

Special Report

The Impact of the Democratic Win On Business Interests

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Corporate America and the banking, investment, and financial services industries should not look for special treatment from the incoming Democratic Congress, in view of the overwhelming support the business and financial sectors accorded the Bush Administration and the congressional Republicans. But neither should they be overly concerned about outright hostility from the Democratic congressional leadership.

With the next presidential election less than two years off, the Democrats will be trying to establish a record of accomplishment in areas of greatest concern to their main constituencies—the middle class, the working poor, and minorities, particularly African-Americans and Hispanics.

Despite the liberal tilt of House Speaker Nancy Pelosi, Senate Majority Leader Harry Reid and most of the key committee chairmen in both the House and Senate, the Democrats know that order to establish a record, they will have to have some Republican support in Congress and the acquiescence of President Bush.

Among other things, the Democratic agenda will be:

- Phased U.S. troop withdrawal from Iraq starting next year;
- Increasing the minimum wage;
- Letting President Bush's tax cuts for the very wealthy expire and reform of the alternative minimum tax to relieve the burden on the middle class;
- Trade legislation to provide more financial support and job training to Americans who lose their jobs to outsourcing;
- Removal of tax incentives for American firms operating abroad;
- Establishing environmental, worker safety, and child labor laws for U. S. firms operating abroad

to level the playing field;

- Immigration reform with a guest worker provision and a process for those undocumented workers who have been in the country for a long time, have worked hard and stayed out of trouble, to gain citizenship.

Obviously, with only slim majorities in both Houses and with President Bush capable of wielding the veto pen, the Democrats will have to compromise with the Administration on many issues and even forego others if they hope to make progress.

The War in Iraq and Anti-american Sentiment Abroad

On the biggest issue of the campaign—the war in Iraq—the Democratic leadership in both the House and Senate clearly want to wind it down and lay the groundwork for U. S. withdrawal.

But they can't do that without the agreement of the President. So look for them to push for a timetable for a phased U. S. withdrawal, beginning in mid-2007 and tied to a political agreement for power sharing among the various factions within the Iraqi government.

Some of the Democrats and a handful of Republicans would like to involve other nations in the region in the process—Jordan, Egypt, Syria and Iran. Unlikely as this may seem, it is in the interest of business to support it. Any formula for an honorable withdrawal of American troops from the Iraqi quagmire should be America's number one priority.

Any movement toward peace and stability in Iraq and the Middle East will be a major plus to American business interests in that region. But prudence dictates that hopes for success not be raised too high, since the prospects for peace and stability in the Middle East within the next two years are not encouraging.

Trade Policy and the Rise of Protectionism

The Democratic leadership in both Houses have made clear their belief that the Administration's free trade policy has been detrimental to middle class and working Americans, both by fostering outsourcing of American blue collar and white collar jobs and by failing to insist on free access for American products to foreign markets.

Democratic candidates in 100 congressional districts with some success used trade as a key issue in the last campaign and Jim Webb, whose Senate victory in Virginia gave the Democrats control of the Senate, called for overhauling trade laws "so that free trade becomes fair trade."

Some of the congressional Democrats focused on the trade issue want to level the playing field by mandating higher environmental standards, better working conditions, and higher wages for American firms relocating facilities in cheaper Third World countries. Others propose more help for displaced American workers in terms of unemployment benefits and job retraining.

There is also support for inserting restrictive provisions in future trade agreements that would limit duty free access to U. S. markets for goods made in those countries if factories are found to use child labor or deny workers rights to organize unions.

The Administration hopes to soon gain congressional authority to renew reduced tariffs for Andean countries as an inducement to discourage the production of narcotics, and Congress is also slated to take up renewal of reduced duties for the world's poorest countries, while extending a preferential trade accord with African nations. Democrats are unlikely to oppose either, but will probably seek something in return.

The big test on trade policy will come next June when the President's "fast track trade authority" is due to expire. The provision permits the Administration to call for a simple up-or-down vote on trade agreements without opening them up for

amendment.

President Bush wants the fast track authority extended. Democratic leaders are inclined to renew it, but only if labor and environmental provisions are included.

