California Capitol Hill Bulletin


To expand communications between Washington and California, the California Institute provides periodic news bulletins regarding current activity on Capitol Hill and other information that directly impacts the state. Bulletins are published weekly during sessions of Congress, and occasionally during other periods.

PUBLICATIONS: INSTITUTE PUBLISHES ROSTER OF CALIFORNIA COMMITTEE ASSIGNMENTS

The California Institute has compiled a roster of the Committee and Subcommittee assignments for the California Congressional Delegation. A few Committees have not finalized Subcommittee assignments, as of yet. The Institute will update the roster when those assignments are made. A copy of the roster is available at: http://www.calinst.org/pubs/112thCommRoster.pdf.

ECONOMY: PRESIDENT DELIVERS STATE OF THE UNION; REP. RYAN RESPONDS

President Barack Obama gave his State of the Union address to a joint session of Congress on January 25, 2011. In the aftermath of the shooting of Rep. Gabrielle Giffords (AZ) and others in Tucson, a spirit of bipartisanship was evident during the address with Members of Congress sitting with colleagues from the opposite party during the speech.

Among the key actions called for by the President of particular interest to California are:

- investing in clean energy and technology innovations. The President specifically cited the California Institute of Technology’s research into turning sunlight and water into automobile fuel
- using Race to the Top as the model to replace the No Child Left Behind education law and training 100,000 new science, technology, engineering, and math (STEM) teachers
- making permanent the tuition tax credit for up to $10,000 in college costs
- assisting community colleges as their role in education grows
- solving the immigration problem, especially in regard to ensuring that skilled U.S.-educated immigrants remain in the United States and that illegal immigrant children raised in the United States can go to college
- rebuilding America’s infrastructure through “fully-paid for” means, including private-public investment. The President specifically noted making high-speed rail available within 25 years, and cited California’s high speed rail project which is already underway.
- lowering corporate tax rates without adding to the deficit
- doubling exports by 2014 and passing the pending Free Trade Agreements, especially the one with South Korea and
- eliminating government regulations that unnecessarily burden businesses.

Rep. Paul Ryan (WI), the Chairman of the House Budget Committee gave the official Republican response to the President’s speech. He stressed that the Republicans want to work with the President to restrain federal spending, and noted that the House has already acted to cut its own budget, and to reduce federal budget levels to the 2008 level. To the contrary, however, he argued that the President has “engaged in a stimulus spending spree that not only failed to deliver on its promise to create jobs, but also plunged us even deeper into debt.” Since taking office, Ryan said, spending increases of nearly 25% for domestic government agencies have been enacted, in addition to the increases included in the stimulus bill.

Rep. Ryan did not provide any specifics on what his Committee’s budget will look like, but he pointed out the principles that will guide the party, including a limited government that creates “the conditions that promote entrepreneurship, upward mobility, and individual responsibility.” He also called for an effective government that does not try to do too much. “We believe a renewed commitment to limited government will unshackle our economy and create millions of new jobs and opportunities for all people, of every background, to succeed and prosper,” he emphasized. “We need to reclaim our American system of limited government, low taxes, reasonable regulations, and sound money, which has blessed us with unprecedented prosperity,” Ryan concluded.

**BUDGET: HOUSE PASSES RESOLUTION TO REDUCE SPENDING TO 2008 LEVELS**

On January 25, 2011, the House passed H.Res. 38 by a vote of 256-165. The Resolution, sponsored by Rep. David Dreier (San Dimas), directs the Chairman of the Committee on the Budget, Rep. Paul Ryan (WI), to include in the Congressional Record an allocation under section 302(a) for the Committee on Appropriations for the remainder of fiscal year 2011 that assumes non-security spending at fiscal year 2008 levels or below.

Currently, non-security discretionary spending, which excludes defense, veterans, and homeland security funding, is about $462 billion, compared to about $378 billion in 2008. Although that is about an $84 billion difference, Chair Ryan is expected to set the funding level at about $55 billion or so, because almost half of the FY11 funding year will have passed by the time the next concurrent resolution funding the government expires on March 4th.

