

# The Ripon Forum

Summer 2013  
Volume 47, No. 3

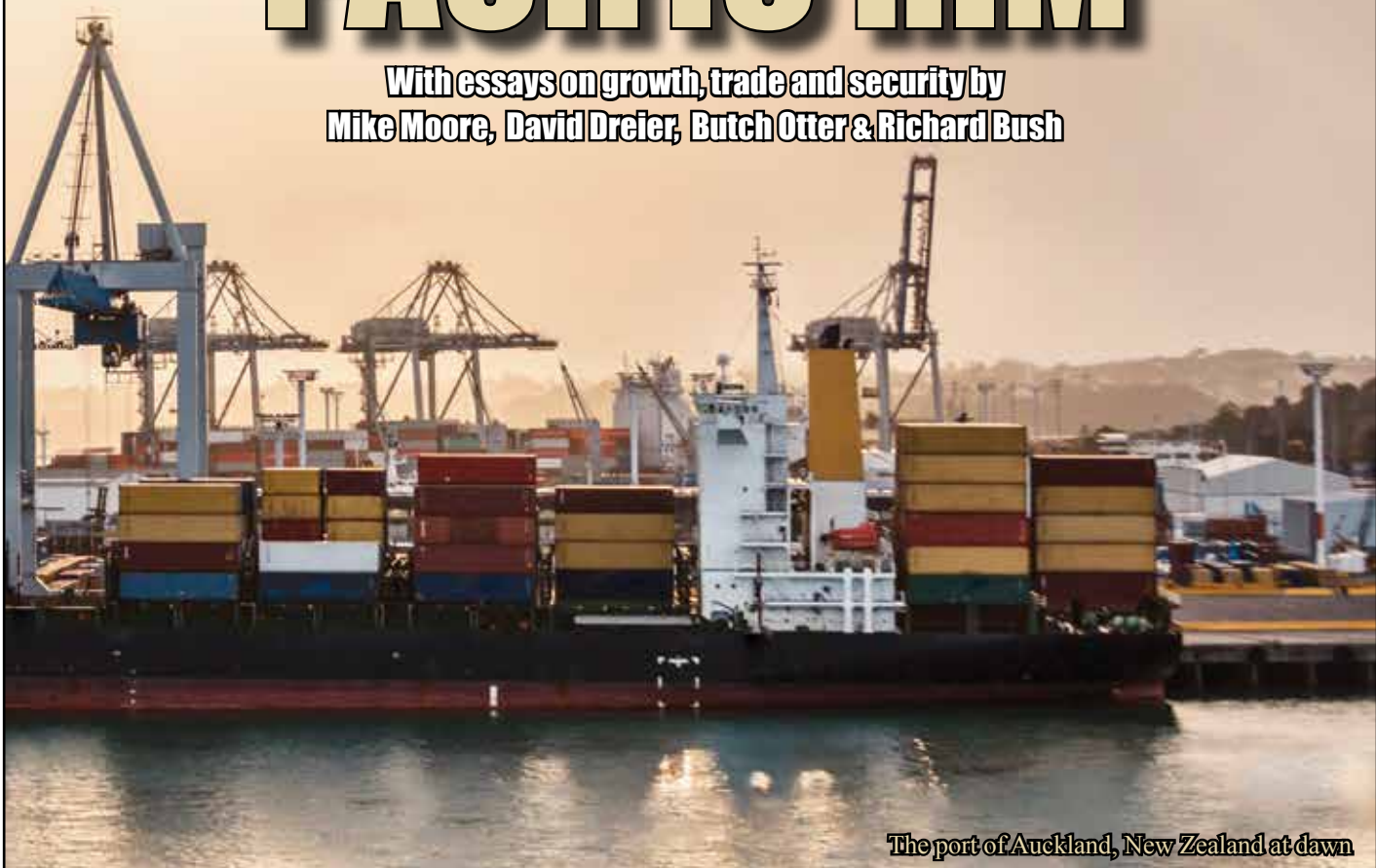
**The Demographic Case for  
Immigration Reform**  
by Prof. James H. Johnson, Jr.



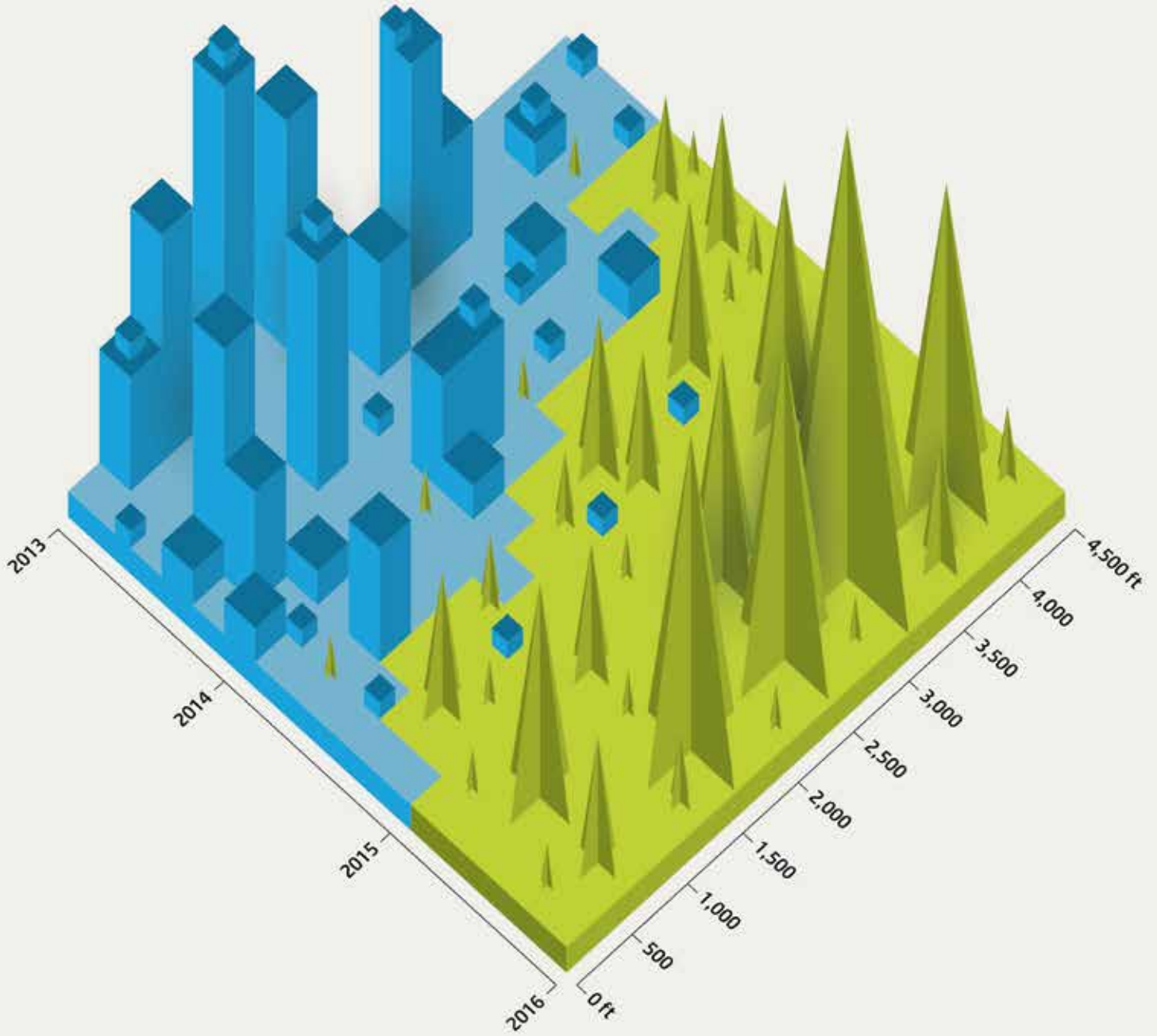
A publication of  
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## The Promise of the PACIFIC RIM

With essays on growth, trade and security by  
**Mike Moore, David Dreier, Butch Otter & Richard Bush**



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# The Ripon Forum

*“Ideas that matter,  
since 1965.”*

Volume 47, Number 3

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One Year Subscription:  
\$35.00 individuals  
\$10.00 students

The Ripon Forum (ISSN 0035-5526) is published by The Ripon Society. The Ripon Society is located at 1155 15th Street, NW, Suite 550, Washington, DC 20005.

Postmaster, send address changes to:  
The Ripon Forum, 1155 15th Street, NW,  
Suite 550, Washington, DC 20005.

Comments, opinion editorials and letters should be addressed to: The Ripon Forum, 1155 15th Street, NW, Suite 550, Washington, DC 20005 or may be transmitted electronically to: louzickar@riponsociety.org.

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# In this Edition

Given all the negative headlines these days, it is sometimes easy to lose sight of what is good about America and what it is that draws people to our shores. More than anything, it is our system that sets us apart.

It is a system based on freedom and individual initiative, and one that – despite all the hurdles and regulatory roadblocks that government at all levels can throw in our way – ultimately encourages people to explore, broaden their horizon, and push the limit of what is possible in order to build a better life.

Indeed, broadening our horizon is what our country is all about. It's what drove Thomas Jefferson to make the Louisiana Purchase, and then send Lewis and Clark off on an expedition to discover the territory that he had just bought. It's also what drove Theodore Roosevelt to build the Panama Canal. "The United States of America has not the option as to whether it will or will not play a great part in the world," Roosevelt stated. "It must play a great part."

One of the ways that America plays a great part in the world today is through trade. The trade agreements we make with the rest of the world rarely make headlines. And yet the impact of these agreements can be significant and long-lasting. In this latest edition of *THE RIPON FORUM*, we look at an area of the world where trade with the United States is increasing, and where negotiations are underway for a new agreement to be reached.

The area is the Pacific Rim and the broader region of the Asia-Pacific. It is here that 40 percent of the world's population lives, and where 60 percent of the world's GDP is produced. It is also where some of the world's fastest growing economies have taken hold. In short, it is a region that holds much promise for the United States and one where, in the words of our 26<sup>th</sup> President, "it must play a great part."

We explore the region in this edition of the *FORUM* with essays from a group of leaders and thinkers who know the area better than most, including: the Rt Hon Mike Moore, who serves as New Zealand's Ambassador to the U.S.; former Congressman David Dreier, who now serves as Chairman of the Annenberg-Dreier Commission at Sunnyslands; Idaho Governor Butch Otter, who traveled to the Asia-Pacific region on a trade mission this past spring; and Richard Bush, the Director of the Center for Northeast Asian Policy Studies at The Brookings Institution.

