NATIONAL CENTER FOR POLICY ANALYSIS

Congressional Brief: Health Care

To confront America's health care crisis, we do not need more spending, more regulations or more bureaucracy. We do need people, however, including every doctor and every patient. All 300 million Americans must be free to use their intelligence, their creativity and their innovative ability to make the changes needed to create access to low-cost, high-quality health care.

Key Facts about U.S. Health Care System

- U.S. health care spending has been growing at twice the rate of growth of national income for the past four decades and that trend shows no signs of abating.
- But compared to the British National Health Service, U.S. medical care provides *more* services for roughly the same cost.
- According to a 2007 *Lancet Oncology* survey, cancer survival rates are *higher* in the United States than in Europe. American women have a 63 percent chance of living at least five years after a cancer diagnosis, compared to 56 percent for European women. American men have a five-year survival rate of 66 percent — compared to only 47 percent for European men.
- Almost three decades ago, a RAND study found that when people pay a substantial amount of their health care bills out-of-pocket, they reduce their health care spending significantly, with no apparent harmful effects on their health.
- The portion of overall health care costs American consumers paid out of pocket fell from 47 percent in 1960 to 12 percent in 2006.
- More than 12.5 million Americans manage some of the dollars spent on their health care in Health Reimbursement Arrangements (HRAs) and Health Savings Accounts (HSAs).

Problems with U.S. Health Care

Health care providers do not compete on price. The reason: Patients rarely pay their own health care bills. Most health care costs are now paid by third-party payers — employers, insurance companies or government. The lack of competition under the third-party system has created a highly artificial market plagued by high costs, inconsistent quality and poor access.

Out of Control Health Care Costs

- Since 1975, total spending on health care in the United States has doubled, and it now comprises one-sixth of the economy, or about $2.2 trillion.
- Some projections show total health spending almost doubling to $4.1 trillion by 2016, consuming one-fifth of the nation's gross domestic product.
- Government health programs (Medicare and Medicaid) and tax subsidies ($250 billion) accounted for more than half ($1.3 trillion) of total health spending in 2006.
- Each additional dollar spent on Medicaid or State Children's Health Insurance Programs (S-CHIP) crowds out 50¢ to 75¢ in private insurance coverage.

The Problem of Quality

- An Institute of Medicine study found that as many as 98,000 people die every year because of medical errors.
- An appallingly low percentage of doctors and hospitals keep patient records in electronic form, thereby missing opportunities to use error-reducing software.
- RAND Corporation researchers find that patients get recommended care only about half the time.
- RAND found that once they saw a doctor, there was very little difference in the quality of health care received by Medicaid enrollees and uninsured individuals.

The Problem of Limited Access

- Nearly 85 percent (253.5 million) of U.S. residents are privately insured or enrolled in a government health program, such as Medicare, Medicaid and S-CHIP.
- Over the past 10 years the number of people with health coverage rose nearly 26 million, while the number without health coverage only increased about 1.4 million. Both increases are largely due to population growth.
- Nearly 18 million of the uninsured lived in households with annual incomes above $50,000 and could likely afford health insurance.

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- Up to 14 million uninsured adults and children qualified for government programs in 2004 but had not enrolled, according to the BlueCross BlueShield Association.

Command and Control Solutions

- *Government-mandated Electronic Medical Records*: Despite the assertion that centralized electronic medical records will cut costs, supporting evidence is lacking. Such data systems have yet to prove themselves in practice.
- *Pay for Performance*: One proposal for increasing quality is having insurance companies and government tell doctors what to do, called pay for performance. However, preliminary evidence suggests that pay for performance (sometimes called P4P), or refusing to pay for nonperformance, doesn't improve quality.
- *State Mandates*: Studies show that as many as one in four people who are uninsured have been priced out of the market by the cost-increasing consequences of mandated benefits, which force insurers to cover certain procedures.
- *Reimbursement Rates*: Nearly one-third of doctors do not accept Medicaid patients due to low reimbursement rates and, among those who do, many limit the number they treat.

Consumer Choice Solutions

- *Tax Credits*: Use the current health care tax deduction to fund a uniform tax credit, so that low- and moderate-income families get as much tax relief as the wealthy when they purchase health insurance.
- *Insurance across State Lines*: Premium costs could be lowered if Congress allowed residents of any state to purchase health insurance sold in other states, injecting competition into the local market in the form of policies without expensive mandates.
- *Patient Power*: Empower patients, especially the chronically ill, to manage more of their own care and more of their own health care dollars.
- *Continuity of Care*: In contrast to spending money on programs for which people's eligibility constantly changes, as with Medicaid and S-CHIP, a better strategy is to offer a subsidy to be applied to private insurance.
- *Personal and Portable Insurance*: Move to a system in which employees own private health insurance they can take with them when they travel from job to job.
- *Flexible Benefits*: An employee covered by a spouse's health plan should be able to choose higher wages rather than an unnecessary second health plan.
- *An Earned Income Health Insurance Credit*: Convert the Earned Income Tax Credit into a refundable, advanceable health insurance credit by requiring uninsured families to use the public subsidy to purchase health insurance.

NCPA Policy Recommendations

Give everyone a health savings account.

- Every individual should be able to deposit up to $200 into a tax-free universal health savings account (HSA) every month.
- Employers should be encouraged to automatically enroll their employees in a HSA.

Give all private health insurance the same tax break.

- Currently, the federal government "spends" about $250 billion a year on tax subsidies for private insurance. The greatest subsidy is given to the highest income earners.
- Ideally this $250 billion should be redirected to provide a uniform, refundable tax credit of $1,500 per individual and $5,000 per family to purchase private insurance.
- Because the existing health care tax deduction would finance the tax credit, there would be no increase in federal spending.
- If the individual chose to be uninsured, the subsidy would be sent to a safety net agency in the community where the person lives.

Give people alternatives to Medicaid and S-CHIP.

- When people enroll in Medicaid and S-CHIP plans that pay low reimbursement rates, they have far fewer options than private plans.
- The solution is to reverse the process, making it as easy as possible for people to use their Medicaid dollars to enroll in employer plans and other private insurance.
- Use the federal funds that subsidize S-CHIP to make the $1,000 child tax credit refundable.
- Make the tax credit conditional on proof of any creditable insurance - employer plan, individual plan, S-CHIP, Medicaid and so forth.

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Congressional Brief: Medicare

While Social Security received considerably more attention in recent years, Medicare is actually a much larger problem. Medicare is growing at a faster rate and has an unfunded liability six times the size of Social Security. The program is on a spending path that is impossible to sustain. It must deal not only with the demographic pressures Social Security faces, but also the soaring cost of medical care.

