

## **TAX COUNCIL POLICY INSTITUTE**

### **LAWRENCE B. GIBBS' PILLAR OF EXCELLENCE REMARKS**

**February 13, 2013**

Ron and Lyn, thank you for your kind and gracious remarks. I also would like to thank each of the members of the governing boards of The Tax Council and the Tax Council Policy Institute for their support and leadership in the Federal tax policy area.

For the last 14 years we have been treated to excellent annual symposia on important tax policy issues. Thoughtful, incisive, and helpful programs each year with lots of hard work by many folks have produced panels and speakers who have enlightened, educated, and entertained us. This year is no exception. I thank and congratulate the panels and speakers on this year's program as well as the members of the Planning Committee and Ernst & Young as this year's program manager. I also thank all of the prior years' planning committee members and program managers for their efforts to improve our country's tax policies over the last 14 years.

I would like to spend a moment to very briefly comment on what seems to me to be one of the most pressing policy issues today, one that was addressed most eloquently and urgently by Alice Rivlin two years ago at our 2011 symposium, namely: the need for leadership and action to find constructive ways to effectively reform our Federal entitlements programs as they are currently structured.

As Alice Rivlin told us and as Pete Domenici, Alan Simpson, Erskine Bowles, Bill Frenzel, Timothy Penny, Charlie Stenholm, and many others have repeated, there are alternative ways to reduce the costs of our entitlements programs. Admittedly, the alternatives are not painless. But as we are learning, it also can be painful to continue to fail to deal with such costs. And as we have learned from experience, the longer we wait to reduce spending that cannot be sustained, the more painful it will be if we wait and allow future events to force us to face up to inevitable spending reductions.

For at least the last 30 years, we have recognized that the demographic shift caused by the aging and retirement of the baby boomers would create a need to deal with the related escalation in the costs of our Federal retirement and healthcare programs, Social Security and Medicare. We have known that between 2010 and 2015 the costs of these entitlements programs would begin to increasingly exceed their funding as fewer and fewer workers supported more and more retirees. We also have known that unforeseen events – like the 2008 recession – could exacerbate not only the cost of our failure to reform these entitlements programs but also the size of the risks if we fail to do so.

On a bipartisan basis for the last 30 years, our politicians uniformly have failed to deal with these costs, believing that any effort to do so would be the equivalent of political suicide. And yet the challenge of such difficulties would normally be precisely what President's second terms are good for. Nevertheless, the second terms of President Reagan, President Clinton, President Bush, and apparently President Obama have failed to produce sufficient leadership to deal with a spending problem that has been recognized repeatedly by members of both of our political parties as the number one economic problem facing our nation.

It is all well and good to discuss tax reform. But unless and until we reform our entitlements programs, it is my conclusion that no appropriate, effective, or long lasting tax reform is likely to be possible. I submit that much of the hash that has been made of our tax laws over the last 26 years since the 1986 Tax Reform Act was passed support my conclusion. Tax reform without entitlements reform simply has not worked. I submit that the events of the last two years since Alice Rivlin addressed us and since we had such excellent presentations about the prospects of corporate tax reform support the conclusion that corporate and individual tax reform on a stand-alone basis without meaningful entitlements reform is unlikely to produce the desired results.

I will put it to this audience very simply. If you believe that the ability to reduce and sustain a lower corporate tax rate and to deal appropriately with the U.S. taxation of business income in the global economy is possible without significant reform of

entitlements programs, I believe you are likely to be sadly mistaken. To support my conclusion I cite the ongoing corporate tax legislative proposals that ignore any overall tax reform and are simply designed to raise revenue to meet costs that in large part result from our failure to reform our entitlements programs.

I, therefore, respectfully but emphatically urge the business community, the Tax Council, and the Tax Council Policy Institute to couple your message about the need for corporate tax reform with the need to reform the entitlements programs. I believe that any further necessary revenue raising could and should be possible in the context of tax reform if we combine tax reform with a meaningful reduction in entitlements spending. However, I conclude that the two must occur simultaneously if either is to be effective. If politically or otherwise, that is not possible, then I believe an effort to significantly reform and reduce the impact of present entitlements programs must take priority.

If the entitlements programs are not reformed, I sincerely doubt that appropriate, thoughtful, long lasting tax reform is likely to be possible. I also believe the fiscal risks of failing to make substantial reforms to our entitlement programs are too significant as risks to our country for us to continue to take them.

I respectfully disagree with those who suggest that a consumption tax to increase revenue is needed to obviate the need to reform our entitlements programs. Spending more and failing to reduce unsustainable, mounting debt certainly does not work in the private sector, and I do not believe we should risk trying it in the public sector. We are well past the time to be able to kick entitlements reform on down the road. I believe we must find ways to cause our leaders to begin to take steps now to reduce the impact of unsustainable entitlements spending and our mounting national debt.

Thank you.