



Committee for Economic Development

CED WASHINGTON BRIEF

March 2005

Key Developments in CED's Policy Agenda in 2004 and Prospects for 2005

As with most election years, 2004 saw a flurry of political activity in Washington and across the country. Candidates and issues jockeyed for the attention of voters. The Committee for Economic Development (CED) played a significant role in several key policy debates last year. As we begin 2005, there are no signs the activity will abate this year. CED is prepared to provide guidance from an independent, non-partisan business perspective to assist policymakers as they consider critical economic and social issues that will affect economic growth and opportunity for all Americans.

Below are digests of key issues that CED has examined and issued recommendations for action, along with the developments in 2004 that CED influenced and prospects for 2005.

Social Security

Social Security reform is at the top of the national agenda for 2005. President Bush has made the issue his number one domestic policy initiative for this year and devoted much of his State of the Union Address to the subject. The Administration is in the midst of an aggressive national grassroots campaign to garner support among the public for the President's proposal. Organizations such as the AARP, AFL-CIO, the Business Roundtable, the U.S. Chamber of Commerce, and the National Association of Manufacturers have also launched major efforts on the issue. Meanwhile, a contentious debate is brewing in Congress, with rounds of hearings and deliberations underway.

The two major controversial aspects in this debate involve the extent of the problem facing Social

Security, and how to confront it. The President argues that the need for reform is immediate and that significant change is necessary because current projections estimate that in the year 2018 the program will begin taking in fewer funds through payroll tax contributions than it disburses to beneficiaries. Opponents and some apprehensive lawmakers argue that the Herculean task need not be undertaken now because the Social Security Trust Fund will not exhaust its resources until around 2052. The White House and its allies advocate creating personal accounts to augment the traditional system. Individuals would control their own accounts and could invest funds in the stock market. The President proposes funding these accounts through a "carve-out" of a portion of the current payroll tax contribution. Workers would be allowed to divert some of the contribution that presently funds the basic Social Security program to personal accounts. Most Democrats are wary of personal accounts and prefer the status quo.

CED is poised to make a substantial contribution to this debate. In our 1997 policy statement, *Fixing Social Security*, CED presented a comprehensive and responsible plan for strengthening and modernizing the program. CED believes that the challenge facing Social Security should be addressed now because delay will only increase the cost of reform. CED recommends creating a two-tier system that would both restore the fiscal solvency of Social Security and make the program relevant to a new generation of workers. The first tier would return the current basic system to long-term fiscal solvency through relatively modest adjustments. The second tier would "add-on" a new system of individually controlled personal retirement accounts to increase the rate of return for younger workers. CED believes that adding personal accounts to the basic system is necessary to maintain the relevance of the program to younger workers who are less risk-averse and more

comfortable with investing in the stock market. At the same time, we recognize that personal accounts alone cannot restore solvency to Social Security. CED rejected a carve-out approach to personal accounts because it would deplete the resources needed to maintain Social Security's foundation for retirement security, and thus would undermine the fundamental character of the program. Furthermore, the transition costs of a carve-out program would significantly degrade the already bleak federal budget picture. CED's approach would boost the national savings rate, while a carve-out approach would not.

CED will soon issue an update to the 1997 policy statement in the context of the current debate and economic situation. CED will lead a concerted effort to garner support among the business community for sensible reform. CED is also reaching out to other organizations to form a coalition and will work with lawmakers to reach a bipartisan solution with broad support.

Budget & Tax Policy

CED continues to be a forceful voice for fiscal sanity as the federal budget deficit remains a serious concern that threatens long-term economic growth. The White House recently announced that this year's deficit will be \$427 billion, up from last year's record-setting deficit. The Congressional Budget Office (CBO) estimates that if Congress extends the tax cuts enacted in recent years, the deficit will grow by \$2 trillion over the next two years.

Since the 2003 release of the policy statement, *Exploding Deficits, Declining Growth: The Federal Budget and the Aging of America*, CED has been in the vanguard of the effort to rein in the deficit and to effect action that will ensure responsible and forward-looking budget policy in Washington.

CED has partnered with organizations such as The Concord Coalition, The Brookings Institution, the Center on Budget and Policy Priorities, and the Committee for a Responsible Federal Budget and has organized forums in Washington and New York to spread the message to policymakers, business leaders, the media, and the public.