Proponents of the resolution argued that government spending must be cut, among other reasons, because “over the past three years, non-security discretionary spending has increased 88 percent. As a result, the U.S. government borrows 41 cents of every dollar spent.” Opponents, while agreeing that funding levels must be reduced, argued that the resolution gives one Member of the House – the Chairman of the Budget Committee – the “extraordinary authority to decide the cap for [the House], without having to face a vote of the House.”

TRADE: HOUSE WAYS & MEANS ADDRESSES FREE TRADE AGREEMENTS

On January 25, 2011, the House Ways and Means Committee held a hearing on the pending Free Trade Agreements with Colombia, Panama, and South Korea and their impact on the creation of U.S. jobs. In addition, the hearing also explored developments with each of these countries that have occurred since the trade agreements were concluded. Witnesses were: Roy Paulson, President, Paulson Manufacturing Corporation, on behalf of the National Association of Manufacturers; Bob Stallman, President, American Farm Bureau Federation; Michael L. Ducker, Chief Operating Officer and President, International, FedEx Express; William J. Toppeta, President, International, MetLife; Stephen E. Biegun, Corporate Officer and Vice President of International Governmental Affairs, Ford Motor Company.

In 2007, the United States concluded trade agreements with Colombia, Panama, and South Korea. However, none of them have been approved by Congress. In announcing the hearing, Chairman Dave Camp (MI) noted that the independent U.S. International Trade Commission has estimated that the three pending agreements, combined, would increase U.S. exports by at least $13 billion, and that since 2000, U.S. exports to the 13 countries with which the United States has implemented trade agreements have grown almost twice as fast as other U.S. worldwide exports.

Mr. Paulson stressed the benefits to his company, as well as other U.S. businesses if the agreements are implemented. He especially noted that eliminating the current 8-20 percent tariffs on his eye and face protection products will increase his sales to South Korea and Colombia. In terms of all U.S. manufacturing, he noted that exports are now 22 percent of U.S. manufacturing production, and that percentage is steadily increasing. During the recession, Paulson testified, factory shipments rose only 19 percent, but the importance of exports was such that during that period, shipments for the domestic market rose 14 percent, but exports of manufactured goods were up 46 percent. As well as supporting approval of the three pending agreements, Mr. Paulson urged the United States to enter into Free Trade Agreements with other countries. He noted that only 40 percent of U.S. exports benefit from existing FTAs, and that the other 60 percent of exports face trade barriers, particularly in fast-growing emerging nations, that could be eliminated through bilateral trade agreements.

Mr. Stallman of the American Farm Bureau Federation also supported approval of the three pending agreements. He estimated that the three agreements combined represent almost $3 billion in additional trade for U.S. agricultural producers.

He testified that the proliferation of FTAs among other countries has increased their export potential and put U.S. agriculture at a disadvantage. For instance, Korea has completed an agreement with the European Union (EU), which is expected to be implemented by July 2011, Stallman said. The Korea-EU FTA will immediately eliminate 82 percent of Korea’s tariffs; in five years, the agreement will eliminate 94 percent of Korea’s tariffs. In contrast, the Korea-U.S. FTA (KORUS) would eliminate 94.5 percent of Korea’s tariffs within three years of implementation; virtually all tariffs will be eliminated in ten years. If the Korea-EU FTA agreement enters into effect before the KORUS, Stallman argued, European exporters will gain a significant competitive advantage over the United States in the Korean market.

He especially noted the competitive disadvantage already experienced for U.S. wine exports. Korean wine imports were increasing sharply and peaked at about $167 million in 2008. U.S. wine exports tripled from 2001 to 2008. During the 2000-2009 period, Chilean market share (by value) rose from 2.4 percent to 21.5 percent, while the U.S. share fell from 17.1 percent to 10.8 percent. Stallman testified that this decline is believed to be “the direct result of the 15 percent import duty which was eliminated on Chilean wine under the Korea-Chile trade agreement implemented in April 2004.”

