



INTRODUCTION

In a little over a month, President Obama has succeeded in advancing remarkable change for Americans striving to attain or hold onto a middle-class standard of living. Millions of students and their families will find a college education – increasingly the gateway to the middle-class – more affordable thanks to increases in federal grants and tax credits. Middle-class employees out of work through no fault of their own are able to rely on a reinforced unemployment safety net. Four million children who lacked the fundamental middle-class requisite of health insurance will become eligible for public coverage. Middle-class commuters will travel on safer roads and bridges and move more quickly on new and modernized transit lines. And every American will benefit from a cleaner and safer environment due to investments in renewable energy.

These achievements embody a positive and progressive vision of government’s power to improve the lives of ordinary Americans. As the President said: “I reject the view that says our problems will simply take care of themselves; that says government has no role in laying the foundation for our common prosperity. For history tells a different story. History reminds us that at every moment of economic upheaval and transformation, this nation has responded with bold action and big ideas.”

The President’s vision is an inspiration, and his accomplishments so far are significant. But in the context of the most severe economic crisis the nation has faced in generations, our actions must be still bolder. To reignite economic growth and emerge with a middle class that is stronger and much broader, the President must think still bigger. Crucial as its investments are, the stimulus package just signed into law will not be sufficient by itself to put Americans back to work. Necessary as the orientation toward preventing foreclosure is, the housing plan outlined by the Administration won’t keep enough middle-class families in their homes. And tremendous as the price tag for bailing out financial institutions is, it will not stabilize the system unless the government overcomes its fear of nationalization. The President is correct to recognize that the nation’s great challenges are interconnected and must be addressed together. It is to his great credit that he appreciates that “transformative investments” are needed to move the nation forward. And everyone must acknowledge that the serious and interlinked crises America faces were fostered and exacerbated by the irresponsibility of previous administrations.

But succumbing to artificial preconceptions about the scope of solutions government can offer sets us up to fall short in meeting the great challenges we face. Indeed, President Obama’s ambitious – and necessary – health care agenda risks failure in Congress unless he can convey the need to surpass outdated presumptions about the value of a free market that has Americans paying more than other nations for health and getting worse results. And while middle-class Americans benefit from a government that exercises prudence in both taxing and spending, the President must ensure that efforts to reduce the deficit do not become another self-imposed shackle holding the nation back from addressing its serious problems.

- **President Obama’s homeownership plan** helps make the point that it is in the national interest to help homeowners in distress. High mortgage debt and foreclosures not only destabilize families, but threaten entire communities by increasing abandonment and blight, dragging down surrounding property values, eroding the tax base, and creating transient

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populations. Yet the President has limited the reach and effectiveness of his own plan by making lenders' participation in foreclosure prevention voluntary and by excluding homeowners who owe more on their homes than they are worth from government refinancing.

- **If major financial institutions collapse**, the nation's economic crisis would dramatically worsen, devastating middle-class Americans already facing difficult times. But as President Obama recognizes, the Bush Administration's approach of giving a blank check to banks has failed to stabilize the system or reignite lending. Instead, we must invest in a financial system that is transparent, accountable, and worthy of the public trust. Transparency is just the beginning: in providing needed capital to troubled banks, the government must ensure that middle-class taxpayers are not forced to take on the costs of bank shareholders' failed investment strategy. The Administration must be prepared to temporarily nationalize failed banks if this is necessary to protect taxpayers.
- **America's health care system** is the most expensive in the world, yet we consistently lag behind the health outcomes of other developed countries that spend far less. The inefficient health system is a drag on the nation's economic competitiveness and the leading fiscal problem for local, state, and federal governments. Middle-class Americans pay the cost as patients, employees, taxpayers, and small business owners. President Obama can succeed in his plan to achieve universal health coverage while reducing costs only if he stands firm on commitments to create a public health plan that competes with private insurers and incorporates the results of research on the effectiveness of different medical treatments into cost-cutting strategies.
- **President Obama is right to emphasize the need for investments in education** to foster economic growth and competitiveness. Educated citizens ensure higher rates of productivity and aggregate growth for a country as a whole. But the dropout epidemic threatens to create a lost generation unprepared to compete in an economy where advanced skills are undeniable prerequisites for attaining the mobility, security, and prosperity associated with a middle-class livelihood. Strengthening the cognitive capacity of young people will have positive economic consequences for productivity and growth—both in terms of individual earning power and national GDP.

The change America's middle class needs is just getting started. Americans aspire to a reliable job capable of supporting a family; access to health care; a safe and stable home; the opportunity to provide a good education for one's children, including a college education; time off work for vacations and major life events; and the security of looking forward to a dignified retirement. With the mandate he has received, President Obama can make this middle-class standard of living a reality for many more of us.

STIMULUS LEGISLATION

PRESIDENT OBAMA SAYS: The stimulus is the first step toward economic recovery.

“As soon as I took office, I asked this Congress to send me a recovery plan by President’s Day that would put people back to work and put money in their pockets. Not because I believe in bigger government – I don’t. Not because I’m not mindful of the massive debt we’ve inherited – I am. I called for action because the failure to do so would have cost more jobs and caused more hardships. In fact, a failure to act would have worsened our long-term deficit by assuring weak economic growth for years.”

DMI SAYS: “The economic stimulus package signed into law by President Obama is critical to restoring the economic stability middle-class Americans rely on. The stimulus will create jobs, prevent cuts to state services, and reinvest in infrastructure while providing a lifeline to the unemployed and to the uninsured. Contrary to its critics, the bill’s cost will be substantially outweighed by the economic and social benefits of reigniting growth. Yet the stimulus package will not be enough to pull the country out of the current recession. Preventing further job loss will require additional public investments like those the President has outlined in the areas of health care, education, and alternative energy.”

- Middle-class Americans struggled to get ahead even before the official beginning of the recession in December 2007, but now the accelerating pace of layoffs has made matters far worse. 11.6 million people are currently unemployed and the unemployment rate has risen 2.7% in the last year. As the unemployment rate increases, the number of uninsured also rises: an average 7% unemployment rate in 2009 could mean 2.6 million more uninsured Americans. Hard-pressed state governments exacerbate the crisis with cuts to education and health spending – both decimating economic activity and jobs and reducing services for those more in need than ever. According to the Center on Budget and Policy Priorities, 46 states face budget shortfalls and more than 20 have implemented or are considering cuts to health insurance and education programs.
- The economic stimulus package passed by Congress and signed into law by President Obama takes vital steps to address the crisis with \$787 billion in new spending and tax cuts designed to preserve and create jobs, assist the unemployed and uninsured, and provide state budget relief, while making investments in infrastructure, education, science, health, and energy efficiency. The legislation includes \$40 billion for extended unemployment benefits; \$54 billion to prevent cuts in state education services and additional funds for disadvantaged students; \$87 billion to help states pay for Medicaid services; and \$27.5 billion for highway repair and construction along with money for other infrastructure projects.
- The stimulus package will protect the most vulnerable households, while making important investments in infrastructure and education that will boost the economy and set the stage for longer term recovery. Economists estimate that the stimulus will save around 3 or 4 million jobs by 2010. At the same time, the safety net for unemployed workers and households in danger of losing health benefits to state budget cuts will stimulate the economy by putting money into the hands of the Americans most likely to spend it. Extended unemployment insurance generates an estimated \$1.63 in economic activity for every dollar spent, while aid to

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state governments generates \$1.38. Several targeted tax cuts will keep millions of Americans out of poverty.

