Looking Ahead

The Cornell Roosevelt Institute Policy Journal

Center For Economic Policy & Development

Fall 2013 Issue No. 5

Thank You To Our Staff!!

Executive Board

Dylan Cicero, *President* '14
Matthew W. Clauson, *Executive Vice President* '15
Matthew S. Lynch, *Senior Policy Chairman* '14
Katherine Scott, *Senior Advocacy Chairman* '15
Ariel Smilowitz, *Communications Chair* '15

Director

Victor Zhao '16

Analysts

Dylan Scott '14
Josh Mark '16
Marc Getzoff '16
Michael Crovetto '15
Hilary Gelfond '16
Lorenzo de Simone '16

Formatted and Designed by Matthew S. Lynch and Matthew W. Clauson

Front Cover: www.foxbusiness.com
Inside Photo: www.nydailynews.com
Back Cover: www.nbcnewyork.com

Copyright (C) 2013 by the Cornell Roosevelt Institute. All rights reserved. The views and opinions expressed herein are those of the authors. They do not express the views or opinions of the Cornell Roosevelt Institute.

Table of Contents

About the Roosevelt Institute 3

Letter from the Director 4

"Replace CAFE Standards with Higher Fuel Taxes" 5-6
Dylan Scott '14
To help low income students understand the costs of college and facilitate their application process, the federal government should reform the financial aid system to become an "opt-out" application run through the IRS via the 1040 tax form.

"The Disincentives of Welfare" 7-8
Josh Mark '16
To keep students engaged in STEM and to better prepare them for STEM-based careers, school districts should partner with community organizations to create project-based learning and internship opportunities.

"Educating the Poor: Federally Funded Work Schools" 9-10
Marc Getzoff '16
With technology having an ever-increasing role in the classroom, it is necessary to establish a set of standards regarding when its uses are both appropriate and beneficial.

"Why Non-Profit Hospitals No Longer Merit Special Treatment" 11-12
Michael Crovetto '15
Promote bilingual education with the goal of increasing the equality of opportunity for English language learners.

"Removing Risk and Stimulating Innovation: Insuring Small Startups in Silicon Valley" 13-14
Hilary Gelfond '16
In order to promote virtues such as history, cognitive development and educational equality, policymakers should strive to revitalize the presence of cursive handwriting in American schools.

"How can the World Trade Organization Alleviate the Uncertainty of Multilateralism?" 15-16
Lorenzo de Simone '16
Increasing taxes and providing incentives for universities to cut costs will make higher education more affordable.

Meet the Center for Economic Policy & Development 17-18

About the Cornell Roosevelt Institute

The Roosevelt Institute at Cornell University is a student-run policy institute that generates, advocates, and lobbies for progressive policy ideas and initiatives in local, university, state, and national government. Members write for our campus policy journals, complete advocacy and education projects in the local community, host research discussions with professors, write policy and political blogs, and organize campus political debates and policy seminars.

The Roosevelt Institute at Cornell University is divided into six policy centers:

Center for Economic Policy and Development
Center for Foreign Policy and International Studies
Center for Energy and Environmental Policy
Center for Education Policy and Development
Center for Healthcare Policy
Center for Domestic Policy

Interested in joining? Contact Us!

Email: cornellrooseveltinstitute@gmail.com
Website: http://rso.cornell.edu/rooseveltinstitute

ROOSEVELT INSTITUTE | CAMPUS NETWORK

Letter from the Director

Dear Readers,

More than five years since the infamous day that Lehman Brothers collapsed into bankruptcy, we are still feeling the effects of the financial crisis. Unemployment is persistently above 7%, with GDP growth positive but not strong. Meanwhile, troubles abroad in Europe and Asia have rippled across the sea, and the rise of the right-wing Tea Party has focused the conversation at home on federal debt and fiscal austerity. Millions of Americans out of work are seeing their benefits cut by the sequester, and the sweeping change that is the Affordable Care Act is drastically altering the health care market.

The task we face as a nation today is to address these issues with forward-thinking, sensible solutions. The six policy analysts featured here in the fifth issue of Looking Ahead: The Cornell Roosevelt Institute Policy Journal by the Center for Economic Policy and Development have sought to do exactly that. Through in-depth research and careful deliberation, they have arrived at six ideas to address fundamental flaws in our economy today. These proposals, covering everything from replacing fuel standards to a small business bank for technology startups, are our attempt to educate the public about the issues we face, contribute to the ongoing debate, and effect change.

We hope that these proposals will be thought-provoking and ultimately inspire you, the reader, to take action and make a meaningful impact in the world we share.

Sincerely,

Victor Zhao
Applied Economics and Management and Information Science (CALS '16)
Director, Center for Economic Policy and Development

ROOSEVELT INSTITUTE | CAMPUS NETWORK

Replace CAFE Standards with Higher Fuel Taxes

Dylan Scott, Major: Government, ’14, Email: dks76@cornell.edu

Replacing Corporate Average Fuel Economy (CAFÉ) standards with an increase in the federal tax on gasoline will eliminate costly regulations, encourage people to drive less, and save the bankrupt Highway Trust Fund.

History:

The concept of federal regulation of fuel efficiency first arose out of concerns over US dependence on foreign sources of oil in the wake of the 1973 Arab oil embargo.[1] The average fuel efficiency of US manufactured fleets was in decline, dropping from 14.8 miles per gallon (mpg) for model year (MY) 1967 to 12.9 mpg in 1974.[1] To address concerns over potentially increasing dependence on foreign fuel sources as cars became larger and less efficient, Congress passed the Energy Policy and Conservation Act of 1975, setting the minimum average fuel economy of passenger car fleets permitted to be sold in the US at 18 mpg by MY 1978, and rising to 27.5 mpg by MY1985. After incremental increases over the years, the Obama administration revised the requirement to 35.5 mpg by 2016 in a rule issued jointly by the Environmental Protection Agency (EPA) and the NHTSA in 2009. On August 28, 2012, the Obama Administration finalized new CAFE standards that will increase the standards for MY 2017-2025 cars and light trucks, topping out at 54.5 mpg for MY 2025.