While we are on the subject of broadening our horizon, this edition of the *FORUM* also looks at the issue of immigration reform with an insightful essay by University of North Carolina Professor James Johnson, Jr. In the essay, Johnson presents, "The Demographic Case for Immigration Reform."

In the process, he also reminds us that despite all of the negative headlines we read about every day, there are millions of people who want come to America, and we should welcome them with open arms.

As always, we hope you enjoy this edition, and encourage you to contact us with any thoughts or comments you may have.

Lou Zickar  
Editor  
THE RIPON FORUM  
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# The Promise of the PACIFIC RIM

by  
**RT HON MIKE MOORE**



In October of 1838 – 175 years ago – an entrepreneur named James Clendon became the first United States Consul to New Zealand. Our two countries have been talking, trading, collaborating and fighting side-by-side ever since.

New Zealanders feel very comfortable here in the United States. We are all just a few generations away from a farm and a boat. We are nations of immigrants. We were all boat people at some time or another, and no one came to New Zealand or the United States without a memory. We feel a common heritage.

Increasingly, our collaboration is taking place in

the Asia-Pacific region.

Like others in our region, New Zealand welcomed the U.S. signing the Treaty of Amity and Co-operation, joining the East Asia Summit, and pursuing a constructive diplomacy and engagement with China. How can we be neutral and indifferent, given our interests and values, to encouraging our partners and friends in China to play a leadership role in global affairs commensurate with her history, culture, growth and power?

The relationship between the United States and China is the central and most profound relationship of our age. It will impact everyone, everywhere.

New Zealand has an excellent and growing

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relationship with China – it being our second largest trading partner, after Australia. We are proud that New Zealand is the first developed country to have a free trade deal with China, and our experience is positive. We were the first developed nation to agree to China's conditions to join the WTO, and the first to accord them market economy status. We also have an agreement with Hong Kong and recently concluded an economic cooperation agreement with the economy of Chinese Taipei.

The attitude of the U.S. Government towards China has been positive and constructive. At every level of contact here in Washington, my colleagues speak of engagement with China. No adult talks of containment. The idea of containment misreads the past, misreads the present and misreads the future.

You can no more contain China than you can contain the Atlantic or the Pacific Ocean. It's a throwback to the Cold War. New Zealand doesn't fear a strong, growing and prosperous China. And those who claim to fear China's growth should think about the harm to our economies and our region of a slow growth, fractured and fractious China.

New Zealand sees stability, progress, growth and jobs with a strong China as well as, of course, a strong, confident, growing, engaged United States. We have confidence in the future of the United States and reject those who speak of an American decline.

Let's look at the facts. The U.S. share of global GDP is just about where it was in the 1970s. Even if military expenditure slows, the United States still will be spending more on defense than the next dozen countries put together. Forty percent of all university spending is here in the United States; thirty of the top fifty universities are in the United States; seventy percent of Nobel Prize winners live in the United States.

We celebrated with the United States your free trade agreements with Korea, Colombia and Panama – passed by massive, bipartisan majorities in Congress.

We are excited by the commitment of politicians on both sides of the aisle to the Trans-Pacific Partnership (TPP).

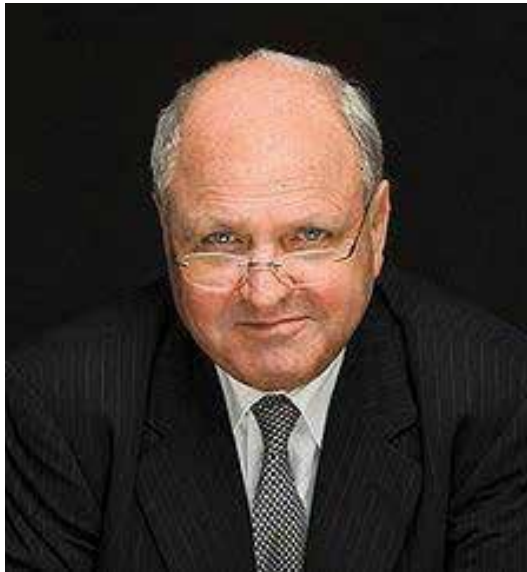
We are ambitious for a high-quality, 21st century deal. We too want to take the jack-boot of regulations, red tape and compliance costs off enterprise, to speed business and create jobs. We know that it's small business more than big business that needs predictable, transparent rules of engagement.

This TPP negotiation will not be easy. We know that understandings on intellectual property, State-Owned Enterprises, labor and the environment are a necessity. But to address 21st century subjects, we also have to finally resolve 20th century issues. That means taking taxes off imports of agricultural products.

TPP has always been an expansionist model. It started as a free trade agreement between New Zealand and Brunei, Chile and Singapore. Now the group of nations, including such major economies as Japan, Canada and Australia, collectively represent 40 percent of global trade, making it the number one export market for the U.S. Over time, we want other friends to join up to its high ambitions in a second and third tranche of members. In the meantime, we too are anxious not to lose momentum or to lower ambitions. This will require courage, stamina and vision. Boldness is our friend.

Let's hope we don't go into deadlock over the definition of catfish, old problems of textiles, sugar and dairy. Let's concentrate on the future, because the past isn't all it's cracked up to be. We are all bigger than this. Among our many mutual domestic problems is the employment of the young – those locked outside, their faces pressed against the window – that worries our leaders the most. For us the future is to be faced, not feared.

Amid the great, contentious debates of our times – and having suffered the worst economic slowdown since the Great Depression – we sometimes forget



Rt Hon Mike Moore

**The relationship between the United States and China is the central and most profound relationship of our age.**

about what we have achieved in the past half-century. We should celebrate our successes: the great ideas of freedom, representative democracy, the rule of law, property rights, and the virtues of social mobility. We ought not to lose our nerve now when we know that more wealth has been created over the past 60 years than the rest of human history put together. Millions have been lifted out of extreme poverty, and the more open the society the better the outcome.

People, when given the choice, choose freedom in the polling place and the market space. Even after the greatest economic recession since the Great Depression, we are coming back. Those who predicted the end of democratic capitalism and the exhaustion of social democracy will be disappointed. The trading system did hold. Because we learn from history, we adjust.

One of America's greatest strengths has been its ability to attract the best and brightest from around the world. That includes a vast number of visitors,

traders, investors and immigrants from across the Pacific. Whether it's to study, to trade and invest, or to make them your own, you've managed to gain an intellectual and economic edge from this policy. It's overwhelmingly in US interests to strike that balance again.

**We are excited by  
the commitment of  
politicians on both sides  
of the aisle to the Trans-  
Pacific Partnership.**

We do so standing proudly with our American friends: facing the Asia-Pacific as partners, working for an ever more prosperous and peaceful region. **RF**

*The Rt Hon Mike Moore is New Zealand's  
Ambassador to the United States.*

From taking charge of the fleet to combat piracy off Somalia to securing a province in Afghanistan, New Zealanders take our global responsibilities seriously. As always, New Zealand will stand with the forces of reason against the forces of reaction. This is the rent we pay for our way of life. It is the cost of civilization and always has been.



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# The Sky's the Limit

DAVID DREIER

China and the U.S. are destined to be the two most important countries in the world in the 21st century. Our relative -- and often complementary -- strengths make us both "rising powers" in the new geo-economic landscape that is forming. There are big incentives today for both countries to better recognize and act upon new opportunities to work together to advance our interests. New investment opportunities can be key to helping us do so.

Despite all of our differences, no two countries will have a greater ability to have positive global systemic impact. This makes the quality and success of China-U.S. relations critically important to each of us, but also to the world.

U.S. resurgence, and Chinese ascendance -- based on specific national strengths -- need not, and must not, be mutually exclusive. Those in either country who think otherwise misunderstand the nature of the problems and opportunities the world faces today.

America's resources, education, culture (marked by adaptability and reward for risk taking and innovation), and global alliances are key to our 21st century success. China's growth, modern infrastructure, hard-working people, and economic scale are all vital factors in its advance.

Both countries are challenged today to adjust their policies in order to protect, leverage, and elevate these strengths. That's easy to say. It is harder to do. Managing this requires that leadership in both countries navigate different thickets of competing political, economic and social interests.

The U.S.-China bilateral relationship has huge potential to help or hinder these processes on which our future depends.

This past June at Sunnylands, America and China's

leaders talked about, but didn't really define, a new model for a great power relationship. President Xi Jinping referred to a "vast convergence of shared interests" beyond anything we have recognized before.

Good intentions are a great starting point, but the kind of relations our Presidents talked about have to be built brick by brick and cemented with trust and respect.

That will take a lot of work and strategic focus on both sides. We need to better agree on, and abide by, updated rules and norms to trade, invest, and cooperate. Both sides need to understand better and then mitigate the specific causes of the mistrust that often dampens our ties. This requires more direct engagement between our governments at all levels--as well as our companies, our universities, and our broader societies--working together to advance real interests on both sides. If all that happens, the sky's the limit. If it doesn't, the opportunity cost for all will be huge.

But it is clear today that opportunities and incentives abound for stakeholders to engage and exchange in ways that bring a resounding advantage to both sides. Investment will be one of the most powerful tools to realize this. It can both broaden understanding of shared interests, and help overcome outdated prejudices.

When a big private Chinese company recently bought the leading U.S. pork producer, Smithfield Foods, reactions highlighted both of those factors. For many, reflexive

opposition yielded to a more balanced understanding of the likely results of the acquisition: more non-exportable jobs in the U.S.; increased exports; falling agricultural trade barriers; and the transfer of higher U.S. food safety standards to China, benefiting Chinese and American consumers of their products. It will drive more efficient meat production there,



**U.S. resurgence, and Chinese ascendance -- based on specific national strengths -- need not, and must not, be mutually exclusive.**

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in time, reducing food insecurity (we're the most efficient meat producer in the world). In other words, there will be a virtuous cycle of benefits at local, national, even global levels. We should welcome that.

China's leaders know continued growth requires a pivot from exports to domestic consumption. They understand small and medium sized enterprises, there as here, will be key to future jobs and growth. To thrive, a growing small business sector requires a culture of openness and a legal and regulatory environment that fosters competition, innovation, and government accountability. As China advances in this direction, for its own interests, we should recognize the systemic benefits that accrue far beyond China. More to the point, the United States should try to be as relevant as it can to that progress.

