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JOBS AND A HEALTHY ECONOMY

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THURSDAY, JANUARY 22, 2015

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, DC.

The hearing was convened, pursuant to notice, at 10:05 a.m., in room SD–215, Dirksen Senate Office Building, Hon. Orrin G. Hatch (chairman of the committee) presiding.

Present: Senators Grassley, Crapo, Roberts, Cornyn, Thune, Isakson, Coats, Heller, Scott, Wyden, Schumer, Stabenow, Cantwell, Nelson, Menendez, Carper, Cardin, Bennet, Casey, and Warner.

Also present: Republican Staff: Chris Campbell, Staff Director; Everett Eissenstat, Chief International Trade Counsel; Rebecca Eubank, International Trade Analyst; Mark Prater, Deputy Staff Director and Chief Tax Counsel; Preston Rutledge, Tax Counsel; and Jeff Wrase, Chief Economist. Democratic Staff: Laura Berntsen, Senior Advisor for Health and Human Services; Adam Carasso, Senior Tax and Economic Advisor; Michael Evans, General Counsel; Tom Klouda, Senior Domestic Policy Advisor; Todd Metcalf, Chief Tax Counsel; Joshua Sheinkman, Staff Director; and Jayme White, Chief Advisor for International Competitiveness and Innovation.

Senator WYDEN. The Finance Committee will come to order.

Chairman Hatch, take good care of this gavel, as I know you will. I want you to know how much I have enjoyed working with you, in your long history of bipartisanship.

This morning, as I hand you the gavel, I want to wish you, Chairman Hatch, all the best. [Applause.]

OPENING STATEMENT OF HON. ORRIN G. HATCH, A U.S. SENATOR FROM UTAH, CHAIRMAN, COMMITTEE ON FINANCE

The CHAIRMAN. Well, thank you very much. Thank you so much. That comes from a very good man who knows how to use this gavel. It has been so long since I have used one that I am not sure I know how to do it anymore.

But we are honored to be with everybody on this committee. This is a terrific committee, and we are going to do some very, very important things, as we have in the past.

I want to personally pay tribute to the distinguished Senator from Oregon for the fine way he ran this committee, and we will try to hopefully follow his example and run it in a way that is fair and reasonable for everybody.

I am grateful to you, and it is always a pleasure to, sir, work with you and all of our friends on the Democrat side, and we have a lot of really good people on the Republican side as well.

Welcome, everyone, to the first hearing of the Senate Finance Committee in the 114th Congress. It is appropriately titled “Jobs and a Healthy Economy.” Despite the numerous differences and disagreements that exist here in Washington, I believe that, regardless of party affiliation, we can all agree that job creation and a strong, vibrant economy are good things.

The Senate Finance Committee has a long tradition of effectiveness and bipartisanship. Given the size and scope of our jurisdiction, that is only appropriate.

One of my main goals, as the new chairman of this committee, is to continue that tradition, to allow the committee to function and produce results as it has so many times in the past. That is why we chose this topic for our first hearing. Today I hope we can have a discussion that will help us find consensus on these challenges rather than highlighting our differences. I will be sorely disappointed if it devolves into yet another back-and-forth from each side trying to score political points rather than seeking solutions to the problems ailing our economy.

The Finance Committee is uniquely equipped to address the challenges related to jobs and the economy. Indeed, our jurisdiction places us on the front lines of the most important debates that we will have in this effort. For example, we have jurisdiction over our Nation’s tax code. There is bipartisan agreement on the need to fix our tax system to help hardworking taxpayers and allow businesses to grow, compete, and create more jobs.

Our current tax code creates numerous unnecessary roadblocks that stand between us and sustained economic opportunity and prosperity. For these reasons, I have made tax reform my highest legislative priority for this Congress, and I believe Senator Wyden feels pretty much the same. Over the past few years, I have been working to make the case for tax reform on the Senate floor, in public appearances, in written work, and in private conversations. I am going to continue to do so.

Recently, Senator Wyden and I set forth the first steps for tax reform in the 114th Congress. We created five working groups, all assigned to study different areas of tax reform and come up with proposals that we will then use as we work on bipartisan tax reform and bipartisan tax reform legislation. We have a number of great Senators on the committee who are just as committed to tax reform as we are. I look forward to seeing the results of their work. We need to get this done.

I would like to ask each of the witnesses on our panel to use at least some of their time during their opening statements to give us specific ideas on how we can improve our Nation’s tax code.

Another area of the committee’s jurisdiction that is essential to job growth and a healthy economy is international trade. The United States has a long tradition of breaking down barriers and providing access for American goods and services in foreign markets. This has been great for our economy, and we must continue to do these things in the future. Ninety-five percent of the world’s population and 80 percent of its purchasing power reside outside of the United States. For our job creators to compete on the world stage, we must ensure that they have greater access to this ever-growing customer base.

Toward that end, Congress needs to renew Trade Promotion Authority, or TPA as we call it, in short order. This is also something we need to get done. I am engaged with Senator Wyden and others on this committee to find a path on TPA that will provide the best opportunities for TPA to succeed. I hope we will be able to complete our work soon. I met with our trade ambassador yesterday for a considerable amount of time on these particular issues.

The Obama administration is currently engaged in some of the most ambitious trade negotiations in our Nation's history. The only way for Congress to effectively assert its role in these negotiations, and the only way to get trade agreements that reflect the highest standards, is through TPA, or Trade Promotion Authority.

I would like to ask each of the witnesses on our panel whether they think trade is important to the expansion of economic opportunities and the development of a healthy economy, and to include their answer in their opening statements.

The Finance Committee's jurisdiction expands beyond tax and trade into other areas that impact jobs and the economy and economic security of American households. We have growing health care costs that continue to put strains on employers and hard-working taxpayers, and we have a growing entitlement crisis that threatens to swallow up our government and take our economy down with it. And if we do not do something about that, that is exactly what is going to happen.

All of these issues impact jobs and the economy, and all of them are important. I hope we can have a robust conversation today on what the committee and Congress can do to address these important issues, as well as others.

Like I said earlier, I also hope that we can avoid having a partisan back-and-forth that yields no productive answers or discussion. Of course, that does not mean critiques of any policy or proposals should be considered out of bounds, nor does it mean that we should not have a spirited debate on the issues. But I do hope that whatever questions we ask or statements we make, we will stay focused on gaining a better understanding and on the goal of creating jobs and promoting a healthy economy for our country.

I would like to take a moment now to recognize—we have some new members of the committee—Senators Heller, Coats, and Scott, or should I say Coats, Heller, and Scott. I want to once again welcome them to the Finance Committee and say that I look forward to their participation in this hearing and others in the future. I am also pleased that Senator Warner is still on this committee. I expect him to be a very hardworking member of this committee and somebody who can bring people together, and I am counting on that and banking on it, and I am pleased that he is with us. I have no doubt that each of their contributions will be valuable to our efforts.

Finally, I want to note that, at any point during the hearing when we have a quorum present, I plan to move to executive session to formally organize the committee, which will include some routine matters such as organizing subcommittees and formalizing a specific change to the committee rules.

With that, I will turn the time over to my counterpart, Senator Wyden, for his opening statement.

[The prepared statement of Chairman Hatch appears in the appendix.]

OPENING STATEMENT OF HON. RON WYDEN, A U.S. SENATOR FROM OREGON

Senator WYDEN. Thank you very much, Chairman Hatch. And on behalf of this side of the dais, I too want to welcome our new colleagues, Senator Coats, Senator Heller, and Senator Scott. I have enjoyed working with each of them and will say, as Senator Hatch appropriately mentioned, how important it is to fix this broken, dysfunctional mess of a tax code.

I have had a chance to watch Senator Coats in action, doing good and bipartisan work there. So I am looking forward to working with all three of our colleagues.

I have just a couple of additional points to make about Chairman Hatch before I turn to the matter at hand. Senator Hatch is the second Senator from Utah to chair this committee. The first was Senator Reed Smoot, who chaired the committee from 1923 to 1933 and who is, perhaps unfairly, remembered best for the tariff bill that bears his name. Fortunately, Chairman Hatch has a very different view of economics than Senator Smoot did.

I would also like to note that Senator Hatch is only the third Senator to serve simultaneously as President pro tem and chairman of this committee. He is going to be the busiest member of the Senate. And he is only the second Senator in the modern era to have been given the heavy responsibility of chairing three major committees. Senator Hatch previously chaired the Judiciary Committee and the HELP Committee, and now the Finance Committee. In my view, he has saved the best for last.

The last point I would mention is that, if you look at Senator Hatch's record from a historical standpoint, he has a long history of recognizing that the best legislation is bipartisan legislation, where you do not proceed unilaterally but you try to find common ground. I think that is going to serve all of us very well. And I do look forward, as we have in the past, Chairman Hatch, to working closely with you.

The CHAIRMAN. Thank you, Senator.

Senator WYDEN. If I could just turn briefly to the matter at hand. This is a particularly important hearing because, 7 years after the economic collapse shook our economy to the core, our recovery still has a ways to go. Too many middle-class Americans pounded by decades of flat wages are still struggling to make progress. And I want everybody to understand my bottom line for this Congress. When working families see bigger paychecks, America's economic recovery is going to go from a walk to a run.

Over the last few weeks, I have spent a lot of time talking with workers and businesses in my State about the challenges they face 7 years after the start of the Great Recession. Just this weekend, I held town hall meetings in Klamath, Josephine, and Lincoln Counties, and it is pretty clear that there are a lot of Oregonians, a lot of Americans, waiting for the economic recovery to kick in for them.

For Oregon's middle class, moving the recovery from a walk to a run pretty much comes down to what we call the five Ts: technology jobs, tax reform, trade done right, transportation, and timber. And my guess is probably every Senator on this committee, on both sides of the aisle, could come up with their own list. And there is no question in my mind that there would be a lot of overlap.

Now, there are a lot of lessons to be learned from our history, as policymakers work to strengthen the foundations of the American economy. Seventy years ago, after winning World War II and making the long, slow climb out of the Depression, our country took bold new steps to build a thriving middle class. The Congress came together and expanded access to education. It connected every corner of the Nation from Portland, OR to Portland, ME, from Los Angeles to Miami, with the world's best infrastructure. Over time, it reformed the tax system to better fit modern economic challenges, and it found opportunities in markets abroad for our companies to seize. These policies helped power an economic boom. They grew the paychecks of working Americans and small businesses for decades. Year after year, people felt confident that their kids would do better than they did.

True economic recovery, in my view, will restore that confidence. It will mean more jobs with a strong, clear ladder to the middle class, jobs in which workers can support their families, build their savings, and send their kids to college; jobs that do not leave families stretching every paycheck month after month.

So in my view, there is a question for each of us to ask with every bill we consider and every vote we take in the Congress. That question is: how will this grow the American worker's paycheck?

So, as we come together to tackle the overall tax code, which Chairman Hatch has correctly mentioned, let us ask, "How is this going to grow that paycheck?" When we take on the enormous job of rebuilding our infrastructure, again, the question is, "How will this grow the paycheck?" As we work to get more students in the door to college, once more, "How will this grow the paycheck?" And, as we try to ensure that our companies can be competitive in a cutthroat global economy, the issue is still, "How will this grow the paycheck?"

We can all be proud of the fact that the Finance Committee over the years has taken a starring role in so many of the important policy debates. So there are going to be many opportunities for us to come together on a bipartisan basis to ensure that more Americans share in the recovery and are getting bigger paychecks.

I believe I can speak for the Democrats on the committee in saying that we all look forward to growing the middle class, lightening their economic burden, and that we believe there is an opportunity to pursue this in a bipartisan fashion.

Again, Chairman Hatch, congratulations, and I look forward to our first hearing.

The CHAIRMAN. Thank you, Senator Wyden. I thank my colleague for his kind remarks. And I look forward to working with everybody on this committee, and, if we are going to solve the economic problems of this country, this committee has to play a pivotal role in that.

[The prepared statement of Senator Wyden appears in the appendix.]

The CHAIRMAN. Our first witness today is Governor John Engler. Since 2011, Governor Engler has served as president of the Business Roundtable. I will call it BRT for our purposes here. That is an association of CEOs of leading U.S. corporations that produce $7.4 trillion in annual revenues and employ more than 16 million people.

Prior to his time at BRT, he served for 6 years as the president and CEO of the National Association of Manufacturers. And, of course, he was also a 3-term Governor of the State of Michigan.

Governor Engler serves on the board of directors for Universal Forest Products, K12 Inc., and the Annie E. Casey Foundation, and he is a past chairman of the National Governors' Association.

He graduated from Michigan State University with a bachelor's degree in agricultural economics and later earned a law degree from Thomas M. Cooley Law School in Lansing, MI.

We welcome you, Governor Engler, to the committee. I hope this is just the first of many appearances before this committee to help us to do our work, and I want to thank you for being here.

I will introduce the others as we turn to them for their statements. So, please, give your statement, and then I will introduce the other two witnesses.

STATEMENT OF HON. JOHN ENGLER, PRESIDENT, BUSINESS ROUNDTABLE, WASHINGTON, DC

Governor ENGLER. Thank you very much, Mr. Chairman. Congratulations on your receipt of the gavel earlier.

Ranking Member Wyden, my home State Senator Stabenow, Senator Warner, I am pleased to be here to testify on behalf of the Business Roundtable.

In 2015, Business Roundtable would like to see a stronger economy, creating more jobs. The question properly before the committee is, "How do we get there?"

This week, we released "Achieving America's Full Potential: More Work, Greater Investment, Unlimited Opportunity." I would ask that a copy of the Roundtable report be included with my testimony.

The CHAIRMAN. Without objection, it will be included.

[The report appears in the appendix on p. 51.]

Governor ENGLER. The committee also has been provided copies.

The Roundtable priorities include expanded trade, tax reform, fiscal stability, fixing our broken immigration system, infrastructure investment, and a smarter approach to regulation.

Today I want to focus on two main topics: trade and tax reform. Business leaders believe strongly in the benefits that trade and high-standard trade agreements bring to the United States. Trade is also an opportunity for Congress and the administration to demonstrate bipartisan cooperation early on in 2015.

Our agenda includes two recommendations relating to trade. First, we recommend that Congress and the administration enact updated Trade Promotion Authority as soon as possible. Second, we recommend the administration, in consultation with Congress, aggressively pursue and secure high-quality and fair agreements, particularly the Trans-Pacific Partnership, the Transatlantic Trade and Investment Partnership, and the Trade in Services Agreement.

Trade Promotion Authority legislation is the critical tool for achieving high-standard trade agreements that will create strong, enforceable rules and will result in U.S. growth in jobs. A 21st-century TPA helps ensure congressional input and oversight of U.S. trade negotiations and ensures our international trading partners that Washington is committed to reaching and enacting strong trade agreements.

Business support crosses all sectors of the economy. In 2013, Business Roundtable created the Trade Benefits America Coalition. It is a broad-based group of more than 230 U.S. agriculture and business associations and companies, all committed to educating the public on the benefits of trade and strongly backing TPA. Our coalition members are eager to work with this committee to get TPA passed as soon as possible, and I offer their help today.

On the next topic, I think everyone agrees the U.S. tax code is broken and desperately needs to be fixed. Mr. Chairman, the formation of the five working groups that you referenced earlier today on the U.S. tax code represents an excellent start to the kind of bipartisan effort that can make a modern, more globally competitive tax system a reality.

Just yesterday, Secretary of Treasury Jack Lew reiterated the administration's desire to work on business tax reform, and we urge the administration and Congress to enact tax reform this year. Tax reform should be designed to improve the competitiveness of all businesses; that is, non-corporate entities and corporations alike.

Business Roundtable key tax reform recommendations for corporations are two. First, set the corporate rate at a competitive 25 percent. I did bring a chart. In the written testimony, I use the OECD chart without amendment. But for purposes of the committee, I thought I would put a green line in asking for a 25 percent rate that would move us from the bottom red line, where we are today, worst in the world, not up to the middle, but we get a lot more competitive, and that is within our reach. You would love to be where Ireland is, but progress is important, and that is where we would be if we could get to a 25-percent rate. It actually shows it at 29.7 percent, but that is with the local tax added in.

The second recommendation, in addition to rate, is the adoption of a modern international tax system that ends the double taxation of U.S. corporations' foreign earnings, thus eliminating a policy that has resulted in more than $2 trillion in earnings trapped offshore.

Regardless of the business structure, reform will require hard choices. In the case of corporations, repeal of so-called tax expenditures would offset the revenue loss from the corporate rate reduction, but the result would be a broader, flatter tax code.

America's business leaders have consistently maintained that tax reform will boost wages, growth, and investment. In 2014, Rice University professors analyzed then-Chairman Camp's tax reform proposals. Their studies showed an increase in U.S. annual GDP of

2.2 percent after 10 years and a boost in after-tax wages for the American workers of 3.8 percent after 10 years.

We look forward to working with you to seek even stronger growth outcomes. This additional growth could help address our fiscal challenges as well, as we turn to such critical issues as our Nation's long-term debt and entitlement reforms.

CBO says that each one-tenth percentage-point sustained increase in the growth rate of GDP—one-tenth of a percentage point—would reduce the deficit by $300 billion over a decade. A full percentage point then would reduce the budget deficit by about $3 trillion over a decade—a nice, nice contribution.

Mr. Chairman, Ranking Member Wyden, members of the committee, thank you for the opportunity to kick off the 2015 hearings and to address the many priorities of the Nation and those that would give us a healthier economy with more jobs and help America achieve its full potential.

Thank you.

The CHAIRMAN. Thank you, Governor. We appreciate it and appreciate your excellent statement.

[The prepared statement of Governor Engler appears in the appendix.]

The CHAIRMAN. Our next witness is Dr. Robert E. Hall. Dr. Hall is the Robert and Carole McNeil and joint Hoover Institution senior fellow and professor of economics at Stanford University.

He served as president of the American Economic Association, or AEA, in 2010 and is a distinguished fellow of the AEA and a member of the National Academy of Sciences.

Professor Hall is a fellow of the American Academy of Arts and Sciences, the Econometric Society, and the Society of Labor Economists. He serves on the National Bureau of Economic Research's Committee on Business Cycle Dating, which semi-officially dates periods of recession, and has advised numerous government agencies on national economic policy, including the Treasury, Federal Reserve, and the Congressional Budget Office.

Dr. Hall received his Ph.D. in economics from MIT and a BA in economics from the University of California at Berkeley.

We want to welcome you, Dr. Hall. We are very appreciative of you being here. We welcome you to the Senate Finance Committee, and we thank you for appearing before us today. So please proceed with your opening statement.

STATEMENT OF ROBERT E. HALL, Ph.D., SENIOR FELLOW, HOOVER INSTITUTION, AND PROFESSOR OF ECONOMICS, STANFORD UNIVERSITY, STANFORD, CA

Dr. HALL. Thank you, Mr. Chairman, for this opportunity to discuss the U.S. labor market, which is a specialty of mine. I will also comment, as you asked, on international trade and improvements in taxation, particularly the latter.

With respect to the labor market, the labor market is now back to normal. It is not depressed, but it is not in a boom state either. It is in between. For example, the unemployment rate, at 5.6 percent, is just below its long-run average. The key point that I think most people recognize, though, is that employment has not grown by its normal amounts in the expansion. That actually is the reason that family incomes have not grown satisfactorily. Wages actually have grown, but the problem is that employment has not grown, and the combination of the two has left stagnation.

Just to continue, though, on this point with respect to the availability of jobs, we are at normal now. For example, short-term unemployment is at an all-time low. The time that it takes employers to find a new employee is at a record high, which means that it is hard to find workers, which means that, for workers, it is easier to find jobs. On the other hand, there are negatives in the labor market today. Long-term unemployment and involuntary part-time employment are above normal levels, but it is gratifying to see that they are declining and I think will approach normal fairly soon.

But as I stress, employment growth is disappointing, and the reason is declining labor force participation. The fraction of the population, the working-age population either at work or looking for work, has declined remarkably. A trend that began in 2000 worsened after the crisis, but it has continued to decline despite the restoration of normal job availability.

The decline is not the result of demographic shifts. It reflects long-lasting changes, in particular teenagers and young adults who account for all of the decline. Participation has remained constant at high levels for those aged 35 to 59 and has increased from previously low levels for those 60 and above. The decline in participation has been larger among young people in households with above median income. So it is not restricted, as some people, I think, mistakenly believe, to low-income families.

I do not see then that there is a place for a policy that attacks the labor market directly, and I think most people agree with that. Rather, we need policies with economy-wide favorable impacts that would bring improvements in the labor market along with improvements in the performance of the economy as a whole. These policies would improve educational outcomes and stimulate productivity growth. Those would result in higher wages across the board and close some of the gap between wage growth for low-wage and high-wage workers.

Now, turning to trade policy, I think I just want to make one point, and that is that earnings should be measured in terms of purchasing power. If we allow American consumers to pursue bargains that are available in global markets, that raises real incomes. That is one of the major objectives of this committee and of economic reform in general. Therefore, we should welcome imports from countries that are providing products at low prices.

Now, there is lots more to say about trade, but that is not my specialty. Let me turn to tax reform, which is an area that I have been active in. The Hall-Rabushka plan, which Alvin Rabushka and I put together about 30 years ago, is a simple, progressive personal tax and an airtight business tax which are completely integrated.

Integration of the personal tax and the business tax should be the top priority of tax reform. There is too much double taxation of income. For example, we have a corporate income tax and the personal income tax when individuals receive dividends and capital gains. That is a mistake. We need to integrate the two.

Hall-Rabushka is a very consistent approach to that, and I recommend it to everybody. It has the right incentives for saving and investment. It can be tailored to modern standards of progressivity. It does not have to be a flat tax, even though some people call it a flat tax. It is the right way to go. It would provide the kind of stimulus that we are all looking for.

So thank you, Mr. Chairman, again for this opportunity to testify.

The CHAIRMAN. Thank you very much.

[The prepared statement of Dr. Hall appears in the appendix.]

The CHAIRMAN. Last, but certainly not least, is Dr. Justin Wolfers. Dr. Wolfers is a professor of public policy at the Gerald R. Ford School of Public Policy at the University of Michigan and a professor of economics. Dr. Wolfers's research interests include labor economics, macroeconomics, political economy, economics of the family, social policy, law and economics, and behavioral economics.

He is a research associate with the National Bureau for Economic Research, a research affiliate with the Center for Economic Policy Research in London, and an international research fellow at the Kiel Institute for the World Economy in Germany.

Dr. Wolfers earned his Ph.D. in economics from Harvard University and a bachelor's degree in economics from the University of Sydney.

We welcome you, Dr. Wolfers, to the committee and want to thank you for being here in attendance today. Please proceed with your opening statement as well.

STATEMENT OF JUSTIN WOLFERS, Ph.D., SENIOR FELLOW, PETERSON INSTITUTE FOR INTERNATIONAL ECONOMICS; PROFESSOR OF PUBLIC POLICY, GERALD R. FORD SCHOOL OF PUBLIC POLICY; AND PROFESSOR OF ECONOMICS, COLLEGE OF LITERATURE, SCIENCE, AND THE ARTS, UNIVERSITY OF MICHIGAN, ANN ARBOR, MI

Dr. WOLFERS. Thank you, Chairman Hatch, Ranking Member Wyden, and members of the committee, particularly my home State Senator, Senator Stabenow, and my brother in orange paisley, Senator Cornyn. [Laughter.]

The good news is, we are very much in an improving economy right now. Last year we created 246,000 jobs per month, on average, which is the fastest rate of job creation since 1999. The unemployment rate now is down to 5.6 percent, and, importantly, through this recovery, unemployment has been falling at a full percentage point per year. It is down from 10 percentage points. So if it is at 5.6 and it is falling by about a point per year, that tells us that sometime this year, depending on how optimistic or pessimistic you are about how far we can go, the economy will finally be back to normal.

But I should urge, as much as that is the natural projection, that we should not declare mission accomplished prematurely. Historically, we regarded a 5.6-percent unemployment rate as being a bad outcome, and it is certainly the case, I think, that we can do better.

I think we learned through the mid- to late-1990s that the U.S. economy can sustain a 4-point-something-percent unemployment rate rather than a 5-point-something-percent unemployment rate. And I hear a lot of talk that we might be near capacity, but I think there is good reason to be optimistic that the recovery could run a lot further.

That is all I want to say about the short run. I am more concerned, I think, about the longer-run issues that come out of the recent business cycle.

First is, we still have elevated rates of long-term unemployment. Historically, in the U.S., we would measure unemployment in the number of weeks that people were out. You would lose your job, you would probably have another job in 6, sometimes 12 weeks. Today we measure unemployment in months and, in many cases, years. That is a new development for us, and it appears to me that moving people back into the labor force who have been out of work for 1, maybe 2 years, we do not yet have the systems in place to do that. And so perhaps there is a need for greater job search assistance. Also, perhaps we need to think about the social insurance that may be necessary if long-term unemployment is going to be with us for the longer run.

During the recent recession, Congress saw fit to extend unemployment insurance, emergency unemployment compensation, for those who were out of work a long period of time, and it seems to me that we want to be prepared for the next time that something like this happens again, which is to say that, rather than acting on the spur of the moment, it would be useful to have a program in place that triggers longer unemployment insurance when the next deep recession hits.

I think that is part of the second, broader thing I want to talk about, which is, I think what we have learned from this recession is that the Federal Reserve cannot necessarily do all that it needs to do to offset a cyclical downturn. We are at zero interest rates right now, and the Fed has not been able to be as aggressive as it would otherwise be. That suggests to many of us a greater role for automatic stabilizers. If, when downturns hit, taxes could be lower and spending could be higher, that, I think, would lean against the worst excesses of the business cycle. It also has the advantage that we would actually be spending money at a time when labor and materials are cheap and when interest rates are particularly low.

So what I would urge the committee to do is to look for any opportunities in any legislation under any circumstances to try to build in triggers where we spend more and tax less during recessions and, in turn, we tax more and we spend less during booms. We could imagine doing this for things like Pell grants. We could do it for TANF. We could do it for high-wage spending and all sorts of things.

The third issue I want to talk about is, of course, rising inequality. So, as much as the aggregates tell us the economy is doing quite well, we are not seeing that for a lot of families out there. We are seeing a sharp shift in the share of the national pie that goes to capital rather than labor. This is the issue of wage stagnation. And we are seeing that, whereas historically economic growth went to the rich as much as it went to the poor, over the past 30 years, most of the gains of economic growth have actually accrued to the top 10 percent, and the bottom 90 percent of the distribution have seen almost no rise in average income whatsoever.

I realize there is a fierce debate on Capitol Hill about the right scope for government and the right size of aggregate taxes, but I think there is a separate and far more useful debate to be had, which is, what is the right distribution of those taxes? There are groups who need greater incentives, greater work incentives, and other groups who could use those marginal dollars a little better.

The final point I would like to add—and it is somewhat outside the committee's jurisdiction—is to talk about the importance of education. One of the driving forces for education in the United States for the last century has been rising levels of education. This came out of the high school movement. But that has run its course.

My generation was the first ever to not get more education than their parents, and, at the moment, it looks like the next generation is not getting more education than their parents.

I think the President's ideas of potentially expanding community colleges or, also, early childhood education are potentially ways to reverse that long-run trend and could really be engines for growth.

Let me stop there.

The CHAIRMAN. Thank you so much.

[The prepared statement of Dr. Wolfers appears in the appendix.]

The CHAIRMAN. We do have a quorum here now. I want to thank my colleagues for their attendance. We will now interrupt the hearing to conduct a few items of committee business.

