

I yield time to the Senator from Utah.

The PRESIDING OFFICER. The Senator from Utah.

TAXES

Mr. BENNETT. Madam President, we are all waiting for the conferees to come back to us with the tax bill. As we do that, I thought it might be appropriate for me to talk a little bit about some of the rhetoric that has surrounded the issue of taxes in the time we have together.

If I may, I will be a little personal because I have experience with the issue of marginal rates which might be of some value to this debate and which I would like to share.

As many Members of this body know, I was one of the founders of a business that started in what the pundits have come to call the decade of greed; that is, the 1980s. In that period of time, that which has been most commented on and most decried by the pundits is the fact that the top marginal tax rate was 28 percent.

We are talking now about an attempt on the part of President Bush to bring that tax rate down to 33. It is pretty clear from the conversations I have had with the conferees that that is not going to happen. I think it will be somewhere in the neighborhood of 35.

Someone said: Why does Michael Jordan need a tax cut? Why does Ross Perot need a tax cut? Why does Donald Trump need a tax cut? Isn't it proper that they continue to pay the lion's share of the taxes in this country? And they do. The people in the top 1 percent pay most of the taxes. To put it in another statistic: The top 400 taxpayers—this is less than 1,000 tax returns—pay more than 40 million of the taxpayers down below; 400 pay more taxes in dollars received than 4 million people down below.

Why do those 400 need a tax cut? They have plenty of money. That is the argument we hear.

I will concede that I don't think Michael Jordan needs a tax cut; I don't think Donald Trump needs a tax cut; and I don't think Ross Perot needs a tax cut. But under the Constitution, we have equal protection of the laws, which means if you provide a tax cut for someone, for a good and logical reason, someone else who happens to be in the same boat, even if he is rich, gets the same equal protection of the law and gets the same tax cut. So it is the side effect, if you will, that Michael Jordan gets a tax cut.

Here is the experience I had which I think gets ignored over and over and over again in the rhetoric that is thrown out with respect to tax rates. As I say, my associates and I started our business during the decade of greed when everybody was saying it was so terrible that the top marginal tax rate was 28 percent. We used, as most businesses did at that time and many businesses still do now, a provision of the

tax law that is known as section S of the tax law. Those who use it are known as S corporations as a result of their election.

All that means simply is that the profits of the corporation are not taxed at the corporate level. They flow through, as the Tax Code provides, to the individual tax returns of the shareholders.

We had five principal shareholders. That meant that as the corporation earned money, that money flowed through to our tax returns. If I can be fairly dramatic, in terms of the impact on me, I was earning my salary as the CEO of that company, which I and my wife thought was a relatively modest salary, but I filed a tax return showing that I had earned more than \$1 million. Why? Because my share of the profits of the corporation showed up on my tax return.

Now it made absolutely no difference whatsoever to my take-home pay, which was tied to my salary, because the corporation did not give me any money beyond the money necessary to pay my share of the taxes. Why would we do that?

There are two reasons we made the S corporation. The first and primary reason is that we wanted to avoid double taxation. If the corporation earned \$1 and paid corporate taxes on it—and let's take the corporate rate at the time, which I believe was 38 percent—if the corporation earned \$1 and paid 38 cents of that dollar to the Federal taxes and then gave the resulting money to the shareholder, the shareholder would then have to pay taxes a second time on the money that came as a dividend. If you make an S corporation, you only pay taxes once instead of twice. That is the primary reason people make the S choice.

The second reason was that if we did the S choice, we only paid 28 percent on that \$1 earned instead of 38 percent on that \$1 earned. Naturally, we wanted to save the extra 10 percent, 10 cents on the dollar.

Many people have the idea that when you earn money, you buy yachts and you take vacations and you waste the money overseas in what the Scriptures would call "riotous living." In fact, of course, when you are growing a business, you need every penny. It goes into inventory. It goes into accounts receivable. It goes into capital investments. If the business is growing—and our business was doubling every year; it did that for about 6 years running—you are always behind.

Indeed, I say to the students in business school, when I am asked to talk to them about this, the most terrifying thing you can do in a start-up business is make a profit, because then you owe taxes. Uncle Sam shows up and wants his tax money in cash.

You don't have it in cash because, as I say, your profits are all tied up in inventory, all tied up financing your growth. You end up, in most instances, borrowing cash from the bank in order to pay your taxes.

We paid a marginal rate of 28 cents out of every dollar we earned, and we plowed every one of the remaining 72 cents back into that business to make it grow. Our salaries did not increase. My take-home pay actually went down when that extra \$1 million showed up on my tax return, because then I was being treated, as far as the Federal Government was concerned, as if I were a basketball star earning that \$1 million, and that wiped out all of my deductions. That may not matter much to some people, but we had six children at the time, and that constituted a fairly significant amount of deductions that all of a sudden we couldn't take because we were "rich."

