

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. Indeed, China surpassed the United States to become the largest greenhouse gas emitter more than 15 years before anticipated.

Key Facts about Greenhouse Gases and Temperatures

- Carbon dioxide (CO₂) is a naturally occurring greenhouse gas.
- CO₂ 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 CO₂ levels have varied approximately together. However, the earth's temperature has consistently risen and fallen hundreds of years prior to increases and declines in CO₂ levels.
- The earth was as warm or warmer in Roman times and in Medieval times as it is at present, even though CO₂ levels were considerably lower than they are today.
- Despite rising emissions and CO₂ 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 experienced last 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 7 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 CO₂ 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.
- At a May 2011 meeting of the G-8, Japan, Canada and Russia announced that they would not participate in a post-Kyoto agreement capping greenhouse gas emissions.

NCPA Policy Recommendations

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.
- 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.

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 CO₂ emissions annually.
- Worldwide, emissions avoided from nuclear generation reach almost 2 billion metric tons.

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. America has enough coal and natural gas supplies to meet demand for centuries. Wind and solar currently provide less than 2 percent of U.S. electric power needs, whereas coal-fired plants produce almost 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 increase 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 United States 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 one-twentieth 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 megawatt 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.

Ethanol

- It will take 16 million acres devoted to corn — an area larger than West Virginia — to produce 5

billion gallons of ethanol annually — much less than the 9 billion gallons required 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” activists must not be allowed to hold America’s economic prosperity hostage.
- *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 offshore and on public lands.* America’s remaining large deposits of oil and natural gas lie under public lands and offshore, 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 new moratoria on offshore 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.

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 the 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.
- 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.
- 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 11 percent in 2009.
- More than 20 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 more than doubled, and it now comprises one-sixth of the economy, or about \$2.5 trillion.
- Some projections show total health spending rising to more than \$4 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 the State Children's Health Insurance Program (S-CHIP) crowds out 50 cents to 75 cents 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.
- One-in-three hospital patients experience some type of adverse event or medical error.
- A 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 83 percent (253.6 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 16 million, while the number without health coverage only increased about 11.9 million. Both increases are largely due to population growth.
- Nearly 20 million of the uninsured lived in households with annual incomes above \$50,000 and could likely afford health insurance.
- Up to 14 million uninsured adults and children qualified for government programs.

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 to have 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.
- **Accountable Care Organizations:** The centerpiece of the Affordable Care Act's solution to the rising cost of health care is to force doctors and hospitals into forming Accountable Care Organizations. Yet, savings have failed to materialize. In a five-year demonstration with 10 leading health care systems, only four demonstrated savings sufficient to receive a bonus payment.
- **State Mandates:** Studies show that as many as 1 in 4 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. If implemented, Medicare fee cuts required by the Affordable Care Act will push Medicare fees below Medicaid fees by the end of this decade.

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.

- **Medicare Premium Supports:** Provide seniors with a risk-adjusted credit to purchase a Medicare Advantage-type plan in the private market. In addition, allow seniors to set aside funds into an account tax free to save for future medical needs.
- **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 and state governments "spend" 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 \$2,300 per individual and \$5,700 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.

Congressional Brief: Why Aren't Companies Hiring?

Due to the slow recovery following the last recession, 9.1 percent of Americans were unemployed and looking for work as of May 2011. Among minorities, the Hispanic unemployment rate was 11.9 percent and the African American unemployment rate was 16.2 percent. Among teenagers 16 to 19 years old, more than one in five was unemployed, and among black teenagers, more than four in 10 were unemployed.

Key Contributors to Unemployment

Taxes. The prospect of tax increases is stifling expansion and job creation. Corporations and small business owners face an uncertain tax environment that discourages hiring:

- Family-owned businesses, farms and ranches have been sold or liquidated to pay the federal estate tax, and at a 45 percent rate, for example, the estate tax stifles the creation of an estimated 1.5 million jobs.
- Uncertainty about extension of the Research & Development tax credit compared to a permanent credit reduces potential output by \$90 billion and stifles creation of 162,000 new jobs.
- If the Bush tax cuts expire at the end of 2011, the individual income tax rates many small businesses pay will increase by up to 50 percent, rising most for the lowest earners.
- Taxes on dividends and capital gains will also rise, making investment less profitable and thus restricting businesses' ability to expand.

