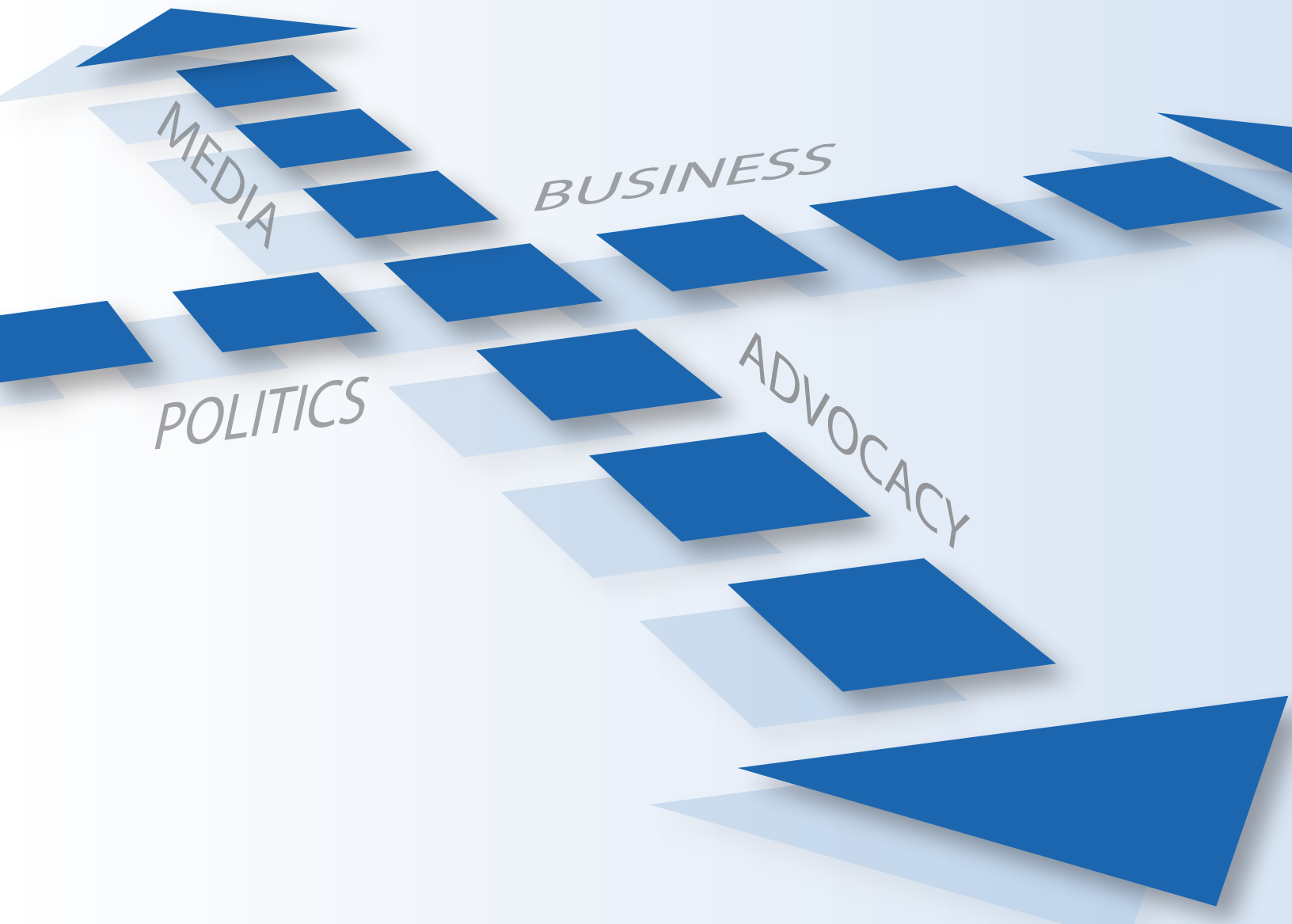


# THE INTERSECTION

JANUARY 6, 2011





Dear Friends,

Yesterday, the third Speaker of the House in five years was sworn into office. One of the largest freshman classes in history just arrived in Washington – and many of them are entirely new to governing. The party change in the House also means new committee chairmen and new ranking members. And hundreds of new staff that are critical to the operation of Congress will be occupying the House and Senate office buildings. At the other end of Pennsylvania Avenue, the President and Vice President are preparing to announce new chiefs of staff and to unveil further changes to their communications and economic teams.