[Whereupon, at 10:43 a.m., the committee proceeded into open executive session, resuming the hearing at 10:47 a.m.]

The CHAIRMAN. Now we can resume the hearing. So we will turn to questions now and hopefully everybody will enjoy participating even more. Perhaps I can start off the questions.

Governor Engler, there is bipartisan interest in this committee to continue to carefully examine options and tradeoffs involved in tax reform and to get things done. I put forward principles to guide tax reforms, a detailed report, and I am working with Ranking Member Wyden and members of this committee on both sides who have agreed to work in five different policy groups.

Governor, what are your thoughts on how tax reform can help grow jobs and the economy and promote a healthy economy?

Governor ENGLER. Mr. Chairman, thank you. As I indicated in my testimony, I was delighted to see—and the Roundtable strongly supports—the creation of those working groups, and I think they are a positive step for the Senate as a whole.

We have looked at an array of issues, and we talk about the United States in terms of maximizing its economic potential. It is the sense of the Business Roundtable CEOs that the most important single thing that we could do for the U.S. economy is to modernize and restore our tax code to a competitive state. And that, as I testified, means addressing rate, it means addressing the international situation.

We believe that tax reform should be comprehensive in scope and that, if this were to be done, it would have a dramatic and direct impact. We think that there is an opportunity for the United States today to lead, even more vigorously, a global recovery and that bringing $2 trillion back home as part of this would be an important contribution.

But we also look at things like mergers and acquisitions. We actually have a deficit—if we look back in time, we would like to see U.S. companies being acquirers, not being the acquired. We would like to see the U.S., as it seeks to meet one of the President's goals of doubling exports, being able to be more competitive so it can do that.

We have a tremendous energy advantage as a Nation. We are attractive to foreign direct investment coming here. Both of these things would be enhanced by a tax code that is more competitive, Mr. Chairman, and, if we bring in trade a little bit, both of these have the opportunity to impact jobs and wages in this country in a very positive way.

The CHAIRMAN. Thank you, Governor. I appreciate those comments.

Dr. Hall, we just went through a devastating financial crisis, the so-called Great Recession, and financial deleveraging by American households. I wonder what the effects were of all those things on labor markets in terms of how long it has taken our labor markets to recover and whether there will be lasting damage. I also wonder what the Federal Government should do to support job creation.

Before you respond, let me note that some people, such as Larry Summers, the former economic advisor to President Obama, seem to have somewhat of a pessimistic economic outlook long-run, or what he calls, quote, "secular" stagnation. That is a future with persistent sluggishness, near-zero interest rates, lack of an ability of monetary policy to do much, and what he seems to see will be a need for a far greater role for the Federal Government in the economy.

So I would like to have your viewpoints on those things as well.

Dr. HALL. Thank you, Senator Hatch. So I was Larry Summers's teacher at MIT, and he and I have been debating these issues. In fact, recently we have had two very interesting public debates on this subject.

There is a right part and there is a wrong part to the concept of stagnation. There is a paper on my website if anyone wants to see more about this. Stagnation is a real thing in the U.S., but not so much in the areas that Larry Summers has talked about. Rather, the earnings that families take from the labor market have been stagnant in purchasing power terms since about 2000. Prior to that, they have enjoyed substantial growth.

Now, when you take that apart, it falls into a number of interesting, important categories. One is—and 2000 is also when productivity growth slowed down. The number one priority by far for restoring growth and prosperity is to get productivity growth up. It is a proven fact that the benefits of productivity growth vary widely in the economy. It raises the earnings of many different groups. The other factor is the one I already mentioned in my previous remarks, that we have seen this withdrawal from the labor market of certain types of people, especially teenagers.

If you want to know what is most wrong with the U.S. economy, here is a simple fact. In 2000, half of all teenagers worked. Today, only one-quarter of teenagers work. The withdrawal of teenagers from the labor market, I think, is a symptom of what is going on.

Now I wish I could say, well, that is because they are getting more education or they are doing other useful things, but that is not what the data show. Instead, teenagers are spending more time enjoying themselves. That is not, by itself, a bad thing, but I think that it is important to understand those are the two big factors.

Dr. Wolfers mentioned the third factor, which is that there has been a shift of the distribution of actual income away from labor and toward capital. We are not really sure why that is happening, but it has been the third important source.

But that does not mean that the outlook is uniformly bad. We could restore productivity growth, especially with tax reform. There are certain changes, for example, in disability programs, which clearly have a factor in declining participation, that badly need reform and for which there are good ideas for reform.

So I am not nearly as pessimistic as Larry Summers is. He made a big splash with that, but I think that when you actually look at and take apart the numbers carefully, a lot of his pessimism is not right. With respect to the United States, one overwhelming fact that we all need to be proud of is that the performance of the U.S. economy has been so much better than other advanced economies, especially those of southern Europe. We should be very proud of how well our system works, and I think it is going to continue to work.

The CHAIRMAN. Thank you, sir. We will get to you, Dr. Wolfers, later. My time has expired.

Senator Wyden?

Senator WYDEN. Thank you, Mr. Chairman.

Gentlemen, for years this committee has debated the merits of supply-side economics, and often, as the consumer sees it, trickle-down economics. My own view is that that kind of approach is a particularly poor fit for an economy where two-thirds of the economic activity is driven by consumer spending. I think we all understand that the affluent can only buy so much. What is needed for sustained economic growth is more people buying homes and cars and other goods and services that make life better for them and their families. So what you really need are policies, as I was touching on, that are going to put more money in working family's paychecks.

I think what I would like to do is just go down the row and have each one of you give me your sense of a policy that would do the most to increase the paychecks of the typical American worker.

We will start with you, Governor.

Governor ENGLER. Thank you, Senator. I think that a 1-percent boost in the U.S. GDP would be the thing that would result in many more Americans coming back into the workforce. It would raise wages for workers in the workforce. And that is achieved in a set of policies that is not simply one thing, but it is focused on infrastructure, it is doing many things.

It is getting the tax code right. It is having the right trade agreements. It is investing in infrastructure. It is delivering on the promise of our education investment, both at the K–12 and university level. And I think immigration reform is part of it.

We have a very complex, interrelated, integrated economy, a global economy here in the U.S., and we have done well. I think it has been testified to today. We have made great strides in our recovery, but there is so much more upside potential.

Senator WYDEN. Dr. Hall, the Governor is right that it is complicated. I would just like to get your sense. If you could do one thing, what would it be, to help raise the paychecks of the typical worker?

Dr. HALL. I think tax reform. I think that there are a lot of improvements in our economic performance that we could achieve mainly by rationalizing the tax system and eliminating double taxation so that we have closer-to-uniform tax rates.

In particular, for example, entrepreneurial income, which is subject first to the corporate income tax, as almost all startups are organized as C corporations, is then taxed again as capital gains or dividends, mostly capital gains. I think that is definitely holding things back.

I think that we could restore earlier rates of productivity growth, in particular, which, as I have said before, would be a huge factor in improving paychecks.

Senator WYDEN. I think certainly tax reform is part of it. Senator Coats and I—and we were pleased that former Chairman Camp picked up on this—in our bipartisan tax reform bill, what we do is, we triple the standard deduction for middle-class people. We think that is the kind of thing that can help raise paychecks.

Dr. Wolfers?

Dr. WOLFERS. You have very much, Senator Wyden, emphasized the importance of increasing the size of paychecks. But even more important to most families is increasing the number of paychecks, getting people back to work. You get a second paycheck in a family, that will double their income, whereas if we raise wage growth a little, it will increase it by maybe 3 percent. So anything that keeps the economy moving forward and gets more people back to work will be helpful.

Governor Engler described the importance of a 1-percentage-point rise in GDP. That was exactly the right assumption through to about the 1970s. This used to be an economy where a rising tide would lift all boats. That connection appears to be broken today.

So we need to not just raise the size of the pie, but make sure some of it gets out there, and that is where I think the important work of the tax system is most critical.

You asked for a very specific suggestion, what would put more money in people's paychecks. I think the childless EITC, the Earned Income Tax Credit, is a great way of ensuring that those who work get the rewards that they deserve.

At the moment, we mostly reserve that for parents. Why not non-parents? And actually, to be clear, a lot of the beneficiaries under the childless EITC would, in fact, be parents. They would be non-custodial parents. So there are broad swaths of the population where I think this would have a huge effect in increasing take-home pay.

Senator WYDEN. I am going to see if I can get one other question in, Dr. Wolfers.

This is for you, Dr. Hall. Let me also note—you may not be aware—my mother was a research associate at the Hoover Institution when Glenn Campbell was president. People were very nice to her. What I remember most is that they would always tease and say they liked Mrs. Wyden so much, they have chosen to ignore the fact she is a Democrat. There was a lot of teasing. [Laughter.]

The CHAIRMAN. I feel the same way about him, you know. [Laughter.]

Senator WYDEN. There you are.

Here is my question. It is on infrastructure.

This is on infrastructure investment, which is something you have been interested in. We are clearly falling behind. The American Society of Civil Engineers gives us a D-plus. You cannot have big-league economic growth with little league infrastructure.

Recently, there was a forum in Chicago, a forum on global markets. You said the United States needs user charges for roads and bridges. When you said that, I picked up on it at the time. What kind of user charges would you be interested in for funding infrastructure?

Dr. HALL. Senator Wyden, in California and other parts of the country, we have adopted rational pricing of infrastructure of highways, and that is so-called real-time pricing.

So there are lanes in San Diego, and there is one near where I live, where it is guaranteed that you can go 60 miles an hour in that lane because there is a knob that gets turned automatically that raises the price. That does two things. It relieves congestion, which is a good thing, because congestion is pure economic waste, and it generates government revenue, which is a great thing.

So I would love to see better pricing of our infrastructure of all types, but especially congestion pricing of highways. It would give a signal about where additional infrastructure is needed. That would be any area where the price is always high relative to how much it would cost to expand.

It would be a huge step forward relative to where we are today, where there is expansion of infrastructure, highways, in particular, which often generates highways that are not very heavily used and does not relieve serious congestion.

In the short run, we can relieve the congestion by pricing it. In the longer run, we can use the price signal to decide where to expand the infrastructure. It would be a whole new ballgame, and we are seeing that all over the economy, real-time pricing of private areas like airlines, in particular. There has been a huge increase in airline efficiency because all airplanes fly full now, and that, by itself, is a 10-percent productivity improvement in the airline business, and it is all from real-time pricing.

Senator WYDEN. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. Senator Cornyn?

Senator CORNYN. Thank you, Mr. Chairman. Thanks to each of the witnesses for being here. And thanks, Mr. Chairman, for having this hearing. I have really two items I want to touch on briefly.

One is, since the recession in December of 2007, 1.2 million net jobs have been created in my State of Texas. Only 700,000 net jobs have been created in the other 49 states. And it is no coincidence, I would submit, that Texas is the number-one exporting State in the country since 2002.

We make a lot of stuff, and we grow a lot of stuff that gets sold to markets all around the world. So I am extremely interested, and I share the President's commitment to see trade be high on our list of bipartisan things that we can work on, because I think it will provide the kind of economic growth that Governor Engler alluded to and that you have mentioned.

I know the President was celebrating a high quarter of GDP growth last quarter, but I am wondering whether he is spiking the football a little early. Here is my concern, and I would appreciate your comments on this. We have accumulated $18 trillion in debt. The Federal Reserve has a huge balance sheet, because it has been purchasing our own bonds that it is going to have to at some point unwind, and interest rates will go up.

I worry, because of all the things that the American taxpayer pays for via their Federal tax dollar, that we are going to spend more and more money servicing that Federal debt and crowding out other important priorities from national security to safety net programs.

So I would be interested in hearing from each of you, briefly, what you see in the future, in terms of the prospect of this looming debt challenge and rising interest rates if the Federal Reserve does what I think we all expect them to do and begins to, obviously, reduce the pace at which they are buying U.S. bonds, but also begins to unwind that program.

Governor Engler, would you care to tackle that? Maybe then we will go down the line really quickly.

Governor ENGLER. Thank you, Senator Cornyn. Not an easy question. I am not sure my crystal ball is any better than anybody else's, and maybe not as good as some on this committee.

Looking ahead, I guess one of the fundamental principles that we have tried to articulate at the Roundtable comes back to this idea of growth. I used the statistic that just a one-tenth-percent increase in GDP is probably $300 billion to the Treasury, and looking ahead at 1 percent, then you get $3 trillion.

We have to have a growth economy in order to generate the kind of revenue that the government needs. Then that has to be accompanied by prudent decisions relative to spending. And ultimately, entitlement reform has to be addressed, because so much of the spending is non-discretionary.

You are exactly right. I do not know that we are close to a rapidly rising interest rate environment, given what is going on around the world and what the E.U. is up to today. On the other hand, the numbers are scary when you look and project if interest rates did go up. We are a very liquid market. It is the time to invest. And I certainly want to support the notion that we have heard in this committee room from my fellow panelists that infrastructure investment is also an optimal way to be thinking about leveraging this low interest rate environment that we are in.

We have a lot of rebuilding that needs to be done in the country, and there are some creative ways. There are some public-private partnerships that are out there, some of the very transportation systems that Dr. Hall talked about. We see it in Senator Warner's

State, and I think he probably played a role in it as the Governor. I mean, those are all priced and built privately.

So there are mechanisms, but there are still big public decisions that need to be made. Inland waterways of America, the air traffic control system, the electric grid—there is tremendous work that needs to be done. That also would be accompanied by a tremendous demand to train the skilled workers to do that.

Senator CORNYN. With all due respect, I hear a lot of ideas about how we can spend money, but I do not hear a lot of great ideas about how we can pay down our debt as opposed to pass it on to the future generations.

Dr. Hall and Dr. Wolfers? I know that my time is limited. I would appreciate your thoughts.

Dr. HALL. Senator, first of all, I strongly share your concern about the balance between revenue and spending. I run a spreadsheet that looks 100 years into the future, obviously not accurately, but it is still worth doing. One of the assumptions—and the CBO does the same thing on a shorter time span—factors in a growth of interest rates, and that, of course, feeds back into a further requirement for revenue to pay that, and it is scary.

The trend is adverse. The trend is for revenue as a fraction of GDP to rise substantially more slowly than spending, and that is long-term, and it has not changed. It is just remarkably stable.

According to this spreadsheet, say, by the end of this century, we would be just immersed in debt. We would have way more debt than we could possibly pay. Something has to give, and it has to give in the sense of either more revenue or less spending. I think our democratic system, sitting here, needs to be very seriously concerned about that, and I share your concern.

Senator CORNYN. If the chairman will permit—Dr. Wolfers, my time has expired, but please go ahead, if the chairman will allow. Go ahead.

Dr. WOLFERS. Let me just make four points. First, the budget deficit is roughly back to normal now. We are around about the 40-year average as of last year, and set to improve somewhat with an improved——

Senator CORNYN. Are you talking about the deficit or the debt?

Dr. WOLFERS. Deficit. So the flow of new debt, the deficit.

Second, if you look at the projections and the sorts of spreadsheets Bob was just talking about, the debt-to-GDP ratio, which I think is the right way of thinking about this, is likely to be roughly stable over the next 10 to 15 years.

It is only beyond that that stuff starts to explode, and the truth is, we do not actually know much about what is going to happen to the economy 20, 30, 40 years out. So these point estimates might be right, but the range of uncertainty is such that we may find ourselves in 2 decades wondering why the debt is too low rather than too high.

The third point is to say, should we be worried about the sustainability of this? The very sophisticated pinstriped folks on Wall Street who trade in government debt seem to think it is not a problem. The 10-year government bond right now is at 1.7 percent, which suggests not only that there is perceived to be little risk behind this, but also that it looks like interest rates are going to stay low and low for a generation.

Finally, what is the role of infrastructure in all of this? Your concern, which I think is an important one, is that we do not saddle future generations with debt; it is equally important we do not saddle future generations with crumbling infrastructure.

So then it is not just a question of how much spending to do, but when to do it. And I think the important issue here is let us try to do the spending when it is cheap. It is most important and it is going to be cheapest to do infrastructure spending when an economy has select resources and when interest rates are low, and that I think is the case for infrastructure spending today.

The most interesting piece of economic research I have seen in recent years is, the IMF has actually done some calculations which have suggested that government infrastructure spending in an environment like this, with low interest rates and select resources, can actually end up lowering the debt.

It stimulates sufficient economic activity that it can actually—I am not quite sure that I am going to go so far as to suggest it will actually lower the debt, but the long-run costs, when you think about how the benefits come out—the growth benefits of infrastructure and how that then comes back in tax revenues—can be fairly small.

The CHAIRMAN. Senator Stabenow?

Senator STABENOW. Thank you very much, Mr. Chairman. Congratulations on holding the gavel. And I want to congratulate you that two out of three of your first witnesses are from Michigan. So it reaffirms my confidence in your good judgment.

The CHAIRMAN. Well, if we can have good witnesses like this every time, Michigan is going to be in play.

Senator STABENOW. Thank you. Let me first start by saying that I have always thought and have been taught that, if something works, we should do more of it, and, if it does not work, we should do less of it.

So when we look at the economy, we can see the Clinton years focused on education, innovation, much more focused on middle-class income—booming times, for lots of reasons, but booming times, with 22 million jobs added.

We go to the next administration, the Bush administration, which focused on tax cut policy predominantly for the top, with the theory that it will trickle down, funding wars without paying for them, creating massive debt, lack of oversight of financial institutions, and we ended up with what we now call the Great Recession.

So I am concerned that we do what works—and we are not out of it yet by any means, but we have helped save American jobs in the auto industry, and, even though folks lost home equity and 401(k)s and jobs and everything that happened in the Great Recession, it is beginning to come back.

Dr. Hall, you mentioned that fewer young people are working. I just want to say that the first thought that came to my mind is that it is because folks in their 50s, 60s, and 70s are taking the jobs now at fast food restaurants, because we have way too many folks who are seniors who are having to come back into the workforce to supplement their income or folks who lost their job in manufacturing coming back and doing jobs that used to be done by young people.

But we are turning things around. Jobs are up; 11 million jobs have been created. Wall Street has doubled; the yearly deficit is down by two-thirds; and it seems to me the challenge really is for us to make sure now that everybody who wants and needs a job that pays well, where they can have one job to raise their family instead of two or three, has that.

I am pretty proud that Henry Ford had the right idea. Despite everybody's criticism at the time—folks in the business community thought he was crazy—he actually more than doubled wages and paid folks top dollar, and he created the middle class in this country. I am pretty proud that that happened in Michigan.

So I would like to ask each of you a question. What I hear from our manufacturers in Michigan right now is just—at a new announcement, Mr. Chairman, with Magna, a great company expanding in Michigan, hundreds of jobs, what they said was, we need skilled people to match the jobs.

The number-one issue is job training, is skill development. I know our State is focused on that. The President talked about that. So, if we talk about how to capture this and grow middle-income jobs, there are lots of things, but I wonder if each of you might speak to the desperate need for skill development to match those jobs; not that people do not have skills, they are just not the skills for the jobs that are being created.

So job training, costs of college, the fact that folks are coming out of 4-year schools. Maybe they should be going to 2-year schools, but they are going to 4-year schools, coming out with massive debt, cannot buy a house. I hear from realtors all the time terrific concerns now about young people not being able to get credit, buy a house, because of all the debt. It seems to me that is a huge issue that we can be coming together and working together on—the business community, the public-private sector, and so on.

Governor Engler, I wonder if you might speak from your perspective.

Governor ENGLER. Thank you, Senator. I would be happy to. I think this is a really important issue. There are 4 million jobs today unfilled in the American economy, and it is because people do not have skills. They certainly do not have the right skills, and I think in some cases they flat out do not have skills.

For too long we have had a dropout rate that is too high. We invest as a Nation $700 billion roughly on an annual basis on our K–12 system, and we have to have a system that can send people off to college without needing remediation when they get there. And, if they are not going to go to college—about 40 percent in the country do not—of those who do not, maybe they have a skill that hopefully is, I would say, measured and certified along industry standards so that they are work-ready, and the dropout rate has to be zero. That is the biggest mistake that a young person can make.

The Roundtable strongly works on policies, and one area we think is a mess is the labor market analysis. We do not actually know where the 4 million jobs are. We do not know enough about what the skills are that are needed to hold those jobs. So I think industry needs to do a better job of saying, these are the competencies that we require, but then it needs to be aligned with the training.

I think, from the Federal job-training perspective, that we should stop spending money when we enroll people, and reward people when they graduate with mastery of the competencies required to go to work. Certainly, with the innovative programs in the country that are bringing community college training down into the K–12 level, we can skill up young people much earlier than waiting until they finish high school. We need to get rid of the wasted senior year for a lot of these kids.

I think, Senator, this is an area where there is tremendous national need and opportunity on a bipartisan basis, and I know that Senator Alexander and members of his committee are interested in this issue, as some of you on this very committee are. I know Senator Wyden is focused on some of this.

We need to give young people the information they need, and we need to do a much better job of labor market analysis in the country. It is a dismal status.

Senator STABENOW. Briefly, Dr. Hall? Dr. Wolfers?

Dr. HALL. Thank you, Senator. I love the idea that we should do more of what works. I would call attention to the fact that what works on a global basis is the U.S. economy. The U.S. economy has 20, 30, 40 percent higher paychecks than any other country in the world of any size. In particular, it is way ahead of Europe, especially southern Europe.

So what works is the U.S. system, and there is some tendency to move in the direction of European institutions, which troubles me. If you look in Europe, countries that specifically said, let us free up the labor market, let us let the market work and not constrain the policies of employers—Britain and Germany—they have by far had the best experiences after the financial crisis. So that is what works.

If you ask what does not work in the U.S. today, which touches exactly on the themes that you were talking about, it is the failure of secondary education. When kids get to college, they are at a big disadvantage relative to countries, say, especially Scandinavian countries, that have very effective secondary education.

We need a major thrust. Of course, secondary education is the responsibility of local government, not the Federal Government, but still, whatever the Federal Government can do to try to boost the quality and the appropriateness of what is taught to kids in high school would make a huge difference in terms of all the things that you talked about.

The CHAIRMAN. Senator Thune?

Senator THUNE. Thank you, Mr. Chairman.

Senator STABENOW. Excuse me. I am sorry. Mr. Chairman, if I could just get one—maybe 30 seconds from Dr. Wolfers. I am sorry. He did not have an opportunity——

The CHAIRMAN. That will be fine. I would caution all of us that we have a 5-minute rule here.

Senator STABENOW. Yes. I appreciate that.

The CHAIRMAN. And it is true we have only three witnesses and some have utilized asking each one. But if we can try to keep it within 5 minutes, we will get through everybody.

Senator STABENOW. I appreciate that.

The CHAIRMAN. Go ahead.

Dr. WOLFERS. I will try to show that a wolverine can be brief.

Professor Hall was just talking about what works, and he used the U.S. as an example. And of course, he is precisely right, if you are talking about the 1970s and if you use averages.

If instead you look at today and you look at medians, the American middle class is not doing better than, for instance, our neighbors north of the border. And so there has been a long-run stagnation, and our median family earnings are not as high as they are elsewhere.

The most important place to look at skills here is of course education. There is a presumption, and it is widely understood in the United States, that the government will fund education through to the 12th grade, and we now accept that, although at the time that that was first put forth, it was ridiculed widely as an absurd idea that anyone would need that much education. And I think that that history is possibly quite useful in framing and looking at arguments for either greater involvement in pushing post-secondary education, which should be the new middle-class aspiration, or to try to remediate gaps before they ever appear, which would be early childhood education.

Senator STABENOW. Thank you.

Senator THUNE. Mr. Chairman, thank you, and congratulations on your chairmanship. I look forward to working with you and the members on our side, as well as Senator Wyden and members on his side, on issues that are in front of this committee that are so important to our economy.

I want to thank our panel today. It has been mentioned, I mean, wages are flat. They are not growing. In fact, median household income is down $3,000 in this country from where it was in 2009, and the labor participation rate is at a historically low level. A lot of people have dropped out of the labor force. Those are big issues, and we have a lot of work to do to try to fix that.

I am a big believer that comprehensive tax reform can unleash a lot of economic activity in this country. I know, Governor Engler, the BRT has been a very strong advocate for tax reform, and I know the BRT represents primarily larger companies in this country. I am interested in knowing, with regard to tax reform as a way to improve the tax system for all businesses, how you think we might deal with the issue of pass-throughs.

In my State of South Dakota, 90 percent of our businesses are pass-through entities. Fifty percent of income in this country, business income, is in the form of some pass-through, subchapter S, partnership, or LLC. So, given these realities, what do you think Congress ought to do to ensure that all businesses benefit from a reformed and simplified tax code?

Governor ENGLER. We always talk about comprehensive business tax reform, because we recognize that we have the corporate entities and the non-corporate entities, and there are many more numerous non-corporate entities.

We look also at which ones are facing global competition and which ones are more domestic. But it is important, even when looking at that, to understand that many domestic companies are part of a supply chain which feeds into the global economy.

So we would argue that both need to be dealt with. Dr. Hall talked about the two different types of structures, and he has thoughts about how that might change in the future. We are probably not as optimistic that that kind of a fundamental change can be achieved here in the short term.

So, in the realm of possibility, it seems to me that we have to do something that is fiscally sustainable, given the deficits we have just talked about. We have tried to look at this from a standpoint of, how do you achieve benefits for everybody without cross-subsidization or not asking individuals to pay for corporate relief, not asking corporations to fund individual relief?

But if you can sort through this, I think there are ways that you can make it work. I think the corporate relief is easier, frankly, because there are fewer variations. The structure is a little different, but they are going to still have double taxation.

The pass-through entities, we have those in our membership as well. We have spent considerable time and are spending time to try to think through how can we make similar progress there.

The rates have always been different, I guess. After the 1986 tax reform, we saw people moving from the corporate to the unincorporated status just because they deemed that to be a better position to be in.

I would hope that, regardless of business structure, we can improve the competitiveness of everyone, because you have 71 million Americans who are engaged in the kind of work where there are globally competitive companies that are impacting the economy. And we also have seen that the increase in hiring can be led—if I can bring trade in for a second—by those increases in trade.

So there is a real benefit to getting the global part of this right, but not ignoring the domestic side.

Senator THUNE. Dr. Hall, Dr. Wolfers, both of you mentioned in your testimony the decline in the labor force participation rate and offered some theories about what causes that. Other than demographic changes associated with baby boomers retiring, I want to ask this question—and then I am going to ask a follow-up, and if you would answer them both together, since we have limitations on time.

What do you think is the single biggest factor that is keeping more Americans from seeking work and what, if anything, can Congress do to reverse that? And then a specific question: Dr. Hall, in your testimony, you mentioned the rise in the number of Americans receiving Social Security Disability payments and the negative impact that that might be having on the labor force. Could you elaborate on that point? So, what is causing it, what can Congress do about it, and how does the Social Security Disability payment issue contribute to that?

Dr. HALL. Let me start. First of all, the research that I have done on the participation rate focuses very much on young people, and especially the fact that they are differentially from higher-income families, those who have withdrawn. It is not obvious that it should be a major goal of Federal policy to reverse that.

With respect to what has happened to participation among older workers, I think that the Disability program does badly call for reform. The Disability program, Social Security Disability, essentially prohibits people within the program to even think about working again. You would lose your benefits instantly if you are found working.

The scholars who have looked carefully into reforming Disability have been very clear that the right answer is to do what has been done in some other countries, which is to turn Disability into a transition program in which workers are helped to re-enter the labor market and take jobs for which they are physically capable.

