



Invested in **America**

A Growth Agenda for the U.S. Economy

January 2014



Business Roundtable (BRT) is an association of chief executive officers of leading U.S. companies working to promote sound public policy and a thriving U.S. economy.

BRT member companies produce \$7.4 trillion in annual revenues and employ more than 16 million people. Comprising more than a third of the total value of the U.S. stock market, these companies invest \$158 billion annually in research and development — equal to 62 percent of private U.S. R&D spending. In addition, they pay more than \$200 billion in dividends to shareholders and generate more than \$540 billion in sales for small and medium-sized businesses annually. BRT companies give more than \$9 billion a year in combined charitable contributions.

Please visit us at www.brt.org.

Copyright © 2014 by Business Roundtable

Invested in America

A Growth Agenda for the U.S. Economy

Table of Contents

| | | |
|------|---|----|
| I. | Introduction _____ | 1 |
| II. | Restoring Fiscal Stability _____ | 3 |
| III. | Enacting Comprehensive Tax Reform _____ | 5 |
| IV. | Expanding U.S. Trade and Investment Opportunities _____ | 7 |
| V. | Repairing America’s Broken Immigration System _____ | 8 |
| VI. | Conclusion _____ | 9 |
| | Endnotes _____ | 10 |

I. Introduction

The U.S. economy continues to underperform relative to its potential at great cost to workers, businesses and taxpayers. While America's leaders continue to totter from confrontation to crisis, economic growth remains stubbornly low, unemployment remains unacceptably high and wages remain stagnant for the vast majority of Americans. The CEOs of the Business Roundtable are deeply invested in America's success. We understand that when America succeeds, our companies succeed. We believe that realizing the economy's full potential should be the nation's top priority. And we believe that fully unlocking economic growth and job creation will require policymakers to rededicate themselves to a singular purpose: restoring America's status as the most attractive destination for investment.

America's doors have traditionally remained open to the investment that it needs to realize its full economic potential. But something has changed in recent years. America's public policies have become increasingly inhospitable to those who are willing to contribute to building a stronger economy. Our fiscal outlook has significantly worsened, reducing the predictability that taxpayers and businesses need to make long-term investment decisions. Our corporate tax rate is the highest in the developed world, discouraging businesses from locating and hiring here at home. Our trade agenda is being affected by failure to pass updated Trade Promotion Authority (TPA) legislation, stifling efforts to complete trade agreements and expand U.S. trade and investment opportunities abroad. And our immigration policy has failed to keep pace with the demands of a modern global economy, threatening America's ability to attract the world-class talent that it needs to remain an open, innovative and competitive economy.

Solutions to these problems are possible if there is the will to act. Policymakers can reopen America's doors to the investment needed to drive innovation, economic growth and job creation. To succeed, it is critical that our elected leaders focus their efforts. Priority should be placed on those measures that are meaningful, urgent and ripe for action. Accordingly, the Business Roundtable calls on policymakers to take immediate action on four priorities:

- ▶ **Restore Fiscal Stability:** Policymakers should adopt a more strategic approach to budget and fiscal policy, including measures that strengthen the nation's health care and retirement system. Furthermore, it is critical that budget, borrowing and fiscal decisions be made in a timely manner to avoid government by crisis.
- ▶ **Enact Comprehensive Tax Reform:** Policymakers should adopt a competitive, pro-growth tax framework that promotes economic expansion, levels the playing field for U.S. companies competing in global markets and strengthens their supply chains at home.
- ▶ **Expand U.S. Trade and Investment Opportunities:** Policymakers should take action to expand U.S. trade and investment opportunities abroad by passing updated TPA legislation and aggressively pursuing a range of trade agreements.
- ▶ **Repair America's Broken Immigration System:** Policymakers should enhance the U.S. workforce and address border security concerns by implementing balanced, sensible immigration reform.

By adopting this four-point plan, our nation's leaders can lay the groundwork for a strong, balanced and sustained economic recovery. It is time to end the era of governing by crisis. It is time to rebuild a sense of confidence, predictability and optimism among consumers and businesses. It is time for Washington to join the business community in investing in America's success.

II. Restoring Fiscal Stability

America's long-term fiscal trajectory is irresponsible and unsustainable. Mandatory federal spending is rising steadily. Until policymakers act with decisive leadership, these failures will continue to escalate, risking our nation's economic future and ultimately our social safety net.

