

Crapo opening statement for Finance Subcommittee hearing on whether there is a role for tax reform in comprehensive deficit reduction and U.S. fiscal policy

Thank you, Mr. Chairman, for holding this important hearing.

Deficit reduction, and fiscal reform more generally, is clearly the issue of the day here in Congress, and across the country, as it should be.

Today's hearing focuses on the issue of tax reform, and we have an outstanding panel of witnesses here to discuss this important issue.

The notion that comprehensive tax reform is greatly needed is not in dispute.

We would be hard pressed to create a tax code that is more complex, unfair, burdensome, inefficient and anti-competitive than the one we have now.

But there are many different positions out there as to when tax reform should take place, what should be the primary goals of tax reform, and what should be the key elements of tax reform.

Some have called for a combination of raising tax rates and modifying or eliminating tax expenditures as a way to raise revenue that would be dedicated to deficit reduction.

Other proposals, such as the Gang of Six proposal I was involved with, have called for pro-growth tax reform that lowers all tax rates, simplifies the tax code by eliminating many tax expenditures and reforms our corporate tax code to make U.S. businesses more competitive in the global marketplace, with the goal of this tax reform being a significant increase in economic growth. A byproduct of this increased economic growth would be the kind of additional revenue that we are not seeing in our current economy, not because current tax rates are too low, but because our economy is not growing.

History has shown that our annual total revenue as a percentage of GDP is about 18.2 percent.

This has been the case whether the top tax rate was 70% or 28% or 35%.

In booming times, we have seen temporary revenue spikes, and in times of low growth and high unemployment, as we have seen in recent years, we have seen dips in total revenue.

But, over time, we have always seen revenues return to their historic average, regardless of what Congress has done to the tax code.

In fact, annual revenues have only exceeded 20 percent of GDP three times in the last 70 years. Two of those years were at the end of World War II, when our national was still running high deficits. The other time was in 2000, when annual revenue of 20.6% of GDP took place at the height of the stock market bubble. This temporary spike in revenue was bound to come down as soon as the bubble burst, which it did, at a time that coincided with the post 9/11 recession.

In fact, other than in the year 2000, of the 11 other times since 1940 when our budget has been in surplus, revenues were less than 20% of GDP, and in 7 of those 11 years, revenues were below 19% of GDP.

It is also important to note that our budget has NEVER been in balance when federal spending exceeded 19.4% of GDP.

Along those lines, I appreciate that many of our witnesses today note in their prepared testimony that, while tax reform is an important goal for Congress, fundamental entitlement reform must be a primary and immediate goal for Congress, as it is the by far the primary driver of our long-term fiscal shortfall.

Nevertheless, even if we do cut trillions of dollars of spending, which we must do, so long as our economy remains in the tank and unemployment remains persistently high, policies that will generate the kind of robust economic growth that is currently nowhere to be found must also be a priority.

It is for this reason that I support the inclusion of pro-growth tax reform as part of a comprehensive fiscal reform plan that also includes fundamental entitlement reform and

strict enforcement mechanisms that will not only get our nation on a more stable budgetary path, but will keep future congresses from diverting from that path.

I look forward to hearing the testimony of our witnesses today about how best to accomplish these goals.

Thank you, Mr. Chairman.