For the testimony of all the witnesses, go to: http://waysandmeans.house.gov.
TRANSPORTATION: SENATE EPW HOLDS HEARING ON TRANSPORTATION AND THE ECONOMY

On Wednesday, January 26, 2011, the Senate Environment and Public Works Committee (Chairwoman Barbara Boxer) held a hearing titled "Transportation's Role in Supporting Our Economy and Job Creation." The hearing was focused on issues concerning the authorization of the next surface transportation bill. Witnesses included: Susan Martinovich, American Association of State Highway and Transportation Officials; William Dorey, Associated General Contractors of America and the American Road and Transportation Builders Association; Raymond J. Poupore, National Construction Alliance; and Wayne Johnson, National Industrial Transportation League.

In the first hearing of the Committee in the 112th Congress, Chairwoman Boxer announced economic recovery and job creation as the top priorities for the committee. According to the Department of Transportation (DOT) every $1 billion in Federal money for transportation that is matched by state and local funds creates and saves approximately 34,700 jobs. These jobs are particularly needed today, she said, because according to the U.S. Bureau of Labor Statistics, the December 2010 unemployment rate in the construction industry was 20.7%, more than twice the nationwide unemployment rate of 9.4%.

High unemployment in construction has a big impact on our overall economy, witnesses testified. According to the American Road and Transportation Builders Association (ARTBA), the transportation construction industry in the United States supports the equivalent of more than 3 million full time jobs and generates over $380 billion in total annual economic activity for the nation, nearly 3% of U.S. Gross Domestic Product (GDP).

Sen. Boxer stated, “Not only does success in the transportation construction industry improve GDP, commerce in the U.S. benefits every day from transportation investments that shorten travel times, increase productivity, improve travel-time reliability, and improve safety.”

Sen. James Inhofe (OK), however, said that while $48 billion of American Recovery and Reinvestment Act (ARRA) resources were set aside for transportation, less than 3 percent of those funds were spent on repairing the nation’s crumbling roads and bridges.

In California, last September, Caltrans broke ground on a $140.2 million project on Interstate 5, which will ease traffic congestion and improve air quality. This San Fernando section of Interstate 5 is one of busiest in the Los Angeles region with an average daily traffic volume that can exceed 300,000. The project was financed in part with $31.2 million from the ARRA. According to Caltrans, "The improvements we're undertaking now will benefit residents, commuters, commercial vehicles and California as a whole by improving mobility in this important corridor."

The hearing brought out that several business sectors rely on state and federal infrastructure to thrive. The trucking industry employs more than 3 million drivers, with an additional 5.6 million people employed in trucking related jobs. Annual earnings of the trucking industry are upwards of $620 billion. Spending on travel, tourism and recreation industry in the United States is $700 billion. In 2009, 200 million people visited U.S. National Parks and 176 million visited U.S. Forests. $93 billion was generated by international visitors. The agriculture industry is the largest user of freight transportation and outputs more than $365 billion worth of goods. NAFTA trade with Canada and Mexico, which peaked at $830 billion in 2008, has bounced back to approximately $760 billion in 2010; 71% of NAFTA trade by value is moved by truck.

“For an ‘export-led’ economic recovery strategy to succeed will require a national freight transportation system that is efficient and reliable” Ms. Martinovich testified. “The good news today is that for the last year U.S. exports have been expanding at double digit rates. The challenge we face is keeping pace with that growth.”

For the testimony of all the witnesses, go to: http://www.epw.senate.gov.
HEALTH: WAYS AND MEANS EXAMINES ECONOMIC EFFECTS OF HEALTH CARE LAW

On Wednesday, January 26, 2011, the House Ways and Means Committee held a hearing titled "The Health Care Law’s Impact on Jobs, Employers, and the Economy." The purpose of the meeting was to examine the impact of the “Patient Protection and Affordable Care Act” and the “Health Care and Education Reconciliation Act of 2010” on the labor market. Witnesses included: Austan Goolsbee, Council of Economic Advisors; Douglas Holtz-Eakin, American Action Forum; Scott Womack, US Chamber of Commerce; and Joe Olivo, Perfect Printing.

