



Committee for Economic Development

# CED WASHINGTON BRIEF

**December 2005**

## *Key Developments in CED's Policy Agenda During 2005*

This year has seen a flurry of activity in Washington. The Committee for Economic Development (CED) has played a significant role in several key policy debates during this period. CED continues 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 been involved in so far this year and prospects for further action.

### **Budget & Tax Policy**

CED continues to be an influential voice for fiscal sanity as the federal budget deficit remains a serious concern and threat to long-term economic growth. Even though increased federal revenues have lowered short term deficit estimates, the long-term deficits are unsustainable. The CBO has estimated 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 our 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 ensuring responsible and forward-looking budget policy in Washington. CED released in May a new policy statement, *The Emerging Budget Crisis: Urgent Fiscal Choices*, which presents a sober examination of the large, long-term federal budget deficits facing this country and their consequences for economic growth and stability, as well as for other important issues on the

national agenda, such as Social Security, taxes, and health care.

CED has partnered with The Concord Coalition, the Center on Budget and Policy Priorities, the Committee for a Responsible Federal Budget and Centrists.org in releasing a joint statement urging the President and Congress to reestablish pay-as-you-go (Paygo) rules for all tax cuts and mandatory spending increases. The statement was released at a press conference at the National Press Club on June 23, 2005 and was also presented to Congressional staff on Capitol Hill.

CED also released on September 27 a new policy statement, *A New Tax Framework: A Blueprint for Averting a Fiscal Crisis*, that offers new guidance for tax policy to place this country back on the right fiscal track. Tax reform is becoming a major issue, with the recent recommendations of the President's Advisory Panel on Federal Tax Reform spurring Congressional debate on the topic.

*A New Tax Framework* proposes sweeping changes to create a simpler, more efficient, and fairer tax system that produces the revenues this country needs to combat mounting federal budget deficits and the fiscal demands presented by an aging society. CED's primary proposal is to implement a new hybrid federal tax system featuring a phased-in 10 percent Value-Added Tax (VAT) to supplement a reformed and streamlined federal income tax. The report also provides guidance for eliminating, reducing and consolidating special tax preferences. In addition, the report calls for the elimination of the Alternative Minimum Tax (AMT) and reform of the Estate Tax.

## **Judicial Selection**

The selection and confirmation of federal judges has been one of the most heated political topics of 2005. The debate over the appropriateness of Democratic filibusters of some of President Bush's nominees for federal courts, and Republican threats to invoke a "nuclear option" to bypass such filibusters, threatened to derail the Senate. On June 17, CED hosted a forum, *Holding the Center: Depolarizing the Judicial Nomination Process*, at the National Press Club that was covered live by C-SPAN. The forum occurred shortly after the bipartisan "Gang of 14" Senators reached their compromise, maligned by both liberals and conservatives, which averted a crippling meltdown in the Senate over judicial nominations. The event featured a bipartisan discussion on judicial nominations by a distinguished panel of legal experts. The event was also marked by the release of a new CED-commissioned poll of corporate executives conducted by Zogby International. The poll underscored the views of the business community regarding the judicial filibuster fight and the threat of invoking the "nuclear option." In the poll, a majority of business leaders supported the "Gang of 14" compromise.

The fight over the "nuclear option" was the prelude to the confirmation battle for the next Supreme Court justice. When Justice Sandra Day O'Connor announced her retirement from the Supreme Court, CED highlighted other results from the poll indicating that corporate executives reject the notion that business should support groups trying to influence the selection of judges. CED was one of the notable voices calling for a dignified nomination process.

CED believes that a politicized judicial selection process threatens the independence and impartiality of the judiciary. Judges must be selected based on their qualifications and their ability to be unbiased arbiters of the law. For the past several years, CED has been a leading player in the movement to reform judicial selection on the state level, where 39 states conduct elections to select or retain at least some of their judges. CED issued recommendations for improving state judicial selection in the policy statement, *Justice for Hire: Improving Judicial Selection*. CED is a member of the Justice at Stake Coalition and has worked with organizations such as the American Bar Association and The Reform Institute on this important issue.

