

April 1, 2009

To: U.S. Chamber Board of Directors

From: Tom Donohue

SUBJECT: President's Update – March 2009

There have been many important developments on priority business issues over the past month, so let's get right to it!

The Obama Budget

In my last letter, I reported in detail why the Chamber lent its support to the \$787 billion stimulus bill passed by Congress and signed into law by President Obama. By staying engaged in the process, we were able to win significant improvements in the package as well as make progress on longstanding business priorities in areas ranging from energy to infrastructure to small business tax relief.

We have also been supportive of the administration's program to boost small business lending and reform public schools, as well as a number of its ideas for fixing the banking system and reforming financial regulations. However, on an issue like card check, which the administration supports, we have made clear our unalterable opposition from the very start.

This is in keeping with the approach towards the new government that I outlined right after the November 2008 elections: We judge each issue on the merits, supporting the administration where we can, working to find common ground when that's possible, and opposing it where we must.

The administration's budget proposal falls squarely into that last category. We oppose President Obama's 10-year fiscal blueprint because it would expand government spending, deficits, debt, and power over the private sector to an unprecedented and unsustainable level. It would impose massive tax increases on

businesses, entrepreneurs, and upper income taxpayers while driving up energy costs and reducing job opportunities for all Americans. It would expand cradle-to-grave entitlement programs when we can't afford the entitlements we already have, using the failed approach of income redistribution to try to pay for them.

Facts and honest accounting matter greatly in this critical debate, so let me share a few numbers with you that illustrate the grounds for our opposition.

- According to the non-partisan Congressional Budget Office (CBO), the proposal would create a deficit that exceeds 13% of GDP in 2009, remain more than 9.5% of GDP in 2010, and never drop below 4% of GDP over the entire 10-year budget horizon. Even the White House's own budget director has acknowledged that these deficit levels would "not be sustainable."
- The budget triples the amount of debt held by the public to over \$17 trillion. This President would thus issue more debt than was issued by the 43 presidents that preceded him combined.
- As a result, the level of debt held by the public would jump to almost 65% of GDP by 2010 and rise inexorably from 2011, ultimately reaching over 82% of GDP by 2019.
- The proposal includes a \$353 billion tax increase on businesses achieved by, among other things, repealing long-standing accounting practices, double taxing the profits multinational companies earn abroad, levying punitive new taxes on the oil and gas industry, taxing the carried interest in partnerships, and reinstating superfund taxes.
- The proposed individual tax increases that total over \$950 billion would also hit the most successful U.S. small businesses that pay taxes as individuals and hinder their ability to grow and create jobs. These proposed increases include raising the top marginal tax rates, reducing or eliminating personal exemptions and itemized deductions, limiting the rate at which the remaining deductions could be taken, raising the tax rate on capital gains and dividends, and resurrecting the death tax.
- These tax increases would create a tax code that is so skewed that virtually half the taxpayers in the country would be excluded from paying federal income tax and thus have no interest in the way the government is run or how high "the other half's" taxes are raised.

- Government spending as a percent of GDP peaks at almost 28% in 2009 and remains above 22% throughout the 10 year projection period. Remember, this doesn't even include all the government spending that occurs at the state and local levels.
- In addition to direct tax hikes, the budget proposal would establish a massive new indirect tax on energy via the auction of carbon emission credits. This proposal is estimated by the administration to raise \$646 billion over 10 years, but reputable private sources place the cost at two to three times that amount.
- The budget proposal would also establish a \$634 billion health care initiative that contains no details on spending but is funded by tax increases and cost-shifts. Moreover, this amount is less than half of what health care reform is likely to cost over 10 years.

Despite these increases in spending, taxes, and debt, the budget still relies on unrealistic economic assumptions and budget gimmicks to add up. For example, it assumes GDP will only decline 1.2% in 2009, grow 3.2% in 2010, and average 4.3% for three years in 2011-2013. The unemployment rate in the forecast is predicted to reach 8.1% in 2009 and then decline to 7.9% in 2010—even though the jobless rate has already hit 8.1% and is headed still higher.

The Chamber does not fault the President for his ambition. We have argued for years that pressing national challenges such as health care, energy, education, and infrastructure are undercutting our global competitiveness and must be addressed. What we question is his timing—piling costly new burdens on the private sector during a deep recession. On some issues, such as climate change and health care, we question his approach as well. We are also troubled by the repeated suggestions from the administration and Congressional leaders that they might use the so-called reconciliation process to push through radical policy changes with a simple majority vote and without the traditional opportunities for a full debate.