More than half of the states – 28 in total - will be inaugurating new governors in January. Additionally, fifteen states have had one or both legislative chambers flip from Democratic to Republican control. According to the National Conference of State Legislators, one out of every four state officials is new to the job in 2011. In the Granite State of New Hampshire, the citizens elected 100 new members to the state house – one quarter of the entire legislature.

If you're still reeling from those sweeping changes, there's not much relief in sight: the race for president in 2012 officially starts now. At this moment Republican candidates for president – there could be as many as 15 realistic challengers – are quietly lining up top political operatives to move or set up campaign offices in Iowa, New Hampshire, South Carolina and all the Super Tuesday states. These operatives will be hiring personnel and developing the infrastructure for fundraising, media relations, messaging and advance operations. They will also have to adapt to the verified value of social media and social networks to distinguish their candidate from the field.

By any definition this has been a change election, and it's more than likely that we'll see the theme of change carry into the next election. If you are a trade association, corporation, NGO or small business, a few lessons are clear in this new environment:

1. You can't expect these newly elected members to know anything about your business or industry. You will have to tell and show them yourself.
2. Regulators are playing an increasingly critical role in governance. With large pieces of legislation passed in the last two years at the federal level and hundreds of local regulations from siting issues to EPA regulations pending, these entities will have enormous influence over what happens in 2011 and beyond.
3. Whatever you do, do it online.

Produced by the bipartisan team at VOX Global, I am pleased to introduce you to "The Intersection" – an insightful and timely resource designed to help you anticipate and prepare for public policy challenges and opportunities that you and your organization may face.

We look forward to your thoughts and feedback on this first of many editions throughout the year and welcome the opportunity to speak with you in more detail about our ideas and point of view.

Best,

A handwritten signature in black ink, appearing to read "R.A. Hoopes".

Robert A. Hoopes  
President

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## The Politics of Congress

By: Trey Hardin, Washington, DC ([thardin@voxglobal.com](mailto:thardin@voxglobal.com))



It didn't take long to witness the impact of the recent mid-term elections on policymaking. While newly-elected members of Congress did not take office until this week, their fingerprints and those of their voters were quite prevalent on Capitol Hill in November and December. This was no more evident than in the negotiations and compromises made by leaders from both parties on the extension of tax cuts. The results and lessons from November 2nd clearly motivated that issue and are sure to shape the legislative poker game over the next two years between the House, Senate and White House.

The influence of the recent elections has also played out in how Republicans have organized their new leadership in the House. For the first time in history, a leadership position has been created for an incoming freshman member of Congress. Additionally, the Republican leadership has appointed an unprecedented number of incoming freshmen to the most powerful committees, passing over many sitting members of Congress – something that is not typically done. These moves acknowledge the mandate these particular freshmen carry from their elections and, therefore, their atypical relevance this early in their congressional careers.

In addition to the gravity of November 2nd, there are other interesting political dynamics likely to influence Congress over the next two years. One is the current expectation by most that the Republicans are poised to maintain the House majority after the 2012 elections. This expectation is based on the size of the current majority and the likely “pro-incumbent” outcome of national redistricting scheduled to be enacted in 2011. This factor may embolden House Republicans to stand firm on their Pledge to America agenda, be more aggressive in their oversight efforts, and not be too willing to compromise with a Democrat-controlled Senate and President Obama. However, while there will certainly be efforts to pressure the President on spending cuts and healthcare, look for the House Republican leadership not to overplay their hand legislatively and find opportunities to work with the Senate and White House to pass popular legislation.

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Another political dynamic is the fact that the Democrats have 23 Senate seats up for re-election in 2012 as opposed to the 10 on the Republican side. This reality places a tremendous burden on the legislative plans of Majority Leader Harry Reid and the Senate Democrats. Undoubtedly Senate Democrats will be called on by President Obama to carry the water for his legislative goals. However, due to both their 2012 challenge and the institutional power they hold legislatively, Senate Democrats could end up being the most important players at the table over the next two years. Look for the Senate to coordinate closely with the White House before the two negotiate with House Republicans. If not, Senate Democrats may find themselves in a situation where they may need to work against the President in order to preserve their majority.

