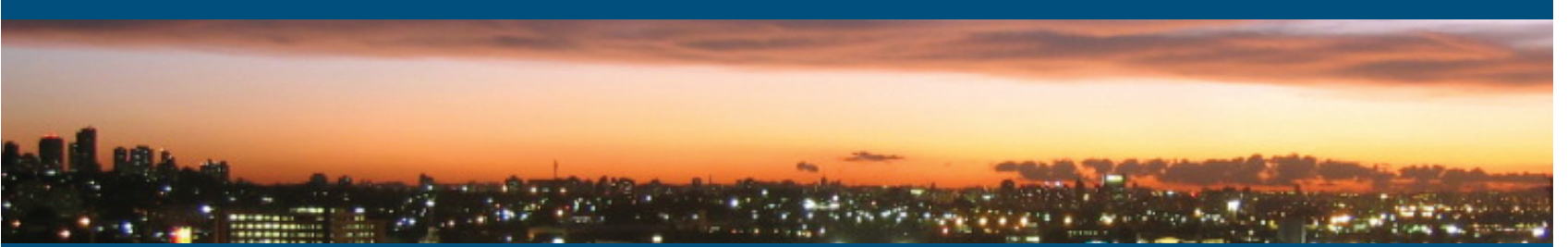


Horizon



# Horizon Project

REPORT AND RECOMMENDATIONS  
FEBRUARY 1, 2007



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# Forward

The 110th Congress will be addressing challenges confronting the nation's economy that are almost unprecedented in scope, including: the dramatic loss of high-wage manufacturing and service jobs due to offshoring; exploding healthcare costs and an ever-rising number of uninsured; record-level budget and trade deficits; extreme and growing income inequality; and an education system that is not adequately preparing students and existing workers to compete successfully in the global economy.

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How well Congress responds to these significant challenges, which have been largely ignored by the Bush Administration and Congressional Republicans, will substantially determine whether America continues to be the preeminent economic power in the world, or whether the nation will experience declining political influence and economic leadership.

The Horizon Project was conceived to help develop for the Senate Democratic Policy Committee and others who might be interested, legislative recommendations

*The Horizon Project's recommendations, which are intended to be a Marshall-type Plan for America, cover four areas: (I) Trade & Economic Growth; (II) Education; (III) Healthcare; and (IV) Public Infrastructure.*

in major areas that its members felt would advance America's prosperity and economic security and continue the nation's long-standing commitments to economic and social justice. The Project's eleven members, from across a variety of sectors, are CEOs and policy innovators who are committed to the public interest and to America's long-term economic strength.

The Horizon Project's recommendations, which are intended to be a Marshall-type Plan for America, cover four areas: (I) Trade & Economic Growth; (II) Education; (III) Healthcare; and (IV) Public Infrastructure.

(This Report and its legislative recommendations represent a consensus of the members, but not every member fully supports every recommendation. The members express their sincere gratitude to senior staff members Robert Davis, Patrick Mulloy and Alan Platt and to outside advisors Burl Finkelstein, Ron Hira, Jonathan Jacoby, Thea Lee, Barry Lynn, Lawrence Mishel, Chris Slevin and Lori Wallach.)



# Executive Summary

*Concerns about Trade & Economic Growth mostly manifest themselves in the nation's record – and still growing – trade deficit, and in the disappearance of valuable chunks of its economy due to offshoring. Underlying these highly visible phenomena is the growing divergence between the national interests of the United States and the interests of many U.S. multinational corporations which, if given their druthers, seem tempted to off shore almost everything but consumption.*

In *Section I* we describe and then address these underlying critical concerns. We conclude that the government must find ways to strongly encourage companies to create high value-added jobs in the U.S., invest in workers skills, and develop advanced research-based products and services. Many countries do this through special deals with individual companies; we propose that the U.S. do so instead through carefully designed changes in the corporate income tax.

We also propose taking actions against unfair trade practices. Fair trade is rules-based trade, but right now several U.S. trading partners are breaking the rules, with massive currency, tax and capital subsidies and through unfair labor and environmental practices. Currently, those in the U.S. government who negotiate trade deals are also charged with pursuing enforcement, and in this setting, enforcement often gets short shrift. We propose reorganizing the government's trade structure to separate trade negotiations from trade agreements enforcement. We also advocate a trade deficit cap.

The most basic response to the flood of goods coming from the newly developing countries, especially in Asia, is to improve productivity at home. We describe a series

of measures and organizations dedicated to upgrading U.S. workers skills, and we propose that the U.S. advocate and facilitate on a large scale the use of well-tested technologies that can steadily raise the skills and education levels of the entire domestic workforce. But in doing so, Congress will need to be especially sensitive to workers who are late in their careers, with only 10 to 15 working years left, and to the approximately 56% or so of American workers who struggle mightily to work successfully in higher than semi-skilled positions, especially when manufacturing jobs are dramatically shrinking in number.

New worker skills alone are not the answer, however, as millions of underemployed American workers now have more skills than their jobs require, not a shortage. By accepting the false premise that everything will be fine once we fix our education system – which we know still faces decades of desperately needed reform and facilities repair – the nation is forestalling finding near-term solutions to the immediate crises of jobs quantity and jobs quality.

