

PROSPERITY OR DECLINE?
BREAKING WASHINGTON'S DEADLOCK TO
SAVE AMERICA'S FUTURE

The Strengthening America's Future Initiative

Final Report

A Project of the
Center for the Study of the Presidency and Congress

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PROSPERITY OR DECLINE?

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Table of Contents

LETTER FROM THE PROJECT CO-CHAIRS.....4

PREFACE.....6

INTRODUCTION.....10

THE FIRST CLIMB – THE FISCAL CRISIS AND JOBS.....20

 a. THE FISCAL CRISIS.....21

 b. CREATING JOBS.....33

THE SECOND CLIMB – ADOPTING A NEW “LONG HAUL” STRATEGY.....46

 a. ORGANIZING GOVERNMENT FOR THE LONG HAUL.....49

 b. HUMAN INVESTMENTS.....55

 c. CAPITAL INVESTMENTS.....68

 d. SECURITY INVESTMENTS.....76

CONCLUSION: CHOOSING PROSPERITY.....91

APPENDICES

 a. STEERING COMMITTEE BIOGRAPHIES.....92

 b. ISSUE TEAM MEMBERSHIP LIST.....98

 c. PROJECT STAFF LIST.....111







We applaud President Barack Obama’s first address to the nation, in which he called upon Americans to look to the founding documents of our republic and to meet the great challenges in this time of difficulty. As he said that January day in 2009, “Our challenges may be new ... but those values upon which our success depends ... these things are old... They have been the quiet force of progress throughout our history,” and he has frequently spoken of how leaders such as Washington, Lincoln, and the Roosevelts met the challenges of their times. Today, we are confronted with challenges arguably as great as the ones they faced.

One of the characteristics of these Presidents was the ability to look beyond the immediate, to think about security and prosperity not only in their time, but in that of their children and grandchildren. This is exactly our call to the current President, Congress, and the American people. The call comes amid enormous polarization and disunity. It would be tragic if history were to write that in our time, in our generation, unlike the Greatest Generation of World War II, such disunity prohibited us from reversing dangerous courses. Even in these adverse times, America is still the most resilient nation, with the most entrepreneurial people. In communities across the nation, they are more connected than ever and ready to weather the current storms.

We believe the findings in this report reflect the broad concerns of the American people and express their valid demands for effective and informed governance. Yet we also emphasize the personal and civic responsibilities each American must assume for the well-being of our communities and country. It is the people’s rightful role and their responsibility to engage in civil debate of policy issues and to force change in the way Washington does business—change away from petty partisanship and self-interest and toward ethical, knowledgeable, and civil governance on behalf of the American people.

Both 2008 Presidential nominees campaigned on changing Washington and bringing America together. Unfortunately, this has not happened. Fortunately, our efforts, initiated before the election, have exuded unity of effort among Republicans, Democrats, and independents seeking a path forward. We and our some 200 colleagues join in this national dialogue on how to reach higher ground and achieve the American promise. The groups we formed range from the fiscal and financial to education, health, jobs, national security, global challenges, and leadership. We urge the President to seek coalitions in Congress and elsewhere to make the necessary hard choices and to place the country above party and special interests, and we urge party leaders to note that parties have been greatest when they put the nation’s interests first. It is essential to seize this moment.

We sincerely hope that this second report will aid Washington and the nation to move in this common direction at a time of extreme challenge and opportunity.

			
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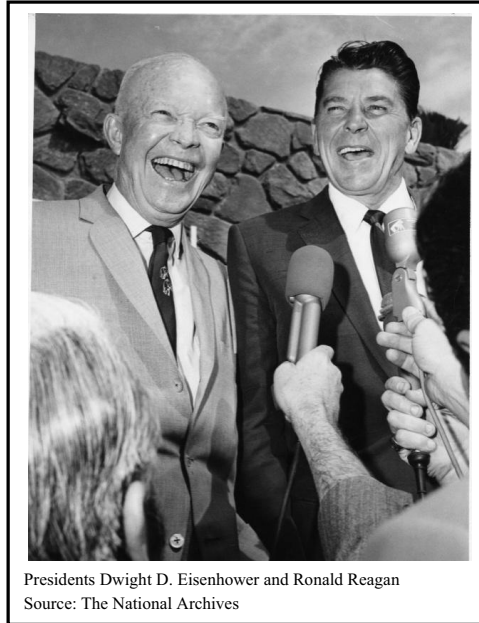
THE HONORABLE TOGO WEST, JR.

