Statement of the U.S. Chamber of Commerce

ON: The Need for Comprehensive Tax Reform

TO: The Subcommittee on Tax Policy
House Committee on Ways and Means
United States House of Representatives

DATE: May 25, 2016

1615 H Street NW | Washington, DC | 20062

The Chamber's mission is to advance human progress through an economic, political and social system based on individual freedom, incentive, initiative, opportunity and responsibility.

The U.S. Chamber of Commerce is the world's largest business federation representing the interests of more than 3 million businesses of all sizes, sectors, and regions, as well as state and local chambers and industry associations. The Chamber is dedicated to promoting, protecting, and defending America's free enterprise system.

More than 96% of Chamber member companies have fewer than 100 employees, and many of the nation's largest companies are also active members. We are therefore cognizant not only of the challenges facing smaller businesses, but also those facing the business community at large.

Besides representing a cross-section of the American business community with respect to the number of employees, major classifications of American business—e.g., manufacturing, retailing, services, construction, wholesalers, and finance—are represented. The Chamber has membership in all 50 states.

The Chamber's international reach is substantial as well. We believe that global interdependence provides opportunities, not threats. In addition to the American Chambers of Commerce abroad, an increasing number of our members engage in the export and import of both goods and services and have ongoing investment activities. The Chamber favors strengthened international competitiveness and opposes artificial U.S. and foreign barriers to international business.

Testimony of Dr. J.D. Foster

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United States Chamber of Commerce

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Thank you, Mr. Chairman, Ranking Member Neal, Members of the Committee. My name is J.D. Foster, I am the Vice President, Economic Policy, and Deputy Chief Economist at the United States Chamber of Commerce. The Chamber is the world's largest business federation, representing the interests of more than three million businesses of all sizes, sectors, and regions. I appreciate the opportunity to testify before the subcommittee today on behalf of the businesses the Chamber represents.

I would venture that in the decades since the last major tax reform was enacted, the Ways and Means Committee has held scores of hearings and heard thousands of hours of testimony and debate on the need for comprehensive tax reform. In retrospect, it is a daunting task imagining one can add materially to that body of evidence.

Little has really changed over the course of these many years relevant to this topic, except that the urgency for comprehensive tax reform has grown and the price of inaction has grown higher as the relative economic strength of other nations and their businesses has grown rapidly.

A related difference from the past is the apparent dimming of America's economic future. The weakest economic recovery in the modern era continues, but just barely, as it is now showing distinct signs of slowing further. In the most recent quarters the growth rate has fallen from a very pedestrian 2.0 percent, to 1.4 percent, and apparently slowed even further, to 0.5 percent, in the first quarter of 2016.

Beyond the immediate concerns of an economy slowing from slow, concerns mount as to how the U.S. economy has slid into an apparent semi-permanent cycle of unusually slow growth. Many arguments are made in support of this hypothesis, some of them demographic in nature, but demographics can only explain a small, and well-anticipated part of the observed phenomenon. The substantial decline in labor productivity growth demands other explanations, explanations readily found in ill-considered anti-growth economic policies out of Washington. While I would put the still-building deluge of harmful regulatory policies at the top of the causal list, there's no doubt our archaic, anti-growth tax code also plays a major role.

As comprehensive tax reform moves forward in fits and starts, it should always move forward with the primary focus of improving economic growth. Not that simplification or improving transparency or other issues commonly raised are unimportant, but, as the saying goes, these issues "don't feed the bulldog". Growth is the issue demanding attention.

One problem immediately arising for many, however, is that "economic growth" is something of an abstraction. Gross Domestic Product is commonly cited, but few really know what it means, and it is in any event an imperfect measure of "the economy". More critically, American businesses, workers, and families don't live in a world of abstractions. They deal with real issues day-to-day. In communicating the need for comprehensive tax reform, and the choices made in developing legislation, something more "real" is needed, something to which regular people can relate.