- Conservatives have criticized the increased national debt that will result from the stimulus package as “generational theft.” Though the national debt will increase because of the stimulus, it will remain at historically manageable levels. Further, the short-term economic activity generated by the spending will prevent a prolonged period of decline that would leave future generations worse off than the debt it creates. By stimulating demand and, in turn, economic expansion, the stimulus legislation will ensure that future generations benefit from the economic growth that drives prosperity.
- By itself, the stimulus package signed into law by President Obama is insufficient to generate the jobs necessary to pull the country out of the current recession. Economists estimate that the law will reduce unemployment by about 2% by 2010, compared to the 9.2% unemployment the Congressional Budget Office forecasts for that year if no stimulus was passed. Yet this still leaves millions of Americans out of a job. To avoid additional economic pain for current and aspiring middle-class households, Congress and the President must make substantial public investments in health care and foreclosure prevention, and should consider further increases of unemployment benefits, more federal aid for state governments and additional infrastructure spending to promote growth and help to put people back to work.
- No matter how effective, the stimulus package will not lead to immediate, nor complete, economic recovery. Tax cuts and extended unemployment insurance will act quickly, but other spending measures, like infrastructure spending, will take more time to have a noticeable impact. Further, measures to address the housing and foreclosure crises are, as the President recognizes, equally important elements of economic revitalization. Still, in the short term, the recovery package targets relief to struggling households and will provide a necessary economic jolt to keep Americans in work and health and education services available.

Relevant Statistics

- Number of jobs lost since the official beginning of the recession in December 2007: **3.6 million**
- Unemployment rate in early 2010 without the stimulus package, according to the Congressional Budget Office: **9.2%**
- Reduction in unemployment rate in 2010 if the American Recovery and Reinvestment Act is enacted, according to the Congressional Budget Office, Mark Zandi of Moody’s Economy.com, and White House economic advisers, respectively: **1.9%**, **2.1%**, **1.8%**
- Increase in uninsured Americans and in Americans enrolled in Medicaid and SCHIP, respectively, if unemployment averages 7% in 2009: **2.6 million** and **2.4 million**
- Unemployment rate in January 2009: **7.6%**
- Increase in GDP from spending \$1 on extended unemployment insurance benefits, in dollars: **1.63**

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- Increase in GDP from spending \$1 on aid to state government, in dollars: **\$1.38**
- Number of Americans kept out of poverty by the Making Work Pay, Child, and Earned Income tax credits included in the American Recovery and Reinvestment Act: **2.3 million**
- Increase in the number of students eligible for a higher education tax break from the American Opportunity tax credit included in the American Recovery and Reinvestment Act: **3.8 million**
- Percentage of spending and tax cuts included in the American Recovery and Reinvestment Act that will take effect by the end of 2010, according to the Congressional Budget Office: **74**



FINANCIAL CRISIS

PRESIDENT OBAMA SAYS: Ending the nation's economic crisis requires us to stabilize the financial system and get banks to resume lending.

“We are creating a new lending fund that represents the largest effort to help provide auto loans, college loans, and small business loans...We will act with the full force of the federal government to ensure that the major banks that Americans depend on have enough confidence and enough money to lend even in more difficult times... I intend to hold these banks fully accountable for the assistance they receive, and this time, they will have to clearly demonstrate how taxpayer dollars result in more lending for the American taxpayer.”

DMI SAYS: “If major financial institutions collapse, the nation's economic crisis would dramatically worsen, devastating middle-class Americans already facing difficult times. But as President Obama recognizes, the Bush Administration's approach of giving a blank check to banks has failed to stabilize the system or reignite lending. Transparency, though, is just the beginning: in providing needed capital to troubled banks, the government must ensure that middle-class taxpayers are not forced to take on the costs of bank shareholders' failed investment strategy. When major banks are effectively insolvent, the government must take decisive and direct control and sell off their toxic assets in a way that shifts risk and liability to shareholders, and away from taxpayers.”

- At the core of the President's bank bailout plan is a process to evaluate bank health and boost lending capacity. This includes a “stress test” to determine the financial health of financial institutions. After undergoing this test the Treasury will make capital investments, which will be placed in a separately managed trust, and take an equity position in the bank. The administration should use the stress test as opportunity to secure a foothold in the bank and take temporary control of it if the bank is deemed to be failing, much in the same way the FDIC temporarily seizes institutions, scrubs them of their bad assets, and then re-sells banks to investors.
- Instead of taking direct control over banks, the Treasury Department has suggested it will create a so-called “bad bank,” a pool of troubled assets that will be purchased through public and private funds. Buyers from the private sector will set the price for the asset. Unfortunately, as many economists have noted, in this scenario, middle-class taxpayers would assume any losses and private investors would reap the rewards if there is a substantial appreciation in assets.
- The U.S. Treasury and the Federal Reserve have committed up to \$1 trillion to help private investors buy up consumer-backed and business-backed securities, thus adding liquidity to credit markets and lowering the cost of consumer and business credit. This important measure will enable middle class families to access credit and provide them much needed leverage to meet their education, housing and transportation costs, as well as other vital needs.
- In response to the public outcry that banks were not asked to explain how they used bailout money in the past, Treasury Secretary Geithner created transparency requirements for banks that are given public funding. Banks that accept taxpayer dollars must show how they are using that money to increase activity, and then must file monthly lending reports which will be

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available to the public. This is a common sense approach that will help ensure that public money is used in the way it was originally intended to be used.

- Also responding to reports that corporate executives have given themselves lucrative bonuses as their companies are failing, and that banks were using public money to make business deals, Secretary Geithner imposed dividend and acquisition restrictions, and executive pay caps on banks receiving bailout money. Giving the public say on executive pay, again, is a minimal check on the kinds of corporate excess that helped cause the economic downturn in the first place.

