



Leadership and Shared Purpose for America's Future



Committee for Economic Development

The Best of Business Thinking
In the Nation's Interest

November 5, 2008

Dear Friends of CED:

We are pleased to share with you a copy of “Leadership and Shared Purpose for America’s Future.”

As we prepare for a new President and a new Congress, we believe it is important for the nation’s political leaders and its business leaders to work together in a bipartisan manner to tackle the critical infrastructure and investment issues now facing our country. For the last decade, CED Trustees have addressed important public policy issues that are vital to our future. In some instances, such as campaign finance reform and our work in early education, we have enjoyed some notable success. In other instances, however, progress has been stymied by political stalemate in Washington, DC, and/or the absence of a strong, coherent, and focused business voice.

The issues facing our country require sustained focus and immediate action. This document summarizes what we call CED’s “unfinished agenda.” At the top of this list are health care reform, controlling our budget, trade, and savings deficits, reforming our entitlement programs, and investing in new infrastructure such as early education, sustainable energy, and the environment. We are pleased to have the financial support of the Peter G. Peterson Foundation to underwrite our efforts to enlist more American business leaders to support this reform agenda.

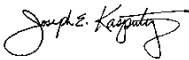
Parts of this agenda, such as fixing Social Security, are relatively simple and straightforward (though certainly politically challenging). Others issues, such as health care reform, deficit reform, and entitlement reform, will require more difficult efforts and more sacrifice. In our view, progress will be made only if American business leaders are involved in determining how best we can reinvigorate America before our emerging demographic trends make these efforts too late.

In his new bestseller, “Hot, Flat and Crowded,” New York Times foreign affairs columnist Tom Friedman states that “[t]he danger is that the paralysis of the American political system – its inability to tackle any big multigenerational problem any more – will just very slowly erode our

strengths and assets as a society.” At CED, we have faced big problems before. Our early work which helped create the Marshall Plan is an indication of what can be achieved when enlightened business leadership works with our political leadership to achieve change that has long-term and long-lasting impact.

In one sense, the agenda reflected in “Leadership and Shared Purpose for America’s Future” could be considered a new Marshall Plan for America. Like the Marshall plan of sixty years ago, resources will be needed. But the key is not resources, but rather leadership, shared purpose, and determination. Our ability to succeed and meet these challenges will test who we are as business leaders and who we are as individual men and women. This effort will challenge our values, our vision, and our ability to put aside more parochial interests in favor of what is best for our country.

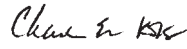
CED retains its commitment to work to build consensus within the business community for reform and to work – in a bipartisan fashion – to achieve these results for America’s future. In doing so, we very much need and welcome your support.



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Leadership and Shared Purpose for America's Future

By all accounts, the American people are troubled about the state of our nation and our economy. In every recognized opinion poll asking broadly about the condition of the country, current responses have been at or very near the historically lowest levels of belief that the nation is heading in the right direction, and at or near the highest that we are on the wrong track.¹

The Need for Vision and Leadership

The Committee for Economic Development believes that a principal reason for this belief is the cumulative effect of years of short-sighted policies on the part of both the public and private sectors. This short-sightedness – this failure to think about the future – has left our nation adrift and unprepared for the changing world, for the challenges of globalization, for the costs of an aging population, for the weakness of our educational system, for the threats to our environment, and for the need to make physical and intellectual investments for future economic growth.

A common thread running through all of these issues is the need for honorable compromise – the need for everyone to give some ground and share sacrifice – to invest in the future of the nation as a whole. After all, sacrifice today for a better tomorrow is what investment is all about.

CED believes that our policymakers must exercise strong leadership if our nation is to move quickly back into step with the pace of our changing world. There is no substitute for leadership when people must pull together in concert for the common good. When there is need for some sacrifice, citizens must have confidence that there will be broad participation in that sacrifice. Without such confidence, common purpose and cooperation break down. So leaders must map out the road of shared sacrifice instead of stalemate, and honorable political compromise instead of gridlock.