In announcing this hearing, Chairman David Camp (WI) stated: “Employers of all sizes are expressing concern that the new mandates and regulations will deter them from hiring new employees, threaten their ability to retain existing workers, and harm their ability to increase wages for existing employees.”

On March 20, 2010, the Congressional Budget Office (CBO) released its final cost estimate for the reconciliation act, which encompassed the effects of both pieces of legislation. CBO and the staff of the Joint Committee on Taxation (JCT) estimate that enacting both pieces of legislation will produce a net reduction in federal deficits of $143 billion over the 2010-2019 period. About $124 billion of that savings stems from provisions dealing with health care and federal revenues; the other $19 billion results from the education provisions. Those figures do not include potential costs that would be funded through future appropriations. Much of the impact of the Act will begin when the major coverage provisions take effect in 2014.

CBO and JCT also estimate that by 2019, the two pieces of legislation combined will reduce the number of nonelderly people who are uninsured by about 32 million, leaving about 23 million nonelderly residents uninsured.

One of the first provisions to take effect is a Small Business Health Care Tax Credit that helps offset the cost of coverage for a qualified small business. This credit covers up to 35 percent of a small business’s premium costs – in 2014, this share rises to 50 percent. For qualified employers that were not already offering coverage, this credit is intended to make it easier for them to do so, Mr. Goolsbee testified. For those that were already providing coverage, the credit will help them with those costs. As many as 4 million small businesses may not be eligible for the new Small Business Health Care Tax Credit, however, Goolsby stated.

“The evidence indicates that although almost all large firms already provide health insurance for their workers, health care costs have consistently been one of the fastest-growing components of employer compensation costs,” Goolsbee stated. “Economic research indicates that these high costs have a direct negative impact on job growth at companies.”

According to Goolsbee, who testified in favor of the Affordable Care Act, the Act would ease the burden of health care costs on small business by reducing the growth rate. He stated, “The Act reduces the growth of health care costs for employers by reducing the indirect costs associated with caring for the millions of uninsured in the country that are passed through to insurance premiums.”

Holtz-Eakin testified in opposition to the Affordable Care Act, stating that the mandates and tax provisions in the Act will negatively impact employment growth, wages and economic growth. “The impact of the Act will be more expensive health insurance, putting employers in the position of either reduced wage rates, fewer employees, or dropping insurance coverage.”

Scott Womack testified on behalf of the US Chamber of Commerce and urged the repeal of health care bill. “The health care law does not include the kinds of solutions that would have made it easier and more affordable to offer health insurance. It did not include meaningful medical liability reform. It did not give me the option to shop for health insurance from companies in other states,” he testified.

For more information: http://waysandmeans.house.gov/
REPORT: PPIC SURVEY SHOWS PUBLIC SUPPORT FOR SPECIAL ELECTION, SHIFT TO LOCAL GOVERNMENTS

Two-thirds of Californians say a special election on Governor Jerry Brown’s tax and fee proposal is a good idea, and a majority are generally satisfied with his budget plan. These are among the key findings in a statewide survey released on January 26, 2011 by the Public Policy Institute of California (PPIC) with support from The James Irvine Foundation. Findings are based on a telephone survey of 2,004 California adult residents interviewed from January 11–18, 2011. PPIC’s State-wide Survey examines the social, economic, and political trends that influence public policy preferences and ballot choices.

In Early Reaction to Budget, 58 Percent Satisfied

When read a description of the Governor’s proposed budget, 58 percent of Californians are generally satisfied (29% dissatisfied). Across party lines, there is more satisfaction (64% Democrats, 57% independents, 49% Republicans) than dissatisfaction (26% Democrats, 31% independents, 37% Republicans) among residents. Still, overwhelming majorities (75% adults, 73% likely voters) are at least somewhat concerned about the spending reductions in the Governor’s plan. Brown’s proposed special election on a tax and fee package to prevent further budget cuts is a good idea, according to 67 percent of adults. Majorities agree, regardless of party affiliation (73% Democrats, 64% independents, 55% Republicans). By comparison, just 40 percent of likely voters said in September 2005 that the special election called by Governor Arnold Schwarzenegger was a good idea, and 50 percent felt that way in the weeks before a 2009 special election called by the Governor and Legislature. A smaller majority—53 percent of adults and 54 percent of likely voters—favor the general plan they would be voting on, which would extend tax and fee increases and divert some revenues from state to local governments.

