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Bush's Competitiveness Agenda Is Tested

Paulson's First Challenge as Treasury Secretary May Be to Jump-Start a Stalled Initiative

By GREG HITT

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WASHINGTON -- Henry Paulson accepted his nomination as Treasury secretary by highlighting the need for the nation to stay competitive. But one of his first challenges will be guiding President Bush's ballyhooed competitiveness agenda out of choppy waters on Capitol Hill.

The initiative, launched at the beginning of the year, started out with wide support among senior Democrats and Republicans in Congress. As the election year progresses, key planks face an uncertain future.

A proposal to renew the now-expired research-and-development tax credit, the keystone of the plan, was blocked from the tax-cut package that Republican leaders sent to the White House a few weeks ago. Instead, they promised the provision would be folded into a "trailer" bill later in the year. A plan to allow more highly skilled foreign workers into the country is in limbo, part of the deadlock over immigration. And with fiscal conservatives demanding curbs on spending, the outlook for proposals to increase spending on basic science research as well as math and science education is unclear.

"Two months ago, it looked like this was a slam dunk. Now it's bogged down," says John Hassell, **Hewlett-Packard** Co.'s director of federal-government relations, who is working to build momentum for the plan. "We're in an election year, and it's very easy for the headlines of the moment to push this off the front page."

President Bush unveiled the American Competitiveness Initiative in his Jan. 31 State of the Union address. The 10-year, \$136 billion package of spending-and-tax breaks is his most direct response to the broader angst many U.S. citizens feel about the country's place in a world economy defined by ever-closer integration. That angst has fueled a resurgence of economic nationalism, spurring lawmakers' calls for tighter security controls on foreign investments and slowing the push for lower trade barriers.

As Treasury secretary, Mr. Paulson, the chairman and chief executive at **Goldman Sachs Group Inc.**, would oversee matters from tax and currency policy to regulation of capital markets. In brief remarks yesterday, Mr. Paulson stressed the importance of bolstering the competitiveness of the U.S. economy. "It is truly a marvel, but we cannot take it for granted," he said.

Even before Mr. Paulson's nomination, the White House remained upbeat about the outlook for the competitiveness initiative, and Mr. Bush trumpeted it several times. The broad plan, which encompasses tax, spending, immigration and education policy, doesn't easily fit into the legislative framework in Congress, where jurisdictional lines date back to the 19th century. Several committees claim jurisdiction over the initiative, and rival bills have been introduced in the House and Senate. The diffuse leadership

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spreads responsibility for the plan widely, but denies the White House a core set of allies to take ownership on the initiative and rally support.

With the legislative calendar tight because of the midterm fight for control of Congress, the real action on core components of the Bush plan will likely take place in the year-end battles over spending and taxes. Congressional leaders have said they expect most final budget decisions to be made in a lame-duck session after the election.

Amid the uncertainty, the White House convened a meeting about two weeks ago with leaders from several trade associations, including the Electronics Industry Alliance and the Business Roundtable, to stress Mr. Bush's continued commitment. Bush aides say the R&D tax credit -- expected to be paired with pension provisions -- will eventually get done, though there is no timetable for action. They stress it isn't unusual for spending bills to move toward the end of the year.

"The trains never roll that fast," says Candi Wolff, the White House's top lobbyist on Capitol Hill. Ms. Wolff says her chief worry is avoiding a bidding war between members of the Senate and House. "The problem is everyone has different ideas and wants to add more."

Others aren't so sanguine. Lael Brainard, a top economic adviser in the Clinton White House, suggests more "lift and visibility" is needed to ensure passage. "I don't see a lot of momentum coming from the administration on this issue," says Ms. Brainard, a scholar at the Brookings Institution, a Washington think tank.

