

ISSUES 2011

MBA Legislative Priorities Briefing Book



About the Government Affairs Department

Your voice on local, state and federal issues. From taxes to health care and product liability reform, the Manufacturer & Business Association's (MBA) Government Affairs department monitors what's happening in Washington, D.C. and Harrisburg, alerts members to pending legislation and provides a powerful, unified voice for business.

Representing the interests of more than 4,700 member companies located throughout northwest and central Pennsylvania, the MBA holds a powerful influence in Harrisburg and Washington. Members rely heavily on our efforts to represent their interests, inform them of critical business issues, maintain constant contact with legislators, and continuously lobby on their behalf on issues that affect their business at the local, state and federal levels.

In 2008, we added a registered lobbyist to the department and opened our Harrisburg office. The office underlines our commitment to fight for your business interests by lobbying for a pro-growth agenda in Pennsylvania's capital, while establishing the MBA as a key player on legislative issues.

To learn more about the Government Affairs team, visit
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About *Issues 2011*

As the 112th Congress and the 2011-12 PA General Assembly takes office, our elected officials will need to understand the key business issues, how such issues affect the business community and what policy changes will support a pro-growth agenda.

The *Issues 2011: MBA Legislative Priorities Briefing Book* provides the issues, facts and solutions to the problems and challenges facing the business community.

Features of the Briefing Book

Each chapter on key issues like taxes, health care and energy offers the reader a clear analysis in four sections:

- **The Issues** — Straightforward statements of the primary problems facing the manufacturing and business community.
- **Recommendations** — The MBA has examined the issues and facts in depth and provides the reader with recommendations on important issues.
- **Facts and Figures** — A straightforward presentation of key facts and supporting data that will clarify the problems and formulate a business solution.
- **Additional Charts and Graphics** — Third-party research, articles and data are provided in a visual format from outside experts who specialize in these major-issue areas.

STATE POLICY

1. Spending and State Government Reform

Over the past several years, state government spending has grown exponentially and is increasing at a pace far exceeding the rate of inflation.

In fact, since 2003, Pennsylvania's total state spending has increased by \$16.2 billion – 39 percent – almost double the rate of inflation of 17.4 percent over the same time period. Likewise, Pennsylvania's general fund spending has grown at an average annual rate of 6.2 percent.

Such excessive spending has led to a decline in Pennsylvania's economic competitiveness and earned the Commonwealth less-than-stellar rankings for job, personal income and population growth. Additionally, the state's reckless spending growth has been a major contributing factor in the state's current fiscal crisis.

MBA Recommendations

Enactment of a Taxpayer's Bill of Rights. When it comes to state spending, Pennsylvanians have made it clear that they want government to control costs and live within its means. A 2010 survey found that nearly 70 percent of Pennsylvanians want to limit state government spending increases, while fewer than 20 percent think politicians in Harrisburg should continue to have unlimited taxing and spending power. Unfortunately, this hasn't been the case.

From 1990 to 2010, general fund spending rose more than 100 percent, from \$12.4 billion to \$27.8 billion. Meanwhile, Pennsylvania's hard-working citizens and businesses have been left to foot the bill – ultimately hindering the state's economic growth.

By establishing a taxpayer's bill of rights that caps general-fund spending increases at the rate of inflation, we will be able to begin rebuilding the state's economy and ensure that its residents are not taxed out of their jobs and homes.

Additionally, we will be able to curtail future budgetary crises in the Commonwealth. Had such a reasonable limit on annual spending increases been in place over the past six years, Pennsylvania would currently have a budget surplus of more than \$3.8 billion rather than a \$4 billion to \$6 billion shortfall.

Notes

Switch to performance-based budgeting. Given the state's current economic situation, it is now, more than ever, vital that we allocate tax-dollars to programs that are performing effectively and efficiently, and away from those that are failing. Regrettably, Pennsylvania does not currently evaluate the performance of programs when allocating funding. Rather, the state operates off of a prior year budget and adjusts for new programs and inflation.

By switching to a performance-based budget, state officials and taxpayers will be able to ensure that their dollars are being directed to agencies with a proven track record. At the same time, state government will be forced to become more efficient and effective.

Institute transparency in state budgeting. Much of Pennsylvania's current spending problems are the result of secrecy in the budget process. By opening up the process and making budget negotiations more transparent, the average Pennsylvanian will be able to hold their elected official accountable for wasteful spending and pork-laden budgets.

Reducing the size of the legislature. At a cost of \$319 million annually, Pennsylvania has one of the most expensive state legislatures in the United States. Additionally, with 203 House members and 50 Senators, Pennsylvania has the second largest state legislature, trailing only New Hampshire, which has 424 members. However, New Hampshire's legislature is a part-time citizen legislature with its members receiving only \$100 per year for their service. Among Pennsylvania's peers (the 11 largest states plus Maryland), the Commonwealth not only has the most legislators but also the highest number of legislators per 100,000 residents.

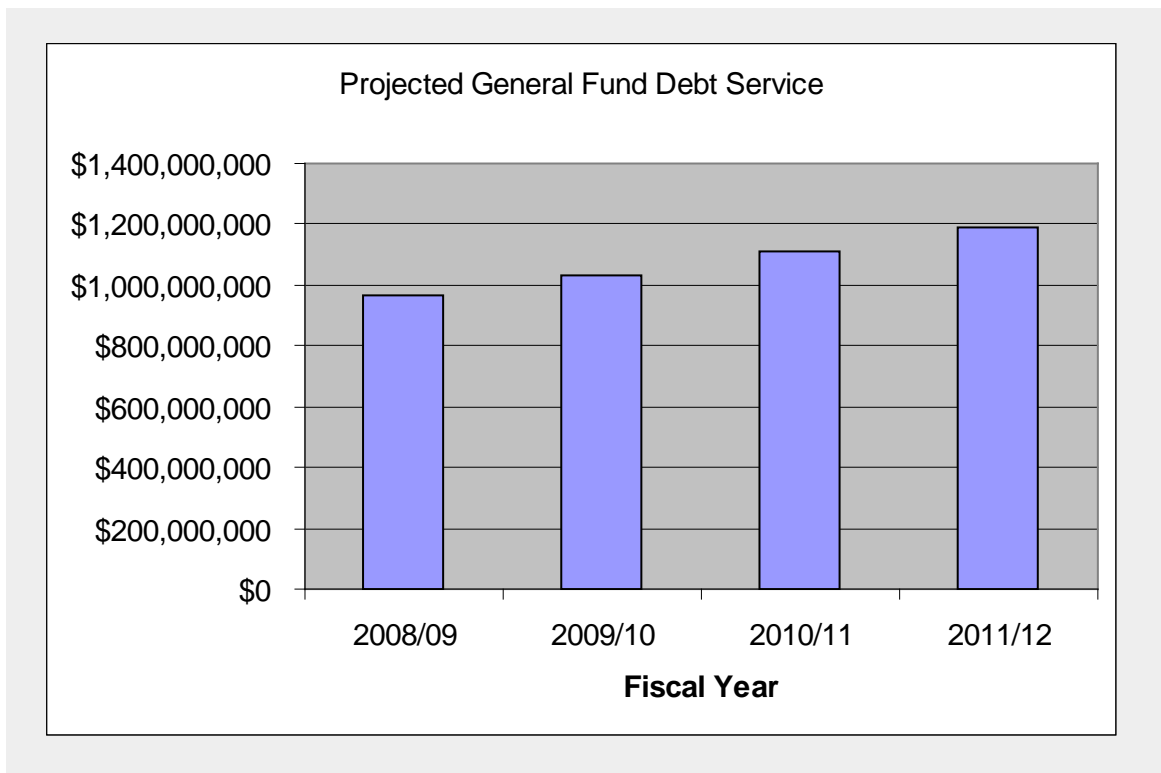
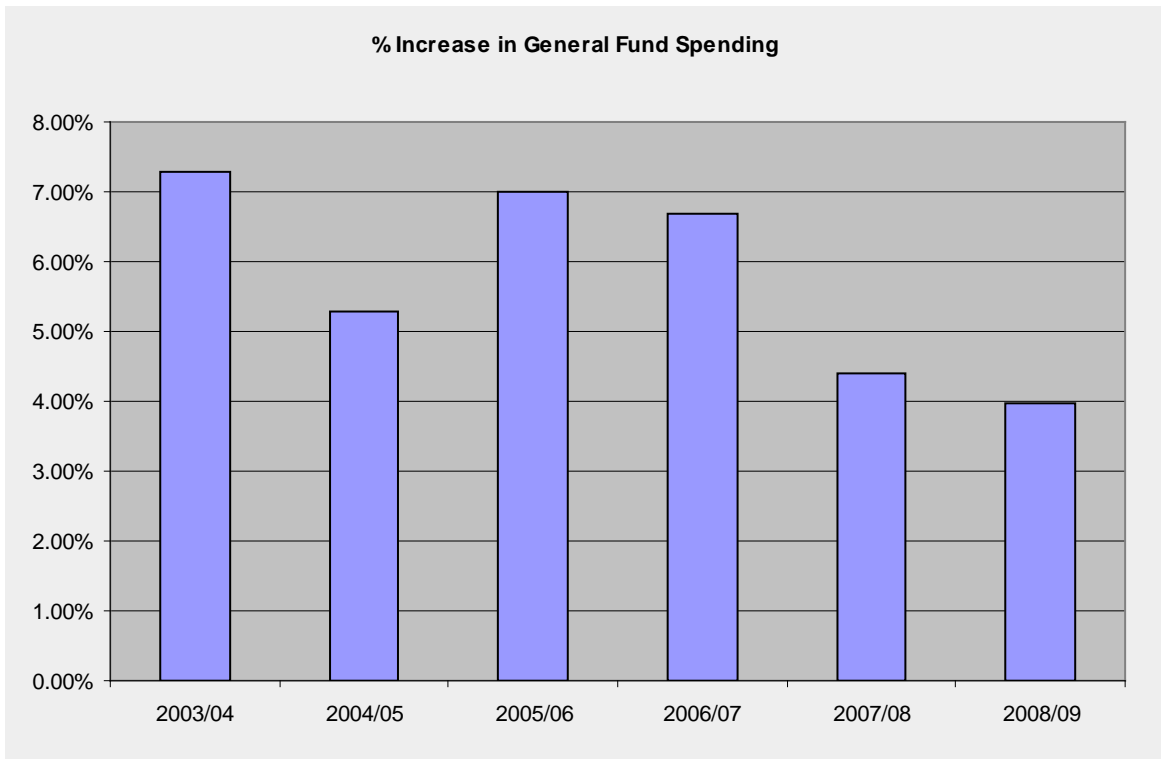
Similarly, according to the National Conference of State Legislatures, Pennsylvania's legislative support staff is the second largest in the nation. While one might argue that Pennsylvania's large population would merit such a large staff, the state's staff-to-population and staff-to-legislator ratios are also among the highest in the nation. Most disturbing, however, is the fact that the size of the legislative staff has increased by 106 percent over the past 30 years. During this same period, the state's population has only grown by 4.8 percent.