As of now, stalemate is the leader, and it will remain so unless the political and policymaking system changes. In partisan Washington today, the greatest rewards go to those who exploit problems rather than solve

¹ <http://www.pollingreport.com/right.htm>

them, taking a zero-sum, winner-and-loser approach that never yields a consensus for action. It is too easy for politicians to pit the young against the old, the employer against the employee, the affluent against the struggling, or the healthy against the sick. Key issues are on hold, in part because we are in an election year, but the political strategy for the next four years cannot be more intransigence and gridlock. Without true leadership, the political debate remains mired in the present argument about the past, not breaking free to look up toward the future.

Throughout its 66-year history, CED has sought to identify and advance policies that increase economic growth and opportunity for all Americans. Our vision *is* vision, and foresight. We helped create the Marshall Plan six decades ago, and in a very real sense, we need that same spirit today—a “Marshall Plan for America.” We believe that it is our duty to stimulate and contribute to a constructive national discussion of how we can put our country, both actually and in the collective perception, on the right track again.

The discussion in this document reflects several critical issues addressed in recent years by CED Trustees but which are still unresolved at the national level. CED’s “unfinished agenda” represents the most important priorities for the next president and Congress. In each instance, the cost of doing nothing is no longer acceptable.

Many Failures of Vision

Recent short-sighted policy decisions stretch across a broad range of public issues. In fact, it is striking how many seemingly disparate national problems share the common element of a failure to foresee the longer-term consequences of our collective actions, or failures to act.

In the most fundamental sense, the nation collectively – including the federal government and households – has been living beyond its means.

Federal Government Deficits. Over more than 30 years, the U.S. public debt has grown faster than the nation’s capacity to repay it – or in technical language, the debt has grown as a percentage of the GDP.² It is as if, for a family, the home mortgage grows faster than the family’s income. The higher debt yields larger annual interest costs, which add to the debt, which costs more interest – and so on. Procrastination simply increases

2 *The Emerging Budget Crisis: Urgent Fiscal Choices* (http://www.ced.org/docs/report/report_budget2005.pdf).

that debt load, and the taxes that every succeeding generation must pay to service that debt. Taxes paid to service a prior generation's debt achieve no public purpose and breed destructive cynicism about government. Large borrowings to finance the current "bailout" of troubled financial institutions may be necessary policy for the near term, but they add to the pressure of debt and debt service in the long run.

Now, under the most reasonable assumptions, and even if the economy is strong, we face decades of substantial budget deficits. Such an unsustainable accumulation of debt is doubly dangerous, because it both erodes our economic strength and prosperity in the long run (by either reducing domestic investment, both private and public, or putting domestic investments in the hands of foreign owners) and threatens economic stability in the short run (by forcing the United States to rely heavily on foreign investors to meet our financing needs). Recent substantial declines in the value of the U.S. dollar relative to free-floating foreign currencies signal possible concerns in world financial markets, with fears that those foreign lenders will not continue to provide us with credit to finance our endless budget deficits.

This rash of borrowing is also exceptionally ill-timed, because the overall budget is straining just when major components of the budget – those providing both income support and health care for the elderly population – are about to worsen on their own with the retirement of the oversized baby-boom generation, and while the rescue for the current financial crisis, and the prosecution of the war in Iraq, are adding still more debt. The first of the baby-boomers are starting to collect early-retirement Social Security benefits now – in 2008, when the first "boomers," born in 1946, turn 62 – beginning the budgetary strains of population aging. In just three years, that same first wave of baby-boomers becomes eligible for Medicare.

Social Security. The largest federal program for the elderly is Social Security, whose costs now constitute 21 percent of the federal budget. Troubles with Social Security are nothing new; it was only a quarter of a century ago – well within the memory of today's policymakers – that Social Security faced an imminent liquidity crisis. Bipartisan negotiations addressed the problem and postponed the day of reckoning. Since that time, Social Security has been the subject of continuing attention by government experts and independent scholars. The menu of possible actions to close its funding gap is well known and understood. Those

same authorities and elected policymakers also understand that postponing action to solve the problem narrows the list of available options and makes the ultimate solution more painful. And yet, there has been no significant cooperative, bipartisan effort to deal with the problem, and thereby to relieve much of the long-term pressure on the budget.