My take-home pay on my W-2 pay hadn't changed. The amount of money I was being paid by the corporation had not changed.

All that had changed was the bookkeeping entry on my tax return. Well, I am not complaining because the business was successful—so successful that we could look back on it now and realize that that business started literally in somebody's basement, with 2 employees, a husband and a wife, that then doubled to 4 employees, and that is how many they had when I joined them; I made No. 5. That business is now employing about 4,000 people. They are paying literally millions of dollars in Federal taxes, both the corporation taxes, the income taxes of the payrolls that have been generated with those 4,000 folks, plus the suppliers, plus all the rest of it. It is a fairly typical American success story.

The point of all this is not to bother you with details of my experience, but to point out that the difference between the top marginal rate of 28 percent that we pay and the current effective rate of 42 percent is 50 percent of the original amount; 14 points out of the 28 percent have been added on to the 28 percent. I suggest to you that if we were trying to start that business today, we would not have been able to finance it.

Many of the people who looked at this business said to us: How are you doing this? This growth is phenomenal. How are you creating these jobs?

We said we did it with internally generated cash. We didn't sell stock; we didn't go to the bank, although we had a credit line at the bank, of course. But we did it because we were able to save enough of the profit dollars we earned to pay for the growth of that business and create those jobs.

You can never say anything with certainty with respect to hypotheticals, but it is my conviction that if we were starting that business today, facing an effective tax rate of 42 percent, we would not succeed. We could not afford to do it. Therefore, we would not have created the 4,000 jobs that exist now.

The point I want to make with respect to the top marginal rate is that it does not just apply to the Michael Jordans and Donald Trumps of this world. That marginal rate applies to

the entrepreneurs who are trying to do the same thing my associates and I were lucky enough to do—start a business, create jobs, add to the growth of this country, and discover as they go along that they need to hang on to every penny they earn to finance that growth, and every additional percentage point that we in the Congress put on the marginal rate hampers the opportunity of people to do that.

Senator GRASSLEY, chairman of the Finance Committee, has offered the statistics of how many hundreds of thousands of small businesses trying to become big businesses are affected, how many hundreds of thousands of them, with their subsequent millions of employees, would be benefited by the kind of tax relief at the top brackets that President Bush is urging us to pass.

We never hear that from the folks in the national media. Sometimes I wish that some of the people who are the talking heads on the shows on Sunday, who pontificate with such certainty about economic matters, might just take a few weeks off from their situation in front of the cameras and come out into the real world and try starting a business, try employing people, try creating jobs, and discover that life is a little different. Some in this Chamber have that experience.

Comments were made by one of the more distinguished Members of this Chamber who ran for President in 1972—the Democratic nominee, Senator McGovern. He was firmly and solidly in the camp of those who insist that top marginal rates should be higher and higher and Government should regulate more and more. He tells the story of how, after his political career was over, he still had enough notoriety left over that he could give some speeches and earn some money for those. As he was paid honoraria for the speeches, he accumulated some money and he decided: Now is the time for me to relax a little. I will buy a business.

He bought an inn in New England. Maybe he watched Bob Newhart's show and he thought that would be a nice thing for him to do—whatever. He has come back and said: If I had had the experience actually running a business in the real world before I became a Senator instead of afterwards, I would have been a very different kind of Senator. I would have had a very different view about regulations and taxes and the way the Government interferes with people's lives.

This came from a man who at the time was labeled the most left of all of the Presidential nominees put up by either party in a generation. Coming back from the actual experience, he finds things are really different in the real world than they are on the Sunday talk shows, and sometimes as they are portrayed in the Senate.

So while it may sound too personal for me to share this experience, I think it may have some value because we need to understand, as we are voting on

this marginal tax rate, that we are talking about something far more than just the amount of taxes Michael Jordan or Donald Trump or Ross Perot may pay. We are talking about hundreds of thousands of businesses in this country that have been slowed in their growth, slowed in their ability to create jobs by seeing a jump in the effective rate go from 28 percent, which it was prior to 1991, to an effective rate of 42 percent now. And then people are beginning to wonder why there are some slowdowns in the economy.

There is another point I want to make about this issue and the rhetoric that has gone around about it. We are told over and over again that the primary benefits go to the top 20 percent and the folks at the bottom 20 percent don't get anything out of this. That is terrible, we are told, and we must somehow find a way to use the Tax Code to take the money from the top 20 percent and make it available to the bottom 20 percent.

There are several things that need to be said with respect to this argument. The first is the statistically obvious one. As long as you are dealing with 100 percent and dealing in percentages, you are dealing in what the mathematicians call a zero sum game; that is, you take a sum from this side, it must be added to that side, and everything in the end, one subtracted from the other, gives you zero, because everything equals.