Our views on Education have two main themes: (1) attracting teachers into K-12 education and certain associated specialties and locales, and retaining them; and (2)

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*Our views on Education have two main themes: (1) attracting teachers into K-12 education and certain associated specialties and locales, and retaining them; and (2) holding them accountable for results.*

*Far too many Americans remain uninsured, a reality that must be addressed. At the same time, the burden of rising healthcare costs is not well distributed, and the system does not reward good or penalize poor performances by healthcare providers.*

holding them accountable for results. Thus in *Section II* we propose the “America for Teachers” provision that eliminates federal income taxation for K-12 teachers in accredited schools. In return for this relief, along with several refundable tax credits based on teaching specialties and achievements, teachers would be held accountable for the performance of their students, as measured against international competitive standards.

Looking beyond K-12 education, we observe that affordability and other barriers prevent many talented students from going to college. We propose significant expansion of government support for high-performing students from low- and middle-income families.

With regard to *Healthcare*, far too many Americans remain uninsured, a reality that must be addressed. At the same time, the burden of rising healthcare costs is not well distributed, and the system does not reward good or penalize poor performances by healthcare providers. Accordingly, in *Section III* we:

- (1) Propose steps to extend basic healthcare coverage, including steps that make it hard to avoid becoming insured and steps that provide tax penalties for being uninsured;
- (2) Propose capping the healthcare deduction and applying the resultant tax savings to expanded coverage for low- and middle-income individuals and families,

which would ensure that federal dollars spent on healthcare are spent in a more progressive manner; and

- (3) Propose that reimbursements to Medicare and Medicaid providers for services be based on the extent to which such providers obtain good medical outcomes and adhere to best practices, as measured by shared outcomes data.

With regard to *Public Infrastructure*, without substantial new capital spending in energy innovation, broadband access deployment, transportation systems, and water systems, both the well-being of citizens and the nation’s ability to compete globally will be degraded. Accordingly, in *Section IV* we propose that Congress:

- (1) Form a federally sponsored “National Investment Corporation” to help regions, states and municipalities finance vital infrastructure projects that require federal participation in order to be completed;
- (2) Amend the federal tax code to allow for much-accelerated depreciation of investments in the key areas of alternative energy, energy savings, and broadband access deployment; and
- (3) Enact measures to encourage timely, universal deployment of the high-speed broadband access networks which are vital to the functioning of the nation’s future economy and to helping reduce income inequality.

# I. Trade & Economic Growth

## *Overview.*

*The United States faces unsettling economic concerns, as evidenced by its soaring trade and budget deficits, the millions of workers adversely affected by the decline of major industries, and stagnant middle-class family incomes.*

*The U.S. international trade position can be likened to being in free fall. At around 6.8% of GDP, the current account deficit is larger than ever before, both in absolute terms and relative to the size of the economy. The traditional U.S. trade surplus in agricultural products is nearing zero, in high-technology products it has turned negative, and in trade services it is small and declining as a proportion of total trade.*

This record current account deficit represents a hollowing out of American productive and services capacity. Resurrecting advanced manufacturing – such as high-end consumer electronics, semiconductors and machine tools – can be extremely difficult once it is lost, due to significant first mover advantages including economies of scale and network effects. And now, many high-end services are being lost as well, with just as little prospect for resurrection.

### THE GROWING DIVERGENCE BETWEEN COUNTRY AND CORPORATIONS.

Today, most of the goods and services the nation consumes require large, complex organizations to produce or create them, and many workers are now employed by corporations that make or distribute these items. The fundamental social role of corporations is to enable people to participate in the production of the goods and services that are consumed, and by affiliating with corporations, people are enabled to earn for themselves and their families a share of the values produced by the companies.

Adam Smith said that, “It is not from the benevolence of the butcher, the brewer or the baker that we expect our dinner, but from their regard to their own interest”. Today, those butchers, brewers and bakers are corporations.

Globalization, however, has made it possible for many U.S. multinational corporations to pursue their interests by building capabilities abroad which use low-cost labor and then importing the generated goods and services into the U.S. In doing this, they are certainly fulfilling their fundamental purpose of enabling people to participate in today’s high-value jobs, but increasingly in the process they are building up the capabilities of the emerging Asian states and reducing the capabilities of the United States. Hard working Americans who have seen large chunks of industry and millions of jobs leave the country cannot help but wonder if this is a fair and good outcome.

Economists generally leap to the defense of free trade, and they should, since economic theory shows that free trade, or some

*The record current account deficit represents a hollowing out of American productive and services capacity.*

*Only when we understand that the fundamental issue is not what happens narrowly at the next round of trade negotiations but rather the rise of powerful trading partners that often use unfair trade practices in a global trading system which permits widespread market distortions, can we sensibly consider what the U.S. needs to do in response.*

*The United States Trade Representative (USTR) is in charge of both expanding trade and enforcing trade agreements, which has become an untenable conflict.*

approximation of it, is far better than no trade or heavily restricted trade. But almost entirely overlooked in this discussion of more or less free trade is a different question: Is a trade regime which has many of the U.S.'s trading partners systematically engaging in unfair trade practices one that elevates global welfare, let alone America's?

