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# United States Senate

COMMITTEE ON FINANCE

WASHINGTON, DC 20510-6200

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July 17, 2014

The Honorable Jacob Lew  
United States Secretary of the Treasury  
U.S. Department of the Treasury  
1500 Pennsylvania Avenue, N.W.  
Washington, D.C. 20220

Dear Secretary Lew:

Thank you for your letter of July 15, 2014 expressing the Obama Administration's concerns about corporate inversions. I appreciate your candor on this issue.

You should know that I share your concern about corporate inversions and agree that the best way to address this issue is to create a tax environment more favorable to starting, growing, and keeping businesses in this country. Toward that end, I welcome any concrete tax reform proposals that the administration would like to submit. Generalized "principles," "frameworks," and "plans," which is all we've received thus far, lack the specificity necessary for a full and fair evaluation.

Furthermore, I must disagree with the administration's position that we should, in the short term, enact punitive, retroactive policies designed to force companies to remain domiciled in the United States. The idea of constructing a wall around U.S. multinational companies carries risks of adverse consequences, including making U.S.-based corporations enhanced targets for foreign takeovers, which will further erode our tax base. Moreover, as you should know, any such wall that Congress could construct would run the risk of quickly becoming porous through thin capitalization or spin-off activities.

That said, there may be steps Congress can take, short of comprehensive tax reform, to address corporate inversions, and related issues. I'm certain we can find alternatives that could easily be enacted and are less punitive and restrictive to businesses than those outlined in your letter. I look forward to any opportunity to discuss these matters with you in the future.

Setting aside the substance of your letter, I was surprised at the political tone with which you wrote. For example, in the final paragraph you argued that "[w]hat we need now is a new sense of economic patriotism, where we all rise or fall together." Similar rhetoric has been used before, usually as a means of denigrating particular business models or investments – such as offshore account holdings – and almost always in the context of a political campaign. Needless to say, I find it odd that you would use it in an official communication between branches of government.

I take you at your word when you say that you hope to foster “a new sense of economic patriotism.” My hope is that your definition of “economic patriotism” is not so narrow as to only include a particular business practice that happens to be the tax topic of the month in the political echo chamber. Indeed, I hope that you share my view that “economic patriotism” includes a desire to fix the problems that are truly ailing our country and threatening the livelihoods of future generations.

For example, as the Congressional Budget Office (CBO) confirmed earlier this week, federal debt held by the public is on course to exceed 100 percent of our gross domestic product and remains on an unsustainable long-term trajectory. Deficits and debt as shares of the size of our economy are on course to reach and exceed levels not seen since the years surrounding World War II. Under current law, as the size and scope of government continues to grow, federal government spending is set to increase to 26 percent of the size of our economy by 2029, nearly six percentage points higher than the average of the past 40 years.

CBO also confirmed, once again, that the main drivers of our debt and deficits continue to be our entitlement programs – Social Security, Medicare, Medicaid, the Children’s Health Insurance Program, and the subsidies for health insurance purchased through the exchanges created by the Affordable Care Act. As CBO clearly states, spending on these programs will “rise sharply, to a total of 14 percent of the size of our economy by 2039, twice the 7 percent average seen over the last 40 years.”

Of course, none of this is new information. Indeed, non-partisan watchdogs and rating agencies have been issuing warnings about our ballooning national debt and runaway entitlements for years now. These issues represent the greatest threat to our fiscal and economic security, including heightening risk of a fiscal crisis, as CBO warns. Sadly, they seem to be very low on the Obama Administration’s list of priorities.

To date, the administration has yet to propose any serious solutions to our growing entitlement crisis. In fact, it has been far more common for the administration to walk away from even the meager entitlement reforms it has endorsed in the past. Progress toward reforming our entitlements to sustainability have been held hostage to the administration’s insatiable desire to raise taxes yet again and expand already unsustainable government programs even more.

Surely any reasonable definition of “economic patriotism” would include concern about future generations of Americans. The apparent lack of such patriotism in failing to address our unsustainable debt and the undisputed drivers of that debt should be self-evident.

As you should be able to recall, I have personally offered, numerous times, to work with you and the President on entitlement and tax issues. In January of last year, I submitted to the President, both in writing and in person, a proposed list of bipartisan reforms to our health care entitlements. I submitted the same proposals to you during your confirmation hearings. Unfortunately, I have yet to receive a substantive response from anyone in the administration on these proposals.

Ultimately, I share your desire for “a new sense of economic patriotism,” though most of us never lost that sense and tend not to reserve it for election years. My only hope is that your recent letter was a sincere call to action on the many problems facing our nation, including our growing debt and entitlement crisis. I hope, once again, that you and others in the administration will begin to engage Congress on these and other matters of vital importance to the American people.

Thank you for your attention regarding these matters.

Sincerely,

A handwritten signature in blue ink that reads "Orrin Hatch". The signature is written in a cursive style with a large, prominent initial "O".

Orrin Hatch  
Ranking Member  
U.S. Senate Committee on Finance