As a result, a 20 percent reduction in the size of the legislature – both members and staff – would provide substantial savings to the Commonwealth while still enabling legislators to provide adequate services to their constituents.

Imposing term limits for committee chairmen. Pennsylvania's legislative structure places a substantial amount of power in the chairmen of committees. As a result, a single committee chairman could, in essence, prohibit legislation from ever being considered on the floor. This, coupled with the fact that committee chairmen often remain with the same committee for the duration of their legislative careers, often prohibits forward movement on legislative proposals that could be of benefit to the Commonwealth as a whole. By establishing term limits for chairmen similar to those imposed at the federal level, we will open up the legislative process and ensure that viable proposals are fully debated by members of the General Assembly.

Facts and Figures

- State budget increases continue to outpace the rate of inflation.
- Since 1970, Pennsylvania's total operating budget has increased from \$4.2 billion to \$65.9 billion, an inflation-adjusted increase of more than 167 percent.
- As a share of personal income, the state's operating budget rose from 8.8 percent in fiscal year 1970-71 to an estimated 13.2 percent in fiscal year 2009-10.
- Currently, Pennsylvania is issuing debt at a far greater rate than it is retiring debt. As a result, the state is projected to have a \$4 billion to \$6 billion debt-to-retirement gap by 2013.
- Since 2002, spending has increased a total of 35.8 percent, while the rate of inflation remained at 17.4 percent.
- Pennsylvania has the 2nd largest state legislature in the United States.
- Pennsylvania leads the nation in highest number of legislators per 100,000 residents.
- The Commonwealth's legislative support staff is the second largest in the nation, trailing only New York.
- The size of Pennsylvania's legislative staff has increased by 106 percent over the past 30 years, while the state's population has increased by 4.8 percent.



2. Taxes

Despite a few positive changes to the Commonwealth's business taxes over the past several years, Pennsylvania's business tax structure remains among the highest and most burdensome in the nation, creating sticker shock among businesses seeking to expand or relocate their operations within the Commonwealth, and stagnating job growth throughout the state.

In fact, Pennsylvania would have nearly 700,000 more jobs if its economy had grown at the national average for the past 18 years. Instead, the Commonwealth ranks 44th in job growth during that span. When asked, most employers cite an overly burdensome business tax structure as one of the key contributors to the state's poor economy and a red flag for companies that might otherwise consider locating or expanding in the Commonwealth.

This is especially true of the high-tech and manufacturing sectors of the economy, which generate 16.1 percent of the gross state product, employ 670,000 Pennsylvanians and directly add more than \$75 billion in value to the Commonwealth each year.

MBA Recommendations

In an effort to reverse this trend and improve the overall competitiveness of the Commonwealth, the Manufacturer & Business Association (MBA) supports the following business tax reforms:

Eliminate the cap on net operating loss carryforwards.

Currently, Pennsylvania is one of only two states in the nation that imposes a cap on net operating loss carryforwards (NOLs). As a result, startup companies, which often record significant losses in the first few years of operation, face even greater obstacles within the Commonwealth. Likewise, cyclical manufacturers, who are facing regular fluctuations in income as a result of the national economy, are unfairly burdened by the state's current cap on NOLs. By eliminating the cap on NOLs, the Commonwealth would be able to even the playing field, and attract and retain more businesses to the state.

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Reduce the corporate net income tax rate. At 9.99 percent, the Commonwealth's corporate net income (CNI) tax rate is far above the national average of 6.8 percent. In fact, Pennsylvania's CNI is the highest flat-rate corporate income tax in the nation. As a result, Pennsylvania has been ranked one of the least business-friendly states in the nation, and struggles to retain and attract businesses.

Implementation of a single sales factor apportionment. Of the states that currently assess a CNI, 13 base their CNI apportionment solely on sales, ignoring investment in assets and payroll within their state so as not to penalize further investment and job creation. However, Pennsylvania continues to base its apportionment on all three factors. As a result, a company based in Pennsylvania is faced with a higher tax liability than a business which simply sells its products within the Commonwealth. By switching to a single sales factor apportionment, Pennsylvania would be able to eliminate a major obstacle to the state's job growth dilemma.

Continued phase-out of the Capital Stock and Franchise Tax. While Pennsylvania is currently working to eliminate the Capital Stock and Franchise Tax (CSFT), the Commonwealth remains the only state in the nation to impose both an uncapped CSFT and an income tax without requiring a taxpayer to remit only the higher of the two. To this end, the MBA urges legislators to remain committed to phasing out the CSFT by 2011 at the latest.

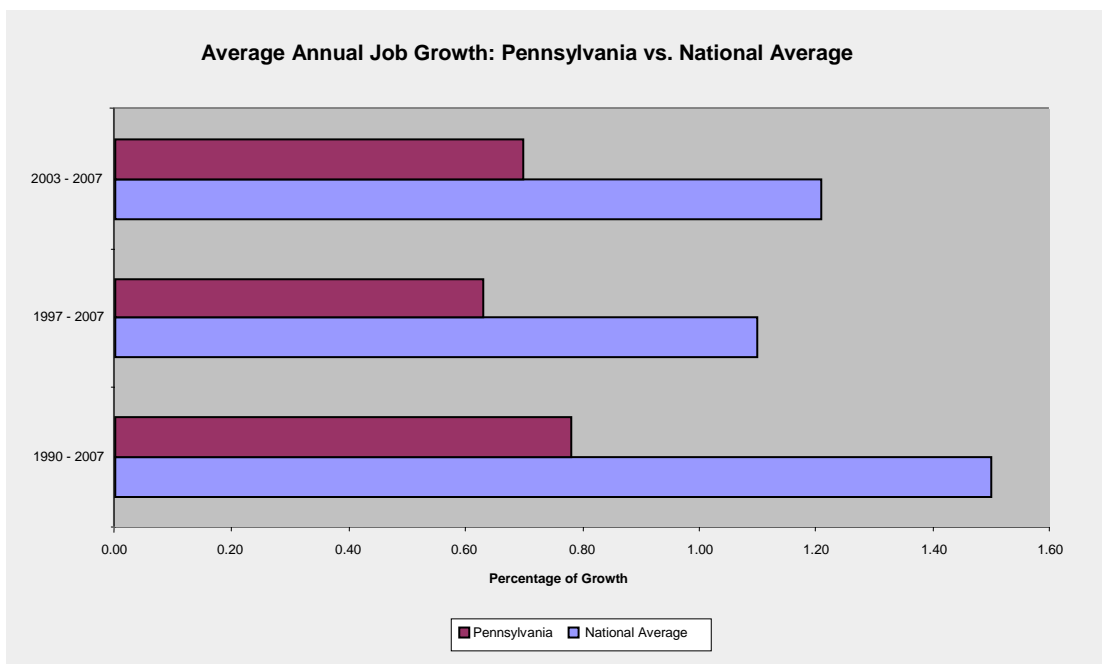
Prevent mandatory unitary combined reporting. Over the last several years, some legislators, Governor Rendell and other administration officials have proposed a major change to how taxes are levied on Pennsylvania businesses. They have proposed that Pennsylvania institute mandatory unitary combined reporting to increase the revenues that Pennsylvania collects from businesses.

Based on historical data, if such a proposal were to be enacted within Pennsylvania, the manufacturing, service and trade industries would see net increases in their tax liabilities of more than \$8 million, \$20 million and \$53 million, respectively. In other words, the proposal would be a tax increase for manufacturers. As a result, mandatory unitary combined reporting would have far-reaching and harmful effects on large and small employers, with the certain result of lost investment and jobs in Pennsylvania.

Facts and Figures

- Businesses pay more than \$23.4 billion per year in state and local taxes, in addition to innumerable state fees.
- Taxes paid by employers represent about 42 percent of all state and local taxes collected in the Commonwealth.
- Based on historical data, the manufacturing, service and trade industries would see net increases in their tax liabilities of more than \$8 million, \$20 million and \$53 million, respectively, under mandatory combined reporting.
- The Commonwealth would have nearly 700,000 more jobs today if the economy had grown at the national average since 1990.
- High-tech and manufacturing jobs produce more than 16 percent of the gross state product and are responsible for employing 670,000 workers throughout the Commonwealth.
- Pennsylvania is one of only two states in the nation that imposes a cap on net operating loss carryforwards.
- Pennsylvania has the highest flat-rate corporate net income tax in the nation.
- The Commonwealth is the only state in the nation to impose both an uncapped CSFT and an income tax.

Notes



3. Health-Care Reform

Health-care costs continue to skyrocket, with many of the state's businesses experiencing premium increases as high as 50 percent over the past several years. Such increases have forced many businesses to rely on employees to shoulder more of the cost of health care or drop health-care coverage altogether.

As a result, the rising cost of health care and health insurance continues to top the list of issues facing Pennsylvania businesses. In fact, a recent survey of the Manufacturer & Business Association's (MBA) 4,700 member companies found that more than 86 percent of businesses ranked the cost of health care as the number one issue facing the Commonwealth's business community.