Likewise, China's focus on new pillar industries, like efficient energy or other clean-tech sectors, responds to pressing domestic political imperatives to address pollution and resource scarcities. At the same time, it opens big new investment opportunities for U.S. companies with the know-how and experience to support China's goals. China wants and needs to go from being one of the world's biggest polluters to a global leader in clean technology. We have incalculably big

stakes in its success doing so.

For America, retaining its global competitiveness requires staggeringly high investments in infrastructure. Here, too, an appropriate and creative new approach to Chinese participation would shore up vital long-term U.S. security and economic interests, provide safe and attractive returns on Chinese investment, and strengthen our interdependence. This will also buttress global peace and security.

The devil will always be in the details. Those details include important and thorny issues like intellectual property and cybersecurity. But there are huge incentives for us both to address these and other obstacles to relations that will serve our interests well.

When Richard Nixon and Henry Kissinger opened relations with China 40 years ago, it was an act of political courage, wisdom, and vision. No less is needed today as we recast what will be the defining international relationship of the 21st century. **RF**

*David Dreier was a Republican Congressman until this year. He serves as Chairman of the Annenberg-Dreier Commission at Sunnylands, which was established to strengthen the free flow of goods, services, capital, information, ideas, and people throughout the greater Pacific.*

**China's leaders know continued growth requires a pivot from exports to domestic consumption.**

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# The Importance of Pacific Trade to My State

C.L. "BUTCH" OTTER

Free, fair and balanced bilateral trade is critically important to the state of Idaho and the United States. For Idaho, nowhere is this statement more applicable than the Asia-Pacific.

Eight of Idaho's top 10 export destinations are in the Asia-Pacific and more than \$5.4 billion (nearly 90 percent) of Idaho's \$6.1 billion a year in exports can be attributed to Asia-Pacific Economic Cooperation (APEC) member nations. More than 60 percent of total U.S. exports are directed at this vital region. These statistics not only punctuate the importance of the Asia-Pacific for trade, but starkly highlight its strategic importance for our economic security.

As Idaho's Governor and former Lieutenant Governor, I have led many trade missions of Idaho businesses and assisted hundreds of companies to get a foothold in international markets. As a private business professional, I traveled to more than 80 countries, including all of the key markets in the Asia-Pacific. In both roles, I learned that nearly all successful business partnerships are built upon personal relationships of trust, and that continuity and longevity are critical for long-term success.

In April 2013, I led a trade mission of 18 Idaho companies to Seoul, South Korea; Taipei, Taiwan; and Ho Chi Minh City, Vietnam. In each country I found the presence of a U.S. governor and motivated companies was

warmly welcomed. The United States has a tremendous opportunity to build upon existing goodwill to create new markets for our products and services, create stable jobs here at home and provide competitive prices for goods and services to our citizens.

The first stop on our mission was Seoul, where I had the honor of laying a wreath honoring those Idaho servicemen who lost their lives during the Korean War more than 60 years ago. In the following two days of business and government meetings, I was reminded that U.S. military sacrifices, as well as humanitarian and diplomatic efforts in the region, have neither been ignored nor forgotten. In fact, Korean businesses and government leaders are more excited than ever to take advantage of the recent passage of the Korea-U.S. Free Trade Agreement (KORUS-FTA). This agreement will create new sources of wealth for our citizens and build relationships of trust needed to address larger international challenges.

Our next stop was Taipei, a market where – in addition to our ever-growing trade relationship with mainland China – Idaho has maintained a presence for nearly 25 years. Idaho's

long-term business relationships in Taiwan have resulted in many mutually beneficial outcomes. Idaho is a major exporter of semiconductors, wood products, paper, wheat, potatoes, meat, dairy products and fresh fruit to Taiwan. At the same time, Idaho-based Micron Technology – the



**Eight of Idaho's top 10 export destinations are in the Asia-Pacific and more than \$5.4 billion (nearly 90 percent) of Idaho's \$6.1 billion a year in exports can be attributed to Asia-Pacific Economic Cooperation member nations.**

largest memory manufacturer in the United States – now is Taiwan’s largest U.S. foreign direct investor. Through years of building relationships, Idaho and Taiwan stand together poised for new areas of opportunity.

Earlier this year, the U.S. granted visa-waiver status to Taiwan visitors to the United States, an act which can only serve to facilitate new opportunities in foreign direct investment, recreation, tourism and higher education.

The final stop of Idaho’s Asia Mission was Ho Chi Minh City. While Idaho’s relationships with Vietnam are still maturing, I could not help but notice how much the country has changed since my first trade mission in 2008. With a population of more than 90 million, more than 44 percent of whom are under the age of 25, the Vietnamese market holds great potential for growth.

Less than two generations after the end of the Vietnam War, Boise State University pioneered an effort to set up the first western MBA program in Vietnam in conjunction with the Hanoi National Economics University. The program has helped train a generation of Vietnamese business executives with the necessary skills to do business anywhere in the world. Their personal

preference, however, is to collaborate to work with their former Idaho classmates and friends from the United States. Again, it is personal relationships that help build a solid foundation for successful business and the opportunity for greater cooperation and cultural exchange between the United States and Vietnam.

In the turbulent years since September 11, 2001, skeptics may suggest that the United States is more interested in disarming terrorist threats than in building the business relationships necessary for economic prosperity and mutual understanding. From Idaho’s perspective, I can report that goodwill toward the United States in the Asia-Pacific is indeed alive and well.

The Asia-Pacific is “open for business” and the Obama administration and Congress would do well to encourage future agreements in the Asia-Pacific such as the KORUS-FTA and the Trans-Pacific Partnership (TPP). Through these kinds of agreements, we can add to a strong foundation of cooperation and trust that has been built in the Asia-Pacific. **RF**

**With a population of more than 90 million, more than 44 percent of whom are under the age of 25, the Vietnamese market holds great potential for growth.**

*C.L. “Butch” Otter is the Governor of Idaho.*



Governor Otter at a April 22nd luncheon held in his honor by the Korean International Trade Association during his trade mission to Asia this past spring.

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# China's Challenge to the United States

RICHARD BUSH

Recent trends suggest that world history is approaching another pivot period – one where a big shift in the balance of power destabilizes and even destroys the existing international order.

Germany's rise prior to World War I is an oft-cited case of a prior pivot. A century later, the "rising power" is China, and some fear for the future of the East Asian order that the United States created after World War II and sustained ever since.

Of course, history does not follow mechanistic formulas, and past power transitions were highly complex and contingent. This one will be no exception. But if China and America are to find a mutually acceptable accommodation, it will require wisdom, skill, and luck.

Several factors give this power transition its own character.

First of all, we should speak of China's "revival" rather than its rise, since centuries ago it was the dominant power of East Asia.

Second, China has restored lost power by accepting interdependence with the international system. By now, China is so embedded in that international system that the United States and its allies don't have the option of containing it.

Third, the fact that China will soon have the largest gross domestic product does not mean that it will automatically become the dominant political and military power at American expense. China's large GDP is an artifact of a large population and how production is measured (China gets credit for the total value of its export products even though it adds relatively little value

to them).

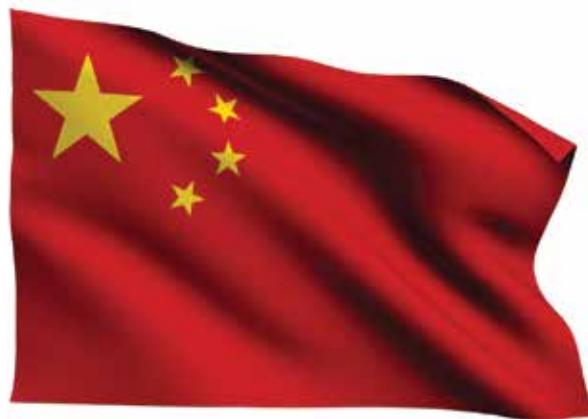
Fourth, as Chinese society evolves after three decades of rapid change, its leaders face a series of policy challenges if they are to sustain economic growth, ensure social stability, and restore the tarnished legitimacy of the Communist Party. The default response to domestic pressures has been to stabilize the external environment rather than to disrupt it, which reduces pressure on the United States.

Finally, the trajectory of China's military modernization is so gradual that it will not have the ability to challenge the United States on a global basis for a long, long time. It simply lacks the ability to project power the way the U.S. military has done for decades.

Indeed, a rising power usually seeks to dominate its home region first before going global. But this is easier said than done for China in its home region of East Asia. The United States has been that region's dominant power since 1950, based on the belief that the best way to protect our national interest is to deploy our multi-faceted power across the Pacific and into East Asia's littoral periphery

(particularly through the alliances with Japan and Korea). That forward deployment created a benign environment that increased the incentives of Asian nations to focus on economic development and reduced their temptation to go to war.

China itself was a beneficiary of U.S. policy once it threw off the ideological straitjacket of Maoism after



**...the trajectory of China's military modernization is so gradual that it will not have the ability to challenge the United States on a global basis for a long, long time.**

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1978. As long as the United States is determined to remain in East Asia, which is the starting point of current policy, China will find it difficult to dominate its own region. (If there is regional conflict, however, Chinese forces will not suffer under the “tyranny of distance.” Their American adversaries would).

So China has choices concerning how to exercise its growing influence. It may decide to disrupt the hegemonic stability that the United States has provided, but it is not destined to do so. Its leaders appear uncertain about their ultimate goals, move forward deliberately, and have generally been averse to risk. They understand that economic prosperity and social stability still depend on economic integration with the rest of the world. That said, there are several friction points in East Asia that could, if not carefully managed, heighten tensions between China and the United States and draw them into a relationship of permanent hostility and destabilize the East Asian regional order.

The first of these issues stems from Beijing’s belief that the restoration of national greatness is impossible without national unification. The key issue here is Taiwan. From the mid-1990s to 2008, Beijing perceived that the island’s leaders were seeking de jure independence; that success in such a quest would threaten China’s fundamental interests; and that America was somehow complicit in this separatist project. The ensuing tensions created the highest risk of a U.S.-China war since the late 1950s. Fortunately, since 2008 a different leadership in Taiwan has chosen to engage China economically and eschew provocations. Many points of difference remain between Beijing and Taipei, but for now their relationship is stable and is likely to remain so unless China sees new reason to conclude that time is not on its side for achieving unification.