While annual federal deficits have recently declined as a result of short-term sequestration policies, the long-term fiscal challenges have yet to be addressed. The overall debt level is already approaching alarming levels. Debt held by the public as a share of gross domestic product (GDP) has doubled in the past five years, rising from 35 percent in 2007 to 70 percent in 2012; government analysts project that it will increase to 100 percent of GDP by 2038.¹ This trend is primarily driven by increased spending on federal entitlement programs. For example, mandatory outlays for major health care programs and Social Security are projected to rise from 9 percent of GDP in 2012 to 14 percent of GDP by 2038.² In addition, as the economy recovers and interest rates rise, interest payments to service the debt will increase as well — leaving fewer resources for the discretionary budget that pays for critical investments in infrastructure, education, and research and development.

Washington's failure to address long-term fiscal challenges has lowered overall confidence and is undermining investment in America. Despite record-high corporate cash holdings, companies are delaying or foregoing major investments. Evidence suggests that fiscal instability is a key cause of this trend. For instance, in a recent survey by the Business Roundtable, nearly half of CEOs indicated that they were less inclined to hire new workers due to fights in Washington over the 2014 budget and debt ceiling limit.³

This lack of predictability is holding America back from achieving sustained, robust economic growth. Macroeconomic Advisers estimates that fiscal policy uncertainty has reduced annualized GDP growth by 0.3 percentage points and destroyed 900,000 jobs since 2010.⁴ Similarly, Moody's Analytics estimates that increased political uncertainty from 2008 to Q3 2013 significantly constrained business investment, reducing real GDP by \$150 billion and eliminating 1.1 million jobs.⁵

The Business Roundtable calls on U.S. policymakers to adopt a more strategic approach to budget and fiscal policy that focuses on predictable and timely fiscal policymaking, thoughtful near-term spending reductions, and measures that strengthen the nation's health care and retirement system. Specifically:

- ▶ Congress should pass annual budgets and appropriations bills on time. This would avoid disruptions to government operations and allow an orderly process for necessary borrowing.
- ▶ Congress and the Administration should constrain federal spending in a manner that reduces long-term spending growth rather than imposing abrupt and arbitrary reductions in near-term outlays.
- ▶ Congress and the Administration should strengthen Medicare and Social Security by:
 - Making both Medicare and Social Security more progressive by considering increased means testing of eligible benefits for higher income recipients and increasing the focus on preserving the safety net for low-income Americans.

- Updating the method for calculating Social Security cost-of-living adjustments based on the Chained Consumer Price Index, which more accurately reflects the costs people pay.
- Preserving the existing system for current retirees and those nearing retirement, while gradually increasing the age at which people receive full benefits from both Medicare and Social Security to 70.
- Expanding competitive models of care within Medicare by offering beneficiaries the opportunity to choose among competing and comprehensive private plans and traditional Medicare.

III. Enacting Comprehensive Tax Reform

America's unwieldy and outdated tax system is undermining the competitiveness of businesses large and small, holding back economic growth. Policymakers from both sides of the aisle agree that the tax code must be streamlined in a manner that promotes economic efficiency and growth, yet practical proposals have fallen victim to Washington gridlock. Comprehensive tax reform is essential to realizing the U.S. economy's full potential.

Corporate tax reform is a key component of this overhaul. The global economy has changed considerably in the last several decades, and the corporate tax code has failed to keep pace. The United States imposes the highest corporate tax rate of any Organisation for Economic Co-operation and Development (OECD) country, at 39.1 percent.⁶ On average, American companies are also subject to higher effective tax rates than their foreign competitors. For example, a study by PricewaterhouseCoopers found that the average effective tax rate for companies with U.S. headquarters was 27.7 percent, compared to 19.5 percent for those with foreign headquarters.⁷ In addition, the United States is the only G8 country that still uses a "worldwide" tax system, which collects U.S. taxes on the earnings of foreign subsidiaries. The vast majority of OECD countries have modernized their tax systems to tax a company's sales in foreign markets at local rates.⁸

Burdened by high business tax rates and an outdated method of taxing overseas earnings, the U.S. tax system stifles the business investment that drives innovation, economic growth and job creation. The high corporate tax rate discourages investment at home and places U.S. companies at a competitive disadvantage in the global marketplace for investment and jobs. When comparing different forms of taxation, the OECD characterizes corporate income taxes as "the most harmful for growth as they discourage [...] investment in capital and productivity improvements."⁹ Furthermore, our antiquated system of taxation severely damages the international competitiveness of U.S. businesses, which increasingly rely on foreign markets for growth and investment opportunities.

Improving the competitiveness of our nation's corporate tax system would deliver significant benefits. Several studies estimate that cutting the U.S. federal corporate tax rate by 10 percentage points would boost real GDP by a percentage point or more.¹⁰ Moreover, transitioning to a modern international tax system would allow companies to return foreign profits to the United States and reinvest them in domestic ventures. For instance, a recent study by economist Laura Tyson found that switching to a territorial tax system would incentivize U.S. multinational companies to repatriate \$1 trillion in foreign earnings, boosting U.S. GDP by at least \$208 billion and creating at least 1.46 million additional jobs.¹¹ Capturing these economic benefits is essential to realizing the U.S. economy's full potential.