MBA Recommendations

Prevention of a state-wide uniform health insurance system. As we all know, one-size-fits-all rarely means what it says. The same goes for one-size-fits-all insurance programs. In fact, with more than 12 million residents, the Commonwealth's insurance needs are as diverse and complicated as the nation's as a whole. To meet these needs, Pennsylvania's workforce needs insurance options that are innovative and able to change rapidly to meet changing demands. Such requirements are seldom found, if ever, in state government programs. To this end, we must take extreme care to ensure that, to the greatest extent possible, Pennsylvania's families are able to receive their health insurance and health care through the private sector.

Increase competition within the insurance market. The state's ability to improve upon its current quality of care will hinge heavily upon the health-care industry's ability to develop newer and less expensive treatment options, as well as care delivery systems. Such innovation is unlikely to grow out of our current system where competition is minimal. As a result, if we are to sustain our current industry and ensure the health and welfare of the Commonwealth's residents, we must focus on enacting legislation that increases competition among carriers.

Health-care insurers should be prohibited from medical underwriting for small-group health insurance and require insurers to establish small-group pricing based on community-pooled rates.

Notes

- The MBA encourages increased transparency to reign in the cost of health care.
- The MBA encourages establishing best practices for health-care providers, which seek to eliminate excessive and unnecessary costs.

Eliminate biases in health-care laws. Currently, Pennsylvania's health-care laws create an environment that pushes citizens towards employer- or government-provided insurance programs, and hinders the market for individually purchased insurance programs. Additionally, the state's laws unfairly stunt the efforts of small employers to provide health insurance to their employees by limiting the pooling efforts permitted for large employers. Such biases artificially inflate prices and prohibit the free-enterprise system from operating as it is intended. They must be adjusted in an effort to level the playing field, and provide employees and employers with greater flexibility and choice.

Reauthorization of the PA Health Care Cost Containment Council. Established in 1986, the Pennsylvania Health Care Cost Containment Council (PHC4) is an independent state agency charged with addressing the rapidly growing health-care costs in Pennsylvania.

The PHC4 has worked to stimulate competition in the health-care market by providing comparative information about the most efficient and effective health-care providers to individual consumers and group purchasers of health services, and by providing information to health-care providers, to identify opportunities to contain costs and improve the quality of care they deliver.

The PHC4 has collected information on more than 40 million patients from hospitals across the Commonwealth. Distributed through yearly reports, this information has saved Pennsylvania's employers and residents millions of dollars through informed health-care decisions.

We must work to ensure the future of the PHC4 through reauthorization until it is able to become self-sufficient.

Support the Attorney General's suit against Congress for violating the Constitutional rights of Pennsylvania residents. When Congress passed Obamacare against the will of the American people, Pennsylvania's Attorney General joined 19 other state Attorney Generals in filing suit against Congress. The suits charge that Obamacare is unconstitutional, and await a decision by the Supreme Court.

Facts and Figures

- Small businesses throughout the Commonwealth have been experiencing health insurance premium increases upwards of 50 percent on an annual basis.
- Eighty-six percent of MBA member companies surveyed ranked health care as the number one issue facing Pennsylvania's business community.
- The PHC4 is credited with saving more than 49,000 lives from hospital-acquired infections and heart surgeries gone awry.
- The PHC4 has earned a reputation throughout the United States as one of the premier agencies of its kind, and has served as a model for other states seeking to curtail spiraling health-care costs.

Notes

4. Labor Relations

Throughout the Commonwealth, businesses are faced with countless obstacles as they fight to create jobs and grow their businesses in a highly competitive global marketplace. Among the most challenging of these obstacles are antiquated labor laws that rank among the most costly and burdensome in the nation.

In fact, according to the 2008 Pollina Report, Pennsylvania was found to rank 31st in labor costs, 34th in workers' compensation costs and 25th in unemployment compensation costs.

Additionally, the Commonwealth's labor laws breed an environment that restricts employees and empowers unions. As a result, Pennsylvania's economy has failed to maintain adequate job growth over the past 18 years and now ranks among the least business-friendly states in the nation.

MBA Recommendations

Enactment of Right-to-Work legislation. Throughout the United States, 22 states have enacted Right-to-Work legislation, which seeks to protect an individual's freedom of choice in the workplace by prohibiting unions from negotiating contracts that would require an employee to join or financially support a union as a condition of employment. As a result, right-to-work states are consistently ranked among the top 25 business-friendly states in the nation by nationally recognized studies such as the Pollina Report, which has, without fail, awarded each of the top 10 spots to a right-to-work state for the past five years.

Additionally, right-to-work states have seen increased job growth above and beyond that experienced by non-right-to-work states. In fact, according to the U.S. Bureau of Labor Statistics, between 1992 and 2002, the average right-to-work state increased its job rolls by 26 percent. By contrast, the average non-right-to-work state increased jobs by only 18 percent. This effect is multiplied exponentially when examining manufacturing jobs, which have increased by 1.43 million in right-to-work states and decreased in non-right-to-work states by 2.18 million between 1982 and 2002.

Protection of the right to a secret ballot. The founding of our nation was built around the core belief that individuals had the right to choose their representation without fear of retaliation or undue coercion from a tyrannical ruler. For this reason, the founding fathers established a system that protected the right of all Americans to vote for elected officials in private.

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Unfortunately, there has recently been a push within our federal government to infringe upon this fundamental democratic right as it relates union organization. Under this effort, employees would be forced to vote for representation publicly by signing cards, rather than by using the existing system of voting by a secret ballot.

As a result, Pennsylvanian's hard-working citizens would be subject to coercion, intimidation and retribution from union organizers. As a state, we must act accordingly to protect our workforce from such consequences by approving a State Constitutional amendment that would guarantee voting by secret ballot in all elections, including those for union representation, as an inalienable right within the Commonwealth.

Elimination of prevailing wage laws. Pennsylvania's prevailing wage laws are one of the most burdensome and unnecessary regulations facing Pennsylvania's taxpayers and economy. Under the current law, any government-funded project costing over \$25,000 is required to pay artificially inflated wages set by the state Department of Labor and Industry.

In addition, Pennsylvania's prevailing wage laws require projects falling under the statute to provide for specific fringe benefits. Such requirements require employers who do not offer the specified benefits to supplement a worker's hourly wage, thereby subjecting both the employer and the employee to additional payroll and income taxes respectively. As a result, many qualified companies forgo bidding on municipal projects, which in turn eliminates competition and increases the cost of the projects.

Reform unemployment and workers' compensation laws to be fair and consistent. In an effort to reduce the cost of doing business, eliminate fraud and spur economic development:

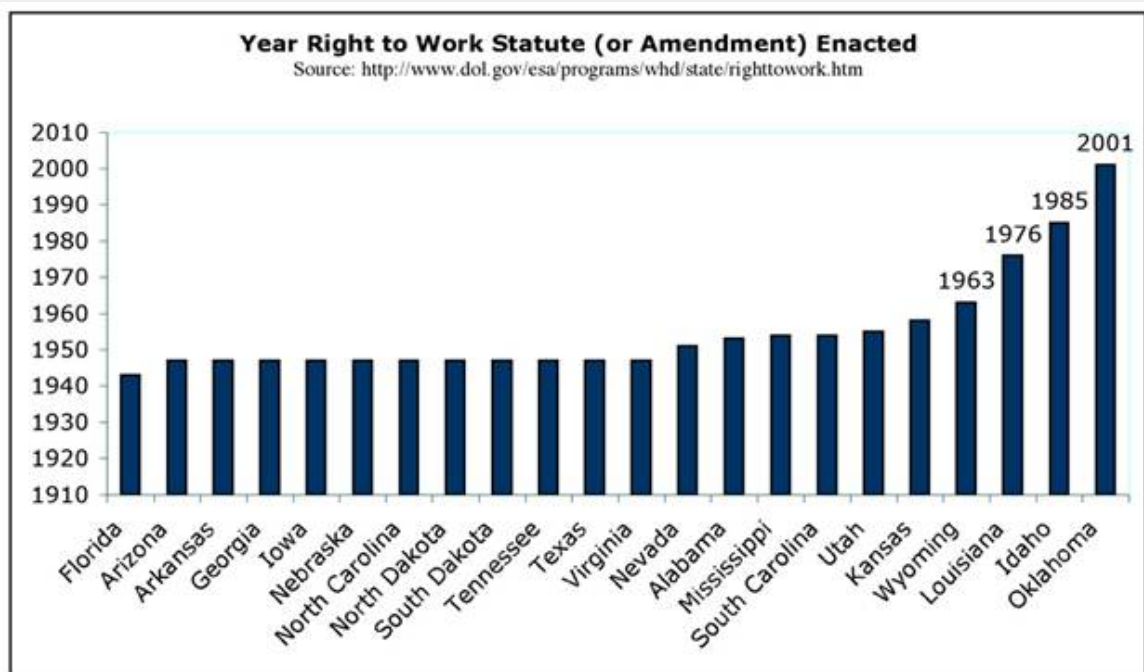
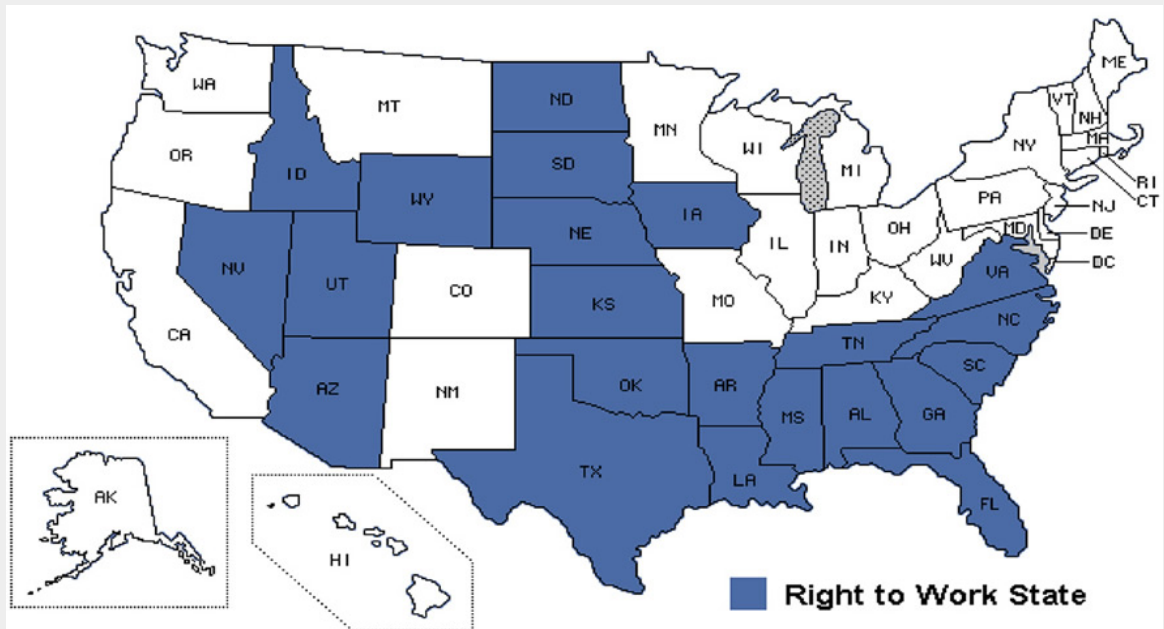
An unemployment system should provide limited and temporary benefits to those who are unemployed through no fault of their own. Increased incentives for unemployed workers to re-enter the workforce, including a requirement for displaced workers to register for employment search services through the Commonwealth's CareerLink system.

