WASHINGTON – Sen. Chuck Grassley of Iowa today gave a statement on the Senate floor explaining that tax increases historically have not reduced budget deficits, only fueled more federal spending.

Video of his speech and the speech text follow here.

Prepared Remarks of U.S. Senator Chuck Grassley

Senate Floor Debate on S. 1323, the Millionaires Tax Resolution

Tuesday, July 12, 2011

As the President and Congressional leaders continue to debate how best to reduce the deficit, it seems that my friends on the other side of the aisle continue to demand tax increases as part of any deal. For sure, any discussion on reducing the deficit should include a discussion on tax reform.

However, what is being discussed currently is tax increases on targeted groups supposedly because they can afford it. This is not tax reform.

Professor Vedder of Ohio University has studied tax increases and spending for more than two decades.

In the late 1980s, he co-authored, with Lowell Galloway also of Ohio University, a research paper for the congressional Joint Economic Committee that found that every new dollar of new taxes led to more than one dollar of new spending by Congress. Working with Stephen Moore of the *Wall Street Journal*, Professor Vedder updated that research last year and came to the same result.

Specifically, they found, and I quote, that "Over the entire post World War II era through 2009, each dollar of new tax revenue was associated with $1.17 in new spending."

So history proves tax increases result in spending increases and so we know that increasing taxes is not going to reduce the deficit.

History also shows that tax increases don't increase revenues. This chart here shows that revenue as a percentage of gross domestic product hovered around 20 percent as far back as the post-World War II years. This chart also shows the highest statutory tax rates for those same years.

During the last years of World War II we had a 94-percent top rate. From 1950 through 1963, the rate hovered around 90 percent.

Then, President Kennedy reduced it to about 70 percent.

It stayed around 70 percent until President Reagan brought it down to 50 percent. As a part of tax reform in 1986, it went down to approximately 30 percent.

Then, the first President Bush reneged on his promise to not raise taxes and the marginal rate went back up to almost 40 percent. It stayed there until the tax relief enacted under the second

President Bush.

During all of these tax increases and decreases, the amount of revenue as a percentage of gross domestic product stayed the same.

So, everybody thinks that if you raise the marginal tax rates, you will bring in more revenue. But the taxpayers, workers, and investors of this country are smarter than we are. We’ve had a 93-percent marginal tax rate -- then 70 percent, 50 percent, 30 percent, 40 percent and now a 35-percent marginal tax rate. But, regardless of the rate, we get the same amount of revenue. Higher tax rates just provide incentives for taxpayers to invest and earn money in ways that result in the least amount of taxes paid.

In other words, taxpayers have decided they are going to give us politicians in Washington just so much of their money to spend.

And, it works out to be about 18 percent of gross domestic product.

We ought to have some principles of taxation that we abide by. I abide by the principle that 18 percent of the gross domestic product of this country is good enough for the government to collect and spend. That leaves 82 percent in the pockets of the taxpayers for them to decide how to spend.

This benchmark of 18 percent of gross domestic product is good and it has been consistent throughout recent history. It is a principle we should keep in mind while we debate tax code changes.

There is another principle we should keep in mind. That is the purpose of the tax laws. Those who support resolutions like the one we are currently debating assume that a key objective of the federal government, through the federal income tax laws, should be to ensure that income is distributed equally throughout the country. In other words, these folks believe that the federal government is the best judge of how income should be spent.

Resolutions, like the one we are considering today, assume that the 535 members of Congress know how to best spend the resources of this country.

It assumes that government creates wealth and should therefore spread it around like they do in Europe.

In fact, government doesn't create wealth – it consumes it. Only workers and investors and people who invent and people who create, create wealth.

Yet, as history shows, there is evidence that tax increases lead to more spending and that revenues as a percentage of gross domestic product pretty much stay the same - even when the marginal tax rate is high.

It would be one thing for me to vote for a tax increase if it went to the bottom line.

It is another thing to vote for a tax increase that just allows more spending and raises the deficit instead of getting the deficit down.

The Resolution before us now in the Senate requires us to concede “that any agreement to reduce the deficit should require that those earning more than a $1,000,000 or more per year make a meaningful contribution to the deficit reduction effort.” The Resolution does not state that such a “meaningful contribution” would be accomplished through tax increases. But how else would these folks make such a contribution?

Let me make clear that I do not support this resolution and will vote No on its adoption. However, I believe it is high time we’ve had a debate about this issue.

It is clear that those who support this resolution believe that those earning more than $1,000,000 or more per year are not paying their fair share. Note, however, that just last year, they believed that a single person who earned $200,000, or a married couple that earned $250,000, wasn’t paying their fair share.

In evaluating whether people are paying their fair share, experts frequently look at whether a proposal retains or improves the progressivity of our tax system.

Critics of lower tax rates continue to attempt to use distribution tables to show that tax relief proposals disproportionately benefit upper income taxpayers. We keep hearing that the rich are getting richer while the poor are getting poorer. This is not an intellectually honest statement as it implies that those who were poor stay poor and those who are rich stay rich.

In 2007, the Department of Treasury published a report titled "Income Mobility in the U.S. from 1996 to 2005." The key findings of this study include, and I quote:

- · There was considerable income mobility of individuals in the U.S. economy during the 1996 through 2005 period as over half of taxpayers moved to a different income quintile over this period.