Relevant Statistics

- Amount of assistance provided to AIG, Citigroup, and Bank of America under TARP, respectively, in dollars: **40 billion, 50 billion, 45 billion**
- Percent ownership stake in Fannie Mae, Freddie Mac, and AIG held by the United States government: **79.9**
- Percentage of the federal government's stake in Citigroup now being considered by the Obama Administration: **40**
- Value of assets received for every \$100 the Treasury Department spent on the ten largest TARP investments, in dollars: **66**
- Value of securities received by Berkshire Hathaway for each \$100 it invested in Goldman Sachs in September of 2008, in dollars: **110**
- Estimated amount the Treasury Department paid for assets worth \$176 billion through TARP capital purchases made in 2008: **254 billion**
- Percentage decline in the share price of insurance provider AIG during a two-week period in September 2008: **78**

FINANCIAL REGULATION

PRESIDENT OBAMA SAYS: We need to overhaul financial regulations to prevent future financial collapses.

“[T]o ensure that a crisis of this magnitude never happens again, I ask Congress to move quickly on legislation that will finally reform our outdated regulatory system. It is time to put in place tough, new common-sense rules of the road so that our financial market rewards drive and innovation, and punishes short-cuts and abuse.”

DMI SAYS: “The verdict is in: The financial services industry cannot regulate itself. News that the Obama Administration is moving rapidly to re-order the current alphabet soup of regulators and give the financial regulatory system an extreme makeover is positive, no matter how vague these policy prescriptions are at the moment. Wall Street has mishandled and decimated the investments and retirement savings of the American middle class. A new regulatory system will



safeguard the economy for future generations and allow ordinary Americans to realize the fruits of their labor. In addition to increased transparency, disclosure and accountability, we strongly encourage the President to seize this moment to strengthen fair lending laws and to radically re-visit the Community Reinvestment Act.”

- In the past, the President has flagged poor government oversight of the financial services industry as a major problem to be addressed by new regulations. The subprime mortgage meltdown was marked, in particular, by unconscionable permissiveness on the part of federal bank regulators who allowed abusive and risky lending practices to go virtually unchecked. These practices not only harmed consumers, but proved to be self-destructive to the lending institutions themselves. Existing fair lending laws, along with relevant enforcement mechanisms, proved woefully inadequate. The Center for Responsible Lending has gone as far as calling for the dismantling of the Office of Thrift Supervision (OTS) for its allowing bad lending practices to proliferate. The Obama Administration must make the establishment and enforcement of stronger fair lending standards a central part of the new regulatory order.
- The Obama Administration has indicated through a report - issued by a committee that was headed by senior economic advisor to the Obama Administration, Paul Volcker – that many financial institutions and complex financial instruments will be brought under tighter direct regulatory supervision. For example, there would be stricter rules for hedge funds; mortgage brokers would be closely overseen; the SEC would more directly supervise mortgage-backed securities; credit default swaps, which factored prominently in the demise of investment banks, will be traded centrally, thus making them easier to monitor; new rules would be devised to eliminate credit rating agency conflicts of interest that led them to ignore the risk presented by exotic products and practices. These kinds of policy changes will go far towards making sure this nation is not soon revisited by the current financial crisis.
- The Administration should also consider a new Community Reinvestment Act that is in synch with a newly modernized financial services industry. The financial crisis, and string of industry abuses that precipitated it, underscore the need to compel banks and all consumer lending institutions to make quality credit and financial services available to working families and neighborhoods of color in a responsible and affordable way.

Relevant Statistics

- Number of federal agencies regulating the financial services industry: **9**
- Percentage of U.S. financial institutions that had substantial operations in more than one financial sector (banking, securities, and insurance) in 2000: **62**
- Number of major Wall Street investment banks still functioning: **0**
- Percentage of subprime loans made by institutions fully governed by the Community Reinvestment Act: **25**
- Earliest month in which Harry Markopolos, a financial fraud analyst, claims to have provided evidence to the SEC that Madoff's fund was a fraud: **7/2000**
- Date on which Bernie Madoff was indicted for securities fraud: **12/11/2008**

HOME MORTGAGE CRISIS

PRESIDENT OBAMA SAYS: We must implement the Homeowner Affordability and Stability Plan to help responsible homeowners refinance their mortgages and assist homeowners who are in danger of foreclosure receive loan modifications.

“[W]e have launched a housing plan that will help responsible families facing the threat of foreclosure lower their monthly payments and refinance their mortgages. It’s a plan that won’t help speculators or that neighbor down the street who bought a house he could never hope to afford, but it will help millions of American who are struggling with decline home values – American who will now be able to take advantage of the lower interests rates that this plan has already helped bring about.”

DMI SAYS: “The foreclosure crisis was the catalyst for this nation’s economic meltdown and economic recovery will only be possible when middle-class owners and renters are no longer displaced from their homes on a massive scale, nor overwhelmed with crippling housing debt. With the Homeowners Affordability and Stability Plan, President Obama has demonstrated that he understands the importance of making existing mortgages broadly affordable. His plan helps make the point that it is in the national interest to help homeowners in distress. High mortgage debt and foreclosures not only destabilize families, but threaten entire communities by increasing abandonment and blight, dragging down surrounding property values, eroding the tax base, and creating transient populations. Yet the President has limited the reach and effectiveness of his own plan by making lenders’ participation in foreclosure prevention voluntary and by excluding homeowners who owe more on their homes than they are worth from government refinancing.”

- The President’s plan provides an opportunity for homeowners who have mortgages owned or guaranteed by Fannie Mae and Freddie Mac to refinance through those two institutions. The plan will help as many as 5 million middle-class homeowners attain lower mortgage rates and remain in their homes. However, to qualify for the program, borrowers must be current on their mortgages and must not owe more than 105% of the market value of their property. As a result, borrowers that are far “under water” – owing more on the mortgage than their home is worth – will be excluded. This exclusion will have the result of potentially eliminating millions of borrowers who received their mortgage with little or no equity, and have seen their home precipitously drop in value, perhaps by twenty, thirty percent or more. It also will do nothing to force a “haircut” – a reduction of the principal balance of the loan which may have been originally set as a result of abusive lending practices. Contrary to the idea that “irresponsible” borrowers are receiving a bailout, this component of the plan goes to great lengths to focus on borrowers who have kept up with their payments and would otherwise qualify for a refinanced mortgage at a lower rate, but who, through no fault of their own, have watched their equity stake in their home plummet along with housing prices.
- The second aspect of the program, designed to assist borrowers who are at risk of foreclosure, provides mortgage lenders, servicers and investors with incentives to modify the terms of existing first mortgages on primary residence so that homeowners do not have to pay more than 31% of their monthly gross income on mortgage payments. Borrowers who make timely payments while on the plan can have up to \$5000 applied to reduce their mortgage debt. The main problem with the program is that it is voluntary and the lenders will determine eligibility based on government guidelines. It is the voluntary nature of the Bush approach to foreclosure

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prevention that has led to such dismal results. While the incentives that the Obama Administration provides are considerable, its projected number of successful modifications, like the Bush-era Hope for Homeowners program before it, are dubious at best. Also, borrowers will only have the benefit of the program for five years. Unfortunately, many borrowers who are under water with over-appraised homes, or have interest-only or introductory rate mortgages, will continue to be saddled with unaffordable mortgages long after five years have passed.