Workers' Compensation benefits should be adequate – not excessive – and should be structured as to not create a disincentive to return to the workforce. Employers should have greater protection against frivolous workers' compensation claims and the cost associated with defending such claims.

Prevention of new unfunded mandates. Unfunded mandates place a costly and often unnecessary burden on Pennsylvania's employers. Without regulation, such mandates will further hinder Pennsylvania's already uncompetitive business climate and prevent the creation of new jobs throughout the Commonwealth. One such unfunded mandate recently discussed by the General Assembly would mandate that employers throughout the Commonwealth provide every employee with 52 hours of paid sick time annually. While we recognize the intention to ensure a healthy-workforce, such a mandate would be devastating to small businesses throughout the state. The MBA opposes this and other legislation that seeks to impose new regulations and/or mandates on the Commonwealth's job creators.

Facts and Figures

- The 2008 Pollina Report ranked Pennsylvania 31st in the nation in labor cost, 34th in workers' compensation costs and 25th in unemployment compensation costs.
- Twenty-two states throughout the United States have enacted right-to-work laws.
- According to the 2008 Pollina Report, each of the top 10 pro-business states are right-to-work states.
- From 1992 to 2002, job growth in right-to-work states outpaced non-right-to-work states by 8 percent.
- Pennsylvania's prevailing wage laws artificially inflate municipal project costs by upwards of 30 percent.



5. Lawsuit Abuse

Lawsuit abuse has a disastrous effect on the cost of doing business and the ability to create jobs. It is unfair, unpredictable and undermines a business's ability to compete in a growing and global marketplace. Additionally, the lack of tort reform throughout the Commonwealth has played a major role in the rising cost of health care.

MBA Recommendations

In an effort to restore integrity in the state's legal system and improve the overall competitiveness of the Commonwealth, the Manufacturer & Business Association (MBA) supports the following legislative initiatives:

Establishment of the Fair Share Act. Currently, Pennsylvania's legal system operates under an outdated common law rule known as Joint and Several Liability. Under such a system, every defendant found partially liable in a lawsuit can be held responsible for the entire verdict, even if they are only deemed to be one-percent liable. As a result, plaintiffs and personal injury attorneys often file frivolous and excessive lawsuits against numerous defendants based on their ability to pay rather than their level of liability. With this in mind, the MBA supports the enactment of Fair Share legislation where a defendant could only be held responsible for damages that they were deemed liable.

Enactment of caps on non-economic damages. Currently, Pennsylvania does not impose caps on non-economic damages such as emotional distress, or pain and suffering. These damages have no direct economic loss or precise value; as a result, rewards for these damages tend to be unpredictable and excessive. By placing caps on such damages, the legislature will be able to curtail unnecessary lawsuits, and reduce unexpected and excessive costs currently faced by businesses.

Establishment of an innocent sellers provision. Businesses who sell products manufactured by others are often subject to lawsuits, despite the fact that all they did was sell a product later deemed to be defective. This practice is unfair to both the business and consumer as it leads to artificially inflated prices. Establishing an innocent sellers provision would help to ensure that businesses that simply sell products they do not alter would not be held liable if a product is later deemed defective.

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Implementation of a loser-pays system. Often times attorneys go on “witch hunts,” filing lawsuits against any and all possible defendants regardless of their association to the actual case. By establishing a loser-pays legal system for civil tort cases, we will be able to curtail frivolous lawsuits and reduce the costs of our judicial system.

Facts and Figures

- Forty-four other states have eliminated joint and several liability in cases where a defendant is found to be less than 60 percent responsible.
- In 2008, the U.S. Tort Liability Index, compiled by the Pacific Research Institute, rated Pennsylvania 45th out of the 50 states in terms of its overall tort system.
- In 2006, a McQuillan and Abramyan study found that the country saved \$152 billion per year as a result of tort reform measures. However, despite the improvements, the study found that excessive tort costs still exceeded \$198 billion.
- Premiums for general liability insurance went from \$6.5 billion in 1984 to \$20 billion in 1996, almost three times the general rate of inflation.
- A report by Tillinghast-Perrin Tower, a major national consulting firm, concluded that in 1994 tort costs accounted for 2.2 percent of the U.S. gross domestic product, more than double the average of other industrialized countries.
- A RAND study of the legal liability system concluded that less than half of all the amounts spent for the system go to compensate injured victims.
- Eighty-eight percent of Pennsylvania voters polled in a 1998 survey felt that the current liability system was not working well and should be changed.
- Forecasts show that lawsuit abuse reform could produce an additional 34,000 jobs in Pennsylvania.

FEDERAL POLICY

1. Taxes

Notes

To take from one, because it is thought his own industry and that of his fathers has acquired too much, in order to spare to others, who, or whose fathers, have not exercised equal industry and skill, is to violate arbitrarily the first principle of association, the guarantee to everyone the free exercise of his industry and the fruits acquired by it. — Thomas Jefferson

The current tax system punishes the economy, imposes heavy compliance costs on taxpayers, rewards special interests and makes America less competitive. U.S. manufacturers of all sizes and industry sectors face higher tax costs than most of their competitors overseas, making it difficult to compete in the global marketplace. Our corporate tax rate is the second highest among developed nations and the impact of our worldwide tax system increases the cost of doing business for U.S. corporations – ultimately costing American jobs.

The goal of tax policy should be to raise the amount of money needed to fund legitimate functions of government while doing the least amount of damage to the economy, all the while respecting the principle of treating taxpayers equally.

Fiscally responsible, pro-growth, pro-jobs tax changes will ensure that U.S. companies can compete in the global arena and keep manufacturers in the United States.

The benefits derived from lower taxes — higher growth, higher incomes, higher productivity, more jobs and lower inflation — will support manufacturers, their workers and the overall U.S. economy.

MBA Recommendations

The prime objective of long-term tax policy should be to maintain competitive tax rates that are low enough to attract the capital formation and investment necessary to ensure durable economic growth.

Impose a flat-tax system. A flat tax would reduce the federal government's power over the lives of taxpayers and prevent government from micromanaging the economy. A flat tax would boost the economy by reducing the tax burden on work, saving and investment. This tax would also reduce political corruption through a simple and transparent system.

Make tax cuts permanent. The tax cuts of 2001 and 2003 have moved tax policy in the right direction for families and businesses, playing an important role in stimulating economic growth and job creation. We encourage Congress and the Executive Branch to work to control spending so that the federal revenue gain from economic growth and good tax policy can decrease future projected federal deficits.

Reform tax code. Simplicity and stability should be important goals of federal tax policy. A flat tax, or single-rate national sales tax, would be fair, offer lower compliance costs and spur economic growth. The tax burden should be as low as possible, broadly based and nondiscriminatory.

Permanent, strengthened R&D Tax Credit. We support a permanent, relatively simple-to-use, competitive and readily available R&D Tax Credit, guaranteed to provide benefits equal to or greater than the current credit. Since 1981, this tax code has encouraged U.S. job creation and R&D.

Repeal the Alternative Minimum Tax. The original role of the Alternative Minimum Tax (AMT) was to prevent a small group of high-income taxpayers from combining so many deductions and exemptions that they owed little or no income tax. In theory, the AMT serves as a tax backstop, taxing income that would have escaped taxation. The key to reforming it lies in the regular tax code. By limiting countless exclusions, deductions, exemptions and credits in the code, it would become possible to expand the tax base while raising the same revenue with lower tax rates. The corporate AMT hits companies with a higher tax burden when they can least afford it — when profits are down — and penalizes business investment. The long-term goal is repeal of the corporate AMT; the short-term goal is AMT relief, particularly related to faster utilization of accumulated AMT credits.