The next two years in Congress will have all of the characteristics of a high-stakes poker game. However, compromise is certainly possible and is seemingly in the best interest of all participants at the table.

## The Politics of the White House

By: Corey Ealons, Washington, DC ([cealons@voxglobal.com](mailto:cealons@voxglobal.com))



As new members of Congress converge on the Capitol - nearly 90 new Republicans in the House and six in the Senate - questions remain concerning the way forward for President Obama during the final two years of his administration, just as the breeze of Republican presidential campaigns begin to stir in Iowa and New Hampshire.

What is clear is that the President is reclaiming a solid connection to the middle. No greater evidence is needed than the compromises reached during the recent tax debate. Both sides conceded the perils of a zero-sum scenario and were able to reconcile (however reluctantly). The President endured withering criticism from his liberal base, but the result of the negotiations was a far more productive end to the 111th Congress than anyone anticipated. This way of thinking should serve as a roadmap for Washington during the next two years. For those hoping to make inroads on critical issues, a hyper-partisan posture will only lead to ideological alienation.

As we begin the run-up to next year's elections, there is room for bipartisanship that will allow victories for both parties – and for the American people. Republicans in Congress, led by members of the Tea Party, have pledged to rein in government spending in order to reduce the national debt. President Obama has also stated that we should seek to control spending whenever possible and has offered the elimination of government programs that don't work as part of the solution. Both President Obama and Republican congressional leaders have endorsed the elimination of earmarks as well. If the two sides can come together to support any of the debt reduction recommendations recently offered by the Bowles-Simpson task force, it would be a big win for all.

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**One of the “musts” for the administration includes maintaining the dialogue initiated with business leaders last year.**  
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President Obama has declared as his resolution for the New Year to continue repairing our economy and creating jobs. One of the “musts” for the administration includes maintaining the dialogue initiated with business leaders last year. Record annual profits and a robust holiday shopping season are signs that the economy is in a genuine recovery and consumer confidence is on the rise. The next task is convincing businesses to engage in long-term hiring and to make investments that will energize our economic recovery.

The President also has the chance to re-invigorate the energy debate fueled greatly by rising gas prices across the country. No other issue, except employment and housing, hits consumers directly in the pocket in the same way as the price of petrol. With the need for both Congress and the White House to look responsive on this issue, this is a great time for bipartisan discussions that embrace sustainable energy sources at home, reduce our nation's dependence on foreign oil, and lower our overall energy costs.

There are other areas for collaboration as well, such as the reauthorization of the Elementary & Secondary Education Act (No Child Left Behind). The level-headed discussion on big issues we saw during the lame duck session is what the American people want. It's called leadership, and there are enough incentives on each end of Pennsylvania Avenue to see that we have more of it in the days ahead.

## The New House Committees

By: Chris Matthews, Washington, DC ([cmatthews@voxglobal.com](mailto:cmatthews@voxglobal.com))



There are always numerous factors that affect how a chairman runs his or her committee. They typically include the pressing issues of the day, personal interests and party politics. For this House of Representatives in particular, promises made by the Republican Party in its Pledge to America will factor into most committee agendas. Although the GOP has already pulled back from parts of the Pledge, Republican leadership will be cognizant of the need to make efforts to fulfill its campaign promises. As such, there are two overriding themes that run through virtually every committee agenda - regulatory oversight and spending reductions.

### Agriculture: Chairman Frank Lucas (OK)

**Current Issues** – The 2008 Farm Bill is set to expire in 2012. As the primary instrument of U.S. agricultural governance, its replacement will be the highest policy concern of the House Agriculture Committee and the agriculture community at large. Primary issues to be resolved in any Farm Bill include direct payment programs, risk management and safety-net approaches. In addition, the Obama administration has prioritized renewable energy and biofuels, forest management and conservation, regional food systems and supply chains, and ecosystem market incentives.

**Pledge to America** – *Contains no provisions relating to agriculture, beyond stemming regulatory overreach.*

**The Chairman's Agenda** – Chairman Lucas has stated his intention to prepare and pass the next Farm Bill by the end of the summer of 2012. Among contentious issues, he generally favors ethanol subsidies and prefers direct payments over revenue insurance to aid farmers. He has acknowledged that funding commodity programs will be one of the biggest challenges in crafting a Farm Bill.