Social Security is of vital importance because of its substantial impact on the nation's budget and also in its own right. Social Security is one of the most successful social programs in U.S. history. The basic objective of Social Security – to protect the economic security of retirees – is fundamental. Social Security maintains financial security for those who live very long lives, with inflation protection that is virtually impossible to obtain from private-sector investments. It also provides an important safety net for survivors of younger workers, and for the disabled.

However, the aging of the U.S. population demands significant change in Social Security. Timely action is essential. If we act now, and choose carefully, the changes in the program can be phased in gradually, and today's workers will have time to adjust. But if policymakers continue to procrastinate, more and more workers will either retire or come so near to retirement that the necessary changes in benefits will be impossible for them. Short-sighted policy and unwillingness to face up to the problem therefore dig the hole deeper and deeper.

Ideological nostrums will not solve the problem. Private investment accounts can contribute to a solution, but not if they are financed with government borrowing. Reliance on forecasts of faster economic growth bets future financial security on the unknowable, and by the time it is clear that the bet is lost, it will be too late to find any reasonable alternative.

Social Security demands timely, future-oriented action – not setting the young against the old, but bringing them together to find a sound solution. Our leaders must face facts, set aside ideological and partisan political ambitions, and explain to all Americans – young and old – that they must accept modest sacrifice for the ultimate benefit of all generations. The more both sides wait to achieve some illusory ultimate partisan advantage, the worse the problem becomes.³

³ Fixing Social Security (http://www.ced.org/docs/report/report_socsec.pdf) and Fixing Social Security: A CED Policy Update (http://www.ced.org/docs/report/report_socsec2005.pdf).

Still, fixing Social Security is only a part – and not the largest part – of the necessary solution to our nation’s budgetary problems, so that our children and grandchildren can be free of the burdens that current policy would bequeath to them.

Health Care. Social Security is now the largest program for support of the elderly, but as current trends continue, spending for Medicare (health care primarily to the elderly, but also to the disabled) will exceed that for Social Security within about 20 years; and the *growth* of Medicare costs is the greatest single source of projected future *deterioration* of the federal budget – far larger than the expected growth of Social Security spending. The growth of spending for Medicaid (health care for the low-income population, primarily single-parent families with children, but also costly nursing home care for the indigent elderly and disabled) is crushing state budgets and adding to federal costs as well. At the same time, the cost of insurance for the employed population is crimping the competitiveness of U.S. business and encroaching on the spendable incomes of households – for those fortunate enough to have coverage at all. The employer-based health-insurance system as a whole is on an unsustainable path.

The nation clearly has an economy-wide health-care cost problem, which is exacerbated but by no means caused by the growing population of elderly, or by government programs. The federal government cannot control costs by fiat, nor can it compartmentalize the problem, and try to cut costs in public programs alone. Doctors who treat Medicare patients treat others as well, as do the hospitals in which they work. The nation cannot have prices for Medicare and prices for other patients treated by the same doctors, in the same hospitals, rise at different rates indefinitely; and now, *all* health-care costs are rising unsustainably. Thus, in this system with millions of dedicated care-givers – and arguably the best care in the world for people who are seriously ill and have insurance – we also have spiraling costs, growing tens of millions of people with no insurance at all, and even more people with often undiagnosed and untreated chronic conditions (such as obesity) that will lead to serious and costly preventable illnesses (such as diabetes). The whole of our health-care system truly is less than the sum of its parts. The entire system needs reform.

Here again, a shared problem requires compromise and shared sacrifice to find a shared solution. It will take true leadership to raise the public’s

perception, explain the need for honorable compromise, and bring people together.

Many individuals now have what they believe is quality, secure coverage. Their first choice would be to continue the current system. Many providers who are making good livings in the current system would share that preference for the status quo. And ironically, some of the 47 million Americans who lack coverage are in that status by choice, and argue that they are healthy and know that they will remain so, and that they merely refuse to pay, and have no obligation to pay, the health-care costs of others.