The Disability program was created to deal with people doing very physical work. Today, most work in the U.S. is not physical. It is people sitting at desks, and yet there is no channel by which people drawing Disability can be placed back in the labor force working at desks, which they are physically capable of. So there is just obvious reform that I think everybody who has looked at this agrees should be a top priority, and it is clearly one of the trends that is adverse for participation in the labor market.

The CHAIRMAN. Senator Coats?

Senator COATS. Thank you, Mr. Chairman. I will try to stay within the 5-minute limit. So I am going to quickly raise a point and ask the three panelists to just give a very brief answer, because I would like to get two questions in here, if I could.

Governor Engler, you stated in your proposal that you gave to us here that trade-related jobs grew three times faster than average job growth over the last decade and that export-related jobs pay about 13 percent to 18 percent higher wages than other jobs, all of which suggest trade policy issues that we need to deal with.

While we would agree with that and agree that that is true, obviously that can be a dynamic aspect in terms of improving our economy, and a lot of emphasis should be put on these trade agreements and so forth. On the other hand, does it give you pause when we receive reports back that China's growth was less than anticipated, there has been a slowing down there, and Japan is in negative growth at best, and Europe has slipped into negative growth? The instability in the world, not just the Middle East, but its impact on Europe and its impact on markets, clearly is going to be a factor.

While, obviously, we should go ahead with these trade initiatives, should we be concerned about these factors and not achieving what we would like to achieve?

Governor ENGLER. Two points perhaps. On the numbers, the written testimony that I have submitted has footnotes that provide source documentation for the increase in wages related to export-related jobs and in terms of the job growth in trade-related jobs. So that information is there, and I will not go into that.

On the pause for thought about other nations, I am moved by the fact that where we have FTAs in place, with just 20 countries, nearly half—and that is in my BRT document—46 percent of all of our exports go to the 20 countries where we have FTAs in place, and we have a positive trade balance there.

The TPP is a negotiation with 11 Asia-Pacific countries. TTIP is 28 members of the EU. Those two together would be about 60 percent of world GDP and 40 percent of total world trade. We think the opportunities are too good, and the highly relevant experience that we have had previously argues to go forward.

So, yes, there are details to consider, and much of those are addressed in your TPA directions to the Trade Negotiator, Ambassador Froman, but we think the risk is outweighed by the opportunity.

Senator COATS. I hope that is the case. Dr. Hall, do you have any comments on that?

Dr. HALL. Just one very quickly. I wanted to reiterate that there are two benefits of opening up trade through agreements or by other means. One is, as the Governor has just indicated, that it is a way to get good jobs in the U.S.

But the other thing, which is equally important, is that it is a way to get cheap goods into the U.S. in return. The imports—do not neglect the import side or the benefits of the import side. There have been huge increases in real income in the United States as a result of having very inexpensive products available at Walmart and elsewhere that are astonishingly cheap imports always, and that raises U.S. standards of living. The research on standard of living shows unambiguously that trade is great for these two reasons.

Dr. WOLFERS. I would just make two observations. Are the returns to trade as great when, say, Japan is in recession? Japan is a huge economy. The fact is, if Japan were not in recession, it would be a huge economy plus 3 percent. So the returns are not that different no matter what is going on with Japan's business cycle or any of our other trading partners.

The second observation is, I think that, to the extent you were talking about the world becoming more chaotic and what does this mean about the returns to trade, I think arguably that raises the returns to trade. A more interrelated world is one where we have greater shared interests, and it is one where foreign trade also becomes an arm of foreign policy as well.

There are greater returns to cooperating with your neighbors when you have deep economic linkages with them. And, even if you want to put it even more bluntly in terms of the foreign policy thing, we have had a huge effect in Russia because we used to trade with Russia. And so sanctions have been quite effective.

So there are, I think, very big foreign policy issues on the table as well.

Senator COATS. Those are reassuring answers. Obviously, we hope that these numbers are correct, and we hope that this can be a very essential element of helping drive economic growth in the United States.

I just wanted to get your thoughts relative to the potential instabilities and sluggish trade partners' impact on that. But thank you for that.

Mr. Chairman, my time has expired. I will withhold my second question and try to get it in at another time.

The CHAIRMAN. Thank you, Senator Coats. We will go to Senator Menendez at this point.

Senator MENENDEZ. Thank you, Mr. Chairman. I want to congratulate you on your ascendency to the chair. I look forward to working with you. I would be more effusive, but, since my time is limited to 5 minutes, I am going to go to my questions.

The CHAIRMAN. I understand.

Senator MENENDEZ. Let me say I appreciate the panel.

We have made some enormous strides in our economic recovery since the financial meltdown and recession starting in 2008. We have seen some robust job growth, declining unemployment, growing GDP. But there is still work to do and, in my mind, the measures that we should be looking at are strengthening middle-class incomes, investing in our infrastructure, and improving educational opportunities.

So with that in mind, most, I think, members of this committee believe that there is a pressing need to reform and simplify our tax code. However, opinions begin to diverge when we are talking about what the goals for reform are, what they should be, and how exactly we go about accomplishing those goals.

I think the President made it pretty clear where he stands on this question, and I strongly agree with him that we need to be focused on measures to help middle-class families instead of keeping in place tax loopholes geared toward special interests with high-paid lobbyists.

So regarding this prioritization, Dr. Wolfers, very simply, what is more beneficial to the economy and individual families, measures targeted toward the middle class and households across the income spectrum—such as tax credits to help working parents afford childcare, students afford college—or further tax breaks for those who are at the top of the bracket who do not need, and in many cases, are not asking for them?

Dr. WOLFERS. I think my answer is that tax breaks and policies targeted toward the middle class are going to yield a much bigger dividend. I mean that in two respects. One is, there is an emerging body of evidence that inequality may be an important force that is going to be a drag on our economy. So we could ameliorate that directly if we can start to do things like make college available to much of the middle class so it would be an important pressure for growth.

Then there is another point. The other issue is, what is the point of having economic growth if it actually delivers nothing for most? And so, to the extent that these policies could do that, I think it is worthwhile.

I also think that there is some really simple stuff we could do. When someone first explained to me what so-called stepped-up basis was, the trust fund loophole, the mind boggled, and I think that that would be true for not only most economists, but also most of your constituents—the carried interest loophole as well. These are all loopholes which have basically no economics behind them and no economic benefit. So they potentially would free up a whole bunch of money for something far more useful.

Senator MENENDEZ. So if we, in essence, help educate a workforce that the private sector needs in order to deal with the human capital requirements in the global economy and, at the same time, help more middle-class families have greater resources to help educate that child and/or to be able to get to work so they can have their child be taken care of without losing so much of their disposable income, they will have more income to spend in our society and that will help fuel our economy, would it not?

Dr. WOLFERS. Absolutely, Senator.

Senator MENENDEZ. Now, let me ask Governor Engler and you as well about the importance to our economy of investing in our infrastructure, particularly at a time when interest rates are near historic lows and there is continued slack in the construction industry.

Today there is a report that came out in New Jersey, Mr. Chairman, that was led by a nonprofit transportation entity, and it said that New Jersey's bad roads and bridges are costing individual drivers almost $2,000 and contributing to higher numbers of fatal crashes, and it goes on to talk about a whole host of elements.

When we are thinking about this, talking about people getting to work, sales forces getting out there, being able to sell the products, being able to move our products to marketplace through ports and whatnot, can you talk about the importance of investments in infrastructure? Because we always look at this with a transportation trust fund that continuously seems to be broken, and we do it in short-term extensions instead of also looking at the investment and the ripple effect that that generates.

Can you respond to that?

Governor ENGLER. I am a believer in infrastructure, and I am a believer in investing in infrastructure, and I think you have to sort of break it down.

I think there are elements of infrastructure investment where the user can pay, and there is a great return on investment to allow for that investment to be made up-front and paid off over time. Examples of that are, you certainly have everything from the air traffic control system to—I mentioned the electric grid earlier. There is tremendous upgrading that could be done to water systems, all of these kinds of things.

Roads and bridges are harder. It has gotten harder to insist upon a user-pay approach because some vehicles do not pay traditional fuel taxes. The efficiency of the fleet is such today that we drive many more miles for the cents in tax paid. So I think that is going to have to be adjusted over time. You have been fixing the trust fund holes with general fund borrowing. That is probably not sustainable. And we have a big hole coming up this spring again.

One of the things that is driving all of America crazy is the inability to plan longer-term for anything, because of tax provisions that expire. We had a change in the code for 2 weeks, if we go back to December. Well, infrastructure is the same thing in a State, and we have a few northerners around the table here. You cannot build roads year-round in some parts of the country. So you need to be ready to go in the spring. If the trust fund is not funded and you cannot budget your money accordingly, you underperform that way.

So I think that there is, in this low-interest-rate environment, a tremendous opportunity to do projects. I mean, if you borrow money, you have to pay it back, and I think many of these projects have a value proposition to allow that to take place. In other cases, there is public investment that is required. And I think, if you have a hole in the roof, you should fix it.

The CHAIRMAN. Senator, your time is up. Senator Scott?

Senator SCOTT. Thank you, Mr. Chairman, and congratulations as well.

My first question will go to Governor Engler. When I think about the impact of lowering the corporate tax rate on job creation in our country, I think it could have a significant impact. I think also about the recent tax inversions that have occurred.

Could you comment on what you think the long-term impact on perhaps research and development and other aspects of companies that move and/or invert their companies to foreign countries will be on job creation in our country?

Governor ENGLER. Secretary Lew yesterday, in his remarks over at Brookings, referred to our backward international tax rules and the need to root out the part of the system that encourages companies to shift their income overseas. That is exactly what we have in the current code.

So part of the change is to get where virtually the rest of the world is and allow the taxes on those foreign earnings to be paid in the country where they are earned and then be brought back home. That has to be advantageous to the United States to allow that. And I think once home, that money then is available for capital spending or hiring or higher dividends. Let us bring it home so it gets spent here for any number of productive purposes, including research and development.

The R&D tax credit is a good example of something that has been in the tax code since 1981. At the time it was put in, we were the best in the world. We are not in the top 25 today. It has devalued over time, plus it is temporary. We do not have one as of today—the R&D tax credit has expired.

So we need permanency in the code. We need predictability, and I think the code needs to be competitive. As I said in response to Senator Thune's question, we think there is room for improvement across the entire spectrum. Whether one is in a corporate status or a non-corporate entity, we can improve. But we particularly want to think about anybody in either status who has to compete globally, because today we have the worst competitive environment.

Senator SCOTT. Thank you, sir.

Dr. Hall, on labor force participation, I note with some interest that if we were using about the same labor participation rates as we had in 2009, 65 percent or 65-point-something percent, versus where we are now, there would be 7 million more folks in the labor force to be counted.

It does not seem like all of that can be attributed to retirement. How would you help me understand the percentage of folks working or involved in the labor force?

Dr. HALL. Senator, there is a table in my prepared testimony that breaks it down by age and sex. As I mentioned earlier, the big declines in participation have been among young people.

There is a theory, and I am not going to sponsor this theory, but there is a theory that entertainment—I think this is most relevant for teenagers—compelling entertainment has become quite cheap and that makes a difference in how teenagers decide how to allocate their time.

There are many things like that. I think you should be encouraged to see that this is perhaps not a total disaster. One thing is, these are not, in most cases, primary earners. We are not talking about the middle class. If you look at people and the peak earning and family responsibility years, there has been no decline in their participation. I think that is a very good thing. The decline has been in people under 35, especially teenagers.

I think we may figure out—and of course, some of this may reverse; there is always that possibility. To me, it does not cry out for any policy change, at least until we understand it better and see how permanent it is.

Senator SCOTT. Thank you. A final question for you as it relates to the President's proposal. He talked about increasing the capital gains tax. What impact would that have, especially when you think of the backdrop of Dodd-Frank and constricting capital leaving banks going toward entrepreneurship—what impact would that have on more entrepreneurs, fewer entrepreneurs, and what would that mean for our job market long-term?

Dr. HALL. Well, it would be pushing up an already high tax on entrepreneurial activity. So, entrepreneurs create a C corporation. The C corporation pays the corporate income tax at, by worldwide standards a very high rate, and it gets taxed again before it goes into the hands of the entrepreneur.

So the tax rates on entrepreneurial activity are really high, and I do not think that they should be elevated. I think we need to straighten this all out and have an integrated tax system that is careful to get the rates right for everything instead of the hodgepodge that we have now. For example, the topic of carried interest came up. That goes in the other direction. That is something where what should be taxed as ordinary income is sneaking in only as capital gains, and it is not income that has previously been taxed under the corporate system.

So we need to change this. We need to get the rates on entrepreneurial activities down. We need to get the rate that takes the form of carried interest up. We need to straighten all those things out and kind of get reasonable, uniform tax rates for all activity. That would just be a huge step forward.

Senator SCOTT. Thank you. My time is up.

The CHAIRMAN. Senator Cardin?

Senator CARDIN. Well, Chairman Hatch, first of all, thank you very much, and we all look forward to working with you as chairman of our committee, and we wish you the best.

Senator Wyden, I think, expressed the views of all the members on our side. So we are looking forward to a very productive time.

I want to thank our panelists. I think this has been extremely helpful. We are looking at ways in which America can have a stronger economy, build on the success that we have, create more jobs, and particularly increase real wages in this country to keep up with productivity gains, which is a major concern.

So there is a lot of focus on the business tax, and, when you talk business tax, I think you have to talk about not only the corporate

rate, but you have to talk about the individual rate, since so many businesses pay at the individual rate.

We hear frequently that the United States has some of the highest marginal income tax rates in the industrial world. And I find that somewhat surprising considering that, when you look at the reliance upon the public sector among the industrial nations of the world and revenue into the public sector, the United States is near the bottom of the industrial countries. Of course, the reason is that the United States relies almost solely on income taxes, whereas the rest of the industrial world has a heavy reliance on consumption taxes. And when the World Trade Organization was developed, we thought it was just fine to allow for border adjustment on the consumption taxes, whereas the income taxes are not border-adjusted, putting the United States at a real competitive disadvantage.

So I want to try to get to the core of the problem. I am not sure that just rearranging the chairs on the deck is going to make much difference if we still rely heavily on income taxes that are not border-adjusted when the rest of the industrial world relies on consumption taxes.

And when I suggest that we make some changes, I usually hear from two groups of people. One says, "Well, we do not want to have a revenue machine for government," and there are ways to deal with that through using some form of automatic rebate if revenues exceed what you anticipate them being. So you can deal with that issue.

The other thing, of course, I hear is that we do not want middle-income families to be more burdened than they already are today. And through use of rebates based upon income, you can deal with that issue. And both of these matters can be dealt with in a much simpler way than our current income tax structure, with its complexities, et cetera.

So I guess my question to you is, from a policy point of view, from the point of view of America's competitiveness, why would it not benefit our country to take advantage of our natural advantage, that is, that we rely less on the governmental sector for revenues than our competitors in industrial nations? Why should we not be looking at a way to take advantage of that competitively? Dr. Hall, you are shaking your head the way I want it to be shaken.

Dr. HALL. You have just listed all the selling points of Hall-Rabushka. In particular, a key idea that you mention is that you could have a rebate built into it so that you can get the right distribution of the burden; in particular, excuse low-income families from paying the tax at all and then have the low average tax rate in middle income as opposed to higher incomes.

Hall-Rabushka is a consumption tax, just as you were suggesting, which I think most economists think is a great idea. Our proposal did not include border adjustments, but it is easy to come up with a version of that, if you like border adjustments. Economists are not as enthusiastic about border adjustments because we think that it comes out in the wash in other ways, but I know that politicians love border adjustments, so—fine.

So all the advantages you discussed and all the advantages I have mentioned too, all combine into making just a terrific idea.

Senator CARDIN. Thank you. I will take that. That is 90 percent of what I wanted.

Governor Engler, do you want to comment on that?

Governor ENGLER. Well, I will put my old manufacturer's hat back on. We used to look at this with some envy because, what a neat thing it would be at the border to be able to put the tax on everything coming in and take it off on everything going out. That had some real attractiveness.

It is a heavy lift for a Congress which cannot even make things like the R&D tax credit permanent to be able to get there.

Senator CARDIN. Let me just challenge you. It seems like small things are heavy lifts. Maybe big things are going to be lighter lifts. Be visionary.

Governor ENGLER. Well, all I know is that the conversations about the flat tax, your legislation on the progressive consumption tax that you have introduced—I am kind of tax-wonky. I like to talk about all these kinds of things. But I also, with respect to our chair and ranking member, in some of the work they have done, recognize that probably we have a room full of possibilities on certain things and we should put them on a study committee, maybe the sixth committee that gets formed, to take a look at the long-term structure.

It is a big change, and we are willing to talk about anything that makes the U.S. more competitive.

Senator CARDIN. I appreciate it. We study things to death, and I know that we do not have consensus yet. So there is going to be a need for us to bring about greater consensus.

Everything we are talking about has been tried in other countries, so nothing is new here——

Governor ENGLER. That is right.

Senator CARDIN [continuing]. So we know what will happen, and the United States will be much more competitive than we are today. At one time, we did not have to worry about taxes on competition. Today we do.

So I thank you. Again, I thank the panel for their discussions.

Thank you, Mr. Chairman.

Senator ISAKSON [presiding]. Senator Heller?

Senator HELLER. Mr. Chairman, thank you. I think you are the chair of all my committees now. I look forward to working with you on Veterans' Affairs.

I want to thank Senator Hatch and Senator Wyden. I am looking forward to working with you. It is great to be on this committee. And I am really pleased that the first issue that we discuss is economic growth and creating jobs. I think for most of the American people, that is where they come down.

I want to say hello to the Governor. It is good to see you again. And to everybody on the panel, thank you for being here and for your words and efforts.

The economic recession affected everyone, but in my home State of Nevada, it was especially harmful. Nevada experienced the Nation's highest unemployment rate, nearly 14 percent at its peak. I would argue that real unemployment in Nevada today is north of 9 percent, and we have the highest foreclosure rate in the Nation and the highest personal bankruptcy rate. So it has been a rough few years.

Though our situation has improved, Nevada's unemployment rate, unfortunately, remains one of the highest in the Nation. Recovery has been slow. Thousands of Nevada families are still waiting for true economic recovery that they can see and, in fact, feel in their pocketbooks. Americans have been told the economy is getting better, but they are not feeling the effects, especially in my home State. And though the national unemployment rate has gone down, millions of Americans have dropped out of the workforce entirely.

The fact is that this administration's policies have put up barriers to economic growth. We already have a burdensome tax code that has only become more complicated under Obamacare. Businesses continue to face mountains of new Federal rules and regulations. And we have a health care law that makes it harder to see your doctor, makes it more difficult for employers to grow, and raises taxes on hardworking American taxpayers.

To truly grow our economy, there are key factors that deserve the attention of Congress. Americans deserve a cleaner, simpler tax code; trade policies that assure America's competitiveness in the growing international marketplace; and health care policies that actually focus on improving access, affordability, and quality. As a member of this committee, I look forward to working with the chairman and the ranking member to move these issues forward.

And with that, I have a few questions today. There is an article today that came out in *Politico*. As you know, we have not had tax reform in this country since 1986, and I think there are pretty good reasons why that occurs.

I will just read two paragraphs out of this morning's article. It says, "Lawmakers and the White House are overstating the benefits of a business code rewrite. Some of the economists are predicting that any likely overhaul will do little for growth and may even hurt the economy. That is because, for all the complaints about special interest loopholes and sky-high rates, the biggest corporate tax breaks are generally believed by economists to promote growth."

So I think that voice is going to get louder and louder and louder as we work together as a committee to improve the corporate tax code that we have. But I guess my question to you, Governor, is, is there any truth behind these comments, and what are the risks that you see moving forward on corporate tax reform?

Governor ENGLER. Well, one of the risks of not moving forward is that we continue to retain a patchwork, temporary tax code that we have to come back to every few months, it seems, to try to extend. It allows nobody to plan in advance, nobody to rely on it, whether you are, frankly, an individual or business taxpayer.

As far as the unnamed economists who say that certain provisions have benefits, of course. Many of those benefits were put in to offset some of the negative effects of the code we have. That was the whole goal.

Since 1986, we have seen changes made, but what has really changed since 1986 is what the rest of the world has done in reaction to our code. And so then we react to that, and some of those provisions are designed exactly to try to make us more competitive against some other region of the world or some other practice out there.

I think that a simpler, flatter, fairer tax—I mean, I certainly enjoyed the conversation with Senator Cardin, but it is a long way to get where he would like to go. But we can clearly see a simpler tax code in our future if we act now on some of the things that I think are doable in this committee.

Senator HELLER. We have talked a little bit about education, and I know BRT has a solid position, so I would like to get your view on this. But in Nevada, about 30 percent of the high school graduates go on to a post-high school education. Unfortunately, by 2020, 65 percent of the jobs in this country will need post-high school education.

How do you feel about the President's proposal on Tuesday for free community colleges?

Governor ENGLER. Well, the free community colleges are spending a lot of their time doing what the high school did not do in the first place. So I am frustrated by that proposal a little bit, and I am certainly frustrated by what is offered as a way of trying to pay for it.

Nobody has seen the details on what he is actually, specifically proposing. But I would say that—take Clark County, NV. We really need to have for each student, kind of, their individual plan. If it is going to college, they need to get there and be able to do college work when they arrive. If they are not going to go directly to college, maybe they will go into the gaming industry, maybe into the resource industry. Then what kind of jobs are those and what skills are needed in those jobs? Can we not start earlier than post-12th grade? Let us start at the 10th grade and help people.

What we are seeing in the real world is that people who get skilled will often then also gain confidence with that and conclude that they want even more education, then go back to school to gain that. And oftentimes they are able to pay for it, because they are now employed. It is a much more virtuous circle.

The other thing is to end the dropouts, because, if you drop out, you are really dropping out of the whole economy.

Senator HELLER. Governor, thank you. My time has run out, Mr. Chairman.

Senator ISAKSON. Which triggers my time. And I am going to be very brief, but I wanted to note that each one of the three of you has raised one of the $64,000 questions of tax reform. So I want to assign you with a little bit of a homework assignment to get us back an answer to the questions that you raised.

Governor, I appreciate all the many great things you have done for the country and for your State, and I appreciate your being here. I am a big fan of the BRT. And somewhere at the BRT, in the bowels of the BRT, there is a list of sacred cows that cannot be used as offsets for lowering the tax rate from 35 percent to 25 percent. I am sure it must be there.

Can you tell us, if we go through a comprehensive report of C corps using tax treatments to offset the reduction in revenues from the percentage rate, is there a sacred cow list or could we possibly come up with a consensus for this committee and the BRT as to what could be used to drive the rates down?

Governor ENGLER. Yes, there is absolutely a list that I think works. There is a reluctance—Chairman Camp, maybe against somebody's advice, certainly ours, floated a little excise tax. He brought in a new tax on banks. The next thing we find out is, now it is a proposal to pay for new spending. So there is a reluctance sometimes to put all the cards face up on the table until it is that magic moment when we are ready to do a deal.

But we have done the math. There is no question that, in a fiscally responsible way, we can put together a plan that works. We are still certainly looking hard at the pass-through entities and how that works there and how much can be done, and we are optimistic some great progress can be made on all types of business entities. So we are eager to work with you.

Senator ISAKSON. I would love to see that list. Thank you very much.

Dr. Wolfers, you made a statement—and I could not find it in your printed testimony, although I am sure it is there—but you made a statement in your verbal testimony that you recommended triggers for automatic stabilizers, those things that would lower tax rates when times were tough and raise tax rates when times were good, and with spending correspondingly going up and down.

Can you supply us with what those triggers are, what triggers you would use, as a professor of economics and one knowledgeable in that area, and where you would have those triggers come in and how you would have them come in?

Dr. WOLFERS. If you wanted a very simple formula right now, whenever the unemployment rate is above 7.5 percent, trigger on a bunch of stuff, and whenever it is back below 7.5, trigger it off.

Senator ISAKSON. So you would use the unemployment rate versus some other index.

Dr. WOLFERS. It strikes me as the single best index of the business cycle.

Senator ISAKSON. I have a second question on that. There are many types of taxes, as we all know: payroll tax, income tax, capital gains tax, et cetera. What taxes would you trigger with that stabilization mode, all taxes or the income tax, the payroll tax?

Dr. WOLFERS. I would need to think harder about the question. For sure, income taxes. Beyond that, I would need to think harder.

Senator ISAKSON. It would be helpful to know, if you would think about that, because it is an interesting concept, and I appreciate it. And it does beg the $64,000 question; that is, tax policy drives economic outlook, and if you have automatic stabilizers, index-based on the health of the economy in terms of raising or lowering taxes, it tells us that anytime we raise or lower taxes, there are economic consequences, so we had better do it correctly.

Which brings me to Dr. Hall. You are an advocate of the flat tax, if I am not mistaken. And in one of the answers that you gave, you talked about the tax code we have right now. The name you give an income determines the tax rate it has: 28 percent on the proposed capital gains, or 20 percent or 23.4, whatever it might be, taking a carried interest assignment at a capital gains-type rate, or a dividend rate rather than the earned income rate.

That was a testimony for a flat tax or a fair tax for certain; is that correct?

Dr. HALL. Right.

Senator ISAKSON. Let me ask you this question then, if I am correct in my assumption. The biggest stumbling block to simplicity of the tax code is transition from the code we are in to the code we would have that is simpler. For example, you have longitudinal tax treatments: depreciation, investment tax credits, low- and moderate-income housing tax credits, and I could go on and on.

Have you ever designed a model for if you one day woke up and there was all of a sudden an 18-percent flat tax, just pulling something out of the air, what you would grandfather in from the previous tax code where people had invested their money and what you would not?

Dr. HALL. So a while ago, 20 years ago, I went through that whole topic in detail. Depreciation, in the Hall-Rabushka proposal, there is first-year write-off. So that is forward-looking, and that is easy.

The question then is how you treat the hangover of the previously promised depreciation deductions. It would cost a lot of money, but we could just honor them. That is probably what I would recommend.

There are some other issues having to do with personal saving vehicles, but those can all be worked out and have been worked out. So it does get into some detail that I cannot go into this morning, but certainly it is something I have thought about, and it is doable.

But you are right. You have to do it right, and there is a fairly long list of fair, correct transition rules that would have to be applied, but it is doable.

Senator ISAKSON. I appreciate your answer, and I would love, if you did that paper a number of years ago, if you would give it to me so I can read it. I like to learn, and I get bored at night watching TV. So I would love to read it and see what happens.

But the reason I raise the point is, when Reagan reformed taxes in 1986, the one thing we made a mistake on was, we took passive loss and passive gain and changed the treatment of those things midstream in investments, which took a large segment of the economy, primarily commercial and investment real estate—it caused the savings and loan collapse, to be honest with you.

So you have to be very careful when you change the treatment of taxation mid-investment, when it is already made. You have to make sure you are not creating the unintended consequence of causing a recession. That is the reason I asked that question.

With that said, I am going to turn over everything to the ranking member, Senator Wyden.

Senator WYDEN. Thank you, Senator Isakson. I share a lot of your concerns as well, and I look forward to working with you.

Let me, if I might, go back, Governor Engler, to what you and Senator Thune talked about, because you have been kind to take the time over the years to talk with me about it. I think you know how strongly I feel about bipartisan, comprehensive tax reform.

