

CAMPAIGN FOR AMERICA'S FUTURE

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Project for an Accountable Congress Representative James McCrery (LA-4)

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Synopsis

As the new chairman of the Social Security Subcommittee in the House Ways and Means Committee, Rep. James McCrery finds himself in the national spotlight. The long-serving congressman has spent years working alongside prominent GOP leaders helping to draft their most controversial fiscal policies. McCrery has also quietly amassed an enormous campaign war chest. Not surprising, among his most valued contributors are the very financial institutions that will earn millions from managing the president's proposed private Social Security accounts. In addition, McCrery also has strong connections to industry lobbyists. Not only did he reveal that he met with the top GOP tax lobbyist in Washington "every few weeks;" but two of McCrery's former staff members, including his former legislative director, work as lobbyists for the Securities Industry Association, a trade association representing nearly 600 investment firms.

Initially McCrery made statements backing away for the president's plan to carve out a portion of the payroll tax to fund private Social Security accounts. He recently flip-flopped on the issue, endorsing privatization. "I'm convinced the president's approach is worth pursuing in the legislative process," said McCrery (Associated Press, 2/3/05; Tallahassee Democrat, 2/15/05)

McCrery Campaign Contributions

Jim McCrery, the current chair of the Ways and Means Committee's subcommittee on Social Security, has been a recipient of campaign cash from the securities industry since first elected. These financial ties call his impartiality on the issue into question. Between 2000 and 2004, McCrery has received nearly \$200,000 in campaign contributions from individuals and PACs in those industries. Between 2002 and 2004 alone, contributions increased by 42 percent, rising from \$61,650 to \$87,500. Of note, for the last election cycle, commercial banks and securities firms combined contributed the most from any corporate sector to McCrery. Among the businesses contributing during that time are the American Bankers Association, with \$14,500; Bank of America, with \$12,500; and Wachovia, with \$8,000. (*Center for Responsive Politics*) In 2001, McCrery supported the president's Social Security Commission report, which advocated the use of private accounts. (HR 2590, House Vote 273, 7/25/01) One year later, McCrery voted for a GOP budget that raided a \$224.3 billion in surplus Social Security revenue. (H Con Res 353, House Vote 79, 3/20/02; *CQ Bill Analysis*) Because he has supported most of the industry's lobbies on the issues important to them, McCrery's securities industry contributions will likely rise as the debate over privatization continues. McCrery also sponsored legislation that would have allowed securities firms to avoid taxation. Additionally, McCrery is also heavily connected to key lobbyists in the industry. Two of McCrery's former aides work for the Securities Industry Association.

Financial services firms are not McCrery's only cash constituents. Because McCrery also sits on the Ways and Means Committee's health subcommittee, he received large sums from the health care and insurance industries. In 2000, the health care industry contributed \$66,209 to McCrery. In 2004, that figure rose by 64 percent to \$108,368. Similarly, insurance industry contributions rose more than 100 percent from \$41,900 in

2000 to \$84,383 in 2004. (*Center for Responsive Politics; Political Money Line*) Not surprisingly, McCrery supported the GOP Medicare prescription drug bill which amounted to an estimated \$139 billion windfall to pharmaceutical companies. (HR 1, House Vote 669, 11/22/03; *Sager & Socolar, "61% of Prescription Drug Subsidy is Windfall Profit..." BU School of Public Health, October 31, 2003*) McCrery also supported GOP efforts to cap medical malpractice damages awards with two votes in the 108th Congress. Both bills served the interests of the insurance and pharmaceutical industries as they exempted pharmaceutical manufacturers from liability. (HR 5, House Vote 64, 3/13/03; HR 4280, House Vote 166, 5/12/04)

Ties to Lobbyists

In addition to campaign contributions, McCrery has extensive relationships with securities industry lobbyists and has even publicly advised industries on how to hire lobbyists.

McCrery said, "Should any lobbying organization take into account who's in the majority? I think that would be wise." With regard to the Motion Picture Association of America's recent hiring of former Democratic Congressman Dan Glickman, McCrery said, "I don't mean to imply that they [the MPAA] shouldn't have hired Dan Glickman. What they might want to do now is bolster their staff under Dan with Republicans. I just think that's common sense." (*Associated Press, 10/8/04*)

McCrery himself also considered leaving Congress for the lobbying world. One day after announcing that he would remain in Congress for at least another term, McCrery revealed that he discussed the idea of forming a lobbying shop with fellow Louisianan, Sen. John Breaux. (*Roll Call, 3/8/04*)

With regard to financial sector lobbyists, McCrery publicly stated he regularly visits Jonathan Kies, the leading GOP tax lobbyist. In 1998, Kies left his job as chief of staff at the Joint Committee on Taxation to pursue a career in lobbying. Since then he and McCrery have crossed paths on numerous occasions. In 1998, Kies held a workshop at the White House Conference on Social Security entitled "Social Security and Private Market Investments." McCrery was a participant. (*Federal Document Clearing House, 12/9/98*) In 2001, McCrery sponsored a measure that would have permanently extended the subpart F exemption to the internal revenue code. McCrery's sponsorship would have allowed securities firms to defer taxation on earnings from foreign operations at an estimated cost to the Treasury of \$21.2 billion over a 10 year period. (HR 1357, 4/3/01; *CQ Weekly, 2/2/02*) Kies was named a "major player" on the issue, working for the securities industry. (*American Lawyer Media, 12/17/01*) In 2003, McCrery told the press that Kies visits him every few weeks. (*The Hill, 10/14/03*) According to *Political Money Line*, Kies' current list includes Bank of America and Goldman Sachs. Both entities could potentially profit from the president's privatization plan.