- Many have complained that modification programs often target people who have fallen behind on their payments, thus providing incentives for delinquency and punishing those who are current. The Obama plan mitigates the “moral hazard” often associated with government-led modification programs because it includes not only homeowners who are behind on their payments, but those who are struggling, and yet, still making timely payments.
- It is, however, unfortunate that President Obama plays into the tired and discredited debate of who is a “responsible” borrower and who is not. Homeowner “responsibility” in this era of abusive subprime lending and real estate scams is difficult to discern and cannot be determined based on who is able to remain current on their loan payment or how deeply underwater a homeowner is. That is why a more inclusive and less judgmental foreclosure prevention plan would be not only more effective, but fairer as well.
- Through this program the administration is also seeking to increase liquidity in the mortgage credit markets and support lower mortgage rates by increasing funding of Fannie Mae and Freddie Mac. The program also eases restrictions for the existing Hope for Homeowners program and increases foreclosure prevention monies through HUD’s Neighborhood Stabilization Program. These are welcomed features of the plan.
- One noteworthy feature of the President’s plan is that it would activate judicial modifications of primary residences, a relatively easy and effective way of institutionalizing mortgage modifications.

Relevant Statistics

- Percentage of households that are currently either delinquent or in default on their mortgage: **10**
- Number of mortgages that will be in foreclosure over the next four years without government intervention according to Credit Suisse: **8.1 million, 1 in 6 mortgages**
- Estimated decline in U.S. household wealth between 2007 and 2009, according to Wachovia Economics Group: **\$9 to \$10 trillion**
- Percentage of U.S. Homeowners with a mortgage who owe more on their mortgages than their homes are worth: **27**
- Proportion of homeowners who are underwater who will be helped by the refinancing component of the Obama plan: **1 in 14**



- Percentage of recent mortgage modifications that have left borrowers with the same or even higher loan payments: **51**
- Percentage of borrowers who have remained current on their payments after their payments were reduced by 20% or more : **79**
- Percentage of national foreclosures that will be avoided by allowing bankruptcy judges to lower mortgage debt, according to Credit Suisse: **20**



ENERGY AND ENVIRONMENT

PRESIDENT OBAMA SAYS: In order to remain a global leader, the U.S. must increase its production of renewable energy.

“We know the country that harnesses the power of clean, renewable energy will lead the 21st century... We will double this nation’s supply of renewable energy in the next three years.”

DMI SAYS: “President Obama’s investment in renewable energy is greatly needed. Today, middle-class consumers are vulnerable to huge spikes in oil prices, such as the one seen in the summer of 2008. At the same time, they recognize the risk global warming, aggravated by reliance on carbon-based fuels, poses to Americans’ standard of living. Renewable energy addresses both problems. In the short term, the stimulus investment in renewable energy will create jobs. In the long term, new energy sources promise environmental and public health benefits, as well as lower costs, for the American middle class.”

- The stimulus includes roughly \$50 billion for energy projects, including about \$14 billion for expanding tax incentives for renewable energy facilities, \$6 billion in financing for the Innovative Energy Loan Guarantee Program, \$2.5 billion for renewable energy and efficiency research, \$11 billion for developing a smart energy grid, \$1.6 billion for “advance energy investment,” and \$268 million for residential renewable energy production.
- President Obama has pledged a total investment in renewable energy of \$150 billion over 10 years by investing in research and new technologies. Additionally, the president has called to ensure that 10 percent of the nation’s electricity comes from renewable sources by 2012, and 25 percent by 2025.
- One critical part of the President’s plan is the establishment of a smart grid, or an electricity transmission system that delivers electricity from suppliers to consumers using digital technology to save energy and cost. Experts consider a smart grid to be essential to keep up with the increasing electricity usage and the switch to renewable energy sources. It would allow for the efficient distribution of energy, would be able to transmit wind or solar power over long distances, and would store electricity in the batteries of electric cars while they are not in use. Without updates to the electricity grid, the full-scale implementation of renewable energy sources will not be possible.
 - The stimulus includes \$11 billion for the development of a smart grid. Yet more needs to be done: some estimates put the cost of a complete smart grid at \$400 billion over ten years.
 - A smart grid has the potential to reduce future electricity consumption by 10-15 percent over a “business as usual” scenario. Carbon dioxide emissions would also be reduced by about 20 percent.
 - Boulder, CO is set to become the nation’s first smart grid city. The local utilities provider, Xcel Energy, has invested \$100 million to upgrade the city’s electrical grid.



- The President’s plan is only the first step in meeting sustainable greenhouse gas reduction goals. If the country is going to reduce emissions by 80 percent by 2050, as called for by President Obama, more will need to be done to reduce the country’s use of fossil fuels.
- Congress is currently working on a bill, sponsored by Democrat Senator Tom Udall, that would require utilities to generate six per cent of their energy from renewables by 2012, rising to a quarter by 2025.

Relevant statistics:

- Percentage of the country’s energy that comes from renewable sources: **6.8**
- Percentage of Sweden’s energy that comes from renewable sources: **43**
- Number of barrels of crude oil per day that the U.S. currently imports: **13 million**
- Percentage of the world’s oil consumed by the U.S.: **25**
- Percentage of electricity transmission lines that are over 25 years old: **70**
- Annual business productivity losses due to electricity outages: **\$52 billion**
- Amount U.S. households spent on residential electricity in 2005: **\$124 billion**

GLOBAL WARMING

PRESIDENT OBAMA SAYS: A market-based cap-and-trade system is needed in order to increase the supply of renewable energy and to mitigate global climate change.

“To truly transform our economy, protect our security, and save our planet from the ravages of climate change, we need to ultimately make clean, renewable energy the profitable kind of energy. So I ask this Congress to send me legislation that places a market-based cap on carbon pollution and drives the production of more renewable energy in America.”

