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BAUCUS ANNOUNCES GOALS FOR NEW TAX CODE FOR NEW ERA

Finance Chairman Says Tax Reform is Opportunity to Put America Back on Top

Washington, D.C. – In a keynote address delivered at the Bipartisan Policy Center today, Senate Finance Committee Chairman Max Baucus (D-Mont.) laid out his goals for comprehensive tax reform. Baucus said tax reform is an opportunity to cement America's lead in the 21st century global economy, and focusing reform on jobs, competitiveness, innovation and opportunity is the way to accomplish that. The full text of Baucus's speech, as prepared for delivery, follows here:

A Tax Code for the 21st Century

Winston Churchill once said, "However beautiful the strategy, you should occasionally look at the results."

The need to overhaul the U.S. tax code seems obvious. Today, the code is certainly not beautiful. Instead, it reminds me of Hydra, the mythical Greek beast with hundreds of heads.

Each time you cut one off, two more grow back. Like Hydra, our tax code is growing out of control. Since 1986, Congress has made 15,000 changes to the tax code.

Everyone agrees we need to get rid of the dead wood and simplify the code, and we should. But tax reform can't be an abstract, academic exercise.

We need to heed Churchill's advice. We should start with a clear understanding of the results we want to achieve.

A 21st-century tax code must promote four goals. These goals are the keys to America's future and securing our lead in the global economy:

- Jobs from broad-based growth,
- Competitiveness,
- Innovation, and
- Opportunity.

These four goals will be at the heart of my tax reform plan. But there are challenges to overcome.

Deficits and Debt

We need to get our fiscal house in order. America's deficits and debt are unsustainable. Today the debt-to-GDP ratio is 73 percent, the highest it has been since World War II.

Deficits and debt are not just a spending problem. Revenues as a share of GDP over the past few years are the lowest they have been since World War II. We simply don't raise enough revenue.

Reasonable people disagree about the timeline. But the reality is we're on a dangerous path. If we don't act, it could lead towards fiscal crisis like some European countries. Any tax reform plan must be developed with a sound budget in mind that reduces deficits and debt. But the deficit is not our only hurdle – not by a long shot.

Since the last major tax reform in 1986, the world has changed drastically. Our tax code hasn't kept up, and now it's acting as a brake on our economy when we need to move at full speed. It's time we had a tax code for the 21st century.

How the World Has Changed

When we crafted the '86 law, I was a member of the Finance Committee – granted, a young buck. It was, in many ways, a different world. Back then, cellphones were bigger than your head. Finding something “online” only meant you pulled a rainbow trout out of the Blackfoot River. Madonna topped the charts – well, I guess some things don't change.

Lack of shared growth, demographic changes, education problems

The world has also changed in more profound ways. Since 1986, the U.S. economy has grown by 88 percent, but this rising tide has not lifted all boats.

After benefits and taxes, the income of the top one percent of taxpayers has grown almost eight times faster than the middle over the past 30 years. And it has grown 15 times faster than the poorest 20 percent.

Tax policy can play a role solving this, but it can't do it alone.

We are not educating our children to be competitive in today's technology and information based economy. Over the past 15 years, the percentage of young Americans with a college degree increased by only 15 percent. Meanwhile, among our foreign competitors, that percentage increased by 90 percent.

We are also in danger of no longer being seen as the land of opportunity. An American child's future earnings depend more on his parents' income than in other countries.

This lack of opportunity undermines the American Dream. It hurts growth. It means we're not capitalizing on all our citizens' talents.

Family structures today are also different than they were in '86. There are fewer traditional married couples with one breadwinner, and more single parents and working couples. This means more families need to pay for child care, but the tax code hasn't taken these changes into account.

Shift in U.S. Economy to Services, Exports

The makeup of the U.S. economy is also different today than it was in '86. The number of Americans in manufacturing jobs has dropped by a third. Services like consulting and information technology make up a bigger part of our economy.

Our exports as a share of GDP have nearly doubled, and we're exporting different kinds of products. The U.S. used to mainly export goods like television sets and clothing. Today we export financial services, software and engineering.

Increase in World Competition

The global economy has become more interconnected. America's lead in the world has narrowed; our share of world GDP has fallen by nearly a quarter. Competition has intensified.

Other countries have responded by making investments in education and infrastructure – and by modernizing their tax codes – to be more competitive.

They have lowered corporate rates to attract businesses. They have shifted to territorial systems to keep their companies from moving overseas. And they have tougher rules against shifting profits to tax havens.

These tax games are easier in today's world where companies' most valuable assets are patents instead of factories.