What does "grow the economy" really mean in simple English? It means more small businesses, more medium-sized businesses, more big businesses, all doing more business. The U.S. economy doesn't grow until businesses are growing in number and in size.

Washington policies would result in more jobs, higher wages, and more opportunities if the frame of reference involved fewer gimmicks and fewer abstractions like competitiveness and productivity and "fairness", and focused instead on the fundamentals, like, what does it take to create a good environment for business.

What do businesses do to grow the economy? They make more stuff people want. They hire more workers to make more stuff. They pay their workers better because they can and because they must to have the quantity and quality of workers needed to make more stuff.

Businesses invest in new technologies so they can do a better job of making stuff and to make better stuff. They invest in new machines and facilities so they can make more stuff in the future, and to incorporate the new make-stuff-better technology in their production today. Businesses earn a return for their investors so the investors are willing to continue to invest so businesses can make more stuff. And, yes, they collect tax, a lot of tax.

Businesses play a central role in the symphony of commerce. They raise capital and pay owners, buy stuff from other businesses, hire and pay workers, and then the income paid out is then the income used by consumers to buy the stuff businesses make. It is a system where everybody contributes something and everybody who contributes something gets something. It is a system of coordination guided by markets and prices, and a system of competition driving everyone to do better in one way or another.

Why, then, if a growing economy is all about growing businesses, is the economy not growing as it should? Have American businesses lost their edge? Has the American entrepreneurial spirit dimmed? Hardly.

The economy isn't growing as it should because for businesses to grow normally they need government policies that are at least benign for the economic environment. Businesses generally don't need government to be their "partner", or to "help", they mostly just need government to get the basics right and then get out of the way.

This is where comprehensive tax reform comes in, with an unwavering focus on creating a better business environment, read: an unwavering focus on improving economic growth. The U.S. Chamber of Commerce's Board approved principles provide a sound foundation:

1) Tax reform legislation should reduce corporate tax rates and also consider the impact of a corporate rate reduction on pass-through entities.

2) Tax reform legislation should eliminate the bias against capital investment either through expensing or through a capital cost recovery system providing the present value equivalent of expensing with due regard to the impact the system may have on cash flow.

3) The current worldwide system of international taxation should be replaced with a territorial system.

4) Changes should be permanent to ensure certainty.

5) Fundamental tax reform should take place in the near-term.

6) Congress should enact simple, predictable, and easy to understand tax rules to improve compliance and reduce the cost of tax administration.

7) Tax reform should ensure industry-specific neutrality and avoid special tax benefits or penalties targeted to one industry versus another. Tax reform should allow the marketplace, not the tax system, to allocate capital and resources.

8) Comprehensive tax reform should include realistic transition rules to provide adequate time for implementation and to help minimize hardships businesses may encounter in transitioning to the new tax system.

This Committee, and its counterpart in the United States Senate, have worked hard in recent years to prepare for comprehensive tax reform. Former Chairman Dave Camp went so far as to put forward a draft proposal. Current Chairman Kevin Brady has made plain the seriousness of his intentions, especially with regard to international tax issues, and Senate Finance Committee Chairman Hatch has his staff working on the knotty problem of finding the best way to eliminate the double taxation of corporate income, known as integration.

Unfortunately, the work of the Congress has not been matched by the current Administration whose role is best marked by its absence and most recently by stunning regulatory overreach. As the clock runs out on this Administration, one can only hope, for the sake of America's workers, families, and, yes, the businesses that grow the economy, that the next Administration is more open and interested, not just in talking about a stronger economy, but working toward a tax system that will encourage a stronger economy.

Economists have a lot of fancy theories and ideas about how the economy grows, or doesn't grow. But sometimes it's important to step back from fancy theories to consider basic realities. The basic reality is that a growing economy results from businesses doing well what businesses do naturally, and that depends on government creating an environment where businesses can flourish. Comprehensive tax reform focused squarely on improving economic performance would go a long way toward creating such an environment.