DMI SAYS: “Despite the other serious challenges the country faces, President Obama is right to make addressing global warming a priority now. The world may be nearing the point of no return. And the impact of global warming on middle-class Americans’ standard of living may be severe, including flooding, disease, water shortages and catastrophic weather. As the President noted, we must move away from fossil fuels to mitigate global warming. However, fossil fuels are currently less expensive than renewable sources in strict economic terms. A system that requires polluters to pay the full cost of their carbon emissions will make renewable energy much more cost-effective.”

- There is nearly unanimous consensus among scientists that human actions, specifically the emission of carbon dioxide and other greenhouse gases, are contributing to global warming. Reducing U.S. greenhouse gas emissions 80% by 2050 is necessary to prevent the worst effects of global warming.

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- A cap-and-trade system can be a powerful tool for reducing greenhouse gas emissions. Such a system would harness market-based incentives to cut emissions and would make renewable energy a more cost effective alternative. Companies that decrease global warming pollution most would profit by selling their right to pollute to other companies. In the past, the President has stated that he supports a system in which all pollution credits are auctioned by the government – rather than given away for free. This approach would ensure that polluters don't get a free ride from the public and are required to pay the full cost of their emissions.
- No matter what the system, reducing global warming pollutants will have steep costs. Workers may be displaced from polluting industries and middle-class consumers will face higher energy costs. However, economists have calculated that the cost of reducing emissions will be significantly less than the alternative cost of adjusting to the most serious consequences of global warming. At the same time, disproportionate burdens shouldered by the nation's current and aspiring middle-class should be mitigated by public policy.
- President Obama took an important first step in addressing global warming in January when he directed the Environmental Protection Agency (EPA) to review the application by California and 13 other states to regulate auto emissions more strictly. The application had been rejected under the Bush administration.
- The EPA is currently under order by the Supreme Court to make a determination whether carbon dioxide is a pollutant under the Clean Air Act. The Bush administration had ignored the ruling. The EPA, under new leadership, is expected to rule that carbon dioxide is indeed a pollutant, enabling the agency to regulate carbon emissions without Congressional input. However, to promote the full engagement of the American people on this critical issue, significant policymaking on global warming should be addressed by Congress.

Relevant Statistics:

- Approximate proportion of the world's greenhouse gas emissions generated by the United States: $\frac{1}{4}$
- Estimated total costs from hurricane damage, real estate losses, energy-sector costs, and water costs associated with global warming, if present trends continue, in dollars: **1.9 trillion**
- Estimated losses in damaged or destroyed residential real estate as a result of rising sea levels, in dollars: **360 billion**
- Projected percentage growth of U.S. carbon emissions between 2006 and 2030: **16**
- Number of states that are projected to face water shortages in the next five years: **36**
- Plausible rise in sea levels by the end of the century: **2.6 feet**



AUTO BAILOUT

PRESIDENT OBAMA SAYS: The auto industry's woes are the result of both bad decision making and an economic downturn. No matter the cause, we cannot allow the automobile industry to collapse.

“As for our auto industry, everyone recognizes that years of bad decision-making and a global recession have pushed our automakers to the brink. We should not, and will not, protect them from their own bad practices. But we are committed to the goal of a re-tooled, re-imagined auto industry that can compete and win. Millions of jobs depend on it. Scores of communities depend on it. And I believe the nation that invented the automobile cannot walk away from it.”

DMI SAYS: “The automobile industry is a crucial component of the American economy, particularly during this period of economic decline. The hundreds of thousands of job losses that would result from the collapse of one or more of the American auto manufacturers would cause significant harm to local communities and to the American economy at large. At a time of economic recession when job losses are already steep, the nation cannot afford to lose so many middle-class jobs.”

- General Motors and Chrysler recently requested \$21.6 billion in loans from the federal government in addition to the \$17.4 billion in loans granted to them by President Bush. Ford has not yet requested federal assistance. The initial loans were important to prevent complete collapse due to falling auto sales and cash shortages at both manufacturers. At the time, experts estimated that 914,000 jobs would be lost if GM failed and 3.3 million jobs would be lost if the entire U.S. motor-vehicle assembly complex collapsed. Allowing the automakers to fail would be disastrous for an economy already reeling from high unemployment. Increased unemployment benefit payments, significant tax revenue losses, and government assumption of pension obligations are all additional outcomes that could result from an automaker's failure.
- The auto industry employed over 700,000 people directly as of last September and each job in the auto industry supports about 1.7 additional jobs. The spending of auto industry workers with solid wages creates jobs in their local economies. More importantly, the jobs in and supported by the auto industry are solid middle-class jobs that tend to provide health insurance and employment stability. Using loans to maintain these jobs is a form of stimulus: it keeps workers insured, off unemployment rolls, and spending money in their local communities.
- President Obama's Task Force on Autos has a significant opportunity to guide GM and Chrysler to more efficient operations. In contrast to the financial bailout, the terms of the auto loans are quite strict and give President Obama and his auto task force significant leeway to confront recalcitrant management and environmental concerns. Whether in or out of bankruptcy (pre-packaged or not), the task force should work to preserve the auto industry's well paying union jobs, while forcing Detroit to retool with an emphasis on energy-efficient vehicles.
- Contrary to the overheated rhetoric of some observers, it is poor management decisions, not autoworkers' ability to earn a middle-class standard of living, that are to blame for the current decline of the auto industry. Management has resisted producing smaller, more energy-efficient



cars, leading to lost market share. At the same time, labor costs make up only about 10% of a car's price versus 50% for vehicle parts and frequently cited compensation expenses for unionized auto workers are exaggerated by as much double the actual cost. The broader criticism that unionization has led to U.S. manufacturing's decline is also false. A recent report from the Economic Policy Institute demonstrates that U.S. manufacturing is highly competitive in both wages and productivity, while monetary policy and other factors like high health care costs are responsible for U.S. manufacturing's recent problems. Far from causing economic harm, unionization in the American auto industry and the economy at large, generates the well-paying, secure jobs that are the backbone of the middle class.

Relevant Statistics:

- Estimated jobs lost if General Motors collapsed: **914,000**
- Percentage reduction in hourly and salaried jobs planned by General Motors by 2012, even with additional federal loans: **21**
- Estimated jobs lost if the U.S. motor-vehicle assembly complex collapsed: **3.3 million**
- Number of additional jobs for each job supported in the auto and related sectors: **1.7**
- Minimum percentage increase in the unemployment rate in the 10 states hit hardest by a total motor-vehicle assembly shutdown: **2.8**
- Three-year government tax loss if all of Detroit's operations ceased, in dollars: **156.4 billion**
- Number of states that would experience job losses of at least 1,000 if General Motors alone collapsed: **50**

HEALTH CARE COVERAGE

PRESIDENT OBAMA SAYS: We must provide coverage to the uninsured.