The Business Roundtable calls on policymakers to adopt a competitive, pro-growth tax framework that promotes economic expansion and levels the playing field for U.S. companies competing in global markets. Specifically:

- ▶ Congress and the Administration should reform the tax code to enhance the competitiveness of all businesses to fully strengthen the U.S. economy, enhance job creation, and enable American workers and businesses to compete effectively.

- ▶ Congress and the Administration should reform the corporate tax code in a manner that is fiscally responsible and enhances growth, including (1) encouraging capital investment by setting the corporate tax rate at 25 percent and (2) aligning the U.S. taxation system with other countries by adopting a modern international tax system.

IV. Expanding U.S. Trade and Investment Opportunities

Washington gridlock is holding back efforts to expand U.S. trade and investment opportunities abroad. In particular, Congress has yet to pass updated Trade Promotion Authority (TPA) legislation that would empower U.S. trade negotiators and help complete trade agreements. Repeatedly updated and passed since the 1970s, TPA outlines the nation's goals for trade negotiations with other countries, establishes a framework for consulting with and seeking input from Congress and other stakeholders at all stages of trade negotiations, and allows the President to bring a completed trade agreement to Congress for an up-or-down vote. By failing to pass updated TPA, Congress weakens the hands of U.S. trade negotiators and undermines their ability to open new markets for U.S. goods and services while ensuring a rules-based, two-way trading system.

International trade and investment are important engines for U.S. economic growth and job creation. More than 30 percent of U.S. GDP is tied to international trade and investment.¹² International trade alone supports more than one in every five U.S. jobs.¹³ U.S. engagement in the international marketplace will become even more important in the coming years, as more than 95 percent of the world's population and 80 percent of its purchasing power lie outside the United States.¹⁴ If the U.S. economy is to realize its full potential, policymakers must aggressively pursue opportunities beyond the nation's borders.

The successful completion of pending and future trade agreements is critical to that endeavor. The United States is currently pursuing a range of trade agreements, including the Trans-Pacific Partnership (TPP), the Transatlantic Trade and Investment Partnership (TTIP), the Trade in Services Agreement (TISA), and an expansion of the 1996 World Trade Organization (WTO) Information Technology Agreement. These agreements would expand U.S. exports, boost economic output and support millions of American jobs. Securing TPA is a critical step to realizing these economic benefits.

The Business Roundtable calls on U.S. policymakers to take action to fully capitalize on U.S. trade and investment opportunities. Specifically:

- ▶ Congress and the Administration should work together to pass updated TPA legislation as soon as possible.
- ▶ Congress and the Administration should aggressively advance and finalize high-quality trade and investment opportunities in the TPP, TTIP, TISA and expanded WTO Information Technology Agreement.
- ▶ Congress should reauthorize the U.S. Export-Import Bank to help U.S. companies compete for sales abroad and support the U.S. jobs that depend on those sales.
- ▶ The Administration should continue to implement reforms to outdated U.S. export controls.

V. Repairing America's Broken Immigration System

America, once a beacon for diversity and innovation, is now turning its back on a wave of talent and entrepreneurship. While the forces of globalization and international competitiveness have never been stronger, current U.S. immigration policies discourage foreign students and essential workers from joining the labor force, imparting their expertise and contributing to the economy.

Policymakers from both sides of the aisle agree that the immigration system is broken. An estimated 11 million immigrants currently reside in the United States illegally, raising important concerns related to border security and law enforcement. Nearly two-thirds of this population have lived and worked in the United States for more than a decade.¹⁵ In addition, existing legal channels for attracting foreign workers are cumbersome, and the protracted process costs U.S. employers the chance to retain talented foreign students or persuade foreign nationals to relocate. The partisan politics of Washington have prevented practical solutions from being adopted. Our nation surely can find a way to manage border and security concerns while benefitting from the energy, innovation and skills that immigrants can bring to America.

Immigration fuels entrepreneurship, as immigrants are nearly twice as likely to start a new business as U.S.-born individuals.¹⁶ It produces widespread employment benefits, with studies estimating that each temporary work visa for a skilled worker or less skilled nonagricultural worker supports an additional 1.8 to 4.6 jobs for U.S. natives.¹⁷ And the impact of successful reform would resonate throughout the economy. For example, the Bipartisan Policy Center estimates that over the next 20 years, immigration reform could boost economic output by 4.8 percent, add as many as 8.3 million jobs and reduce the deficit by \$1.2 trillion.¹⁸ Balanced, sensible immigration reform is a critical step toward realizing the U.S. economy's full potential.