DR. DANIEL YERGIN



PREFACE

In 1953, President Eisenhower assembled three teams of outside experts to develop competing Cold War strategies in his ninety-day Solarium Exercise. Despite having been Supreme Allied Commander during World War II, Ike believed that the fundamental requirement of Cold War success was not merely amassing military strength, but also—and even more importantly—maintaining fiscal solvency and a vibrant national economy. Decades later, President Reagan recognized a critical opportunity to apply Eisenhower’s wisdom. Following his first one-on-one meeting with the Soviet leader Mikhail Gorbachev in Geneva in 1985, Reagan rejoined his staff noting that Gorbachev was in economic trouble and looking for a way out. That realization marked the beginning of the end of the Cold War.



Presidents Dwight D. Eisenhower and Ronald Reagan
Source: The National Archives

In September 2008, the Center for the Study of the Presidency and Congress (CSPC) launched the Strengthening America’s Future Initiative (SAFI), which emulated the Solarium process as well as the fundamental principle of fiscal solvency. The project strove to assess national challenges and to develop an integrated set of actions that the President and Congress could undertake to ensure a sustainable, secure, and prosperous future for the United States. The assessment phase of the project, a report called *Saving America’s Future*, was rolled out in March 2009.

Our effort owes much to Pete Peterson, an innovative former Secretary of Commerce, successful financier, and former leader of the Council on Foreign Relations in New York. Peterson’s 2004 book, *Running on Empty*, passionately describes our nation’s impending fiscal crisis absent quick action, and the foundation bearing his name has dedicated itself to averting such a crisis. We are extremely grateful to the Peter G. Peterson Foundation for its intellectual and financial support as we seek to illustrate how fiscal sustainability is required to achieve all other national priorities. Grants from the Dr. Scholl, Charles Stewart Mott, Sarah Scaife, and Golden Family Foundations and contributions from Chevron Corporation and Southern Company have allowed the Center to broaden SAFI’s scope and identify and foster innovative crosswalks among committees on Capitol Hill and agencies in the government.

The uniqueness of our overall project is its truly strategic approach. Too often these entities are compartmentalized, undermining the best use of resources, and impeding synergies among seemingly disparate—but actually interwoven—policy areas. President Obama has highlighted previous cross-cutting initiatives himself, including the commitment during the Eisenhower administration to link Americans via a vast network of interstate roadways. “Transportation



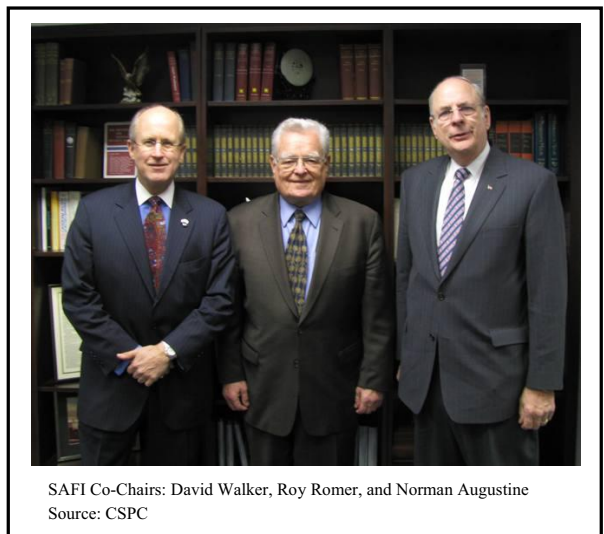
projects that were once on hold are now starting up again,” the President said on March 3, 2009, “as part of the largest new investment in America’s infrastructure since President Eisenhower built the interstate highway system.”¹

That ambitious undertaking, launched with a stroke of Eisenhower’s pen on June 29, 1956, was characterized by Secretary of Commerce Sinclair Weeks as “the greatest public works program in the history of the world.”² Perhaps Secretary Weeks was guilty of hyperbole, but it’s no coincidence that the formal name of the 1956 federal highway bill was the National Interstate and Defense Highways Act. The interstate highway system advanced two national interests; it increased national security by providing greater mobility in case of attack, and it revolutionized the U.S. economy by providing an efficient interconnected transportation system, a system of roadways that facilitated the movement of goods, and people. It launched an era of tourism, travel, and job mobility, and made Americans accessible to each other in ways they hadn’t ever been before.