Lucas has said that “Obama’s EPA has become an agency gone wild, creating regulations and policies that are burdensome, overreaching, and that negatively affect jobs and rural economies.” As such, he intends to conduct rigorous oversight of EPA and USDA regulations to measure them against their economic impact, their accord with sound science and their adherence to federal law.

### Appropriations: Hal Rogers (KY)

**Current Issues** – While trailing economic issues, the deficit consistently appears near the top of surveys ranking voters’ concerns. Regardless of the merits of the arguments on either side, appropriations earmarks are a perennial symbol of congressional profligacy and have been slated for excision from the budget by House Republicans. At the same time, it has always been difficult to cut funding for members’ favorite programs. The House Appropriations Committee is now chaired by Rep. Hal Rogers who was once derisively dubbed the “Prince of Pork.” It will be his job to preside over the always-challenging passage of spending bills while balancing his panel’s interest in pet projects. His task is likely to be more difficult as the Republican base, personified by budget hawk and new committee member Rep. Jeff Flake (R-AZ), holds his feet to the proverbial fire.

**Pledge to America** – Many of the best-known provisions in the Pledge relate to appropriations and the federal budget, given that curbing spending is the cornerstone of the document. Specifically, it promises to “put government on a path to a balanced budget and pay down the debt” with a plan to: reduce spending by cancelling unspent stimulus funds; cut government spending to pre-stimulus, pre-bailout levels (\$100 billion); establish a hard cap on new discretionary spending; and hold weekly votes on spending cuts. In addition to reductions, the Pledge promises to provide resources to the military and to fully fund missile defense.

**The Chairman’s Agenda** – Rogers campaigned for the committee gavel by promising to cut spending in accord with the Pledge (a \$100 billion reduction), pass all 12 bills separately, and uphold the earmark ban. It is worth noting that GOP leadership has recently cast doubt on its precise spending reduction goals. He has promised close oversight through new investigative teams organized to review spending on specific programs, and has pledged to conduct a transparent process that leaves bills open for amendments.

## Armed Services: Buck McKeon (CA)

**Current Issues** – Accounting for more than 20 percent of the federal budget, defense spending has always been a double-edged sword politically. On one hand, few members of Congress want to be seen as cutting troop resources, especially during war time. On the other, the Pentagon has long been seen as a repository of wasteful spending. While important issues are sometimes obscured by the local concerns of members who represent large defense contractors or military bases, the Armed Services Committee is charged with making some of the most consequential decisions facing the nation.

**Pledge to America** – Defense spending is one of the very few areas where funding is prioritized by the Pledge to America. It promises to “pass clean troop funding bills and provide the necessary resources and support to our military.” The Pledge also promises to fully fund missile defense.

**The Chairman’s Agenda** – As with most of the new chairmen, McKeon plans to increase oversight of spending, but has no intention of cutting military funding. Rather, his preference is to transfer wasteful spending into useful programs. McKeon’s stated priorities include ensuring that deployed troops have the equipment and resources to complete their missions, as well as investing in the capabilities and force structures needed in the future. The chairman is also likely to oppose social issues being added to defense authorization bills.

## Budget: Paul Ryan (WI)

**Current Issues** – While the Budget Resolution does not have the force of law, it does provide important procedures and guidelines for the consideration of spending bills. In 2011, it will likely have as much symbolic importance as substance. Notably, new Republican supported rules will allow Budget Chairman Paul Ryan to advance the Resolution without a vote, giving the party favorite a tremendous amount of sway over spending levels.

**Pledge to America** – The Pledge promises to cut government spending by \$100 billion, establish a hard cap on new discretionary spending, cut Congress’s budget, sunset wasteful programs, reform the budget process and focus on long-term fiscal stability.

**The Chairman’s Agenda** – In 2010, Ryan released his own “Roadmap for America’s Future” that summarized his plans for smaller government and fiscal restraint. While he has recently stepped back from the Pledge to cut spending by \$100 billion, Ryan will undoubtedly seek to write a budget that includes significant spending cuts next year as well as the eventual elimination of the deficit.