The Business Roundtable calls on policymakers to fix America's broken immigration system and recommit our nation to attracting the brightest minds and hardest workers from around the world. Specifically:

- ▶ Congress and the Administration should improve security and better enforce immigration laws, in part by increasing resources for border security and requiring all U.S. businesses to use the E-Verify system.
- ▶ Congress and the Administration should welcome legal immigrant workers to contribute to America by increasing visas for higher skilled workers and establishing a new system for lower skilled workers.
- ▶ Congress and the Administration should find a solution to integrate undocumented immigrants into our society and allow those already residing in the United States to come forward, pay a penalty, and earn a legal status so they may work and travel freely.

VI. Conclusion

Washington inaction continues to undermine the U.S. economic recovery. Despite recent progress, policymakers have largely failed to address long-term fiscal imbalances, significantly reducing the predictability that consumers and businesses need to make long-term investment decisions. The existing corporate tax system, marked by high tax rates and an outdated method of taxing overseas earnings, discourages U.S. companies from locating and hiring here at home. By failing to pass updated TPA legislation, policymakers have stifled efforts to complete key trade agreements and expand U.S. trade and investment opportunities abroad. And the failure to fix America's broken immigration system is threatening the nation's ability to attract the world-class talent that it needs to compete and win in the modern global economy.

Fortunately, these challenges are not insurmountable, and thoughtful, long-term solutions are well within Washington's reach. Policymakers have the means to reopen America's doors to the investment that it desperately needs to realize its full potential. By adopting a responsible approach to fiscal policymaking, modernizing the business tax system, expanding trade opportunities abroad and implementing sensible immigration reform, Washington can join the business community in investing in America's success.

Endnotes

- 1 Congressional Budget Office (2013). "Historical Budget Data — August 2013." Table 1; and Congressional Budget Office (2013). *The 2013 Long-Term Budget Outlook*. Supplemental Data: Summary Data for the Extended Baseline.
- 2 Congressional Budget Office (2013). *The 2013 Long-Term Budget Outlook*. Supplemental Data: Summary Figure 1.
- 3 The Business Roundtable (2013). "CEOs Forecast Continued Slow Economic Growth." Press Release. September 18, 2013.
- 4 Macroeconomic Advisers, LLC (2013). "The Cost of Crisis-Driven Fiscal Policy." Prepared for the Peter G. Peterson Foundation.
- 5 Zandi, M. (2013). "A Budget Battle Postmortem." Moody's Analytics.
- 6 OECD Tax Database (2013). "Part II: Taxation of Corporate and Capital Income.;" Table II.1: Corporate Income Tax Rate.
- 7 PricewaterhouseCoopers (2011). "Global Effective Tax Rates." Prepared for the Business Roundtable.
- 8 Dittmer, P. (2012). "A Global Perspective on Territorial Taxation." Tax Foundation.
- 9 Organisation for Economic Co-operation and Development (2010). "Growth-Oriented Tax Policy Reform Recommendations." Part 1. *Tax Policy Reform and Economic Growth*.
- 10 For examples, see Holtz-Eakin, D. et al. (2012). "Macroeconomic Impacts of Corporate Tax Reform." American Action Forum; Lee, Y. and R. Gordon (2004). "Tax Structure and Economic Growth.;" and Schuyler, M. (2013). "Growth Dividend from a Lower Corporate Tax Rate." Tax Foundation.
- 11 Tyson, L. et al. (2013). "Implications of a Switch to a Territorial Tax System in the United States: A Critical Comparison to the Current System." Berkeley Research Group.
- 12 The Business Roundtable. (2013). "The Language and Benefits of Trade."
- 13 Baughman, L. and J. Francois (2010). *Trade and American Jobs: The Impact of Trade on U.S. and State-Level Employment: An Update*. Washington, DC: The Business Roundtable.
- 14 United Nations, Department of Economic and Social Affairs (2013). "World Population Prospects: the 2010 revision"; and International Monetary Fund (2013). "World Economic Outlook Database."
- 15 Pew Research Center (2013). "A Nation of Immigrants." Hispanic Trends Project.
- 16 Partnership for New American Economy (2012). "Open for Business: How Immigrants Are Driving Small Business Creation in the United States."
- 17 Zavodny, M. (2011). "Immigration and American Jobs." American Enterprise Institute and Partnership for New American Economy.
- 18 Bipartisan Policy Center (2013). "Immigration Reform: Implications for Growth, Budgets, and Housing."



300 New Jersey Avenue, NW
Suite 800
Washington, DC 20001

Telephone 202.872.1260
Facsimile 202.466.3509
Website brt.org