To build on this legacy of forward-looking investments will require what we call a “strategic rooftop.” For while many great universities and well-funded policy institutions produce extraordinary studies on individual issues, few attend to the issue of leadership or attempt to integrate issues and set priorities within a comprehensive national plan. SAFI provides such an overarching framework.

PROJECT LEADERSHIP: Initially, four leaders stepped forward to organize this effort. CSPC President and former NATO Ambassador David Abshire has shaped national policy in and out of government for more than fifty years. Norm Augustine, a former corporate Chairman and CEO, headed the monumental National Academies study *Rising Above the Gathering Storm*, about our lagging investment in science and education. David Walker, now President of the Peterson Foundation, previously headed the U.S. Government Accountability Office. There, like a modern-day prophet, he raised the alarm about our unsustainable fiscal course. Leon Panetta, former White House Chief of Staff and former head of the Office of Management and Budget, brought great practical knowledge on how things get done inside the White House and on Capitol Hill. When President Obama tapped Panetta to head the Central Intelligence Agency, former Colorado Governor and Los Angeles County School Superintendent Roy Romer stepped in to strengthen our work on education and ties to state and local governments.

These leaders were joined by nineteen others in a Steering Committee composed of distinguished Democrats, Republicans, and independents on a broad array of policy issues. Contrary to the prevailing culture in Washington, these remarkable leaders worked in a nonpartisan way to come up with proposed solutions to the



SAFI Co-Chairs: David Walker, Roy Romer, and Norman Augustine
Source: CSPC



nation's most pressing challenges. The same is true of more than 200 experts working on our twelve issue teams. This group includes men and women who have been engaged in some of our nation's most daunting tasks. To name but two: General Edward "Shy" Meyer faced the task of repairing a "hollow army" after Vietnam. Ambassador Joseph Duffey served as Director of the United States Information Agency and is now part of our effort to envision a way to win the spirits and minds of the world's youth through interactive technologies.

ENGAGING PRESIDENTIAL CANDIDATES: CSPC reached out to the 2008 Presidential candidates, sharing with them our *Triumphs and Tragedies of the Modern Presidency: Seventy-Six Case Studies in Presidential Leadership*. This effort was driven by our focus on Presidential and Congressional leadership and the fact that the American people are dissatisfied with the way Washington works. Both Senator McCain and Senator Obama campaigned on changing the Washington system. Interestingly, both candidates portrayed themselves as modern-day Theodore Roosevelts who would reform and shake up the established order in the nation's capital. McCain said flatly that he envisioned himself in the "Theodore Roosevelt mold." Candidate Obama, speaking at Theodore Roosevelt Middle School in Cedar Rapids, Iowa, recounted the excesses of the Gilded Age, noting that "Teddy Roosevelt wouldn't play along"—and vowing that he wouldn't either.³ But "the change" Obama promised has come slowly, if at all, and in a time of recession and uncertainty, Americans are losing patience. A year into the Obama presidency, public opinion surveys show that voters remain disillusioned about their government. That is where the Center steps in. This project is, by its nature, a reform approach—and we believe the great reformer Theodore Roosevelt would approve of our efforts.

WORKING WITH THE TRANSITION: Following the November 2008 election, CSPC actively engaged the Obama transition team, Administration leaders, and members of Congress and their staffs. Christopher Lu, Executive Director of the transition and now Secretary of the Cabinet, served as an early point of contact and continues to do so. The Infrastructure Team, headed by former Michigan Governor John Engler and former Clinton Administration Secretary of Transportation Rodney Slater, contributed ideas for the stimulus package. The Education and Competiveness Team benefited from the outstanding investment of CSPC Trustee Eli Broad of the Broad Foundation and the typical generosity of the Bill and Melinda Gates Foundation in assisting the "Strong American Schools Project," formerly headed by Roy Romer. Governor Romer co-chaired the Education Team along with former Senator Bill Brock, who led a major skills initiative as Labor Secretary, and Joel Klein, Chancellor of the New York City Department of Education, who brought practical experience in reforming a large urban school system. President Obama seemed to draw on the recommendations of our Education Team in his historic speech before the Hispanic Chamber Commerce, when he announced the most significant reform in K-12 education in recent history. The co-chairs and Dr. Abshire subsequently met with Education Secretary Arne Duncan, who reviewed the team's education reform recommendations.