The U.S. tax system also hurts international competitiveness.

- The 35 percent top U.S. corporate tax rate outstrips the 25 percent average among developed countries, driving U.S. manufacturing jobs overseas.
- Businesses may immediately expense 50 percent of their investment in plant and equipment (through 2011), but must depreciate the rest over many years, reducing their return on capital by 2.5 percentage points.

Health Care Reform. The Affordable Care Act (ACA) mandates that employers provide health coverage by 2014, and that has a major impact on hiring decisions today.

Not counting the employer's share of payroll taxes:

- The estimated cost of the minimum required benefit package is \$4,750 for individuals and \$12,250 for families.
- That translates into a minimum health benefit of \$2.28 an hour for full-time workers (individual coverage) and \$5.89 an hour for family coverage.
- In four years, the minimum cost of labor will be a \$7.25 cash minimum wage and a \$5.89 health minimum wage (family), for a total of \$13.14 an hour or about \$27,331 a year.

ACA and Part-Time Employees. By 2014, every company with more than 50 employees will be required to offer coverage to their employees.

- Employers will also have to provide coverage to part-time workers, or face penalties.
- Employers and employees do not have the option to choose between health benefits and wages. For example, if a new employee has coverage under her spouse's health plan, federal law does not allow her employer to pay higher wages instead.

ACA Penalties for Hiring Employees. The ACA provides a health insurance tax credit to small businesses. However, the credit is arbitrarily reduced as firms grow:

- As a firm's average pay rises above \$25,000, the tax credit is gradually withdrawn, and is completely gone once average pay reaches \$50,000.
- The tax credit is also gradually withdrawn if the firm size increases beyond 10 employees, and is completely withdrawn once the firm reaches 25 employees.

- A business with 50 workers is not required to offer health coverage, but hiring their 51st employee would subject them to a fine of \$42,000 if they don't offer coverage.

Trade Barriers. International trade agreements now account for almost 43 percent of U.S. exports. The failure to liberalize trade has hurt U.S. exports. Since 2007, three international trade agreements have been negotiated and signed by the United States, but put on hold:

- The trade pact with Panama would increase profits from exports of U.S. agricultural products to Panama by 20 percent above the 2006 level, to \$46 million, according to a 2009 Congressional Research Service report.
- The Colombia trade pact would increase U.S. exports by \$1.1 billion, and increase U.S. output roughly \$2.5 billion, according to the U.S. International Trade Commission.
- The renegotiated trade agreement with South Korea is expected to increase annual exports of American goods by up to \$11 billion and to support at least 70,000 U.S. jobs.

Free trade is particularly beneficial to U.S. manufacturing. During the seven years after NAFTA, the overall economy grew 29 percent, and manufacturing output increased 42 percent.

Regulatory Costs. Since 2010, the Environmental Protection Agency (EPA) has proposed or finalized 29 major regulations and 172 major policy rules.

- Environmental regulations cost \$1,523 per employee annually, which is a substantial portion of the \$8,086 per employee total annual cost of federal regulations, according to the U.S. Senate Committee on Environment and Public Works.

- A 2007 ban on incandescent light bulbs has led to the closing of U.S. manufacturing plants in Kentucky, Ohio and Virginia that employ hundreds of people. Those plants have been replaced by CFL (compact fluorescent) and LED (light-emitting diode) plants in China.

Proposed new regulations will impose substantial compliance costs on business, reducing output and job growth. For example:

- The EPA's proposed ozone standard will cost local governments, businesses and consumers \$10 billion to \$22 billion per year, and cause the loss of 7.3 million jobs by 2020.
- If EPA regulations cause a one-third reduction in coal use to generate electricity, it would cost an estimated 1.2 million jobs by 2015 and a 66 percent reduction would cost 2.7 million jobs, according to Pennsylvania State University researchers.

By 2020, EPA regulation of greenhouse gas emissions will eliminate an estimated 7.3 million American jobs and add \$1 trillion in regulatory costs nationwide, and will result in \$7 trillion in lost economic activity by 2029.