The economy is not a zero sum game. Neither is society. If you are talking about the top 20 percent, you will always have a top 20 percent. You can't have a 100-percent scale without statistically and mathematically having a top 20 percent. So the top 20 percent will never disappear. No matter how much you make an attempt to take money from the top 20 percent and put it in the bottom 20 percent, mathematically, somebody else will always show up in the top 20 percent.

The second point, however, is the more important one, and that is, in America, more than in any other economy and any other society in the world, there is fluidity all up and down the economic scale.

If I may be personal once again, let me demonstrate that. I have been in the bottom 20 percent. I am an entrepreneur. I start businesses. Most of the businesses I have started have failed. That is the way entrepreneurs live. I sat down when I got an award as entrepreneur of the year and said: Am I really?

I did a little calculation, and up to that time I had been involved in 11 different businesses that would be considered startups or turnarounds, 11 different entrepreneurial activities. Of those 11, 4 failed outright—just flat died. Four we managed to sell before there was any profit or loss; we broke even and got out. Only three of those businesses survived. Of the three that survived, only two really were major successes. One of the three was a minor

success that was on a plus, so I have to include it. So there is the track record: Out of 11, basically there are 2 success stories.

While I was in one of the others that was not a success story, I was in the bottom 20 percent. Indeed, I was in the bottom of the bottom. I was getting no income. I was dipping into my savings, and when the savings were gone, I was going into debt. I was paying the payroll of the business on my American Express card, and then my American Express card got canceled because I hadn't made the payments on it.

Statistically, I was in the bottom 20 percent. It was not 5 years after that somewhat dispiriting experience that I was in the top 20 percent. One of those entrepreneurial efforts hit, and when it hits, it hits rapidly, at least in my experience. I went through the bottom 20 percent, the next 20 percent, the next 20 percent, the next 20 percent, up to the top 20 percent pretty fast.

Did I get from the bottom 20 percent to the top 20 percent because the Government took money from the top 20 percent and gave it to me while I was in the bottom 20 percent? No, I got there because the American economy makes it possible for entrepreneurs to have this kind of success story.

Quite frankly, since I have been in the Senate, I have gotten out of the top 20 percent. I have started coming back down again. That sort of fluidity happens to us all the time.

I have used the name of Donald Trump. Donald Trump has been from the top to the bottom to the top again as his real estate ventures go good and go bad.

The problem is not the statistical one of where people are at any one moment in time. I have six children. Right now some of them are doing pretty well. I have one child who, with her husband, probably is pretty close to the bottom 20 percent. He is not earning anything, and my daughter is supporting him. Gee, isn't that terrible, until you find out he is a student at the Harvard Law School and has pretty good prospects of good earnings once he gets out. He is going into debt now. He is in the bottom 20 percent, but when he gets his degree from the Harvard Law School, I believe he is going to be in fairly high demand with people dangling \$125,000 a year starting salaries in front of him, and he will move very rapidly from one to the other.

The problem we should be talking about is not the dry statistics of income, it is the reality of skills. The income gap in this country is not something that can be addressed with the Tax Code. The income gap in this country is a skill gap and has to be addressed through a series of educational initiatives, retraining initiatives, both government and private, and a recognition that the people who have the skills in the freedom of the American economic and environmental system have the opportunity to move up. But

when they move up, they will always be replaced statistically with someone who is earning less than they are who ends up in the bottom 20 percent.

Interestingly enough, when we had hearings before the Banking Committee on the issue of the Tax Code and tax relief, and Alan Greenspan was testifying before us, one of the members of the committee said to him: Mr. Chairman, with respect to the good economy we are enjoying, tell us who has benefited the most in terms of the economic strata of the United States, which group has gotten the greatest benefit out of this good economy?

Knowing the political orientation of the Senator who asked the question, I think he was expecting and hoping that Alan Greenspan would say: Well, this economy has mainly benefited people at the top and the people at the bottom have not gotten anything out of it.

I think the Senator was a little surprised when Alan Greenspan said: Without question, the people who have benefited the most from this good economy are the people at the bottom of the economic scale.

Then he was asked how can that be because statistically the top 20 percent has gotten richer than the bottom 20 percent. But Alan Greenspan pointed out a great truth: It probably does not make any difference—I am not quoting him now; this is my summary—it probably does not make any difference whatsoever to Bill Gates whether his portfolio is \$60 billion or \$80 billion in terms of his lifestyle. He still has his big house at \$60 billion. He still has all of his opportunities at \$60 billion. His life has not changed at all if it goes from \$60 billion to \$80 billion.

However, someone who cannot get a job, who suddenly finds that he or she can and become gainfully employed for the first time in his or her life sees an enormous change, and that, indeed, has been the primary impact of this good economy. It has virtually, at least for a period of time, eliminated unemployment.