Strong majorities (71% adults, 73% likely voters) favor the general concept of shifting tax dollars and fees to local governments to take on the responsibility of running certain programs. Most residents are also confident (14% very confident, 49% somewhat confident) that local governments would be able to operate programs currently run by the state, and so are likely voters (18% very confident, 51% somewhat confident).

Brown Approval Rating Falls Short of 50 Percent

So far, Californians approve of the ideas the new governor has advanced more than they approve of the new Governor. Less than half of adults approve of the overall job he is doing so far (41% approve, 19% disapprove, 39% don’t know) or of his handling of the state budget and taxes (41% approve, 27% disapprove, 32% don’t know).

Most adults (55%) disapprove of the new legislature—largely composed of incumbents. Likely voters are still more negative: 68 percent disapprove. The legislature fares even more poorly on its handling of the budget and taxes: 65 percent of adults and 74 percent of likely voters disapprove.

Even though Californians give approval ratings of less than 50 percent to both the new legislature and Governor, a majority of adults—58 percent—say the two will be able to work together and accomplish a lot in the next year. By comparison, just 28 percent of all adults and 20 percent of likely voters felt this way in January 2010.

Most Would Pay Higher Taxes to Spare Schools

Most Californians regard the state budget as a big problem (68% adults, 83% likely voters). Solid majorities of adults oppose spending cuts in K–12 education (75%), higher education (63%), and health and human services (60%) to help reduce the state budget deficit. But 70 percent support cuts in prisons and corrections. Californians say they are willing to increase taxes to spare K–12 education (71%), higher education (59%), and health and human services (57%) from budget cuts. Just 17 percent are willing to pay higher taxes to maintain current funding for prisons and corrections.

Most Would Raise Taxes for Corporations
Majorities (60% adults, 55% likely voters) favor raising the state taxes paid by California’s corporations to address the budget deficit, up 13 points among likely voters since last September. Other revenue-raising ideas received far less support: 27 percent of likely voters favor raising state personal income taxes, 34 percent favor raising the state sales tax on all purchases, and 36 percent favor increasing the vehicle license fee.

**Californians’ Knowledge Gap**

Most Californians’ views about the budget are not based on an understanding of where the money comes from and where it goes. A majority of adults say they have some knowledge (39%) or a lot of knowledge (15%) about how state and local governments spend and raise money.

**The Tax System: it Needs Changes but It’s Moderately Fair**

As Californians face the prospect of a special election to determine whether to extend temporary tax increases, most (58%) say the state and local tax system is in need of major changes. And 53 percent say they pay more in taxes to state and local governments than they should. Despite these attitudes about their own tax burden, most say the present state and local tax system is at least moderately fair (4% very fair, 53% moderately fair).

**More Hopeful, Still Worried about Year Ahead**

Californians are feeling better about the direction of the state and their own financial futures, but most are still not feeling good. A majority (54%) continue to say that things in California are going in the wrong direction. However, the share of those who see things going in the right direction—38 percent—is up 22 points since October and the highest percentage since September 2007. Most independents (58%) and a large majority of Republicans (81%) remain pessimistic about the direction of the state. But for the first time since September 2007, Democrats are more likely to say the state is going in the right direction (51%) than in the wrong one (39%).

Turning to economic conditions in California, a majority of adults (56%) expect bad times financially in the next 12 months. But the percentage expecting good times—36 percent—is up 11 points since October. Despite their sunnier view of the economic outlook, most (86%) still believe the state is in a recession, with 48 percent viewing it as a serious recession.