Key Facts about Medicare

- Medicare faces the same demographic pressures as Social Security — a growing elderly population and a shrinking birthrate — but also must contend with the soaring cost of medical care.
- By 2020 the deficits in Medicare will claim more than one in every five federal income tax dollars.
- This means that in just 12 years the federal government will have to stop doing one in every five things it does today if taxes are to remain at their current level and promises to the elderly are kept.
- By 2030, the deficits in Medicare will claim one in every three general revenue dollars; by 2050, they will claim one in every two.

Future Costs

Most discussions of the future of Medicare assume the program will somehow get off of the current path. The Social Security and Medicare Trustees, for example, assume that the rate of growth of health care spending will gradually slow to match the rate of growth of national income over the next 75 years. They do not say how this will happen. Yet even on this much rosier path, the future still looks bleak:

- The last Trustees report estimates the 75-year unfunded liability in Medicare at $36.3 trillion.
- Looking indefinitely into the future, the unfunded liability is $85.9 trillion — more than five times Social Security's unfunded liability, and five-and-a-half times the size of the entire economy.

Medicare's Structure: Parts A, B and D

- Medicare Part A pays for inpatient hospital care, skilled nursing, home health and hospice care; it is funded by a 2.9 percent payroll tax on wages and taxes collected on Social Security benefits.
- Medicare Part B mainly pays physicians' fees; taxpayers fund three-fourths of the cost through general federal revenues and the remaining one-fourth is paid in premiums by retirees.
- Medicare Part D is the newly-enacted prescription drug program; general revenues (that is, taxpayers) foot the bill for 86 percent of the cost and the rest is funded by seniors' premiums.

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Medicare Spending

- Medicare Part A is already paying more in benefits than it receives in payroll tax revenues: Last year it ran a cash flow deficit of about $6 billion.
  - Technically, Medicare is drawing down past surpluses credited to a special Trust Fund. This practice will continue until the Trust Fund is exhausted by 2017, at which time the program will only be able to pay what it collects in payroll taxes.
  - These are legal and accounting issues that stem from the political desire to finance benefits over time with payroll taxes. The real pocket-book issue is: What programs and entitlement benefits will the federal government have to cut or what taxes will it have to raise in order to fund the cash flow deficits that have already emerged and will continue to grow catastrophically for as far as the eye can see?
- Spending on Medicare-covered services totals more than $15,500 per beneficiary; however, beneficiaries pay less than one-third of the costs.
  - Medicare will pay for about 72 percent of this total (about $11,093) though beneficiaries will cover some of this amount through Part B and D premiums.
  - Of course, beneficiaries also purchase other services not covered by Medicare such as long term care and dental services that are not included in this calculation.

NCPA Policy Recommendations

- **Reform Medicare.** Overhaul the Medicare program by combining Medicare A, B & D, as well as individually-purchased Medigap plans, into a single plan with a single premium. Seniors should be able to choose from among competing plans in the private market with different features and options, just like nonseniors do today. In addition, encourage workers to save money today to fund future elderly health care benefits.
- **Help Seniors Save.** Allow Medicare-eligible seniors to open and make deposits to Health Savings Accounts (HSAs) to cover out-of-pocket health expenses; short of that, seniors should be able to turn IRA and 401(k) funds into Roth HSAs.

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Congressional Brief: Retirement Accounts

Private retirement accounts include employer-sponsored 401(k)s and privately-purchased plans like Individual Retirement Accounts (IRAs) of all types, including traditional, Roth and Spousal IRAs. With government programs over-promising benefits and benefit cuts increasingly likely, Americans must save more on their own.

Key Facts about 401(k)s

- Today more than 54 million workers participate in 401(k)-type plans, with total assets of about $3 trillion.
- About a quarter of employees (24 percent) with access to a 401(k) do not contribute.
- The Pension Protection Act of 2006 made it easier for workers to prepare for retirement by allowing (but not forcing) employers to offer:
  - *Automatic Enrollment*. New employees are automatically part of an employer's plan and must opt out if they don't want to participate.
  - *Automatic Escalation of Contributions.* Unless they opt out, employees' contributions will automatically rise to equal 3 percent of compensation by the end of the first year, 4 percent in year two, 5 percent in year three and 6 percent thereafter.
  - *Matching Contributions.* An employer must match the first 1 percent of compensation the employee contributes dollar-for-dollar, and 50 cents for each additional dollar up to 6 percent of compensation (for a total of 3.5 percent), or contribute at least 3 percent of compensation to the account of every participating employee, regardless of the employee's contribution. The employer's contributions must fully vest after the employee completes two years of service.
  - *Diversified Investment Options.* The law also encourages employers to offer at least three different investment options — other than employer stock — that are diversified and have different levels of risk.

Key Facts about IRAs

Some workers do not have access to a 401(k) plan because they work for an employer that does not offer one. Thus, an IRA is one of the best ways to save when one doesn't have access to an employer-sponsored plan.

Income Restrictions for Traditional IRAs. The tax deductibility of IRA contributions phase out for people with moderate or higher incomes who are participating in an employer's qualified retirement plan:

- IRA contributions are fully deductible for singles with an adjusted gross income (AGI) up to $53,000 and couples who are married filing jointly with an AGI up to $85,000.
- However, the deductibility of contributions phases out at incomes above these levels; singles with an AGI of $63,000 or more — and couples who are married filing jointly with an AGI of $105,000 or more — get no deduction for contributions to traditional IRAs.

Different Retirement Savings Rules for Working vs. Not Working. Employer-sponsored 401(k)s have higher contribution limits and no income limits, unlike other tax-favored investment vehicles like IRAs:

- *Different Contribution Levels IRAs vs. 401(k)s*. Participants in an employer-sponsored 401(k) plan can contribute up to $16,500, while nonparticipants can contribute only $5,000 ($6,000 if age 50 or older) to a tax-advantaged IRA (both Roth and Traditional IRAs).
- *Special Issue — Spousal IRAs*. Unlike other IRAs, spouses with no earned income (or some earned income, but not enough to fully fund an IRA) can qualify for a Spousal IRA. The contribution limit is $5,000 per year ($6,000 if age 50 or older), the same as traditional and Roth IRAs — assuming the wage-earning spouse earns at least that amount in wages.

Key Facts about Roth Accounts

Traditional retirement savings vehicles, such as 401(k)s and IRAs, are tax-deferred accounts. They allow people to invest pretax dollars, but taxes must be paid on the investment and accumulated earnings at the time of withdrawal. By contrast, deposits to Roth IRAs or Roth 401(k)s are made with after-tax dollars and withdrawals are tax-free. In 2010 all taxpayers, regardless of income, will be able to convert their regular IRAs into Roth IRAs.