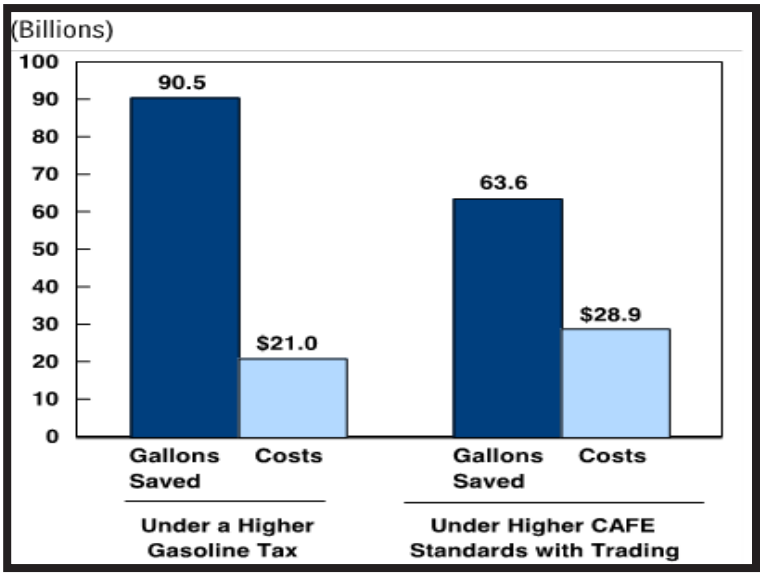
Key Facts

- The CBO found the 3.8 mpg increase would cost the US economy $3.6 billion per year in efficiency losses.
- The social cost of a 3.0 mpg increase attributable to increased driving alone is $2.641 billion, assuming a cost of $0.10 per additional vehicle mile traveled.[3]

Analysis:

The major economic and social welfare costs of CAFE standards stem from the impact of the regulations on the supply and demand of new vehicles, driving behavior, and federal highway funding mechanisms. The AEI-Brookings Joint Center for Regulatory Studies calculated the total changes in consumer and producer welfare over one year due to a 3.0 mpg increase in CAFE standards at $-2.23 billion, meaning that such a policy costs the US economy $2.23 billion per year.[3]

Rather than continue to increase CAFE standards, which produce substantial deadweight loss, incentivize increased driving, and decrease revenues for infrastructure investment, policymakers should instead increase the federal tax on gasoline and index it to a measure of inflation. The CBO finds that a 46 cent per gallon gas tax increase would achieve greater reductions in fuel consumption over fourteen years—90.5 billion versus 63.6 billion—as a 3.8 mpg CAFE increase at a total social cost of $21 billion, 19 percent lower than the $28.9 billion cost of the CAFE increase.[2]



Next Steps:

While the evidence supporting a shift away from CAFE standards towards a higher gas tax is strong, further research needs to be conducted to determine the best method of implementing this shift. Ideally, the transition would be gradual in which CAFE standards are reduced gradually while the federal gas tax is raised incrementally. The exact timeframe for implementation should be a product of more in-depth quantitative analysis.

In terms of advocacy, first steps could involve discussions with resident scholars at AEI or Brookings, the two think tanks responsible for much of the research supporting this proposal. If scholars at either think tank are willing to take up the issue, the think tank could hold a panel on Capitol Hill where scholars speak to Congressional staffers about the merits of replacing CAFE standards with higher fuel taxes.

Talking Points

- A gas tax increase creates less deadweight loss than the CAFE standard increase necessary to obtain the same level of reduced fuel consumption.[4]
- A 3.0 mpg increase in CAFE standards increases total miles driven by all vehicles in a given model year by 24,773 million.

End Notes:

[1.] United States. Congressional Research Service. *Automobile and Light Truck Fuel Economy: The CAFEStandards.* By Brent Yacobucci. Washington, D.C.: CRS, 2007.

[2.] United States. Congressional Budget Office. *Fuel Economy Standards Versus a Gasoline Tax.* Washington, D.C.: CBO, 2004. Print.

[3.] Kleit, Andrew N. *Impacts of Long-Range Increases in the Corporate Average Fuel Economy (CAFE) Standard.* Working paper. Washington, D.C.: AEI-Brookings Joint Center for Regulatory Studies, 2002.

[4.] Photo courtesy CBO *Fuel Economy Standards Versus a Gasoline Tax.*

The Disincentives of Welfare

Josh Mark, Major: Policy Analysis and Management, '16, Email: jam724@cornell.edu

Several changes to welfare programs are needed to remedy the poor incentives that these programs create for impoverished individuals.

History:

According to projections, $550 billion dollars of taxpayer money will be spent on welfare 12,800,000 welfare recipients in 2013. Welfare refers to 126 programs offered in the United States that are aimed at alleviating poverty through cash and in-kind transfers, or community-wide programs in poor areas. The primary welfare program from 1935 until 1996 was Aid to Families with Dependent Children (AFDC). This program was reformed in 1996 because it incentivized those receiving benefits to work less and remain jobless in order to maximize personal utility. Following this reform, Temporary Assistance to Needy Families (TANF) was created, ameliorating some of the issues caused by the AFDC program. Two changes brought about by TANf were: at least 40% of a state's TANF recipients must participate in work activities, and no individual can receive TANF benefits for more than 60 cumulative months in their lifetime. However, TANF did not solve all of the problems created by other welfare programs; bad incentives still exist.

