

**Remarks of Chairman Bill Thomas  
U.S. House of Representatives Ways and Means Committee**

***Tax Foundation 67<sup>th</sup> Annual Conference  
“Global Tax Reform: Who's Leading, Who's Lagging, and is the U.S. in  
the Race?”  
November 18, 2004***

**CHAIRMAN BILL THOMAS, WAYS AND MEANS COMMITTEE:** Thank you very much. That's a very nice introduction. However, you might have mentioned that while I was waiting for each tax bill, we did Medicare, trade legislation...

**SCOTT HODGE, TAX FOUNDATION:** We didn't have that much time.

**THOMAS:** I see. I can't figure out what it is based upon the title of what I'm supposed to talk about. If, in fact, it was "Global Tax Reform: Who's Leading? Who's Lagging? Is the U.S. in the Race?" What's the yardstick that you want to use to measure that? And if it isn't apparently clear to you when I finish what I'm saying about your title - that I'm not talking about the process that we're gonna be going through - I'll tell you at the beginning that what I'm talking about is the process that we're gonna have to go through. Because if you say who's leading or who's lagging, what's the yardstick? Are you going to say who taxes more or less? And if you look at various segments of taxation or do you look at overall taxes in terms of GDP? I mean the U.S. is leading under some yard sticks; it's not under others.

So clearly what you have to do is prioritize what yardstick you want to use versus other yardsticks. Who has the higher or lower rate? Is it corporate? Is it single taxation? Is it where you have two different tax systems? Which in part produce a higher GDP tax structure. Again I can go through as long as you can. Broader base? Narrower base? What are the yardsticks?

And everybody is talking about entering into a process of fundamental tax reform. What's fundamental? If you leap 25ft in one jump, is that fundamental? Or if you take 25 one foot steps and get to exactly the same place, that's incremental? I don't know.

So I'm supposed to come up here and talk to you about "Global Tax Reform: Who's Leading? Who's Lagging? Is the U.S. in the Race?" The only way I can probably answer that is if we weren't leading before, we have marginally put ourselves in a slightly better position today than yesterday. But depending upon where and how you want to emphasize it, we either have taken one of those 25 steps, or if you know anything about the long jump, we've crow-hopped. Because we didn't do the kind of things, in terms of moving towards a structure, that's more compatible with what other people are doing, i.e.

on the margins, territorial versus worldwide, all of those things that you can weigh when you look at it.

Let's talk about fundamental tax reform. What's reform? What do you want to get out of reform? To a certain extent, if you only talk about what it is that your doing in terms of the specifics I think you miss some of the more fundamental decision making that's going to have to occur over the next 2 to 4 years. I mean, let's see *fundamental reform would be raising the revenue necessary to do the things society wants to do in the least damaging way*. Terrific. So you run a bunch of words together and what does that tell you? That you wanna figure out a way to raise the maximum amount of revenue with the least damage to do the things that society wants. Okay what's your version? Your version will be different then my version. Everybody here has said, "Sit down, give me your objectives of tax reform." And hear the different ones.

How many people believe one of the objections of tax reform - fundamental tax reform, semi-fundamental tax reform - is to produce higher incomes. Anybody? Show of hands? You think that's one of them? You guys are well paid. Greater wealth - which is slightly different than higher incomes - would that be a goal? Anybody in favor of that goal? Faster growth? Anybody here in favor of? Of course. Nobodies raising their hands. I asked you to raise your hands. They don't want to raise their hands. They don't want to commit.

Hey, how about a twofer: greater retirement security? I detect a clear profile of those who raised their hands. Anybody any thirty didn't; you're wrong, you better raise your hand. Increased entrepreneurship? Let's make sure people who want to be creative have the resources to do it. Oh yes, tax simplification. And I won't say simplification, fairness, growth, whatever.

I think I could get everyone to raise their hand if they were willing to play the game on each one of those. And you'll have some others on their own - nuances that are conceptually different because I haven't thought about them. But now let's begin to move toward reality and out of academia.

Who wants higher income over every one of the other options? And you know where I'm headed. Who wants faster growth over any of the other options? Oh, you all want equal what you can't have. So what's your priorities? How do you prioritize what it is you want to do through reform? The more you go down and move toward reality and decision-making, the more people separate rather than congregate. And so the first thing you have to ask yourself is what are we intending by the process we're talking about doing? Is it to make a statement? Or is it to make law?

I left academia a long time ago. But as you noticed by my general description of a real tax, I can still play the game. And to a certain extent, it is a game. But if you want to make law, you can't play games. Because to make law, you not only have to start with qualitative structure, you have to run it through that dang strainer of quantitative

examination. And what you want and what you get oftentimes are almost fundamentally different.