The House has passed and the Senate is now considering a budget resolution that the media have portrayed as largely mirroring President Obama's budget. Yet these resolutions do not have the force of law. Moreover, there is considerable and growing opposition on the part of many moderate Democrats over the prospect of chronic trillion dollar deficits, as well as lawmakers from manufacturing and coal-dependent states who are especially concerned about the administration's cap-and-trade plan.

The Chamber has communicated directly with every Senator and member of Congress about the budget, and we have mobilized our grassroots and communications operations as well. As the policy-making and budget-writing process unfolds in many committees and along a number of parallel tracks, we will continue to press our strong objections to this unwise expansion of government spending, taxes, debt, and power. For specific questions about the President's budget and the legislative process, please call Executive Vice President Bruce Josten at (202) 463-5310.

Capital Markets Rescue and Reforms Move Forward

On March 11, the Chamber and our Center for Capital Markets Competitiveness convened a successful Third Annual Capital Markets Summit and issued a declaration urging the Obama administration and the 111th Congress to enact reform that: 1) establishes systemic oversight; 2) promotes comprehensive and sound regulation; 3) enhances transparency and market integrity; 4) provides meaningful investor and consumer protections; 5) promotes global stability, efficiency, and growth; 6) maintains innovation; 7) develops sound enforcement mechanisms; and 8) builds robust international cooperation.

Those principles, endorsed by a bipartisan group of prominent business, former government and academic leaders, closely track with the broad reform outline that Treasury Secretary Timothy Geithner announced last week. We now look forward to seeing the administration's detailed plan.

On the accounting front, since last fall, the Chamber has advocated sensible changes to mark to market accounting to improve the system and prevent write-downs that do not demonstrate real economic losses. We also formed a coalition with over 25 trade associations that has met with over 35 members of the House and Senate, the Securities and Exchange Commission, Financial Accounting Standards Board (FASB) and the Public Company Accounting Oversight Board.

The ideas advocated by the Chamber and others have become the basis for the recent FASB proposals to reform mark to market accounting. These changes will restore accounting to its original purpose—reflecting economic activity, not driving it. We have suggested some additional improvements, including those to help mid-size and small businesses. I will keep you posted on future developments.

The Chamber has also welcomed the administration's plan to resolve a fundamental problem facing our economy—so-called toxic assets that can't be

properly priced or traded. Solving this problem is the key to restoring credit, confidence, and growth to our economy. It's wise that the administration has included the private sector as part of the solution. Private sector companies will be asked to share both the risk and rewards of this program, while lessening exposure to taxpayers. We also believe private sector asset managers are better equipped than the government to properly price these assets.

For the plan to succeed, these firms must be assured they will not be exposed to retroactive punitive measures and that all deals will be strictly honored. Given the political hysteria that has greeted the AIG bonuses and other corporate compensation issues, there is considerable room for doubt. By the administration's own intentions, private investors successfully participating in the program would stand to make a considerable profit. How do they know they won't end up being vilified for doing so in a Congressional hearing room?

The issues facing our banks, financial services sector, and our capital markets are complex and highly technical—yet also easily lend themselves to oversimplification and demagoguery in the political arena. The Chamber will continue to work for reasonable reforms and measured responses that fix regulatory shortcomings without choking off the capital formation that is so vital to entrepreneurship and job creation.

For further information, please contact CCMC President and CEO David Hirschmann at (202) 463-5609.

Rallying the Troops against Card Check

Bills that would take away the time-honored right to a secret ballot in union organizing elections have now been introduced in the House and Senate. The Chamber has therefore greatly accelerated our multifaceted campaign to stop this legislation, which not only includes card check elections, but also forced arbitration to impose contracts on companies.

In recent weeks, we have brought hundreds of representatives from state and local chambers and small businesses to Washington to directly lobby their legislators. We're part of a coalition that sponsored and released a new economic study demonstrating how card check would eliminate 600,000 American jobs. We have challenged the legislation on the grounds that it would violate international law by denying workers private ballot elections. We have been blitzing the airwaves with media interviews and have generated a flood of letters and other communications to Capitol Hill from concerned business people across the country.

Recently, we received the good news that our efforts have helped persuade a former card check supporter, Senator Arlen Specter, to oppose the bill this time around. While media analysts have portrayed this switch as signaling the defeat of card check, please don't believe it! We must not let up or become complacent. You can be sure the unions won't. There is always the danger of a watered-down, yet still unacceptable version of the bill catching on. Even if they don't prevail on card check this year, the unions will try again next year and make the issue a centerpiece of their election-related activities and lobbying in 2010 and beyond. They will also keep pushing a dozen or more additional measures to punish employers and assert control over the nation's workplaces.