NCPA Policy Recommendations

Taxes

- Make income tax cuts permanent in order to encourage work and investment.
- Repeal the estate tax, which reduces capital formation and thus productivity, wages, employment and federal revenues.

Health Care Reform

- Repeal employer mandates and offer a refundable tax credit to employees to buy their own insurance.

Trade

- Ratify pending free trade agreements with Colombia, Panama and South Korea. These agreements will stimulate U.S. job growth.

Environmental Regulation

- Require that the benefits of new environmental regulations outweigh the costs.

Congressional Brief: Medicare

While Social Security has received considerably more attention in recent years, Medicare is actually a much larger problem. It is growing at a faster rate and has an unfunded liability six times the size of Social Security. Medicare is on a spending path that is impossible to sustain. The program 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 1 in every 5 federal income tax dollars.
- This means that in just 12 years the federal government will have to stop doing 1 in every 5 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 1 in every 3 general revenue dollars; by 2050, they will claim 1 in every 2.
- Looking indefinitely into the future, the unfunded liability is \$39 trillion — twice the size of Social Security's unfunded liability, and nearly three 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.
 - Medicare Part A is already paying more in benefits than it receives in payroll tax revenues, and 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,
- Most discussions of the future of Medicare assume the program will somehow get off of the current path, precisely because it is impossible. 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 \$25 trillion.

which will be exhausted by 2024, at which time the program will only be able to pay what it collects in payroll taxes.

- o There are legal and accounting issues that stem from the political desire to finance benefits over time with payroll taxes. The real pocketbook 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?
- Total spending in 2010 on Medicare-covered services totals about \$523 billion (over \$11,700 per beneficiary); however,

the beneficiaries pay less than one-tenth of the costs in premiums (\$61.8 billion).

- o Medicare will pay for about 72 percent of this total, though beneficiaries will cover some of this amount through Part B and D premiums.
- o In 2010, premiums and cost sharing for Part B and Part D together accounted for 27 percent of the average Social Security benefit (premiums accounted for 13 percent and average cost sharing absorbed another 14 percent).
- o 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 Parts A, B & D with the Medigap plans individuals purchase from private insurers to fill the gaps in Medicare coverage, 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.
- **Help Workers Save.** In addition, encourage workers to save money today to fund future elderly health care benefits through Health Savings Accounts (HSAs) and savings plans.
- **Help Seniors Save.** Allow Medicare-eligible seniors to open and make deposits to 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.

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 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 is controlled by the Bureau of Land Management.
- More than 96 million acres is 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 has 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.
- Unlike the federal government, private companies do not have the general treasury to bail out money-losing operations and therefore do not build uneconomical roads in ecologically fragile areas to cut down uneconomical trees.

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.

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 about 55 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 \$56,000 and couples who are married filing jointly with an AGI up to \$90,000.
 - However, the deductibility of contributions phases out at incomes above these levels; singles with an AGI of \$66,000 or more — and couples who are married filing jointly with an AGI of \$110,000 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).

- o **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 invest-

ment 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 \$122,000 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 \$107,000 to \$122,000.
- Taxpayers who are married filing jointly cannot contribute to a Roth IRA if their adjusted gross income is greater than \$179,000, and can only make a partial contribution if their income is \$169,000 to \$179,000.

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 \$6.5 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 2011, Social Security is projected to pay retirement and survivors benefits to more than 44.5 million people and disability to about 10.4 million. Meanwhile, 157 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 \$106,800 of wages (about 11 million workers have wages above the cap).
- The average Social Security benefit for the month of April 2011 for retired workers was

\$1,179.50, which would result in a benefit of \$14,154 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 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 2.06 and by 2035 it is expected to trend downward to 2.00.

- The result has been dramatic. In 1940, there were 42 workers per retiree. Today the ratio is 2.9-to-1; by 2035 it will be 2.1-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.
- In 2010 Social Security spent more in benefits than it collected in taxes; by 2036 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 \$20 trillion.

Trust Fund: Accounting Fiction?

- Currently, payroll tax collections exceed benefit payments, and will continue to do so until 2037 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.
- The real problem comes in 2016: For the government to pay Social Security benefits in 2016, 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.