I can remember when we thought structural unemployment in this country was about 6 percent, and when we got down to 6 percent, we had functional full employment. We saw unemployment go down below 4 percent at times in the recent boom situation, and who got those jobs? People who were unqualified for the jobs that were available when unemployment was higher.

I remember visiting with employers in my State and asking them: What is your biggest progress in this booming economy?

They said: We cannot hang on to workers. We will take any warm body. We need workers.

I said: Will you take the unskilled?

They said: Absolutely, we will take the unskilled and we will spend the money training them; we will spend the money making them skilled because we have to have people.

One employer said: We have a job fair opening where we rent a room and ask

people to come in. They come in, we make a presentation to them. Say there are 30 or 40 people in the room. We make a presentation for an hour. We break for coffee and only 10 of them come back afterwards. All 40 of them are unemployed and want a job, but 30 of the 40 decided they did not like the way we made the presentation. And they can always walk down the street and get a job someplace else.

That is the impact of a booming economy on the people at the bottom. It gives them an opportunity that will make a more dramatic change in their lives than the change in the lives of the people at the top. That is what Alan Greenspan was talking about when he said in terms of the impact for good on people's lives, there is no question whatsoever but that the booming economy we are having has affected for good more people at the bottom than it has people at the top.

Yet from the rhetoric we hear around this Chamber, we are told over and over that if we do not somehow take money away from the people at the top and shift it to the people at the bottom, we are going to destroy American democracy.

This class warfare kind of rhetoric simply does not jibe with reality. It does not jibe with what we have experienced in the last 10 years. It does not jibe with what the economists tell us is reality, and it certainly does not jibe with that which the small business man and small business woman will tell you in terms of actual job creation.

Of course, the statistic we need to keep in mind is that the great job-creating machine in this country is not the Fortune 500. The great job-creating machine that is creating new jobs is not headed by Exxon, General Motors, Ford, and DuPont. No, the jobs are being created the way the jobs were created in the circumstance of which I was fortunate enough to be a part: A company started in a basement by a husband and a wife that within a decade has created 4,000 jobs, and in the process of creating those 4,000 direct jobs, among the suppliers, there are another 2,000 to 3,000 to 4,000 jobs as people are hired to produce the articles that our company has to buy in order to provide its product to its customers.

As we wait for the report to come in from the conferees as to where they are going to put the marginal rate, I wanted to take the time to make it clear that the political rhetoric that flows around this issue really has little or no connection with reality.

In reality, a lower marginal rate primarily helps small businesses to grow. A lower marginal rate is crucial to the rate by which small businesses grow. The rate at which small businesses grow is the most important dynamic in terms of how the economy is growing, and for those who get statistically hung up on the gap between the top 20 percent and the bottom 20 percent, they must remember and recognize that in America, more than any other

society in the world, the freedom to move both up and down the ladder is greater than anywhere else.

If we can understand those things, we can come to a more intelligent decision with respect to where the marginal rate will be. I have no illusions that the conferees will bring the marginal rate in at the level that I would like, but I hope that once it comes in, in future Congresses we can keep all of this in mind and take another bite at the apple at some particular point.

My desire would be to bring the top marginal rate back down to where it was during the decade of greed where, quite frankly, we sowed the seeds of the great economic expansion about which we are all excited and for which politicians of both parties have been taking credit when, in fact, they have had little or nothing to do with it.

I think the work I did at the Franklin Company before I came here had more to do with creating jobs than anything I have done since I have been here. I want to get the marginal rate back down so others who are trying the same kinds of things we did will have the same opportunity that we did.

I yield the floor.

The PRESIDING OFFICER (Mr. HAGEL). The Senator from Michigan.

Ms. STABENOW. Mr. President, I ask unanimous consent to speak up to 15 minutes in morning business.

The PRESIDING OFFICER. Without objection, it is so ordered.

TAXES AND THE ECONOMY

Ms. STABENOW. Mr. President, I rise to speak also about the tax cut proposal, about the debate on how to keep the economy going. I rise in great respect for my friend from Utah, who was successful in business, and lays out a prospective about how to keep the economy going.

While I share his view that we need to be focused on a skilled workforce and that is critical to keeping our economy moving, he and I represent two different views of how best to do that. That is the debate going on in Washington now. I characterize it as a debate about whether or not the 1980s or the 1990s worked. I argue the bill that will come back—whether tonight, tomorrow, or next week—is a bill based on the notion that the economic policy of the 1980s worked. I argue from the Michigan standpoint, and anyone in Michigan, any families, businesses, farmers I represent, would indicate the 1980s were not a good time for Michigan. We had high unemployment, high interest rates. We saw massive debts both at the State and national level. It is the same kind of approach I fear will be happening today with the policies being laid out.

No. 1 in the debate is how to give a tax cut. Is it supply side, as my colleague talked about?

The proposal we are being asked to vote on is a very large tax cut, two-thirds to the upper income wage earners, those in the top 10 percent. And