINANCIAL PROFESSIONALS TO EARN ORDINARY INCOME FOR DOING THEIR WORK AS EVERYONE ELSE DOES, BUT TO PRETEND THEY HAVE INVESTED CAPITAL AT RISK AND SHOULD BENEFIT FROM CAPITAL GAINS TREATMENT ON THAT INCOME
- INCREASE THE CAPITAL GAINS TAX RATE TO 50% OF THE HIGHEST MARGINAL ORDINARY INCOME TAX RATE.
- REINSTATE THE INVESTMENT TAX CREDIT OF 10% ON PURCHASES OF CAPITAL EQUIPMENT MANUFACTURED IN THE UNITED STATES
- REDUCE THE CORPORATE INCOME TAX RATE TO TWENTY-SEVEN (27%) PERCENT WHILE REMOVING ALL OF THE INCENTIVES (NOW LOOPHOLES AS THEY HAVE OUTLINED THEIR USEFULNESS) WITH THE OBJECTIVE OF INCREASING REVENUE.

I KNOW OUR NATION MUST REDUCE THE GROWTH IN EXPENDITURES TO ACHIEVE FISCAL BALANCE. THESE RECOMMENDATIONS ALONE, IF ENACTED, WOULD NOT DO SO. BUT I BELIEVE RESTORING OUR PROGRESSIVE TAX SYSTEM THAT HAS SERVED THIS NATION SO WELL, FOR SO LONG, IS ABSOLUTELY ESSENTIAL TO OUR RECOVERY.

I THANK THE COMMITTEE FOR ITS COURTESY AND ATTENTION.