“Already, we have done more to advance the cause of health care reform in the last thirty days than we have in the last decade... This budget builds on these reforms. It includes an historic commitment to comprehensive health care reform - a down-payment on the principle that we must have quality, affordable health care for every American.”

DMI SAYS: “Access to quality health care is fundamental to a middle-class standard of living, yet even before the economic crisis a growing number of middle-class Americans were losing coverage. President Obama has indeed taken vital steps to address the nation’s health care crisis by expanding coverage to 4 million uninsured children, making it easier for unemployed workers to hold onto health coverage, and helping states preserve critical Medicaid services. Now he must move quickly to on the key elements of his health care agenda: creating an affordable public health plan available to all while also requiring large employers pay for employee health coverage and providing incentives for small employers to do so.”

- 45.7 million Americans were uninsured in 2007, compared to 38.7 million in 2000. Millions more were underinsured and unable to pay for needed treatments and medication. Even before the economic downturn, employers were reducing their employee health benefits and increasing employee premiums and co-pays for the coverage they do offer. The recession will only exacerbate these trends.
- Many middle-class Americans thrown out of work due to no fault of their own will lose their health coverage due to provisions that were cut from the final stimulus package. The House bill included measures enabling unemployed workers to get coverage through Medicaid and allowing older unemployed workers to retain coverage from their employers until they qualify for Medicare. The President and Congress can make up for this shortfall in the stimulus law by making health coverage available and affordable to all Americans – including the recently unemployed.
- The President’s proposal to create an affordable public health care plan to compete with private insurers is the key to health care reform. Evidence from Medicare suggests that a public plan could offer quality coverage at a lower overall cost than private insurance by reducing administrative expenses, eliminating profits, and using its bargaining power to negotiate lower prices with pharmaceutical companies, medical device manufacturers, and hospitals.
- Providing a tax credit to small employers that expand health coverage for their employees would not only enable more working people to get the care they need, it would also provide powerful economic stimulus. Meanwhile, requiring large employers to spend at least a standard proportion of payroll on employee health costs or contribute to a public plan, as the President has suggested, ensures that profitable corporations do not shrug off their responsibility for employees onto the public.

Relevant statistics:

- Funding for health care in the federal stimulus package: **\$147 billion**



- Number of uninsured Americans in 2007: **45.7 million**
- Proportion of Americans adults under age 65 who were uninsured or underinsured at some point in 2007: **2 in 5**
- Increase in health care costs for every \$1 increase in wages since 2000: **\$3**
- Percentage of companies that offered health coverage to their workers in 2000 and 2007, respectively: **69, 60**

HEALTH CARE COSTS

PRESIDENT OBAMA SAYS: We must reduce health care costs.

“We must also address the crushing cost of health care. This is a cost that now causes a bankruptcy in America every thirty seconds. By the end of the year, it could cause 1.5 million Americans to lose their homes. In the last eight years, premiums have grown four times faster than wages. And in each of these years, one million more Americans have lost their health insurance. It is one of the major reasons why small businesses close their doors and corporations ship jobs overseas. And it’s one of the largest and fastest-growing parts of our budget.”

DMI SAYS: “The United States has the most expensive health care system in the world, yet on health care outcomes – from infant mortality to adult deaths that could have been prevented by proper medical care – we consistently lag other developed countries that spend far less. As the President so eloquently expressed, the inefficient health system is a drag on the nation’s economic competitiveness and the leading fiscal problem for local, state, and federal governments. Middle-class Americans pay the cost as patients, employees, taxpayers, and small business owners.”

- The non-partisan Congressional Budget Office concludes that \$700 billion of the nation’s annual health care spending does nothing to improve health outcomes.
- President Obama is right to acclaim the stimulus funding for computerizing health records as an important move toward lowering costs and improving care. Studies suggest that computerized records can improve the coordination of health care and prevent medical errors. But this is only the first step.
- Even more important is the \$1.1 billion in the stimulus bill aimed at researching the effectiveness of different medical treatments. This information can be used by physicians to ensure that patients receive the best type of care for their condition, boosting health care quality. It’s also vital for controlling costs, enabling both public and private insurers to understand what the payoff is for particular health care investments. This is precisely why the proposal faced intense opposition from medical device and pharmaceutical manufacturers, who have a vested interest in seeing Americans pay for the most expensive, patent-protected treatments rather than treatments that might cost less and work just as well or better. The nation can no longer afford to pay more and get less.

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- Another major cause of inefficient health expenditures is the high administrative costs of the nation's complex health system, including insurance company efforts to deny coverage for treatments doctors consider medically necessary. President Obama's proposal to create a public health plan is critical to reducing these costs, since administrative expenditures for the nation's existing public insurance programs are less than half as much as private insurance costs.
- Americans also pay more for prescription drugs than citizens of many other nations. President Obama is on record supporting the importation of prescription drugs from other countries, but he should also consider what makes these drugs cheaper abroad: foreign governments use the market power of their public health systems to negotiate drug prices with pharmaceutical companies. In 2005, Obama voted for legislation in the Senate requiring Medicare to negotiate prescription drug prices. This policy continues to make sense as a cost-cutting measure.

Relevant Statistics

- Average percentage of GDP the world's advanced economies spent on health care in 2001: **8.3**
- Percentage of GDP the United States spent on health care in 2001: **13.9**
- Percentage of GDP the United States spent on health care in 2007: **16.2**
- Proportion of Americans who say they have had difficulty paying other bills in the past five years because of medical bills: **1 in 5**
- Proportion who say they or a family member have skipped a recommended test or treatment because of the cost: **1 in 4**
- Amount the U.S. could save just by lowering insurance administrative costs, according to the Commonwealth Fund: **\$100 billion a year**



EDUCATION

PRESIDENT OBAMA SAYS: We must improve the quality of American education to compete in the global economy.

“In a global economy where the most valuable skill you can sell is your knowledge, a good education is no longer just a pathway to opportunity—it is a prerequisite. But our children will compete for jobs in a global economy that too many of our schools do not prepare them for. We have one of the highest high school dropout rates of any industrialized nation. And half of the students who begin college never finish. This is a prescription for economic decline. That is why it will be the goal of this administration to ensure that every child has access to a complete and competitive education - from the day they are born to the day they begin a career”

DMI SAYS: “President Obama is right to connect investments in education to economic recovery, growth, and competitiveness. The tremendous returns on these investments are incontestable: more educated citizens will ensure higher rates of productivity and aggregate growth for the country as a whole. Strengthening the cognitive capacity of our young people will yield positive economic consequences for both their individual earning power and for our national GDP. Combating the dropout epidemic must become the top priority within the Obama administration’s education agenda—left unaddressed, it could create a lost generation unprepared to compete in an economy where advanced skill sets are prerequisites for attaining the mobility, security, and prosperity still associated with a middle-class livelihood. With an astonishing 12 million students expected to drop out of high school in the next decade, this epidemic demands far more attention and funding than it currently receives—it is where our educational crisis and economic crisis meet. Millions of young people, from economically disadvantaged communities, consigned to extreme poverty, cut off from nearly all job opportunities, without much chance for a better life, is a prospect much too grave to endure.”