I think a big part of this debate is really going to come down to Pete's Auto Supply and Fran's Hardware Store, because, if they walk away thinking that all the discussion in Washington, DC is about the big guys—the big guys are going to get the breaks, the multinationals are going to get the breaks, and Pete and Fran are not going to get anything—when they start looking at the numbers, they may think they are going to have to pick up some of the costs in order to have the break for the big guys. I think that is a show-stopper, both substantively and politically. And you, to your credit, have indicated that you are interested in talking about this.

I understand that there is some discussion going on in the business community in an effort to try to think this through, and you have to find a pay-for and the like. But given the fact that these small businesses, well over 80 percent, pay taxes as individuals rather than businesses, I understand there is some discussion about the concept of perhaps coming up with a general small business credit, something that would allow the small business people on day 1 to see that there was an effort to try to ensure that, as we do tax reform, we want everybody in America to get ahead and we are recognizing those small businesses.

I know that this is not the time to talk in specifics or how everything is going to be paid for, but what is your sense of that discussion and where it might go?

Governor ENGLER. Well, I think that, first of all, it is an unavoidable discussion. It has to be part of the whole conversation. And I think as long as we are working with the constraint of what is I think described generally as fiscally responsible tax reform, that sort of means that if you are going to try to bring rates down, which costs revenue, as was just mentioned by Senator Isakson, what then offsets that revenue loss?

I personally would think that there is a fairly dynamic effect that is there. There is certainly some effect if you cut tax rates. I happen to think it is a beneficial effect and that it will be seen in higher revenues. But I understand the scoring rules that we use.

So if we say, what is fiscally responsible, how do we want to do it? Those that are corporate ratepayers, what do they pay? Those that are non-corporate entities that pay at the individual rate—nobody should subsidize the other. I mean, they should not be subsidizing corporate relief, and I would argue vice versa, that corporate should not be subsidizing their relief.

So how do you get them a better tax code? How do you get that corporate taxpayer a better tax code? I think we have figured out kind of where we would like to be on the corporate side. The other is a little more complex because—you just astutely, in your question, pointed out the diversity.

There are many, many of them clustered at the bottom, and then they kind of go up, and some are pretty big. I think some pass-through entities, more than 200, are bigger than $2 billion in revenue. So those are big guys up there.

So as we look at this, your question about a small business credit or something, all of those ideas are intriguing. And we are very open to working with the committee to see what could be done, because we certainly always speak of comprehensive tax reform, and, if it is comprehensive, that means that they are not left out.

Senator WYDEN. Let me ask one other quick question, if I might, and then I am going to recognize Senator Carper.

One of the most troubling aspects of where this country is economically is the huge gap between economic recovery in urban areas and economic recovery in rural areas. The National Association of Counties recently released a report noting that, of the 3,000 rural counties, only 65 are in economic recovery. No county in my State has seen a full economic recovery. Twenty-three rural counties in my State have lagged well behind the State's more urban and populous counties.

Clearly, in my State—and I just came from town hall meetings in rural Oregon—I am not going to accept turning those rural communities into sacrifice zones where we just write them off and say, that's the way it goes and "the end."

I would just like to go down the row, before I go to Senator Carper. Maybe if you would like to start, Dr. Wolfers. But again, if you have an idea, just one, because time is short, to try to deal with this huge gap between recovery in urban areas and recovery in rural areas, I would be interested in an idea from each of you.

Dr. Wolfers?

Dr. WOLFERS. I am going to try the professor's usual gambit, which is to reject the question rather than answer it.

Senator WYDEN. Fair enough.

Dr. WOLFERS. There is enormous variation in unemployment across the country. There is variation between blacks and whites, between men and women, between States, and between urban and rural areas.

I think we should weight each of these as real people with dignity, and that does not mean favoring one group over the other. I think the important part of your question is, implicitly, the claim that the economic recovery has a lot further to run.

On that I completely agree, and we can push down to a 4-point-something-percent unemployment rate rather than a 5-point-something unemployment rate. It is not going to do anything particularly for rural versus urban differences, but it is going to help both groups.

Senator WYDEN. Dr. Hall?

Dr. HALL. The trend toward urbanization has been going on throughout the history of the U.S. And exactly what comforts should be given to the people who are still in rural areas is an open question. But it is very important to understand that, especially certain big urban areas that are at the other extreme—for example, in the urban area that I live in, the unemployment rate today is 4 percent. Well, it is a huge magnet for people from rural areas, and rural populations are declining as urban populations rise.

We have a progressive tax system which helps a lot in that respect, and we have a social safety net. I am not sure that it would be appropriate to go beyond that to have something specifically aimed at rural areas. Certainly Europe—one of the huge problems in Europe is very consistent attempts to prevent people from migrating to big cities, and that has been one of the many drags on the growth of productivity in Europe.

So again, I am against the Europeanization of the U.S., and we would not want to move in that direction. But I do want to say we have a pretty robust social safety net. The numbers on that are quite impressive at the bottom end of the income distribution, how much help we do give, and, in particular, excuse people in that area completely from paying taxes.

So I think we do a reasonable job, but I still recognize——

Senator WYDEN. I want to go to Governor Carper. I can tell you, in rural Oregon, people are first and foremost interested in family-wage jobs. They want those opportunities in trade. They want an improved infrastructure. They want a balanced approach on natural resources. Nobody this weekend said the answer was just safety net programs.

Governor Engler, is there anything else you want to add? Then I want to go to Governor Carper.

Governor ENGLER. Really quickly, as somebody who grew up in Beal City, MI, kind of one of those communities, I do think that technology has a huge role to play in bridging that gap, and I really feel that if everybody had high-speed access, we could take the work to where the people are today in many cases, and I think we should be doubling down on those strategies.

The one thing, though, that is simply not negotiable is, even in rural schools today, with technology you can have the very best education that is available in the world, but you have to get that technology. You have to insist upon it, and you have to build it.

If I was leading one of those communities today, I would really put my emphasis on the education of the workforce. The skills are delineators in terms of opportunity and incomes going forward, and it is just going to get more acute.

Senator WYDEN. Well said. Governor Carper?

Senator CARPER. Thanks very much. He knows how to warm me up when he calls me "Governor." This is what I tell people around the country, when they ask, "What do you do?" I say, "I am a recovering Governor," and I am.

Governor ENGLER. Please do not recover.

Senator CARPER. I will never fully recover. Johnny and I used to work together when we were Governors at the same time. We worked together on a lot of stuff, like welfare reform. We had married sort of later in life to these wonderful women and had young families. And so we had our kids at the National Governors Association and spent a lot of time together.

And we share a passion for a particular baseball team that has now traded away two of the best pitchers in baseball, Doug Fister and Max Scherzer, to the Washington Nationals. The Nationals should be pretty good this year. But we will see how good our Tigers are. I am hopeful, though, that we still have plenty of punch.

Having said all of that, we also are always interested in how to foster greater economic growth. And whether you are Governors or Senators or Presidents, we do not create jobs, we help create that nurturing environment. I was pleased with the President's speech, very pleased actually, and he focused on some things that I think could help create an even more nurturing environment for job creation and job preservation.

One of those is trade. Trade policy and trade agreements actually make it easier for us to sell our goods and products into foreign markets. He talked a bit about tax reform, and I have had a long-time interest in broadening the base, lowering the rates, and moving toward a territorial tax system on the corporate side.

He spent some time on cyber-security. We have a lot of folks trying to steal our intellectual seed corn, from places like DuPont Company and AstraZeneca in my State and from universities, whether it is Michigan, Ohio State, Delaware, you name it. And we are, I think, doing a better job, but it is a big job.

He spoke about immigration reform. Someone mentioned it. I do not know who it was who mentioned it here today. Immigration reform actually will, over the long term, reduce budget deficits and foster greater economic growth.

And the last one is—this is where I am going—transportation, and investments in transportation and infrastructure.

Governor Engler, before his current job and after being Governor, one of the things that he did is he led the National Association of Manufacturers. They put out a work study done by some very smart people looking at what kind of GDP growth we get if we fully fund the transportation system—a transportation plan for the next 6 years.

And it said we would get a fair amount of GDP growth and economic boost from putting 600,000 or 700,000 people to work building roads, highways, and bridges across the country, a lot of whom are long-term unemployed. But the real growth, the real growth in terms of GDP from a fully funded transportation program comes in a just-in-time economy, to be able to move goods and products across the country, out of the country, and into foreign markets, and that is where we get the real GDP growth.

The big question around here has always been, how do you pay for this stuff? In the last 5 years, we have seen 12 times that we have kicked the can down the road and really not done much of anything. We end up borrowing money from the general fund, which is broke. So we borrow money from China and other places around the world. I do not think that is a very smart policy—reduced pension smoothing and stuff that has nothing to do with transportation.

One of you, I think it was you, Dr. Hall, may have mentioned something like user fees. I know in Michigan, the Governor up there—is Governor Snyder still your Governor? I know he tried to double the gas tax from $0.19 to $0.39. I think it passed the Senate up there last year but not the House, and now they are going to go to a referendum and see if they can pass it that way.

Lastly, I chaired, until 10 days ago, the Senate Subcommittee on Transportation Infrastructure. I serve on Environment and Public Works, and I have a great interest in that and in funding it through this committee.

Here is my question. Our ranking member, your former chairman, he is from Oregon. They have been working for 10 years on something called a road user charge. It is another way of saying vehicle miles traveled.

In Delaware, if you go through my State on I–95, you pay a toll. We have a highway speed E-ZPass so people can move through rather expeditiously. If you go south in my State from I–95 down to the beaches, Rehoboth and all those places you go through, it is a user fee on State Route 1, in the form of a toll. So we have a combination of tolls. We have road user charges. Dr. Hall, I think you were talking about congestion funding and charging, and I think that makes a whole lot of sense.

Two questions. One, given this advice, we are going to run out of money in the transportation trust fund yet again, for the 12th time in 5 years. We run out of money at the end of May. What advice would you have for us? My sense is it needs to be a combination of things, but we have not raised the gas tax or diesel tax for 21 years.

A $0.19 diesel gas tax today is worth a dime. A $0.24 diesel tax today is worth about $0.15. And we all know what is going on in the price of gas and diesel; you feel it across the country.

What are your recommendations for each of us when we take up these issues in about a month or so? What should we do?

Do you want to lead it off, Governor Engler?

Governor ENGLER. I am happy to start. I do think that, as part of a comprehensive business tax reform proposal, there are some opportunities to do some things—I do not think they are permanent fixes, but I think they are multiple-year fixes in the transportation fund. They would not be as good, though, as if you were to address overall revenues from the fund from dedicated user fee sources.

But I do think that there are some creative ideas. Chairman Camp got at some of them, and the President sort of endorsed that. So I look at that as a possibility.

There have been also in the press comments that just do not add up, where they say, let us just repatriate one time and use that money from a scoring standpoint. That does not work.

But there is a way to do it, and, as I said, Chairman Camp got at some of that in the proposals made in the House in the last Congress.

There have been also—and I will not discuss them at length, because I do not want to use up my colleagues' time here—but some of the other proposals about how you might even change how the highway trust fund is administered, at what level—you are completely right that we could make a contribution that could be very helpful, buy some time, but we really need to step it up dramatically from where we are. The needs that are unmet are pretty staggering.

Senator CARPER. Thank you.

Dr. Hall, please.

Dr. HALL. I am not equipped to deal with these day-to-day problems, especially from 2,600 miles away.

Senator CARPER. Where do you live?

Dr. HALL. In California.

Senator CARPER. Where?

Dr. HALL. In Menlo Park.

Senator CARPER. Our road was right where the—very close to the Stanford Golf Course. The road came right by the Stanford Golf Course, right by my house. I went back there a couple of years ago. I was a naval flight officer out there. They had a sign in the front of the house that said, "Tom Carper may have slept here." [Laughter.]

Dr. HALL. But taking a somewhat longer perspective on infrastructure in general, especially roads, the roads should make a profit for the owners of the roads. So if the owners are, in some cases, the Federal Government, then the government ought to make a profit, because they sit on a lot of land that is worth a lot, and, if they are not making a profit, they are not making good use of the land.

So that shows how different infrastructure policy is today from the way it should be, because we know we are pouring a lot of money into it.

Now, on the gas tax, there is a case that we should have a gas tax as part of a carbon tax, since gasoline has a lot of carbon. Otherwise, as has been pointed out earlier, the gas tax is an extremely inefficient and now ineffective way to deal with recovering fees. We need to recover fees from a transponder, E-ZPass, or whatever it is called in different parts of the country.

Senator CARPER. We do a lot of that in Delaware.

Dr. HALL. Yes. Yes. Exactly, and that is great. That is the way we should do it.

Senator CARPER. We also have a gas tax.

Dr. HALL. Sure. We should have a gas tax because of the carbon content. But that does not mean we should keep raising it all the time.

Senator CARPER. We have not raised it in 21 years.

Dr. HALL. Then it is probably too low. But in any case, intelligent policy, I think, should be very focused on getting the right level of real-time pricing of the users of infrastructure.

And air travel—the same thing. It is scandalous that, since most people who fly are at least middle-income, it is scandalous that we subsidize airports through infrastructure funds. So we need to get that straightened out too. There should not be any Federal subsidy to air travel.

Senator CARPER. Thank you. Dr. Wolfers?

Dr. WOLFERS. I would say three things.

Senator CARPER. Are you from Australia?

Dr. WOLFERS. I am, mate.

Senator CARPER. Are you still an Australian citizen?

Dr. WOLFERS. I am a dual citizen.

So first, raise the gas tax, and I think you will find——

Senator CARPER. Would you say that again?

Dr. WOLFERS. Raise the gas tax.

Senator CARPER. I thought that is what you said.

Dr. WOLFERS. And I think you could ask almost any economist in the United States and they would say exactly the same thing, and I can think of two reasons. One, at the moment, we are effectively subsidizing the dirtiest forms of transport rather than the cleaner ones, with enormous environmental consequences. Professor Hall is right, there are even better things we could do. But in the world we live in, this is the simplest instrument we could use.

Second, I was struck—I actually like to run to work. Well, when I run to work, I have to join a gym just to shower. On the days I drive to work, I can use tax-exempt money to pay for a parking spot. So we are actually subsidizing one form of transportation rather than another, and I would argue probably not the right form, although my fellow Michiganders might disagree.

The second thing is how to get more bang for your buck from the transportation fund. One way is to think about spending more when stuff is cheapest. So we have a lot of construction workers out of work right now, and we have low interest rates. Now is a great time to spend. If the boom keeps going, 5 years from now will probably be a terrible time to spend. We can get more bang for our buck by countercyclical spending.

Third, you began by saying that you had asked some economists what the economic growth payoff for better transportation policy would be. I think that is actually the wrong question.

The real payoff from good transportation policy is moms and dads who get home to see their kids 15 minutes earlier every day. That is not economic growth, but it is an improvement in living standards, and one we should take seriously.

Senator CARPER. That is a good point. Texas A&M does a study every year, and they figure out how much time we just sit in traffic—just sit in traffic, not move 5 miles, just sit there. It is about 2 full days per year. So that is a point well-taken.

Mr. Chairman, thanks. You are very generous with your time.

Senator WYDEN. Governor Carper has been our leader on infrastructure.

Thank you all, and, on behalf of Chairman Hatch, we are adjourned at this time.

[Whereupon, at 12:24 p.m., the hearing was concluded.]

APPENDIX

Additional Material Submitted for the Record

Prepared Statement of John Engler, President, Business Roundtable

Good morning, Chairman Hatch, Ranking Member Wyden and members of the committee.

My name is John Engler and I serve as President of Business Roundtable, an association of CEOs of major U.S. companies operating in every sector of the economy.

Business Roundtable CEO members lead companies with $7.2 trillion in annual revenues and nearly 16 million employees. Business Roundtable member companies comprise more than a quarter of the total market capitalization of U.S. stock markets and invest $190 billion annually in research and development (R&D)—equal to 70 percent of U.S. private R&D spending. Our companies pay more than $230 billion in dividends to shareholders and generate more than $470 billion in sales for small and medium-sized businesses annually. Business Roundtable companies also give more than $3 billion a year in charitable contributions.

Thank you for the opportunity to appear before you today to address the policies necessary for creating jobs and sustaining a healthy economy. Business Roundtable members are committed to promoting policies that will help America reach its full potential. Indeed, just this week we released, *Achieving America's Full Potential: More Work, Greater Investment, Unlimited Opportunity,* which outlines the priorities we believe are necessary to drive economic and job growth. This report drew on extensive input from our more than 200 CEO members, and its policy recommendations include many areas that fall within this committee's jurisdiction.

To sustain strong and consistent U.S. economic performance, we believe that Congress and the Administration must work together to adopt pro-growth policies. As communicated in *Achieving America's Full Potential,* these policies include maintaining fiscal stability, enacting pro-growth tax reform, expanding U.S. trade, investing in physical and digital infrastructure, fixing our broken immigration system and adopting a smarter approach to regulation.

Fiscal stability means completing budgets on time and avoiding showdowns and shutdowns that threaten the economy. We ask that you keep in mind that, despite near-term projections of a declining federal budget deficit, deficits are projected to begin expanding further within the next 10 years, placing the United States on an unsustainable fiscal path. To avoid this fate, America needs long-term fiscal stability that creates the right conditions for sustained business investment, economic and wage growth and job creation.

With more than one in five American jobs supported by trade and 95 percent of the world's consumers living outside of the United States, expanding U.S. trade opportunities is critical to supporting U.S. growth, well-paying American jobs and U.S. business investment.

Business tax reform that results in a modern tax system with competitive rates and competitive international tax rules may be the single most effective means of accelerating business investment, boosting job creation and wages, and providing greater opportunity for America's working families.

On this topic, Mr. Chairman and Ranking Member Wyden, we thank you for recently launching five working groups to examine areas of the tax code. This initiative represents the kind of serious, bipartisan work Congress will have to undertake to enact tax reform.

Immigration reform will help keep America secure and is essential for a healthier economy—accelerating growth, encouraging hiring and creating American jobs.

America relies on digital and physical infrastructure that facilitates the movement of people, information, physical goods and financial assets that drives economic activity. Congress and the Administration should come together to enact policies that strengthen these vital national assets.

Business Roundtable supports smart regulatory policies that will ensure American businesses retain the capacity to operate and innovate, while promoting the health and welfare of employees, customers and communities.

Clearly, there is a lot of work to be done to get the right pro-growth policies fully developed and enacted. The members of the Roundtable look forward to working closely with you to achieve these important goals.

EXPANDED TRADE

I'd like to first discuss the importance of international trade and investment policies to promoting U.S. economic growth and American jobs.

A. Trade and U.S. Trade Agreements Help Support U.S. Growth and Jobs

More than 95 percent of the world's population and 80 percent of its purchasing power currently lies outside the United States. U.S. trade policy has traditionally recognized the growing importance of international markets and, as a result, U.S. Administrations—both Democratic and Republican—have long pursued market-opening trade agreements to create opportunities for U.S. companies, farmers and workers in the global marketplace.

These bipartisan efforts have been successful. To highlight just a few examples:

- Today, more than one in five American jobs are supported by international trade; [1]
- U.S. job growth from 2004–2013 was three times higher for trade-related jobs compared to average job growth; [2]
- Export-related jobs pay 13 to 18 percent more than the average U.S. wage; [3]
- More than 300,000 U.S. companies are exporters. Of this total, 297,995, or 98 percent, are small and medium-sized enterprises (SMEs) with fewer than 500 workers; [4]
- In 2013, U.S. free trade agreement (FTA) partner countries purchased 12 times more goods per capita from the United States than non-FTA countries did; [5] and
- Nearly half of all U.S. manufactured goods exported go to the 20 countries that have FTAs with the United States.[6]

Business Roundtable members believe strongly in the benefits that trade and high-standard trade agreements bring to the United States. That is why our 2015 policy agenda, *Achieving America's Full Potential: More Work, Greater Investment, Unlimited Opportunity,* includes two key recommendations relating to trade.

- First, we recommend that Congress and the Administration work together to enact updated Trade Promotion Authority (TPA) as soon as possible.
- Second, we recommend that the Administration, in consultation with Congress, aggressively pursue and secure high-quality and fair agreements, particularly the Trans-Pacific Partnership (TPP), Transatlantic Trade and Investment Partnership (TTIP), and Trade in Services Agreement (TISA).

Business Roundtable's 2015 trade priorities also include support for:

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[1] Baughman and Francois, "Trade and American Jobs, The Impact of Trade on U.S. and State-Level Employment: 2014 Update" (2014), available at:
http://businessroundtable.org/resources/trade-and-american-jobs-2014-update.
[2] Ibid.
[3] Riker, "Do Jobs in Export Industries Still Pay More? And Why?" (2010), available at: *http://www.trade.gov/mas/ian/build/groups/public/@tg_ian/documents/webcontent/tg_ian_003208.pdf.*
[4] Census, "A Profile of U.S. Importing and Exporting Companies, 2011–2012" (2012), available at: *http://www.census.gov/foreign-trade/Press-Release/edb/2012/index.html.*
[5] Business Roundtable, "How the U.S. Economy Benefits from International Trade & Investment" (2015), available at:
http://tradepartnership.com/wp-content/uploads/2015/01/US_State_Study.pdf.
[6] Derived from U.S. Census Bureau data.

- A multiyear reauthorization of the U.S. Export-Import Bank as soon as possible before its nine-month extension expires at the end of June;
- Negotiations on an expanded World Trade Organization (WTO) Information Technology Agreement;
- Implementation of the WTO Trade Facilitation Agreement;
- U.S. Bilateral Investment Treaty negotiations with China and India; and
- Accession of China to the WTO Government Procurement Agreement.

B. TPA is a Critical Tool for Negotiating and Implementing High-Standard Trade Agreements that Support U.S. Growth and Jobs

Trade Promotion Authority is a critical tool for negotiating and implementing high-standard trade agreements that create strong, enforceable trade rules and support U.S. growth and jobs. In fact, all U.S. FTAs since 1974 (except for the U.S.-Jordan FTA in 2000), or 14 agreements, were concluded pursuant to TPA. The GATT Tokyo Round and World Trade Organization Uruguay Round agreements were also concluded pursuant to TPA. When TPA was not in effect from 1994 to 2002, the United States fell behind our foreign competitors who continued negotiating trade and investment agreements that advantaged their companies, farmers and workers over ours in international markets. We cannot let that happen again.

TPA creates a constitutional partnership between Congress and the President. It helps ensure congressional input and oversight of U.S. trade negotiations and allows the executive branch to negotiate and conclude strong trade agreements that are in the United States' best interests and reflect Congressional priorities for trade.

- Congress uses TPA to tell the President and his Administration what the key U.S. negotiating objectives are in trade negotiations. This strengthens Congress's role in helping to shape their outcomes and helps U.S. negotiators get the best possible deal.
- Congress keeps oversight of trade negotiations through comprehensive and strong consultation procedures in TPA, which require the President and U.S. negotiators to keep Congress and the public informed during all stages of negotiations. This helps ensure that Congress and the public are consulted in a transparent way and can provide input on issues in the negotiations.
- TPA also establishes procedures to help Congress consider each completed trade agreement, decide whether to approve it, and, if it is approved, implement the agreement in a timely way so that American companies, farmers and workers can take advantage of the benefits that U.S. negotiators obtained.
- TPA and its negotiating objectives and procedural requirements also reassure our trading partners that Congress and the Administration are committed to reaching and implementing strong trade agreements.

TPA was last enacted in 2002, and it expired in 2007. Since then, new trade issues and barriers have emerged for American businesses, workers and farmers in today's global marketplace. For example, state-owned enterprises that benefit from subsidies and differences in regulatory treatment are increasingly competing with U.S. companies in global markets. Foreign countries whose companies are unable to compete with innovative U.S. companies are using localization policies and restrictions on cross-border data flows to tilt the playing field in their favor. Cyber theft and piracy are serious problems in certain markets. U.S. trade negotiators are doing good work in pushing back against these types of challenges in an ad hoc way as they arise, but their hands would be strengthened if they could negotiate and enforce new rules. By working together to modernize and pass a 21st Century TPA, Congress and the Administration can give our negotiators the tools they need to do just that.

To make the already persuasive case for TPA through education and advocacy, Business Roundtable in 2013 led the creation of the **Trade Benefits America Coalition,** a broad-based group of more than 230 U.S. business and agricultural associations and companies. In the coming months, the coalition will continue to promote the benefits of trade, help pass TPA and advance ongoing U.S. trade negotiations.

C. The Administration Should Aggressively Pursue and Secure High-Quality Results in Trade and Investment Negotiations

As important as TPA is as an exercise of Congress's constitutional authority over trade, TPA is also a means to an end. It is a critical tool for Congress and the President to work together to ensure the negotiation of high-quality trade agreements and ultimately their consideration and approval by Congress. The United States currently has one of its most ambitious trade agendas in a long time, including the TPP, TTIP and TISA.

- The TPP is a negotiation with 11 other Asia-Pacific countries.
- The TTIP is a negotiation with the 28 members of the European Union (EU).
- The TISA is a negotiation with 50 countries (including the EU members) that are committed to creating new opportunities for trade in services.

The TPP and TTIP agreements would cover about 60 percent of world GDP and 40 percent of world trade.[7] TISA would cover about 65 percent of world GDP[8] and over 70 percent of world services trade.[9]

By passing TPA early this year, Congress will help get the strongest possible outcomes in and conclude the TPP negotiations, setting the stage for possibly implementing the final agreement in 2015. It will also provide clear guidance to U.S. negotiators in the TTIP and TISA negotiations to help ensure strong outcomes in them, too. These are just the types of high-quality trade agreements that are essential to opening new markets for U.S. companies, farmers and workers and helping them compete with our foreign competitors.

They are also an effective means to ensure that trade and investment is free and fair. The record of our past trade agreements demonstrates that FTAs are a force to level the playing field by developing new rules to deal with new issues and also by improving existing rules, often raising the standards in other countries. For example, our most recent FTAs with South Korea, Colombia and Panama swept away foreign barriers, and they created even stronger rules in such areas as labor and the environment. Each of these agreements eliminated the majority of tariffs on U.S. exports as soon as they entered into force, and many American exporters have benefited from this new market access. That said, FTAs like these take years to be completely implemented and fully realize their benefits.

Finally, as the committee and Congress as a whole moves forward on bipartisan TPA legislation and continues to work with the Administration on the TPP, TTIP, TISA and other trade agreements, Business Roundtable hopes you will keep in mind: (1) that we are in a different global economy than we were 20 years ago; and (2) that the global economy will move forward with us or without us.

If the United States does not stay engaged in pursuing new trade agreements that address the new challenges that U.S. companies face in international markets, we risk falling behind other countries that are pursuing agreements of their own. We also surrender the opportunity to be the ones setting the global rules of the road. If we don't take the initiative ourselves, others will do it for us, but the rules they negotiate will serve their interests, not ours.

That is why, if the United States wants to achieve its full potential to have a healthy economy with greater opportunities for all Americans, Congress and the President need to work quickly to enact updated TPA and to bring high-quality trade agreements like the TPP, TTIP and TISA to fruition.

PRO-GROWTH TAX REFORM

Next, I'd like to discuss the importance of enacting tax reform that provides a modernized, competitive and permanent tax system to boost job creation, wages and long-term economic growth. Business Roundtable urges Congress and the Administration to move forward in 2015 to enact tax reform.

A. Tax Policy Recommendations to Increase Investment, Jobs, Wages and Growth

Tax reform is fundamental to ensuring that American workers and businesses are competitive in global markets. Tax reform should improve the competitiveness of all businesses, whether taxed as corporations or taxed directly to business owners under the individual income tax system.