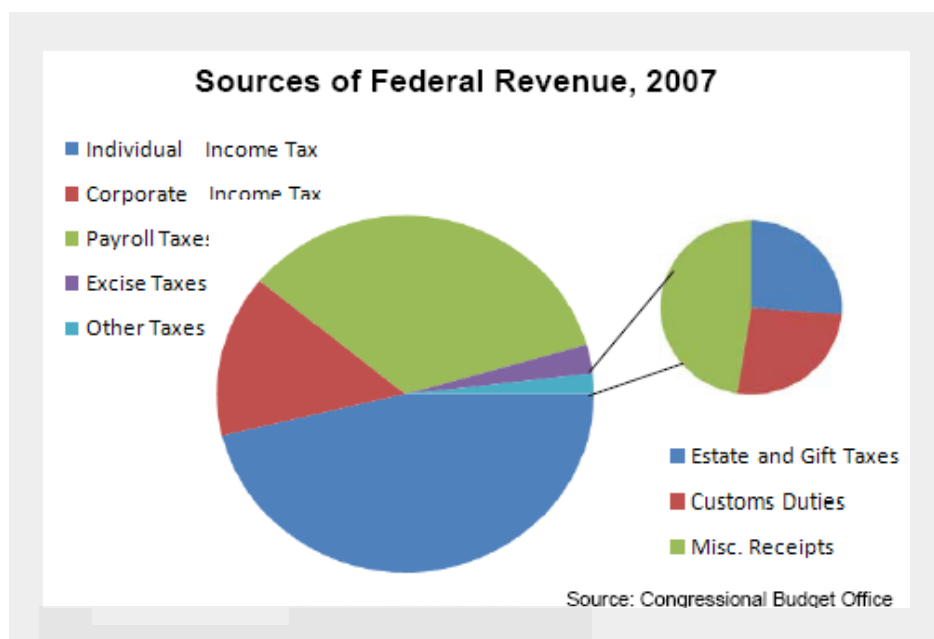
Permanent repeal of the death tax. Studies routinely find that estate taxes, first enacted in 1916, discourage entrepreneurship and lead to large tax compliance costs. Placing an incredible burden on American businesses, rates as high as 46 percent from federal estate and gift taxes force some families to sell a business when the owner dies. Many business owners are also forced to adopt estate-planning strategies that are costly, cumbersome and time-consuming. Legislation enacted in 2001 gradually phases out the death tax until 2010, when the tax will be completely repealed. If this sunset is repealed, the 2001 estate tax regime will resurface in 2011.

Lower the corporate income tax rate. Since enactment in 1909, the corporate income tax rate has changed approximately 35 times, with the current rate topping 35 percent. Many states also levy corporate income taxes of their own. Corporate income taxes serve as double taxes, since the same income is taxed once as profit, and once again as individual income when distributed as dividends to shareholders. Second only to Japan, the U.S. corporate tax rate is higher than every European country, creating a significant competitive disadvantage for U.S.-based companies.

Lower tax rates on corporate capital gains. The Manufacturer & Business Association supports tax policy that recognizes that capital is not actually income, but that investment in capital produces income and only the resulting income stream should be subject to income tax. The tax rate on capital gains for both corporations and individuals should be as low as possible.

Facts and Figures

- The current tax code is 17,000 pages long and includes more than 1,100 forms and publications. Taxpayers are forced to spend almost \$200 billion each year just to comply with it, and even IRS employees do not understand the laws they are supposed to enforce. Several years ago, a General Accounting Office survey found that IRS employees gave incorrect tax advice half of the time.
- Failure to make the 2001 and 2003 tax cuts permanent will push the overall tax burden to above 20 percent of the gross domestic product – higher than it was in every year of the Carter administration and higher than it was in seven of the eight years when Bill Clinton was president.



2. Energy

Energy policy is a national priority. A dynamic, growing economy requires dependable energy supplies. Manufacturers currently consume a third of the nation's energy, with total U.S. energy consumption expected to increase more rapidly than domestic energy supply through 2025. This means that more imports of energy will be needed to fill the gap between supply and demand.

We are currently experiencing the economic damage inflicted by a rapid rise in energy prices, reinforcing the critical need for policies that promote production of a broad range of domestic energy supplies. Higher energy prices have already cost the U.S. economy some 3.7 million jobs.

Affordable and reliable energy is essential to the long-term health of the U.S. economy and the prosperity of American workers.

Lawmakers should implement a long-term energy plan. While investing in new energy sources and continuing to boost efficiency gains will play critical roles in meeting our country's energy demands in the future, America must increase its access to domestic sources of reliable energy.

MBA Recommendations

The development of markets that provide competitively priced energy resources, require minimum government intervention, and promote an economically balanced and varied mix of energy sources consistent with prudent environmental policies will be most beneficial.

Increase domestic supply of energy. Congress should open up access to untapped domestic resources such as the Arctic National Wildlife Refuge (ANWR), as well as the coastline. The Manufacturer & Business Association also encourages the expansion of domestic supplies of reliable, low-cost domestic oil and natural gas through continued exploration and new methods of production.

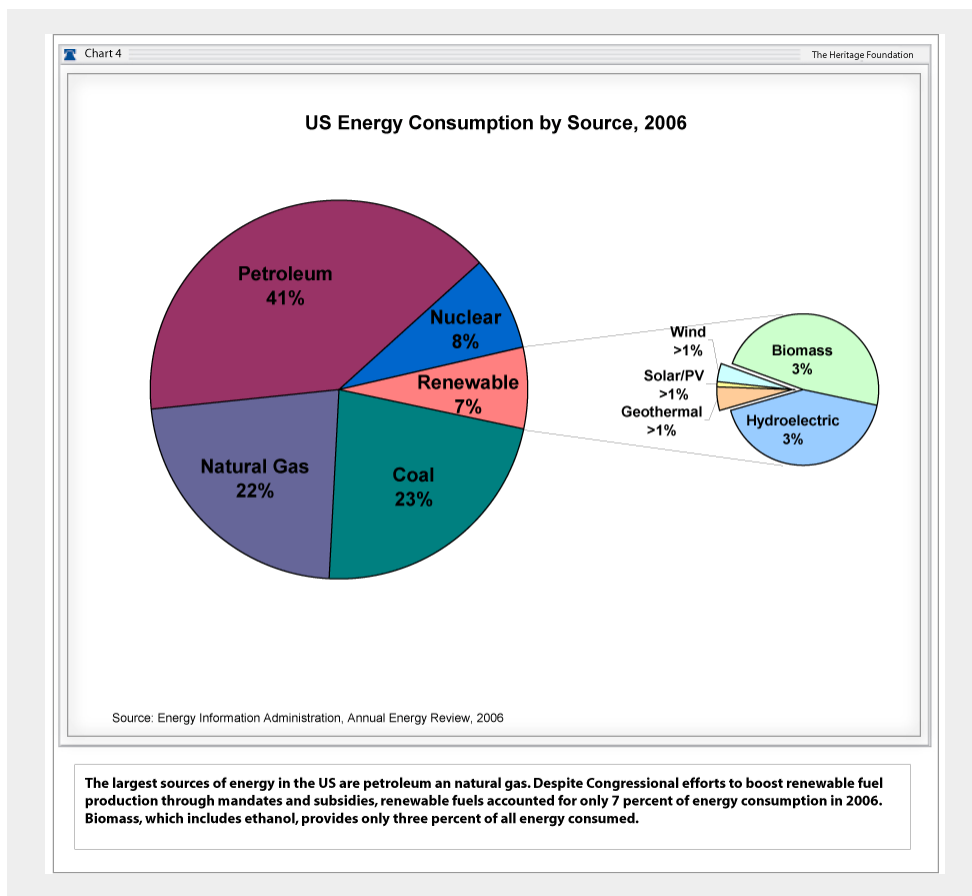
Streamline regulatory burdens. Regulatory actions can often affect the supply, distribution and use of energy. Environmental restrictions should be reviewed and applied in a manner that balances responsible environmental objectives with the need to continue cost-effectiveness.

Notes

Reject crackdown on air pollution beyond existing requirements and avoid any cap on carbon dioxide emissions. Curbing carbon dioxide emissions from fossil fuel mix would adversely affect the nation's energy supply and economic strength. The only way to reduce carbon dioxide is to reduce overall energy use, or dramatically reduce the amount of domestic coal used to generate electricity, which is likely to increase energy costs.

Facts and Figures

- Studies by the U.S. Geological Survey estimate that drilling in just one remote 2,000-acre area of ANWR could yield an estimated 10 billion barrels of oil – an amount about equal to over 20 years of oil imports from Saudi Arabia. Two thousand acres is an area no bigger than Dulles International Airport near Washington, D.C., and could leave 99.99 percent of the refuge untouched.
- Coal and nuclear energy account for over 70 percent of U.S. electricity generation, and a sensible national energy policy must include the use of these resources.



3. Environment

American industry has established an admirable record on environmental protection. These achievements can generate further progress toward reducing environmental impacts and increasing sustainable operations.

An improved quality of life will encompass complex economic and social considerations – clean air, water, and conservation of natural and human resources – while continuing economic development.

The goal should be to balance economic growth with responsible management of our resources and preservation of biological diversity.

Measures to protect environmental quality should address an identified need, be based on facts and credible science, adopted only when the benefits to be achieved outweigh the cost of implementation and implemented in a cost-effective manner.

The Manufacturer & Business Association opposes any federal or state government climate-change mandate that could adversely affect U.S. manufacturing competitiveness.

MBA Recommendations

Environmental laws and regulations should be designed with care to ensure that they are effective in achieving their objectives, without imposing unnecessary and adverse economic impact. Rigorous economic analysis of proposed changes to environmental laws should be conducted to better understand potential economic impacts and cost-benefit relationships, helping to identify sensible policy options and optimizing the allocation of available resources.

Avoid cap and trade type measures. Any policies to reduce greenhouse gas emissions should be subject to thorough and open public debate, including consideration of their impact on the U.S. economy and its international competitiveness.

Climate change policies should be based upon voluntary, cost-effective actions by the marketplace economy. These policies should be comprehensive, involve our trading partners and take into account all greenhouse sources.