## Education and Labor: John Kline (MN)

**Current Issues** – The most recent iteration of the Elementary and Secondary Education Act (No Child Left Behind) expired in 2007, and has yet to be reauthorized. The Obama administration has provided a broad outline of educational goals, but has largely avoided taking public positions on the most contentious issues. Given that President Obama has shown a willingness to confront teachers' unions, some believe that there is an opportunity for bipartisan action on the issue. Yet, many of the key challenges must be resolved within the parties themselves, since many Republicans view No Child Left Behind as an unacceptable intrusion on local authority. Notably, Speaker John Boehner was previously chairman of the Education and the Workforce Committee and shepherded NCLB through the House. As for hot-button labor issues, it is safe to say that the union-backed "card check" proposal eliminating secret ballots for labor organizing will not be on the House agenda.

**Pledge to America** – *While silent on education, the Pledge promises to adjust a number of labor/business issues by establishing "regulatory certainty with a plan to: rein in the red tape factory in Washington DC; require Congress to approve any new regulation that would harm job creation or the economy; and repeal job-killing small business mandates like the new 1099 paperwork rules imposed on small businesses."*

**The Chairman's Agenda** – The tenor of Kline's agenda can be summarized by his statement that "although most of the hard work will be done far outside of Washington, one early step we in Congress can take to improve our schools and workplaces is to thoroughly examine the costs, benefits and consequences of current federal programs and interventions."

Kline is unlikely to support any increases in federal programs. For instance, he has promised to oppose funding for the administration's "Race to the Top" program, he does not support the Adequate Yearly Progress provisions in NCLB, and he emphasizes local control of schools. Instead, his agenda will probably focus more on workplace rules and regulations, along with job training. Specifically, his stated priorities include: increasing certainty and flexibility for employers; conducting oversight of federal education and workforce programs; modernizing job training programs; and pursuing education reform that "restores local control, empowers parents, lets teachers teach, and protects taxpayers."

## Energy and Commerce: Fred Upton (MI)

**Current Issues** – For the 112th Congress, there is general acceptance that climate legislation is dead and that the focus will be on the EPA's regulation of CO2 emissions. It is also likely that issues related to individual energy sources will be part of the debate, such as those involving oil, gas, nuclear power and coal. While its prospects have dimmed, a national renewable electricity standard will likely be debated in the Senate, as will renewable/efficiency incentives.

The implementation of last year's health care bill will be a critical issue facing several federal agencies including HHS, DOL, Treasury and CMS. House Republicans have promised to repeal the law, and while that it is improbable, they will nevertheless make the effort.

**Pledge to America** – *Very simply, the Pledge promises repeal of the "job-killing health care law." In its place, House Republicans plan to enact medical liability reform, grant consumers the freedom to purchase coverage across state lines, and expand health savings accounts while ensuring access for those with pre-existing conditions. On energy, the Pledge focuses on increasing domestic fuel supplies and continued opposition to cap and trade climate proposals.*



**The Chairman's Agenda** – Upton's plans are generally in accord with the Pledge to America on health care and energy. He promises action to repeal the health care law and will pursue rigorous oversight of federal regulations. He has singled out the EPA in particular, noting his opposition to new rules on cooling water intake systems for power plants, coal ash, industrial and commercial boilers, and the ozone. On the EPA's regulation of carbon dioxide, he has urged delay until the outcome is known on pending litigation.

While Upton has drawn criticism for supporting the phase-out of the incandescent light bulb, he backs nuclear energy and increased exploration for domestic oil and gas.

## Financial Services: Spencer Bachus (AL)

**Current Issues** – Though Republicans may have ambitions for repealing the Dodd-Frank law and privatizing the housing finance model, the financial services industry can expect only incremental changes rather than dramatic alterations. Oversight of the hundreds of rules pending from Dodd-Frank will be a key focus of the Financial Services Committee; numerous hearings can be expected to review the rulemaking process. Key provisions Republicans will look to shape include the Volcker rule, the scope of the Consumer Financial Protection Bureau, regulation of systemically important financial institutions, and the so-called "Durbin amendment" related to payment card interchange fees.

**Pledge to America** – *The Pledge promises to end the Troubled Assets Relief Program (TARP) along with government control of Fannie Mae and Freddie Mac.*

**The Chairman's Agenda** – Rightly or wrongly, Bachus was criticized as ineffectual during the debate on Dodd-Frank. As chairman, he intends to repeal or amend portions of the law, including derivatives rules and provisions allowing the Federal Deposit Insurance Corporation to liquidate troubled non-bank firms. He will likely pursue rigorous oversight of the new Consumer Financial Protection Bureau and seek to remove taxpayer support from Fannie Mae and Freddie Mac. Republican leaders have long called for eliminating government mortgage guarantees and phasing out government-sponsored entities (GSEs). However, this will require compromise — a tall order, because the two parties envision very different paths to GSE reform.