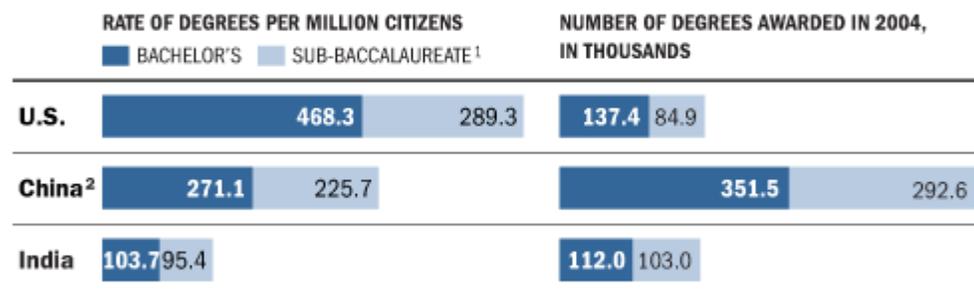
Anxious for progress, the business community is stepping up efforts to build support. Later this month, the Business Roundtable and others will sponsor a math-and-science fair on Capitol Hill. **IBM Corp.**, **Honeywell International Inc.** and **Intel Corp.** will be among more than a dozen companies staging exhibits that show how they apply basic research. Company officials will use the event to meet with lawmakers and raise awareness about the need for action. "We are doing everything we can to bring it back up to the top of the heap," says Susan Traiman, a lobbyist for the Business Roundtable.

More immediately, the business community and allies in higher education are working to build support outside of Washington. While lawmakers are back home this week for the Memorial Day holiday break, the National Innovation Initiative Leadership Council, an umbrella group led by Intel and Johns Hopkins University, is running radio ads promoting the

competitiveness agenda in the districts of half a dozen lawmakers, all members of the House Appropriations Committee, which makes spending decisions. The ads warn of the economic threat posed by India and China and urge voters to press Congress to support the plan.

Keeping in Stride

A Duke University study found that the U.S. is more than keeping up with India and China in the rate of new engineering graduates per year. Below, the number of degrees in engineering, computer science and information technology awarded and the annual rate per million citizens:



¹ Refers to associates degrees in the U.S., "short-cycle" degrees in China and three-year diplomas in India

² China data may include additional engineering and technology degrees, such as auto mechanics

Source: "Framing the Engineering Outsourcing Debate: Placing the U.S. on a Level Playing Field with China and India," December 2005, Master of Engineering Management Program, Duke University

Under Mr. Bush's proposal, about two-thirds of the \$136 billion would go toward making permanent the R&D tax credit, a now-expired program that encourages firms to invest in cutting-edge research. "If you're not sure the tax thing is going to be around, you may not want to invest," Mr. Bush said recently, explaining the reasoning behind making the credit permanent. Amid budget pressures, Congress appears likely to revive the credit for a year, or perhaps two, when lawmakers get around to the second tax bill.

The balance of the Bush competitiveness program is designed to increase government spending on targeted priorities. The biggest beneficiaries: basic scientific research and mathematics-and-science education for high-school and younger students. Among other things, the Bush plan proposes to increase next year's spending by 9.3% for the National Science Foundation, the Department of Energy's Office of Science and the Commerce Department's National Institute of Standards and Technologies, a step toward doubling their budgets during the next decade.

Last week, the House approved a spending bill that would bump up funding for research supported by the Energy Department's Office of Science, carrying forward one plank of the Bush plan. The other science proposals have yet to be fully aired in the House, and fights may break out over the remaining requests. Mr. Bush's education proposals -- designed to increase teacher training and widen student interest in math and science -- appear to be in the greatest peril.

With the election looming, conservative House Republicans are showing little fealty to the White House on fiscal issues. Texas Republican Jeb Hensarling, a leader among House conservatives, says the government has more than 200 programs designed to promote math-and-science education. "Is the 208th program going to be the one that gets the job done? I have my doubts," he says, predicting a fight on the House floor. "Most House conservatives are going to be very reluctant to put their imprimatur on a new program."

Write to Greg Hitt at greg.hitt@wsj.com¹

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(1) <mailto:greg.hitt@wsj.com>

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