The industrialization of a country's trading partners can at times be beneficial to that country's standard of living. But it is also true that such overseas industrialization can be harmful to a country's standards of living and to global economic welfare if such trading partners are moving rapidly into higher value-added industries in significant part by employing unfair trade practices. Only when we understand that the fundamental issue is not what happens narrowly at the next round of trade negotiations but rather the rise of powerful trading partners that often use unfair trade practices in a global trading system which permits widespread market distortions, can we sensibly consider what the U.S. needs to do in response.

## Legislative recommendations:

### 1) Actions to reduce soaring trade deficits.

Fair trade is rules-based trade, but many major U.S. trading partners are breaking the rules, through massive currency, tax and capital subsidies, and closed markets and through unfair labor and environmental practices. Ensuring that high value-added jobs in the U.S. grow requires, among other things, eliminating the unfair trading practices that many other nations are engaging in, including: currency manipulation; market barriers; unfair subsidies and tariffs; discriminatory taxation; standards abuses; government policies favoring domestic production; intellectual property thefts; and market access conditioned on local production or intellectual property transfers. (Example on point: According to the Semiconductor Industry Association, the combined tax and capital subsidization of China's high-tech industries has grown so extreme that now only about 10% of the overall cost difference is labor cost-based and 90% is tax and capital grants-based.) We propose the following:

#### a) STRENGTHEN TRADE AGREEMENTS ENFORCEMENT.

Trade agreements are only as good as the resources brought to bear to enforce them. Currently, however, the United States Trade Representative (USTR) is in charge of both expanding trade and enforcing trade agreements, which has become an untenable conflict.

*Congress should: (i) transfer responsibility for evaluating and prosecuting trade agreements violations from the office of the USTR to the Department of Justice; (ii) create a new Division at Justice headed by an Assistant Attorney General for Trade Enforcement; and (iii) substantially increase the funding for enforcement.*

Moreover, although the final decision may be that the disruptions associated with a major intra-governmental reorganization at this time outweigh continuing to live with the current multiple agency inefficiencies, *Congress should reconsider the appropriateness of establishing a new Department of Trade which would consolidate USTR and the disparate trade functions of the Department of Commerce.*

b) EMERGENCY SUMMIT (AND CAP) ON THE NATION'S TRADE DEFICIT.

The United States is the only major net consumer in the global economy, with a publicly identified current account deficit in 2005 of a record \$792 billion and with a deficit which is now around 6.8% of GDP. Unfortunately, however, the Executive branch still does not seem to grasp the importance and urgency of dealing with this critical problem.

*Accordingly, we recommend that an Emergency National Summit on the Trade Deficit be convened in early 2007, to be attended by relevant Cabinet officers, the bipartisan leadership of both Houses of Congress, and a small number of top corporate and labor leaders. If, without any apparent tangible agenda (or outcome) except a little jawboning, the Administration can send roughly half the Cabinet and Fed Chairman Bernanke to China in December 2006, then it should be willing to convene a meaningful all-hands National Summit in Washington to discuss how to best proceed on this critical issue.*

If such a Summit does not produce a bipartisan consensus on steps to urgently address the trade deficit, then we believe that as already proposed by Senators Clinton and Dorgan (S. 355), *Congress should: (i) enact limits, expressed as percents of GDP, on the yearly trade deficit (e.g., 5%) and on the accumulated trade debt related to total yearly economic output (e.g., 25%); and (ii) require that when any such limit is exceeded, the Executive Branch must initiate actions to bring the trade deficit and the accumulated trade debt back in line.\**

*We recommend that an Emergency National Summit on the Trade Deficit be convened in early 2007.*

*Congress should enact limits on the yearly trade deficit and on the accumulated trade debt related to total yearly economic output.*

\*Footnote: In setting these two trade-related caps, we believe that energy imports (which were \$253b in 2005) and other raw materials should be exempted from such determinations, because especially until there is substantial alternative energy development, such imports materially distort the reality of U.S. non-commodity foreign trade. Additionally, as a complement Congress may wish to consider either (i) a unilateral temporary tariff increase as the Nixon Administration did in 1971 when it imposed a 10% surcharge for four months or (ii) Dorgan/Feingold S.3899 (i.e., the "Buffett proposal") which calls for U.S. trade to be balanced through a system of import certificates under which the federal government would issue import certificates to exporters of goods in amounts equal to the dollar value of their exports. Either the tariff increase and/or S.3899, which are justified under article XII of the GATT/WTO Agreement dealing with emergency measures, could afford much needed leverage with China and other countries that under-price their currencies in order to gain trade advantages.

## 2) Actions to align country and corporations.

### a) TAX RATE REDUCTION FOR HIGH VALUE-ADDED JOBS.

*Congress should undertake to correlate, in part, the corporate tax rate on profits with the average value-added of a corporation's U.S. employees.*

*Congress should eliminate the tax deferral incentives for corporations to relocate manufacturing and services overseas.*

*Congress should require that manufacturing activities which have national security implications and are to be off shored be subject to a national security impact statement.*

Many countries, but notably China, have attracted high value-added jobs by granting special subsidies, deal by deal, to foreign companies. The U.S. needs to better incent its own invention and innovation and to better align the country's need for high-value jobs with the profit interests of corporations.