Central to the entire SAFI effort is the belief that the United States must act smarter, not richer. To us, this means everything from bringing Europe and the United States together to overcome disconnects in NATO to approaching our nation's health care challenges from a perspective of prevention and research—not just focusing on insurance coverage. It implies fundamental reform of an education system that spends more per student than any nation in the world, yet ranks outside the top twenty in math and science. And it suggests a profound reworking of our national



security budgeting process, which currently uses more money than the rest of the world combined.

KEY RECOMMENDATION—BIPARTISAN FISCAL COMMISSION: Perhaps no challenge is greater than regaining our nation's fiscal solvency. For that reason we supported the formation of a statutory commission to deal with the nation's unsustainable fiscal course and examine entitlement reform, statutory budgetary controls, and, as the economy recovers, a simplified tax system that favors savings, investment, and innovation. The Center has made some headway on this front. Initially, the Speaker of the House and the Majority Leader of the Senate opposed such a commission, arguing that it infringed upon the prerogatives of Congress and its legislative and budgetary practices. Nevertheless, House Majority Leader Steny Hoyer broke ranks and, in a demonstration of political courage, publicly embraced the idea of a Fiscal Future Commission. Early pioneers of this effort in the House included Representatives Jim Cooper, a Democrat of Tennessee, and Frank Wolf, a Republican of Virginia, who sponsored their own version of a statutory commission. In the Senate, Budget Committee Chairman Kent Conrad of North Dakota and Ranking Republican Judd Gregg of New Hampshire put forth their own legislation, which was unfortunately voted down in the Senate.

In December 2009, after numerous consultations with Senator Joe Lieberman (I-CT) and Senator George Voinovich (R-OH), the Center was instrumental in assembling a hearing for the Senate Homeland Security and Governmental Affairs Committee to examine the fiscal future commission model. Witnesses included Senator Kent Conrad (D-ND) and Senator Judd Gregg (R-NH), Chair and Ranking Member, respectively, of the Senate Budget Committee; David Walker; and Alan Greenspan, former Chairman of the Federal Reserve.

Having recommended a Fiscal Future Commission since the beginning of the initiative, we are pleased that the President has set up his own bipartisan commission. Restoring America's fiscal health will be central to regaining our national footing. If we do not change course, we could live out the cover story in the December 7, 2009, issue of *Newsweek*. That cover bears a picture of the Capitol building upside down with the heading "How Great Powers Fall". The caption consists of a quote from Niall Ferguson, a preeminent historian and Harvard Business School professor: "Deep debt, slow growth, and high spending kill empires—and America could be next."⁴

The Center's staff should be recognized for its work on the project specifically, Project Co-Director and Chief of Staff Dana Martin and Project Co-Director and Director of International Projects Matt Purushotham have led our highly motivated team to facilitate the work of the issue teams and write and develop a successful report. The entire Center staff has contributed much time and effort to this project including Susan Blumenthal, Ryan Browne, John Boyer, Alissa C. Clarke, Alex Douville, Sarah Ficenec, Katie Fourmy, Nancy Harloe, Thomas Kirlin, Egil "Bud" Krogh, Dan Mahaffee, Cora Mendoza, Jonathan Murphy, Emily Shaftel, Anne Solomon, Sara Spancake, Anita Verma, Jessica Zapf, and our talented interns. Thanks also to Carl M. Cannon for reviewing this report and making editing suggestions that made it more readable. This project has been successful due to the hard work of this team, and all deserve credit for its success.

We hope this report's recommendations offer an integrated strategy for turning our country away from this fate and toward a brighter future.