Business Roundtable's key tax reform recommendations for corporations include:

- Setting the corporate tax rate at a competitive 25 percent; and

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[7] Derived from United Nations and World Trade Organization data.

[8] Derived from United Nations data.

[9] Coalition of Services Industries, "Why America Needs a New Trade in Services Agreement," (2013) available at: *https://servicescoalition.org/images/TiSA_Background.pdf.*

- Adopting a modern international tax system (a "territorial-type" tax system) that ends the double taxation of U.S. corporations' foreign earnings and aligns the United States with the tax systems of our major trading partners.

Business Roundtable supports these reforms being undertaken in a fiscally responsible manner, understanding that domestic reform will require broad repeal of the so-called "tax expenditures" to offset the revenue loss of the corporate rate reduction. As for the U.S. international tax system, reform should be accompanied by appropriate safeguards to protect America's tax base, consistent with the rules of our major trading partners.

Other important principles for pro-growth tax reform include:

- Making the important decisions on the structure of tax reform so as to maximize its growth effects;
- Measuring the impact of tax reform on revenues relative to a baseline that acknowledges that longstanding tax provisions extended repeatedly on a short-term basis are in reality a permanent feature of current law;
- Not unfairly targeting or favoring any industry. Rather, tax reform should recognize that a streamlined tax system stripped of preferences would better allow the engine of the economy to operate without the distortions created by the current tax code; and
- Reforming the corporate tax code should not be paid for by tax increases on individuals or non-corporate businesses. Likewise, individual and non-corporate reforms should not be paid for with tax increases on the workers, customers, and shareholders of corporations.

B. America's Antiquated Corporate Tax System

Reform of the U.S. corporate tax system and its treatment of international income are of significant importance to the growth of the U.S. economy. U.S.-headquartered companies with operations both in the United States and abroad supported 71.2 million jobs in 2011.[10] These American companies directly employ 23 million American workers in well-paying jobs, with an average compensation of $76,500 in 2012.[11] In addition, these U.S.-headquartered companies support more than 48 million additional American jobs through their supply chains and spending by their suppliers and employees. The ability of American companies to compete in both domestic and foreign markets is essential to improving economic growth in the United States, adding jobs and increasing wages and providing for rising American living standards.

Corporate tax reform can directly boost wages by increasing investment in the United States. Increased investment enhances worker productivity and leads to higher wages. The Joint Committee on Taxation (JCT), the Congressional Budget Office (CBO) and the U.S. Treasury Department all recognize that a significant portion of the corporate income tax is borne by workers in their official distributional estimates.[12] A number of academic studies conclude that workers bear 50 percent or more of the burden of the corporate income tax, with one study by the CBO finding that workers bear slightly more that 70 percent of the corporate tax burden.[13]

The U.S. corporate income tax system today is an outlier relative to the tax systems of our trading partners at a time when we can least afford to be out of step with the rest of the world—when capital is more mobile and the world's economies are more interconnected than at any time in history.

The combined U.S. federal and state statutory corporate tax rate is now the highest in the Organization for Economic Cooperation and Development (OECD), 14 per-

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[10] PwC, "Economic Impacts of Globally Engaged U.S. Companies," (July 2013) available at: *http://businessroundtable.org/sites/default/files/BRT_Final_Report_Economic_Impacts_of_Globally_Engaged_US_Companies_July_2013.pdf.*

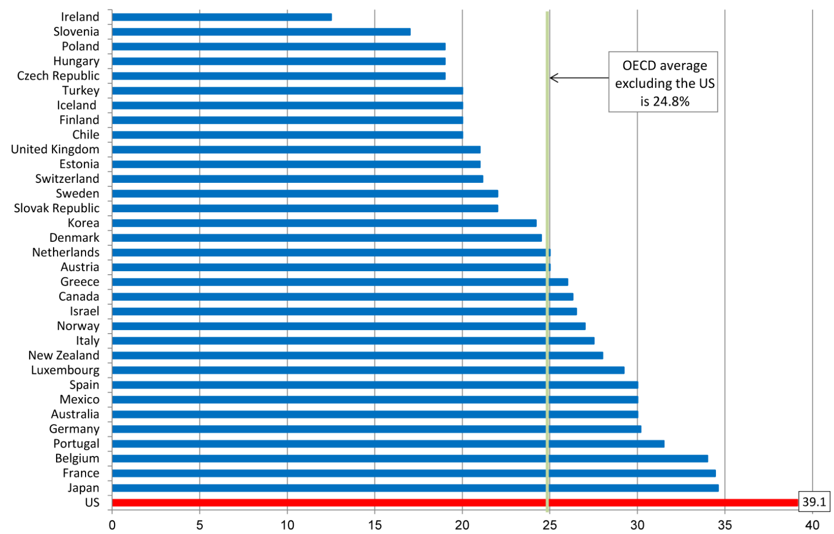
[11] Bureau of Economic Analysis, "Activities of U.S. Multinational Enterprises in 2012," Survey of Current Business, August 2014.

[12] See Joint Committee on Taxation, "Modeling the Distribution of Taxes on Business Income" (JCX–14–13), (October 2013); Congressional Budget Office, "The Distribution of Household Income and Federal Taxes, 2008 and 2009" (July 2012); Julie Anne Cronin et al. "Distributing the Corporate Income Tax: Revised U.S. Treasury Methodology," Office of Tax Analysis Technical Working Paper (May 2012).

[13] William C. Randolph, "International Burdens of the Corporate Income Tax," CBO Working Paper (2006).

centage points above the average of other industrialized countries (Figure 1).[14] A competitive 25 percent corporate tax rate is an essential element of meaningful corporate tax reform.

Figure 1.—Corporate Tax Rates (Federal and State) in OECD Countries, 2014



Source: OECD.

The United States is also the only G–7 country that taxes the worldwide income of its corporations. Within the 34 countries of the OECD, 28 countries use territorial systems for the taxation of foreign earnings, whereby little or no additional home country tax is imposed on active trade or business profits earned abroad when those earnings are reinvested at home.[15] Since 2000, 15 OECD countries have adopted territorial systems. In 2009, Japan and the United Kingdom reformed their tax codes to increase the competitiveness of their locally headquartered multinationals and boosted their economies by adopting territorial tax systems.[16] The U.S. worldwide system of taxation significantly magnifies the damage done by the high U.S. corporate tax, and significantly impairs American businesses competing in world markets.

Wherever American companies compete abroad, they are now virtually certain to be competing against foreign companies that have more favorable tax rules. Within the OECD, 93 percent of the non-U.S. companies in the Global Fortune 500 are headquartered in countries that use more favorable territorial tax systems—up from 27 percent in 1995—and all of these countries have a lower home country corporate tax rate.[17]

Since the last major reform of the U.S. corporate tax system in 1986, the world's economies have become increasingly integrated. The importance of cross-border trade and investment has grown significantly, with worldwide cross-border investment rising seven-times faster than world output since 1980. At the same time, U.S. companies account for a smaller share of worldwide cross-border investment today than in 1980, down nearly 40 percent.[18]

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[14] OECD Tax Database, Table II–1, available at: *http://www.oecd.org/tax/tax-policy/tax-database.htm*. As noted in the footnote to Table II–1, Japan lowered its combined rate to 34.6 percent in 2014.

[15] Business Roundtable, "Comprehensive Tax Reform: The Time is Now," (July 2013).

[16] PwC, "Evolution of Territorial Tax Systems in the OECD," (April 2013), available at: *http://www.techceocouncil.org/clientuploads/reports/Report%20on%20Territorial%20Tax%20Systems_20130402b.pdf*.

[17] Business Roundtable, "Comprehensive Tax Reform: The Time is Now," (July 2013).

[18] United Nations Conference on Trade and Development database.

Today, the U.S. corporate tax system hinders the ability of U.S. companies to grow and compete in the world economy with the consequence of less investment in the United States, a reduced ability to compete overseas, and a weaker economy with fewer job opportunities and lower wages for American workers. The ability of American companies to compete and invest abroad is vital for opening foreign markets to U.S.-produced goods and expanding the scope of investments in R&D and other activities in the United States.

A thorough modernization of the tax system through tax reform also has the potential to help provide solutions to address America's infrastructure needs. Business Roundtable is examining funding proposals for infrastructure in the context of the deliberations of permanent tax reform.

C. The Significant Economic Growth Effects from Tax Reform

As Congress undertakes tax reform, critical decisions will be made that affect the ability of American workers and the companies that employ them to compete in the global economy. Tax reform should be designed to increase investment, jobs, wages and growth and take into account the significant gains that can be achieved through a more efficient and competitive tax system.

America's business leaders have consistently maintained that tax reform will boost wages, growth and investment. Accordingly, Business Roundtable commissioned Rice University Professors Diamond and Zodrow to independently analyze Chairman Camp's 2014 tax reform proposals.[19] The Diamond-Zodrow findings were consistent with this long-term view showing that the Camp plan would:

- **Boost after-tax wages** for American workers by 2.3 percent two years after enactment and by 3.8 percent after 10 years;
- **Increase U.S. annual GDP** by 0.9 percent two years after enactment and by 2.2 percent after 10 years; and
- **Expand U.S. annual domestic investment** by 1.8 percent two years after enactment and by 6.5 percent after 10 years.

Business Roundtable fully supports and encourages your vigorous pursuit of tax reform.

FISCAL STABILITY

A key aspect of fiscal stability in the near term is managing the federal budget in a timely, responsible and predictable manner. Recent showdowns over the federal budget and national debt have contributed to spikes in policy uncertainty and dips in consumer confidence.

Major fiscal deadlines are quickly approaching for which immediate action will be needed to maintain fiscal stability. In the months ahead, Congress will need to take action to increase the debt ceiling and promptly address other key fiscal deadlines, including expirations impacting Medicare health care providers and the Highway Trust Fund. The U.S. economy and American workers and their families cannot afford the negative consequences of another debt ceiling showdown or stalled budget negotiations that threaten jobs, slow investment and halt the economic recovery.

A. Deficit Reduction Remains a National Imperative

Despite declining deficits in the near term, deficit reduction remains a national imperative. Except for World War II, the federal debt of this country has never been larger as a share of income than it is today. Simply put, the United States is on an unsustainable path of continuing increases in debt burdens relative to our country's ability to service that debt.

The Congressional Budget Office's August projections estimated federal budget deficits of $7.2 trillion through 2024 under its official baseline. Under an alternative fiscal scenario, comprising a set of policy assumptions with less fiscal restraint, the cumulative deficit over this period rises to $9.5 trillion under CBO's projections.[20]

CBO's long-term budget projections show that under current law the federal debt will increase from 74 percent of GDP in 2014 to 80 percent of GDP by 2025—and will reach 100 percent in 2036. Under the alternative fiscal scenario, deficits grow

[19] John W. Diamond and George R. Zodrow, Tax Policy Advisers LLC, "Dynamic Macroeconomic Estimates of the Effects of Chairman Camp's 2014 Tax Reform Discussion Draft," (March 2014).

[20] Congressional Budget Office, "An Update to the Budget and Economic Outlook: 2014 to 2024," (August 2014).

even more rapidly. These projections also ignore any harmful impacts of the growing debt on the economy, including higher interest rates and a contracting economy, consequences that cannot be ignored and which would result in an even more rapidly increasing debt burden. CBO concludes that with debt rising faster than GDP, the United States is on an unsustainable fiscal path.

Rapid increases in America's debt burdens will drive up the cost of borrowing, as lenders demand a greater risk premium and the government competes to borrow funds. Higher interest rates mean greater debt service costs for the federal government and even larger deficits. More importantly, higher interest rates crowd out productive private investment in the economy, meaning slower economic growth and lower wages for American workers.

Policies focused on growth can help reduce these debt burdens and put the country back on a sustainable path. CBO estimates that adding a sustained one-tenth of one percent to GDP growth would reduce budget deficits by over $300 billion over a decade. A sustained increase in the growth rate of GDP of a full percentage point annually would reduce the budget deficit by $3.1 trillion over a decade.[21]

While government policy should do everything possible to encourage private sector growth, spending restraint is also a necessary component of ensuring that government finances are on a sustainable path.

CBO's budget projections show annual government outlays increase by $2.3 trillion between 2014 and 2024. Spending on interest, Social Security and government health care programs account for 85 percent of this increase. By 2024, two-thirds of total federal spending will be devoted to interest, Social Security and government health care programs. Since interest costs are tied directly to the growing debt, reducing spending will require controlling the explosive growth of spending on Social Security and government health care programs and putting them on a sustainable path.

B. Strengthen Medicare and Social Security

Modernizing Medicare and Social Security modernization is a critical element for ensuring fiscal stability and our country's prosperity.

To ensure that future generations of American retirees can rely on the assurance of basic retirement security, changes are needed to strengthen the Medicare and Social Security programs.[22] Our proposals would gradually bring changes into alignment with America's fiscal and demographic realities while fully protecting current retirees and those near retirement. Our goal is to preserve the safety net for future generations.

Specifically, Business Roundtable supports gradually increasing the eligibility age for full benefits, updating the method of computing cost-of-living adjustments, implementing means testing for higher-income recipients and expanding competitive models of care within Medicare.

Acting sooner rather than later means the changes can be gradual, current retirees and those near retirement would be fully protected and the programs can be strengthened, which preserves the programs for future generations.

INVESTMENT IN INFRASTRUCTURE

America relies on infrastructure that facilitates the movement of people, information, physical goods and financial assets that drives economic activity. Business Roundtable supports prudent public investments in infrastructure and policies that facilitate increased private investment.

Despite its importance to virtually every aspect of economic activity, our public infrastructure is not up to the challenge. A recent survey of U.S. manufacturing leaders found that 65 percent believe our nation's infrastructure cannot meet the demands of a growing economy over the next 10 to 15 years.[23]

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[21] Congressional Budget Office, "The Budget and Economic Outlook: 2014 to 2024," p. 131 (February 2014).

[22] Business Roundtable, "Social Security Reform and Medicare Modernization Proposals" (January 2013), available at: *http://businessroundtable.org/resources/social-security-reform-and-medicare-modernization-proposals.*

[23] Hart Research Associates/McLaughlin & Associates. Online survey conducted 05/29/13–06/28/13, and one-on-one interviews conducted in 05/13; as cited in National Association of Manufacturers & Building America's Future (March 2013). "Infrastructure: Essential to Manufac-

U.S. roads and bridges, for example, are in disrepair and suffering from chronic underinvestment. Of particular concern is the Federal Highway Trust Fund, the balance of which is expected to turn negative this year. In the absence of additional funding, rising expenditures and falling income will drive increasingly large Federal Highway Trust Fund deficits over the next 10 years. Public investment in the nation's infrastructure is steadily declining, falling from 3 percent of GDP in the mid-1960's to just under 1 percent of GDP today. Indeed, between 2003 and 2012, the level of real public investment in infrastructure decreased by 11 percent.[24]

That is why Business Roundtable believes Congress and the Administration should adopt policies that develop and maintain a world-class infrastructure for the United States. That means:

- Providing consistent and reliable funding streams to support infrastructure projects that are key to economic growth and job creation;
- Enacting policies that better enable the private sector to invest in infrastructure projects that lead to long-term economic growth; and
- Streamlining the federal permitting process for all major infrastructure projects.

CONCLUSION

Mr. Chairman, thank you again for the opportunity to discuss the challenges we face—and the solutions we support—to get our economy firing on all cylinders. Business Roundtable CEOs stand with you as you begin to take steps to put these policies in place. Like you, we believe that America's best days are ahead of it and that by acting today, we can help our nation achieve its full potential.

I am happy to answer any questions you may have.

ACHIEVING AMERICA'S FULL POTENTIAL

More Work, Greater Investment, Unlimited Opportunity

January 2015

Business Roundtable SM
More Than Leaders. Leadership.
2015 POLICY PRIORITIES

A Plan to Move America Forward

TO REACH AMERICA'S FULL POTENTIAL AND CREATE GREATER OPPORTUNITY FOR ALL AMERICANS, THE U.S. ECONOMY NEEDS TO FIRE ON ALL CYLINDERS. THAT LEVEL OF PERFORMANCE REQUIRES PRO-GROWTH POLICIES THAT FACILITATE BUSINESS INVESTMENT, WHICH DRIVES PRODUCTIVITY GAINS, ACCELERATES ECONOMIC GROWTH AND PROMOTES JOB CREATION.

AMERICA'S BUSINESS LEADERS SUPPORT POLICIES THAT ENSURE THE UNITED STATES IS THE BEST PLACE IN THE WORLD FOR PRIVATE SECTOR INVESTMENT, EXPANSION AND HIRING—POLICIES THAT WORK FOR THE ECONOMY AND THE AMERICAN PEOPLE.

THE CEO MEMBERS OF BUSINESS ROUNDTABLE HAVE IDENTIFIED THE FOLLOWING PRIORITIES AS THE BEST WAY TO ACHIEVE AMERICA'S FULL POTENTIAL, AND WE URGE CONGRESS AND THE ADMINISTRATION TO WORK TOGETHER TO ENACT THEM IN 2015:

- FISCAL STABILITY
- PRO-GROWTH TAX REFORM

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turing Competitiveness" (2013), available at: *http://www.nam.org/Data-and-Reports/NAM-BAF-Infrastructure-Survey/NAM-BAF-Infrastructure-Survey.pdf.*

[24] Jeffrey Werling & Ronald Horst, "Catching Up: Greater Focus Needed to Achieve a More Competitive Infrastructure" (September 2014), Inforum Report to the National Association of Manufacturers, available at:
http://www.nam.org/Issues/Infrastructure/Surface-Infrastructure/Infrastructure-Full-Report-2014.pdf.

- EXPANDED TRADE
- IMMIGRATION REFORM
- INVESTMENT IN PHYSICAL AND DIGITAL INFRASTRUCTURE
- SMART REGULATION

FISCAL STABILITY

While America's annual federal deficit has declined in recent years, the U.S. federal debt as compared to the nation's gross domestic product (GDP) remains at levels not seen since the end of World War II. Social Security, Medicare and interest on the debt will account for an increasing share of federal spending, crowding out other priorities and squeezing public investment. America needs long-term fiscal stability solutions that create the right conditions for sustained business investment, economic growth and job creation.

87%	$3.11T	2x
Share of American voters who think the current level of the national debt is stifling the economy.	Reduction in the federal deficit over a 10-year period attainable with a 1 percent increase in GDP growth.	Ratio of publicly held federal debt to GDP doubled between 2007 and 2014.

POLICY RECOMMENDATIONS

Congress and the Administration should:

- Address the debt limit in a timely manner to allow for required borrowing and to protect the full faith and credit of the United States.
- Pass annual budgets on time and appropriate funds early enough in the legislative session to allow for proper planning and avoid disruptions to government operations.
- Constrain federal spending in a manner that reduces long-term spending growth rather than imposing abrupt and arbitrary reductions in near-term outlays, regardless of effectiveness or priority.
- Strengthen Medicare and Social Security by gradually increasing the eligibility age for full benefits, updating the method of computing cost-of-living adjustments, implementing means testing for higher-income recipients and expanding competitive models of care within Medicare.

PRO-GROWTH TAX REFORM

With the highest corporate tax rate in the developed world, America's outdated, anti-competitive business tax system frustrates business investment and limits both the potential of the U.S. economy and opportunities for American working families. Business tax reform that results in a modern tax system with competitive rates and competitive international tax rules may be the single most effective means of accelerating business investment, jumpstarting U.S. economic growth and boosting job creation.

America needs a simplified tax system that is permanent in law, minimizes the burden of compliance costs on individuals and businesses and enhances the competitiveness of all our enterprises, regardless of whether they are global or domestic.

39.1%	+2.2%	71M
U.S. combined corporate tax rate, the highest in the developed world.	Boost to U.S. GDP after 10 years if former Representative Camp's plan for comprehensive tax reform were enacted.	Number of American jobs supported by U.S. globally engaged companies.

POLICY RECOMMENDATIONS

Congress and the Administration should enact pro-growth tax reform that:

- Sets the corporate tax at a competitive 25 percent rate;

- Domestic reform will require broad repeal of many of the so-called “tax expenditures” to offset the revenue loss of the corporate rate reduction.

- Adopts a modern international tax system (“territorial-type” tax system) that ends the double taxation of U.S. corporations’ foreign earnings and is consistent with the practices of America’s major trading partners;
  - Reform of the U.S. international tax system should be accompanied by appropriate safeguards to protect America’s tax base, consistent with the rules of our major trading partners.

EXPANDED TRADE

With more than one in five American jobs supported by trade and 95 percent of the world’s consumers living outside of the United States, expanding U.S. trade opportunities is critical to support U.S. growth, well-paying American jobs and U.S. business investment.

1 in 5	3x	46%
More than one in five U.S. jobs—nearly 40 million—are tied to trade.	Trade-dependent jobs grew more than three times faster than the rate of overall U.S. job growth between 2004 and 2013.	Nearly half of all U.S. goods exports go to the 20 countries that have a free trade agreement with the United States.

POLICY RECOMMENDATIONS

- Congress and the Administration should work together to enact updated Trade Promotion Authority legislation as soon as possible.
- The Administration should aggressively pursue and secure high-quality results in trade and investment negotiations, including the Trans-Pacific Partnership, Transatlantic Trade and Investment Partnership, Trade in Services Agreement, expanded World Trade Organization Information Technology Agreement and U.S. Bilateral Investment Treaty talks with China and India.
- Congress and the Administration should enact a multi-year reauthorization of the U.S. Export-Import Bank to help U.S. companies compete for sales abroad and support the U.S. jobs that depend on those sales.
- The Administration should continue to implement reforms to outdated U.S. export controls.

IMMIGRATION REFORM

As business leaders representing every sector of the economy, Business Roundtable members understand the importance of fixing America’s broken immigration system. Immigration reform, done right, will help keep America secure and is essential for a healthier economy—accelerating growth, encouraging hiring and creating American jobs.

$1.2T	+4.8%	40%
Reduction in the federal deficit over 20 years from enacting immigration reform.	Boost to U.S. GDP over 20 years from enacting immigration reform.	Percentage of Fortune 500 companies that were founded by immigrants or their children.

POLICY RECOMMENDATIONS

Congress and the Administration should:

- Enact reforms that welcome legal immigrant workers, including increasing visas for higher-skilled workers and establishing a new system for lower-skilled workers.
- Find a solution for undocumented immigrants that integrates them into our society, including allowing those already residing in the United States to earn a legal status.

• Improve the technological capability to enforce U.S. immigration laws, ranging from increased resources for border security to an E-Verify system for all U.S. employers.

INVESTMENT IN PHYSICAL AND DIGITAL INFRASTRUCTURE

America relies on a platform of digital and physical infrastructure that facilitates the movement of people, information, physical goods and financial assets that drives economic activity.

Business Roundtable supports prudent investments in public infrastructure, policies that encourage increased private investment and a smarter, more agile approach to cybersecurity that protects the freedom to innovate and more effectively counters rapidly evolving threats.

65%	−11%	100%
Share of U.S. manufacturing leaders who believe U.S. infrastructure cannot meet the demands of a growing economy over the next 10–15 years.	Decline in public infrastructure investments between 2003 and 2012.	Share of multinational corporations that have malicious traffic on their networks, according to a Cisco Systems, Inc. examination of threat intelligence trends.

POLICY RECOMMENDATIONS

Congress and the Administration should:

• Adopt policies that develop and maintain a world-class infrastructure for the United States, including by:
  – Providing consistent and reliable funding streams to support infrastructure projects that are key to economic growth and job creation; and
  – Enacting policies that better enable the private sector to invest in infrastructure projects that lead to long-term economic growth.
• Adopt policies to more effectively counter escalating cybersecurity threats, including by:
  – Providing tools to combat growing risks, including information about potential threats and strong legal and privacy protections for private sector information sharing participants;
  – Avoiding overly prescriptive regulatory solutions that are poorly matched to a rapidly evolving threat environment and the reality of privately owned and operated information assets; and
  – Integrating smart and agile cybersecurity policy into U.S. relations with other countries, including trade negotiations. Addressing cybersecurity and privacy concerns need not and should not result in restrictions on the flow of data across national borders that could fragment information systems and slow global innovation.

SMART REGULATION

Business Roundtable CEOs have consistently identified the cumulative burden of federal regulations as a major barrier to increased investment, growth and job creation. At the same time, well-conceived, science-based regulations are essential to protect human health and safety.

Business Roundtable supports smart regulatory policies that will ensure American businesses retain the capacity to operate and innovate, while promoting the health and welfare of employees, customers and communities.

6%	41st	48%
Share of major regulations issued by independent regulatory agencies that received full cost-benefit analysis between 2002 and 2013.	U.S. rank out of 189 countries in terms of ease of construction permitting.	Percentage of Americans who think there is "too much regulation," up from 28 percent in 2002.

POLICY RECOMMENDATIONS

Congress and the Administration should:

- Enact the Regulatory Accountability Act (RAA), which would modernize the 70-year-old Administrative Procedure Act. The RAA would require objective cost-benefit analyses for every major rule, including those issued by independent agencies.
- Provide greater certainty for business planning by requiring public transparency about all future regulations. The Administration's Regulatory Agenda should be updated in real time to provide this information.
- Require each agency to issue a notice of initiation for every new regulation and put this information online. This will ensure that regulatory agencies engage with stakeholders early, allowing greater public input before regulators draft a proposed rule.
- Streamline the federal permitting process for all major infrastructure projects, in accordance with the recommendations of the President's Council on Jobs and Competitiveness. Currently, delays in federal approvals keep many worthwhile projects in limbo, impairing business investment and risking job creation.

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PREPARED STATEMENT OF ROBERT E. HALL, PH.D., MCNEIL JOINT SENIOR FELLOW AND PROFESSOR, HOOVER INSTITUTION AND DEPARTMENT OF ECONOMICS, STANFORD UNIVERSITY

Chairman Hatch, Ranking Member Wyden, and Members of the Committee, I am pleased to appear before you today to discuss the state of the U.S. labor market. I am an economist with a long-standing research program on the labor market and the overall performance of the U.S. economy. I am a past president of the American Economic Association and a member of the National Academy of Sciences.

1. LOW EMPLOYMENT GROWTH DESPITE FALLING UNEMPLOYMENT

At 5.6 percent in December 2014, the U.S. unemployment rate is back to normal. But the number of people at work is well below its historical growth path. Between 2011 and 2014, unemployed fell by a heartening 2.7 percentage points. This three-year decline was the second largest in the history of the unemployment survey, exceeded only by a decline in 1951 during the Korean War. But employment rose by only 4.6 percent over those three years. Normal three-year employment growth during expansions with large declines in unemployment has been 7.1 percent. The U.S. has suffered a severe employment shortfall despite the excellent progress in bringing unemployment back to normal since the depths of the Great Recession.

Though the labor market is, overall, in normal conditions today, some imbalances remain from the financial crisis and deep recession. On the one hand, short-term unemployment—the fraction of the labor force who became unemployed within the past 6 weeks—is remarkably low. At 1.6 percent, it is lower than ever before recorded. This measure of unemployment was 1.7 percent in the strong labor market of 2007, just before the crisis, when the overall unemployment rate was a robust 4.6 percent, and was 1.8 percent in the even stronger labor market of 2000, when the unemployment rate was 4.0 percent. Another measure showing an exceptionally strong market is the average time taken by employers to fill jobs. Longer recruiting times indicate that the condition of the labor market is favorable to jobseekers and correspondingly more difficult for employers to match with those jobseekers. At 28 days, average duration is the same as in the strong market of 2007 and above the 26 days recorded in 2001, a year of low (4.8 percent) unemployment.