Restrictions & Rules for Roth IRAs

- Taxpayers who file as a single with an adjusted gross income more than $120,000 cannot contribute to a Roth IRA, and cannot make the full contribution ($5,000, or $6,000 if age 50 or older) if their adjusted gross income is $105,000 to $120,000.
- Taxpayers who are married filing jointly cannot contribute to a Roth IRA if their adjusted gross income is greater than $169,000, and can only make a partial contribution if their income is $166,000 to $176,000.

NCPA Policy Recommendations

- **Additional 401(k) Reforms.** Longer lifespans — and the need to draw from retirement savings for more years — increase the risk of outliving one's retirement savings. Encouraging 401(k) plans to offer a lifetime annuity as the default payout option at retirement would go a long way toward addressing this potential problem. A lifetime annuity is a financial contract with an insurance company; in exchange for a lump-sum payment — for example, the savings accumulated in a 401(k) — the insurance company guarantees regular payments for as long as the beneficiary lives.
- **Expand Individual Retirement Accounts (IRAs)**. Current tax law penalizes those who do not have employer-sponsored savings plans. For example, participants in an employer-sponsored 401(k) plan can contribute up to $16,500 annually, while nonparticipants can contribute only $5,000 to a tax-advantaged IRA. This policy is particularly harmful to early retirees. We need a level playing field that treats all savers equally.
- **Create Universal Roth IRAs**. Given the effects of the Social Security benefits tax and the expectation of higher tax rates in the future, Roth taxation makes sense for many younger taxpayers. Simplify and unify the many retirement savings vehicles by creating universal Roth IRAs.
- **Extend Incentives for Saving and Investment**. Permanently extend the 2001-2003 tax cuts for capital gains, dividends and estates, as well as the higher contribution limits on retirement savings accounts.

Congressional Brief: Social Security

Social Security is the cornerstone of retirement security in the United States today. A third of Americans depend on the program for almost all their retirement income; without it, one-in-five would have no retirement income. But the program so many depend on simply cannot afford what it promises today's workers, and faces a shortfall of more than $4.7 trillion over the next 75 years. Reforms are desperately needed.

Key Facts about Social Security

- Social Security provides retirement and disability benefits for qualified workers and their dependents, as well as benefits for survivors of deceased workers.
- In 2008, Social Security is projected to pay retirement and survivors benefits to more than 41 million people and disability to about 9 million. Meanwhile, 163 million workers will contribute.
- Social Security is a pay-as-you-go program, which means the government writes checks to today's beneficiaries using payroll taxes collected from today's workers.
- When Social Security began in 1935, the payroll tax on workers' salaries to support the program was 2 percent on the first $3,000 of income; today, Social Security is financed by a 12.4 percent payroll tax — half by the employee and half by the employer — on the first $102,000 of wages (about 11 million workers have wages above the cap).
- The average Social Security benefit in 2007 for retired workers was $1,084 per month, or $13,008 per year.
- Sixty-four percent of retirees depend on Social Security for half or more of their income, a third (32 percent) of beneficiaries rely on Social Security for 90 percent or more of their retirement income, and one-in-five rely on the program for all their retirement income.

Social Security Is in Trouble

- The number of Social Security beneficiaries is growing faster than the number of workers supporting them — the number of elderly will nearly double between now and 2034 (38.6 million to 74 million) while the number of new workers will only increase 16 percent.
- People are living longer and collecting more Social Security benefit checks: In

1940, life expectancy was 61.4 years for men and 65.7 for women. By 2000, life expectancy was 74.0 years for men and 79.4 for women; by 2050, life expectancy will be 80.0 years for men and 83.4 for women.

- Fewer children are born each year: For each generation to be the same size as the one before (the replacement rate), women must have 2.1 children. In 1940, the fertility rate was 2.23. Today, the rate is 2.10 and by 2050 it is expected to trend upward to 2.19.

- The result has been dramatic. In 1940, there were 42 workers per retiree. Today the ratio is 3.3-to-1; by 2050 it will be 2-to-1. The burden on each individual worker will increase substantially and we will no longer be able to keep our promises to retirees at current payroll tax levels.

- By 2017 Social Security will spend more in benefits than it collects in taxes; by 2041 the program will have spent all the assets credited to the trust fund and the program will only be able to afford three-quarters of promised benefits.

- In all, the program faces an unfunded liability (the amount Social Security promises in benefits above what it will collect in taxes) of more than $15.0 trillion.

Trust Fund: Accounting Fiction?

- The real problem comes in 2017: Currently, payroll tax collections exceed benefit payments, and will continue to do so until 2017 when the program will spiral into annual deficits.

- Surpluses credited to the trust fund are not saved or invested. Rather, they are immediately borrowed by the government and spent on other priorities or used to pay down debt. All that remains in the trust fund are government IOUs.

- For the government to pay Social Security benefits in 2017, it must first raise taxes or reduce spending to generate the needed funds.

How to Fix the Problem

- To shore up Social Security's financial shortfall, the government must increase the program's income (raise taxes), decrease expenses (reduce benefits) or find a new source of funding.

- One way to create a new funding source is to allow younger workers to invest a portion of their payroll taxes into a personal retirement account (PRA). Over time, the PRA balances — with their accumulated interest and dividends — would replace an increasing portion of retirees' Social Security benefits, saving future tax payers trillions of dollars.

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Congressional Brief: Tax Reform

In 2011, the rate relief, new 10-percent tax bracket, death tax repeal, marriage penalty relief and all the remaining tax cuts enacted in 2001 and 2003 will sunset, resulting in substantial tax increases for every American who pays income taxes. The deficit and public debt has grown because of greatly increased spending rather than tax cuts.

Key Facts about the U.S. Tax System

- The top U.S. corporate income tax of 39.25 percent (including average state taxes) is the second-highest in the world, after Japan's 39.54 percent. The average was 27.6 percent among countries in the Organization for Economic Cooperation and Development (OECD) in 2007.
- The current 45 percent estate tax is the third-highest in the developed world; if it returns to a 55 percent rate in 2011, it will be the highest in the world.
- The income tax system has become more progressive in recent years, with the share paid by the top 1 percent of earners growing from 25.8 percent in 1986 to 36.9 percent in 2004, whereas the share paid by the bottom 50 percent fell from 6.5 percent to 3.3 percent.
- Nearly half of U.S. taxpayers who reported dividend income in 2003 earned less than $50,000 annually.
- Nearly half of tax returns reporting capital gains in 2005 were from households with incomes below $50,000 (79 percent were for households earning less than $100,000).
- Although originally aimed at wealthy households with high deductions, the Alternative Minimum Tax (AMT) will affect more than one-third of taxpayers (39 million) by 2017.

Progressive Taxes

The income tax system has become more progressive in recent years — meaning higher income taxpayers pay a larger share of income tax revenues and a larger share of their incomes in taxes.