CED continues to be regularly quoted in the media on the subject and remains a valuable resource to lawmakers who support fiscal responsibility. President Charles Kolb testified before the Senate Democratic Policy Committee on the effect of the deficit on the private sector. CED also played a key role in attempts to

restore pay-as-you-go (Paygo) rules to both revenues and spending in the FY 2005 Budget Resolution. Paygo rules require an increase in government expenditures to be offset in the budget through an equal decrease in spending elsewhere or through increased revenue. Likewise, a reduction in revenue must be offset by cutting expenditures or raising revenue somewhere else in the budget.

Paygo had played a crucial part in maintaining budget restraint in recent years, but the rules were allowed to expire. Some lawmakers attempted to apply Paygo rules only to spending, making it easier to pass tax cuts without offsetting the loss in revenue. The efforts of CED and its partners resulted in the Senate approving an amendment to the budget resolution to fully reinstate Paygo. Paygo did not fair as well in the House though, the House version of the budget resolution passed without Paygo. Because House and Senate conference negotiators could not agree on a compromise, there was no 2005 budget resolution, which made it harder to pass further tax cuts because 60 votes would be required to overcome a Democratic filibuster. Legislators in Congress are currently attempting to reinstate Paygo in the FY 2006 budget and restore budget discipline. CED will continue to monitor and assist such efforts.

CED's work has caught the attention of legislators in both parties. House Minority Whip Steny Hoyer (D-MD) cited CED during debate on the budget resolution in May of 2004. In the Senate debate in November on extending the federal debt limit, Senator Diane Feinstein (D-CA) cited CED's dire deficit projections. Senator John McCain (R-AZ) cited CED's warnings on the Senate floor during debate on the budget resolution in March and during deliberation on tax cut packages in September and October.

CED will soon release a new report to coincide with the deliberations in Congress over the FY 2006 budget, focusing on the urgent need for fiscal responsibility. The paper will examine the current fiscal and economic outlook and offer principles for enhancing federal budget policy and process in light of these circumstances. The report will also spotlight the key issues that will most impact the budget, such as Social Security, taxes, health care, and defense and homeland security.

CED's work on Social Security will compliment our ongoing efforts to promote sound budget policy. CED will also monitor efforts in Washington to extend tax cuts and reform the tax system to ensure that the effects of such proposals on the deficit and the economy are taken into account.

Campaign Finance Reform

The Bipartisan Campaign Reform Act (BCRA) was remarkably effective in the first national election conducted under this law. Unregulated “soft money,” prohibited by the law, no longer flowed to party committees. Politicians no longer endeavored to extract such contributions from businesses and labor unions. Instead, the parties and politicians went to the public and solicited donations from small donors. This grassroots campaigning paid off. Far from going broke, as many opponents of McCain-Feingold predicted, the political parties prospered in the new environment. The parties engaged hundreds of thousands of small donors who had been largely ignored in the past as parties concentrated on raising large soft money donations. Placing the emphasis on small donors has opened the political process to many new people and has increased the involvement of the average voter.

One exception was the ascendancy of 527 organizations – named after the section of the tax code they operate under. These organizations were formed by political activists of both parties with the sole purpose of circumventing BCRA and becoming new conduits for soft money. While the 527 groups did not raise nearly as much soft money as had been gathered under the old system, these organizations still had an impact, pouring money into negative advertising that distracted from the real issues in the campaign. In a positive and expected development, the business community largely stayed away from supporting the 527s. CED had always argued that corporate interests felt compelled to give soft money when solicited by politicians because executives could not afford to disappoint lawmakers. With officeholders unable to solicit unregulated contributions, corporate interests did not participate in such giving.

The 527 groups were allowed to degrade the process because the Federal Election Commission (FEC) failed to properly enforce the law. The FEC has long been an obstacle to reform, refusing to do its job in regulating campaign finance abuses. This lack of resolve was evident in the regulations the FEC issued to implement BCRA, which were criticized by the law’s authors as feeble and not in accordance with the intent of the law. In September, a federal judge agreed and threw out 15 regulations and ordered the FEC to enact new, stricter rules that align with the law.