Key Facts:

- 12,800,000 Americans are currently on welfare
- Welfare recipients in Hawaii can receive benefits equal to $29.13/hour (assuming a 40 hour work week)
- In 39 states, welfare currently pays more than the average starting salary for a secretary

Analysis:

Welfare currently has the potential to pay more than a minimum-wage job in 35 states, assuming a 40 hour work week. Additionally, welfare rates have gone up in the majority of states since 1995, paying the equivalent of 15 dollars or more an hour of tax-free income in 13 states, and exceeding the Federal Poverty Line (FPL) in all but 8. In the state of Hawaii, for example, an individual can receive welfare benefits equal to 60,590 dollars in pre-tax income. Actual welfare spending equates to an average of $168 per day for each household in poverty. Despite the modest work requirement mandated by TANF, only 41% of welfare recipients are currently employed (1% above the minimum requirement). This figure includes those involved in "work activities;" less than 20% of those receiving welfare currently possess unsubsidized private sector jobs. Unfortunately, the current welfare system has incentivized these individuals to remain unemployed in order to maximize short-term benefits, while risking long-term dependency.

However, these benefits to unemployment are just that: short-term. TANF, one of the largest programs nationally, has a maximum benefit period of 5 years, after which individuals cannot receive benefits. Additionally, employment is a significant factor in the path out of poverty. Only 2.3% of fully employed and 15% of part-time working individuals are poor as defined by the FPL, compared to 23.9% for the unemployed.

Next Steps:

A number of policy measures can be instituted in order to improve our current welfare system. First, and most important, the government needs to institute more strict work requirements in order to be eligible for certain welfare benefits. These changes include an increase to the minimum percentage of TANF recipients who need to be employed (currently 40%), and a change in the definition of "work activities" to increase the number of individuals employed in standard jobs.

Talking Points:

- Potential welfare benefits are so high in a number of states that they can serve as a disincentive to work for welfare recipients.
- As long as welfare benefits remain higher than low-paying jobs, individuals will choose to accept taxpayer money in the form of welfare over work.
- Benefits should be reduced so that potential welfare payouts are less than low-paying jobs, and work requirements should be stricter to increase the number of welfare recipients that are employed.

As discussed above, employment, even part-time, is an important step for individuals looking to get out of poverty. Second, welfare benefits should be reduced to the extent that individuals receiving welfare should not be incentivized to remain on welfare. This stipulation should be mandated nationally with each state determining maximum benefits based on incomes in each geographic location. As long as welfare benefits are greater than entry-level salary pay, most individuals will choose to receive welfare benefits and enjoy additional leisure time. Unfortunately, it is only after their benefits are cut after five years on TANF, and they have not benefited from a working experience, that many individuals understand the negative long-term implications remaining on welfare.

Endnotes:

1. Government spending chart," www. usgovernmentspending.com/
2. The Work Versus Welfare Trade-off: 2013," Last modified 19 August 2013. www.cato.org
3. "Budget Background," Last modified 7 December 2012 www.budget.senate.gov
4. The Work Versus Welfare Trade-off: 2013 Last modified 19 August 2013. www.cato.org
5. "Income, Poverty, and Health Insurance Coverage in the United States: 2010," Last modified September 2011. www.census.gov
6. "Welfare Statistics," Last modified 10 September 2013. www. Statisticsbrain.com/
7. The Work Versus Welfare Trade-off: 2013 Last modified 19 August 2013 www.cato.org

Educating the Poor: Federally Funded Work Schools

Marc Getzoff, Major: Industrial and Labor Relations, ’16, Email: mdg255@cornell.edu

Create federally funded schools for impoverished children and adults to provide basic workplace skills and specialties in order to make our most unskilled labor into valuable skilled labor.

History:

The decline of the United States’ position on the education level in the world presents a difficult economic issue.[1]Not only does unskilled labor receive little pay, but the competition among unskilled workers for labor has increased. Comparatively, businesses are finding they require more skilled workers with fundamental abilities such as adept reading, writing, and computer skills.

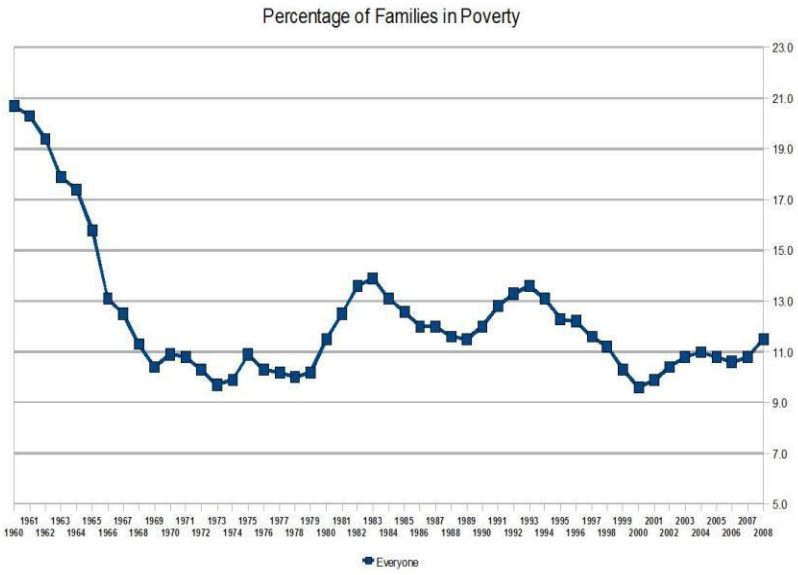
Key Facts

- The average lifetime income for a high school graduate is $1,767,025 while the average lifetime income for a college graduate is $3,380,060[6]
- The fastest-growing industries—such as computer and data processing services—require workers with disproportionately higher education levels.
- Over time, occupations as a whole are steadily requiring more education.[6]

Educational programs for the poor grew in popularity during Johnson’s War on Poverty (also called the Great Society). During the 1960’s, the Jobs Corps and the Community Action Agencies took on the task of educating the youth and some adults. The Jobs Corps, which is still active today, provides academic and vocational training to children aged 16 to 24[2]. The Community Action Agencies had more general objectives at alleviating poverty in poor areas and also started the Head Start Program (for preschool programs)[3] and worked on reducing utility costs. Many criticized these programs for expanding welfare too much and not providing incentive for people to lift themselves out of poverty. The Great Society attempt, encompassing all the programs, helped lower the poverty rate to its lowest at 11.1% in 1973[4]. However, many of these programs were reduced or terminated starting in the 1970’s and into the 1980’s. Since then, the reduction of poverty has increased very little.