- For instance, between 2001 and 2004, the income share of the top 1 percent of earners rose 8.6 percent, but their tax burden over the same period rose 8.9 percent.
- In contrast, the income share of the bottom 50 percent of earners fell 2.8 percent, but their tax burden fell almost 17 percent.

Regressive Taxes

Due to the complicated U.S. tax system and benefit programs, low- and middle-income families can face higher effective tax rates than Bill Gates or Warren Buffett on the next dollar earned or saved.

- For 30-year-old couples earning $20,000 a year, economist Laurence Kotlikoff estimates that the effective marginal tax rate on an additional dollar earned is 42.5 percent, whereas those earning $50,000 face a marginal tax rate of only 24.4 percent.
- A 30-year-old single parent earning $10,000 a year faces an effective 72.3 percent tax on an additional dollar earned due to his or her loss of welfare benefits, higher than the 36.9 percent tax on a single parent earning $200,000.
- Similarly, a 30-year-old single parent earning $15,000 a year faces an effective marginal tax on saving of 260 percent, whereas a parent earning $250,000 faces a tax on saving of only 31 percent.
- The estates of the middle class lose a greater percentage of their value to the estate tax than those of the super-rich.
- The 12.4 percent Social Security payroll tax (half of which is paid directly by the employee) is levied only

on the first $106,800 of income (in 2009), thus higher wage workers can face a lower marginal tax on additional work than low-income workers.

- Excise taxes on alcohol, tobacco, utilities and gasoline are especially regressive, with the lowest fifth of income earners spending nearly one-third of their income, on the average, on these products, whereas the highest earners spend just 6 percent of their income on these items.

Tax Cuts that Raise Revenues and Incomes

Official revenue forecasts from tax rate increases or cuts are static — they do not account for the effects of tax changes on the economy or individual behavior. But experience has shown that some tax cuts can increase revenues, create jobs and raise the rate of economic growth.

- The Joint Economic Committee of Congress estimated that the pre-2001 estate tax reduced the capital stock by about $500 billion; thus, repeal of the estate tax would increase the stock of capital that fuels growth.
- Revenues from capital gains — which are taxed when an asset is sold — doubled when rates were cut from 20 percent and 10 percent (depending on income) to 15 percent and 5 percent, respectively.
- Whereas the Congressional Budget Office (CBO) projected capital gains revenues under the old rates would expand from $50 billion in 2003 to $68 billion in 2006, revenues more than doubled to $103 billion.
- After the top tax rate for stock dividends was cut from 35 percent to 15 percent in 2003, net individual dividend income from Standard & Poor's 500 firms increased 50 percent over the previous year.

Key Facts about Spending & the Deficit

- From 1993 to 2000, federal revenues increased 75.4 percent, whereas spending increased slightly less than 27 percent.
- From 2001 to 2007, federal revenues increased nearly 29 percent, whereas spending increased 46.5 percent.
- As a result, the U.S. public debt rose from $5.7 trillion in 2000 to $10.6 trillion as of January 2009.
- Even without new economic stimulus spending, the CBO projects a federal deficit of $1.2 trillion in 2009, 8.3 percent of gross domestic product (GDP).
- Add in the economic stimulus package and the federal deficit could reach $1.8 trillion (12.5 percent of GDP) or more for 2009.

NCPA Policy Recommendations

- **Make Income Tax Cuts Permanent**. Lower tax rates, especially at the margin, encourage work, investment and reduce tax avoidance.
- **Repeal the AMT**. On the grounds of tax efficiency, simplicity and fairness, the AMT should be repealed immediately and not replaced with some other, massive tax hike. At the very least it should be indexed to inflation so that it does not fall on more middle-class taxpayers.
- **Repeal the Estate Tax**. The estate tax generates little revenue for the federal government, but negatively affects every American. It reduces capital formation, and thereby lowers productivity, wages, employment and federal revenues from payroll and income taxes.
- **Make Dividends Tax Cuts Permanent**. Dividends represent part of a company's cost of capital. When dividends taxes fall, the cost of capital falls, and business managers tend to increase their firms' investment in equipment and buildings. These investments usually result in new job creation and higher incomes for employees.
- **Make the Capital Gains Cuts Permanent**. Keeping capital gains taxes low would help relieve federal budget deficits by increasing government revenue and encouraging greater capital investment. The value of taxable gains should be indexed for inflation, which accounts for 20 to 25 percent of total gains reported.

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Congressional Brief: Small Business and Families in the Workplace

The most significant economic and sociological change of the past half-century has been the entry of women into the labor market. Public policies that govern the workplace have not kept pace with this demographic shift. For the most part, tax law, labor law and employee benefits law were designed decades ago on the assumption that the typical household would have a full-time working husband and a homemaker wife. These anachronistic public policies are not only out of step with the way most Americans are living their lives, they are causing considerable harm. To remedy these problems we need to bring public policy institutions into the 21st century.

Key Facts about Small Businesses

- About 70 million people work for small businesses in the United States.
- Some 27 million small businesses employing 500 or fewer employees account for one-half of U.S. gross domestic product and 75 percent of new job growth. Small businesses account for more than half of private-sector employment.
- Since 1940, the proportion of working households that are one wage earner and a stay-at-home spouse has declined from two-thirds to less than one out of four (21 percent).
- Between 1950 and 2000, the labor force participation of women 25 to 55 years of age more than doubled. Today women comprise 47 percent of the labor force.

Key Issues for Small Business

Health Care

Small business owners regularly rank the rising cost of health care as a top concern.

- Of the 45.7 million Americans who lack health insurance, 27 million are employed by small businesses. Businesses owned by women employ 7 to 8 million of the uninsured.
- The portion of businesses with fewer than 200 employees that offer insurance fell from 66 percent in 2002 to 59 percent in 2008.
- The cost of employer-provided health insurance has risen 120 percent since 1999, four times faster than the growth in average wages. In 2009 health costs are expected to rise 10 percent.
- Insurance premiums for small businesses are 18 percent greater than those paid by large companies.
- Portable and individually-owned health plans cost one-third to one-half more than employer-specific group insurance on an after-tax basis.
- State-mandated insurance coverage of specific benefits and providers increases the cost of small group and individual health insurance by 20 percent to 50 percent, depending on the state. A total of 1,961 state mandates exist in the United States.

Workplace Regulations

Regulatory costs for small businesses are proportionally twice as high as the costs for medium and large-sized firms.

- Compliance with the Family and Medical Leave Act (FMLA) cost employers $21 billion in 2004.
- Three-fourths of employers voluntarily offer some form of paid sick leave to their employees.
- Two-thirds of small-business owners report recently granting paid family leave.
- About 63 percent (37 million) of women employed by others are hourly workers.
- Three-fourths of American workers would prefer compensatory time off in lieu of overtime wages.
- In 2001, 30 percent of state employees and 34 percent of federal employees opted for comp time instead of overtime pay. (Private-sector employees do not have that option.)