Reform of the FEC and dealing with 527 groups will be at the top of the reform agenda in 2005. The champions of campaign finance reform in the Senate, Senators John McCain (R-AZ) and Russell Feingold (D-

WI), along with Senator Trent Lott (R-MS), Chairman of the Senate Rules Committee, and Senator Charles Schumer (D-NY), Chairman of the Democratic Senatorial Campaign Committee, have introduced legislation to make 527 groups created specifically to influence federal elections more accountable. Senator Lott conducted a hearing in his committee on the issue on March 8 and has promised a speedy mark-up of the bill. House campaign reform sponsors Christopher Shays (R-CT) and Martin Meehan (D-MA) also introduced identical legislation, and House Administration Committee Chairman Bob Ney (R-OH) has signaled he will delve into the issue. McCain, Feingold, Shays and Meehan will also introduce legislation to significantly restructure the FEC and fix the presidential public financing system.

As the preeminent business group supporting campaign finance reform and one of the key players in securing passage of BCRA and defending it in court, CED will once again assume a leadership position on the issue. On April 5, 2005 CED will release a follow-up to its landmark policy statement *Investing in the People’s Business: A Business Proposal for Campaign Finance Reform*. The new report, *Building on Reform: A Business Proposal to Strengthen Election Finance*, will address the major issues in the post-BCRA era, such as FEC reform, 527 regulation, and strengthening the presidential public financing system. CED will work with supporters of campaign finance reform to maintain the momentum of the movement and protect the law from opponents who want to circumvent and roll back some of the provisions of BCRA.

Welfare Reform

Congress still has failed to reauthorize the Personal Responsibility and Work Opportunities Reconciliation Act of 1996 (PRWORA), the landmark law that reformed the welfare system. The future of the program has been in limbo since PRWORA expired in 2002. Since then Congress has passed a series of extensions that temporarily continue funding for the program at 2002 levels. The current extension expires on March 31. Congress must reauthorize the law or further extend funding for it by then.

The two main points of contention continue to be work requirements for welfare recipients and the amount of funding for child care. The President and House Republicans want to impose tougher work requirements on welfare recipients. Legislation passed by the House on a party-line vote last year and reintroduced this year would raise the individual weekly work-activity requirement from 30 hours per week to 40

hours per week and also limit the types of activities that states could use to meet these requirements. The House legislation would also provide an additional \$1 billion for child care under the program, much less than most observers contend is needed. On the other hand, the Senate Finance Committee recently passed a bipartisan bill that would provide an additional \$6 billion for child care, increase the work-activity requirement to 34 hours per week, and provide states with more flexibility in designing programs to meet the requirement.

During debate on a similar amendment approved by the Senate last year to increase child care funding by \$6 billion, Senator Tom Harkin (D-IA) alluded to CED's work on early education and child care in making his argument for the amendment. CED has been an effective contributor to this debate, through its paper, *Welfare Reform and Beyond: A CED Policy Update*. The document updates the 2000 policy statement, *Welfare Reform and Beyond: Making Work Work*, and was designed specifically to provide guidance during the reauthorization debate. Among its recommendations, CED calls for flexible work requirements and significantly more child care funding. CED has participated in meetings on Capitol Hill with Congressional staff and other key parties involved in the debate. CED continues to be actively involved with the issue and will push for a permanent reauthorization in 2005 that provides states with the resources and flexibility they need to develop welfare programs that prepare recipients for productive work and permanently lift them out of poverty.

International Trade

CED has been a principal organization in the movement to maintain the leadership of the United States in supporting international cooperation and stability through free trade. CED also is forcefully advancing the view that international trade is an essential component of strategies to fight global poverty and promote economic development.

Success of the current Doha Round of trade talks is absolutely critical to the future of the multilateral trade system led by the World Trade Organization (WTO). These negotiations are also known as the "Development Round" because the emphasis is on meeting the needs of developing countries that previously have seen themselves as victimized by the current trade regime and unable to fairly compete with industrialized nations. Failure to bring a successful conclusion to these talks would legitimate the criticisms leveled by opponents of globalization and jeopardize any further trade liberalization.

CED hosted a briefing for the media in Washington in November 2003, just ahead of an important WTO meeting in Cancun, Mexico to advance the Doha Round. The briefing featured James D. Robinson, III, General Partner & Founder of RRE Ventures, and three former U.S. Trade Representatives, Carla Hills, Mickey Kantor, and Clayton Yeutter. The briefing centered on the proposals of CED's report, *Promoting U.S. Economic Growth and Security Through Expanding World Trade: A Call for Bold American Leadership*, which features recommendations for finalizing the Doha Round.