- The latest research shows that nearly every segment of the workforce requires employees to do more than simple procedures—they must be able to make connections between different kinds of information and to use knowledge as a versatile tool. Synthesizing a growing literature on the subject, Elena Silva at Education Sector has demonstrated the falsity of claiming that rudimentary facts and formulas should be taught ahead of critical thinking and problem solving. Basic skills and advanced skills must be learned together; critical thinking enables basic skills to be enlarged and applied in various situations.
- In a similar vein, Harvard economic historians Claudia Goldin and Lawrence Katz have shown that basic skills, when undeveloped and untrained, are far less valuable than the advanced skills of a high school or college graduate: this additional education provides at least some form of unemployment protection by enabling a worker to adapt to changes in the economy. This flexibility means transferability across occupations, industries, business cycles, and geographic locations, with each new adaptation bringing with it a further return on the original investment, as if a cognitive multiplier effect were at work.
- Dead-end jobs have always required basic skills to be used on the same tasks, whereas gateway jobs that lead to the middle class require general, portable skills to be used on multiple tasks. This is true for blue-collar jobs and white-collar jobs. In the twentieth century, Goldin and Katz

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argue, employers of manual workers actually demanded the same high-level skills that other workers learned in secondary schools. (Skilled manufacturing was not just about better tricks of the trade—it was about better learning.)

- According to Katz and Goldin’s analysis, inequality is fundamentally a race between the supply of skill and the demand for skill. They have found that inequality is affected most not by waning demand for our educated labor—the highly analytical individual is any employer’s dream—but by our current short supply, our increasing cognitive scarcity.
- This trend is most apparent at the bottom of the economic ladder, particularly for African-American and Latino men—the population most likely to drop out. Indeed, a number of other studies with similar findings analyzed by the Government Accountability Office confirm that lower socioeconomic status bears the strongest relationship to dropping out.
- The academic records of these students are often identical: years of low test scores, bad behavior, and poor attendance—proven indicators of disengagement, a cumulative process in which the loss of motivation eventually coincides with the decision to leave school. Student disengagement and withdrawal from school is a long-term process that can be influenced by students’ early school experiences. Several studies have found that early achievement and engagement in elementary and middle school predict eventual withdrawal from high school. Early risk factors are compounded: the more risk factors students experience over their schooling careers, the greater their likelihood of dropping out. Robert Balfanz, a dropout prevention expert at the Center for Social Organization of Schools at Johns Hopkins University, has been able to predict as early as sixth grade when entire groups of these troubled students will fall perilously off track and ultimately drop out. There is only a very small window of time in which these students can be reached. By high school, entrenched patterns are difficult, if not impossible, to change.
- A number of studies from the National High School Center and other organizations have consistently shown that students must be challenged and encouraged throughout their academic career, with high expectations, intellectual rigor, and constant direction on how to excel in becoming part of their everyday school environment and their learning experience. Unfortunately, as Jason Amos at the Alliance for Excellent Education has argued, there has been little federal investment in middle and high schools to ensure that students get the necessary support throughout their educational careers.
- President Obama spoke about the need for reform and not just more resources, but the reality is that middle schools and high schools do need more resources because they are underfunded: they receive an estimated \$5 billion a year, compared to the \$18 billion and \$16 billion that primary and postsecondary schools, respectively, receive each year. So the Obama administration needs to close these funding gaps immediately if it wants to see results.
- The problem, as Amos points out, is that the federal government has focused too narrowly on the bookends of the education system, neglecting the crucial years in between. This is not to deny the importance of early education and college. But it is to say that if at-risk students on the economic margins don’t receive better support across the educational continuum fewer of them will be able to enter the workforce, let alone the middle class.

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- Because problematic attitudes and behaviors of students at risk of dropping out appear early, the most effective dropout prevention strategies do not wait to target high school or middle school students who have experienced years of unsolved problems, as Russell Rumberger, a dropout prevention scholar at the University of California, Santa Barbara, has argued in recent studies.
- One model program of early intervention in dropout-prone schools is Project GRAD, based in Houston. It has been singled out in major studies on dropout prevention by the Government Accountability Office. The basic idea is to restructure schools to become more responsive at every level to the most at-risk students, offering a wider array of resources and services along with stronger social support, revamped curriculum, and higher standards across the educational continuum. Project GRAD has succeeded in some of the most impoverished urban schools in Houston, Newark, Los Angeles, Nashville, Columbus, Atlanta, and beyond—boosting graduation rates while lowering disciplinary problems.
- Project GRAD costs approximately 5 to 7 percent of the annual per-student spending in the public schools where implemented. More states and school districts would likely access information about Project GRAD and expand its reach if the Obama administration used its web savvy to create and market a wiki-like interactive clearinghouse of model dropout prevention policies.
- More successful dropout prevention in schools across the country is in our long-term economic interest. For example, increasing the high school graduation rate and college matriculation for male students by just 5 percent would lead to combined savings and revenue of almost \$8 billion each year. High schools graduating more students prepared for college and the workforce greatly reduce healthcare costs for states. Individuals with higher education access jobs that are more likely to provide health care and other benefits.
- The Obama administration, ever mindful of its strong ties to Chicago, should recall the recent studies of the Consortium on Chicago School Research. The importance of course performance in high schools is often overlooked, Consortium analysts have shown, especially in the current era of accountability, when test results often take predominance over students' actual classroom experiences. Test scores can be measures of student success, but they are only a very small part of the picture. Students need additional skills besides those measured by achievement tests to succeed in high school. The transition to high school places significant demands on students that can be eased through safer, supportive environments that foster the skills and strategies to deal with such obstacles.
- The Consortium has developed an on-track indicator to gauge whether sufficient progress in the first year of high-school means a student will graduate within four years. On-track students typically complete enough credits by the end of the school year to be promoted to tenth grade, and have failed no more than one semester of a core subject area. This indicator is today part of the accountability system for Chicago public high schools—and it's something education secretary Arne Duncan should champion more widely. It is an equally good predictor of graduation for all students, regardless of their background.
- If the flexible skills currently demanded are produced too slowly, overall economic growth and productivity will become sluggish and inequality will widen—a nightmarish prospect for our future. The Obama administration should be economically smarter and politically courageous

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about our nation's investments in education by jettisoning what economist Charles Schultze once called the pernicious practice of incremental budgeting, the process in which the budget allocation process consists in making decisions about how much each existing program is to be increased or decreased. Too many big issues in education and economics are at stake to be so small-minded about money.