While some of the Democratic trade reforms are onerous to American firms operating abroad, it is vital that corporate America engage with the Democrats on these issues and begin communicating not only to Congress but the American people how vital globalization is not only to the American economy, but to the world economy as well.

Foreign trade generates one-quarter of U. S. net income, and that percentage is growing every year. On an annual basis, globalization boosts the U. S. economy by more than \$1 trillion, or roughly \$10,000 per American household, according to the Peterson Institute for International Economics. This dwarfs the \$54 billion in costs to American families that suffer trade related job losses.

Greater worker protection plans and stepped up job training for displaced workers would be a small price to pay to turn back a protectionist movement that may threaten globalization.

Tax Policy, Soak the Rich, and Provide Relief for the Middle Class

In general, President Bush's tax policy agenda will be DOA under the congressional Democratic majority. The repeal of the estate tax, making permanent the phased in tax cuts approved during the President's first term, and eliminating the alternative minimum tax will not see the light of day in the House Ways and Means Committee under Rep. Charles Rangel's leadership.

Rangel and the Democrats would like to modify the alternative minimum tax by raising the threshold to \$150,000 per year in order to better accommodate the middle class. But the Democratic leadership would keep it in place for higher incomes.

Democrats may also support an upward revision in triggering the estate tax to ease the burden on farmers and small business owners. But they would insist that the estate tax remain in place for large estates.

The Democrats have also expressed interest in doing away with tax breaks for oil and for corporate and private incomes earned abroad. There is even some talk, although not nearly as much support, for a windfall profits tax for oil companies that made record profits when gasoline prices zoomed up to \$3 per gallon or more.

While the Administration and congressional Republicans would oppose such measures, they would probably join the Democrats in supporting extension of the business research tax credit.

The Administration and Republican lawmakers are also likely to support a Democratic move to extend the tuition tax break that allows married couples with joint incomes of up to \$130,000 a year to claim a \$4,000 deduction for college tuition and also to renew the deduction for payment of state income and sales taxes on taxpayers' federal returns, which is set to expire Dec. 31, 2006.

Raising the Minimum Wage

This was a top priority announced by incoming House Speaker Pelosi. The current federal minimum wage of \$5.15 per hour has not been raised for seven years. The Republicans effectively killed a Democratic proposal to raise the minimum wage to \$7.25 an hour by tying it to a measure eliminating the estate tax.

Voters in six states on November 7 approved initiatives to raise the minimum wage above the federal level, joining 23 other states that had already raised their minimum wage. Small businesses contend the higher minimum wage will force the elimination of thousands of jobs. While business interests have consistently opposed the proposal, an increase in the federal minimum wage is virtually a sure thing.

Prescription Drugs

There is considerable support in both parties for changes in the prescription drug assistance program for the elderly passed last year to make the program less complex, less cumbersome, and less expensive.

However, the Administration is certain to oppose Democratic efforts to enlarge the program as part of a drive for national health insurance or to permit the federal government, rather than private insurers, to negotiate drug prices. The congressional Republicans and the Administration will also oppose Democratic efforts to expand existing health insurance programs, such as Medicaid or the children's health insurance program.

Immigration Reform

The big immigration battle next year will be over a comprehensive immigration reform proposal containing a guest worker program and a process for undocumented workers who have been in this country for a lengthy period, and who have worked and avoided problems with the law, to become American citizens.

Largely conservative House Republicans who opposed letting undocumented workers become citizens, a process they labeled as "amnesty", thwarted efforts for such a comprehensive bill this year. Many of these conservative Republicans, with support from a few Democrats, also oppose a guest worker program.

But the comprehensive immigration reform package with the guest worker provision could pass if the Democratic leadership pushes it and President Bush continues to support it.

The guest worker program would permit undocumented Mexicans already in the U. S. and others still in Mexico to apply for permits to work at jobs that are not being filled by Americans. Currently it is estimated that there are 11 mil-

lion undocumented workers in the U. S., mostly Mexican. There are hundreds of thousands of undocumented Mexicans working on farms, in factories, in small businesses, and in the building service industry across the United States.

They have become an important part of the U. S. economy and there is strong support in the business community for a comprehensive immigration reform plan that would include a guest worker program to fill the need for this influx of necessary labor.