*Congress should undertake to correlate, in part, the corporate tax rate on profits with the average value-added of a corporation's U.S. employees.*

Value-added is an easily measured quantity widely used in Europe to compute Value-Added Tax (VAT) and Business Activity Tax (BAT). Under our proposal, the corporate tax rate would be reduced on a sliding scale based on the value-added standing of a corporation relative to the median of the particular business sector in which it operates.

Most of the value that a given corporation adds to its products and services reflects the wages or compensation it pays to its employees (including health care and pension benefits). This proposal, therefore, would be a financial incentive for a corporation to boost wages to its employees through productivity gains, by investing in its employees' skills and in capital equipment. Under the proposal, corporations that paid higher-than-average wages per employee would face a lower tax

rate than they do now. (Compensation paid to executives would not count in measuring a company's average wage.) The new tax rates would be calculated on a sliding scale, and the proposal would be revenue-neutral.

### b) ELIMINATE TAX DEFERRALS ON FOREIGN PROFITS.

*Congress should eliminate the tax deferral incentives for corporations to relocate manufacturing and services overseas.* Unlike on their U.S. generated earnings, U.S. corporations do not pay income taxes on profits earned overseas until such profits are repatriated to the U.S., and then the tax rate applied to such overseas earnings is often effectively much less than the rate applied to U.S. generated earnings.

### c) REFORM THE FOREIGN SUBSIDIARY TAX ALLOCATION RULES.

*Congress should reform the foreign subsidiary tax allocation rules to better prevent corporations from improperly misallocating expenses such as interest, R&D and overhead in order to reduce their U.S. taxable earnings.* As much as \$200 billion of taxable foreign earnings are currently being masked each year by such misallocations.

### d) CONSUMER AND NATIONAL SECURITY PROTECTION LEGISLATION.

*Congress should enact legislation which would require that: (i) all off-shored services adhere to U.S.-standard levels of privacy protection and financial liability coverage; and (ii) those manufacturing activities which have national security implications and are proposed to be off shored be subject first to a "national security impact statement (NSIS)"*

Notably, in the process of exporting high-tech manufacturing jobs, the U.S. is often indirectly exporting important aspects of its national security. In 2005, the U.S. had a \$47 billion trade deficit with China for “Advanced Technology Products”, a 30% increase over 2004, and from a U.S. perspective DRAM/SRAM/ROM chip manufacturing is now grossly over-reliant on China, Taiwan and South Korea. All of these items are essential to high-tech weaponry, and such foreign dependencies are very unwise, threatened as Taiwan might be by China and South Korea by typhoons and North Korea. Loss of access to high performance microelectronics and their associated R&D would greatly diminish U.S. Armed Forces operations and effectiveness.

e) ACCELERATE RESEARCH AND DEVELOPMENT.

With China now the second biggest spender on R&D behind the U.S. and slated to surpass the U.S. in just seven years, the competitiveness debate within the country is largely focused on increasing federal funding for frontier research and on making sure that American workers have the skills needed for high-wage jobs. But the country also needs multi-national corporations in the United States to accelerate their high-value added production of goods and services.

*Congress should, at a cost of approximately \$20 billion per year:*

*(i) Increase and transform the R&D tax credit by allowing companies to take a 40% (rather than a 20%) tax credit on incremental increases in R&D as well as workforce training expenses;*

*(ii) Create a flat, non-incremental 40% tax credit for company expenditures for collaborative research at universities and research consortia; and*

*(iii) Boost the alternative minimum tax credit to 10% of qualified research expenses in excess of 60% of a taxpayer’s qualified research expenses.*

*China is now the second biggest spender on R&D and will surpass the U.S. In just seven years.*

### 3) Actions to strengthen America.

*Congress should overhaul the federal support programs for education to more readily include granting federal funds to working adults.*

*The federal government needs to make the wide-spread promotion of innovation a central component of its economic policies.*

a) UPGRADE NATIONAL SKILLS.

Competing successfully in the global economy requires incumbent workers to continue to upgrade their skills as much as possible. But in a dynamic labor market, with multiple foreign source alternatives, companies have little incentive to invest in worker skills. Moreover, current government training programs do a poor job of engaging with current and prospective employers and labor unions to help them boost worker skills.

Accordingly, *Congress should create a new quasi-governmental skills corporation supported with funds from the Department of Labor and adult education programs at the Department of Education and with new monies.*

This corporation would have a bi-partisan board of directors made up of business and labor leaders, educators, and local elected officials appointed by the President and Congress. The corporation would: (1) co-fund regional and sector skills alliances, in partnership with industry and labor unions; and (2) establish “Learn.gov”, which would provide free online skills assessments and a state-of-the-art worker reemployment web portal.