The second strain on U.S.-China ties stems from the commitments that Beijing and Washington have made to their respective allies, North and South Korea. China’s support for Pyongyang waxes and wanes, and its frustration at being manipulated by a small power with a penchant for recklessness has grown with time. China is in basic agreement with the United States that the North’s nuclear weapons program is dangerous and destabilizing,

but Beijing is unwilling to abandon the Kim family regime all together and to remove the buffer state it represents. The current danger is that a limited, conventional military action by North Korea against South Korea will escalate out of control and draw China and the United States into a military conflict on opposite sides. The collapse of North Korea could have the same result. It appears, however, that Beijing has a greater appreciation of the danger that its ally poses and of the need to coordinate better with the United States and South Korea.

Third, over the last 15 years, China has sought gradually to push out its strategic perimeter from its eastern and southern coasts. If it had to stop a Taiwan move to independence, it would need to at least complicate U.S. intervention. Beijing believes that the East and South China Seas have plentiful natural resources (hydrocarbons, minerals, and fish). So it has claimed landforms in those seas, and, to assert those claims, it has enhanced the capabilities of its naval, air force, and law enforcement units. The problem is that American allies also claim some of those landforms, and Chinese maritime units increasingly operate in areas where the U.S. and Japanese navies have traditionally been dominant. Moreover, China’s rather aggressive behavior in asserting maritime claims has increased regional tensions and placed it at odds with the United States. There are probably conflict-avoidance and risk-reduction measures that the claimant states could adopt to

reduce the chance of physical clashes and a wider conflict, but Beijing has yet to summon the political will to do so.

The chance that war between the United States and China might result from conflicts in any one of these cases is low. Each side understands the stakes involved, and there are means available to reduce the risks even further. Still, the probability of military conflict is not zero, and its consequences would be profound. Toxic Chinese nationalism can limit Beijing’s options. And if these problems are not well managed in the absence of war, they can foster tensions between Washington and Beijing that will cumulatively lead each capital to conclude that the other’s long-term intentions toward it are hostile and to act on those perceptions. Neither would have intended



Richard Bush

**Still, the probability of military conflict is not zero, and its consequences would be profound.**

permanent rivalry, but it would happen anyway.

It is not just security issues that could produce permanent rivalry. Economic disagreements can as well. On balance, U.S.-China economic ties have been mutually beneficial over the last 30-plus years. Yet that has obscured a rather fundamental disagreement over the fruits of commercial innovation. For American firms, intellectual property (IP) is their most precious asset and the basis of future success. For the United States as a whole, encouraging innovation and protecting its fruits are the keys to future growth.

But Chinese economic entities, lacking the means to do technology innovation, have engaged in a consistent pattern of theft of IP from the United States and other advanced economies. The Chinese central government has made commitments to protect the intellectual property rights of foreign firms, but has never been able to implement those commitments well. This pattern has taken a new turn recently, as Chinese entities use cyber capabilities to steal foreign IP. For American firms, the perception grows that economic relations with China are no longer beneficial.

If rivalry is to be avoided, several steps are necessary.

American and Chinese leaders must have a shared understanding of the value of cooperation and the need to manage points of friction, especially in East Asia. Each leadership must shape negative domestic public opinion towards the other country so that it does not undermine bilateral ties. And each must ensure that the commitments it makes to the other are carried out effectively (otherwise, suspicion results).

Finally, if the United States is to encourage Chinese accommodation, it must itself rebuild the pillars of national power that have been allowed to atrophy over the last few decades. These include a sound education system, support for science and technological innovation, fiscal balance, and a competent civil service. These in turn will require an effective political system.

Without these reforms, China will have little incentive to accommodate to the United States and more reason to challenge it. In a rather fundamental way, America's future vis-à-vis a reviving China is in its own hands. **RF**

*Richard Bush is a Senior Fellow and the Director of the Center for Northeast Asian Policy Studies at The Brookings Institution.*

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## WOULD YOU SUPPORT A LAW THAT:

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- Increases greenhouse gas emissions and worsens air and water quality?
- Places millions of cars and small engines at risk?
- Mandates use of a product that does not exist, and fines companies for not using it?

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If the answer is no, you are one of a growing number of Americans rightly concerned about the impacts of the Renewable Fuels Standard (RFS).

Although many of these negative impacts have been well known for years, Congress and the administration face a critical decision this year. Our fuel supply and existing infrastructure simply will not allow for more ethanol.

AFPM is calling on the EPA to waive the ethanol mandates in 2013 and for Congress to repeal the anti-consumer RFS.

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# The Renewable Fuel Standard: *Bad for free markets*

BOB GOODLATTE

An artificial market with a very real impact – that’s the result of the federal government’s subsidization of the ethanol industry under the Renewable Fuel Standard (RFS). It may be a boon for the ethanol industry, but for everyone else it is a completely unworkable and costly policy.

The RFS requires that 36 billion gallons of renewable fuels be in our nation’s fuel supply by 2022. Currently, this mandate is almost entirely fulfilled by corn ethanol. In fact, in 2012 more than 40 percent of the nation’s corn crop was used for ethanol production.

A policy that started with good intentions has resulted in a slew of unintended consequences. One of the greatest unintended consequences of the ethanol mandate is the steep increase in the price of corn partially due to increased food and feed stocks being diverted to ethanol production. To put it into perspective, in 2005 corn prices were around \$2/bushel. In 2013, prices have been as high as \$7/bushel; however, last summer we saw prices exceed \$8/bushel. This steep increase can have a significant impact on those who purchase this commodity. As the ethanol mandate pushes more farmers to reallocate more land to corn production and away from other crop production, we have also seen the prices for other agricultural commodities rise.

Simply put, the RFS has driven up ethanol production at the expense of food and feed uses, passing these higher costs directly down the chain. For many farmers and businesses, rapid increases in the price of corn weigh heavily on their bottom line, making it difficult to stay in business. But it doesn’t stop there – higher corn prices are ultimately reflected

in the price of food and other goods on grocery store shelves.

The RFS also impacts the fuel in your gas tank. The mandate has now pushed the United States up against the “blend wall.” This wall is the point where we are producing more ethanol than necessary to generate E-10 gasoline, which is the highest level of

ethanol in gasoline that the entire motor vehicle fleet can safely utilize. As the RFS pushes the amount of fuel required to be blended into our nation’s gasoline higher, the fuel industry will likely have to produce a higher blend, like E-15, which cannot be used in all motor vehicles, or failure to blend the mandated volume results in fines, forcing companies to absorb the substantial costs, which would impact fuel prices. Some reports have found that the use of higher ethanol blends in gasoline, like E15, has resulted in engine damage and even failure.

The RFS debate is no longer just a debate about fuel or food. As we see the costs of this mandate continue to rise, it has also become a debate about jobs, small business, and economic growth. Quite

frankly, the RFS has created a domino effect that hurts livestock and food producers, businesses, and, ultimately, consumers. Under the RFS, the federal government is essentially telling private industry that they must buy one product, ignoring other groups who also depend on that product and creating an artificial supply-and-demand.

The RFS is clearly unworkable. The mandate drastically manipulates the corn marketplace and increases commodity and food costs across the supply chain. To force ethanol to compete in the free market,



**A policy that started with good intentions has resulted in a slew of unintended consequences.**

I introduced the Renewable Fuel Standard Elimination Act (H.R. 1461). The RFS Elimination Act will do just that – eliminate the ethanol mandate and help ensure that we have enough corn supplies to meet all of our demands. Ethanol would have to compete fairly, instead of being propelled by a government mandate.

The significant support surrounding the RFS Elimination Act is evidence that there is growing momentum to move away from the RFS. Thus far, nearly 50 bipartisan members of the House have signed on as cosponsors. The backing from groups outside of the House has grown as well.

Renewable fuels have a place in America's energy policy. Our nation should be looking at alternatives that will help to ease our dependency on fossil fuels. However, these fuels should compete fairly in the marketplace, free from the distortion and government

interference that the current ethanol mandate forces.

The RFS is an example of the federal government disrupting the marketplace by putting its heavy thumb on one side of the scale – tipping it in favor of one side over the other. In the debate over ethanol, the government is picking winners and losers. Every cattle producer who faces higher feed costs, every family who shops in a grocery store or dines at a restaurant, and every motorist who fills up their tank at the gas station pays the price of this unworkable policy.

It is evident that Congress must fix this broken ethanol policy and restore free market principles. **RF**

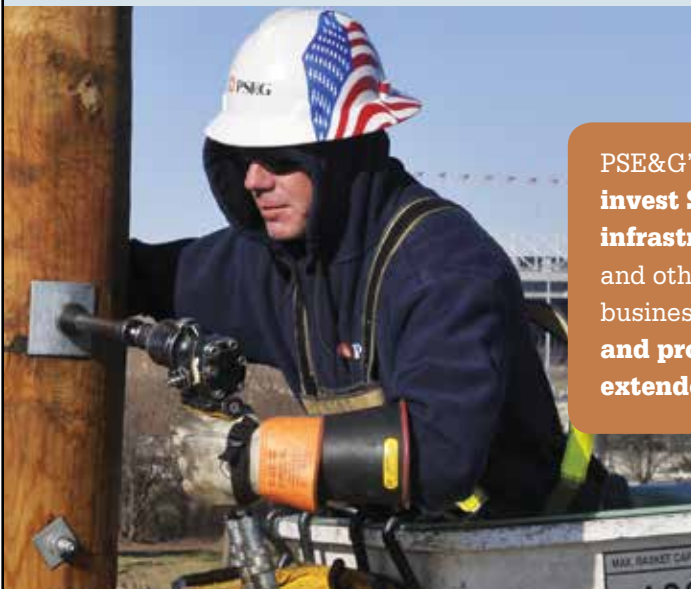
*Bob Goodlatte represents the 6<sup>th</sup> District of Virginia in the U.S. House of Representatives. He is a member of the Agriculture Committee, and serves as Chairman of the Judiciary Committee.*

**The RFS is clearly unworkable.  
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# *The Demographic Case for* **IMMIGRATION REFORM**

JAMES H. JOHNSON, JR.

Neither economic nor social or humanitarian arguments have garnered sufficient political support in Washington to enact comprehensive immigration reform legislation. There is, however, a strong demographic case which may resolve the current political impasse and mobilize bipartisan Congressional support for an immigration reform policy that enhances the nation's attractiveness as a place to live and do business.

At the most general demographic level, it is widely recognized on both sides of the political aisle of Congress that the U.S. population is aging. Ongoing debates regarding the future viability of Social Security, Medicare, and Medicaid programs are emblematic of the critical role population aging plays in Washington politics.