Analysis:

The creation of major federally funded work programs to educate the impoverished would help increase the education and skills of the U.S workforce. The United States has been falling behind in the level of education workers have and their abilities. A solution would be creating a new task force, called Education for Improvement, to establish short-term schools for impoverished people and help train them in specific workplace skills, particuarly computer technology. Implementing a federally funded program for tutors and teachers in new schools would not only help to employ people across multiple sectors (education, construction, administrative), but would also provide the poor with necessary workplace skills and increase their employment opportunities.



Companies are finding it difficult to replace the baby boomer generation with educated American workers. Many entrants into the job market lack necessary skills and require new training. This entails extra costs and time

which companies circumvent by hiring from foreign job markets. The true challenge is not preventing the jobs from going overseas but making American workers competitive in the labor market.

Much of the problem stems from impoverished areas where many children and many adults as well do not have even the most basic reading and writing abilities, which are becoming necessary for every job. The fastest growing sectors of the economy are not unskilled jobs; they are college-level education jobs. In fact, the supply of college-level labor has been less than the demand for the past 30 years in the United States[5]. In order to maximize economic efficiency and productivity, the rate of education has to go up as does the level of skills the workers have. Impoverished areas are the best starting grounds since these areas usually have much lower rates of higher education and have many workers who are either unemployed or are underemployed.

Talking Points

- One of the biggest contributors to decreasing poverty in the 1960's was the new program for educating the impoverished.
- Jobs in the United States now and in the future will require higher education.
- Creating federally funded schools for the impoverished will help create a more educated workforce

Next Steps:

The structure of the program would be two-pronged. It would seek out professors, schooling staff, and workplace specialists to work at the schools. The schools would be two year programs where the first year would be based on improving basic vocational skills such as reading, writing, basic mathematics, and computer skills (Microsoft Office). The next year would focus on a specialty. There would be a focus for each job sector in order to provide a probable career path with professional career guidance advisers.

This training would successfully turn our least skilled workers into skilled labor. They would be able to compete in the job market and thus receive higher wages and better opportunities. The improvement of the impoverished through education would help erode poverty that still affects much of the United States.

End Notes:

[1] Rogers, Megan. "U.S. Adults Rank below Average in Global Survey of Basic Education Skills | Inside Higher Ed." U.S. Adults Rank below Average in Global Survey of Basic Education Skills | Inside Higher Ed. Inside Higher Ed, 8 Oct. 2013. Web. 8 Nov. 2013. <http://www.insidehighered.com/news/2013/10/08/us-adults-rank-below-average-global-survey-basic-education-skills>.

[2] "Outreach and Admissions (OA)." How Job Corps Works: Outreach and Admissions. Jobs Corps, n.d. Web. 8 Nov. 2013. <http://www.jobcorps.gov/cdss/OA.aspx>.

[3] "Community Action Partnership: About CAAS". Retrieved July 12, 2010

[4] United States. U.S Department of Commerce. Income, Poverty, and Health Insurance Coverage in the United States: 2009. N.p.: n.p., n.d. Census.gov. U.S Census, Sept. 2010. Web. 8 Nov. 2013. <http://www.census.gov/prod/2010pubs/p60-238.pdf>.

[5] Meyer, Laura. "New Report Finds U.S. Has Been Underproducing College-Educated Workers For Thirty Years." -- WASHINGTON, June 27, 2011 /PRNewswire-USNewswire/ --. UBM, 27 June 2011. Web. 8 Nov. 2013. <http://www.prnewswire.com/news-releases/new-report-finds-us-has-been-underproducing-college-educated-workers-for-thirty-years-124587773.html>.

[6] Carnevale, Anthony P., Nicole Smith, and Jeff Strohl. "Help Wanted: Projection of Jobs and Education Requirements through 2018." Www9.georgetown.edu. Georgetown University, June 2010. Web. 8 Nov. 2013. <http://www9.georgetown.edu/grad/gppi/hpi/cew/pdfs/fullreport.pdf>.

[7] Photo courtesy of northshorejournal.org

Why Non-Profit Hospitals No Longer Merit Special Treatment

Michael Crovetto, Major: Policy Analysis and Management, '15, Email: mbc89@cornell.edu

Non-profit hospitals are exempt from paying taxes on properties and revenues often worth billions in expectation that these hospitals will provide additional charity care for their communities, yet both non-profit and for-profit hospitals have statistically offered the same amount of community benefits creating doubt as to whether non-profit hospitals merit this benefit.

History:

Not-for-profit organizations have been exempt from the US federal income tax since the inception of the program in the early 20th century[1]. At this time, hospitals served as a means to get medical treatment for those who could not afford to have a doctor visit them at home. With changes in medical technology – hospitals changed from places for the poor to places for all the sick. With this change and the development of the modern insurance industry, hospitals soon became a profitable venture. So profitable, in fact, that although hospitals make up only 1% of all tax-exempt organizations in the US, they take in 40% of the total annual revenue garnered by non-profit organizations[2]. This has forced many states to re-evaluate this tax exemption. In 1993, the state of Texas enacted legislation requiring non-profit hospitals to provide a set amount of care to the poor and uninusred[2]. The regulation required that the value of the charity care be at least the size of the exemption[2]. Meanwhile in 1993, local governments across Pennsylvania tried to remove the tax-exempt status entirely because hospitals "strayed too far from their charitable mission"[2]. While an unsuccessful effort, non-profit hospitals have been on the defensive for years now in regards to their tax exempt status. In March 2013, this trend continued as Pittsburgh's mayor brought action against the University of Pittsburgh Medical Center, the city's non-profit healthcare behemoth[3]. This Pittsburgh lawsuit questioned the nonprofit status of the university hospital, stating that it failed to meet the conditions set to be considered a non-profit[3]. With such a large sum of money on the line, this issue has continued to gain serious attention by local and state governments across the country, especially as a result of the current economic downturn.