NCPA Policy Recommendations

- **Make Employee Benefits More Flexible.** Because of strict employee benefits law, employees are not allowed to choose between taxable wages and non-taxed benefits. For example, an employee who is covered through a spouse's health insurance at another place of work is not allowed to opt for higher wages instead of duplicate benefits. Also, part-time workers who need health insurance cannot choose to take less pay in exchange for health benefits. Federal law should allow employers the opportunity to give their employees the option to trade taxable wages for non-taxed benefits — particularly for benefits like health insurance and retirement pensions.

- **Make Employee Benefits Portable.** Because of the prevalence of employer-based health care, changing jobs often leads to a change of health plans and different benefits, risking a loss in continuity of care. Individually-owned health insurance is portable and could travel with an employee from job to job. Because tax benefits for purchasing health benefits only apply to employer-based insurance, portable insurance costs one-third to one-half more than employer-specific insurance on an after-tax basis. At a minimum, the tax treatment of group and individual health policies should be equalized. Employers should be allowed to pay premiums for individually-owned insurance.

- **Make Wage and Hour Laws More Flexible.** In general, hourly workers have very little flexibility with respect to work hours. Many parents who work for wages occasionally need to take off work to take children to doctors appointments or soccer games. Unfortunately, federal law forces them to receive less pay and fewer benefits to do so, and forces the employer to pay overtime in the week when they make up the time. Interestingly, federal law allows employees of the federal and state governments to choose between overtime pay and comp time. At a minimum, hourly employees in the private sector should be able to substitute comp time for overtime wages the same way federal employees do.

- **Tax Fairness for Working Spouses.** In more than half of all working-age married couples, both spouses work. Secondary earners are taxed at their spouses' marginal tax rate — even if they earn only minimum wages. Married couples should be allowed to file jointly or as singles without losing the tax benefits of marriage that are lost when filing separately, so that workers with similar incomes pay comparable taxes.

- **Tax Fairness for Stay-at-Home Parents.** Federal tax law does not provide the same tax advantages for saving for retirement, purchasing health benefits, or contributing to pension plans for stay-at-home parents. Instead, these individuals have to purchase these benefits with after-tax income. Spouses without access to 401(k) plans should be allowed to contribute up to the same amount to IRAs as is allowed for 401(k) contributions.

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Congressional Brief: Energy

Principal U.S. energy demands are for electricity, transportation fuels and heating. Fossil fuels also provide chemical feedstocks for fertilizers, plastics and other products. Supplies of coal, natural gas and oil are abundant, but large reserves are currently off-limits. Wind and solar currently provide less than 2 percent of U.S. electric power needs, whereas coal-fired plants produce more than 50 percent. Major investments in the electric power grid will be required to meet increased demand and increase efficiency and reliability.

Key Facts about Energy

- Over the next 20 years, U.S. oil consumption will grow one-third and electricity demand could increase more than 45 percent.
- Comprehensive conservation and efficiency efforts would offset less than one-fourth of expected increases in future demand for electric power.
- Not counting hydro power, the rated capacity of all renewable energy combined is less than 2 percent of total generating capacity.
- Solar and wind are intermittent sources of electric power; they require redundant power plants and have the potential to decrease the reliability of the electric power grid.
- The Mining and Minerals Service (MMS) has estimated that the Outer Continental Shelf (OCS) alone contains more than 85 billion barrels of oil, quadruple current U.S. reserves, and more than 419 trillion cubic feet of natural gas.

Key Facts About Energy Alternatives

Coal

- Coal is abundant — the U.S. is the Saudi Arabia of coal, with 27 percent of the world's reserves, enough to meet U.S. demand for more than 250 years.
- At less than 3.5 to 4 cents per kilowatt-hour the price of coal-fired electricity on the spot market is lower than any other fuel source. At less than $2.00 per million British Thermal Units (BTUs), as a source for electricity coal is one-fourth the cost of natural gas with 1/20 of the price volatility.
- Coal plants are more expensive to build than natural gas plants, but are cheaper than nuclear plants.
- *Land use:* A comparison of "footprints" is telling: to produce 1,000 megawatts of power, a wind farm requires approximately 192,000 acres, or 300 square miles; a coal-powered plant takes up about 1,950 acres, 3.05 square miles; and a nuclear plant needs less than 1,700 acres, or 2.65 square miles (within its security perimeter fence).

Nuclear Power

- Accessible uranium reserves can provide an estimated 300-year fuel supply for all the world's existing reactors.
- One kilogram of natural uranium contains as much energy as 38.5 tons of coal, but conventional reactors only utilize approximately 3 percent of that energy. Thus, if the United States joined France and Japan in recycling used fuel, existing and future spent fuel rods would provide an almost unlimited supply of nuclear fuel.
- Another supply of nuclear fuel is also available, after reprocessing, in the more than 15,000 plutonium pits removed from dismantled U.S. nuclear weapons.

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Ethanol

- It will take 16 million acres devoted to corn — an area larger than West Virginia — to produce five billion gallons of ethanol annually — much less the 9 billion gallons required by law in 2008 and the 36 billion gallons required by 2022.
- Turning all corn over to ethanol — would displace 12 percent of gasoline. To totally replace gasoline would require devoting to ethanol feedstocks twice as many acres as are currently devoted to all crops.
- Ethanol production takes 75 percent as much energy as the distilled ethanol provides, for a net gain in usable energy of 25 percent, according to U.S. Department of Agriculture estimates. By contrast, the production of gasoline and diesel from crude oil is more efficient:
  - Only 10 percent of the energy available in a barrel of crude oil is required to transform it into gasoline (and other refined petroleum products) — 90 percent of the usable energy is left.
  - Producing oil from shale uses almost 29 percent of its available energy — more than 71 percent of the usable energy is left.
  - Transforming coal into a transportation fuel uses 40 percent of its available energy — 60 percent is left.
  - Furthermore, adjusting for the fact that ethanol contains 35 percent less energy than gasoline per volume, the net energy per gallon equivalent is only 16 percent.