And so one of the first things we have to do is to say, "What is it that we want?" To strike boldly where no one has gone before? And never leave the mother-ship? Or, make law as far as we can go to meet what are the objectives of reformers going to be to the maximum of the consensus of a majority - and unfortunately in the Senate, sometimes a super-majority - the desire to get the president to be able to put his signature on a piece of legislation. Many have been successful doing that, but a lot of people are usually disappointed along the way, because one of the fundamentals we're going to have to focus on is substance in a way you might not expect because there has to be a fundamental understanding that what can become law is what, not who. Regardless of who proposes it, it's *what's* proposed that will govern, no *who* proposes it.

And so we're going to start a new Congress, the 109<sup>th</sup> Congress. We've got a lot of vacancies on the committee. We've got room to fill with quality people. And we are going to accept the responsibilities - awesome responsibilities - of the committee's jurisdiction. And I'm using "awesome" not in the current, younger generation's use of the "awesome," as a pause to collect thoughts. I'm using "awesome" in terms of what I understand to be the dictionary definition and that's awesome responsibilities in a relatively short timeframe of fundamental safety net restructuring. We've already begun that with Medicare. As we move to Social Security, we will begin it. These are never done in one shot. We will begin, and there will be a long, ongoing adjustment process. But if you never begin, you can't get into adjustment.

And then another stab at the tax structure, where if someone will spend some time looking at where we started and where we are now, some of the desired goals of people who talked about more fundamental reform may have come slightly closer to achievement than they were when they were making the same statements about needed fundamental reform four years ago.

So I think it's going to be a really interesting 109<sup>th</sup> Congress. What are we - four for four? I want to see if we can be five for five. Or six for six. At some point, batting one thousand becomes more difficult. So if you are able to bat one thousand, over a period of time, you know something about the process. Something about the need to compromise. Something about hanging on to some core structures that advance you. The question is do other people understand that? And are we going to be able to move relatively quickly - never smoothly - but successfully to a conclusion within a reasonable time frame? Or are we going to start, stop, back up, discuss, argue among ourselves, try to get other people to buy our list before we start, and attempt to influence the system in ways that the system will not accept? And when I say system, my world is the House and the Senate, producing a majority out of a conference committee on a piece of legislation that is minimally good enough for me to be able to say, "I want to send it to the president" and have another bill signing ceremony. That is success. My goal is to make law.

Now I'll take questions and see if anyone wants to get me in trouble.

**QUESTIONER #1:** I wonder, Mr. Chairman, if you could talk about what expectations, if any, you have...

**THOMAS:** Let me ask a personal question. Are you a member of the press?

**QUESTIONER #1:** No.

**THOMAS:** People need to identify themselves as to who they are, so I know whether it's an unintentional ringer you're throwing at me or whether it's intentional.

**QUESTIONER #1:** I'm curious if you would comment on the President's commission on tax reform. Do you need that commission? And how will that commission be helpful to you with what the committee will have to do later?

**THOMAS:** I thought I just did.

**QUESTIONER #1:** Do you expect them to come forward with any answers to the questions you posed on the priorities?

**THOMAS:** Based on who is on the commission and what they believe the list is and the emphasis within that list or a longer list. Obviously that's what they'll do. The question is, does it match up in terms of the ability to pass the House and the Senate, be successfully conferenced and go to the president's desk as a piece of legislation.

**SCOTT HODGE:** I don't know if I can use the host prerogative. Is there a potential conflict between the president's desire to make his tax cuts permanent and more fundamental changes, however that's defined?

**THOMAS:** I think permanence is pretty fundamental. The question is, does it make sense, based upon a list of priorities, to make permanent particular areas in the tax code that aren't. But remember, if you're going to make those permanent, you need numbers in the Senate that may not be achievable. And so, do you want to accomplish something that can't be accomplished? That's part of the question. Then the larger question is, notwithstanding your attempt to accomplish something that can't be accomplished, do you want to use the time and the resources for that rather than for something else, which may be accomplished, but which may not be one of the fundamental items on your list, but it may be a fundamental item on somebody else's list, who's vote may be necessary to get the bill to the president's desk.

You have to understand, what I do for a living isn't glamorous. It isn't often exciting. I mean, to me it is, but I taught government, too. That was exciting to me. But you have to be realistic about what you can do, and what you can't do, and then do what realist, if you want to make law.

**QUESTIONER #3:** What, in your opinion, do you think in the tax code could be changed to be able to help those entrepreneurs who create 7 out of every 10 new jobs? What do you think the best thing we could do for them would be?

**THOMAS:** First of all, at some point, somebody has to understand that the tax code isn't the end all and be all in dealing with entrepreneurship. One of the things the Europeans still don't understand is the positive value of failure. The idea that you have the opportunity to succeed has as its corollary failure. And what happens is we look at all the jobs and businesses that are created every year in this country, and you also have to look at all the jobs and businesses that are destroyed. But you really can't create at the rate that we create without the ability and cold-heartedness to have people fail. Because if all you do in society is make sure people don't fail, then it is extremely difficult to succeed. And we have a mental set, and you would think given the cultural baggage that we carry from Europe...they just don't seem to get it. Given their job creation rates, based upon how they deal with government support protection, willingness to subsidize, refusal to allow people to be creative is a fundamental problem that Europe has and will have.