On the other hand, long-term unemployment, a legacy of the wave of deep job loss from the crisis, remains above normal. In 2014, workers still searching after 6 months of unemployment accounted for 2.1 percent of the labor force, down from a peak of double that level in 2010, but above the normal level of about one percent of the labor force. Fortunately, long-term unemployment is on a fairly steep downward path and should reach normal soon. Another indicator showing remaining slack in the labor market is the fraction of workers who would choose full-time work if available, but are now on part-time schedules. At 3.0 percent, it is above its normal level of about two percent. It too is declining and should reach normal soon.

Another indicator of that some economists bring into the diagnosis of labor-market conditions is the rate of increase of workers' pay. The Employment Cost Index of the Bureau of Labor Statistics is a comprehensive measure of pay, including fringe benefits, and incorporating adjustments for the changing composition of the workforce. Its recent rate of growth, in 2012 and 2013, has been just under two percent per year, below its average level from 2000 through 2011 of 3.1 percent. Because the rate of growth of the cost of living fell by about one percent per year over the same period, growth in real, inflation-adjusted wages has been close to constant. Declining rates of productivity improvement have also been a drag on wage growth. The role of labor-market conditions in determining wage growth appears to be fairly small—over the period of stable, low inflation starting in 1985, the ECI grew by 3.6 percent per year in years of below-average unemployment and by 3.1 percent per year in years of above-average unemployment. Most of the fluctuations in wage growth arise from other factors, including productivity growth.

My conclusion is that the U.S. labor market is back to normal in terms of unemployment, job-finding, and recruiting. The success of the our economy in repairing the damage in the labor market from the financial crisis is a tribute to the functioning of our market-based economy. U.S. success in restoring normal unemployment stands in sharp contrast to some major European economies, where unemployment remains high—in some cases, much higher than it ever reached here.

2. DISAPPOINTING EMPLOYMENT GROWTH

Many observers take the low rates of employment growth during the recovery from the Great Recession as a conclusive indicator of poor labor-market performance. My investigation suggests that the forces governing employment growth are more complicated. The starting point for the analysis is the simple observation that employment is the number of people desiring to work multiplied by the fraction of them who are working. Those desiring to work are called labor-force participants. They comprise the employed plus the unemployed. Thus unemployment is a central determinant of employment—if the number of participants is constant, employment fluctuates in the opposite direction from unemployment. On the other hand, if unemployment is constant, fluctuations in employment arise from fluctuations in the number of participants. With growth in the working-age population, it is customary to state these relationships in terms of the employment/population ratio, the labor-force participation rate (participants/population), and the unemployment rate (unemployment/participants).

Thus the key to understanding the puzzlingly low growth of employment during the recovery from the Great Recession is the decline in the labor-force participation rate. Figure 1 shows the history of the rate for years since 1990. The working-or-searching fraction of the working-age population rose gradually during the 1990s, began to decline in 2000, flattened for a few years, then began falling dramatically starting in 2009.

In the years immediately after 2009, the decline was generally interpreted as a response to the high unemployment of the Great Recession. In early recessions, small declines in participation occurred. But that interpretation is not tenable today, because the recovery of unemployment resulted in no recovery in participation. Rather participation fell by about the same amount per year while unemployment was rising, in 2009 and 2010, as when it was falling, in 2011 through 2014. The evidence points unambiguously toward other forces, in addition to poor availability of jobs prior to 2014.

The changing composition of the working-age population is one candidate to explain the decline in participation—the entry of the baby-boom generation to years of possible retirement decreased the participation rate. But another demographic trend, toward higher education, had the opposite composition effect, and the net effect of demographic change is essentially zero, according to research by Robert Shimer at the University of Chicago.

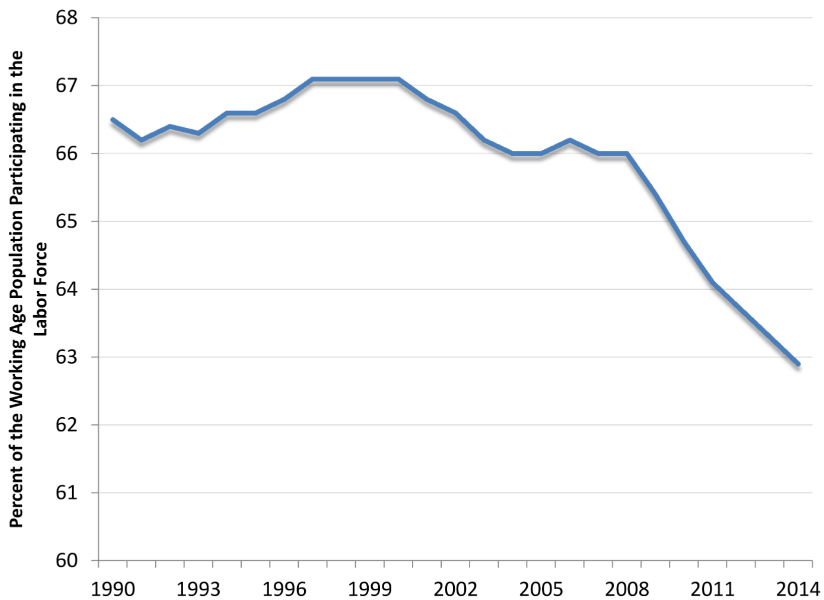

Figure 1: Labor-Force Participation Rate, 1990-2014

Economists have pointed to the increasing role of the social safety net in the labor market over the years since the crisis as a source of declining participation. A bulge in the number of individuals receiving disability benefits is one aspect of this trend. The social security disability program discontinues support for claimants who start working, so those receiving benefits face a strong disincentive to join the labor force. A much larger bulge in the fraction of families receiving food-stamp benefits is a similar source of disincentive. Both bulges have failed to dissipate despite the recovery of normal job availability.

Professor Nicolas Petrosky-Nadeau of Carnegie-Mellon University (currently on leave at the Federal Reserve Bank of San Francisco) and I have launched a research project aimed at understanding the forces leading to the decline in overall labor-force participation rate and variations around that rate in segments of the labor force. This testimony and the attached brief report are early results of the project.

Table 1 shows the change in participation from the years of high participation, 1998–1999, to recent years, 2011–2013, broken down by age, sex, and two categories of household income (above or below the median). Income includes all cash earnings plus all cash benefit receipts. Teenagers had huge declines in participation in all four groups: men in lower and higher income households and women in those households. In most cases, the teenagers are not the major contributor to income. The most telling finding for teenagers is that for both men and women, the decline in participation was greater in the more prosperous families.

Table 1: Changes in Labor-Force Participation Rates by Age, Sex, and Family Income, From 1998–2000 to 2011–2013

	Men		*Women*	
	Lower half	*Upper half*	*Lower half*	*Upper half*
Teenagers	−7.1	−15.6	−8.8	−15.9
20 to 34	−4.4	−4.7	−1.9	−3.8
35 to 59	1.4	−1.7	0.4	−0.9
60+	4.7	2.8	3.9	8.9

Young adults, those aged 20 through 34, also had declines in all four groups, with about equal declines in the two income groups for men and larger declines for women in the more prosperous families. In the group containing the highest earners, those aged 35 through 59, participation remained about the same, with small increases in lower-income families and slight decreases in higher-income ones. Among people of retirement age, 60 and above, men had moderate increases in participation, larger in lower-income families, while women had quite a large increase in participation in higher-income families and a moderate increase in lower-income families.

The table makes it clear that a single force, such as low availability of work, is an unlikely candidate to explain the changes that occurred in participation. Rather, the changes seem likely to be different for people in different situations. Most of the decline in participation occurred among teenagers and young adults. The finding that these effects tend to be larger in more prosperous families points strongly away from much of a role for rising influence of benefit programs, because these programs, especially food stamps, are only available to families with incomes well below the median.

Some indication about the changing balance between work and other uses of time comes from the American Time Use Survey, which began in 2003. Table 2 shows the change in weekly hours between 2003 and 2013 in a variety of activities. For men, the biggest change by far is the decline of 2.5 hours per week at work, a big drop relative to a normal 40-hour work week. A small part of the decline is attributable to higher unemployment—the unemployment rate was 6.0 percent in 2003 and 7.4 percent in 2013. The decline for women is much smaller, at 0.8 hours per week. For both sexes, the big increases were in personal care (including sleep) and leisure (mainly video-related activities). Essentially no change occurred in time spent in education. Women cut time spent on housework.

Table 2: Changes in Weekly Hours of Time Use, 2003 to 2013, People 15 and Older

	Personal care	*Household work*	*Market work*	*Education*	*Leisure*	*Other*
Men	1.3	0.1	−2.5	0.2	1.3	−0.4
Women	1.6	−0.7	−0.8	−0.1	0.8	−0.8

3. CONCLUSIONS

The return to essentially normal unemployment conditions is an important milestone for the U.S. labor market. The period of abnormal difficulty for new job-seekers is over, and the legacy of long-duration unemployment appears likely to work itself out soon. In that respect, the labor market is performing well, especially in comparison to the markets of many other countries. No special policies related to unemployment and job-finding are indicated at present.

The decline in labor-force participation is one of the factors contributing to the stagnation of the earnings of American families, especially those not enjoying the rising wages of the highly educated. But a study of the data on the decline does not suggest the desirability of policy changes focusing on reversing the decline. In particular, the data do not seem to support the view that the social safety net is discouraging participation—participation by those in low-income families has generally risen, not fallen. That said, the case for structural reform of some parts of the safety net, notably disability programs, remains strong, because reform promises payoffs apart from stimulating participation.

Changes in US Household Labor-Force Participation by Household Income*

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The fraction of the working age population in the U.S. working or looking for work—the participation rate—decreased steadily from a high of 67 percent in the late 1990s to 64 percent in 2013. But the overall trend masks important differences in labor supply behavior across households of varying levels of income. The Survey of Income and Program Participation (SIPP) reveals that individuals living in the poorest households have bucked the trend—their participation in the labor market rose over the same period.

Administered by the Census Bureau since 1983, the SIPP is a panel survey intended to provide comprehensive information on the income and program participation dynamics of individuals and households in the United States. The sample is selected to be representative of the civilian non-institutional population age 15 and over, and the survey collects detailed information on respondents' labor force activities, cash and in-kind income, wealth, and participation in government programs, as well as a wide range of demographic data.

The federal government created the SIPP to remedy shortcomings in the existing survey data on household incomes and benefit-program dependence. Prior to the SIPP, the primary source of such data was the March Income Supplement to the Current Population Survey (CPS), administered by the Bureau of Labor Statistics. Among the major limitations of the March Supplement data was its reliance on respondents' ability to recall their income accurately over the prior year and its reliance on a single observation for each household, which prevented most analysis of the evolution of individuals' and households' income and program participation over time. The SIPP's design addressed these shortcomings by interviewing respondents every four months over the course of several years. The SIPP User's Guide (2001) provides additional information on the history and method of the survey.

Figure 1 shows the participation rates of individuals 16 and older broken down by the total income of the household in which they live. Incomes are stated as ranges of percentiles, starting with the bottom 10 percent of the income distribution and ending with the top 10 percent. The data run from February 1996 through April 2013. In the latter period, the 10th-percentile group has incomes less then $935 per month. The next cut off, $1,740 per month, encompasses the lower quarter of U.S. household in terms of total income. The median household income is $ 3,360 per month, while the cut offs for the 75th and 90th percentiles are, respectively, $5,920 and $9,215 per month.

*This note is an early report on a research project on labor-force participation. Visit the authors' websites for updates. Opinions here are those of the authors and not the Federal Reserve Bank of San Francisco. We thank Canyon Bosler of the bank for excellent research assistance.

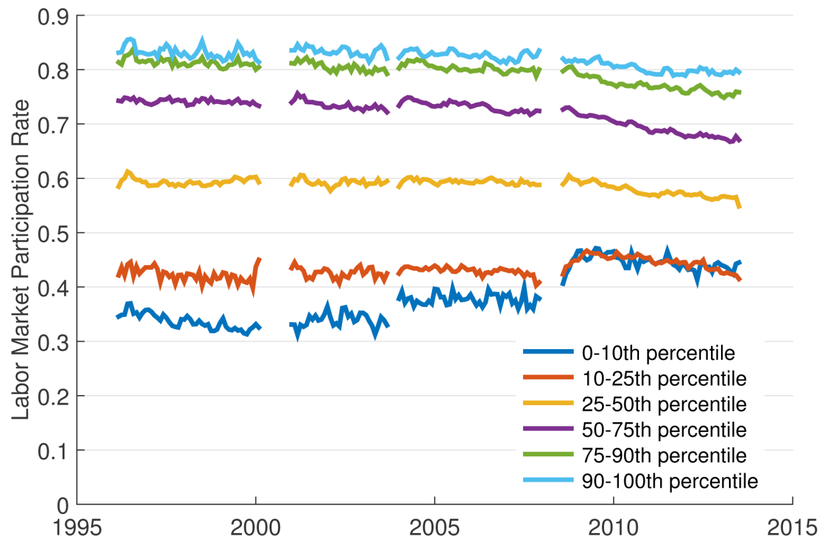


Figure 1: Labor market participation rates across the household income distribution. Author's calcultations based on SIPP data.

The period we call 1998–1999 runs from December 1997 through November 1999 and the one we call 2011–2013 runs from May 2011 through April 2013. We chose these periods to avoid the times when one cohort of respondents is leaving the SIPP and another joining. In the bottom 10 percent of households by household income, 33 percent of individuals participated in the labor market in 1998–1999. By 2011–2013 this proportion was 44 percent. At the other end of the household income distribution, the rate of labor market participation fell from 81 to 76 percent. The largest decline was for individuals living in households in the third quartile of the household income distribution, where the participation rate fell from 74 percent to 68 percent. The total decline in participation between the two periods was quite similar in the SIPP and the CPS. The CPS does not collect data on household income comparable to the data collected in the SIPP.

There is variation by age and sex in these trends. Table 1 reports the percentage point change in labor market participation rates for women and men of different age groups, and living in households in different quartiles of the household income distribution. Several striking feature appear in the table. First, the overall pronounced decline in participation of teenagers, from 46 to 33 percent, is concentrated in households in the upper half of the income distribution. Teenagers living in the 25 percent of households with the highest incomes had a 16 percentage-point decline in participation, compared to a 5 percentage-point decline for teenagers in the lowest quartile. Second, men and women aged 35 to 65 in the lowest income quartile increased participation substantially, by 8 percentage points for men between the ages of 35 and 50 and 11 percent for men in between the ages of 50 to 65. Third, the decline in labor market participation of prime aged workers is concentrated in household in the upper half of the income distribution. Finally, the overall increase in participation of individuals 65 years of age and over, from 13.7 percent to 18.2 percent, is mostly attributable to the increased participation of individuals in the highest household income quartile.

Table 1: Change in Labor Market Participation Rates: Age, Sex, and Household Income

Quartile	1st		2nd		3rd		4th	
	men	women	men	women	men	women	men	women
Teenagers	−3.3	−7.1	−9.6	−10.4	−13.5	−15.6	−16.9	−16.2
20 to 35	−2.0	1.5	−5.3	−4.1	−5.6	−5.9	−3.9	−2.0
35 to 50	8.1	1.2	−0.2	−2.3	−1.5	−1.7	−1.0	−2.1
50 to 65	11.3	6.9	4.7	3.6	−0.4	3.3	−2.5	1.8
65 and over	3.0	1.4	−0.8	1.9	−0.2	4.4	6.2	8.7

Notes: Authors' calculations based on the SIPP. Each entry reports the difference in labor market participation rates between the average from December 1997 to November 1999, and the average from May 2011 to April 2013. The average cutoff for the ''2011–2013'' period for the first quartile is $1,740 per month, for the second $ 3,360 per month, and third $5,920 per month.

References

Bureau, C. (2001). *Survey of Income and Program Participation User's Guide* (Third ed.). Rockville: Census Bureau.

Data

Household total income

The SIPP collects a total household income variable and eleven variables tracking different types of income at the household level. The eleven variables cover social security (*thsocsec*), supplemental security (*thssi*), unemployment compensation (*thunemp*), veterans' payments (*thvets*), food stamps (*thfdstp*), earned income (*thearn*), means-tested cash transfers (*thtrninc*), property income (*thprpinc*), public assistance (*thafdc*), noncash/in-kind income (*thnoncsh*), and "other" income (*thothinc*). Total household income is the sum of the household-level earned, property, means-tested transfers, and "other" income variables.

Labor market status

Unlike the CPS, the SIPP constructs a comprehensive, week-by-week labor force history for all respondents, recorded on a weekly basis in the five variables *rwkesr1-rwkesr5,* with five different classifications:

(1) with job—working,

(2) with job—not on layoff, absent without pay,

(3) with job—on layoff, absent without pay,

(4) no job—looking for work or on layoff,

(5) no job—not looking for work and not on layoff.

This labor force history allow us to construct a CPS-style labor force classification for individuals in the SIPP. To do so, we classify someone as employed in a given month if their SIPP labor force status was 1 or 2 in the CPS reference week. For those whose SIPP status in the reference week was not 1 or 2 in the CPS reference week, we look at their status in the CPS reference week and the preceding three weeks. If during any of those weeks their SIPP labor force status was 3 or 4, they are classified as unemployed. If their SIPP labor force status was 5 for all four weeks, they are classified as not in the labor force.

PREPARED STATEMENT OF HON. ORRIN G. HATCH, A U.S. SENATOR FROM UTAH, CHAIRMAN, COMMITTEE ON FINANCE

WASHINGTON—U.S. Senator Orrin Hatch (R–Utah), Chairman of the Senate Finance Committee, today delivered the following opening statement at a committee hearing on jobs and a healthy economy:

Welcome everyone to the first hearing of the Senate Finance Committee in the 114th Congress. It is appropriately titled "Jobs and a Healthy Economy."

Despite the numerous differences and disagreements that exist here in Washington, I believe that—regardless of our party affiliation—we can all agree that job creation and a strong, vibrant economy are good things.

The Senate Finance Committee has a long tradition of effectiveness and bipartisanship. Given the size and scope of our jurisdiction, that's only appropriate.

One of my main goals, as the new chairman of the committee, is to continue that tradition, to allow the committee to function and produce results as it has so many times in the past.

That is why I chose this topic for our first hearing.

Today, I hope we can have a discussion that will help us find consensus on these challenges, rather than highlighting our differences. I will be sorely disappointed if it devolves into yet another back and forth with each side trying to score political points rather than seeking solutions to the problems ailing our economy.

The Finance Committee is uniquely equipped to address the challenges related to jobs and the economy. Indeed, our jurisdiction places us on the front lines of the most important debates we'll have in this effort.

For example, we have jurisdiction over our nation's tax code.

There is bipartisan agreement on the need to fix our tax system to help hardworking taxpayers and allow businesses to grow, compete, and create more jobs. Our current tax code creates numerous unnecessary roadblocks that stand between us and sustained economic prosperity.

For these reasons, I have made tax reform my highest legislative priority for this Congress.

Over the past few years, I have been working to make the case for tax reform on the Senate floor, in public appearances, in written work, and in private conversations. I'm going to continue to do so.

Recently, Ranking Member Wyden and I set forth the first steps for tax reform in the 114th Congress. We created five working groups, all assigned to study different areas of tax reform and come up with proposals that we will then use as we work on bipartisan tax reform legislation.

We have a number of great Senators on this committee who are just as committed to tax reform. I look forward to seeing the results of their work. We need to get this done. I'd like to ask each of the witnesses on our panel to use at least some of their time during their opening statements to give us specific ideas on how we can improve our nation's tax code.

Another area of the committee's jurisdiction that is essential to job growth and a healthy economy is international trade.

The United States has a long tradition of breaking down barriers and providing access for American goods and services in foreign markets. This has been great for our economy and must continue into the future.

Ninety-five percent of the world's population and 80 percent of its purchasing power reside outside of the U.S. For our job creators to compete on the world stage, we must ensure that they have greater access to this ever-growing customer base.

Toward that end, Congress needs to renew Trade Promotion Authority (TPA) in short order. This is also something that we need to get done. I am engaged with Senator Wyden to find a path on TPA that will provide the best opportunities for TPA to succeed. I hope we will be able to complete our work soon.

The Obama Administration is currently engaged in some of the most ambitious trade negotiations in our nation's history. The ONLY way for Congress to effectively assert its role in these negotiations and the ONLY way to get trade agreements that reflect the highest standards is through TPA.

I'd like to ask each of the witnesses on our panel whether they think trade is important to the expansion of economic opportunities and the development of a healthy economy and to include their answer in their opening statements.

The Finance Committee's jurisdiction expands beyond tax and trade into other areas that impact jobs and the economy and economic security of American households.

We have growing health care costs that continue to put strains on employers and hardworking taxpayers.

And, we have a growing entitlement crisis that threatens to swallow up our government and take our economy down with it.

All of these issues impact jobs and the economy. And all of them are important.

I hope we can have a robust conversation today on what the committee and Congress can do to address these important issues. Like I said earlier, I also hope that we can avoid having a partisan back and forth that yields no productive answers or discussion.

Of course, that doesn't mean critiques of any policy or proposal should be considered out of bounds. Nor does it mean that we shouldn't have a spirited debate on the issues. But, I do hope that, whatever questions we ask or statements we make, we will stay focused on gaining a better understanding and on the goal of creating jobs and promoting a healthy economy.

I'd like to take a moment now to recognize that we have some new members of the committee: Senators Heller, Coats, and Scott. I want to once again welcome them to the Finance Committee and say that I look forward to their participation in this hearing and others in the future. I have no doubt that each of their contributions will be valuable to our efforts.

Finally, I also want to note that, at any point during the hearing that we have a quorum present, I plan to move to Executive Session to formally organize the committee, which will include some routine matters, such as organizing subcommittees and formalizing a specific change to the committee rules.

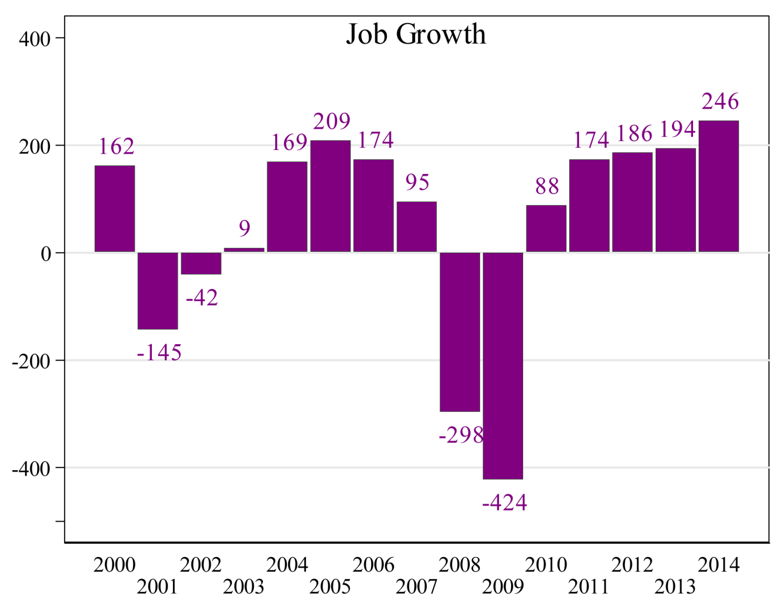
With that, I'll turn it over to Ranking Member Wyden for his opening statement.

PREPARED STATEMENT OF JUSTIN WOLFERS, PH.D., FELLOW, PETERSON INSTITUTE FOR INTERNATIONAL ECONOMICS, AND PROFESSOR OF ECONOMICS AND PUBLIC POLICY, UNIVERSITY OF MICHIGAN

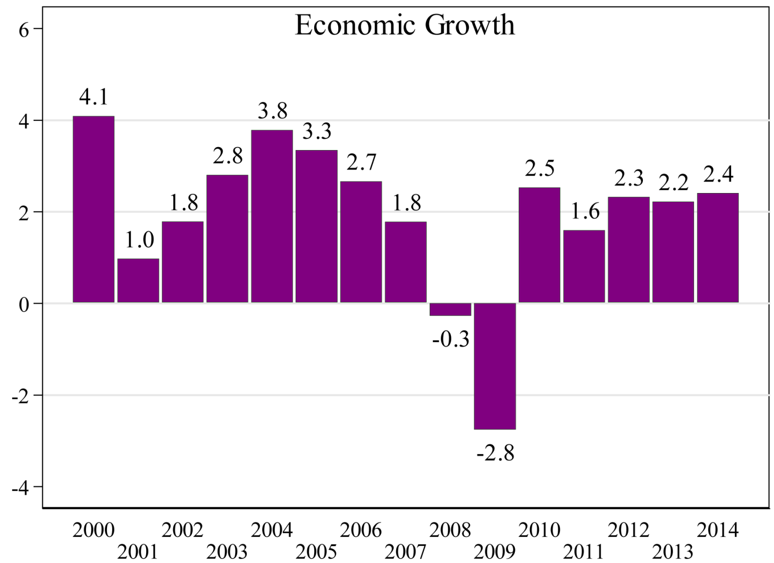
Chairman Hatch, Ranking Member Wyden, and Members of the Committee, thank you for inviting me to speak with you today on the important issues of job creation and a healthy economy. Before continuing, let me add the obvious disclaimer that I am only speaking for myself.

AN IMPROVING ECONOMY

From a macroeconomic perspective, the labor market recovery is robust. In 2014, non-farm payrolls grew by an average of 246,000 jobs per month, the fastest rate not only through this recovery, but also the fastest rate since 1999.

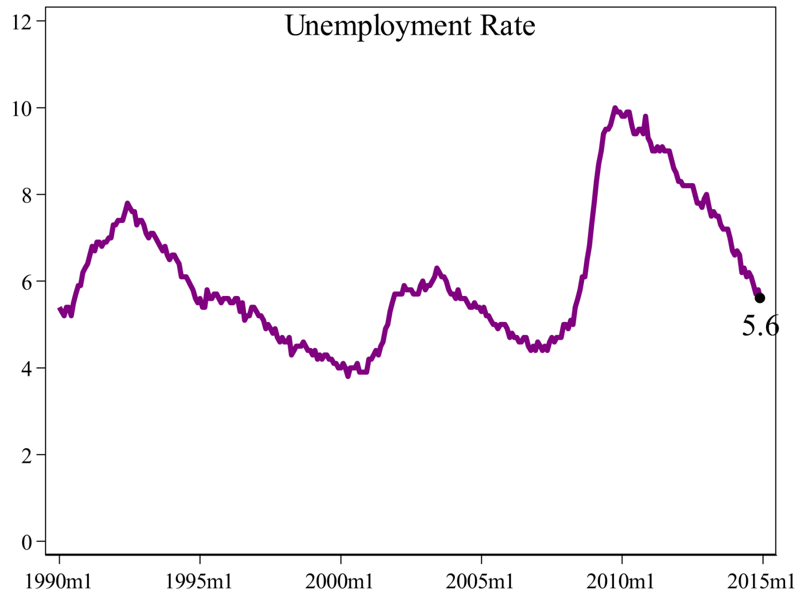


It finally appears that the recovery has developed reliable momentum. Aggregate GDP statistics also bear this out, although they suggest that rates of economic growth through the recovery are better described as moderate—typically in the 2–2½ percent range. The juxtaposition of moderate GDP growth and robust employment growth reflects the fact that productivity growth has been a bit slow through the recovery.