NCPA Policy Recommendations

- **End all energy subsidies — implement an energy neutral policy.** No public subsidies for the fossil fuel industry or special tax breaks for renewable energy projects.
- **Remove governmental barriers to the expansion of interstate and intrastate oil, gas and electricity infrastructure.** This includes pipelines and transmission lines and natural gas receiving and oil refinery facilities. "Not in my backyard" NIMBY activists must not be allowed to hold America's economic prosperity hostage.
- **Repeal the Public Utility Holding Company Act (PUHCA).** When the Federal Power Act (FPA) and PUHCA were enacted more than 40 years ago, most utilities were local monopoly producers. Thus, the FPA left most aspects of transmission to state regulators, including siting authority. By contrast, regional long-distance transmission came of age in the 1970s and utilities now purchase more than one-third of their power from other systems or competing independent generators. Three interconnected grids have supplanted isolated utilities and in a growing number of states, large consumers can bypass utilities for competitive suppliers or produce their own power.
- **Improve the reliability of the electric power grid.** The greatest barrier to reliability is the growing inadequacy of the nation's transmission system. Expansion of the grid has been steadily falling behind increases in electrical load. Between 1979 and 1999, U.S. peak load grew 2.8 percent per year. From 1979 to 1989 transmission capacity grew 3.1 percent per year, but from 1989 to 1999 the rate fell to 0.7 percent. Annual investment in transmission (in constant dollars) has steadily declined since 1975.
- **Designate "National Interest Economic Transmission Corridors."** These would allow power entrepreneurs to build new transmission lines to improve access to cheaper power or diversify the generation sources available. If a state imposes excessive delays, the Federal Energy Regulatory Commission (FERC) would be allowed to intervene and invoke eminent domain, as it already can for gas pipelines. This is a rare instance where federal preemption is arguably warranted.
- **Increase domestic energy production off shore and on public lands.** America's remaining large deposits of oil and natural gas lie under public lands and off-shore, but these areas have been placed off-limits to production due to environmental concerns. Technology has improved to the point that oil and gas exploration are not necessarily incompatible with environmental quality. Do not renew or implement a new moratoria on off-shore oil and gas production.
- **Take a balanced approach to ANWR.** The Arctic National Wildlife Refuge (ANWR) is not a wilderness area. Congress never intended to prohibit energy production in all of ANWR. The 1980 law that doubled the size of ANWR to 19 million acres expressly called for Congress to develop a process for energy exploration and production.

NATIONAL CENTER FOR POLICY ANALYSIS

Congressional Brief: Climate Change

Greenhouse gases are a small part of the earth's atmosphere. However, they are critical to making the planet habitable — keeping the earth from being a freezing rock in space like Mars. The Kyoto Protocol is an international treaty designed to reduce greenhouse gas emissions from industrial countries an average of 5 percent below their 1990 levels by 2012. Greenhouse gas concentrations will continue to increase because fast-growing countries that do not have to reduce emissions under the Kyoto Protocol — such as China, India, South Korea, Brazil and Indonesia — will account for as much as 85 percent of the projected increase in the next two decades.

Key Facts about Greenhouse Gases and Temperatures

- CO_2 is a naturally occurring greenhouse gas.
- CO_2 and other trace gases are less than 4 percent of the greenhouse gases in the atmosphere. Water vapor makes up the more than 96 percent.
- Humanity's contribution to all greenhouse gases in the atmosphere is only about one-fourth of 1 percent.
- For the past 400,000 years, temperature and CO_2 levels have varied approximately together. However, the earth's temperature has consistently risen and fallen hundreds of years prior to increases and declines in CO_2 levels.
- The earth was as warm or warmer in Roman times and in Medieval times as it is at present, even though CO_2 levels were considerably lower than they are today.
- Despite rising emissions and CO_2 concentrations, the earth's temperature ceased to rise after 1998 and in the last two years has fallen so that the present average temperature is equal to that last experienced in 1979.

Key Facts about the Effects of Climate Change

- Since the last ice age, sea levels have risen, but the current *rate* of sea level rise is far lower than the historic average.
- Polar bear numbers increased dramatically from around 5,000 in the 1950s to as many as 25,000 today, higher than at any time in the 20th century.
- Neither the number nor the strength of hurricanes has increased outside of the range of natural variability.
- Weather-related deaths have declined dramatically over the past eight decades.

Key Facts about the Kyoto Protocol

The United States is not a signatory to Kyoto, but it has slowed the growth of emissions far more than the European Union, despite increased population and higher economic growth rates.

- Even if all of the signatories to Kyoto reduced their greenhouse gas emissions by the required amount, the Earth would be only 0.07°C to 0.19°C cooler than it would be absent Kyoto in 2100.
- The Kyoto Protocol will impose economic costs seven times greater than the benefits it provides.
- Reducing emissions by the amount required by the Kyoto Protocol would cost more than $165 billion annually.
- Capping greenhouse gas concentrations at 550 parts per million (ppm) would cost multiple trillions of dollars per year.
- If every nation adopted the Kyoto Protocol, it would prevent less than 0.2 percent of the number of malaria cases expected in 2085, reduce expected hunger by only 1.5 percent and reduce the costs from flooding by 18.1 percent.
- Halting the rise in CO_2 emissions at 550 ppm (about double their pre-industrial levels) would only reduce malaria by 0.4 percent, hunger by 9.7 percent and the cost of coastal flooding by 80.1 percent.

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Alternatives to Kyoto

At a cost of less than $10 billion annually, focused adaptation is relatively cheap. Steps taken now to adapt to warmer conditions — like using pesticides to kill malarial mosquitoes, improving farming practices and ending coastal development subsidies —would prevent much more harm than Kyoto.

Benefits of Spending to Promote Human Well-Being

The Copenhagen Consensus, an international group of leading economists, including Nobel Prize winners, has calculated the relative costs and benefits of different actions to increase general human well-being and reduce widespread ills. They found, for instance:

- Every dollar spent fighting HIV/AIDS returns $40 in benefits.
- Every dollar spent fighting malnutrition or tuberculosis produces $30 in benefits.
- Every dollar spent fighting heart disease in developing nations provides $25 in benefits.
- Every dollar spent fighting malaria (in developing countries) or reducing farm subsidies and agricultural trade barriers (in developed countries) yields $15 in benefits.
- Every dollar spent preventing civil wars in developing countries returns $9 in benefits.
- By contrast, the benefits of reducing carbon emissions range from 25 cents (cutting carbon emissions alone) to 90 cents (with significant investment in technology) for every $1 spent.

No Regrets Policies

Eliminate All Subsidies to Fuel Use. The International Energy Agency estimates that energy subsidies worldwide amount to around $300 billion with more than 70 percent of the subsidies going to fossil fuel production or use.

- Such subsidies reduce energy prices below what the market would set, encouraging excess demand for fossil fuels and increasing greenhouse gas emissions while discouraging the development of alternative energy sources by reducing research expenditures by private energy companies.
- An international agreement to end energy subsidies with binding targets would be a significant victory for emissions reduction.

Repeal the Federal Flood Insurance Program. Much of the investment in potentially vulnerable coastal areas is a result of the National Flood Insurance Program (NFIP), which subsidizes the risk of development. Ending the program would be an adaptation to a world with rising sea levels, while also discouraging problematic development at current levels of seas, rivers and storm surges.