Recent developments have provided momentum to the Doha negotiations. Talks in Geneva in July 2004 resulted in a break-through agreement on a framework for cutting tariffs and agricultural goods and reducing export subsidies. Many developed nations impose prohibitive tariffs on agricultural imports and provide subsidies to domestic farmers to protect them from foreign competition. Such policies seriously undermine the efforts of developing nations to export the resource that provides them the best opportunity to experience economic growth and development through trade. CED has been vocal in advocating the elimination of trade-distorting tariffs and subsidies.

Negotiators are currently working to have a draft treaty ready by July, and to have a nearly completed document before a year-end summit in Hong Kong. This timetable would produce a successful conclusion to the round in 2006.

CED is set to release a new policy statement, *Making Trade Work: Straight Talk on Jobs, Trade and Adjustment*, that offers counsel for how the U.S. can help American workers adjust to changes in the labor market brought about by increased global competition without resorting to destructive protectionism.

CED continues to monitor the progress of the Doha Round and other efforts to expand world trade, and will advocate policies that unleash the power of commerce to bring security and prosperity to all corners of the globe.

Science & Technology

The results of recent international assessments of math and science achievement continue to show that American students lag behind their counterparts in most industrialized nations in math and science skills. These results indicate a persistent and disturbing trend that has

serious ramifications for this country's long-term economic growth and security.

In its recent policy statement, *Learning for the Future: Changing the Culture of Math and Science Education to Ensure a Competitive Workforce*, CED argues that sustaining the pipeline of domestic scientists and engineers will be vital to the security and economic competitiveness of the U.S. In response, the report provides recommendations for improving math and science education, specifically at the K-12 level.

One of the key recommendations of the report was to provide financial incentives to math and science teachers in order to attract highly-qualified instructors for the classroom. In October 2004, Congress passed and the President signed legislation that increases the amount of student loan forgiveness for highly-qualified math and science teachers who agree to teach in secondary schools that serve low-income children. During consideration of the bill in the House, Congressman John Boehner (R-OH), Chairman of the Education and the Workforce Committee, cited CED's report in making his case for the legislation. CED has also worked closely with the U.S. Department of Education through the Secretary of Education's Math and Science Initiative. CED President Charles Kolb recently addressed the Congressional Science, Technology, Engineering, and Math Education Caucus.

CED has also found that foreign-born students and workers have played a significant role in filling the gap caused by the country's inability to produce sufficient numbers of graduates in math, science and technology fields to meet the demands of the workforce. Increased immigration controls in the post-9/11 environment will constrain the number of foreign-based talent able to come to the U.S. and contribute to these vital fields. This situation makes producing more scientists and engineers domestically even more imperative. At the same time, it must be recognized that we cannot afford to completely close our borders to promising students and skilled workers in technical fields. Our global competitiveness in the technology-driven economy will require that we recruit such individuals from across the globe. CED made recommendations for accomplishing this goal in *Reforming Immigration: Helping Meet America's Need for a Skilled Workforce*.

Digital Copyright

A major issue arising from the growth of the digital economy is electronic file-sharing. The emergence of this new technology raises questions

concerning balancing the rights of creators and users of digital intellectual property.

The popularity and ubiquity of peer-to-peer (P2P) programs presents a challenge to content providers. While the technology makes it easier to produce and distribute material in digital form, it also makes it easier for creative works to be pirated. Some legislation being considered in Congress to deal with this dilemma would impede on the rights of users, threaten the public domain, and suppress innovation.

The Supreme Court will soon hear oral arguments in a case that will have major implications for digital copyright policy. In *MGM v. Grokster*, the high court is hearing the appeal of two lower court rulings that held that file sharing services such as Grokster and Morpheus cannot be held liable for copyright infringement using their P2P technology. The lower courts held that P2P technology has sufficient legal uses, and that the companies cannot be held liable for actions taken by others. The entertainment industry, led by the Recording Industry Association of America and the Motion Picture Association of America, has asked the Supreme Court to overturn the lower courts, arguing that P2P technology is used to pirate copyrighted works. A decision is expected by the end of the year.

In March 2004, CED released *Promoting Innovation and Economic Growth: The Special Problem of Digital Intellectual Property*. The report provides timely recommendations for devising policies that combat digital piracy while fostering innovation and economic growth. CED urges a measured approach to confronting the problem, eschewing the rush to hastily enact laws and regulations that could inhibit technological innovation for a consensus building approach that explores the true nature of the problem. CED strongly suggests that content providers explore new business models that take advantage of the new technology to market and distribute their products.