But policymakers seemingly are either unable to recognize or unwilling to acknowledge the critical link between population aging on the one hand and immigration reform on the other. Because our native born population is aging, we simply cannot thrive and prosper in the hyper-competitive global economy of the 21st century if we close our borders to new talent and fail to find a place for the 11.5 million unauthorized immigrants who are already living on our shores. And if we are not globally competitive, we will not be able to

build the economy that will help to sustain the social safety net programs that serve seniors and other vulnerable populations.

At a more granular level, several forces are driving the aging process — the so-called greying of America — which further amplify the need for immigration reform. Three are highlighted here.

First, U.S. fertility rates have declined sharply, especially among native born non-Hispanic white women, over the past quarter century. The decline is related at least in part to the growing role of women in the paid workforce. Some women have responded to increased opportunities to work by delaying marriage and/or childbearing until they are well established in their careers. For others, career goals and aspirations have overshadowed marriage and/or childbearing altogether. Whatever the reason, the fact remains that the percentage of U.S. women between the ages of 40 and 44 who have chosen not to have children doubled between 1976 and 2006, rising from 10% to 20%.

As a consequence of this demographic dynamic, the non-Hispanic white total fertility rate — a statistical measure of the number of children a couple needs to have to replace them -- has been below the



**...policymakers seemingly are either unable to recognize or unwilling to acknowledge the critical link between population aging on the one hand and immigration reform on the other.**

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replacement level (1.9 vs. 2.1) for almost two decades. In part for this reason, and despite the fact that aging Boomers and Pre-boomers are living longer, “[d]eaths exceeded births among non-Hispanic white Americans for the first time in at least a century...” during the year ending July 1, 2012.<sup>1</sup>

Second, and further fueling the necessity for immigration reform, these two demographic forces -- declining fertility and population aging — are threatening the future fiscal and economic viability of some U.S. communities. Between 2010 and 2012, 17% of the nation’s 366 metropolitan areas (61) and 30% of the nation’s 527 micropolitan areas (160) lost population. In nearly all of these communities, deaths exceeded births and internal migration was not sufficient enough to offset natural population loss. Bereft of mainstream economic and employment opportunities, these communities are literally dying.

But ample evidence exists regarding the critical role that immigration can and will have to play in their revival. We know, for example, that an even larger number of U.S. metropolitan and micropolitan areas would have lost population were it not specifically for the influx of movers from abroad between 2010 and 2012. Immigrants are breathing new life into these communities, fostering both population growth and economic and employment growth through their entrepreneurial acumen. Across the nation, immigrant newcomers were critical drivers of growth in almost all of the metropolitan areas and micropolitan areas that gained population between 2010 and 2012.

Finally and perhaps most importantly, especially given the aging of our native born population, our elected officials must recognize that immigration is highly selective of young people. There is, for example, a 15 year differential between the median age of native born non-Hispanic whites (42) and Hispanic immigrants (27) in the U.S. Taking this age differential into account, it is a strategic imperative for our nation to move beyond our pre-occupation with fiscal impacts and focus instead on the broader and longer term economic impacts of immigration.

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1. Sam Roberts, 2013, “Census Benchmark for White Americans: More Deaths than Births,” *New York Times*, June 13, available at [http://www.nytimes.com/2013/06/13/us/census-benchmark-for-white-americans-more-deaths-than-births.html?\\_r=0](http://www.nytimes.com/2013/06/13/us/census-benchmark-for-white-americans-more-deaths-than-births.html?_r=0).

Even if the short-term fiscal impacts are negative, research suggests that these costs are often offset or overshadowed by the direct and indirect economic impacts of immigrant consumer spending in local communities. Our studies of the economic impact of immigrants in North Carolina and Arkansas before and during the recent recession revealed, for example, that these two states received in return for every dollar invested in K-12 education, health care, and corrections between \$6 (AR during the recession) and \$10 or \$11 (NC and AR, respectively, prior to the recession) in business revenue and taxes from their immigrant populations.<sup>2</sup> It should be noted here that these cost-benefit ratios emerged after subtracting roughly 20% of the immigrant purchasing power that was sent home in the form of remittances.

Demographically, we will need young immigrants to fuel future population growth and to sustain Social Security and other government benefit programs, as well as support the tax base of local communities, especially those that are currently losing population. But more than anything, we need their talent – in our universities, in our workforce, in our neighborhoods. For this

reason, it is essential that the U.S. Congress move beyond political rhetoric and enact comprehensive immigration reform.

**RF**

*James H. Johnson, Jr., Ph.D. is the William R. Kenan Jr. Distinguished Professor of strategy and entrepreneurship and director of the Urban Investment Strategies Center at the Kenan-Flagler Business School at the University of North Carolina at Chapel Hill.*

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2. John d. Kasarda and James H. Johnson, Jr., 2006, *The Economic Impact of the Hispanic Population on the State of North Carolina*. Chapel Hill, NC: Frank Hawkins Kenan Institute of Private Enterprise, available at [http://www.kenan-flagler.unc.edu/~media/Files/kenaninstitute/UNC\\_KenanInstitute\\_HispanicReport.pdf](http://www.kenan-flagler.unc.edu/~media/Files/kenaninstitute/UNC_KenanInstitute_HispanicReport.pdf). John D. Kasarda, James H. Johnson, Jr., Stephen J. Appold, and Derrek L. Croney, 2007, *A Profile of Immigrants in Arkansas, Volume 2: Impacts on Arkansas Economy*. Little Rock, AR: Winthrop Rockefeller Foundation, available at [http://www.urban.org/uploadedpdf/411441\\_Arkansas\\_Vol2.pdf](http://www.urban.org/uploadedpdf/411441_Arkansas_Vol2.pdf). Stephen J. Appold, James H. Johnson, Jr. and John d. Kasarda, 2013, *A Profile of Immigrants in Arkansas: Economic and Fiscal Benefits and Costs*. Little Rock, AR: Winthrop Rockefeller Foundation, available at <http://www.wrfoundation.org/assets/files/pdfs/Immigrant%20Study%202012/Volume%202%20-%20Economic%20and%20Fiscal%20Benefits%20and%20Costs.pdf>.



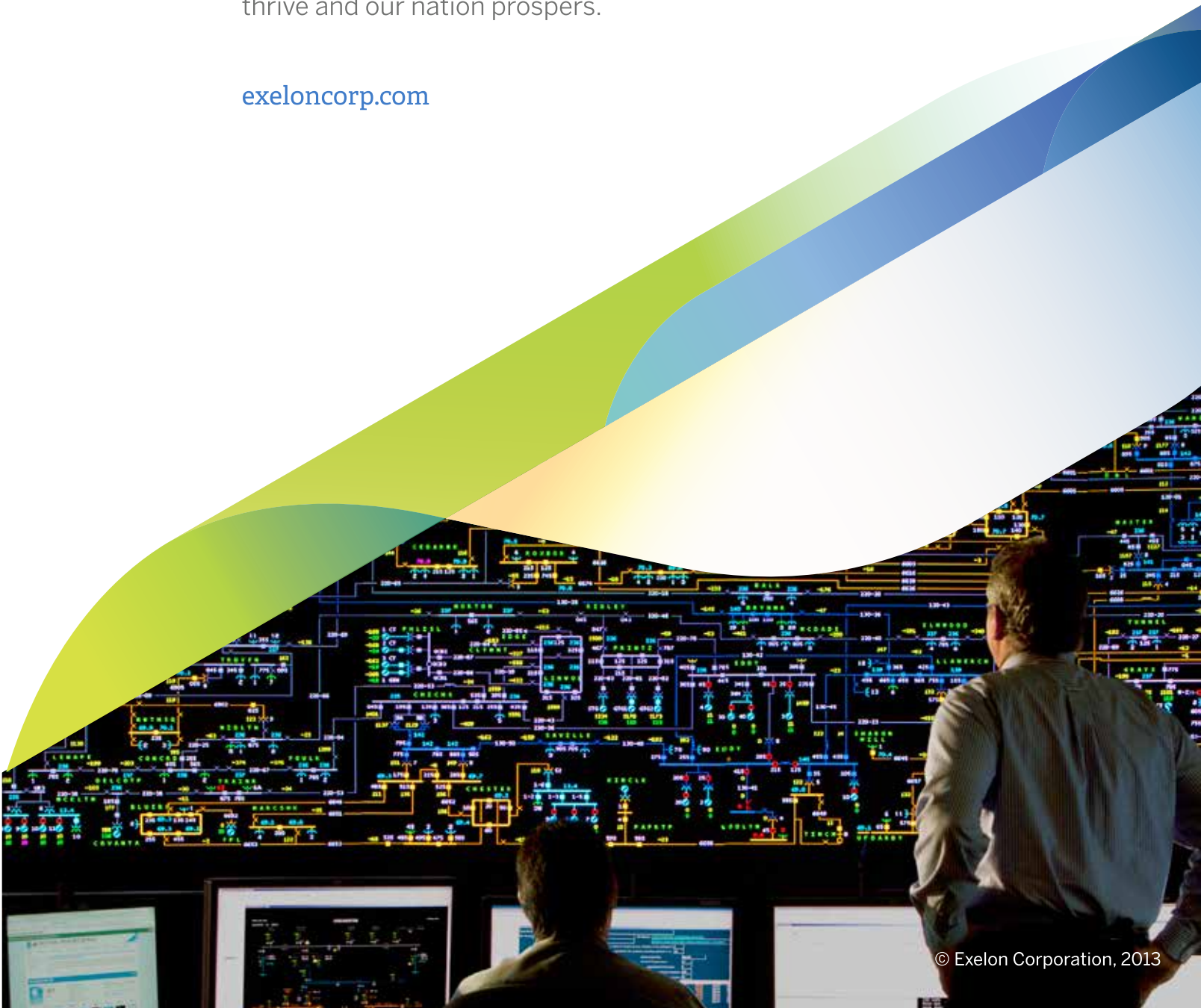
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# The Biggest City You've Never Heard of

SCOTT SMITH

The past few years have been rough on American cities. The worst recession in memory put millions of city dwellers out of work, depressed real estate values, and devastated city finances. At the same time, the demand for city services increased. Cities throughout the country scrambled to meet the challenge.

For the most part, mayors and other city leaders made the tough decisions that resulted in balanced budgets and more efficient operations. You might say they found religion, or at least came face to face with reality. Mayors discovered that by following common sense, conservative fiscal management practices, city government can provide quality services to residents without breaking the bank.