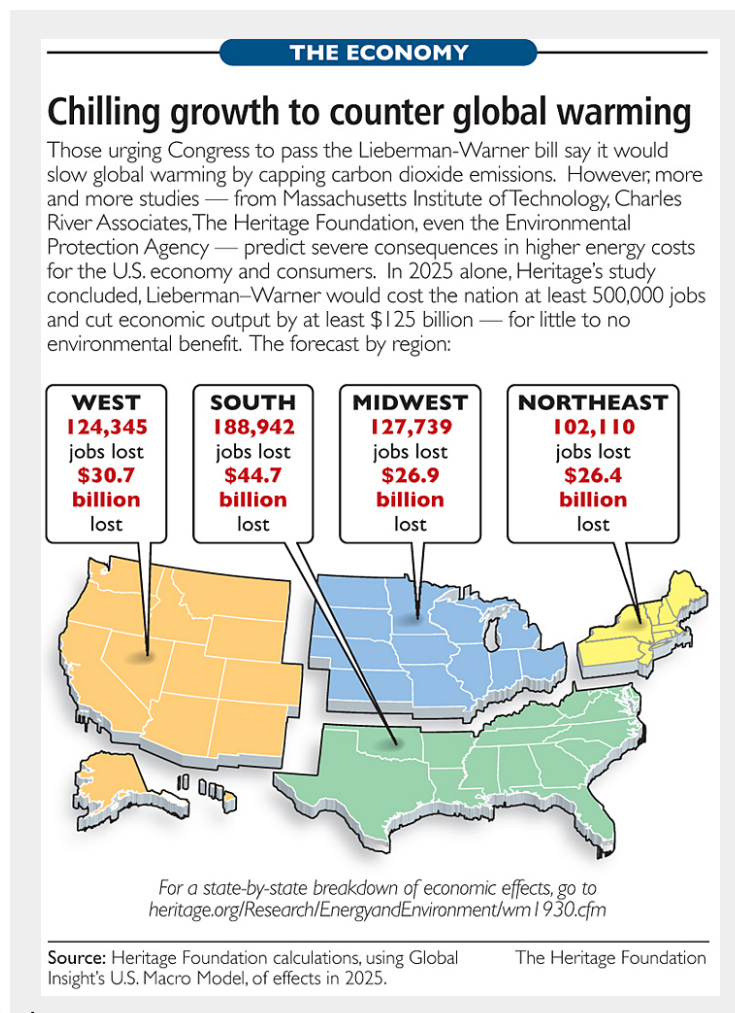
Notes

Measures to protect environmental quality should be based on factual and scientific data. This data should include the total impact on employment, energy use, resources and land use, as well as other regional, national and international social-economic concerns.

Rigorous economic analysis should be employed to better understand potential economic impacts and cost-benefit relationships. This analysis will aid in identifying sensible policy operations and optimizing the allocation of available resources. It will also help prevent requirements that create costly inefficiencies and waste economic and natural resources.

Facts and Figures

- If enacted, cap and trade legislation such as the Lieberman-Warner Climate Change Act of 2008 would ultimately lead to higher energy costs, fewer jobs and loss of industrial output on both the national and state level.



4. Health Care

The cost of providing health coverage to employees is one of the most significant challenges facing our nation. The Kaiser Family Foundation estimates that since 2001, employment-based health insurance premiums have increased 78 percent, compared to cumulative inflation of 17 percent and cumulative wage growth of 19 percent.

Companies continue to provide health benefits to employees as they recognize the competitive value it provides in a demanding market where highly skilled employees are in short supply. However, rising health insurance costs hinder the ability to compete globally, drain resources that could be invested in new technologies and facilities, inhibit the creation of new manufacturing jobs and undermine economic growth across the nation.

Health-care “reform” legislation passed by Congress in 2010 resulted in passage of the Patient Protection and Affordable Care Act (PPACA), often referred to as “Obamacare.” It is neither a “patient protection” act, nor an “affordable care” act. It violates our rights and puts us deeper in debt. The reform measure includes more than \$1 trillion of new debt, and the most serious infringement of constitutional rights ever attempted by Congress.

The Manufacturer & Business Association (MBA) encourages process improvement and the implementation of health information technology, promoting greater transparency in health care, providing for better prevention and management of chronic conditions, and encouraging consumerism among individuals seeking health services in order to create a dynamic, market/value-driven health-care system.

MBA Recommendations

While there is not one specific “quick fix” to health-care reform, the MBA recommends several strategies to move towards this goal.

Repeal Obamacare. Congress must immediately pass a law repealing Obamacare.

Without presidential signature – withhold funding, block provisions and regulations. Until Obamacare is repealed, Congress should withhold funding, block key provisions and override regulations carrying out Obamacare.

Notes

Proceed carefully towards market-based reform. After Congress repeals Obamacare, it should give thoughtful consideration to practical adjustments to permit the free market to furnish Americans with affordable, effective health-care insurance choices.

Promote personal control. Congress should promote personal control of health coverage and costs through the free market, where individuals have the opportunity to make market decisions based on price and value. For example, Congress should provide tax relief for individual taxpayers who purchase health-care coverage on their own and should redirect health-care spending under the Medicaid and State Children's Health Insurance Program (SCHIP) to help low-income families and individuals purchase private health insurance.

Enable portability. Congress also should enact a law that facilitates federal and state activities to increase the portability of private health insurance coverage.

Implement a health-care strategy that will increase efficiency, productivity and quality, while also reducing costs. This can be accomplished through streamlined health care and operations, but also will require the collaboration of public and private stakeholders, as well as individual consumers.

Increase affordability. The best way to help the uninsured and reduce rising health-care costs is to take additional steps to help make private coverage more affordable.

Encourage consumer-directed health care. The consumer-directed health-care movement offers the potential to harness consumerism as a force to control health-care costs. The private sector and lawmakers should continue to encourage its development and adoption.

Oppose benefit mandates. Policymakers should avoid liability expansions and benefit mandates, such as the so-called Patients' Bill of Rights, and expanded mental health parity.

Pass national medical liability/tort reforms. Unlimited damage awards, the rising cost of medical liability insurance and wasteful defensive medical practices all contribute to the rising cost of health coverage.

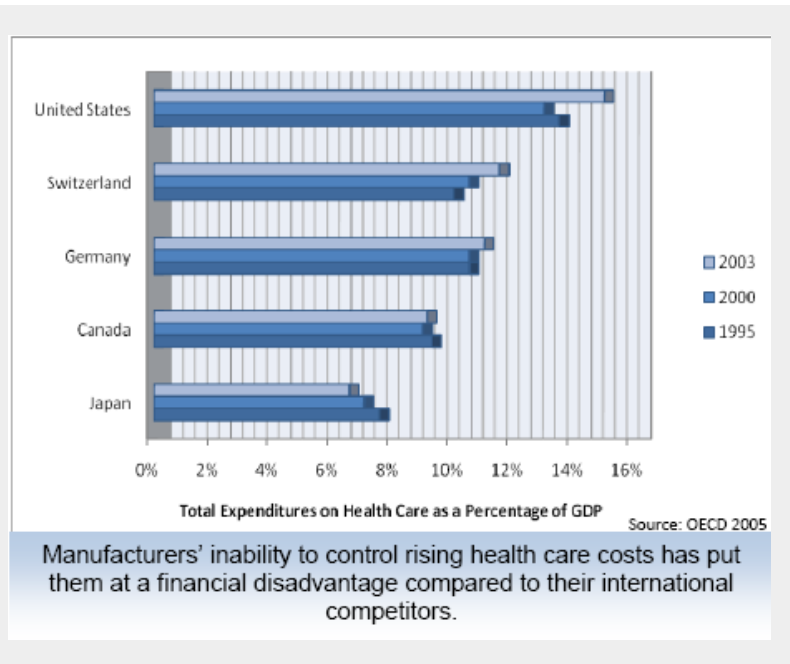
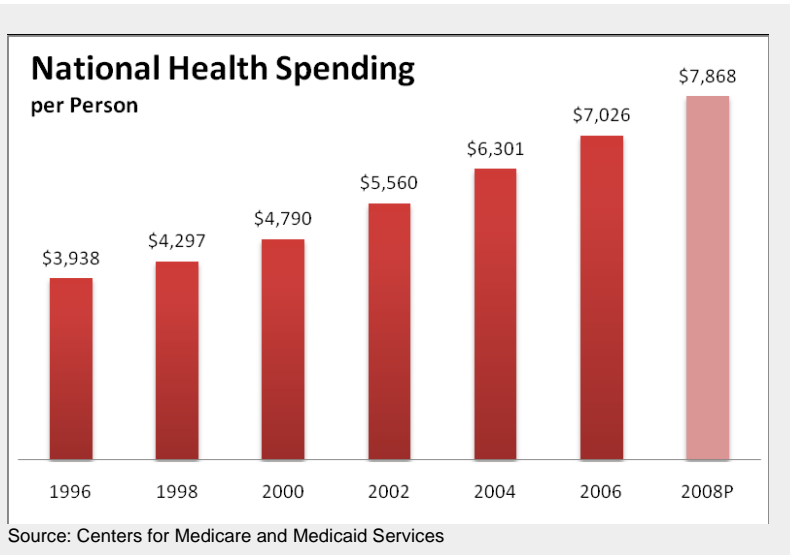
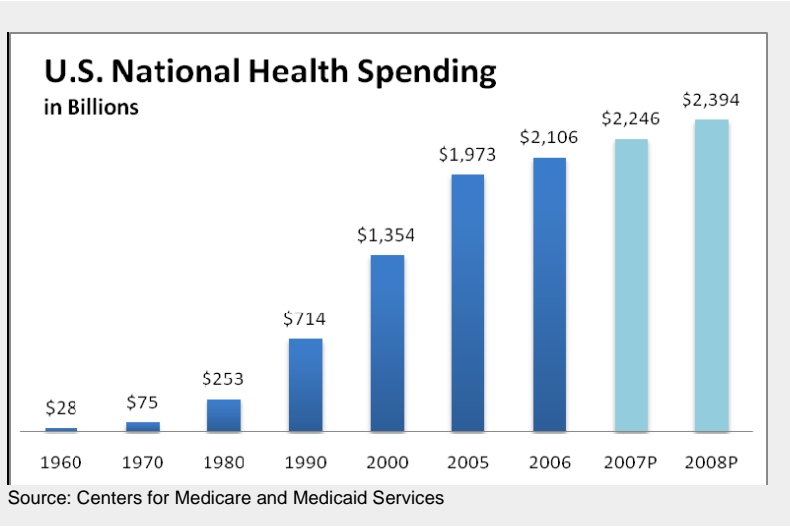
Provide tax relief to promote employer-sponsored health-care coverage for employees and their families. Lawmakers should maintain the individual tax exemption and employer deduction for employer-sponsored coverage.