## Homeland Security: Peter King (NY)

**Current Issues** – Though it operates with 200,000 employees and a \$43 billion budget, the Department of Homeland Security has yet to be reauthorized. A host of difficult votes on detainees and immigration await members of Congress if a bill is brought to the House floor. In addition to its oversight duties, the Homeland Security Committee will need to address critical matters including grant funding formulas, transportation security funding, air cargo security, information sharing and infrastructure security.

**Pledge to America** – *The Pledge promises to develop a detention policy for enemy combatants as well as to increase border control and visa security.*

**The Chairman's Agenda** – Chairman King will likely be quite aggressive in questioning the administration's security efforts. In particular, he has been an outspoken critic of President Obama's counterterrorism advisor, John Brennan. Air cargo security will be an important topic of hearings, and King will probably seek a change to terrorism grant formulas. A New Yorker, he believes the population-based system is irrational and will seek to replace it with funding based on risk assessments.

An advocate of tighter immigration enforcement, King supports more physical fencing along the border and an increase in the deportation of illegal immigrants. To accomplish these goals, his proposals will likely focus on private employers and will give local law enforcement greater ability to make immigration arrests.

## Natural Resources: Doc Hastings (WA)

**Current Issues** – The Natural Resources Committee has jurisdiction over some of the most contentious issues. Generally, members of the committee are divided between those who believe that land, forests, minerals and fuels should have multiple uses for recreation and the economy; and those who believe they should generally be preserved. There is often very little opportunity for compromise. As such, successful legislation is fairly rare and federal agencies often dictate the terms of the debate by acting on their own authority through regulations.

**Pledge to America** – *The Pledge promises to increase access to domestic energy sources and oppose climate legislation.*

**The Chairman's Agenda** – Hastings has stated that “creating new jobs and giving a much needed boost to the economy will also be at the forefront of our agenda. Through the responsible stewardship of our natural resources, we can put Americans to work, strengthen our economy and protect the environment.”

Hastings will work to keep public lands accessible and to promote their role in the livelihoods of communities that depend on land, water, timber and energy resources. Hastings will likely hold a number of oversight hearings on Obama administration actions and appears very interested in pursuing an agenda focusing on energy policy, over which his committee's jurisdiction is largely limited to federal lands.

## Oversight and Government Reform: Darrell Issa (CA)

**Current Issues** – The Oversight Committee has very broad jurisdiction and can investigate virtually any aspect of the federal government.

**Pledge to America** – *The Pledge promises to ensure transparency and accountability throughout the federal government.*

**The Chairman's Agenda** – Having called Obama “one of the most corrupt administrations,” Issa will likely be one of the more dogged pursuers of the administration. He has planned an extensive list of reviews including the stimulus plan, Fannie Mae and Freddie Mac's roles in the housing crisis, drug safety, Medicare fraud and postal reform.

## Transportation and Infrastructure: John Mica (FL)

**Current Issues** – The Safe, Accountable, Flexible, and Efficient Transportation Equity Act expired on September 30, 2009. Current funding is being maintained on a stop-gap basis, but reauthorization is being complicated by a serious budget shortfall in the Highway Trust Fund.

**Pledge to America** – *The Pledge does not address transportation issues.*

**The Chairman's Agenda** – An avid supporter of privatization, Mica is currently encouraging U.S. airports to consider private security screening contractors, saying that the Transportation Security Administration is a “bloated bureaucracy” and that “a regulator should not regulate itself.”

His top priority undoubtedly will be the passage of the next major transportation authorization bill, along with the FAA and Coast Guard reauthorizations. He is a proponent of high-speed rail, but believes it should be based in population centers rather than spread more widely.

Regardless of his priorities, Mica will face budget challenges as a new Republican rule would allow any members of Congress to introduce amendments that could reduce transportation funding. Given the Republican goal of significantly reducing spending, it is clear that Mica's committee will need to work to protect its projects.