The manner in which city leaders have met the challenges is an example for all levels of government. They recognized that issues could not be ignored or kicked down the road. Regardless of how bad the situation was, potholes had to be filled, trash had to be collected and fire fighters had to respond to a 911 call. The services might have to be adjusted or even scaled back, but the city still needed to respond. To make this happen, problems had to be solved, not simply debated. Compromises had to be reached, and the general welfare of the community had to be at the forefront. Republicans and Democrats had to work together. Core constituencies

sometimes had to be disappointed. Many Democrats found themselves at odds with their public employee union friends, while more than a few Republicans accepted or even led the fight to raise revenue in their city. Most of all, mayors from all parts of the political spectrum have learned firsthand how much the overall

success of a city is directly connected to the long-term economic success of the businesses within the city.

Mesa, Arizona is no different than other cities in the country. It's been said that Mesa is the "biggest city you've never heard of." With nearly half a million residents, Mesa is the 38th largest city in the country and experiences many of the same challenges as other big American cities. That includes those brought on by the current financial crisis.

We have struggled with unprecedented shortfalls in city revenue and battled monstrous budget deficits. We faced this crisis using a measured, common sense approach that completely changed the way we do business in Mesa. In doing so, we

created a leaner, smarter city; but at the same time we also sought out new opportunities upon which we could build a brighter future.

In 2009, we implemented the largest reorganization of city government in Mesa's history, reducing the



**...mayors from all parts of the political spectrum have learned firsthand how much the overall success of a city is directly connected to the long-term economic success of the businesses within the city.**

budget nearly 20 percent and significantly reducing the workforce. We restructured, reorganized and refined our processes. We held ourselves accountable for maintaining a high level of service throughout the recession, which we were able to accomplish by being creative and innovative. We made the conscious decision to not survive during the crisis, but to thrive.

Like many, I often look to examples set by great leaders such as Abraham Lincoln for inspiration. I've always admired the fact that Lincoln achieved some of his greatest accomplishments during the darkest hours of the Civil War. In the midst of the chaos of the war, and with the Union hanging by a thread, Lincoln pushed through significant legislation that changed the nation forever. This legislation included the Homestead Act, which opened up the west to settlement; the Pacific Railways Act, which made the transcontinental railroad possible; the Morrill Act, which established land-grant colleges; and, the law that created the National Academy of Sciences. These were all designed to move America forward after the fighting was over.

In Mesa, we also found ways to invest in our future while dealing with our problems. During the recession, we: 1) became America's unique college town by attracting five legacy private liberal arts

universities, including the first Catholic university in Arizona, to establish campuses in our downtown; 2) started construction on a three-mile extension of light rail through our downtown; 3) began commercial airline service at Phoenix-Mesa Gateway Airport, a former Air Force Base, and just celebrated our five millionth passenger; 4) built five new fire stations, two new police stations, and over \$150 million of street and road improvements; and, 5) engaged citizens in iMesa, a cutting-edge citizen driven process that resulted in voters approving a \$70 million bond issue to improve parks in the city. These public investments have attracted millions in new private investment, which forms the foundation for long-term economic growth and improves the quality of life in our community.

Cities across the country have met the challenges of the great recession, and are building for the future. While we must still confront serious issues such as underfunded pensions and the new challenges of a global economy, I am confident that cities can and will continue to lead the way in building a better America. **RF**

*Scott Smith is serving his second term as Mayor of Mesa, Arizona. First elected in 2008, he also serves as the President of the United States Conference of Mayors.*

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# Replacing the Gasoline Tax with a Road User Fee

DENVIL R. DUNCAN and  
JOHN D. GRAHAM

Given recent regulatory changes in federal fuel-economy standards for cars and trucks, the consensus forecast is that motor fuel taxes will not be an adequate source of dedicated funding for roadway maintenance and construction. Many experts believe we should eliminate the fuel tax and replace it with a user fee based on the number of miles driven, but that's easier said than done given the current political climate around taxes.

A road user fee charges each driver for the number of miles driven. The fee structure can be modified to account for vehicle weight, which is known to be one of the main determinants of road wear and tear. However, implementing a road user fee faces some challenging issues that must be addressed before receiving wide acceptance. First, how should vehicle miles traveled be measured? One approach is to use the mileage recorded by the odometer, which is a standard feature in every motor vehicle. This information could be collected through self-reporting by drivers or visual inspection by public servants. In order to discourage fraudulent reporting, public servants could compare reported mileage with an estimate based on data from CARFAX reports, insurance companies, auto service centers, and a driver profile.

More technologically advanced methods are feasible but come with privacy and cost concerns. However, those worries are fading as automakers build cars with Internet and GPS connectivity and more insurance companies adopt pay-as-you-drive policies. Therefore, it may be possible – within the next 20 years - for the government to rely on the data collected by third-party entities such as insurance companies to implement the road user fee. The most important feature of these developments is that they are driven by market forces. Therefore, making this option available to drivers on a voluntary basis should reduce privacy and cost concerns that have plagued the idea of mandating new GPS devices in all cars.

Replacing the gasoline tax with a mileage user fee has several advantages. First, the mileage user fee provides a more adequate and stable source of revenue for the construction and maintenance of roads. This is due to the fact that the road user fee does not depend on the amount of gasoline consumed. Therefore, the amount of revenues collected will not fall as the mileage ratings of cars improve over time.

Second, the mileage-based road user fee is more equitable than the gasoline tax when judged on the benefit principle. According to the benefit principle, a tax is equitable if its burden is distributed according to the benefits received from goods/services financed by the tax. Since the gasoline tax is used for road maintenance, repairs and construction, one could argue that those who drive more and therefore consume more road services should pay more. This feature of the gasoline tax is steadily being eroded by the rising use of fuel-efficient and all-electric vehicles. When a fee is based on the number of miles driven, it ensures that each driver pays according to the amount of road they “consume”. This is especially true if the fee structure is adjusted for vehicle weight.

**When a fee is based on the number of miles driven, it ensures that each driver pays according to the amount of road they “consume”.**

Another distinctive feature of the mileage user fee is its visibility to drivers. Because drivers are billed for the number of miles driven, it establishes a clear link between miles driven and user fee liability. This will likely lead to a desirable reduction in miles driven as drivers consolidate trips and car pool in order to reduce their user fee liability. Although the road user fee reduces the incentive to purchase fuel-efficient cars compared

to the fuel tax, the environmental impact of driving is best addressed with a tax on the amount of pollution produced or a regulation on tailpipe emissions.

Finally, a GPS-based mileage user fee would also allow policy makers to address local traffic congestion. A surcharge could be implemented for driving during peak hours in congested areas or driving on particular bridges or expressways (similar to a toll).

There is never an easy time to propose a new tax, even one that replaces an existing tax with a user fee. Fortunately, the ongoing fiscal debates in Congress may lead eventually to comprehensive tax reform. Such a bill could include the replacement of the fuel tax with a mileage user fee. The alternative is inevitably more broken roads and bumper-to-bumper traffic. Failure to act also implies larger deficits as the Federal government continues to supplement the highway trust fund with transfers from the general fund. **RF**

*Denvil R. Duncan is an assistant professor in the Indiana University School of Public and Environmental Affairs. John D. Graham is dean of the school.*





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# Federal Reserve Transparency: *Should We Want It?*

by  
WILLIAM A. BARNETT

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Since its creation, the Federal Reserve has been the subject of controversies about the degree of its policy transparency. Some argue that Fed transparency is inadequate, while others insist it is excessive.

The selection of a new Fed Chairman to take over for Ben Bernanke is unlikely to end this argument. Indeed, given the growing complexity of financial instruments and their impact on markets today, calls to pull back the curtain on Fed decision making are likely not only to continue, but increase.

One of the main arguments made by those who support greater transparency is that it would improve the quality of data. There is growing evidence that defective Federal Reserve data played a role in producing the misperceptions of systemic risk that led up to the recent recession. Banks and Wall Street firms believed that increased investment risk was prudent, as a result of the widely held view that systemic risk had decreased permanently. Even Nobel Laureate Robert Lucas wrote in his 2003 Presidential Address to the American Economic Association that the Federal Reserve had gotten so good at its job that macroeconomists should cease research on countercyclical policy.

But better Federal Reserve data could have revealed that Fed policy had not greatly improved, and that -- to cite but two examples -- the widespread confidence in the "Greenspan Put" approach to monetary policy and the presumed permanent end of the business cycle were misguided. I argued as much in my book, *Getting It Wrong: How Faulty Monetary Statistics Undermine the Fed*, which won the American Publishers Award for Professional and Scholarly Excellence for the best book published in economics during 2012.

When Congress passed legislation in 1978 mandating audits for most government agencies by the General Accounting

Office (GAO), it excluded the Federal Reserve System from this requirement. The following year, then-Chairman Paul Volcker made major policy changes to lower the inflation rate. Chairman Bernanke has stated that the 1978 audit exclusions were necessary to allow Chairman Volcker's ability to act decisively. I was on the staff of the Federal Reserve Board in Washington, DC at that time. Paul Volcker was a determined chairman, whose actions were based upon his own strong convictions. The GAO could not have prevented him from implementing his chosen policy, as it has no policy-making authority.

The biggest danger of increased Congressional audit authority would be the second-guessing of unpopular policy actions for political reasons. There are well-known examples of such pressures. Over lunch with Arthur Burns, following his term as Federal Reserve Chairman (1970-78), I asked him whether any of his decisions had ever been influenced by Congressional pressure. He emphatically said no --- not ever. But as Milton Friedman stated in the book I wrote with Paul Samuelson, *Inside the*

*Economist's Mind*, Nixon himself believed he had influenced Burns.

It is also worth noting that there are several instances when faulty monetary data led policymakers astray. For example, my research suggests that Volcker's disinflationary policy was overdone and produced an unnecessarily severe recession. Poor data on the monetary aggregates, having improperly weighted components, led Volcker inadvertently to decrease monetary growth to a rate which, if appropriately measured, was half what he thought it was. In addition, during the decade leading up to the recent financial crisis, my data show that the Fed was feeding the bubbles far more aggressively than reflected in the Federal Reserve's official data. The pattern of such



**There is growing evidence that defective Federal Reserve data played a role in producing the misperceptions of systemic risk that led up to the recent recession.**

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misperceptions associated with defective data is documented extensively in my book, *Getting It Wrong*.

Focus, for a moment, on the Federal Reserve's monetary published data. Is its quality the best possible and in accordance with best practice economic index-number theory? Unfortunately, it is not. Consider, for example, the widely monitored data on banks' "non-borrowed reserves." Clearly the borrowed portion of reserves cannot exceed total reserves, so non-borrowed reserves cannot be negative. Yet recent Federal-Reserve-reported values of non-borrowed reserves were minus-\$50 billion! How can this happen? In its definitions, the Federal Reserve chose to omit from "total reserves" large amounts of funds borrowed from the Fed but included in published figures for borrowed reserves. It is unlikely that such confusing accounting practices would survive scrutiny by an outside audit.