* 2014 is a projection

Even so, robust job growth has led the unemployment rate to fall from nearly 10 percent through most of 2010, to 5.6 percent at the end of 2014. This means that over the past four years, the unemployment rate has fallen by about one percentage points per year, a rate far faster than most economists had envisioned and faster than has historically been typical for an economic recovery.

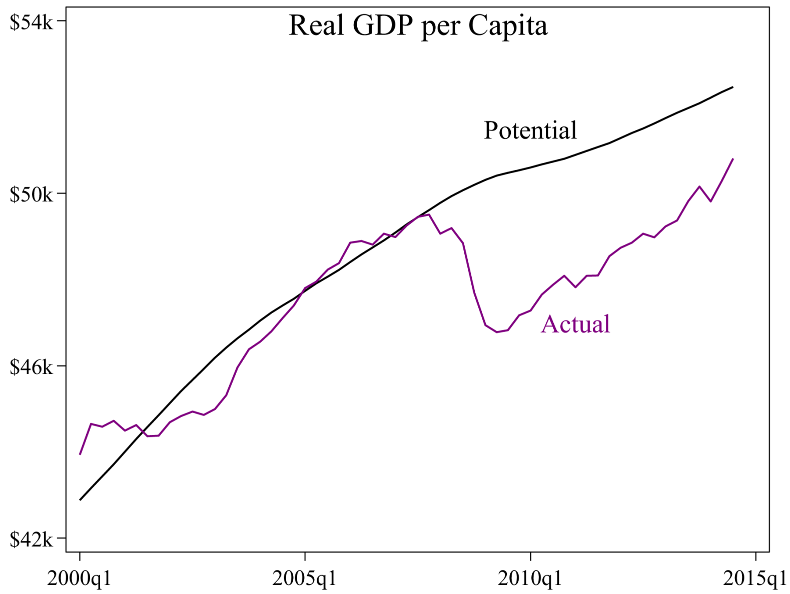


If unemployment continues on its current trajectory, unemployment will have fallen to around 5 percent by the middle of this year, which is a rate that many economists consider to be "normal."

UNFINISHED BUSINESS

As much as there is good news about the direction and rate of *change* of our broad macroeconomic aggregates, we should not confuse this with the fact that the *level* of activity remains below potential. The economy is *improving,* but it is not yet doing *well.*

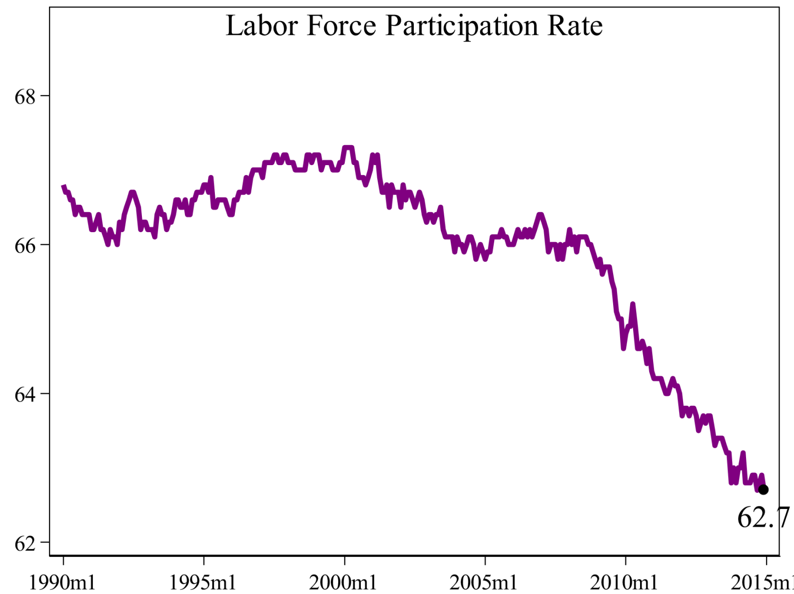
For instance, the level of output remains substantially below the economy's long-run potential.



And while the current level of unemployment at 5.6 percent is far better than it was a few years ago, this is not the sort of outcome that has historically been regarded as cause for celebration. Indeed, today's 5.6 percent unemployment rate is roughly the same as its average throughout the post-war period (5.8 percent).

Even as unemployment has fallen toward the sorts of levels that many economists regard as effectively being "full employment," I would caution against declaring "Mission Accomplished" too early. While unemployment has fallen sharply, the proportion of the population with a job—which is sometimes called the employment-to-population ratio—has not risen much at all.

Should we feel buoyed by the almost-complete recovery in the unemployment rate, or depressed by the minimal recovery in the employment-to-population ratio? Mechanically, the different patterns shown by these two indicators reflect a decline in the labor force participation. In turn, this suggests that the extent to which you consider the recovery unfinished business depends on the extent to which those who left the labor force in recent years would be willing to work if sufficient opportunities for meaningful work were available.



The decline in labor force participation since 2000—and its steepening decline since 2008—is rather remarkable, coming as it does after decades of a rising participation. That rising participation had reflected the entry of women into the workforce, a phenomena which slowed in the 2000s and will likely require policy action such as adopting paid parental leave and other family-friendly policies in order to see further large gains.

The more recent decline in participation reflects both cyclical and structural factors. Most economists agree that at least half of the decline in labor force participation since 2007 is due to population aging, and this has become a particularly important force as the leading edge of the Baby Boom cohort hit age 62 in 2008. This is just the beginning of a longer-run demographic shift that will continue to push the participation rate down over the next fifteen years as the rest of the Baby Boomers enter prime retirement age.

While demographics explains half of the decline in participation, the factors responsible for the other half remains unclear, as this remains a contested issue, and there is no shortage of economists with their own preferred explanations.

It remains possible that much of this may reflect the ongoing effects of the recent recession which led many discouraged workers to simply stop looking for a job. If this interpretation is correct, then today's depressed labor force participation rate disguises a "reserve army" of unemployed, who will return to the workforce when jobs become plentiful. By this view, the recovery still has a long way to run, and policy should be focused on ensuring that the recovery is long and strong enough to get these folks back to work.

The view that today's low participation rates partly reflect hidden unemployment is consistent with my own preferred interpretation, which is based on the evidence that that cyclical downturns continue to depress labor force participation for several years after the ensuing recovery. By this view, today's weak participation partly reflects the weak economy two, three, four or even five years ago. If this view is correct—and there is evidence from state business cycles to support it—then we are still some distance from full employment, and an ongoing economic recovery will lead participation rates to rise moderately over the next year or two.

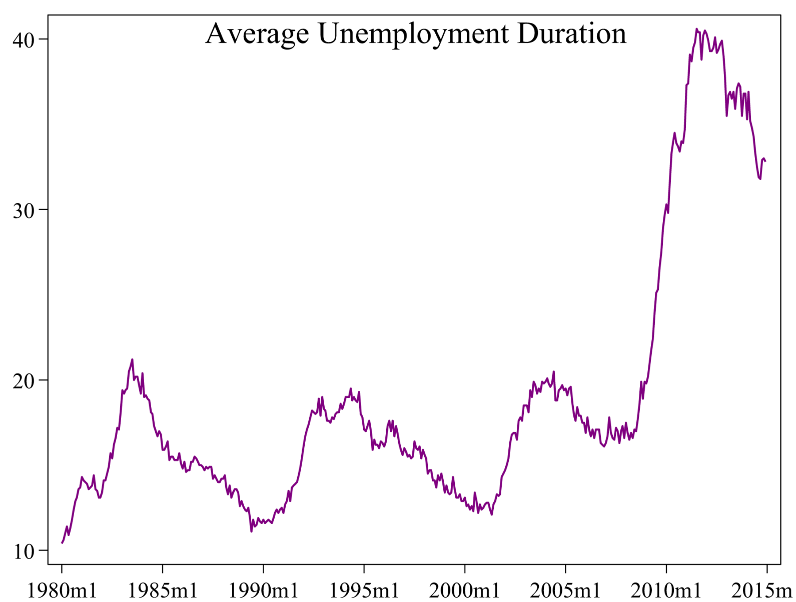
Beyond this specific view, the more important point is that the understanding of economists about what constitutes full employment remains quite imprecise, and there is substantial uncertainty about how much farther this recovery can continue without igniting inflationary pressures. If the recovery continues, we may end up learning that the economy can sustain not only higher labor force participation, but also an unemployment rate of four-point-something percent, rather than five-point-something. Certainly, the 1990s suggests that this may be achievable. If there is uncertainty about what the economy can achieve, policy should err on the side of exploring whether better outcomes are possible.

Let me now shift my focus from the relative short run, and move to raising some longer-run issues.

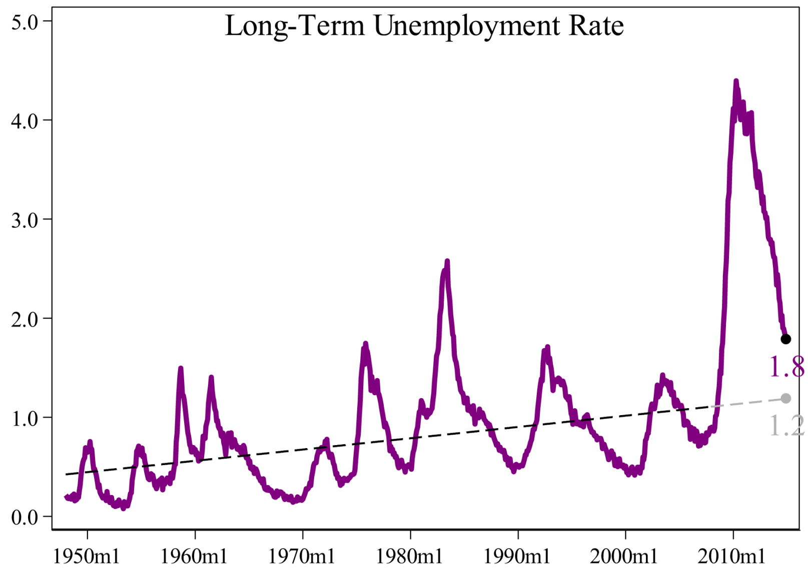
LONG-TERM UNEMPLOYMENT

Historically, the United States had a highly fluid labor market, in which millions of people were hired and fired each month. The result was that losing your job was not a catastrophe, as there were plenty of new opportunities. Accordingly, so a typical spell of unemployment would only last a matter of weeks, before a motivated worker could find another job. In turn, this meant that the burden of unemployment on any individual was not too great, as even a five percent unemployment rate meant that many people were each spending just a few weeks or months unemployed.

Yet following the Great Recession, the burden of unemployment became a lot more concentrated, as the average duration of unemployment rose sharply. Today we measure unemployment spells in months or years, rather than in weeks. Instead of many people sharing the burden of short unemployment spells, today's unemployment is due to far fewer people each bearing the burden of many months or years of unemployment. Beyond the strains on their own lives, this may also have long-term macroeconomic consequences, as a long spell of unemployment leads people to lose skills, connections and hope, leading to the possibility that there will be a group that may never work again—at least without intensive assistance. This raises the likelihood that a complete recovery from this recession will require much more intensive job assistance in order to help the very long-term unemployed return to work.



The good news is that much of the rise in long-term unemployment (defined as having been jobless for at least six months) has declined as the recovery has progressed. But beyond the business cycle ups and downs, there has been a slow-moving trend over many decades toward rising levels of long-term unemployment. Even if current rates of long-term unemployment return to their pre-recession trend, it will still comprise 1.2 percent of the labor force.



Dashed line shows pre-recession trend.

Given that widespread long-term unemployment is so new, it is little surprise that our labor market and training programs are not well-adapted to dealing with this issue.

Following the financial crisis, Congress passed Emergency Unemployment Compensation, extending the number of weeks for which jobless workers could claim unemployment insurance. Subsequent research has shown that this actually helped the long-term unemployed remain in the labor force and supported their job search.

Congress should consider making this process of extending benefits automatic for future downturns of sufficient severity. Such a move would both remove the need for specific congressional action (which often comes with a lag), and a well-crafted formula would also offer Congress the assurance that such extensions would disappear when business cycle conditions returned to normal.

Indeed, let me expand on this theme a bit, by raising the possibility of using such automatic stabilizers more aggressively.

PREVENTING FUTURE RECESSIONS AND AN INCREASING ROLE FOR AUTOMATIC STABILIZERS

The most recent recession has highlighted an important shortcoming in relying on the Federal Reserve to manage the business cycle: When interest rates hit zero, there is limited scope for further monetary action to stimulate the economy. Indeed, we now understand that in a low inflation environment, it is very difficult for the Fed to engineer the sorts of sufficiently low real interest rates that may be required to offset adverse economic shocks.

This suggests that it may be important to build more automatic stabilizers into our economy. We already have some automatic stabilizers built in, such as a progressive tax system, which means that when income falls, so too will tax rates. Likewise, some federal programs, like the Unemployment Insurance Extended Benefits provide needed income that lead to increased spending during periods of high unemployment.

This idea of building in a counter-cyclical spending pattern is one which Congress could expand substantially, building formulae into an array of federal programs that would raise spending during periods of slow economic activity, and lower spending during periods of stronger activity. I have already raised the idea that the Emergency Unemployment Compensation program could be put in place so that it is automatically triggered whenever long-term unemployment rises again in the future. But the idea is far more broadly applicable, and similar triggers could be built into programs ranging from federal highway and infrastructure spending, to Pell grants, to making block grants to states for TANF responsive to economic conditions.

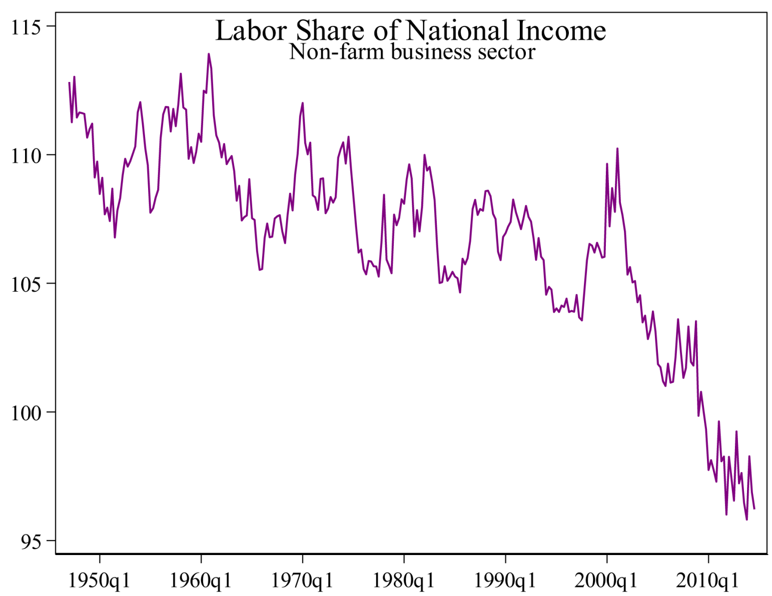
Not only would the automaticity of these mechanisms minimize the legislative lags that often undermine fiscal stimulus, but they would increase spending precisely when the value of that spending was highest and curtail spending as the value falls. And the use of formulae would allow the debate about how best to respond to cyclical changes to be divorced from the very different debate about how much should be spent on each of these programs.

Automatic stabilizers also have important benefits beyond the role they play in taming the business cycle. By concentrating federal spending during periods when the economy is weak, the federal government will be hiring precisely when there is the greatest amount most slack resources, meaning that it competes less with the private sector for scarce resources. The result is that federal spending would be targeted for those times when the cost of hiring workers is lowest.

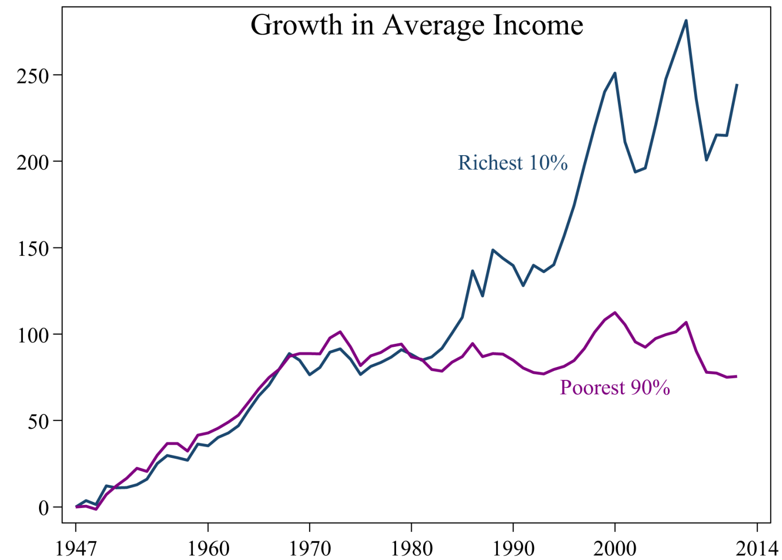
RISING INEQUALITY AND THE ROLE OF THE TAX SYSTEM

For much of U.S. history, the presumption was that economic growth would deliver rising well-being for a broad swathe of the population. Yet two important trends have undermined that view.

First, real wages have not risen by much, even as productivity continues to grow. The result is that labor's share of national income—the proportion of our economic pie that goes to workers in the form of wages—has declined sharply over recent decades, suggesting that firm owners, rather than workers, are enjoying the fruits of economic growth.



And second, beyond the shift in the functional distribution of income between labor and capital, there has been a sharp rise in overall income inequality, even within labor or capital earnings. As the following chart shows, economic growth raised incomes in roughly equal measure for both rich and non-rich from 1947 through to 1979. But since 1980, economic growth has delivered large average rises in income for the top 10 percent (and much of that was concentrated in the top 1 percent), but it has yielded very little for the remaining 90 percent.

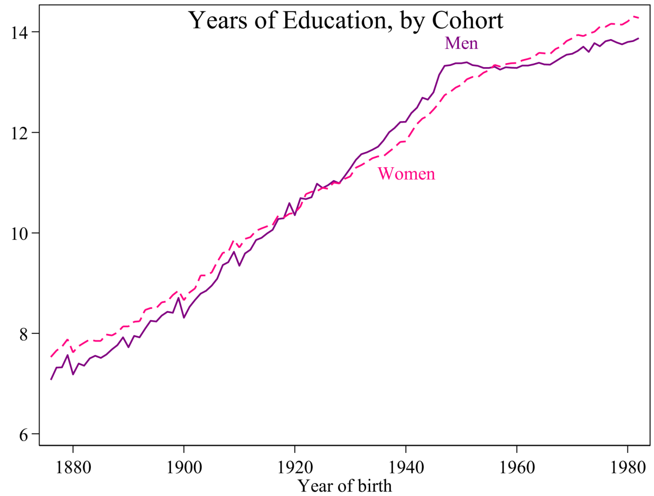


Source: Emmanuel Saez

If these are the outcomes that our current market system is delivering, it suggests a potential role for the tax system in ensuring that the fruits of economic growth are more broadly shared. While the two major political parties are locked in a debate about the optimal size of government, and how large aggregate tax collections should be, this raises a conceptually distinct question, which is how best to distribute that tax burden. This is a debate that can occur even without shifting the overall tax burden. Higher taxes on the few who have enjoyed unusually strong returns, if it leads to lower taxes on many other workers, may even enhance overall incentives for productive activity, while also reducing inequality.

INVESTING IN EDUCATION

For much of the past century, economic growth and opportunity in the United States have been supported by rising levels of education. Typically, each generation of Americans got around two more years of education than their parents. Yet in the past few decades, this trend has slowed dramatically, and virtually halted for men. Indeed, the current crop of 30-year old men are barely more educated than their parents were.



The "high school movement" in the early twentieth century led to a substantial expansion of secondary education. And while I recognize that these issues lie largely outside the committee's jurisdiction, I think it nonetheless important to make the case that now is the time for a broader "college movement," which makes both two-year and four-year colleges more widely available.

The President's proposal to expand access to community college seems like a natural first step in this agenda. But this is an agenda that would also benefit from four complementary reforms. First, college readiness remains an important barrier for many students, and an emerging body of evidence suggests that the roots of these gaps arise in early childhood. This suggests that investments in pre-K education may help also yield better long-run outcomes. Second, while there are some excellent tertiary institutions, far too many of them—and far too many in the community college sector—yield low-quality education, and result only in students dropping out from colleges. The sector needs to be reformed, with an emphasis on raising the quality of community college education, providing more support for struggling students, and the federal government should stop funding under-performing tertiary institutions. Third, a variety of innovative education programs have shown that even very small low-cost nudges—such as help in navigating FASFA, a text message to remind you of your deadlines, a personalized letter letting you know that a high-quality college education may actually be affordable given the array of funding opportunities available—can have very large effects. Successful programs should be scaled up, and federal grants should be made for ongoing innovation in simplifying the college application process, and making the relatively low cost of college substantially more transparent. And fourth, the expensive big-ticket items, like the Hope Tax Credit, the Credit for Lifelong Learning, and the American Opportunity Tax Credit, are potentially useful, but should be tightly tailored to families most in need, both because that is where the college attendance gap is the largest, and also because this is where extra federal dollars are most likely to have their largest affect. Moreover, these credits are most likely to be effective if coupled with the sorts of information campaigns and nudges I just mentioned.

Labor markets and a healthy economy are of paramount importance to the health, happiness and well-being of all Americans, and I appreciate the opportunity to share my assessment with you today.

PREPARED STATEMENT OF HON. RON WYDEN, A U.S. SENATOR FROM OREGON

Thank you, Mr. Chairman. On behalf of all of us on this side of the dais, I want to join in welcoming the new members of our committee, Senators Coats, Heller, and

Scott. In particular, I have spent a lot of time working on tax reform with Senator Coats, and I hope to build on that work.

Senator Hatch knows that the best legislation is bipartisan legislation, and his record of accomplishment reflects that understanding. We are grateful for his extraordinary service to the Senate and the people he represents, and we look forward to working under Chairman Hatch's leadership and with all of our Republican colleagues.

Now on to the matter at hand.

Seven years after the economic collapse shook the American economy to its core, our recovery has improved from a crawl to a walk. Too many middle-class Americans—pounded by decades of flat wages—are still struggling to make progress. Here's my bottom line: When working families see bigger paychecks, America's economic recovery will go from a walk to a run.

Over the last few weeks, I've spent a lot of time talking with workers and businesses in Oregon about the challenges they're facing seven years after the start of the Great Recession. Just this weekend, I held town halls in Klamath, Josephine and Lincoln counties. And to me, it's clear as day that there are still a lot of Oregonians waiting for the economic recovery to kick in for them.

For Oregon's middle class, moving the recovery from a walk to a run comes down to the five T's. Tech jobs, tax reform, trade done right, transportation and timber. Every senator on this committee could tick through a similar list for his or her own state, and without question, there would be a lot of overlap.

There are lessons to learn from our own history as policymakers work to strengthen the foundations of the American economy. Seventy years ago, after winning World War Two and making the long, slow climb out of the Great Depression, the United States took bold, new steps to build a thriving middle class.

Congress came together and expanded access to education. It connected every corner of the nation—from Portland, Oregon to Portland, Maine, from Los Angeles to Miami—with the world's best infrastructure. Over time, it reformed the tax system to better fit the day's economy, and it found opportunities in markets abroad for American manufacturers to seize.

Those policies helped power an economic boom that grew working Americans' paychecks for decades. Year after year, people felt confident that their children's generations would do better than their own.

True economic recovery today will restore that confidence. It will mean more jobs with a clear ladder to the middle class—jobs in which workers can support their families, build their savings, and send their children to college—jobs that don't leave families stretching every paycheck, month after month.

So in my view, there's one question for us to ask ourselves with every bill we introduce and every vote we take in Congress: "How will this grow the American worker's paycheck?"

As this committee comes together to overhaul the tax code, we have to ask, "How will this grow the paycheck?"

As this committee takes on America's infrastructure crisis, we have to ask, "How will this grow the paycheck?"

As this committee works on getting more students in the door to college, we have to ask, "How will this grow the paycheck?"

And as this committee finds ways to make American businesses more competitive and successful in a cutthroat global economy, we have to ask, "How will this grow the paycheck?"

The Finance Committee will have a starring role in many of the policy debates Congress is expected to tackle over the coming months and years—perhaps more than any other committee on Capitol Hill. So there will be many opportunities for us to come together on a bipartisan basis to ensure that working Americans are sharing in the recovery and getting bigger paychecks.

I know I speak for the Democrats on the committee in saying that we look forward to working together to accomplish this goal.

COMMUNICATIONS

Statement for the record on behalf of: Coalition for GSP

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Washington, DC 20036
202–347–1085

The Coalition for GSP welcomes the opportunity to submit the following statement for the "Jobs and a Healthy Economy" hearing record.

The Coalition for GSP is a group of American companies and trade associations organized to educate policy makers and others about the important benefits to American companies, workers, and consumers of the Generalized System of Preferences (GSP) program. Its members range from small, family-owned businesses to Fortune 500 corporations and operate in all 50 states, the District of Columbia, and Puerto Rico.

Implemented in 1976, the Generalized System of Preferences (GSP) is a special trade program that eliminates U.S. import duties on certain products from about 125 developing countries. Over time, American companies have come to rely on the GSP program to lower costs for inputs needed to produce goods in the United States and finished products for American families. Lower costs spur demand and allow companies to create good-paying American jobs.

However, GSP expired on July 31, 2013 and Congress has not yet passed legislation to renew it. As a result, American companies have paid nearly $2 million a day—and more than $1 billion to date—in higher taxes while awaiting congressional reauthorization of the GSP program. The mounting costs and uncertainty surrounding when GSP might be renewed have had a chilling effect on companies' ability to grow, or even maintain, their workforce. Of course, workers—both existing and potential—feel the effects of this negative business environment.

The Coalition for GSP surveyed hundreds of U.S. GSP program users in 2014 and found that:

- **44% of companies have delayed planned hires.** For example, Kana Bicycle in Washington has been unable to hire new R&D and product development personnel, while Varaluz in Nevada and McGuire Manufacturing in Connecticut cannot afford to replace workers that have left voluntarily because of higher costs resulting from GSP expiration.
- **40% of companies have delayed or canceled job-creating investments.** B&C Technologies bought a facility to begin manufacturing in Florida by April 2015, but it cannot afford the necessary building upgrades to create those American manufacturing jobs as planned because of higher costs imposed by GSP expiration.
- **22% of companies have cut employee wages and benefits.** The cost of import duties has cut into the monies available to Stackhouse Athletic in Oregon to pay for health care, forcing the company to cut health care benefits for its nine workers.
- **13% of companies have laid off workers.** Matrix Metals laid off 75 workers at facilities in Iowa and Texas, while Vispak LLC in Minnesota is going out of business completely because higher production costs resulting from GSP expiration have made the companies uncompetitive.

The full report, which includes many other company-specific examples, can be downloaded at *http://bit.ly/GSP1Year.* As those examples show, higher costs resulting rom GSP expiration affect both the quantity and quality of jobs in the U.S. economy. Some workers are laid off, while others never get an opportunity to work in the first place. Those with jobs often face benefits or salary cuts.

In a complex global economy, the best means for supporting American jobs and fostering a healthy economy may not be clear. Even when Members of Congress agree about the best path forward, they may not have the ability to implement the desired policies. That is not the case for GSP: Congress has the ability to eliminate the import taxes and mitigate past damages by passing an immediate, retroactive GSP reauthorization. Renewal has bipartisan support in both the House and the Senate. In this sense, renewing the GSP program should be "low-hanging fruit" for Congress as it seeks ways to improve the US job environment.

