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**Committee for a Responsible Federal Budget**  
**Statement for the Record for the Committee on Ways and Means**  
**Hearing on “How Tax Reform Will Grow Our Economy and Create Jobs**  
**Across America.”**  
**May 18, 2017**

Chairman Brady, Ranking Member Neal, and distinguished Members of the Committee on Ways and Means:

Thank you for the opportunity to provide written testimony for the Committee’s May 18 hearing on “How Tax Reform Will Grow Our Economy and Create Jobs Across America.”

It has been more than 30 years since the United States last reformed the federal tax code, and the need for modernization is as great as ever. The current code is a drag on growth—discouraging work, savings, and investment while encouraging investment decisions based on tax planning rather than sound business practice. Our statutory corporate income tax rate is among the highest in the world, discouraging foreign investment and putting American businesses at a disadvantage relative to international competitors. The code also includes [\\$1.6 trillion](#) in annual tax breaks that lose revenue, undermine fairness, and distort economic decision-making.<sup>i</sup>

At a time when demographic headwinds will make it much harder to achieve the high growth rates experienced in the past, tax reform is one of the most important tools for boosting growth that policymakers have at their disposal.

**Deficit-Financed Tax Cuts Can Be Counterproductive.** While comprehensive tax reform can help grow the economy, debt-financed tax cuts are less likely to be effective and may even slow growth. Higher government debt crowds out private investment, which over time can dampen economic activity more than lower tax rates boost it. The best way to ensure tax reform promotes economic growth is to reduce both tax rates and budget deficits.

**Fiscally Responsible Reform Is More Pro-Growth.** The Joint Committee on Taxation (JCT) has [estimated](#) that revenue-neutral individual tax reform that lowers rates and broadens the tax base could increase the size of the economy by 1.1 to 1.8 percent in the long-run.<sup>ii</sup> JCT also estimated that revenue-raising tax reform of the same design would be even more pro-growth, increasing the long-run size of the economy by 1.7 to 2.2 percent, because it would help slow the unsustainable rise in government debt that is otherwise projected to crowd out private investment and hold the economy back.



**Faster Growth Would Help the Fiscal Situation.** There are enormous benefits to faster economic growth, including higher wages, more jobs, and greater economic security. Faster growth also means more taxable income and thus tax revenue generated without increasing tax rates. A 0.2 percentage point increase in the annual growth rate, for example, would reduce deficits by about \$550 billion over a decade and reduce debt in 2027 by about 4 percent of Gross Domestic Product (GDP), a small but meaningful down payment.

**Dynamic Revenues Should Be Devoted to Deficit Reduction.** Given our daunting long-term fiscal gap, any revenue tax reform might generate through greater economic growth should go toward reducing projected budget deficits. Here you should follow the lead of former Chairman Dave Camp. JCT estimated that his “Tax Reform Act of 2014” would have generated between \$50 and \$700 billion in dynamic revenue, which Chairman Camp [devoted](#) to deficit reduction rather than additional rate cuts.<sup>iii</sup>

Importantly, if the gains from growth are used to finance tax reform, they cannot also be used to help address our mounting debt. The same funds cannot be used twice.

As the Committee moves forward in developing the pro-growth tax reform the country needs, we stand ready to work with you to help develop a plan that is fair, pro-growth, and fiscally responsible. Our principles for tax reform are available [here](#).<sup>iv</sup>

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<sup>i</sup> <http://www.crfb.org/blogs/jct-estimates-record-16-trillion-tax-breaks-2017>

<sup>ii</sup> [https://www.finance.senate.gov/imo/media/doc/Comprehensive Tax Reform for 2015 and Beyond5.pdf](https://www.finance.senate.gov/imo/media/doc/Comprehensive%20Tax%20Reform%20for%202015%20and%20Beyond5.pdf), p. 336

<sup>iii</sup> <http://www.crfb.org/blogs/camp-makes-more-fiscally-responsible-choices>

<sup>iv</sup> <http://www.crfb.org/papers/principles-responsible-tax-reform>