## Ways and Means: Dave Camp (MI)

**Current Issues** – It is fair to say that the lame duck session of Congress only delayed the full debate over tax policy. Conveniently, the two year extension of more than 70 provisions will end shortly after the 2012 elections. Nevertheless, the issue will continue to arise up to that point. While Republicans fully plan to avoid tax increases, deficit pressures will limit their ability to enact new relief and may threaten current provisions. Beyond personal income taxes, there appears to be growing interest in fundamental reform of both personal and business taxes. However unlikely in a divided Congress, tax reform will probably appear on the docket of the House Ways and Means Committee in some form.

**Pledge to America** – *The Pledge promises to prevent tax increases and to provide small businesses with a deduction equal to 20 percent of their business income.*

**The Chairman's Agenda** – As with most of the new chairmen, Camp has promised to create jobs and control federal spending. Beyond those general promises, he also supports an overall reform of the tax code. He believes that the tax system should be simplified by removing loopholes, including many popular deductions. He would also like to broaden the tax base while reducing the top rate to 25 percent.

## The Regulatory Environment

By: Ann Davison, Washington, DC ([adavison@voxglobal.com](mailto:adavison@voxglobal.com))



While the new Congress is getting lots of attention, don't lose sight of the power that resides in the executive branch - regardless of who controls the House or Senate. Federal agencies can reward or threaten a particular industry with what may seem mysterious power to both give and take away.

In the next two years, bureaucrats and the political appointees overseeing them will be busy promulgating rules to implement the new health care law (regardless of whether Congress rolls back some aspects), financial reform, and numerous other recent acts of Congress, as well as modifying the execution of some oldies-but-goodies that have far-reaching impacts for industry such as the Clean Air Act – a possibility that has already set off members of Congress on both sides of the aisle.

With the President in the second half of his first term facing a divided House and Senate, the strategy of governing via federal agencies could take a couple of different paths. Obama may opt to slow the pace of regulation deemed overly “liberal” in an attempt to shore up the middle for his re-election campaign and keep the wave of incoming Republican freshmen eager to reduce the size of government at bay. But his friends on the left may push him to go over and around the House to accomplish what cannot be done as easily with legislative action.

Either outcome leaves somebody at risk, since most executive policy actions (just like most legislative actions) pit one sector against another for an advantage in the marketplace.

The good news is that the regulatory process is just as open to engagement as activity on Capitol Hill. After all, these agencies are governed by political appointees who want to appear responsive to the public. (Note that when the Obama administration took office, it renamed many of its agencies’ public liaison offices “public engagement offices.”) Obama’s commitment to transparency, along with requirements for public comment and consideration of the costs and benefits for most new regulations, is an open invitation for those affected to tell their story.

And as was the case during the mid 90s when Republicans ruled Congress while Bill Clinton sat in the White House, we can also expect a robust schedule of oversight hearings with Rep. Darrell Issa of the House Oversight and Government Reform Committee leading the charge. This process will be another entry point for the public and the business community to have their voices heard.

Additionally, if the new House leadership does follow through on reducing earmarks, the “phonemark” will be all the rage. So if a member of Congress isn’t dialing the Secretary he or she plans to haul in front of a committee on your behalf, you might want a Plan B for who is. As the saying goes, the squeaky wheel gets the grease.

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**The good news is that the regulatory process is just as open to engagement as the activity up on Capitol Hill.**

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## Corporate Sustainability and Energy Security

By: Tony Calandro, St. Louis ([tcalandro@voxglobal.com](mailto:tcalandro@voxglobal.com))



The November elections may have cooled the chances for federal legislation to combat global warming, but support for reducing greenhouse gas emissions (GHGs) remains. The state of California will begin this year to implement the country's first cap and trade law for GHGs, and Massachusetts announced that it will adopt a statewide target to cut GHGs by 25 percent below 1990 levels over the next 10 years. The Obama administration has also promised to move forward on reducing emissions this year, despite pressure from organizations such as the U.S. Chamber of Commerce to tie up this initiative in the courts. Additionally, congressional Republicans have vowed to oppose this effort as well as stop any "climate change" legislation that may be introduced in this Congress.

This political reality, where parts of federal and state governments take action to reduce emissions while other parts do not, will further stymie efforts by the private sector to invest in clean technology and grow a domestic green jobs manufacturing base. Additionally, the impact of California's cap and trade law could be felt by businesses across the country. This law potentially sets up a scenario where companies located in California gain an edge over their out-of-state competitors not under the law.