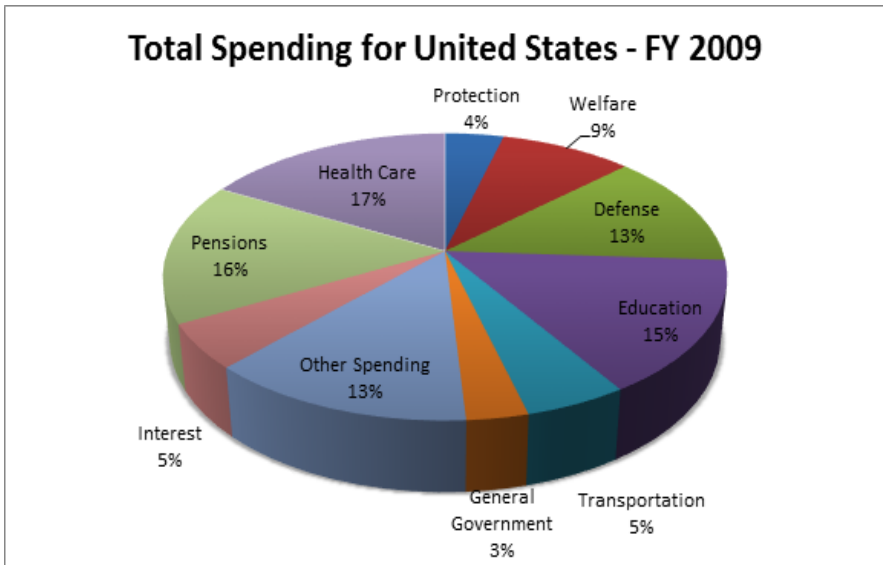
Key Facts

- In the US. $2.486 trillion, 17.6% of GDP was spent on medical care in 2009[5]
- The ACA expands coverage for an estimated 32 million currently uninsured persons starting in 2014[5]
- In California, non-profit hospitals spend 4.7% on uncompensated care, comparatively for profits spend 4.2% and government hospitals spend 13%[5]

Analysis:

Economic theory suggests that in a market where the most efficient solution is not necessarily the most equitable, the government should provide additional benefits to firms in order to create positive externalities such as more charity care by hospitals. The tax exemption is meant to incentivize uncompensated care for communities. Yet, most states do not specify a fixed amount for non-profit eligibility1. In fact, non-profit hospitals and for-profit hospitals located in areas with similar characteristics offer similar amounts of uncompensated care[1].

This raises another point. With the passing of The Affordable Care Act, and the resulting diminished uninsured



rates in the US, the need for hospitals to offer charity care is lessened. For this reason, The United States should remove this tax-exemption. In 2013, this federal tax exemption was valued at $13 Billion annualy[4]. With the recent success of for-profit hospitals and the currently changing US healthcare market, the money from this exemption could be put to better use.

Next Steps:

Moving forward, the Affordable Care Act has included a provision in their recently passed legislation that requires tax-exempt hospitals to conduct an assessment of community needs every three years and develop an implementation strategy to address identified years[4]. This requirement will be in effect by the end of the 2013 year[4] and hopes to spark more involvement by non-profits in their communities. As of 2007, the IRS now requires non-profit hospitals to report their expenditures considered community benefits[4].

Currently, local politicians and many state officials are lobbying for a change in this system. With the Affordable Care Act lowering uninsured rates across the US, the need for charity care is drastically lessened. For this reason, this need for this exemption is eliminated. What the American public can do to further policymakers' attempts is to demand for change to their local government officials. Americans must call for legislative reform by alerting their congressmen of the gravity of this issue. With the seemingly never-ending economic slowdown continuing to take its toll, governments must be more efficient with their spending.

Talking Points

- In 2013, this federal tax exemption was valued at $13 Billion annually[4].
- Not-for-profit hospitals and for-profit hospitals located in areas with similar characteristics offer similar amounts of uncompensated care[1].
- The ACA will require that tax-exempt hospitals conduct an assessment of their communities' needs and develop an implementation strategy[4].

End Notes:

[1] Gentry, William, and John Penrod. National Bureau of Economic Research, "The Changing Hospital Industry: Comparing For-Profit and Not-For-Profit Institutions ." Last modified January 2000. Accessed November 18, 2013. http://www.nber.org/chapters/c6769.pdf. NBER – The Tax Benefits of Not-for-profit Hospitals

[2] Hassan, Mahmud, Gerard J. Wedig, and Micahel A. Morrisey. "Charity Care by Non-profit hospitals: The Price of Tax-exempt Debt." International Journal of the Economics of Business 7, no. 1(February 2000): 47-62. Business Source Complete, EBSCOHost (accessed November 18, 2013)

[3] Gamble, Molly. Becker's Hospital Review, "Pittsburgh v. UPMC: Legal Arguments Behind the Tax-Exempt Challenge." Last modified April 26, 2013. Accessed November 18,2013. http://www.beckershospitalreview.com/legal-regulatory-issues/pittsburgh-v-upmc-legal-arguments-behind-the-tax-exempt-challenge.html.

[4] Young, Gary, Jeffrey Alexander, et al. The New England Journal of Medicine, "Provision of Community Benefits by Tax-Exempt U.S. Hospitals." Last modified April 18, 2013. Accessed November 18, 2013. http://www.nejm.org/doi/full/10.1056/NEJMsa1210239

[5] Feldstein, Paul. Health Policy Issues: An economic Perspective. Chicago, IL: Health Administration Press, 2011.

[6] Photo courtey of www.usgovernmentspending.com

Removing Risk and Stimulating Innovation: Insuring Small Start-ups in the Silicon Valley

Hilary Gelfond, Policy Analysis and Management, ’16, Email: hlg64@cornell.edu

Creating a local small business bank to insure start-ups against risk will encourage entrepreneurs in Silicon Valley, California to take more chances in technological innovation.