Enact small-group reform that permits employers to offer and structure a variety of health plans for employees.

Facts and Figures

- Studies published by Health Affairs and the Commonwealth Fund reflect that the long-term uninsured comprise only a small portion of the total uninsured population. Millions of people cycle in and out of health insurance coverage, largely as a result of employment changes.
- Total health-care spending (public and private funding) reached more than \$2 trillion per year in 2006 – an average annual cost of \$7,026 per person.
- The United States spends approximately \$2.1 trillion on health care – about 16 percent of the gross domestic product.
- Currently, only 9 percent of Americans directly purchase their own health insurance.

Notes



5. Labor Relations

In today's manufacturing economy, success depends on fostering positive employee relations. Cooperation among employers and employees is necessary to improve economic competitiveness, especially during times of economic downturn.

In a democratic society there is the need to afford employees at all levels the fullest degree of individual freedom and opportunity consistent with the coordination required for efficient operation. Both employers and employees have rights and obligations that each must observe in order to develop and maintain positive relationships.

Manufacturers strive to maintain amiable relations while paying competitive wages and benefits. The key to maintaining this work environment is the ability of employers to have the flexibility to respond to changing market demands while still providing high quality benefits.

MBA Recommendations

The Manufacturer & Business Association supports changes that will lead to greater investment, higher employment rates, job growth and increased productivity.

Oppose Mandatory Paid Leave.

Protect Workers' Rights to a Democratic Workplace. "Card check" legislation would take the power and voice from America's working people and give it to union bosses. For decades, employees have had the right to a private-ballot election overseen by the National Labor Relations Board (NLRB). The NLRB ensures a fair union-certification election, free of fraud, where employees may cast their vote confidentially without peer pressure or coercion from unions or employers. However, union bosses find secret ballot elections an impediment to unionization. They prefer "card check" elections, where employees are forced to cast their vote in front of union organizers and fellow employees who support unionization.

Every employee and prospective employee should be guaranteed freedom without intimidation or coercion from any source to join or not join a labor organization, and to maintain or discontinue membership, financial support and participation in its activities. The fundamental employee right to select or reject a bargaining agent should be guaranteed through secret ballot elections conducted by an appropriate agency with adequate safeguards.

Notes

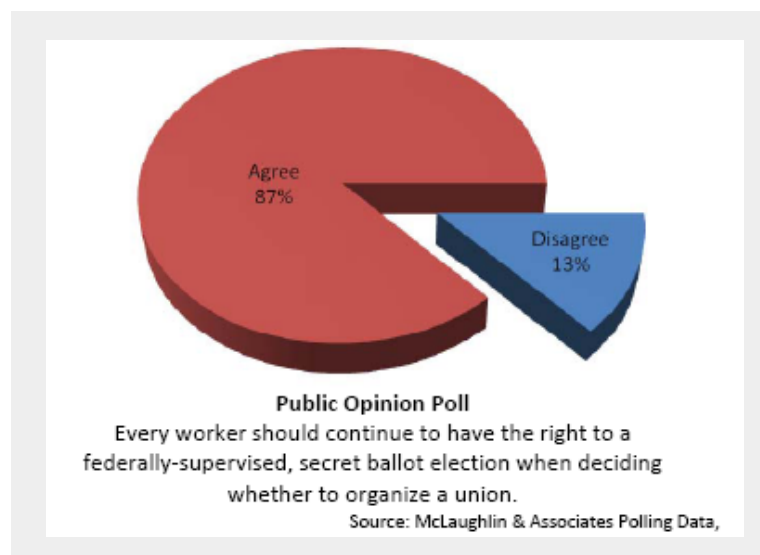
Enhance union accountability. Union membership and support should be an individual choice, based on a member's best interests and conscience. Emphasis should be placed on solving problems and resolving issues, rather than conflict and confrontation among employees unions and employers.

No bailouts. Bailouts are a recipe for rewarding poor performance. A level playing field means that smaller companies should not have to fight against subsidized big companies with well-connected lobbyists or be subject to higher taxes to pay for the subsidies.

Reform unemployment insurance. Research shows that the current unemployment insurance program lengthens terms of unemployment for recipients. Revisions should include the consideration of modest consensus or even re-employment accounts, however, all should allow for more state freedom for innovation.

Facts and Figures

- Restrictive job markets stifle job creation and drive up unemployment rates. Jobs designed specifically to prevent layoffs will often backfire. Germany and France suffer from an unemployment rate twice as high as America's, largely because their heavy labor protections discourage employers from hiring new people.
- Critics contend that wages are not rising fast enough, but the fact is that total compensation *is*. Medical benefits take an ever-larger portion of total compensation, which is a sign of problems in America's medical insurance structure, not a failure of the free market. Most important, the rising compensation makes a higher federal minimum wage unnecessary.



6. Regulations

A favorable business climate is essential for expansion of the economy, creation of new products, additional jobs and the prosperity of our nation.

The benefits of appropriate regulations are clear and supported by the public. Not all regulations are unjustified – many are quite beneficial, such as those to protect health, safety or economic competition. Regulations such as anti-fraud rules actually reinforce individual and property rights consistent with free-market principles.

The issue then is how to enable the regulatory system to provide for these concerns without unreasonably impeding innovation, research, development and product deployment.

Regulatory burdens can cause substantial economic harm by reducing economic growth, slowing job growth and reducing American incomes. The actual effects vary depending on the type of regulation, however, in a globally competitive marketplace, manufacturers need a regulatory system that is focused on real priorities and removes unnecessary obstacles to economic growth.

Structural costs and regulatory burdens force U.S. businesses to compete on an uneven playing field with major competitors in the global market. While structural costs for U.S. manufacturers have actually decreased since 2006 – placing them at a 17.6 percent disadvantage with competitors in nine major trading nations (“The Tide is Turning”, 2008 study by NAM, The Manufacturing Institute and the Manufacturers’ Alliance/MAPI) – there is still a long way to go in relieving structural cost pressures.

For many economic regulations, the major cost may not be any direct burden placed on consumers or businesses, but rather constraints on innovation. Assessing such losses is impossible, though, because inventions that never existed cannot be measured. In today’s 21st-century economy, these immeasurable costs are perhaps more harmful than the direct, measurable burdens.

MBA Recommendations

The Manufacturer & Business Association (MBA) supports regulatory policies designed to favor markets and adhere to sound principles of science, risk assessment and cost-benefit analysis.

Notes

Make regulatory reform a major priority. Congress and the President should recognize the costs of over-regulation, and make restraining and reducing this burden a clear and high priority. The MBA strongly urges the reduction of regulatory costs through sound science and economic analysis.

Further strengthening of the regulatory review processes. Major regulations are reviewed by the Office of Management and Budget, subject to cost-benefit analysis before implementation. This process is good, however, it should be strengthened and expanded, with greater resources for OMB reviewers and stricter guidelines for analysis.

Establish a congressional Office of Regulatory Affairs. Such an office would benefit Congress by providing information on the costs and benefits of regulatory legislation, in addition to serving as an independent source of information on trends in regulation and rules promulgated by regulatory agencies.

End frivolous lawsuits. Individuals and attorneys who file frivolous lawsuits should be held accountable for their actions.

Bring down regulatory compliance costs. Congress should change anticompetitive policies that adversely affect U.S. manufacturing and business.

Facts and Figures

- Overall, the number of regulations is staggering. The Code of Federal Regulations, a compendium of all federal rules, reached 152,273 pages in 2005. The Federal Register, a daily report of new regulatory actions, rose to over 77,000 pages.
- U.S. manufacturers pay about \$11,388 per employee in regulatory compliance costs.
- Legal and court fees associated with a typical lawsuit that goes to trial exceeds about \$100,000.

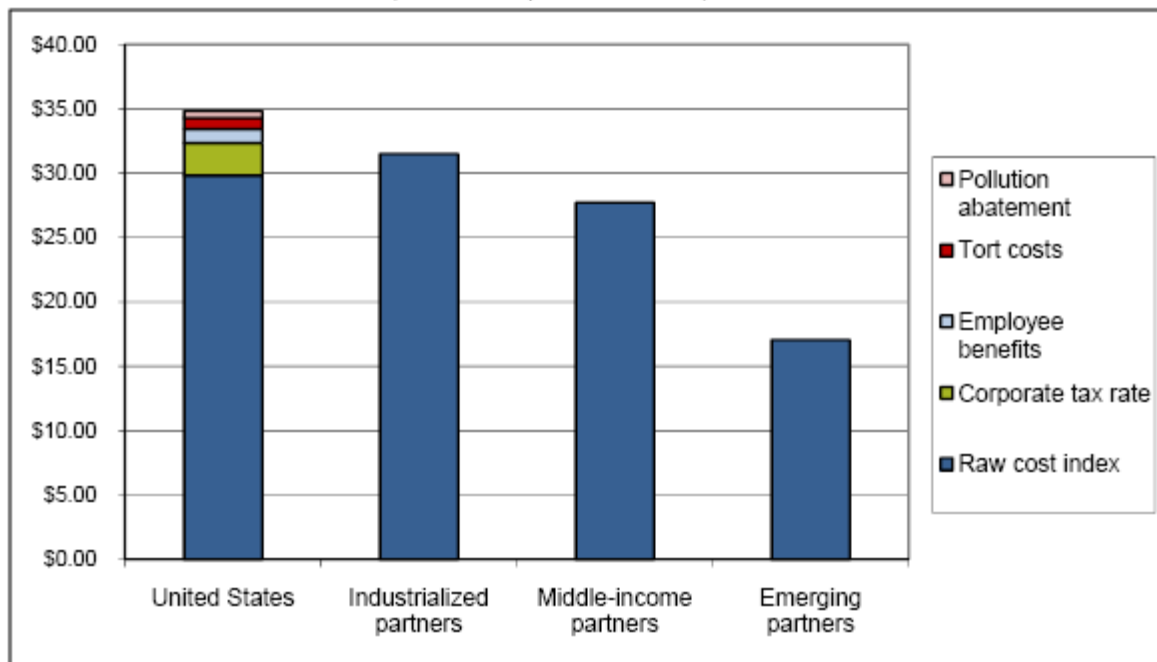
Effect of Key "Overhead Costs" on Raw Cost Index of Nine Largest U.S. Trading Partners, 2007
(U.S. dollars)