Counter-intuitively, the law may actually help California-based companies better compete in international markets where governments have mandated GHG levels. This advantage potentially places other U.S. businesses not located in the state but with similar global presence at a competitive disadvantage with their peers located in California. It's unclear what, if any, impact this division may have in Congress, but California's law will eventually place this topic back on the federal agenda as political pressure builds to level the playing field across the U.S.

In the short term, look for climate change advocates to link a clean energy economy to energy independence. According to the U.S. Energy Information Administration in 2009, more than half of U.S. crude oil and petroleum imports came from countries that either have unstable governments or are hostile to American interests. Additionally, expect gas prices to hover around or exceed the \$4 a gallon mark this summer, as developing countries like India and China increasingly use oil to drive their economies. This trend will raise political pressure in the U.S. to address energy security and economic growth.

This likely scenario will set up an energy security debate that pits Democrats and clean energy supporters of solar, wind and biofuel on one side and oil, gas and coal interests aligned with congressional Republicans on the other. This battle may also manifest itself in the resurrection of the "Clean Energy Standard" legislation. The bill, introduced in the last Congress by a group of bipartisan Senators, would require utilities to generate a certain percentage of electricity from "clean" sources including renewables, nuclear energy and clean coal. Regardless, the expansion of domestic energy production will likely be resolved in the Senate, where competing interests and the Obama administration will try to reach a consensus.

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**Additionally, the impact of California's cap and trade law could be felt by businesses across the country.**  
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## The States: Setting the Tone for Reform

By: Lizanne Sadlier, Washington, DC ([lsadlier@voxglobal.com](mailto:lsadlier@voxglobal.com))



Legislatures in all 50 states will meet this year, with 43 sessions beginning in January. Over half of the states will complete their sessions by the end of May. In contrast, Congress will likely not begin heavy legislative activity until after the State of the Union in late January. With the early start in the states, the dramatic shift in the makeup of state legislatures after the 2010 election and the major budget crunches they face, states will set an aggressive legislative agenda in 2011 that may be mirrored by Congress.

### Budget Deficits

States will have to deal with many of the same difficult issues facing the nation, including budget deficits. Cumulatively, the states face budget shortfalls of nearly \$140 billion, according to the Center on Budget and Policy Priorities. And billions in aid to states from the 2009 federal stimulus that helped them balance their 2010 budgets is set to dry up this year. How states deal with their shortfalls could be instructive to Congress. For example, a host of new governors have already stated they will not raise taxes in order to close shortfalls, including Democrat Andrew Cuomo of New York.

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States will set an aggressive legislative agenda in 2011 that may be mirrored by Congress.

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### Public Employee Pensions

Public employee pensions will also be high on states' agendas. A number of governors have indicated that union pensions are an unsustainable drain on state and local budgets. In 2010, nearly a dozen states enacted employee pension reforms; many more are studying potential legislation for 2011 as one way to close their budget deficits. Some reforms include increasing the retirement age and the contributions of employees. How these reforms are received could impact how Congress addresses changes to Social Security and federal employee pensions.

### Jobs

With nationwide unemployment hovering at 9.8% and above in 10 states, job creation will be a top priority for states. State legislators are looking for creative ways to encourage job and business development through incentives, tax credits, worker training programs and public-private partnerships. With an increased role in the federal budget and tax reform this year, congressional Republicans will likely look to states successful at creating jobs in a poor economy for ideas on how to spur growth without direct government spending.

### Health Care

Although incoming House Energy and Commerce Committee Chair Fred Upton says that he will bring a health care law repeal vote to the floor before the State of the Union, the Senate likely won't find the votes for repeal. After that, Congress may monitor state action on health care reform implementation and then begin to chip away at the law later in 2011 or 2012. Thus far, eight states are using state law to avoid enforcing mandatory provisions of the reform law while others are considering a retreat from costly Medicaid features. And 20 states have a lawsuit against the federal government over the mandatory purchase requirement and additional Medicaid requirements.

Because states are only in session for a short time and are constitutionally mandated to live within their means, they are forced to be innovative and rapidly deal with their most perplexing issues. Under the electorate's watchful eye, Congress would be wise to take note.