In addition, *Congress should: (i) overhaul the federal support programs for education to more readily include granting federal funds to working adults; and (ii) assign to the Department of Education the mission of upgrading and making transparent the*

*accreditation status of providers of online education.*

More than three million Americans take for-credit courses on-line, mainly from long established non-profit institutions. Internet-based courses are a very effective imitation and replacement for the traditional classroom, providing full course materials and interactions between and among students and professors. Importantly, online learning is not limited to people in the traditional student years and is thus entirely compatible with learning while continuing to earn a living.

b) ESTABLISH AN “AMERICAN INNOVATION FOUNDATION” TO SPUR TECHNOLOGICAL INNOVATION AND HIGH VALUE-ADDED PRODUCTION.

Because the development and use of new technologies and business practices drive economic growth, the federal government needs to make the widespread promotion of innovation a central component of its economic policies, both for high value-added new industries and services and for the high value-added “retainable” industries the nation already has. In response, *Congress should create an American Innovation Foundation (AIF).*

The AIF would work in partnership with universities and private sector to support innovation and high value-added production, and provide matching funds for states to invest in their own regional technology-based economic development efforts. Among other activities, the Foundation would: (i) provide support and funding for industry-university research centers, university-based research

infrastructure, and national priorities such as robotics, nano-technology, bio-technology, and fiber optics; and (ii) manage the Advanced Technology and Manufacturing Extension Partnership programs currently operated by NIST.

The AIF should start immediately, but it should start small and learn both by doing and from the experiences of other nations, such as Finland, which have successfully adopted similar approaches. We propose that Congress allocate \$1 billion per year to the AIF for its initial funding.

c) RANK-AND-FILE STOCK OPTIONS.

Two of the traditional means of addressing income inequality are increasing the minimum wage and making taxes more progressive. Both will be put forward in the 110th Congress, and while they will be helpful, the nation's general workforce still needs something more. We believe that "something" should be an increase in the amount of stock options granted by corporations to rank-and-file workers, sort of a modern day Homestead Act (of 2007).

To incent grants by corporations of such stock options, *Congress should:*

*(i) Give corporations tax credits at the times of exercise for stock options granted to lower- and middle-income employees, subject to a maximum annual tax credit per employee (note: this tax treatment would not apply to Section 16 officers or other high-income employees earning above a proscribed percentage of total wages, and the treatments for options to these employees would not change); and*

*(ii) Treat lower- and middle-income employees' options-related share transactions as purchases-and-sales taxable only when an employee sells his or her shares, whether such options are based on performance goals achieved or on service over time.*

*The nation needs an increase in the amount of stock options granted by corporations to rank-and-file workers, sort of a modern day Homestead Act (of 2007).*

## II. Education

*The United States is underperforming not only in K-12 education but in higher education as well.*

*Few people achieve success in the post-industrial knowledge economy unless they receive the proper preparation in elementary and secondary school and graduate from college. Yet the United States is underperforming not only in K-12 education but in higher education as well. A third of school children do not graduate from the nation's high schools, which are among the worst in the developed world, and many other nations surpass the U.S. in college accessibility and graduation rates.*

*The greatest loss in talent in high performing students actually comes from children in the middle.*

There is, however, a large untapped and overlooked reservoir of potential college talent in the country today. Each year, about 250,000 students from lower- and middle-income families (i.e., those with incomes below \$83,000, which is about 75% of all families) fall out of the top performing academic quartile even before entering high school. In addition, almost 300,000 high school students from these same income groups do not go to four-year colleges after high school, even though they are qualified to do so. Furthermore, approximately 50% of college students in the U.S. from families with low or middle incomes will enter college but not graduate, which represents an annual loss of another 300,000 students. This loss of college students places the U.S., by percentage, in the bottom half of all developed countries, and the total 850,000 “falloff” of students is well more than half the 1.4 million students who are actually awarded four-year college degrees each year.

The greatest loss in talent in high performing students actually comes from children in the middle, between wealthy students who get support at home and the least advantaged students who usually get some support from public programs. Greatly contributing to this condition is the fact that on average there is in the nation's public high schools only one guidance counselor for every 284 high school students, which means that many high performing lower- and middle-income youth do not get the college guidance they need. As a result, many students either go to two-year colleges when they could be going to four-year schools, or they do not pursue post-secondary education at all.

*Schools are only as good as their teachers, and yet current teacher compensation is not sufficient to attract and retain highly talented professionals.*

With all this said, however, schools are only as good as their teachers, and yet current teacher compensation is, by almost everyone's measure, not sufficient to attract and retain highly talented professionals, especially at a time of expanding opportunities for college educated women. And the massive baby boomer retirements over the next twenty years can only bring an even greater shortage of good teachers.

As a consequence, perhaps the most important element in our reform proposals is our “America for Teachers” provision, which harks all the way back to the 1960s when income-tax relief was given to VISTA and Peace Corps volunteers, just as it is today given in part to active-duty military personnel. The U.S. has a history of using the tax code to reward what society determines are desirable social behaviors. K-12 teachers are extremely deserving recipients of tax relief, because of their obvious contributions to the nation’s economic well-being and because of the difficulty in recruiting and retaining them vis-à-vis all other municipal professions (police, fire, general services).