There are other serious defects in Fed data. According to Section 2a of the Federal Reserve Act, the Fed is mandated to "maintain long run growth of the monetary and credit aggregates commensurate with the economy's long run potential..." Neglecting these instructions, Federal Reserve policymakers have stated that monetary aggregates currently are unimportant to their decisions. Whatever the merits or otherwise of this attitude, external analysts and researchers continue to depend on monetary data to obtain an accurate picture of the stance of policy, and many other central banks throughout the world continue to report data on multiple monetary aggregates.

During the 30 years since the Congress excluded monetary policy from GAO audits, two of the monetary aggregates have been discontinued: the broad M3 and L aggregates. Only the narrow M1 and M2 aggregates remain. In addition, the Fed is almost alone among central banks in no longer gathering and supplying to the public interest rates paid by banks, leaving that data collection to private firms, which charge for access to the information.

Further, the M1 aggregate is severely biased downwards. Since 1994, banks have been permitted by the Federal Reserve to reclassify, for purposes of calculating legal reserve requirements, certain checking account balances, as if they were saving deposits. Banks supply to the Federal Reserve only the post-sweeps checking account data. The resulting published data on checking deposits understate -- by approximately half -- the amount of such deposits held by the public at banks. Again, it seems unlikely that such an omission would survive an unconstrained audit by persons qualified in economic index number theory.

With respect to the collection and publication of accurate data, creation of an independent data institute for monetary and financial data would be preferable to an expanded audit, since such institutes possess specialized expertise in economic measurement. There is an obvious potential for a conflict of interest in having data reported by the same agency that

influences that data through its own policy actions.

These data problems have become so troubling that private organizations outside the Federal Reserve have begun filling the gaps independently. The Center for Financial Stability, a nonprofit think tank located in New York City, has begun supplying higher quality financial data than the Fed. The data include broad monetary aggregates, M3 and M4, no longer provided by the Fed, and with proper index number theoretic weighting of the components. Since 1922, when Irving Fisher's famous book *The Making of Index Numbers* appeared, adding up imperfect substitutes has been disreputable. Would you add up subway trains and roller skates to measure transportation services?

Except for the Federal Reserve, all other data producing agencies in Washington, DC use the highly developed fields of aggregation and index number theory to weight components properly. Examples of correct aggregation include the Commerce Department's National Accounts and the Labor Department's Consumer Price Index. The Federal Reserve stands alone in Washington in computing un-weighted simple sums of such poor substitutes as highly-liquid currency and highly-illiquid nonnegotiable certificates of deposit to measure monetary services. Along with the Center for Financial Stability, the economics profession itself is now stepping in with the creation of a new society, the Society for Economic Measurement.

Good reason exists to question the quality and quantity of economic data available from the Federal Reserve. The cause of these inadequacies is the failure of the

original design of the system to recognize the conflict of interests inherent in having a system with policy authority report the data that it itself influences. It is tempting to believe that routine GAO audits would solve all of these problems. But the Fed is very careful to make sure its books would be largely unscathed by a routine accounting audit. "Functional audits" by trained economists would be a different matter, and would be very unwelcome by the Fed.

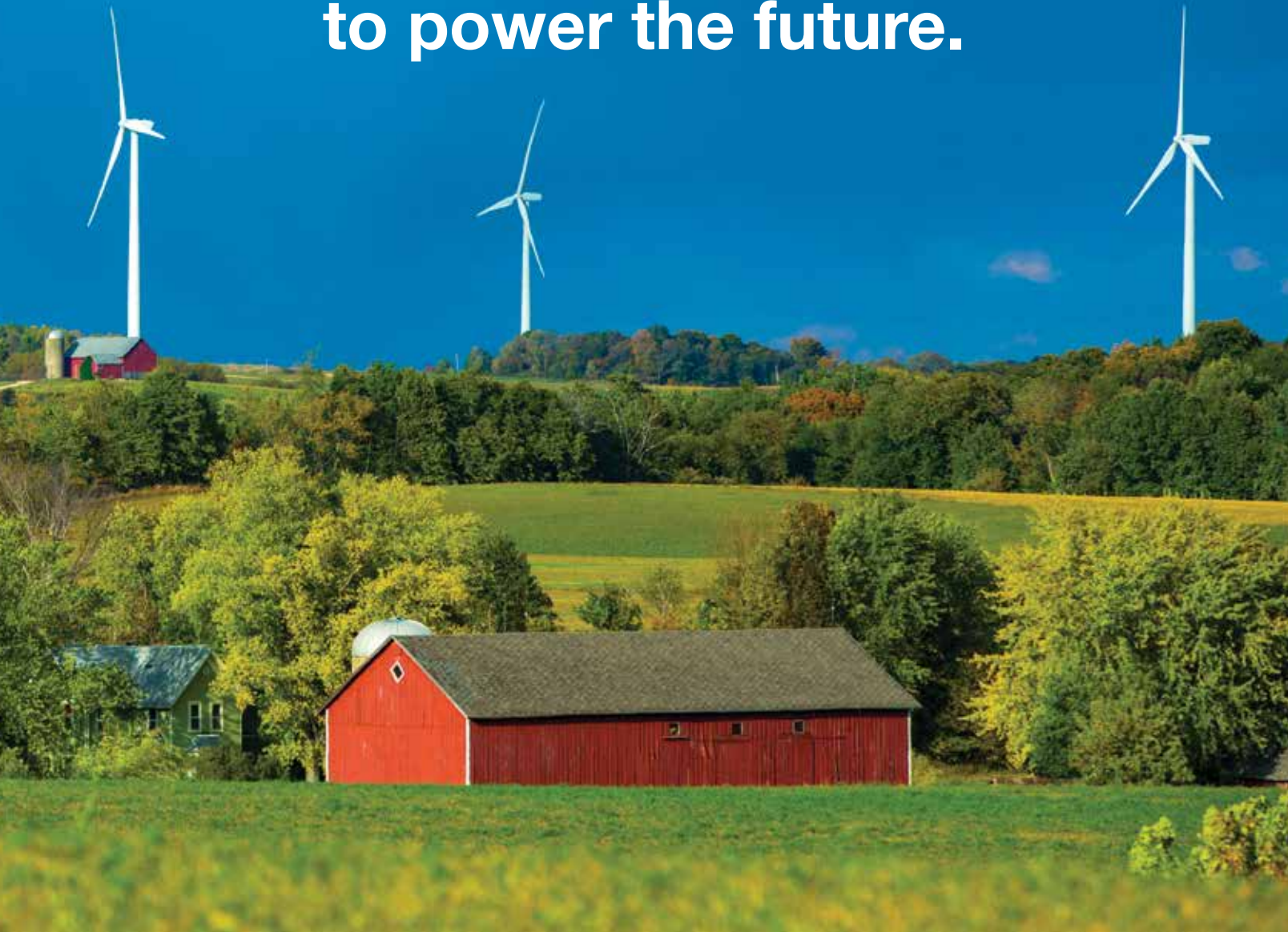
Finally, and paradoxically, critics of expanded audit are frequently advocates of Congressional imposition of an interest-rate or inflation-targeting policy-rule on the Federal Reserve, with heavy penalties for missing the target. Such a rule would constrain the Federal Reserve's discretionary policy authority far more than any audit.

**RF**

*William A. Barnett is the Oswald Distinguished Professor of Macroeconomics at the University of Kansas and Director of the Advances in Monetary and Financial Measurement Program at the Center for Financial Stability. The author of two books on economics and America's financial system, he spent eight years on the staff of the Board of Governors of the Federal Reserve System in Washington, DC.*

**These data problems have become so troubling that private organizations outside the Federal Reserve have begun filling the gaps independently.**

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## *“We consider ourselves the governance wing of the Republican Party”*

Dent, Kinzinger and Paulsen talk about the resurgence of the House Tuesday Group and the group’s mission moving forward this year.

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WASHINGTON, D.C. – The leaders of the Tuesday Group appeared before a breakfast meeting of The Ripon Society on June 28th to discuss the group’s agenda in the 113th Congress and its mission moving forward this year. The leaders included Reps. Erik Paulsen (MN-3), Adam Kinzinger (IL-16), and Charlie Dent (PA-15), who serves as Co-Chairman of the center-right caucus of House Republicans and who opened his remarks by talking about the group’s resurgence as “the governance wing” of the GOP.

“There are articles written about the Tuesday Group’s demise,” Dent stated. “But that simply isn’t true. Our group has nearly 50 members. We have a number of Members who are very ac-

tive, and I think we have one thing in common -- we consider ourselves the governance wing of the Republican Party. We’re the folks who understand that, as Members of Congress, we have a firm obligation to govern -- to get

**“We’re a group of folks who believe that when you control one-third of the government, your job is to govern.”**

**Rep. Adam Kinzinger**

things done. Our job would be really easy if we just had to push the ‘no’ button every day. At some point, people have to lead. They have to stand up. And that’s what our members tend to do with many of the big issues that our

country faces.

“The bottom line is that our members are trying to get things done. They put forward solutions to real problems that people face. I’d argue that our members are more focused on economic issues and tend to stay off of the hot-button cultural and social issues. Generally, they very much want to be engaged on the issues of the economy, job-creation, and energy production. That is what our group is all about.”

Kinzinger agreed.

“We’re a group where a lot of us are conservative and there are some who would call themselves moderate,” he stated. “But the point is, we’re a group of folks who believe that when you control one-third of the government, your job is to govern. When



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you're in the minority, it's easy to go home and say, 'I voted 'no' on every bad piece of legislation,' because literally all that you have to do in the minority is vote 'no.' That's your job.

"But once you take that position of being in the majority, you have a level of responsibility that comes with it. It's especially difficult in a government when you have a Democratic-controlled Senate and a Democratic President. We now find ourselves in a position where we have two choices. We can either burn the place down – and we have the ability to do that. We don't have to accept anything. We don't have to do anything. We can burn the place down and say, 'Hey, we at least stuck 100 percent to what we believe.' Or we can actually try and find that area where we can maybe find some common ground and move this country forward in the right direction."