	United States	Average of nine partners	Canada	Mexico	Japan	China	Germany	United Kingdom	Korea	Taiwan	France
Raw cost index	29.83	27.63	35.61	23.37	25.81	12.41	32.96	44.43	31.45	22.13	35.49
Corporate tax rate	--	-7.8	-3.9	-12	0.7	-15	-1.6	-10	-12.6	-15	-6.7
Employee benefits	--	-3.6	-2.2	-11.1	-4.1	-3.9	1.1	-0.6	-4.9	-9.3	10.1
Tort costs	--	-2.8	-2.9	N/A	-3.1	N/A	-0.5	N/A	N/A	N/A	-1.1
Natural gas costs	--	0.9	-0.1	0.4	1.5	N/A	1.7	3.3	4.3	-1.2	1.6
Pollution abatement	--	-1.8	-0.7	-3.3	-0.7	N/A	-0.2	-2.7	-0.5	N/A	-0.2
Effective cost index	29.83	23.50	32.11	16.55	24.37	9.25	33.11	38.60	26.14	15.02	36.81

Source: Author's calculations based on data in subsequent tables and figures

Note: Data for tort costs and regulatory compliance costs are limited to the industrialized partners. Conservative assumptions have been made in estimating the missing values, as described in later sections. Thus, the absence of these data likely understates the overall cost advantage of U.S. trading partners.

Excess Burden of Structural Non-Production Costs on U.S. Manufacturers Relative to Major Trading Partners, 2007
(U.S. dollars per hour worked)



Source: Author's calculations based on data discussed in this report

Note: Industrialized partners include Canada, France, Germany, Japan, and the United Kingdom. Middle-income partners include South Korea and Taiwan. Emerging partners include China and Mexico.

7. Trade

Manufactured goods account for two-thirds of America's total exports of goods and services. With one in every five factory workers job due to exports, it is clear that export-oriented companies grow the fastest and pay the highest wages. But even with recent growth, the United States exports only half as much as other major countries. If the U.S. exported at their average, we would eliminate our trade deficit and create more manufacturing jobs in America.

America needs a trade policy that, particularly in a period of slower economic growth, promotes fair trade and the ability to sell more around the world.

With two-thirds of the world's production and consumption taking place outside our borders, the creation of American jobs and an increased standard of living depends more than ever on competing and selling our products around the world.

Trade policy that will strengthen manufacturing in America and improve the competitiveness of American manufacturing in the worldwide economy is crucial to U.S. manufacturing. A balanced trade policy that is fairly conducted provides opportunity for growth and expansion of manufacturing in America, increases the range of goods and services available to consumers, enhances market-based production globally, and contributes to closer understanding and cooperation among nations.

MBA Recommendations

Fair trade policies, coupled with domestic policies that would boost our competitiveness – such as tax, energy, regulatory and worker training – are critical for our future.

Make trade rules work for us. The U.S. should seek full compliance with trade agreements and strictly enforce and monitor the arrangements, imposing sanctions against violators.

Change U.S. export controls to promote national security and economic competitiveness.

Require all trading partners to implement or maintain market-based currency policies. Government intervention in currency markets must end.

Limit costs and other impediments imposed on U.S. manufacturers.

Notes

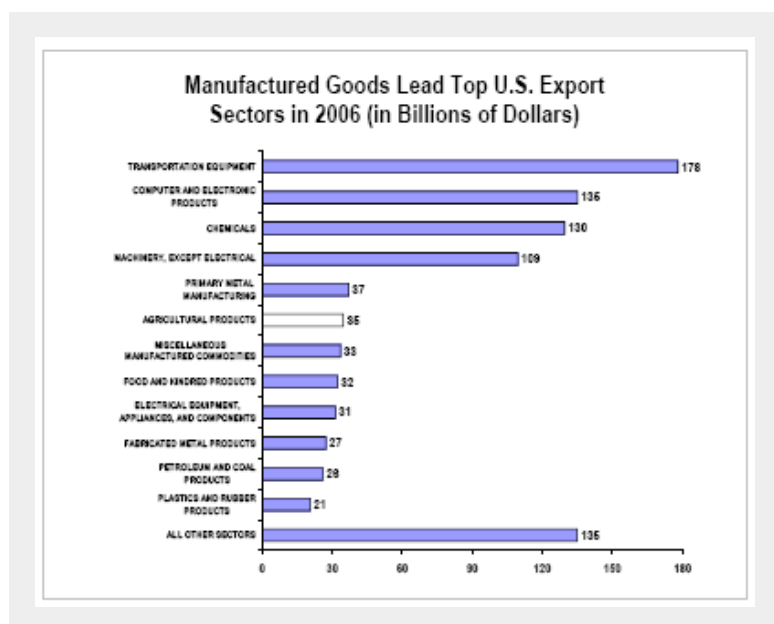
Level the global playing field. Global negotiations, known as the Doha Round, must produce significant new trade opportunities for the U.S. We must work for effective enforcement of world trade rules to eliminate unfair subsidies and other actions that distort world trade, while also avoiding weakened U.S. trade laws. Global rules need to address new barriers, such as non-tariff barriers and trade distortions that cost the U.S. exports and jobs.

Utilize a rules-based international trading system. This system will enhance the role of free market forces while seeking to eliminate market-distorting governmental intervention.

Open foreign markets to U.S. exports. The U.S. market is very open, with nearly 70 percent of imports facing no barriers. However, U.S. manufacturers face high trade barriers around the world. We encourage foreign countries to cut barriers down to match our lower levels.

Facts and Figures

- The Institute for International Economics has calculated that moving from today's trade environment to one characterized by perfectly free trade and investment would generate an additional \$500 billion in annual U.S. income, or about \$5,000 per household each year.
- Specifically in Pennsylvania, total exports have increased by \$8.9 billion over the past five years.
- Thousands of manufacturing workers' jobs in Pennsylvania depend on the export of manufactured goods. Approximately one of every six manufacturing jobs in Pennsylvania are connected to trade.



8. Education

Many American manufacturers are facing a serious shortage of qualified employees who have the knowledge and skills necessary for today's high-tech manufacturing jobs.

It is imperative that we improve the quality of education in our primary, secondary and post-secondary school systems, and in our job-training programs.

Taking a toll on America's ability to be innovative and productive in the global marketplace, the broadening skills gap can be attributed to several factors including: the retirement of baby boomers; advancements in technology that require new skills; increased job competition in the global marketplace; failure to cultivate a highly skilled workforce; a lack of emphasis on the necessary skill sets for advanced manufacturing; and difficulty with retaining skilled talent.

MBA Recommendations

Our economy is driven by innovation; therefore, the ability of manufacturers to succeed in the highly competitive global marketplace depends on access to an educated, flexible and knowledge-based workforce.

Encourage the emergence of a market-driven education system by promoting accountability to parents. Congress should reform federal education programs to give parents control over how their child's share of federal education funding is used.

Meet and exceed international standards in math, science, reading and writing skills.

Reform and streamline federal education programs to promote parental choice in education. Congress should support program eliminations and consolidations, while concentrating federal funds on the disadvantaged students for which federal education programs were originally intended. This would in turn give states the opportunity to consolidate programs and utilize existing federal education funding for student-focused grants.

Change technical degree requirements to eliminate unneeded courses at the college level.

Improve job-training programs to address the continuous demands of training/re-training workers.

Notes

Congress should reform federal education programs to transfer control from the federal bureaucracy to parents and local authorities, who have the real responsibility for educating children.

Congress should streamline education programs and return to the initial rationale for federal involvement in education – compensatory education to assist disadvantaged students – but deliver that funding assistance as portable aid to individual students, not aid to institutions.

Facts and Figures

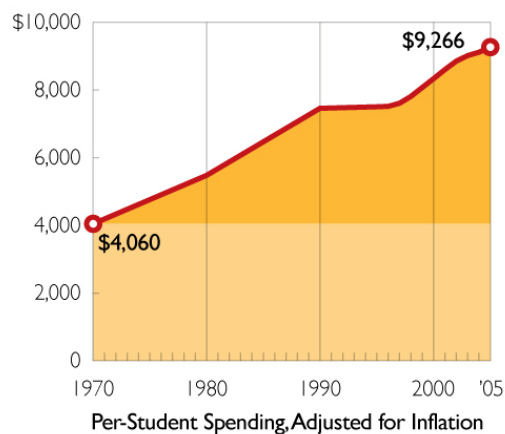
- Federal education funding increased tenfold between 1965 and 2001, and has more than doubled since 1990.
- Spending per student has nearly doubled in the past 30 years, but test scores have seen no significant improvement.

EDUCATION REFORM

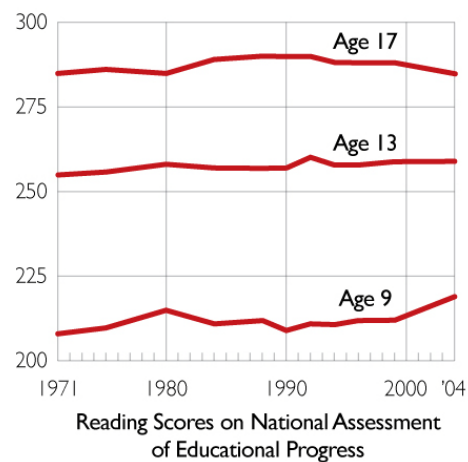
Taxpayers' checks doubled, but Johnny still can't read

Higher spending on education hasn't translated into higher achievement for America's kids. From the time Johnny enters first grade in public school till he graduates, taxpayers will fork over more than \$110,000 to educate him. That's more than twice the cost in the 1970s, without pushing up average reading scores.

Annual education spending per child more than doubled in 35 years ...



... but average reading scores in public schools stayed flat.



For research on education spending, go to heritage.org and click on **Education**.