## Legislative recommendations:

*In addition to fully funding the No Child Left Behind (NCLB) education act and cutting student-loan interest rates, Congress should enact the “Education Advantage Act” comprised of five components:*

### 1) America for Teachers provision.

*Congress should raise effective after-tax teacher salaries by eliminating federal income taxes on the earnings of K-12 teachers teaching at accredited schools.*

The United States has approximately three million K-12 teachers, and their federal income taxes aggregate about \$15 billion to \$20 billion a year, or only six-tenths of one percent of the U.S. Treasury’s total receipts. These tax receipts, if foregone, could easily be covered either from the \$350 billion of uncollected taxes owed to the Treasury or by not making permanent a very small percentage of the scheduled tax reductions for the wealthiest five percent of American taxpayers. To ensure that federal dollars are not wasted or substituted for state or local spending on teacher salaries, *anti-substitution requirements and maintenance-of-standards requirements should be included in the provision.*

*Congress should raise effective after-tax teacher salaries by eliminating federal income taxes on the earnings of K-12 teachers teaching at accredited schools and also grant refundable tax credits to K-12 teachers based on qualifications and teaching specialties.*

*K-12 teachers should be held accountable for their students' progress toward achieving competitive education standards.*

In addition to eliminating their federal income taxes, *Congress should also grant refundable tax credits to K-12 teachers based on qualifications and teaching specialties*, in order to increase the pool of qualified teachers in critically important areas, as follows. (Note: A “refundable tax credit” simply becomes a tax-free payment to an individual in the event he or she owes no taxes.) *Recommended K-12 refundable tax credits are:*

- a) The *Specialty Teacher Credit* for teachers certified either (i) for instructing special populations, such as the economically disadvantaged, English language learners, and students with disabilities, or (ii) in critical specialty fields such as early childhood development.
- b) The *Math and Science Teacher Credit* for teachers certified in such.
- c) The *Foreign Languages Teacher Credit* for teachers certified in such.
- d) The *Master Teacher Credit* for teachers certified by the National Board for Professional Teaching Standards.

As a part of the America for Teachers provision, *K-12 teachers should be held accountable for their students' progress toward achieving the competitive education standards* described immediately below. Along with adopting and achieving such standards, *record keeping systems and performance metrics must be developed which would be shared with students, parents and public authorities with stakes in individual student progress*. Only with such records and metrics in place, can teacher accountability systems be implemented that are based on annual student progress in core content areas.

## 2) Competitive education standards.

Global competition, for better or worse, now effectively sets the minimum standards of performance for American workers and hence for the educational establishment that trains them.

*Accordingly, under a newly enacted provision of NCLB, Congress should: (i) sponsor the research needed to identify international measures of student achievement across a full curriculum, including reading, math, the sciences and foreign languages; and (ii) thereafter establish federal minimum standards of education achievement.*

*Similarly, as another newly enacted provision of NCLB, Congress should require states to develop comprehensive K-12 student records systems that annually report progress for all students. These assessments need to:*

- Measure the full range of student performances, not just minimum state or national standards;
- Provide individual diagnostic assessments in reading, math, the sciences and foreign languages; and
- Measure and provide diagnostic information on individual learning strategies (i.e., meta-cognitive skills) and on abilities to transfer domain knowledge into applied settings.

## 3) An expanded Pell Scholars program

*Congress should extend Pell eligibility to high performing students in the bottom three quartiles of family income (i.e., below \$83,000), and fund Pell Grants to cover approximately 75% of college tuition.*

Lack of college affordability discourages many less advantaged students from taking challenging courses in high school, from applying to top-level four-year colleges, and from staying in college through graduation. Pell Grants, which were enacted in 1972 and which are now the largest source of financial aid to lower- and middle-income students, covered about 83% of tuition at four-year colleges in 1976. Today, however, they cover less than 50% of tuition, and compounding this adversity is the fact that colleges provide more financial aid for upper-income students than they do for low-income students.

*Congress should sponsor the research needed to identify international measures of student achievement and establish federal minimum standards of education achievement.*

*Congress should fund Pell Grants to cover approximately 75% of college tuition.*

#### 4) The Early Development Scholars program.

*Congress should provide grants to the states for development of educational enrichment programs for high performing students beginning in the fifth grade, especially targeting students who achieve test scores in the top quartile in math, the sciences or general achievement (to be called Early Development Scholars). Such enrichment programs would include:*

- In-school pull-out programs;
- After-school enrichment programs;
- Summer academies;
- International baccalaureate programs; and
- Advanced placement programs (some of which could be provided on-line, especially math and sciences not offered at a student's school).

#### 5) The Coaching of America's Children (COACH) program.

*Congress should fund a demonstration project offering competitive grants to local school districts that create and implement programs which train and employ recent college graduates to serve as coaches to high school students who would not normally pursue a post-secondary education.*

Working with overlooked high school students one-on-one and in small groups from the ninth grade through the first year of college, coaches greatly increase the likelihood that these students are better prepared and more motivated to enter and graduate from college. Coaches assist students in completing college-bound academic programs, and help them and their families understand the college admission and financial aid processes. Coaches in the COACH program would be chosen competitively from among recent college graduates and receive appropriate training.