While citizens at large, and health-care providers, stake out their preferred positions in the health-system debate, policymakers often take their stands on the basis of ideology. For some, public insurance programs like Medicare, and even group insurance in general, is the cause of the rapid escalation of costs. Many in this school of thought want to eliminate public programs, and ideally to put all persons into the individual insurance market with high-deductible health-insurance policies that force people to make cost-conscious health-treatment decisions. At the other extreme, some want a single government-run health-care program (like Medicare) to cover all Americans, relying on price controls to make health care affordable. Still others believe that universal coverage, however organized, is the highest priority.

Transformation of the health-care industry – one-sixth of the entire economy – will take years to achieve reasonable efficiency. Waste in health care involves sophisticated equipment purchased in excessive quantities, personnel trained in the wrong specialties, and buildings constructed in the wrong locations. Such misallocations will impose costs for years after the system is reformed. The longer we procrastinate, the more inefficient investments will be made, and the longer it will take before costs begin to slow. Thus, health reform is the most urgent task facing both government budgets and U.S. business. But still, there has as yet been no lasting comprehensive, bipartisan effort to achieve meaningful reform.⁴

4 Quality, Affordable Health Care For All: Moving Beyond The Employer-Based Health-Insurance System (http://www.ced.org/docs/report/report_healthcare200710.pdf); Harnessing Openness to Transform American Health Care (http://www.ced.org/docs/report/report_healthcare2007dcc.pdf).

Because change will not occur overnight, and the federal budget is in excessive deficit today – with the prospects for the next few years looking even grimmer given this fall’s crisis in our capital markets – even urgent health reform will not be enough to put our national finances on a firm footing. Policymakers must lead on other fronts as well.

Tax Reform. The budget deficit is one major problem facing the U.S. fiscal system, but there is another: The tax system has become unnecessarily complex and riddled with inequitable special preferences that distort our market economy. These two problems are closely related, in that an ineffective tax system cannot raise the revenues required to finance Federal expenditures and restrain budget deficits, and places an unacceptable burden on our economy. We need a simpler, more efficient and less distorting tax system as the foundation of a more productive economy and a sound and sustainable long-term fiscal policy.

It is true that health care, primarily, and Social Security, secondarily, are the overwhelming causes of the coming long-term federal budget shortfalls. Some therefore conclude that reform of those programs alone will solve the budget problem, or that at most restraint in other spending programs will fill any remaining gap. Unfortunately, neither of those optimistic assumptions is true. Again, savings in health care and Social Security will not come quickly enough, and savings in other programs will not be sufficient. Absent meaningful change, budget deficits will grow excessively, and build an unmanageable debt, before health and Social Security spending controls can bear fruit. The costs of servicing that debt would require higher taxes in perpetuity, and would impose an impossible burden on all future generations of Americans. We must make the necessary changes in these cost-driving programs, but we must recognize that even the best reforms will not come quickly enough.

And restraint in other federal programs, though potentially more timely and certainly necessary, will not be sufficient. Reputable projections by the Congressional Budget Office, the Government Accountability Office and other authorities indicate that even aggressive and painful changes in all programs other than health care and Social Security are unlikely to restore fiscal balance if federal revenues remain at their historical average. Necessary and well-designed spending control will be difficult to implement, because it will anger one political side, who will see it as excessive, and also the other side, because it alone will prove insufficient.

Thus, tax reform is needed because, if combined with aggressive spending restraint, it can produce budget balance or surpluses for a number of years. This would reduce deficits and debt directly, and, by forestalling an explosion in interest costs, would “buy time” to restructure health care and other expenditure programs. And second, tax reform can make the tax system simpler and more efficient, promoting economic productivity and growth.

Addressing this national priority, again, will require leadership. Policymakers must leave their ideology at the door. Illusions that “cutting taxes will increase revenues” should by now be long gone, and must be discarded. If America is to narrow its unsustainable budget deficit, many people will have to be assigned higher taxes; and increasing taxes is probably the most difficult step that a political leader can take. At the other end of the ideological spectrum, there must be no illusions that tax increases for only a few very wealthy persons can fill the entire budget gap, or that the incentive effects of the tax system do not matter for economic efficiency. Thus, policymakers need to reexamine their political positions, and many taxpayers will have to sacrifice.⁵