More than 660 American companies and associations have joined the Coalition for GSP's call for Congress to do just that. The ever-growing list of organizations can be viewed at *http://bit.ly/GSPsupporters*. About 30 of them have provided brief statements (below, grouped by state) for this submission on the negative job impacts of GSP expiration and/or the potential jobs benefits of a retroactive renewal.

If you have further questions about the impacts of GSP expiration on American companies, or would like to follow up with any of the companies that provided statements below, please contact Daniel Anthony at the Coalition for GSP at Anthony@trade2artnership.com or 202–347–1085.

The Coalition for GSP looks forward to working with the Finance Committee leadership on a bipartisan basis to pass an immediate, retroactive GSP renewal.

Zack Stenger, Owner of Blackbeam LLC in San Francisco, California: The GSP renewal would allow us to hire three sales and office-related employees for our growing small business.

Bruce Marlin, Purchasing Manager at Circa Corporation in San Francisco, California: As a rare, surviving U.S. manufacturer of leather goods, it is essential to us that GSP be renewed. Our competitors manufacture primarily in China and India, and we need as level a playing field as possible to remain viable as a U.S. domestic manufacturer.

Shaun Shroff, Vice President of DuraBrake Co. in Santa Clara, California: We would be able to reduce dependence on production in China and would be able to increase business on the East Coast. We would be able to hire two sales people on the East Coast as pricing would be competitive.

Peggy Altfater, Owner of Peggy V Designs in Petaluma, California: My business is a sole proprietorship. My sales have declined because I have needed to raise my prices on my product that no longer has GSP status. My job is in dire straits at this time because of price increases so I am asking you to please renew the GSP.

Jeffrey Tunstall, Vice President at Port Plastics in Chino Hills, California: Our company imports a substantial amount of materials from qualified GSP countries. Our total sales were down 7 percent in 2014 while the economy grew an estimated 2.4 percent. We believe the downturn in our business is solely due to the higher costs of our products as a result of the GSP program not being renewed. This downturn in our business has resulted in our being forced to reduce a number of employees.

Fred Cohen, Owner of Omicron Granite & Supplies in Pompano Beach, Florida: The failure to renew the GSP has cost my company over $100,000 per year in additional taxes, which has kept me from hiring at least two more workers. Please renew the GSP and make it retroactive.

Peter Allen, President of Royal Tropics, Inc. in McCall, Idaho: The GSP expiration and the uncertain return has caused my small company a hardship in the sense that the extra funds we have paid in duties has caused us to hold back on some planned expansion of our business. With the needed expansion we would be able to hire additional employees as well as fund some additional equipment. The GSP program is very important for small business in the U.S.

Brendan Naulty, Senior Vice President at Ajinomoto North America Inc. in Itasca, Illinois: The impact of non-renewal of GSP impact for 2014 on Ajinomoto North America has been $690,678. This has put this business segment into a red figure for 2014. Therefore we could not expand our workforce or reinvest profits into other businesses. We would greatly welcome retroactive renewal, which would enable us to initiate capital projects that have been postponed due to availability of funds and uncertainty about the stability of this business segment.

Kelly Weinberger, Owner at WorldFinds Fair Trade in Westmont, Illinois: Our fair trade organization has been badly hurt by the non-renewal of GSP. A retroactive renewal would help create jobs in our US office, as well as to provide more work to our low-income women artisan groups in the developing world.

Jim Angers, Partner at K2 Coolers LLC in New Iberia, Louisiana: We paid $79,000 in duties in 2014. We need to hire an additional warehouse worker and the duties are impacting our margins to the point of causing us to delay hiring.

Damian Jones, Designer & Founder at Aid Through Trade in Annapolis, Maryland: Our 22 year old fair trade company has depended on GSP since our inception. The current lapse and uncertainty makes it hard for me to have the confidence I need to invest and hire. Retroactive GSP renewal would give me cash and confidence to hire and invest.

Lisa Johnson, Vice President at COLE–TUVE, Inc. in White Marsh, Maryland: We sorely need renewal of the GSP so that our company has the chance to get back on track. Among other penalizing set-backs (such as limiting labor), we have not been able to raise our prices to account for this increase as we could not do that and stay competitive. Our capital is just about gone, and getting the GSP retroactively approved will allow us to reinvest resources back in to the business, to get beyond playing catch up and grow along with the prospects of a growing manufacturing sector.

Richard Harris, President of Accessories Unlimited in North Harwich, Massachusetts: Since the cancellation of GSP we have had our fixed margins reduced between 5 and 6 percent. We cannot raise our prices as they are set by our suppliers. We can cut corners where we can. We need employees on a full time basis, but have had to hire them on a part time basis and not hire the type of personnel we need to improve our business.

Steve Hill, Vice President at Polysource in Pleasant Hill, Missouri: The most damaging result of nonrenewal is the impact it has on U.S. manufacturers of global consumer goods. GSP allows U.S. manufacturers to take advantage of certain raw materials throughout the world that allows them to sell worldwide resulting in jobs and tax revenue. The impact on Polysource has limited our ability to compete and hire. We could easily justify the inability to hire for two new professional positions with full benefits if we had not experienced a loss of over $500k in the last 18 months.

Robert J. Murray, Operations Manager at General Carbon Corporation in Paterson, New Jersey: The lack of renewal of the GSP has caused General Carbon to limit its search for new hires. If the GSP was renewed and the duties refunded we would be in a much better position concerning new hires and improving the overall future of General Carbon. It may also lead us to make capital improvements to our facilities that we have been delaying to make pending the GSP renewal.

Gert van Manen, President of iTi Tropicals Inc. in Lawrenceville, New Jersey: We have paid $800,000 in duties since GSP expired and we are not charging our customers for this for various reasons, mainly we believe that it will be reinstated retroactively as it always has been. If this is not the case it will have serious consequences for our company. We are a small business with 25 people on payroll in business for 26 years.

Benny Nabavian, President of EORC in Farmingdale, New York: We are a very small company and the GSP expiration is really hurting our cash flow and income. Every penny counts in our business, especially in the current economic conditions. It is a question of survival for us.

Gabriel Khezrie, President of Fremada Gold Inc. in New York, New York: Due to the softness of the jewelry business in general, there has been tremendous pushback by our customers. They will not accept the additional price increases to accommodate the 5.71 percent tariffs that were never part of our pricing equation. This has led to less billings at our company. Accordingly we have had to let some staff go.

Benjamin Justman, Royal Chain in New York, New York: Restoration of GSP will have a huge positive effect on our company. We will be able to reinstate some of the business lost to competition. Some customers have stuck with us based on our promise that we will refund the duty paid if GSP is renewed retroactively. Going forward, we will be able to rehire personnel that were laid off, as well as expand our business.

Nenad Milinkovic, Vice President at Vail International Corp. in New York, New York: Lack of GSP Renewal has precluded our company from hiring additional personnel, and we are now at a point facing layoffs for some of our workforce. We have been trying to hang in there in anticipation of the renewal, but this prolonged expiration has now placed a very serious financial strain on our business.

Scott Ferguson, President of CCS USA, Inc. in Hickory, North Carolina: To date, the expiration of GSP has cost my company over $125,000. It has cost jobs, investment and has crippled us competitively with lost business. Please retroactively renew this critical trade program!

Fred Starr, President of Thompson Traders in Greensboro, North Carolina: Thompson Traders is a start-up company, and after seven years of trial and tribulation, made it to a break-even in 2013. Then the GSP was allowed to expire, and due to our financial position and our inability to pass this charge onto our customers, we had to slow down growth, including hiring. We would be a different company today without this totally unanticipated tariff.

We've reduced our payroll by eight people, a 40 percent reduction and will not be adding people, until we have a better government environment, including the renewing of GSP. The renewal of GSP will allow us to grow, creating new job opportunities. Moreover, since we share profits with our employees, each job will become a better paying job whether salaried or hourly.

Most important, the return of our tariff payments, paid out since August 2013, will help Thompson Traders enter new domestic and foreign markets and build a much larger company, including domestic manufacturing investment—more jobs and better-paying jobs.

Greg H. Kirkland, President of Kirkland Associates, Ltd. in McMinnville, Oregon: In 2014 our small import company paid over $50,000 in import duty charges on products imported from India. We currently desperately need to hire two additional employees. However, we simply can't afford to do that as the company profits will not support two new employees and continued import duty charges. If we were to see GSP passed, especially retroactively, we would immediately move toward the new employee additions. I know we are not a big deal to Washington, D.C. but this move would really help our company now and in the future.

Burak Cezik, Account Manager at Kervan USA LLC in Bethlehem, Pennsylvania: We ended up with a net loss in fiscal year 2014 due to GSP expiration. Accordingly, we are working on ways to cut jobs and holding off on our strategy of hiring regional sales managers. We would definitely hire new positions in the case of retroactive GSP renewal.

Amy Campbell, Founder of Brilliant Imports in Austin, Texas: Brilliant Imports has experienced, what is significant to a budding business, cash outflow due to GSP expiration . . . for a company that is less than three years old, this has been a hard blow to handle. In addition, there is extreme uncertainty on GSP renewal going forward therefore I'm keeping 'predictable' cash outflows as tight as possible. As the Founder and Owner, I've let go of my PR firm, my Virtual Assistant (VA) as well as cut back on advertising (these are a few examples). There is no projection to hire any help going forward. Retroactive GSP renewal would be a nice boost to keep a relatively new business like Brilliant Imports afloat as well as lead to a hire of a VA and placement of Brilliant Imports in a fulfillment center . . . both of these are detrimental to my company's success.

Cathy Korndorffer, Chief Operating Officer at Chantal Cookware Corp in Houston, Texas: We are a small, privately owned company in the housewares industry. We struggle every year to compete on a global scale with huge conglomerates and every penny that our product cost increases counts. We have not laid anyone off because of GSP non-renewal, but we cannot pass this along to our retailers. What happens? Our employees do not get raises. There is no money going into their 401K plan. There is no Christmas bonus. There is a reduction in our medical insurance contribution from Chantal. Is it painful? YES!

Wajih Rekik, President of CHO America in Baytown, Texas: Importing olive oil from Tunisia and bringing a Tunisian olive oil to the U.S. consumer is a big challenge that was supported by the GSP advantage. Since GSP expiration, we froze hiring, gave up a plan to expand into a new warehouse. A retroactive renewal will be vital to us and will be translated into expansion of warehouse and at least three new hires.

Allan Zadik, Owner of FAZ Marketing in Houston, Texas: I had to close the import business as my selling price became uncompetitive. I did have to let go of two people as there was no way to keep sales up. I'm currently not importing products where GSP has affected my business.

Abe Shaheen, Owner of Shaheen Import Export Co. in Virginia Beach, Virginia: The GSP expiration and uncertainty about renewal has resulted in laying off three of workers at our company, and not being able to hire new employees. Retroactive GSP renewal would lead to more jobs at our company, and will enable us to expand our business.

ESCA

THE AMERICAN DREAM AT WORK

Statement for the Record
Stephanie Silverman
President & Executive Director
Employee-owned S Corporations of America
805 15th Street, Suite 650
Washington, DC 20005

On behalf of the Employee-Owned S Corporations of America (ESCA), thank you for the opportunity to submit comments to the Senate Finance Committee. We commend the Committee for its continued focus on economic growth, as we firmly believe that pro-growth policies are essential in addressing the difficulties that continue to vex the U.S. economy, working Americans, and their families.

ESCA represents private, employee-owned companies operating in every state across the nation, in industries ranging from heavy manufacturing to school photography. The rapid expansion of S corporation ESOPs in recent years is testimony to the fact that these companies are a dynamic and growing part of our economy. We would respectfully suggest to the committee that a vital means of promoting both economic growth and retirement security for working Americans is to expand the availability of S corporation ESOPs for more companies and their workers.

Today, S corporation ESOPs are doing exactly what Congress intended when it created them in the late 1990s: creating jobs, generating economic activity, creating jobs, and promoting retirement savings. By any measure, these companies have been a remarkable success story in recent years: truly a bright spot in an economy characterized by sluggish growth, anemic job creation, and worker insecurity.

It stands to reason that companies with employee stock ownership plans have displayed a dynamism and vitality lacking in other sectors of our economy. An ownership stake in one's place of work is not only a spur to greater productivity, but inspires greater loyalty and identification with the fortunes of the business. And employee-owned companies aren't subject to the frequently destructive adversarial dynamic of suspicion and resentment that takes hold when employees are convinced that the interests of stockholders and corporate board members are at odds with their own interests. For workers in S corporation ESOP firms, what is good for ownership is good for them by definition.

The evidence is compelling that expanding the availability of S corporation ESOPs for more companies and their workers would not only boost the retirement savings of countless Americans, but would also create more jobs, generate more economic activity, and encourage the formation of businesses that are more stable and successful because they provide their employees with the kind of built-in incentives conducive to loyalty and productivity.

As the Finance Committee contemplates measures to reform the Tax Code and increase access to retirement savings, we urge Senators to support tax policies that expand the availability of long-term retirement savings opportunities and economic growth through S corporation ESOPs.

Background on S Corporation ESOPs

A Subchapter S corporation is a business entity that provides flow-through tax treatment to its shareholders. An employee stock ownership plan ("ESOP") is a qualified defined contribution plan that provides a company's workers with retirement savings through their investments in their employer's stock, ***at no cost to the worker.*** ESOPs are regulated by the Employee Retirement Income Security Act ("ERISA") just like pension funds, 401(k) plans, and other qualified retirement plans.

In 1996, in the Small Business Jobs Protection Act, Congress authorized the S corporation ESOP structure, effective January 1, 1998, with the goal of encouraging and expanding retirement savings by giving American workers a greater opportunity to have equity in the companies where they work.

In the Taxpayer Relief Act of 1997, Congress repealed the unrelated business income tax (UBIT) originally imposed on the ESOP for its share of S corporation income, enabling S corporation ESOPs to become a viable new business structure to benefit American workers. Seventeen years later, there are more than 2,600 S ESOP companies operating in every state of the nation, in industries ranging from heavy manufacturing to retail grocery stores, from construction to consulting. Because of the structure of S ESOP tax policy, S ESOPs are achieving exactly what Congress intended: generating unparalleled retirement savings for workers, providing good and resilient jobs in high-performing businesses, and creating important macroeconomic benefits in their communities.

Over the years, ESCA has worked closely with federal policymakers to ensure that S ESOPs hold true to their original purpose of encouraging broad employee ownership. We collaborated with members of your committee in 2000–2001 to craft anti-abuse rules that became section 409(p) of the Internal Revenue Code. These rules, enacted in the Economic Growth and Tax Relief Reconciliation Act (EGTRRA), now mandate that S ESOPs provide for broad-based employee ownership and establish strict repercussions for violations.

> As the report language for EGGTRA (H.R. Rep. No. 107–51, part 1, at 100 (2001) states: *The Committee continues to believe that S corporations should be able to encourage employee ownership through an ESOP. The Committee does not believe, however, that ESOPs should be used by S corporation owners to obtain inappropriate tax deferral or avoidance.*
>
> *Specifically, the Committee believes that the tax deferral opportunities provided by an S corporation ESOP should be limited to those situations in which there is broad-based employee coverage under the ESOP and the ESOP benefits rank-and-file employees as well as highly compensated employees and historical owners.*

Since enactment, Section 409(p) has been highly effective in ensuring that S ESOPs serve their purpose. As a result, S ESOPs have become perhaps the most effective retirement savings plan under federal law, and today the average S ESOP plan participant has significantly more money saved in their ESOP account than they do in their 401(k) account.

The Unparalleled Performance of S ESOPs

Many studies over the years have documented why and how S ESOPs have proven to be so powerful for both workers as a retirement savings and economic security tool, and how they have contributed substantially to communities and the broader national economy:

In a study released in June last year, data compiled by the National Center for Employee Ownership (NCEO) shows that private employee-owned businesses have strikingly fewer loan defaults than other businesses. **NCEO finds that the default rate on bank loans to ESOP companies during the period 2009–2013 was, on average, an unusually low 0.2 percent annually.** By contrast, mid-market companies in the U.S. typically default on comparable loans at an annual rate of 2 to 3.75 percent. The tenfold difference between the economic strength of employee-owned companies and other businesses highlights the fact that **private businesses which are owned by their employees have the incentives and vision that makes them more stable, more successful, and better for employees as well as the larger economy.**

A 2012 study by Alex Brill, tax advisor to the Simpson-Bowles deficit reduction commission and a former chief economist and policy director to the Ways and Means Committee, found that:

- Employment among surveyed S ESOP firms increased more than 60 percent from 2001–2011, while the private sector as a whole had flat or negative growth in the same period.

- In the struggling manufacturing industry in particular, the S ESOP structure has buffered against economic adversity and job loss.
- S ESOPs have significantly expanded the pool of US workers who are saving for retirement, while also boosting company productivity—something that has greatly benefited their employee-owners.

In his study, Brill notes that "in the context of the current tax reform debate that seeks to curtail existing tax expenditures in favor of lower statutory rates, **policymakers should recognize the evidence in support of S ESOPs and their positive economic contribution.**"

In 2013, Brill produced a follow-on study entitled "Macroeconomic Impact of S ESOPs on the U.S. Economy." Key findings of that broader assessment revealed that:

- **the number of S ESOPs and the level of active participation (number of employee-owners) have more than doubled since 2002.**
- **total output from S ESOPs and the industries they support is nearly 2 percent of GDP.**
- **S ESOPs directly employ 470,000 workers and support nearly a million jobs in all.**
- **S ESOPs paid $29 billion in labor income to their employees, with $48 billion in additional income for supported jobs.**

Brill's study on the macroeconomic impact of S ESOPs built upon findings issued in 2008, in a 2008 University of Pennsylvania report, whose authors found that S ESOPs contribute **$14 billion in new savings for their workers each year beyond the income those workers otherwise would have earned,** and that S corporation ESOPs offer workers greater job stability and increased job satisfaction. The study also found that S corporation ESOPs' higher productivity, profitability, job stability and job growth generate a collective **$19 billion in economic value that otherwise would not exist.**

The Brill and University of Pennsylvania studies reinforce other important evidence about S ESOPs that show how powerful they can be.

In a 2010 Georgetown University/McDonough School of Business study, two leading tax economists, former Treasury Department officials Phillip Swagel and Robert Carroll, reviewed the performance of a cross-section of S corporation ESOP companies during the early part of the prior recession and found that these companies performed better than other equivalent companies in terms of job creation, revenue growth, and worker retirement security. Specifically, Swagel and Carroll found that:

- **Companies that are S corporation ESOPs are proven job-creators, even during tough times.** While overall U.S. private employment in 2008 fell by 2.8 percent, employment in surveyed S corporation ESOP companies rose by 2 percent. Meanwhile, 2008 wages per worker in surveyed S corporation ESOP companies rose by 6 percent, while overall U.S. earnings per worker grew only half that much.

- **S corporation ESOP companies provided substantial and diversified retirement savings for their employee-owners at a time when most comparable companies did not.** Despite the difficult economic climate, surveyed S corporation ESOP companies increased contributions to retirement benefits for employees by 19 percent, while other U.S. companies increased their contributions to employee retirement accounts by less than 3 percent.

We will have new data to share with Committee members later this year about the meaningful distributions paid out to employee owners for retirement.

In the last Congress, Senators Ben Cardin and Pat Roberts reintroduced bipartisan legislation, S. 742, the *Promotion and Expansion of Private Employee Ownership Act of 2013,* that will:

- **Encourage owners of S corporations to sell their stock to an ESOP.**
- **Provide additional technical assistance for companies that may be interested informing an S corporation ESOP.**
- **Ensure small businesses that become ESOPs retain their SBA certification.**
- **Acknowledge the importance of preserving the S corporation ESOP structure in the Internal Revenue Code.**

We look forward to working with Committee members on introduction of the bill this Congress and appreciate your consideration for moving these provisions as part of a tax package that promotes economic growth and retirement savings for working Americans. As the Finance Committee continues to work on comprehensive tax reform, ESCA would be pleased to serve as a resource and we look forward to continuing this important dialogue about a retirement savings plan that is enabling hundreds of thousands of Americans to achieve the American dream at work.

The Employee-Owned 5 Corporations of America ("ESCA") is the Washington, DC voice for employee-owned 5 corporations. ESCA's exclusive mission is to advance and protect 5 corporation ESOPs and the benefits they provide to the employees who own them. These companies have an important story to tell policymakers about the tremendous success of the S ESOP structure in generating long-term retirement savings for working Americans and their families. ESCA provides the vehicle and the voice for these efforts. ESCA represents employee-owners in every state in the nation.

Statement for the Record—Submitted by: The Professional Beauty Association (PBA) Steve Sleeper, Executive Director

Chairman Hatch, Ranking Member Wyden, and other Members of the Committee, we thank you for holding this important hearing and we appreciate the opportunity to submit a statement for the record. As the Committee contemplates measures to ensure job creation and a strong, vibrant economy, the Professional Beauty Association (PBA) urges the Committee to prioritize policy measures that would promote tax fairness within the small business community, thereby enabling salon business owners to reinvest in their businesses and employees, granting new economic and employment opportunities in their local communities.

More specifically, the Small Business Tax Equalization and Compliance Act is an opportunity for the professional beauty industry—comprised of salon owners, employees, manufacturers, and distributors of salon products throughout the country—to gain tax fairness and ensure a strong, continued presence to better the economic health of our nation. Current law permits the restaurant industry a dollar-for-dollar tax credit, known as the 45(B) tax credit, on the employer's share of FICA taxes paid on tip income above the minimum wage. The Small Business Tax Equalization and Compliance Act, which we hope will be reintroduced later this year, would apply the Section 45(B) FICA tax credit that is currently available only to restaurant owners to the salon industry.

In recent years there has been a significant shift from traditional employment-based salons, where cosmetologists function as regular payroll employees and are required to report tip information to their employers, to non-employer salons, where cosmetologists simply rent a booth from a salon owner and function as a self-employed contractor, responsible for reporting their own tips. This shift has led to an increased amount of underreported income. The Small Business Tax Equalization and Compliance Act would also help address the tax gap by bolstering the reporting of taxable tip income among self-employed cosmetologists.

As you well know, small businesses are the backbone of America's economy, and the salon industry is an industry of small businesses. While job growth has outpaced the overall economy in eleven out of the past fifteen years our industry has not been immune to economic uncertainty . Extending the 45(B) tax credit to the salon industry would serve to support and provide stability to a growing sector of America's economy, and one that is vitally important to the success of many other industries: according to the U.S. Department of Commerce, every dollar spent in the salon industry generates an additional $1.77 of sales for other industries in the economy.

As Congress looks to encourage economic growth and job creation in 2015, we hope you will consider including this provision in any pro-growth measures considered by the Committee. We appreciate your interest and the opportunity to provide feedback, and look forward to continuing our work with the Committee in the 114th Congress.

Written Testimony of Dr. Elaine C. Kamarck and James P. Pinkerton, Co-Chairs, Reforming America's Taxes Equitably (RATE) Coalition

Thank you, Chairman Hatch and Ranking Member Wyden, for convening this hearing to address a pressing challenge facing our country today—safeguarding a legacy of secure, well-paying jobs for U.S. workers. This Committee has done great work leading the charge toward restoring our nation to the land of job opportunity it once was.

We are Elaine Kamarck and James P. Pinkerton, the bipartisan co-chairs of the Reforming America's Taxes Equitably (RATE) Coalition. Our collective membership, comprised of thirty-three diverse businesses and trade associations aims foremost to achieve tax reform that secures a lower, internationally competitive tax rate for all businesses. We believe strongly that such a competitive tax rate will allow family-owned companies, firms, and large corporations to continue to invest, grow and hire here in the U.S.

With the economy serving as the primary focus of this hearing, we readily cite data from an Ernst & Young study commissioned by RATE Coalition last year which quantified the alarming impact of our high corporate tax rate on U.S. fiscal health. The study found GDP was an estimated 1.2% to 2.0% lower—translating into a loss of roughly $235–$345 billion each year. Similarly, workers' wages were found to be diminished by 1.0 to 1.2% due to our uncompetitive business tax code.

Each year we allow our outdated corporate tax code to run rampant, added financial pressure mounts on companies and business owners—most who must find ways to cut corners elsewhere—whether that's laying off workers, delaying investment or expansion, or spending less on research and development.

RATE Coalition's membership represents a diverse array of industry sectors—including retail, telecommunications, and defense, among others. Collectively, our members employ over thirty million Americans and operate in all fifty states. Our expansive company footprint also gives us a first-hand look into the international business marketplace where U.S. companies must operate and compete.

For example, Boeing, a leader in the aerospace industry, is a RATE member company that employs 165,000 workers across the U.S. Boeing's Chief Financial Officer Greg Smith attests to this Committee that the increasingly competitive global market, as well as burgeoning new technologies and the industries that bring these products to consumers all over the world, reinforce the need for the U.S. to lower its corporate rate to an internationally competitive level.

His statement for the record can be found below:

> *"The aerospace industry is facing increasing competition from established and emerging players across the globe as nations see the transformative power of innovation in delivering highly-skilled and high-paying jobs. With a significant portion of our 165,000 employees, research and development activities and manufacturing operations located across the United States, we support continuing efforts to improve the country's competitiveness. That is critical for the United States to build on its leadership in aerospace and other sectors. We believe that reforming the tax code, which includes a globally-competitive corporate tax rate, will make the U.S. a more attractive place to do business and provide a strong boost for continued innovation and growth."*

We are optimistic the 114th Congress will build on existing momentum for pro-growth policies to make great progress in the areas of tax reform that will strengthen our economy—especially the widely supported goal of business tax reform. And we note this momentum is bipartisan: Treasury Secretary Jack Lew recently highlighted areas of potential common ground during his speech on business tax reform to the Brookings Institution; indeed, he has made the pro-reform argument on many different occasions.

Specifically, we were encouraged to hear the Administration's acknowledgement of an existing bipartisan pathway to achieve comprehensive business tax reform that makes the tax code more competitive. Truly, the consensus for tax reform has resonated in Washington and sits high on a list of legislative priorities most ripe for action in the coming months.

In addition, we believe that the most effective tax reform should concentrate on the goals of simplifying the code and lowering rates. Efforts to direct revenues raised by tax reform to other purposes risk reducing the important economic effects of reform on growth.

Repatriation that is not part of comprehensive tax reform is only a band-aid solution to an ailing illness.

This point—that repatriation standing on its own is the opposite of true tax reform—cannot be reiterated enough. Comprehensive tax reform that applies to all businesses, simplifies the code, and lowers the rate will relieve American businesses of a stifling tax burden that has driven many in the business community to seek haven outside the U.S. in recent years, through corporate inversions and similar tax avoidance maneuvers.

Moreover, these short-term fixes will only give a false sense of accomplishment that some degree of tax reform has been achieved when—in reality—no true progress has been made to update our wildly outdated and burdensome tax code. This can only lead to more economic harm than good in the long run—and will only be kicking the can down the road.

Toward this end, we believe the time for real reform has come, however, there is still work to be done to refine the most advantageous components of tax reform that will benefit all businesses. Most imperative will be a lower corporate tax rate that allows the U.S. to compete globally.

We are optimistic the Administration and Congress will come together to work alongside this Committee to bring forth favorable tax reform legislation that broadens the base, simplifies the code and makes the U.S. a better place for businesses to thrive. We appreciate this opportunity to present our Coalition's case for business tax reform to this esteemed Committee.