Liberalize Approval of Biotechnology. Crops can be genetically engineered that require less fertilizer and pesticides, as well as substantially less tilling. As a result, energy use and associated emissions could be reduced.

- Genetically engineered crops could increase the carbon-sequestration potential of agriculture.
- Crops could be made more resistant to climate extremes, and thus to problems which global warming might exacerbate.
- Even delaying ripening in fruits and vegetables could substantially enhance food supplies, as estimated post-harvest and end-use losses are as high as 47 percent.

Remove Regulatory Barriers to Building New Nuclear Power Plants. Nuclear power is the only technology capable of providing emissions-free energy on the scale required to significantly reduce carbon emissions.

- In the United States, nuclear-generated electricity avoids almost 700 million metric tons of CO_2 emissions annually.
- Worldwide, emissions avoided from nuclear generation reach almost 2 billion metric tons.

NATIONAL CENTER FOR POLICY ANALYSIS

Congressional Brief: Public Lands

The federal government owns some of the nation's most magnificent landscapes and treasured resources, but it also owns some lands with no particularly striking characteristics or special environmental value. Unfortunately, it has managed the public's natural resources as poorly as it has managed the federal budget. Unable to balance land use and preservation, government management of public lands has shifted between periods of exploitation or overuse and periods of "protection" or "preservation" bordering on neglect. The result of both has been degradation of the public lands and the wildlife that depends on them.

Key Facts about Public Lands

The federal government owns and controls more than 650 million acres, totaling more than 29 percent of the land in the United States. However, stewardship of these lands is fragmented:

- More than 83.6 million acres is managed by the National Park Service, consisting of 390 parks, historic sites, scenic rivers and recreation areas.
- More than 193 million acres is managed by the Forest Service, consisting of a system of 155 national forests, 20 national grasslands, 20 research and experimental forests, and other areas.
- More than 258 million acres controlled by the Bureau of Land Management.
- More than 96 million acres are set aside in national wildlife refuges supervised by the U.S. Fish and Wildlife Service.

Problems Managing Public Lands

Public lands are a commons, facing the same problem many other valuable common-pool resources face: overuse. Public commons are controlled through the political process, leading to disparate, sometimes contradictory and shifting goals for their management, and with internal incentive structures often at odds with external goals. As a result, public land managers are often rewarded for making what others perceive as perverse decisions.

Problems in National Parks. Problems with the National Parks became apparent almost immediately after the Park Service was created in 1916, as the goals of "preservation" and providing for the "enjoyment of the people" arguably conflicted.

- The Park Service was successful in both attracting visitors (287 million people in 1999) and increasing the number of grazing animals — but success came at a high price.
- High visitor numbers, low fees and limited congressional appropriations have led to a record multibillion-dollar backlog in repairs and maintenance.
- The absence of predators to keep their populations in check and periodic fires to stimulate plant growth led to an overpopulation of grazing animals.

Problems in National Forests. The 155 national forests have more than 800 million visits by recreational users per year (some visitors make multiple visits) to camp, motorbike, ride horses, hunt and hike.

- Over the past two decades, logging in national forests was greatly reduced. Timber harvests have plunged 75 percent from 12 billion board feet per year in the 1980s to less than 4 billion board feet per year.
- Many national forests have more standing dead timber or parasite-infested trees in decline than newer, growing trees.
- Other forests have stands of trees that are too thick (too many trees growing in too small an area) due to

successful fire suppression programs, logging that has not kept pace with forest growth and forest replanting programs that stress the monoculture of fast-growing, commercially valuable species. As a result, many national forests have lost biodiversity and/or the trees are not reaching their growth potential.

- Overcrowding contributes to the continuing decline in forests' health. It also increases the likelihood and severity of fires.
- According to Forest Service figures, fully 60 percent of national forest land is unhealthy and faces abnormal fire hazards.
- And of the more than 90 million acres at high risk for catastrophic fires, 14 million acres are located in designated roadless areas.
- Four of the nation's 10 largest wildfires over the last decade, each scorching more than 250,000 acres, occurred in 2007.
- From June 20 to July 25, 2008, fires burned 1,078,616 acres, with the number of simultaneous fires peaking at 2,095.

NCPA Policy Recommendations

There is no compelling reason to keep properties that are not environmentally unique or significant in the public domain, rather than sell them to private parties (individuals, companies or nonprofit organizations). The private sector currently preserves, protects and promotes many historically important properties and manages the majority of the country's forests and rangelands. Moreover, it manages them in ways that promote environmental quality and benefit the owners and the public at large.

Sell Public Lands. Surely as an experiment the United States can safely and perhaps profitably sell some of the hundreds of millions of acres of federal land. For example, portions of national forests could be sold for market value. If there is one private owner of land abutting the property, it could first be offered to that owner for continuity of management. If that landowner is not interested or the forest abuts state lands or multiple private properties, it could be auctioned to the highest bidder.

- Forest product companies, sportsmen's clubs and environmental groups would likely buy certain forested lands. Undoubtedly the range of interests bidding on the forests would be limited only by location, access and the imagination of the bidders. Some of these lands will likely be developed.
- While they will no longer be public forests, many and perhaps most will be managed in ways that protect their natural character. For instance, forest companies have an incentive to manage their forests in sustainable ways, which enhances both their environmental and economic value.

Allow Alternative Management. There are various mechanisms or institutional arrangements that would still bring many of the benefits of ownership without removing land entirely from public control.

- For instance, it is unlikely the public would allow the federal government to sell crown-jewel national parks like Yellowstone or wilderness areas like the Arctic National Wildlife Refuge. In such cases, Congress could establish Wilderness Endowment Boards to own and manage them, as suggested by economists Richard Stroup and John Baden. These government-chartered, nonprofit entities, whose board members would be approved by Congress, would have a narrowly-defined fiduciary duty to protect and enhance the natural values of the land under their charge.
- Public lands retained by the federal government could still receive some of the environmental benefits of ownership if there were competition within the public system between federal, state and local governments.
- State and local foresters manage millions of acres. In contrast to federal forests, state forests often make money. They are also healthier environmentally. Congress could allow any state or county that demonstrates superior economic *and* environmental performance to take over the management of the national forests within their state or area.
- Congress could give fixed but declining block grants during a transition period to the forestry agencies that apply and allow them to retain any revenues generated. The program should be allowed to run for several years so state and county foresters could counteract the effects of federal mismanagement. At the end of the trial, states and counties that have improved a forest's economic and environmental performance could be granted the forests outright and federal payments ended. If forests have not improved, they could be returned to federal control and new management experiments implemented.