Global Imbalances. When the nation as a whole spends more than it earns, as it now does with government running deficits and households saving little or nothing, it must borrow from the rest of the world to make up the difference. Over time, continued volumes of U.S. borrowing have been matched by large and accumulating surpluses in other countries – China, Japan, the Mid-East oil producers, and others. There are always borrowers and lenders in the world, but the degree of imbalance now is extreme. The more extreme these imbalances, the greater the risk of short-term disruption, and the greater the long-term erosion of our nation’s prosperity. The United States surely should begin to put its fiscal house in order, and use that initiative to take the lead in diplomacy to urge the nations with the largest surpluses to stimulate their domestic demand. But there has been little such initiative and leadership from this country, continuing the risks and substituting finger-pointing for substantive cooperation.

U.S. leadership has failed in another important respect. It is tempting for political candidates to tell the electorate what they want to hear, and one

⁵ A New Tax Framework: A Blueprint for Averting a Fiscal Crisis, http://www.ced.org/docs/report/report_tax2005.pdf.

temptation is to blame domestic economic problems on other countries. The U.S. side of global imbalances is a problem of our own making, and it has had the temporary effect of raising the U.S. trade deficit; in the crudest terms, if we consume more than we produce, we must import the difference. This open invitation to the U.S. market has increased competition, and some political leaders have taken that as an opportunity to claim that any job loss is caused by trade, and to advocate protectionism. In fact, trade benefits American consumers, and any restrictions on trade will hurt them – and also U.S. export producers, including the workers in those firms – more than it will help those who compete with imports. Our elected leaders need to level with the American people, address the causes of our imbalances, and cushion any resulting job losses with effective training and wage-adjustment policies rather than protection.⁶

Energy and the environment. It is not only on fiscal matters that our leaders have fallen short. Policymakers have been slow to appreciate and address the threat of global warming, and to secure adequate sources of cleaner energy both now and for the long term. Solving the puzzle of carbon emissions from a growing world economy will require both technology and diplomacy. Our nation needs to find clean energy to expand our own prosperity and that of developing countries – including China and India, whose rapid growth from a low economic base will develop most of the increase of carbon emissions in the coming decades. Another priority is to deploy clean technologies and end threatening practices such as deforestation in the developing world. Without international cooperation, either unsustainable emission of greenhouse gasses will continue, or unsuccessful attempts at abatement will harm world trade and U.S. economic competitiveness, or both. The United States has yet to exert world leadership either to motivate the development of the technologies necessary to address the problem, or to build the understanding and agreement around the world that we need if we are to deploy new technologies and beneficial practices in developing economies. Both steps will be necessary to head off a truly global problem, and the time for action is short.⁷

6 Reducing Risks from Global Imbalances, http://www.ced.org/docs/report/report_global_imbalances.pdf, and Making Trade Work: Straight Talk on Jobs, Trade, and Adjustment, http://www.ced.org/docs/report/report_trade2005.pdf.

7 *What Price Clean Air? A Market Approach to Energy and Environmental Policy* (Committee for Economic Development, 1993).

Education. As the United States faces unprecedented competitive challenges and a serious fiscal crisis, any comprehensive strategy to sustain economic strength must include a world-class education system.

The forces of globalization and technology continue to redefine the knowledge economy. Tomorrow's workers must rely more on brain than on brawn. Technological improvements have raised skill requirements, and globalization has contributed to the loss of many labor-intensive and digitally transferable jobs in the United States. At the same time, globalization has opened new markets for sophisticated goods and services from the United States, but competition from China, India and other developing but increasingly educated nations is intense. Productivity depends on skills, and skills depend largely on education. Without a well-educated workforce, it will be difficult to maintain the increases in productivity that raise American standards of living. The United States has been demonstrably weak in educating its workforce.

The need for quality education *and* fiscal restraint presents one more challenge to our nation's leadership, to bring all parties to cooperation and compromise in a shared solution. The nation must pay the price of quality education, but cannot afford to throw money at the problem. School systems must compete successfully for quality workers to serve as teachers; but the teachers must be challenged to provide full value for what they are paid. U.S. students must leave school with the knowledge of the educational basics that they too often lack, but also with the creativity and initiative that other nations envy. And while no generation can be ignored, from weak elementary preparation to urban high school dropouts to failures to complete college, the United States must make significant but very long-term investments in education at the preschool level – and possibly even before, such as pre-natal guidance for at-risk mothers – that experts find to have the greatest returns.⁸

Public investments in this field demand a national effort to understand our failings, foresight, and the ability to engage the public in an effort to build for the future.