## III. Healthcare

Rising healthcare costs present a great burden for employers, workers, the uninsured, the federal government, and state budgets. During the past four decades, the rate of healthcare expenditures growth has far outpaced growth in the GDP, reaching \$1.9 trillion in 2004 or 16% of GDP, and this extreme imbalance underlies the continuing decline in employer-sponsored coverage. Public and private purchasers are increasingly concerned about the value of healthcare and the role that treatment variation and poor quality play in driving healthcare costs.

The following legislative recommendations build on the current public and private healthcare systems. The goals are to:

- Ensure access to basic healthcare coverage for all Americans;
- Alleviate the burden of healthcare costs on employers while maintaining an employer-based health insurance system; and
- Enhance the fundamental quality and cost-effectiveness of healthcare delivery in America.

(While these recommendations are important and reasonable goals for the 110th Congress, we recognize that it may be prudent or necessary to “dial them up or down” based on budgetary, political and/or implementation-related considerations.)

### Legislative recommendations:

#### 1) Ensure that all Americans have access to basic healthcare coverage through an interlocking set of measures.

a) *Congress should enact a national individual mandate that requires all Americans and their dependents to have health insurance.* To incent and enforce this mandate, those who do not obtain healthcare insurance for themselves and/or their dependents would incur an income tax penalty.

b) *Congress should establish automatic enrollment for Medicaid and SCHIP (The State Children’s Health Program) to ensure that the most vulnerable Americans can satisfy the individual mandate through available programs.* In tandem, *Congress should raise the income eligibility threshold for Medicaid for childless adults* so that they have the same opportunity to qualify for Medicaid as do adults who have children.

c) For those whose income is too high for Medicaid and SCHIP but not sufficiently high to reasonably afford health insurance, *Congress should provide refundable tax credits that can be used to purchase coverage through existing market mechanisms.* Such tax credits, being refundable, would be available to low-income individuals who do not owe taxes; they would be available during the year when premiums are due; and they would be able to be applied to the employee’s share of the premium in an employer-sponsored plan.

*Far too many Americans remain uninsured, a reality that must be addressed. At the same time, the burden of rising healthcare costs is not well distributed, and the system does not reward good or penalize poor performances by healthcare providers.*

## 2) Use federal dollars spent on healthcare coverage in a more progressive manner.

*Congress should cap or limit how much of employer-provided health insurance can be excluded from an employee's taxable income and re-direct these taxable funds to expanded coverage for low-income individuals and families.*

*Congress should tie Medicare and Medicaid reimbursement levels to healthcare providers' adherence to best-practice treatment protocols.*

a) *Congress should cap or limit how much of employer-provided health insurance can be excluded from an employee's taxable income.* The cap can initially be set high, but moderated over time in order to increase the incentives for employees to demand, and payers to respond with, more cost-effective (albeit still sensitive and encompassing) healthcare policies; and

b) *Congress should re-direct these taxable funds to expanded coverage for low-income individuals and families.*

(Exact thresholds would be determined based on careful consideration of the incentives and behavioral effects that policy designs create among workers and employers, but in each case, an employer would report as taxable income for the employee the value of any healthcare program in excess of the cap. How much tax revenue an initiative with these general parameters could generate annually would be determined by the threshold and the extent to which the market began to offer policies that remained under the cap. Additional tax revenue could be used to fund the tax credit or other important healthcare-related priorities.)

## 3) Enhance the quality and cost-effectiveness of healthcare in America.

a) *Congress should tie Medicare and Medicaid reimbursement levels to healthcare providers' adherence to best-practice treatment protocols, as determined by a newly-established independent commission.* Providers which choose to deviate from these best-practice treatment protocols would receive only a portion of the full reimbursement rate (e.g., 75%). This independent commission would be a standing body that continually evaluates data on the comparative efficacy of various treatment protocols and considers new developments in medical practices and technologies to ensure that best-practices evolve over time.

b) *Congress should require Medicare and Medicaid providers to share outcomes data and to offer meaningful bonuses to those which demonstrate a high level of quality in outcomes* (e.g., the top 10% of providers). This outcomes data should be compiled and disseminated in a user-friendly manner to policy-makers, patients, and other constituents in order to enhance providers' accountability to patients and payers of healthcare costs and to enable patients to make meaningful choices among healthcare providers.

## IV. Public Infrastructure

America's extraordinary economic and societal development, from its earliest days, coincides with the federal government's commitment to public investments in commerce, power distribution, transportation, water management, and communications. Many of these initiatives were continental in scope, and collectively they helped transform the United States into the world's industrial and financial leader.

Over the last 20 to 30 years, however, the federal government has retreated from this commitment, in large part because the nation lacks political will and leadership and in part because governmental procedures require that capital investments be included in current operating budgets, which is contrary to business where capital investments are amortized over the useful lives of the improvements. As a consequence, the nation has fallen far behind on a long list of essential infrastructure improvements whose absence undermines its productivity and well-being. The American Society for Civil Engineers estimates a five-year total infrastructure investment need of \$1.6 trillion and gives the nation's current overall infrastructure a failing "D" grade.

In 2001, Senator Reid proposed a large-scale domestic plan of substantial investments in alternative energy, broadband access deployment, transportation systems, and water systems. Without such a plan, and without the establishment of some form of federal capital budgeting, the employment and education well-being of citizens and the nation's ability to compete globally will all be degraded.