History:

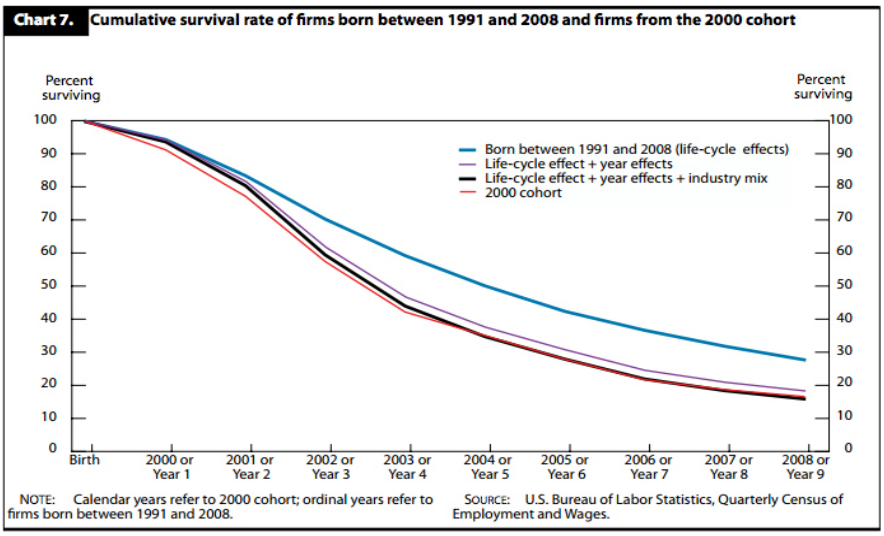
Since an explosion of venture capital in the late 1990’s, the Silicon Valley has been home to the largest concentration of start-up businesses in the United States.[7] However, the typical firm only has an 18.7% chance of survival over 9 years, which is less than the national average of 34% over 10 years or more.[1,6] As businesses fail and become bankrupt, they leave behind millions of dollars in liabilities that could have been more efficiently allocated.[9] Instead of allowing these potentially breakthrough firms to collapse, a system should be put in place to protect small business owners from the risk of failure. Such an institution could be a jointly funded local public-private Small Business Bank (SBB), in which pre-approved businesses pay a small premium to be insured against the risk of failure. While risk pooling against business failure has not been proposed in any other locality, the bank will be similar in structure to the National Infrastructure Bank (NIB), proposed by President Obama and a selection of Congressional Democrats, as well as the European Investment Bank (EIB) in the European Union.[5] The EIB has been in effect for over 50 years, and has played a major role in the development of the European Union.[10] An adaption of this banking system into the Silicon Valley could have a similar stimulating effect on local businesses.

Key Facts

- Since the dot-com bust in 2004, employment growth in the high-tech sector has outpaced growth in the non-tech sector by three to one.[7]
- The number of businesses leaving the Silicon Valley has exceeded the number moving into the region every year from 1995 to 2010.[6]
- California’s business failure rate is 69% higher than the national average.[3]

Analysis:

An SBB can most effectively control for the financial risk of a start-up company, allowing its owners to maintain focus on technological development. Structured as a public-private partnership, a designated group of business-people and innovators will serve as a board of directors to analyze the probability of success of prospective companies. A rating system of factors considered to be the best predictors of a firm’s success will be used as a guide.[8] After an initial investment by the local government, each qualifying company would contract with the bank and pay a minimal premium for the first four years in exchange for insurance. Afterwards, the premium would increase to an amount that correlates with the monetary risk of the company’s failure. If a qualifying firm begins to fail, the bank would provide the firm with capital upon reevaluation of its progress towards its stated goals, to be paid back after the initial payment period ends. To prevent an extreme level of moral hazard,



the funds will be paid back at a later time, though with minimal interest. With a large enough risk pool, there is minimal risk of the SBB going bankrupt. Through the balancing of insulation from risk and extreme behavior from moral hazard, the SBB will successfully allow start-ups in the Silicon Valley to experiment with new technologies.

Talking Points

- The Santa Clara County government should create a public-private partnership with local investors to form a Small Business Bank that insulates tech start-ups from risk.
- Entrance into the bank should be dependent on a set of stringent guidelines.
- With the absence of risk, small businesses will be granted the opportunity to experiment with innovative products.

Next Steps:

The Santa Clara County government should contract with private investors to allocate the initial funding for the SSB. Next, an advisory board of credentialed business and technology experts should be appointed and parameters for program participation should be determined. Small businesses should contract with the SSB to be insulated from risk for the first four years and then repay the initial monetary risk over a predetermined number of years.

Endnotes:

[1] "Small Business Facts." Small Business and Entrepreneurship Council, http://www.sbecouncil.org/about-us/facts-and-data/.
[2] Altman, Edward. 2007. "Why Businesses Fail." *Journal of Business Strategy* 15-21.
[3] Clifford, Catherine. "States with Worst Business Failure Rates." CNN Money. CNN, last modified May 20. 20112013, http://money.cnn.com/2011/05/19/smallbusiness/small_business_state_failure_rates/.
[4] Fairlie, Robert and Aaron Chatterji. 2013. "High-Technology Entrepreneurship in Silicon Valley." *Journal of Economics and Management Strategy* 22 (2): 365-389. http://onlinelibrary.wiley.com/store/10.1111/jems.12015/asset/jems12015.pdf?v=1&t=hnwen6li&s=38832f54ef83ea99ea66bfeeb8999a7864e0e66f
[5] Galston, William and Korin Davis. 2012. *Setting Priorities, Meeting Needs: The Case for a National Infrastructure Bank:* Brookings Institution. http://www.brookings.edu/research/papers/2012/12/13-infrastructure-bank-galston-davis
[6] Hathaway, Ian and Patrick Kallerman. 2012. *Technology Works: High-Tech Employment and Wages in the United States.* San Francisco, California: Bay Area Council Economic Institute. http://www.bayareaeconomy.org/media/files/pdf/TechReport.pdf
[7] Luo, Tian and Amar Mann. 2011. "Survival and Growth of Silicon Valley High-Tech Businesses Born in 2000." *Monthly Labor Review* http://www.bls.gov/opub/mlr/2011/09/art2full.pdf
[8] Lussier, Robert and Claudia Halabi. 2010. "A Three-Country Comparison of the Business Success Versus Failure Prediction Model." *Journal of Small Business Management* 48 (3): 360-377. http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1628838
[9] Perry, Stephen. 2001. "The Relationship between Written Business Plans and the Failure of Small Businesses in the US." *Journal of Small Business Management* 39 (3): 201-208. http://onlinelibrary.wiley.com/store/10.1111/1540-627X.00019/asset/1540-627X.00019.pdf?v=1&t=hnwet5j8&s=8630f0618d58a985278e12171c72b595325250fa
[10] Istrate, Emilia and Robert Puentes. 2009. *Investing for Success: Examining a Federal Capital Budget and a National Infrastructure Bank*: Brookings.
[11] Photo Courtesy of the U.S. Bureau of Labor Statistics, Quarterly Census of Eomployment and Wages