Partisanship and Politics in Washington. While all of these vital issues fester, the Washington policymaking process remains mired in partisan

8 The Economic Promise of Investing in High-Quality Preschool: Using Early Education to Improve Economic Growth and the Fiscal Sustainability of States and the Nation, http://www.ced.org/docs/report/report_prek_econpromise.pdf.

bickering. Institutional political Washington has degenerated to the point where civic debate has become uncivil invective; analysis has been displaced by ideology; and vital public issues are not solved, but rather stored for future partisan use. With few exceptions – notably the stimulus response to the current economic slowdown, which was relatively easy to support in that it included a needed but still politically gratifying tax cut – the two parties have been unwilling to put aside ideological preconceptions or potential political advantage to begin the work that the country needs. This is a damning self-indictment of our system, because solutions to our most pressing problems must necessarily be bipartisan in nature.⁹ Thus, while the American people consider the best substantive solutions to the nation’s most important problems, they must also consider the political steps necessary for our system to address *any* problem.

The inability of our political system to address effectively such known and crucial issues as the rising accumulation of public debt, ballooning and crippling health-care costs, a looming Social Security shortfall, an education system that leaves too many of our children behind world standards, and serious energy and environmental problems is a scandal of monumental proportions. The system that cannot confront these visible challenges will surely lack the reserves of comity and trust to face any unforeseen and sudden – and perhaps even more dangerous – crises.

Conclusion

Perhaps as never before, our nation needs leadership to instill a sense of common purpose, to gather disparate interests and convince each to give ground for the public interest. That effort, in turn, requires an open and thorough debate -- not only on the issues, but also on the way the nation’s business is done in Washington. We need an open political and policymaking process subject to widely accepted rules to resolve our nation’s conflicting goals and priorities. Right now, the process of governing in Washington falls far short.

We believe that American business has a special obligation to contribute to the public debate. In 1947 and 1948, many of the nation’s leading businessmen in the Committee for Economic Development contributed

9 Virtually all legislation requires 60 votes in the Senate to overcome a filibuster, which has become the standard tool of a minority to resist the partisan initiatives of the majority. Barring the unlikely event of a cohesive minimum 60-vote majority, therefore, important legislation will require at least some minority support.

to a public debate on the formulation of the Marshall Plan for the reconstruction of post-War Europe. This was a truly visionary initiative that helped to shape our modern world – indeed, it may have been the foundation stone on which the Western countries built victory in the Cold War.¹⁰ This was long-term thinking that involved great cost and the willingness to look beyond the intense enmities formed in World War II. It was a shining example of what the American political system can achieve when its leaders show the people the way to reach for a common, higher purpose. Business leaders must step forward if the nation is to rise to today’s equally daunting challenges.

We of the Committee for Economic Development have set forth our views on each of the key public issues discussed above in specific policy recommendations. Historically, CED has distributed its recommendations in formal reports and conducted forums to explain them to business and political leaders. In the future, we intend to build a new awareness and a new engagement on the part of business in the resolution of key public policy issues. Our focus will be on defining differences, resolving them, and achieving results. We will target current and future business leaders and build consensus. We will seek to stimulate debate on our recommendations and encourage others to challenge them. We will meet with those who do not agree to find common ground.

With this statement, we hope to begin such a national debate. We seek to inform the policymakers and the public of what is at stake, and why the nation must come together to find shared solutions to these key issues. We will continue to present our views on today’s crucial public policy questions. We invite and urge our fellow citizens – and especially our fellow business leaders, who have had so much to offer at other crucial moments in our nation’s history – to join in the debate, differ if they want, but by all means to speak out.

¹⁰ John Lewis Gaddis, *The Cold War: A New History* (New York: Penguin, 2005), especially pages 100-103.

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