## **Campaign Finance Reform**

CED continues to be the most prominent business group supporting campaign finance reform. On April 5, 2005, CED released a new policy statement, *Building on Reform: A Business Proposal to Strengthen Election Finance*, which addresses the major contemporary campaign finance reform issues, such as reform of the Federal Election Commission (FEC), regulation of "527" groups, and strengthening the presidential public financing system. Senator **John McCain** (R-AZ) spoke at the release event and praised CED's continuing contributions to the campaign reform movement.

In conjunction with the report release, CED also unveiled the results of a poll of corporate executives it sponsored, which was conducted by Zogby International. Among its many findings, the poll showed that 71% of business executives believe that 527 groups have a corrupting influence on the political process and that 83% believe that such groups should have to file with the FEC.

The ascendancy of 527 organizations formed specifically to influence federal elections threatens to undermine some of the gains attained by the Bipartisan Campaign Reform Act (BCRA), otherwise known as McCain-Feingold, which implemented sweeping changes in campaign finance. These organizations were formed by political activists of both parties with the sole purpose of circumventing BCRA and becoming new conduits for soft money.

Representatives **Christopher Shays** (R-CT) and **Martin Meehan** (D-MA) have introduced legislation in the House of Representatives that would require 527 organizations that participate in federal elections to register with the FEC as political committees and to be subject to the same limits that political parties are subject to in raising money. That bill will have to compete on the House floor with another measure, sponsored by Representatives **Mike Pence** (R-IN) and **Albert Wynn** (D-MD), which would take the opposite approach and roll back the limits placed on party fundraising by BCRA. CED opposes the Pence-Wynn effort to erase the hard-fought improvements instituted by BCRA and delivered a letter to Republican members of the House who supported BCRA, urging them not to support Pence-Wynn. CED supports requiring 527 groups that are involved with federal elections to file as political committees with the FEC and to be subject to the federal contribution limits of BCRA, as the Shays-Meehan approach requires. On the Senate side, Senators McCain, **Russell Feingold** (D-WI) and **Trent Lott** (R-MS) have sponsored legislation similar to the Shays-Meehan bill that passed through the Senate Rules Committee and is awaiting action on the Senate floor.

The FEC has come under much criticism, including from CED, for failing to properly enforce the law. The FEC had ample opportunity to deal with 527s before they proliferated, but failed to do so. The FEC's inability to properly carry out its duties was evident in a recent decision by the D.C. Circuit Court of Appeals upholding a lower court's decision to strike down 15 regulations adopted by the FEC to implement BCRA. The courts found that the FEC misinterpreted the law and failed to enact rules that properly reflect the intent of BCRA. The FEC has been ordered to enact new, stricter rules that align with the law. This recent episode reinforces the view shared by CED that the FEC needs to be seriously restructured in order to create a more independent and effective agency with the resources and resolve to properly enforce the law.

CED continues to work closely with Senators McCain and Feingold and Representatives Shays and Meehan, along with other partners, to protect reforms already legislated and to build upon that success.

## **Social Security & Older Workers**

Social Security reform, at the urging of President Bush, received a great deal of attention during the first half of the year. The President's call to create private accounts in the program by diverting a portion of the payroll tax revenues used to fund the current system stirred much debate. Democrats in Congress united in opposition to the President's approach, without offering an alternative to ensure the program's long-term solvency.

Current projections estimate that Social Security will begin running a deficit around the year 2018 as the program begins paying more in benefits than it receives through payroll taxes. By 2052, the Social Security Trust Fund will be exhausted, according to the Congressional Budget Office (CBO). Many lawmakers, wary of tampering with a popular program when there is no perceived immediate danger, prefer to postpone reform.

CED has been striving to better inform this debate and to encourage a responsible, bipartisan solution now. CED presented a comprehensive and conscientious plan for strengthening and modernizing Social Security in its 1997 policy statement, *Fixing Social Security*. CED believes that the challenge facing Social Security should be confronted now because delay will only increase the cost of reform and the disruption it will cause for future retirees. CED also argues that reforming Social Security, as well as other entitlement

programs, such as Medicare, must be addressed now as part of a broad strategy for dealing with the mounting long-term federal budget deficits facing the United States. CED released a new report in May 2005, *Fixing Social Security: A CED Policy Update*, which restates and updates CED's Social Security reform recommendations in the current debate context.