"I can tell you a hundred things in the Fiscal Cliff I didn't like. But I also saw in the Fiscal Cliff deal that Republicans were able to influence that piece of legislation – outpunching our weight class. What you saw that came out of that was far more than one-third Republican influence. You had Bush tax cuts made permanent under \$400,000. That had never been done -- even when we had all three branches of government. We also took care of the AMT problem. I've got a bunch of farmers in my district who are happy that they don't have to talk about an estate tax again for a while. So that's what we're here to do -- to say we want to be a part of the conversation and move this country forward. Because at the end of the day – and I'm not trying to sound overly patriotic – but at the end of my time in Congress, however long that is, I have to look at myself in the mirror and ask, 'What did I do during my time here?'"

Paulsen echoed his colleague's assessment.

"I think the parameters and initiatives of the Tuesday Group parallel

what The Ripon Society stands for. And I think it comes out of what the Reagan governing majority would want to do. I really think that's what the makeup of the Tuesday Group is. We have a pretty good selection of what I would argue are conservative to moderate members in our group. We meet once a week and we have lunch. We thoughtfully and methodically go over every bill coming up on the floor: 'Are there additional amendments we want to propose?' 'What makes sense moving forward?'

"I do remember a couple of years ago, when I first got here and I decided to join the group and follow in the footsteps of Bill Frenzel and Jim Ramstad, I noticed that now-Senator Mark Kirk was presenting a Suburban Agenda for the first time. And that kind of got me

### **"I think the parameters and initiatives of the Tuesday Group parallel what The Ripon Society stands for."**

**Rep. Erik Paulsen**

excited to talk about getting something done -- connecting with the electorate and being positive and for something."

Paulsen is serving his third term in the House and is a member of the Ways & Means Committee, while Kinzinger is in his second term and is a member of the Committee on Energy and Commerce. The pair serve as Co-Chairmen of the Tuesday Group along with Dent, who is a Member of the Appropriations Committee and was elected to Congress in 2004.

Following their opening remarks, the troika took questions on a number of issues, including the recent Farm Bill that went down to a surprising defeat.

"I think that is a classic example of the problem our conference confronts," Dent said of the failed legislation. "I did not like the 2008 farm law. I voted against it. The bill on floor the other day was, I feel, better than the current law. I think that sometimes

some of our members have trouble recognizing that incremental progress is good. You don't get everything. And I guess what is frustrating to me is that some folks were offering amendments ostensibly to improve the bill. When the amendment gets adopted, then they vote against the final bill.

"At the end of the day, the bill was better than the current law. I think that some of our members are under pressure from outside groups and other folks and they decide to vote 'no.' At some point, we can all run around and point fingers on why it failed. 'Oh, it was the outside groups. It was the Democrats.' But when you're in the majority, we're responsible for passing the bills. We can go blame Collin Peterson, or we can go blame Nancy Pelosi or the outside groups. But we're the ones that have to get it done. It is frustrating, and I'm not sure that I have a great answer to it. But we have to strike a balance. We've got an open process out there, where the more open the process, the harder it is to maintain discipline.

If you close the process, then you'll have people voting against it on procedural grounds because they'll say, 'I won't have my input.' We have to strike a balance, and we have yet figured it out."

Kinzinger, who flew combat missions in Iraq and serves as a Major in the Air National Guard, concurred with Dent and pointed to a critical ingredient that, he said, is too often missing from Washington politics today – leadership.

"The reality of what's happened," the Illinois lawmaker stated, "is that there are 30 or 40 folks in our conference who just don't vote for anything. You can figure out who they are. When you look at all of the tough pieces of legislation, they won't vote for it. The problem is, when you subtract those 30 or 40 people, then you can't get to 218. Among those, there are some that are basically libertarians. My view is, I guess we'll take them voting for our



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Speaker -- if they do -- but there's also a Libertarian Party, and that doesn't mean that our party should become exactly that.

"I have a very strong position on national defense, which I'm afraid we're eroding. We have to have a very strong position that it's okay to have a federal government. We're not against the federal government. We just want one that's smaller, effective, and efficient, and that's able to do its job with less expenditures. The problem is, we have these outside groups. I'm a member of No Labels. If you even mention talking to Democrats and say 'Let's find some areas where maybe we do agree,' you're now labeled as a 'RINO.' You are a Republican In Name Only, because you're doing exactly what Ronald Reagan did -- which was talk to people on the other side of the aisle."

"I don't know how we get out of this, and that is kind of a concern. It's ultimately going to take Members of Congress who are willing to go home, and if someone tries to challenge you on the Fiscal Cliff vote, you have to say, 'Yeah, I understand where you're coming from. We may disagree, but let me tell you why I got there.' That's what leadership is. As a pilot, when you fly a formation, number two, the second plane, all he's doing is looking at the lead aircraft. In fact, as number two, you have no idea what position you're actually in. You could be at a 90-degree bank, you just don't know. All you're doing is intensely staring at the lead aircraft."

"The American people are desperate for some kind of leadership out of Washington, D.C. And in Washington, D.C., leaders are desperate to see where the American people are because they are scared to death of losing their reelection. Nobody is providing leadership, and it's creating a chaotic situation where it's the blind leading the blind. That's something we have to find our way out of."

When asked about the prospects of two other key issues being debated

on Capitol Hill this year -- reforming immigration and raising the debt limit -- Paulsen was hopeful for progress but realistic about the possibility that agreements will be reached.

"Immigration is going to be tough," the Minnesota Republican stated. "It's going to be tough because it's going to be one of those issues where maybe it splits 50-50 in terms of being pro-economy and pro-business and your traditional Republicans being for it, and then the activist base being very nervous and probably against it. So it will probably be a 50-50 split on the Republican side, which makes it a lot more challenging for a lot of members. I think the way the House is going to proceed in the near term is by moving

**"I think this is a time for us to be ruthlessly pragmatic."**

**Rep. Charlie Dent**

pieces of it through. That would be my hope. Because I think we need a lot of progress on immigration, to recognize labor flow, and make sure we have a legal system that works, so we won't have the legal challenges given what has happened over the last couple decades. I think we absolutely can make progress -- I do. We have to see what the Gang of now 7 in the House is actually going to formally put forward, and what the differences are from what the Senate just passed.

"On the debt ceiling, we had one conference meeting talking about the debt ceiling as a group, and it was interesting from a Ways and Means perspective that there was a lot of conversation about wanting to be for something. We recognize that we're going to have to get something of what the House wants. What should that be? Should it be entitlement reform? Well, I'm not convinced -- some of us aren't convinced -- that the President is going to want to do some of those changes. There won't be

sincerity there. But what can we be for that helps the economy? Tax reform. There are a number of different tax initiatives there that I think members of our conference across the spectrums are speaking in favor of. So that's a process that's going to be our goal now."

Dent was equally blunt.

"I think this is a time for us to be ruthlessly pragmatic," he said, referring to the debt limit. "What I mean by that is we did 'No Budget, No Pay' ... The debt ceiling debate was about the Senate not doing a budget. It wasn't about the debt ceiling. It was about the budget. And you know, it became law. That was a very smart maneuver. For the next one, I'd recommend to our leadership that we do about three or four things.

"One, take Erik Paulsen's repeal of the medical device tax and attach it to the debt ceiling. There are about 70 folks in the Senate who have voted for that. Take the Keystone Pipeline -- 62 Senators have voted for that, too -- and put that in the debt ceiling. Maybe throw in an SGR fix if we can do it -- put it in there. And maybe put in the repeal of IPAB -- the Independent Payment Advisory Board. Send it over to the Senate and watch Harry Reid choke. I mean, seriously. In other words, unite the Republicans and divide the Democrats. That's how we have to be. This is meaningless if we don't have 218 votes, though. We have to have 218 votes for whatever it is.

"The only thing I'll say about immigration is that a piecemeal approach actually does make sense. You deal with enforcement. You deal with guest workers -- the STEM workers. You deal with children probably differently than the balance of the 11 million who are here unlawfully. Then you look at who has overstayed their visa and who has crossed the border illegally. And of course fix the exit system in a more meaningful way. I think you need to deal with this very thoughtfully. Again, none of this matters unless we have 218 votes -- that's key." **RF**





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# Ripon Profile

**Name:** Pat McCrory

**Occupation:** Governor of the State of North Carolina

**You were mayor of Charlotte for 14 years. What was your biggest accomplishment?** Setting a vision for job creation, transportation and affordability and successfully implementing that vision within a transparent, ethical and inclusive governance process that led to putting more money in the pockets of hardworking people.

**During your record seven-term tenure as mayor, Charlotte became one of the fastest growing cities in the U.S. through burgeoning transportation, banking, energy, and manufacturing sectors. How have you tried to replicate that success for the entire state?** It's my job as governor to make every county, city and town successful on its own, not to replicate Charlotte. North Carolina has the private, public and human capital to be the most successful state in the country. Central to the many reforms we're making in transportation, education, economic development and so on, is a collaborative and systematic approach to everything we do. One product of this approach is a 25-year transportation plan that will connect small towns to the centers of commerce across the state.

**You've been praised as a "smart growth" Republican, especially with regard to business development and recruitment. How important is tax reform in your state toward this goal?** The tax reform we achieved was central to leading North Carolina's economic comeback. Our tax structure is now competitive again with our neighboring states. With the tax obstacle off the table, North Carolina will lure more job creators to the state because of our quality of life, education system and business friendly culture.

**Recently, the prospect of offshore oil and gas exploration near Cape Hatteras has been increasingly raised. What are you doing to bolster the state's energy production capability in this capacity?** I have joined the Outer Continental Shelf (OCS) Governors Coalition which is advocating directly to the federal government opening up more of our waters to domestic exploration. North Carolina is moving judiciously in pursuing the exploration and extraction of the state's shale oil reserves. North Carolina must get more deeply involved into energy production and that includes renewables which have enjoyed robust growth in this state.

**With your victory last year, Republicans took over control of the governor's office and state legislature simultaneously in North Carolina for the first time in over 100 years. How does this super majority affect your legislative agenda?** My legislative agenda would have been the same, regardless of which party held the majority in the General Assembly. It was an advantage to work with Republicans, but the Executive and Legislative are two different branches of government and natural tension between the branches is inherent. That said, I was very fortunate to work with leaders of both Houses and together we got a lot done for the people of North Carolina.

**And finally, who is another GOP governor you are emulating or look to for advice?** Each Republican governor has qualities to emulate. The Republican I admire and try to emulate is President Dwight Eisenhower. He was one of the greatest leaders America has ever produced. And he was a builder. He understood the connection between infrastructure and economic growth. And he understood the importance of thinking for the long term.



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