How can the World Trade Organization Alleviate the Uncertainty of Multilateralism?

Lorenzo de Simone, Policy Analysis and Management, '16, Email: hlg64@cornell.edu

Improve trade facilitation through better decision-making within the World Trade Organization and co-operation amongst the international organizations.

History:

The World Trade Organization in an organization that intends to supervise and liberalize international trade. The organization has several functions, namely the implementation of the Treaty System, the Settlement of disputes, reviewing trade policies and conducting negotiations among members. The one function that seems to have presented the organization with the biggest challenge is that of multilateral trade negotiations which seem to have seriously broken down. This break down is associated with the systematic bias toward rich countries and multinational corporations, harming smaller countries that have less negotiation power. The Doha Development Agenda (DDA) is the current trade-negotiation round of the WTO with the objective of dismantling these systematic bias' through lower trade barriers around the world which will help facilitate the increase of global trade.[1]

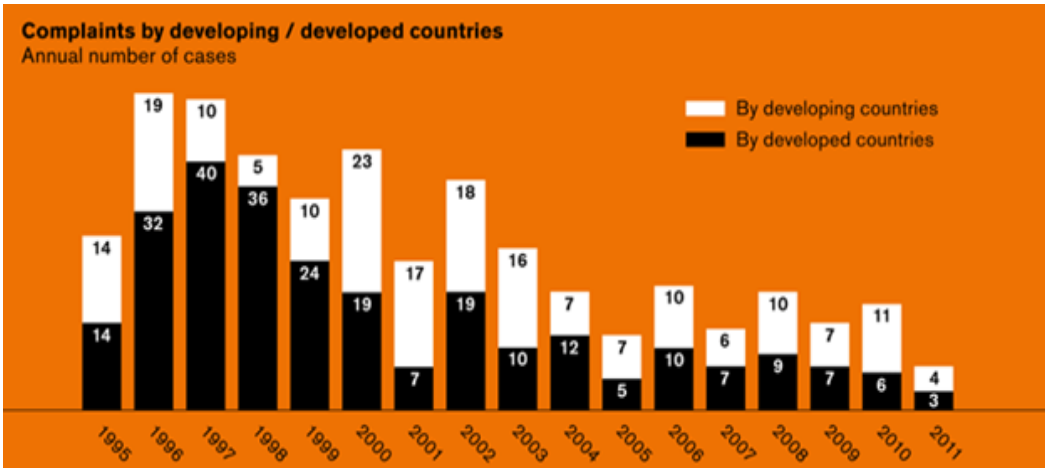
Key Facts

- Projected trade growth of 3.3% in 2013 is below the 20-year average of 5.3%.
- The top 500 multinational corporations account for nearly 70% of the worldwide trade.
- The richest fifth have 80% of the world's income and the poorest fifth have 1; this gap has doubled between 1960 and 2000.

In 2001, The Doha Development Agenda adapted a market access segment that represented an unprecedented agenda for market access negotiations that raised high levels of expectations about what multilateral trade negotiations could deliver by way of market opening. The main market openings were in agricultural and manufacturing markets, as well as trade-in-services negotiations with the intention of making trade rules fairer for developing countries. However, as early as 2003 there were already signs of weakness regarding the objectives of Doha, such as in the Cancun conference, where few countries showed flexibility and

Analysis:

The main challenge is concluding the DDA in the interest of all participants and the credibility of the WTO. The agenda has been under way for 12 years during which numerous changes have taken place, the geopolitical forces have shifted, the number of WTO members has been consistently on the rise and substantive issues have become increasingly complex with new ones coming to the forefront such as cross-border data flows, privacy policies and other areas of regulatory reform.[2] Overall the more members and the more complex issues naturally makes it more difficult to reach agreements. Consensus will not doubt continue to be the method of decision-making in the WTO as it is the only practical basis for moving forward, however, the heavy burden of achieving consensus (consent of all members) in the negotiations every step of the way cannot be underestimated.



were more inclined to stick to their demands rather than talk about tradeoffs. The same situation was evident during the Uruguay round of multilateral trade negotiations where it was criticized for paying insufficient attention to the needs of developing countries. What came to show was a wide difference between developing and developed countries across majority of topics, such as the U.S-E.U agricultural proposal, non-tarrif barriers and limits on subsidies.