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 a series of adjustments phased-in over time. 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 that would divert money from the Trust Fund to finance the 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.

On May 13, 2005, CED hosted a forum in New York City, *Breaking Promises or Breaking the Bank: The Price of Inaction on Social Security and the Budget Deficit*, in which a distinguished panel including **W. Bowman Cutter**, Managing Director of Warburg Pincus, former U.S. Senator **Bob Kerrey**, and former Secretary of Commerce **Peter Peterson** discussed the problems facing Social Security.

The hostility on both sides of the issue and the unwillingness to reach any agreement on how to approach the problem prevented legislative action this year and clouds prospects for the future. In the meantime, CED has been communicating with Administration officials, Members of Congress, and their staffs to educate them about the challenges facing Social Security and the virtues of CED's proposal.

Meanwhile, CED's efforts to highlight the importance of older workers to our future economic growth and to improve opportunities for them in the

workforce, based on the 1999 CED policy statement, *New Opportunities for Older Workers*, are paying off. On October 6, 2005 Senator **Herb Kohl** (D-WI) introduced the Older Worker Opportunity Act, which seeks to remove barriers that keep workers who have reached retirement age, yet wish to continue to work, from remaining in the workforce. CED staff assisted in the drafting of the legislation, and a letter of support from CED was included in the *Congressional Record*.

## **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 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 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.

CED has been active in 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 monitor the issue and is pushing for a permanent reauthorization 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 & Globalization**

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 vigorously advancing the view that international trade is an essential component of strategies to fight global poverty and promote economic development, improve diplomatic ties, and enhance national security.

CED released its newest policy statement on trade, *Making Trade Work: Straight Talk on Jobs, Trade, and Adjustment*, on April 19, 2005. The new report arrived at a critical time, as the Central American Free Trade Agreement (CAFTA) faced stiff opposition in Congress. After much debate and political wrangling, the House of Representatives approved CAFTA on a 217-215 vote on July 28. The Senate also narrowly approved the trade agreement. The close, hard-fought votes in Congress underscore the withering support for global trade among the public and political leaders. The primary cause for the decline in support for free trade is the loss of jobs and the economic disruption attributed to trade, especially the “outsourcing” of jobs from the U.S. to other countries that offer lower wages.

CED is greatly concerned about the consequences of such a growing sentiment and is actively working to promote the benefits of trade. The new report seeks to dispel some of the myths of outsourcing while also recognizing that trade has an impact on many workers and their families. The report offers alternatives to help American workers adjust to labor market changes brought about by increased global competition without resorting to destructive protectionism. The statement also provides a wealth of data on trade and adjustment.

Progress on trade still faces many challenges, as the Doha Round of multilateral trade negotiations appears to be faltering; the nation’s trade deficit hits record levels; and the national discussion on trade is dominated by stories of American jobs being outsourced elsewhere.

*Making Trade Work* is a sequel to the 2003 policy statement, *Promoting U.S. Economic Growth and Security Through Expanding World Trade: A Call for Bold American Leadership*, which features recommendations for reestablishing American leadership in world trade and completing the Doha Round. Both reports present a forceful argument for a renewed commitment to international commerce.

CED continues to monitor the progress of the Doha Round and other efforts to expand world trade, and is making the case to policymakers as to the importance of trade in unleashing the power of commerce to bring security and prosperity to all corners of the globe.

## Science & Technology

Decisionmakers in Washington are beginning to heed the message from groups such as CED that the United States is in serious danger of losing its preeminent position in the science and technology fields to rivals that are placing far more emphasis on science and math education. In the 2003 policy statement, *Learning for the Future: Changing the Culture of Math and Science Education to Ensure a Competitive Workforce*, CED argued 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. CED also contended in a previous policy statement, *America's Basic Research: Prosperity Through Discovery*, that American supremacy in science was a key factor in sustaining its global economic and military leadership, and that federal investment in research has historically paid a high return.