Now, if I say that, can the tax code assist? Yeah. But be ready to understand the answer, because it's exactly the same that I gave you in terms of willingness to fail. To the degree our tax code creates supports, subsidies, credits, other factors, which don't allow people to fail, which on the margin doesn't let them make the decision, then we aren't going to be as entrepreneurial and creative as we should be.

I'll go to a group of people who say, "We really need that R&D tax credit," and I say, wouldn't you rather have a lower rate and then decide if you want to spend the money there or someplace else? I mean the holy grail is lower rates, not that you want to build in some government subsidy that defines where it is you're going to get assistance for under a research and development credit. So as we look at reform, we need to look at what the tax code is, and what I find is that everybody says, "Yeah, we need fundamental reform, but you can do this, don't remove that, don't remove this." So all of a sudden you're sitting there with the desire to have fundamental reform - oh, and it has to be revenue neutral - but all the crutches and the support and those things that people have been able to put in the tax code which doesn't require them to face cold, hard reality on success or failure on the core concept and carrying out that core concept, is supposed to stay in the tax code. To the degree we do that, and call it reform, we have failed to really understand how to unleash creative entrepreneurship. The creativeness is there. You have to accept failure with success to really make it work. And I don't know that people would be willing to accept exposing the tax code to the kinds of changes necessary to really free up, because it means you've got to give something up. You've got to risk failure to be able to really succeed.

**QUESTION #4:** If the AMT is the monster that's going to take over the individual tax code, why not just let it ...(inaudible)

**THOMAS:** See, I can't say yes, because then anybody could do my job. If you go back and analyze why we had the AMT in the first place, it was because people failed to do, at

the time they should have, what I just said needs to be done. Because if they had removed those structures that allow people not to pay taxes by virtue of the tax code instead of the activities for which they were engaged in, you wouldn't need an alternative minimum tax, you would have a tax code. So why in the world do we want to not get to the fundamental root of the problem of the alternative minimum tax, if in fact we're going to do tax reform? The problem is people say it costs up to a trillion dollars. Not necessarily. Depends on ...(inaudible). There are ways to deal with this, but you know, when you need to get people to address fundamentals, a \$300 billion problem may not be fundamental enough. A trillion dollar problem begins to get peoples attention. And what would be unthinkable in terms of restructure or fundamental reform at the \$300 billion level might appear to be somewhat desirable or necessary at the trillion dollar level. Remember I said you need to strain all your qualitative thinking through the quantitative measure? Everybody says "We're in real trouble; more and more people are going to go into the AMT," and I look at them and smile. Yeah.

I think we're going to get some people who understand the problems first hand. That increases the opportunity to address the "problem." So sometimes, the magnitude of the problem actually lends itself to a solution more readily than the problem that was smaller. I don't want too many of those examples, but this might just be one of them. And I think we're reaching critical mass on the AMT, and that's one of the reasons I think people looking at fundamental reform are looking at various options, but there are some core options, i.e., go back and see the decisions that people failed to make at the time they should have, which might be one of the options that you would look at to dissolve the "problem" today.

**SCOTT HODGE:** Can I follow up on that? In looking at the last number of tax cuts that actually made the tax code more progressive, meaning that, for instance, the wealthiest 20 percent of Americans are now paying 82 percent of all the income taxes. Does that make it more difficult to achieve what we might call fundamental reform with a broader base and lower rates? Because really we're only reforming the tax code for the so-called rich.

**THOMAS:** Yeah, but if you also look at the credits and the rest; although we like to think that the lower end of the income gets all the subsidies, if you really examine the credit-subsidy structure inside the tax code, there are an awful lot of wealthy people who have mined the tax code and used various credits and subsidies significantly, which in part travels into the idea - which I do not agree with - an alternative minimum tax.

All I want you people to know is - obviously, based upon the answer I gave - I don't think credits and subsidies are a good idea in the tax code. And I will then ask myself the same question that everyone of you wants to ask me and that's "Why in the dickens have you over the past four years created various credits which have complicated the code more than it was when you started?" My answer is, go back to the business of making law. Go back to the need to have a quantitative decision over a qualitative problem. And then, if you completely change your thinking about tax credits, and remember my response on the AMT, and think about the various credits as simply banking revenue against the day

that we have to make fundamental reform to solve the trillion dollar plus problems. Then a little bit of time in that structure doesn't look so bad.

If you had a broader concept of where you want to go, but couldn't get there...(inaudible)

**SCOTT HODGE:** Well thank you very much.