- The returns on investments in education far exceed the initial debt incurred.

Relevant Statistics:

- Percentage of college students who can demonstrate proficiency on basic literacy tests: **40**
- Amount the nation loses each year in costs associated with college remediation: **\$3.7 billion**
- Percentage of new high-growth, high-wage jobs that will require some postsecondary education: **90**
- Percentage of college-educated workers that have employer-provided healthcare: **95**
- Percentage of high school-educated workers that have employer-provided healthcare: **77**
- Percentage of high school dropouts that have employer-provided healthcare: **67**
- Number of dropouts the U.S. currently produces every year: **1.2 million**
- Number of dropouts expected in the next decade: **12 million**
- Amount of additional collective wealth in the nation if each household were headed by an individual with at least a high school diploma: **\$74 billion**
- Amount of lost income the next decade of dropouts will cost the country: **\$3 trillion**
- Amount a single high school dropout costs the nation over the course of his or her lifetime: **\$260,000 in lost earnings, taxes, and productivity**
- Amount states could save in Medicaid and expenditures for the uninsured if current numbers of dropouts graduated: **more than \$17 billion**
- Amount of lifetime income expected to be lost by the total number of dropouts from the class of 2008: **\$319 billion**
- Amount of federal funding for grades pre-K–6: **nearly \$18 billion**
- Amount of federal funding for grades 7-12: **nearly \$5 billion**
- Amount of federal funding for postsecondary education, not including student loan spending: **nearly \$16 billion**



FISCAL RESPONSIBILITY

PRESIDENT OBAMA SAYS: We must reduce budget deficits.

“I want to pass a budget next year that ensures that each dollar we spend reflects only our most important national priorities. Yesterday, I held a fiscal summit where I pledged to cut the deficit in half by the end of my first term in office...We have already identified two trillion dollars in savings over the next decade.”

DMI SAYS: “Middle-class Americans benefit when government uses taxpayer dollars to deliver services as efficiently and productively as possible. As the President noted, elements of successful fiscal reform include more transparent and competitive government contracting, the repeal of President Bush’s irresponsible and unaffordable tax cuts for the wealthy, and above all, broad-based health care reform that reduces costs and increases quality in both the public and private sectors. At the same time, President Obama must not let arbitrary targets for reducing the deficit hinder him from pursuing the policies middle-class Americans need to get the nation back on track. In particular, the President must resist calls to cut government spending by shifting more risk onto already overburdened middle-class households through unnecessary measures such as reducing Social Security benefits.”

- Health care costs are the single largest cause of mounting budget deficits. As the non-partisan Congressional Budget Office notes, “the rate at which health care costs grow relative to income is the most important determinant of the country’s long-term fiscal balance; it exerts a significantly larger influence on the budget over the long term than other commonly cited factors, such as the aging of the population or the coming retirement of the baby-boom generation.”
 - As we discuss in the section of this report focused on health care, President Obama has taken the first step to cut health care costs by funding research into the effectiveness of medical treatments, so that public and private health programs have the evidence to stop paying for less effective, more expensive treatments when cheaper alternatives work just as well or better.
 - Launching a public insurance plan to compete with less efficient private insurers and authorizing the federal government to negotiate for lower prescription drug prices are other effective measures to reassert control over ballooning health care costs.
 - Simply shifting health care costs from the public and employers onto middle-class households, as some conservatives continue to advocate, may cut government health spending but it will not solve the system’s underlying problems. Instead, efforts to cut Medicare and Medicaid spending without taking on health care inefficiencies will make tough times even more difficult for middle-class families and leave more Americans uninsured.
- Repealing President Bush’s tax cuts for the wealthiest Americans this year – or, at minimum, allowing them to expire as scheduled at the end of 2010 – is critical to any serious effort to balance the federal budget. The Bush tax cuts as a whole have cost the federal government \$1.3 trillion through 2007, contributing substantially to current budget deficits. Extending these tax



cuts would cost \$3.8 trillion over the next ten years, with the overwhelming bulk of the benefits flowing to the wealthiest Americans, according to the Center on Budget and Policy Priorities. Middle-class Americans can no longer afford to subsidize that nation's millionaires.

- Additional revenue can be raised by closing tax loopholes – such as the lower tax rates hedge fund managers pay on their compensation – and by more rigorously enforcing existing tax law. President Obama's recent efforts to crack down on offshore tax havens are an encouraging step in the right direction
- Federal spending for private contractors more than doubled under the Bush Administration, topping \$400 billion in 2007. Yet lax oversight of federal government contracts has allowed waste, fraud, and profiteering to proliferate. Middle-class taxpayer ultimately foot the bill when military contractors accept kickbacks in Iraq, FEMA issues no-bid contracts with a guaranteed profit margin for disaster relief, and politically connected businesses land lucrative contracts to provide substandard materials to the Department of Education.
 - The Accountability in Contracting Act, passed by the House in 2007, would have reined in the worst of these abuses, mandating competitive bidding and an end to “cost-plus” contracts that provide no incentive for contractors to operate efficiently. This legislation had bipartisan support in the Senate, but was never permitted to come to the floor for a vote. It should be a priority for the 111th Congress.
 - The Obama Administration should also conduct a thorough review of the rationale for entering into private contracts. In many cases, employees already on the government payroll can fulfill public functions more capably and efficiently than outside contractors, who aim to maximize profits in addition to carrying out their contractual responsibilities.
- Some conservatives seek to use calls for fiscal responsibility as a pretext to revive failed efforts to cut Social Security. President Obama must oppose this dangerous notion. Cutting Social Security benefits is not necessary to ensure the program's solvency. Social Security will have enough money to pay all benefits through 2046, with no changes to the system at all. In fact, the erosion of traditional pensions and the dramatic loss of stock market and housing wealth means that Social Security is even more essential to the retirement security of middle-class and aspiring middle-class Americans than in the past.

Relevant statistics:

- Percentage of U.S. GDP accounted for by Medicare and Medicaid spending in 2007: **4**
- Percentage of GDP Medicare and Medicaid will account for in 2050, if health care costs are not reduced: **12**
- Cost of extending the Bush tax cuts over the next ten years: **\$3.8 trillion**
- Percentage of the typical retiree's income provided by Social Security: **75**
- Number of senior citizens lifted above the poverty line by their Social Security benefits: **13 million**



- Approximate percentage of the Social Security shortfall over 75 years that could be erased by repealing the President’s tax cuts on the top one percent of Americans: **100**