Legislators from both parties in Congress are introducing bills to enhance math and science education and to encourage more Americans to seek careers in science and technology fields, as well as to strengthen the federal investment in scientific research. Representative **Frank Wolf** (R-VA) has taken a lead role in urging increased federal science funding and in seeking approaches to increase the number of native-born scientists and engineers. A bipartisan group in the Senate is also working to boost science and engineering education.

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. This fact must be taken into consideration as Congress begins to seriously debate changes to immigration policy. Increased immigration controls in the post-9/11 environment have constrained 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*.

## Early Education

CED continues its pioneering work in articulating the substantial long-term economic benefits of increased investments in early education. CED has sponsored ground-breaking research by noted economists, such as Nobel Laureate **James Heckman**, that is quantifying the enormous economic benefits of early education. CED's efforts are driven by its long-standing commitment to investing in our youth -- most notably espoused in CED's 2002 policy statement, *Preschool for All: Investing in a Productive and Just Society*, which recommends universal preschool be made available for all 3- and 4-year olds.

On January 10, 2006, CED will convene, with support from The Pew Charitable Trusts and PNC Financial Services Group, the second national conference on Building the Economic Case for Investments in Preschool, in New York City. This national forum will draw 200 business leaders, economists, policymakers, and early education experts from across the country to discuss the growing body of research indicating the immense economic benefits derived from investments in early education. The first conference, held in December 2004 in Washington, DC, drew over 200 participants and was an enormous success.

## Health Care

Health care remains a top concern as the costs of medical care and the number of uninsured Americans rise. The issue has acquired increased significance as corporations such as General Motors are now warning that corporate health care costs of American firms are seriously undermining their global competitiveness.

Recent Congressional action has sought to address some of the deficiencies of American health care. In July, Congress passed legislation to create voluntary reporting systems for medical errors. Medical providers will be able to report errors and near-errors to patient safety organizations that will compile and analyze the data and make recommendations for systemic changes to prevent such problems in the future.

New information provided to these patient safety organizations cannot be used in lawsuits, allowing providers to divulge important information without the threat of being sued. Congress also passed legislation designed to expand the use of information technology in health care, such as digitizing medical records. Enhancing patient safety and expanding the use of information technology by allowing for increased reporting of medical errors and improved access to information were prominent themes in the CED policy statement, *A New Vision for Health Care: A Leadership Role for Business*.

Though these developments are welcome, much more still needs to be done to comprehensively reform the nation's health care system. There is yet little consensus on how to achieve this goal. The Bush Administration is 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 increased government control of health care.

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

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. The House recently passed a bill establishing such a cap, as it has done for the past several years. But, once again, it

appears as though there are not enough votes in the Senate to cap lawsuits.

This impasse has created the opportunity to explore innovative alternatives to litigation that provide just compensation to injured parties in a timely manner, while ensuring that quality medical services are widely available. CED recommended such 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 without resorting to expensive and time-consuming litigation. This approach is gaining serious attention and traction in Congress.

Bipartisan legislation was introduced earlier this year in the Senate by Senators **Michael Enzi** (R-WY) and **Max Baucus** (D-MT) to encourage alternatives to litigation. Their legislation would provide grants to states to help institute alternative models to litigation for dealing with medical malpractice claims. The legislation specifically cites three models, the early disclosure and compensation model recommended by CED; special health courts to hear medical malpractice cases; and administrative boards that would determine compensation rates for classes of medical errors. Senators **Hillary Clinton** (D-NY) and **Barack Obama** (D-IL) also recently unveiled legislation designed to reduce medical errors and address the medical liability dilemma. Their legislation also includes the use of early offers as part of a comprehensive approach.

Legislation was also recently introduced in the House of Representatives by Congressmen **John Conyers** (D-MI) and **John Dingell** (D-MI) as an alternative to capping malpractice awards. Among its provisions, the bill would implement mandatory mediation for malpractice claims. The legislation

specifically highlights early offers (and CED's support for the concept) as one approach to alternative dispute resolution.

CED's policy proposals have informed and influenced the debate on numerous issues. CED continues its work to provide policymakers with unbiased research and balanced recommendations on the major issues facing society.

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>.

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