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## **HATCH STATEMENT AT FINANCE COMMITTEE HEARING EXAMINING THE IMPACT OF TAX REFORM ON ECONOMIC OPPORTUNITIES FOR YOUNG PEOPLE**

WASHINGTON – U.S. Senator Orrin Hatch (R-Utah), Ranking Member of the Senate Finance Committee, today delivered the following opening statement at a committee hearing examining the impact of tax reform on economic opportunities for young people:

Today's hearing will consider opportunities for American families to provide upward mobility for their children. Research on intergenerational mobility often seems to raise as many questions as it answers. For example, do opportunity and mobility depend more on nature or nurture? What should be our target in terms of opportunity and mobility? What federal policy tools should we consider?

While it makes for a good bumper sticker, it is not even clear that a system of perfectly equal opportunity and mobility is desirable. The former Soviet bloc attempted to achieve perfect equality, but at the expense of personal liberty and the economic incentives necessary if a society is to enjoy productivity growth along with the rewards of producing goods and services.

A dynamic economy depends on the willingness of individuals to go to school, study, gain skills, work, take risks, and innovate. Because such activities are inherently risky, people will engage in them only if they expect to be rewarded. Incentives matter and we should not be surprised that even if we have equal opportunity, however measured, we will still observe unequal outcomes.

My understanding of the literature on economic mobility leads me to believe that human capital is an essential part of the process. The evidence suggests to me that the most important way to provide those opportunities is for parents to invest in early childhood development and education, and to provide a stable family structure in which those investments can be nurtured.

The question is: can the federal government, with its crude policy levers, enhance those opportunities for some without unduly damaging opportunities for others to succeed? It may do little good to simply redistribute more money into broken federal education programs, if

that spending is funded by more crippling taxes that prevent investment, creation of capital, savings, and economic growth. Our history of success in public provision of education is poor. There appear to be no measurable improvements in educational outputs associated with pouring more and more government funds into education, despite decades of trying.

The evidence seems to suggest mostly that it is easy for governments to spend money badly.

Our history of providing resources to lower-income households has also not always been admirable. We have had periods during which resources were provided with little or no attention to incentives, which led to tragic cycles of dependence on government. We still have federal programs which, while well intentioned, impose marginal effective tax rates of 100 percent or more on low-income households facing a mishmash of eligibility phase-outs and cliffs. Some programs interact to financially punish family formation, serving to crush opportunities for people to nurture their children and provide them with opportunities.

One thing seems clear and immediate to me today. Continuing to run up our federal debt and burdening our children and theirs with mountains of bills to pay off is a sure path to declining opportunities for all Americans, present and future. Circumstances in Europe, where young generations face ever-dwindling opportunities, should serve as a wake-up call. We need to act on our debt and deficits now.

In addressing opportunities created or destroyed through federal tax and spending policies, I believe it is important to keep in mind the distinction between more and better. To some, more taxes and spending, without attention to adverse incentive effects, seems always to be the answer. I believe that we need to think also about how the government can do its job better. Mr. Chairman, I think we can agree that a clear path toward the better seems to be fundamental tax reform, where we look carefully at what works, what doesn't work, and how we can fix the latter.

Today's panelists will offer insights from research on intergenerational mobility. Our witnesses will discuss research efforts which have uncovered correlations between outcomes of parents and children over time and across countries. And we will hear ideas about the underlying mechanisms in the economy or society that either enhance or suppress opportunities. Unfortunately, there is little hard data available to guide federal policies.

While I welcome insights that our panelists can provide from their research on mobility, I hope that we will be careful about our abilities to make inferences of causality from sometimes crude correlations. The questions being addressed are very difficult, and the evidence is still under development.

Mr. Chairman, thank you for holding today's hearing. I look forward to the testimony of our witnesses.

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