Congressional Brief: Taxes and Spending

The Bush tax cuts were extended in 2011, but will sunset after 2012, 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 39.2 percent (including average state taxes) is the second-highest in the world, after Japan's 39.5 percent. The average was 25.5 percent among countries in the Organization for Economic Cooperation and Development (OECD) in 2011.
 - The current 45 percent estate tax is the third-highest in the developed world; if it returns to a 55 percent rate in 2012, 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 38 percent in 2008, whereas the share paid by the bottom 50 percent fell from 6.5 percent to 2.7 percent.
 - In 2008, 45 percent of U.S. taxpayers who reported dividend income earned less than \$50,000 annually and 93 percent earned less than \$100,000.
 - In 2008, 42 percent of tax returns reporting capital gains were from households with incomes below \$50,000 and 72 percent were from 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 2030 and more than 60 percent by 2060.
- 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 2008, the income share of the top 1 percent of earners rose 5 percent points, 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 1.3 percent points, 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 Buffet 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 percent of their value to the estate tax than those of the super-rich because it tends to hurt cash poor/land rich households.
 - 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 2011), 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.
- The estimate deficit in 2011 is \$1.62 trillion.
- As a result, the U.S. public debt rose from \$5.7 trillion in 2000 to \$10.6 trillion as of January 2009, and \$14.4 trillion in May 2011.
- The CBO projects a federal deficit of 9.9 percent of gross domestic product (GDP) in 2010.

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 encourage greater capital investment. The value of taxable gains should be indexed for inflation, which accounts for 20 to 25 percent of total gains reported.

Congressional Brief: Trade

International trade — the essence of globalization — allows people, regions and nations to specialize in the production of what they do best 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

North American Free Trade Agreement

- 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.
- In a five-year report on NAFTA, the Department of Commerce reported that export-related jobs pay 13 to 16 percent more than other U.S. jobs.
- In 2011, the United States reinstated a pilot program allowing Mexican trucks to drive in the United States.
 - Citing safety concerns, the United States had barred Mexican truckers for 16 years, despite a NAFTA requirement that trucks of each nation be allowed to operate in the other country.
 - The Congressional Research found that “Mexican trucks are as safe as U.S. trucks and that the drivers are generally safer than U.S. drivers.”
 - During that time, U.S. businesses faced higher transportation costs and a \$2.4 billion retaliatory tariff on U.S. goods.

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.

- FTAs with Colombia, Korea and Panama signed in 2008 have been renegotiated and will likely be voted on by Congress in 2011.
 - The Colombia FTA would increase U.S. exports by \$1.1 billion, according to the U.S. International Trade Commission. The delay in approving the pact has cost over \$3.5 billion in duties.
 - The agreement with Korea would boost U.S. exports by an estimated \$10 billion and create 70,000 new jobs.
 - In 2008, 46 percent of Colombia’s food imports came from American farms, but because a trade agreement with Colombia has not been approved, the U.S. market share has been cut in half.

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.

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.
- 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.
- Consequently, profits rose among steel producers and declined among steel users — including the automotive, machine tool and fabricated metal products industries.

- After Congress levied a 27 percent “antidumping” tariff on Canadian softwood lumber in May 2002, sales to the United States plunged 40 percent and U.S. lumber prices rose.
- For every \$50 increase in the price of 1,000-feet of framing lumber, 300,000 potential homeowners are priced out of the housing market, according to the National Association of Homebuilders.
- Since 2006, a new system of quotas and tariffs has kept lumber prices high, benefiting lumber producers but hurting lumber-dependent industries. Lumber-dependent industries support 25 times as many jobs as the lumber-production industry, according to the National Association of Homebuilders.
- 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 sometime 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.
- 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.

Agricultural Tariffs and Subsidies

- 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.
- Policies that claim to protect American businesses actually hurt the U.S. economy.
 - U.S. antidumping tariffs penalize imports from countries that allegedly sell subsidized goods to Americans.
 - Subsidized exports come at the expense of the exporting country but benefit consumers in the countries importing those goods.
 - Tariffs hurt consumers and businesses in the importing countries by raising the prices of goods that exporting countries produce at less cost.

NCPA Policy 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.