NATIONAL CENTER FOR POLICY ANALYSIS

Congressional Brief: Trade

International trade — the essence of globalization — allows people, regions and nations to specialize in the production of what they do best, to enjoy economies of scale production and to buy more cheaply those things that others do best. Impediments to trade limit its benefits. Freer trade — from reduced tariffs, regulations and restrictions — permits an economy to make better use of its resources. Trade liberalization stimulates growth and efficiency by allowing domestic producers to concentrate their resources on areas in which they have a comparative advantage over foreign producers, thereby reducing their real costs.

Key Facts about the U.S. Trade System

Free Trade Agreements

- Due in part to increased trade from 11 free trade agreements (FTAs), nine since 2001, U.S. exports grew an average of 11.1 percent annually from 2001 to 2006, and trade with 17 FTA countries accounted for almost 43 percent of U.S. exports.
- Under the North American Free Trade Agreement (NAFTA), annual U.S. exports to Mexico increased 242 percent between 1993 and 2007, while Mexican exports to the United States grew 437 percent.
- Over that period, gross domestic product (GDP) grew 50 percent in the United States and 46 percent in Mexico.
- U.S. employment rose from 110.8 million in 1993 to 137.6 million in 2007, an increase of 24 percent, and in the first 13 years after NAFTA, U.S. unemployment averaged 5.1 percent compared to 7.1 percent during the 13 years prior to the agreement.

Trade Deficits

- The U.S. trade deficit has grown in recent decades, but the flip side of the deficit is the large surplus in the capital account, which measures investment flows in and out of the United States.
- International investors have found that the United States has a far more attractive business climate than any other major country; thus, they believe they will earn more on an investment here than in Europe, Canada or Japan.
- The inflow of foreign investment is both a sign of the economy's strength and a contributor to it. The trade deficit is simply a statistical corollary.

Effects of Tariffs on the Domestic Economy

- After tariffs on steel imports of 8 percent to 30 percent were imposed by President Bush in 2002, steel prices rose about 30 percent on average, and the Producer Price Index for all steel mills products rose 11.7 percent.
- The result was a loss of 200,000 jobs among manufacturers that use steel to make other products in 2003 — more than the total number of people employed in the steel industry after the layoffs.
- Consequently, profits rose among steel producers and declined among steel users — including the automotive, machine tool and fabricated metal products industries.
- Tariffs and other trade barriers, such as loans to producers and import quotas, also harm consumers; for example, subsidies to the sugar industry cost U.S. consumers more than $2 billion annually.

Trade Liberalization

- It is the exception, not the rule, to find a country or area where international trade has *not* grown faster than its GDP at one point or another during the last 50 years.
- Most of the "growth miracle" cases — Japan, Taiwan, Korea, Brazil, Spain, Portugal, Greece, Singapore, Hong Kong, Thailand, Malaysia, Indonesia, China and now India — have experienced such episodes of export-led growth. The opening of these economies to freer international trade was an important factor.
- Economists Jeffery Sachs and Andrew Warner examined trade policies of 117 countries over 20 years and found that the rate of economic growth was three to six times higher in open economies than in closed ones.

Trade versus Foreign Aid

- Despite billions of dollars in U.S. aid, per capita GDP in Sub-Saharan Africa grew an average of less than one percent (0.33 percent) from 1980 to 2004, and many of these countries are economically worse off than at the end of the colonial era in the 1960s.

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- Ending subsidies to U.S. producers who compete with African farmers would aid those countries — the International Cotton Advisory Committee estimates world cotton prices would rise 26 percent if the United States repealed cotton subsidies. This amounts to an increase of over $300 million per year in income for African cotton farmers.
- U.S. tariffs on agricultural products average 18 percent, much higher than the 5 percent average tariff on other imports.
- Tariffs on bulk agricultural imports can be much higher; for example, tariffs on groundnuts, cultivated by more than 1 million farmers in Senegal, are as high as 150 percent.

Trade Sanctions

- Currently, the United States has sanctions against more than 80 countries, ranging from limits on the transfer of technology to barring entry of specified goods into the United States. Unfortunately, there is little evidence that unilateral sanctions help our economy. There are few items of international commerce for which the United States has a monopoly. Thus, target countries simply buy what they need elsewhere, at the expense of American businesses.
- Policies that claim to protect American businesses actually hurt the U.S. economy. One example is the Byrd Amendment of 2000, which fined foreign businesses selling goods in the United States and distributed the money to domestic industries that filed pricing complaints. From 2000 until its repeal in 2006, this policy distributed over $1 billion to domestic companies.
- Other countries retaliated against the Amendment, with the approval of the World Trade Organization, hurting domestic businesses.
  - The EU imposed a 15 percent levy on U.S. textiles, paper, farm products and other goods.
  - Canada charged a 15 percent tax on U.S. imports of cigarettes, oysters and swine.
  - Japan instituted a 15 percent duty on steel imports from the United States.

Other Forms of Protectionism

- Prohibiting U.S. firms from outsourcing jobs to countries with lower labor costs would reduce the productivity of the U.S. economy.
  - According to Martin Bailey, chairman of the Council of Economic Advisers under President Clinton, of every $1 spent by a U.S. corporation on outsourcing to India, only 33 cents stayed in India.
  - The other 67 cents came back to America in the form of cost savings, new exports and repatriated profits. U.S. productivity gains add another 45 cents to 47 cents.
  - Thus, on balance, the U.S. economy gains $1.12 to $1.14 for every $1 invested in outsourcing.
- Financial protectionism, in the form of subsidies to domestic financial institutions, invites retaliation from other countries. It discourages institutions from lending across borders, reducing international investment.
- Requiring that state and local governments and private firms use federal funds only to "Buy American" goods and services would invite retaliation by U.S. trading partners. Such mandates also increase costs and thereby reduce the effectiveness of government programs.

NCPA Recommendations

- Eliminate tariffs and other barriers so that U.S. consumers are able to purchase goods at world prices, which are much lower than what consumers pay currently.
- Eliminate subsidies to domestic producers. International competition typically stimulates real cost reduction, and people in the affected industries will probably work harder to reduce costs than they would have under the umbrella of protection, thereby improving efficiency.
- Eliminate sanctions on foreign companies and countries. Sanctions rarely achieve their desired result and may cause U.S. trade partners to retaliate with their own trade barriers.
- Open markets so that countries, companies and regions can specialize in the production of what they do best and import products that can be made more efficiently elsewhere.
- Ratify pending free trade agreements with Colombia, Panama and South Korea. Strengthening the economies of these U.S. allies would improve the national security of the United States.
- Revive the World Trade Organization talks on trade liberalization, which collapsed in 2008 over the issue of agricultural subsidies. Since countries that trade have powerful incentives to maintain peaceful relations, liberalizing world trade is in the national security interest of the United States.