Talking Points

- The one function that seems to have presented the WTO with the biggest challenge is that of multilateral trade negotiations which seem to have seriously broken down
- The Doha Development Agenda adapted a market access segment that represented an unprecedented agenda for market access negotiations which raised high levels of expectations about what multilateral trade negotiations could deliver by way of market opening.
- America's leadership is indespensible to the WTO's success and these priorities must continue to guide U.S. policy

Next Steps:

The main issues at stake are reforming agricultural subsidies, ensuring that new liberalization in the global economy respects the need for sustainable economic growth in developing countries and improving developing countries' access to global markets for their exports. The focus is to achieve an ambitious agreement on trade facilitation as a first step towards improving the Doha round. Such an agreement would aim at making importing and exporting more goods efficiently and less costly by increasing transparency and improving custom procedures. Enhancing trade capacity involves other forms of assistance too, including building more efficient ports and road networks, providing customs officials with automated equipment and teaching entrepreneurs how to take advantage of business opportunities in the global marketplace. However, these programmes, particularly those involving infrastructure will require significant funding from other international organizations such as the UN and the World Bank as well as direct contributions from national governments.[3] Any programme of trade capacity building requires all these elements to come together in a coordinated fashion, for this reason many WTO in this area involve close co-operation with other international organizations. America's leadership is indispensable to the system's success and these priorities must continue to guide US policy. The bigger challenge to American leadership comes from the inside, America needs to be reminded of the benefits regarding open world trade such as economic growth tied to exports and the innovative stimulus of global competition through better products. The process of America opening to global trade is quintessential, not for the US economy to grow and prosper but also for finding global solutions to shared global problems.

Endnotes:

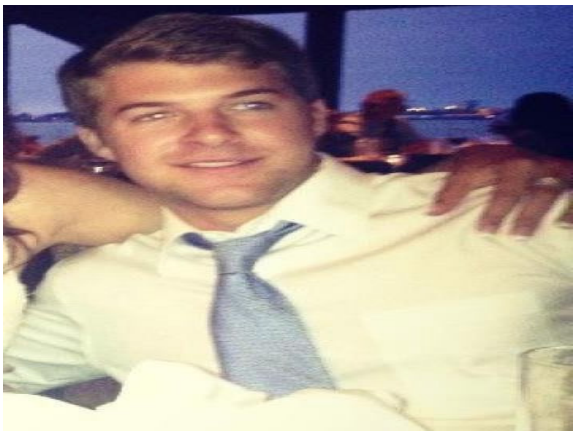
[1] World Trade Organization, "The Doha Agenda." Accessed November 12, 2013. http://www.wto.org/english/thewto_e/whatis_e/tif_e/doha1_e.htm

[2] New Internationalist Magazine, "WTO the facts." Last modified September 17,2009. Accessed November 14, 2013. http://newint.org/features/2001/05/05/facts/

[3] European Comission, "Why the WTO matter." Last modified February 28,2013. Accessed November 14, 2013. http://ec.europa.eu/trade/policy/eu-and-wto/

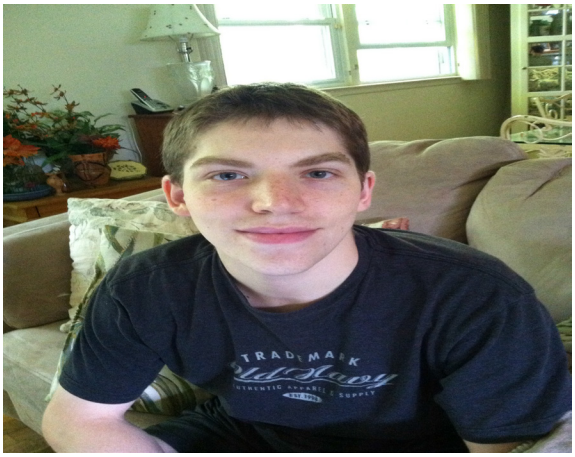
[4] Photo courtesy of www.wto.org

Meet the Economic Policy Center



Dylan Scott

Dylan is a Government major at Cornell University and a Policy Analyst for Cornell's chapter of the Roosevelt Institute Center for Economic Policy and Development. Dylan has experience in policy analysis, government relations, and political consulting roles.



Marc Getzoff

My name is Marc Getzoff. I am a from Ardsley, NY and transferred here from WashU in St. Louis. I am majoring in ILR and minoring in History and Law and Society. As an avid student of social policy, I am glad to now be part of the Roosevelt Institute.

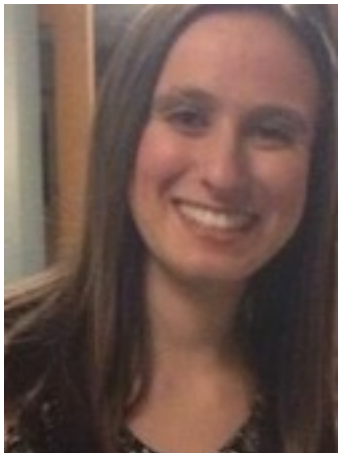
Michael Crovetto

Michael Crovetto is a junior in the College of Human Ecology. Majoring in Policy Analysis and Management with minors in Business and Law & Society, Michael hopes to work in finance after graduation.

ROOSEVELT INSTITUTE | CAMPUS NETWORK

Meet the Economic Policy Center

Hilary Gelfond



Hilary Gelfond is a freshman Policy Analysis and Management major, with minors in Business and Law and Society. She has interests in tax law and policy, economic and fiscal policy and social insurance. In the future, Hilary plans to attend law school in conjunction with a master's degree, and then return to Washington DC and work on the periphery of Capitol Hill, either at a think tank, government agency, or law firm. Past experience includes an internship with Senator Barbara Mikulski of Maryland.

Lorenzo de Simone

Lorenzo is a sophmore in Arts & Sciences majoring in Government & Economics. With a concentration in international relations, he hopes to attend the Cornell in Washington program junior year. Outside of Roosevelt, he's an active member of the Cornell Rugby team and hopes to continue playing for the two seasons to come.

Director: Victor Zhao

Victor Zhao is a sophomore double-majoring in Information Science and Applied Economics and Management. He joined the Roosevelt Institute in Fall 2012, and served as Education Policy Director in Spring 2013. Victor's policy interests include fiscal and monetary policy at the federal level. Besides his work with Roosevelt, Victor is also an active member of the Chinese Students Association, Apex Capital Fund, and Pi Delta Psi Fraternity, Inc.

ROOSEVELT INSTITUTE | CAMPUS NETWORK

"These unhappy times call for the building of plans [that] build from the bottom up and not from the top down, that put their faith once more in the forgotten man at the bottom of the economic pyramid."

-Franklin D. Roosevelt