### Legislative recommendations:

#### 1) National Investment Corporation (NIC).

*Congress should establish within the Department of the Treasury a federally-sponsored National Investment Corporation to help regions, states and municipalities finance infrastructure projects requiring federal participation in order to be completed.*

Financing by the NIC would be contingent on the applicant meeting technical and management standards for projects that advance economic growth, new technologies, and social objectives. The NIC would issue bonds with maturities of up to 50 years with partial federal government guarantees, thereby ensuring low associated interest rates. The NIC would (a) prioritize projects, (b) monitor projects on an ongoing basis through success, and (c) encourage and foster partnerships among federal/state/local governments, private industry, and capital markets investors.

*Without Senator Reid's plan of substantial investments in alternative energy, broadband access deployment, transportation systems, and water systems, and without the establishment of some form of federal capital budgeting, the employment and education well-being of citizens and the nation's ability to compete globally will all be degraded.*

## 2) Energy-related and broadband investments.

*Congress should amend the tax code to (a) allow for much accelerated depreciation of investments by corporations in technologies that produce alternative energy or lead to significant energy savings and broadband deployment and (b), consistent with S.88 as proposed by Senator Rockefeller et al, provide a short-lived tax credit for corporations that quickly deploy broadband in rural and underserved low-income communities.*

*“Digital inclusion” – geographic, content-wise and services-wise – is one of the quickest, surest and most democratic ways to create the social and economic opportunities that can maintain and transform communities.*

*Truly ubiquitous and open broadband access would unleash an estimated \$500 billion in economic growth and more than 1.2 million high-wage jobs.*

## 3) Ubiquitous and open broadband access.

Since 2000, the United States has dropped from its position as a leader in broadband deployment to now being only twenty-first in the world in digital opportunities (Estonia is 20th), and 42% of American households have either no computer or a computer with no Internet connection. Yet “digital inclusion” – geographic, content-wise and services-wise – is one of the quickest, surest and most democratic ways to create the social and economic opportunities that can maintain and transform communities. High-speed broadband access at world-class speeds must be available to all citizens, especially those in rural and underserved low income communities and neighborhoods, and is estimated that truly ubiquitous and open broadband access would unleash an estimated \$500 billion in economic growth and more than 1.2 million high-wage jobs.

*Congress should:*

*a) Develop a comprehensive national broadband strategy to enable affordable broadband access for every American within three (3) years. Such strategy should include benchmarks, deployment timetables, a commitment to “consumer demand” drivers, and measurable thresholds.*

*b) Modernize the Universal Service Fund (USF) to: (i) specifically include and cover broadband service; (ii) uniformly assess all communications providers (telephone, cable and wireless); and (iii) support first-responder interoperable communications and “Public Safety Answering Points” (PSAPs).*

*c) Provide telcos and cable video providers with a standard national franchise agreement which would: (i) mandate non-discrimination in building out broadband networks at speeds that, for all Americans regardless of where they live, enable on-line learning, tele-commuting and tele-medicine and provide broadband-enabled voice and video competition; (ii) maintain fees to municipalities; and (iii) oblige video providers to make available public, education and government (PEG) channels. (Enforcement of any franchise agreement should, however, continue to reside with the respective local franchise authority (LFA), since LFAs are best positioned to ensure that community needs and interests are addressed and that video providers satisfy their obligations within established federal limits.)*

*d) Charge the Federal Communications Commission with taking all necessary steps to ensure that its rules and regulations encourage and promote more efficient and timely use of currently unused and underused spectrum, particularly in unserved and underserved regions and communities.*

*e) Prohibit telcos and cable companies from layering onto their broadband access service offerings, over any part of the respective networks, user application surcharges or unreasonable operating limitations (such as blocking or degrading) in order to discriminate, for anti-competitive reasons, against third-party Internet content and/or services and applications (i.e., full “Internet neutrality”).*

As already recognized by Senators Dorgan et al and Snowe in S.2917, and expanding upon the partial and short-term *Internet neutrality* requirement imposed by the FCC in recently approving the AT&T/Bell

South merger, full and long-term Internet neutrality is required in order for citizens to realize the full benefits of wide-spread, non-discriminatory deployment of broadband access. Otherwise, broadband providers can (and almost assuredly will), by their operating behaviors, directly or indirectly negate the consumer usage intent of the fundamental broadband mandate. How and where one drives one’s car, once it is purchased, is integral to the purchase itself. Internet neutrality can be crafted not to impinge on the broadband providers’ rights to earn fair returns on their capital investments; it does not imply that broadband services with different technical capabilities cannot be priced differently to consumers; and there are no material technical or operating impediments to its enactment, as the cable companies generally (and some telcos) assert.

*Full and long-term Internet neutrality is required in order for citizens to realize the full benefits of widespread, non-discriminatory deployment of broadband access.*

## Closing Comments.

*How well Congress responds to the significant challenges confronting the American economy will substantially determine whether the nation continues to be the preeminent economic power in the world, or whether it will experience declining political influence and economic leadership. The Horizon Project’s Report and Recommendations could help in this task, in ways that preserve the principles of a vibrant middle class, economic growth and mobility, innovation, and economic and social justice.*