CED staff have met with staff members of key policymakers to promote CED's balanced recommendations, such as Senator John McCain, (R-AZ), Senator Norm Coleman (R-MN), and Congressman Rick Boucher (D-VA), Co-Chair of the Congressional Internet Caucus. CED has also collaborated with organizations such as the Distributed Computing Industry Association, P2P United, and the Consumer Electronics Association.

Early Education

CED has established itself as one of the most influential organizations espousing the substantial long-term economic benefits of increased investments in early education.

Building upon the findings and recommendations of *Preschool for All: Investing in a Productive and Just Society*, CED has produced several follow-on materials and has participated in events around the country. On December 3, 2004, CED convened, with support from The Pew Charitable Trusts and PNC Financial Services Group, a major conference in Washington, DC where the most compelling arguments yet were made for the economic advantages of increased investments in preschool. Over 200 attendees from across the country heard presentations from luminaries such as 2000 Nobel Laureate in Economics James Heckman, of the University of Chicago; Mara Aspinall, President of Genzyme Genetics; Roy Bostock, Chairman of CED; former Congressman Larry LaRocco; Rob Mosbacher, Jr., President of Mosbacher Energy Company; Rebecca Rimel, President of The Pew Charitable Trusts; James Rohr, Chairman & CEO of PNC Financial Services Group; Arthur Rolnick, Sr. Vice President and Director of Research at the Federal Reserve Bank of Minneapolis; Betty Sternberg, Connecticut Commissioner of Education; and Thomas Watkins, Superintendent of Public Instruction for Michigan.

CED continues to work with policymakers, such as Senators Edward Kennedy (D-MA) and Lamar Alexander (R-TN), on this vital issue.

Health Care

As the costs of health care and the number of uninsured Americans rise, the issue of health care becomes more and more prominent on the national agenda.

A recent study indicates that health care spending consumes about one-quarter of economic growth in the U.S., much more than any other industrialized nation. Corporations such as General Motors are warning that corporate health care costs of American firms are seriously undermining their global competitiveness. President Bush called for a “comprehensive health care agenda” in his State of the Union speech and both parties are promising action in 2005 to make health care

more affordable and accessible.

Among its proposals, The White House advocates the use of information technology, such as electronic medical records, to make the health care system safer and more efficient. The President also supports expanding Association Health Plans, which allow individuals to pool together to get better health insurance rates.

The Administration is also strongly promoting Health Savings Accounts coupled with catastrophic health insurance, which would place more flexibility and accountability for purchasing health care in the hands of individuals. Some Democrats on Capitol Hill advocate government-sponsored universal health care. Both of these alternatives would move the system away from the traditional employer-based health care model and towards either more individual responsibility, or government control of health care.

The issue of medical liability has also received a prominent place in the larger health care debate. Rising malpractice insurance premiums are driving many doctors out of practice. Many physicians blame excessive medical malpractice lawsuits for the rising premiums and increased use of “defensive medicine,” which also inflates health care costs. Republican leaders in the House and Senate, supported by President Bush, are pushing for caps of \$250,000 on noneconomic damages in medical malpractice suits as a means to discourage frivolous lawsuits and reduce medical liability costs.

CED provided recommendations for both the public and private sectors to improve the system in its recent policy statement *A New Vision for Health Care: A Leadership Role for Business*. CED believes that employers should become more involved, not less, in providing health care efficiently and effectively.

CED also recommended an innovative approach, *Early Offers*, to reduce lawsuits in the policy statement, *Breaking the Litigation Habit: Economic Incentives for Legal Reform*. This alternative would allow victims of malpractice to receive fair compensation in a prompt manner. CED will work to ensure that our proposals inform what will be a divisive and expansive debate in 2005.

The Committee for Economic Development (CED) is an independent, non-profit, non-partisan, public policy research organization dedicated to addressing the critical economic and social issues facing society.

Since 1942, CED has played an active and often decisive role in influencing policy on a wide array of domestic and international issues. CED is led by its 200 Trustees – senior corporate executives and university presidents. CED’s Trustees are directly involved in the development of all of CED’s policy recommendations.

CED’s policy statements, as well as a wealth of related materials, can be found on CED’s website at <http://www.ced.org>.

CED
2000 L Street, NW, Suite 700
Washington, DC 20036
202-296-5860 (phone) 202-223-0776 (fax)