- · Roughly half of taxpayers who began in the bottom income quintile in 1996 moved up to a higher income group by 2005.

- · Among those with the very highest incomes in 1996 – the top 1/100 of 1 percent – only 25 percent remained in this group in 2005. Moreover, the median real income of these taxpayers declined over this period.

- · The degree of mobility among income groups is unchanged from the prior decade (1987 through 1996).

- · Economic growth resulted in rising incomes for most taxpayers over the period from 1996 to 2005. Median incomes of all taxpayers increased by 24 percent after adjusting for inflation. The real incomes of two-thirds of all taxpayers increased over this period. In addition, the median incomes of those initially in the lower income groups increased more than the median incomes of those initially in the higher income groups.

Therefore, whoever is saying that once rich, Americans stay rich, and once poor, they stay poor, is purely mistaken. Internal Revenue Service data supports this analysis. A study of the 400 tax returns with highest income reported over 14 years - from 1992 through 2006 - shows that in any given year, on average, about 40 percent of the returns that were filed were not in the top 400 in any of the other 14 years

The so-called "shared sacrifice" resolution before us now does not acknowledge these trends.

It presupposes that anyone making over a $1,000,000 should be contributing more to reduce a deficit that they likely did not create. The resolution assumes that the folks in this income category have always made more than a $1,000,000, that they haven't paid their dues on their way up the ladder of success and, as a result, should pay a penalty for their current success. The resolution also assumes that these folks will continue earning what they are earning now.

As I just noted, however, the Treasury report and IRS tax return data contradict this position. I welcome this data on this important matter for one simple reason: it sheds light on what America really is all about -- vast opportunities and economic mobility.

Built by people from all over the world, our country truly provides unique opportunities for everyone.

These opportunities include better education, health care services, and financial security. But most importantly, our country provides people with the freedom to obtain the necessary skills to climb the economic ladder and live better lives.

We are a free nation. We are a mobile nation. We are a nation of hard-working, innovative, skilled and resilient people who like to take risks when necessary in order to succeed.

We have an obligation as lawmakers to incorporate these fundamental principles into our tax system.

During this deficit reduction debate, we have also heard much about "closing loopholes." Let me just say that if there are, in fact, loopholes to be closed, I would support closing them.

During my tenure as Chairman and then Ranking Member of the Finance Committee, I worked with colleagues from both sides of the aisle to cut off tax cheats at the pass.

The American Jobs Creation Act signed into law in October 2004 included a sweeping package to end tax avoidance abuses such as corporations claiming tax deductions for taxpayer-funded infrastructure such as subways, sewers, and bridge leases, corporate and individual expatriation to escape taxes, and Enron-generated tax evasion schemes.

One of the tax avoidance provisions that the Jobs bill shut down was so-called corporate inversions. Average workers in America can't pull up stakes and move to Bermuda or set up a fancy tax shelter to avoid paying taxes. Companies that do this make suckers out of workers and companies that stay in the United States and pay their fair share of taxes.

We also closed loopholes used by individual taxpayers. The Jobs bill contained a provision that restricted the deduction for donations of used vehicles to actual sales price.

Prior to that fix, individuals could claim inflated fair market values.

Then, in the Pension Protection Act, which was signed into law in August 2006, I championed reforms to deductions for gifts of fractional interests in art as well as donations to charities that were controlled by donors. In both cases, individuals were taking huge deductions for donations without providing equivalent benefits to the charities to which they donated.

In addition to ensuring that income and deductions are properly reported, I also supported giving the Internal Revenue Service more tools to go after tax cheats.

The Jobs bill contained provisions that required taxpayers to disclose to the IRS their participation in tax shelters and increased penalties for participating in such tax shelters as well as not disclosing such participation to the IRS.

I also authored the updates to the tax whistleblower provisions that were included in the Tax Relief and Health Care Act, which was signed into law in December 2006. There was a whistleblower statute before 2006. But, because of the low dollar thresholds, it encouraged neighbors to blow the whistle on their neighbors.

The 2006 changes I championed increased the awards for those blowing the whistle on the big fish – individuals and businesses engaged in large-dollar tax cheating through complex financial transactions. The first pay-out under this new provision was made in April of this year and recovered $20 million for the taxpayers that otherwise would have been lost to fraud.

These are just a few examples of my support for provisions to stop abuses of the tax code to make sure everyone pays their fair share. If and when we get around to considering comprehensive tax reform, I would look forward to shutting down any other abuses that might still exist. But first we need to be clear on what a loophole is.

Itemized deductions may be tax expenditures but they are not loopholes. Similarly, deductions and tax credits that enable a corporation to zero out its tax liability are not loopholes. The question of whether deductions and credits should be limited is a question that should be answered in the context of comprehensive tax reform. Eliminating deductions and credits for certain taxpayers should be subject to extensive review and debate. And taxpayers shouldn't be targeted for tax increases for political sport, as the Resolution before us does.

Let me finish by restating my three key points. First, tax increases don't reduce deficits and they don't increase revenue as a percentage of gross domestic product. Second, we ought to have some principles of taxation that we abide by. Limiting revenues to the historical average of 18 percent of gross domestic product should be one while ensuring income equality should not be one. And last, but not least, it is right to consider tax reform when discussing deficit reduction. However, the proposals put forth so far, including the current resolution, are political proposals -- not reform proposals. Tax reform requires Presidential leadership and we have not seen that yet.

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