Affect on Louisianans

All of this lobbying influence, combined with McCrery's apparent subsmissiveness to the agenda of his financial backers, begs the essential question: For whom is he really

working? It's clear that the banks and Wall Street firms that fund his campaigns will do well by McCrery's actions. The interests of his constituents, though, will suffer. With contributions from Wall Street flowing in and his support for the president's 2001 Social Security Commission report, McCrery could place the livelihoods of 109,238 Social Security beneficiaries in his district at risk. Of note, as of December 2003, the average monthly benefit for retirees in McCrery's district is only \$830 per month. (*Social Security Administration: Congressional Statistics*) Similarly, with his support of the GOP Medicare prescription drug bill, McCrery placed Louisiana's 620,000 Medicare beneficiaries at the mercy of another major campaign contributor: insurance companies. (*Kaiser Family Foundation*)

A Part of Washington's Revolving Door

If McCrery does at some point enter the lobbying world, he will be following some of his former staff members. McCrery's former legislative director, Jonathan Traub, joined the Securities Industry Association as vice president for federal tax legislation and as one of their registered lobbyists. (*The Frontrunner*, 4/1/04; *Political Money Line*) Traub joined Richard Hunt, another McCrery aide who had already since joined the SIA. (*Roll Call*, 4/5/04)

Overview of Social Security

Before Congress even returned to Washington to begin work, President Bush made clear his intention to push for legislation creating private Social Security accounts. The plan, which the administration says is a response to a looming crisis, seeks to place a portion of collected payroll tax receipts into private accounts. The accounts would then be managed by Wall Street firms, much like individual retirement accounts.

The administration also seeks to change the benefit calculation method. Currently, an individual's benefit amount is indexed based on their growth in wages. The administration proposed a formula which ties benefits to consumer prices. Thus, many future retirees could see severe reductions in benefits, because consumer prices rise at a much slower rate than wages. The Bush administration defended this so-called "price indexing," stating that overall benefits would be higher than if Congress did nothing to Social Security. According to the Congressional Budget Office, under price indexing, the combined income from Social Security and private accounts would be less than the benefits that would be paid if policymakers took no action and Social Security benefits were reduced to levels that the program's revenues could support after its trust fund was exhausted. (*Center on Budget and Policy Priorities: "Social Security Off to a Misleading Start"*, 1/7/05)

According to the Social Security trustees, full benefits can be paid until 2042 and 70 percent of benefits can be paid afterward. (*Center on Budget and Policy Priorities: "Social Security Off to a Misleading Start,"* 1/7/05) Opponents of the plan argue the trustee's projections do not warrant the label of crisis, and legislation should be developed that won't reduce benefits for future retirees.

The impact of private Social Security accounts would be widespread, and nowhere more so than on Wall Street. According to estimates, investment banks stand to collect estimated inflows upwards of \$75 billion in the first few years of their inception alone. (Los Angeles Times, 1/18/05) Aware of this potential this windfall, commercial banking and securities interests contributed enormous sums to political campaigns. During the 2004 cycle, individuals in the industry as well as corporate PACs contributed more than \$68 million to congressional candidates. The figure is up from the \$35.2 million contributed during the 2002 cycle. Over the last decade, these interests have made combined contributions totaling \$240 million to federal candidates. (*Center for Responsive Politics*) They have also contributed heavily to the president's campaign committee as well. In 2004, securities firms and commercial banks gave the president more than \$11.7 million, double the amount they contributed to Sen. John Kerry, who received \$5.5 million. Similarly, in 2000 the president received \$5.4 million from the industry compared Al Gore, who only received \$1.7 million. (*Center for Responsive Politics*)

While lobbying by the securities industry for private accounts has been publicized recently surrounding the current debate, the industry has been pursuing this agenda for many years. In an often-quoted 1983 article in the *Cato Journal*, the two Heritage Foundation analysts who wrote the piece argued that "building a constituency for Social Security reform requires mobilizing the various coalitions that stand to benefit from the change.... The business community and financial institutions, in particular, would be an obvious element in the constituency." (Los Angeles Times, 1/30/05)

In 1998, The National Association of Manufacturers, the nation's largest industrial trade association, created the Alliance for Worker Retirement Security. The Alliance is a coalition of financial and other corporate interests headed by Derrick Max. Max is a registered lobbyist and former director of government affairs at the Cato Institute. In that role, according to the Alliance website, he was instrumental in helping to advance Cato's presence in the national debate on Social Security reform. The Alliance's 35 members include the Securities Industry Association, the lobbying arm and trade association of nearly 600 of the world's most powerful investment houses. For the 2004 election cycle, the SIA spent more than \$10 million in lobbying for their varied interests. (*Political Money Line*)

According to the Center for Responsive Politics, Alliance members spent nearly \$108 million lobbying the federal government during 2003 and the first half of 2004. Combined, Alliance members have donated \$34.6 million to federal candidates and political parties since 1999. Of that, \$25.8 million went to Republicans. (*Center for Responsive Politics*, 1/25/05) While Wall Street has tried to stay out of the spotlight to deflect its interest in receiving a windfall in profits, according to the press, Max commissioned the Securities Industry Association to write a report showing how little Wall Street firms would benefit from managing these accounts. The report stated that firms could generate as little as \$39 billion in fees over a 75-year period, no more than \$279 billion during the same time. (Roll Call, 12/13/04) But University of Chicago business school professor Austan Goolsbee refuted the SIA's findings stating that

financial institutions could see a potential gain of \$940 billion. (Roll Call, 12/13/04) In addition, several investment firms have also pushed for privatizing Social Security. Max told the press that Schwab Brokerage helped fund the group's effort to push private accounts. The conservative Cato Institute also reportedly received funds from American International Group, T. Rowe Price, E-Trade Financial and others to fund studies on private Social Security accounts. (Los Angeles Times, 1/18/05)