In contrast, the U.S. has one of the highest statutory corporate tax rates in the world. We give countless tax breaks to business, but many don't attract or retain investment. That's a waste.

We have stuck with a worldwide system. But in some ways, we have weakened protections against shifting income to tax havens. As a result, the U.S. loses billions in revenue every year to tax havens. We also lose jobs to foreign companies acquiring U.S. firms.

In the past two decades, the number of U.S.-based companies on the Fortune Global 500 list has declined by 20 percent. Foreign companies increasingly acquire U.S. businesses. American jobs are often lost in the process.

Two years ago, the European company Unilever acquired Alberto Culver, a U.S. company based near Chicago. They closed down the Illinois production facility. Hundreds of Americans lost their jobs.

When it comes to international tax rules, we seem to have the worst of all worlds. We haven't kept up, and it's time to change.

Tax reform as an opportunity to secure our lead in the world

How do we do that? We use tax reform to get the results our economy needs:

- Jobs,
- Competitiveness,
- Innovation, and
- Opportunity.

Creating Jobs through Broad-Based Growth

First and foremost, we need to create jobs. Jobs come from broad-based growth.

We can do this, in part, by trimming the fat from the code. Most economists agree that lowering rates and paying for it by getting rid of tax expenditures generates growth. Tax breaks have doubled since

1986. They now cost as much in revenue as the entire income tax brings in. Some are worthwhile, but many fail to create jobs or growth.

And the uncertainty in the code impedes growth. There were only 14 expiring tax provisions after the '86 Act. Today, there are 132. That makes it tough for families and businesses to plan or invest in their futures.

We need to take a hard look at each and every expiring provision to decide which to make permanent and which to eliminate.

We need to get out of the way of the market, unless there is clear evidence that a tax expenditure spurs growth and creates jobs.

Every tax provision needs to prove it has a tangible benefit to our economy or society. If not, it doesn't belong in the tax code.

Boosting Competitiveness and Responding To Economic Changes

Second, we need to support American competitiveness. The tax code must adapt to the changes in the global economy since 1986.

We need to update our corporate tax rules to prevent companies from shifting profits to tax havens where they haven't earned any income. We need to reduce U.S. companies' incentive to move overseas. Plenty of U.S. companies are choosing to keep jobs here at home. We need to encourage that.

Fostering Innovation

Third, we must support innovation here at home. Microsoft and Apple both started as smart ideas born in American garages. There's a reason why Silicon Valley and Silicon Alley are in America. It's because we're innovators.

The tax code needs to bolster this innovation. Innovative companies create jobs. Today's economy depends more on innovative fields like high-tech manufacturing and intellectual property.

We can use tax measures to put research and new technologies on a more level playing field with existing technologies, particularly in the energy sector.

Promoting Opportunity

Finally, we need to promote opportunity. Tax reform can boost shared growth and make our society more of a meritocracy.

Many tax benefits, including for education, currently give the most help to those who already have the most opportunities. Tax reform should refocus these benefits to help those who started out with fewer opportunities. We should ensure more students get more education.

Americans are the most creative, driven people in the world. Education is the key to unlocking our potential, and it's one of the best investments we can make as a nation. A college graduate working full-time earns nearly a million dollars more over his lifetime than a high school graduate. Promoting education and opportunity will pay dividends.

A Focus on Results

We can accomplish all of this with tax reform. We can get results: jobs through broad-based growth; a tax code that puts America and our businesses in the best position to compete in the global economy; more home-grown innovation; and opportunity so all our citizens have a chance at the American dream.

Much of the talk in Washington these days is focused on the so-called fiscal cliff. We need to address those crucial spending and tax decisions by the end of this year. We must reach agreement on a long-term, balanced deficit reduction plan. As the Bipartisan Policy Center's plan recognizes, everyone needs to contribute.

Deficit reduction must include both spending and revenues. It needs to ramp up over time, to avoid slowing down the economic recovery. But as we address the deficit, we must look two steps ahead to the next great challenge on the horizon – tax reform.

Tax reform is a once-in-a-generation opportunity. We can cement America's preeminence.

The work has begun. Last year, the Finance Committee began a comprehensive review of America's tax system. We have held numerous roundtable discussions. We have reached out to businesses, labor groups, tax experts and many others for input. We've held hearings to study the specifics. And I'm making progress on a detailed tax reform proposal that will attract bipartisan support.

We know tax reform won't be easy. We will need to slay some sacred cows. When favorite tax breaks disappear, someone will always be unhappy. But that's the wrong way to look at it.

The right way to look at it is to focus on results.

Tax reform can create jobs. It can spark innovation. It can expand opportunity. It can guarantee our competitiveness. It can put America back on top.

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