Chamber Vice President Randy Johnson (202) 463-5448 and Chief Legal Counsel Steven Law (202) 463-5576 are leading our activities to hold union power in check. Please feel free to contact them for more information.

Breaking Our Deal with Mexico

Under the 15-year old NAFTA agreement, the United States promised to open its border to Mexican trucks—with full reciprocity for U.S. carriers. That hasn't happened, although a pilot program has recently been in place to allow some thoroughly inspected Mexican trucks to make pick-ups and deliveries beyond the 25-mile border zone. Inexcusably, Congress and the President recently acted to suspend the program, and Mexico has responded by slapping punitive tariffs on our exports.

U.S. trade with Canada and Mexico is now nearly \$1 trillion a year—more than \$2.5 billion each day—and the two countries buy more than a third of all our exports. NAFTA has been a boon to all three countries, and it is time for all Americans, including unions and politicians from both parties, to stop denying this reality. The administration says it now wants to resolve the dispute with Mexico. We hope so, and we will continue working with all three North American governments and business communities to broaden and deepen our regional economic integration, which is critical to jobs, prosperity and our global competitiveness.

For further details, please call Adrean Rothkopf, Vice President, Western Hemisphere Affairs, at (202) 463-5747.

Energy Projects Blocked by “NIMBY” Attitudes

The Chamber supports the expansion of both traditional and alternative energy facilities and technologies. Ironically, even so-called green energy projects have been

delayed or stopped across the country due to local and national opposition by some environmentalists, lawyers, and activist groups. To chronicle, expose, and hopefully address these delays, we have created a new interactive website called *Project No Project*, which vividly tells the story of “Not In My Back Yard” (NIMBY) and its damaging impact on jobs, infrastructure, and economic growth.

By far the largest hurdle to developing any kind of energy in this country is the ludicrous amount of time it takes to obtain permits and related approvals for a new project. When you factor in NIMBY, the problem becomes insurmountable. Lawsuits drag on, zoning laws are changed, financing dries up, and ultimately projects stop. Until we change this approach, this nation will fail to achieve true energy security or demonstrate leadership on alternative energy production.

To see where and how our nation’s energy projects have been delayed or stopped, visit www.projectnoproject.com. For questions, please contact Bill Kovacs, Vice President, Environment, Technology and Regulatory Affairs, at (202) 463-5457.

Chamber Working for Pension Funding Relief

We are acutely aware of the many ways that the current financial crisis is impacting our businesses—especially those companies struggling to meet defined benefit plan funding requirements.

The precipitous market drop at the end of 2008, coupled with a tightening of the credit markets and a subsequent drop in the bond market, has resulted in significant losses in defined benefit plans. On top of these market conditions, defined benefit plan sponsors are faced with implementation of the Pension Protection Act of 2006 which requires higher funding levels and, consequently, additional contributions. The impact of these events is that required contributions to defined benefit pension plans for 2009 and 2010 may be double or even triple the expected contribution for those years.

Members of Congress need to know that, without funding relief, these pension contributions will take money away from payroll, capital investment, and business development. The Chamber and our association partners are busy making the case on Capitol Hill, but lawmakers need to hear directly from companies.

Specifically, Congress should enact temporary pension funding relief from the stringent requirements called for in the 2006 law. Some positive steps were taken by Congress last December but more must be done to reflect the dramatic deepening of the downturn in the economy and the markets since that time. We are advancing

several technical but effective provisions that would provide companies with needed relief while ensuring the viability of pension plans. Without further legislative action, unexpected funding requirements could accelerate layoffs and even corporate bankruptcies.

The Chamber stands ready to help you—and we need your help in making the case to Congress. To discuss this issue further, please contact Randy Johnson, Vice President, Labor, Immigration, and Employee Benefits at (202) 463-5448.

USA Today Ranks Chamber Economist in the Top Ten

On March 19, *USA Today* tipped its hat to Chamber Chief Economist Marty Regalia by naming him one of the nation's top ten economists. We'd like to join with "America's newspaper" in seconding that motion. Chamber board members tell us that Marty's economic reports at our board meetings are invariably understandable and stimulating—two adjectives not normally associated with economists! Please take a moment to congratulate Marty on this well-deserved recognition the next time you speak with him.

Please don't hesitate to contact me at (202) 463-5300 if you ever have any questions. In my absence, feel free to call David Chavern, the Chamber's COO, at (202) 463-3101.

Until next month...