INTRODUCTION

For the first time in America's history, the next generation faces the prospect of a lower standard of living, lower level of education, and lower level of health than the preceding generation. The United States continues to maintain significant economic and military strength even as a range of seemingly intractable problems threaten to undermine our nation's continued preeminence.

Perhaps the greatest danger to a sustainable future—one characterized by the opportunity and security we wish to endow to future generations—is our seeming inability to balance the needs of the present with the requirements of years yet to come. The current economic crisis has shown that such shortsightedness can have catastrophic consequences affecting the lives of nearly every American. It is time that the nation and its citizens adopt a disciplined, informed, and integrated approach to address the challenges of the day while safeguarding America's long-term interests. Without such an effort, our nation may very well enter a period of decline.

WHY MUST WE ACT?

In his inaugural address, President Barack Obama noted that some Presidents had taken office "amidst gathering clouds and raging storms," and indeed that was the situation on January 20, 2009—and it remains the case today. President Obama and Congress face a wide array of severe challenges that must be managed within a tightly constrained budget. Those issues include global economic competition, increasing demand for energy and other natural resources, religious extremism that employs terrorist tactics, nuclear proliferation, climate change, pandemics, asymmetric warfare, cyber attacks, increased urbanization, a health system in crisis, and an economic environment that has been dubbed the Great Recession.

Two years into the current slowdown, the nation is plagued by falling equity in stocks and home prices and a stubbornly stagnant job market. As the President has noted, one in ten Americans are looking for work, but the true problems run deeper. An additional 8.8 million Americans are classified as "underemployed"⁵—they want full-time work and cannot find it—and some 2 million Americans have, in their despair, simply stopped looking for a job. To manage such rapidly changing and interconnected problems, it is essential for Washington to embrace a forward-thinking, strategic framework designed to secure our nation's long-term prosperity and security.

Washington often has been accused of employing an "FCC," or "from crisis to crisis," mode of operation. Such an accusation now may seem unfair in light of the overwhelming demands on our political leadership to manage the crisis of the hour. Yet without a broader, long-term perspective, we are in danger of expending resources on immediate problems to the neglect of investments to assure future national strength.

Consider these negative trends that may forecast declining national capabilities:

- As of September 30, 2008, the federal government had more than \$56 trillion in liabilities and unfunded promises for Social Security and Medicare, which equals a \$184,000 debt burden for every American.⁶
- China's economic size will match America's by 2035 and double it by mid-century, with unclear but potentially wrenching strategic implications that demand U.S. economic and military reassessment.⁷



- Thirty years ago, the United States could claim 30 percent of the world's population of college students. Today that proportion has fallen to 14 percent and is continuing to fall.⁸
- According to a study in the mid-2000s, the United States ranked ninth among industrialized nations in the share of its population ages 25 to 34 holding at least a high school diploma and seventh with respect to the percentage of the same age group holding a college degree. As recently as twenty years ago, it ranked first in both evaluations.⁹
- Americans are suffering a deteriorating quality of health—one in which the current generation may not enjoy the same level of well-being attained by their parents. The adult morbid obesity rate is approximately 34 percent, up from 23 percent since the late 1980s, and is considered a national epidemic.¹⁰ Left unchecked, this number is projected to soar as high as 47.5 percent by 2018, causing health care costs to spike and placing a huge burden on our economy.¹¹
- The American Society of Civil Engineers dropped the overall grade of the nation's infrastructure from a C in 1988 to a D in 2009 and estimated an investment of \$2.2 trillion is necessary to bring the grade to a B.¹²
- The United States has been superseded by Germany and China as the world's leading exporter. Its share of global exports has shrunk from 14 percent in 1996 to 8 percent in 2008, while output from BRIC nations (Brazil, Russia, India, and China) have more than doubled in relative amount over the same period. China accounted for a significant portion of this rise, with its claim of world exports growing from 2.7 percent in 1996 to a recent 8.9 percent.¹³

Due to unsustainable annual deficits caused primarily by entitlements and interest payments overwhelming the budget, the federal government may have to drastically reduce spending and cut services of national security, education, infrastructure, and other discretionary programs. It is no wonder, as numerous recent polls have shown, that Americans expect future generations to have a lower standard of living, worse education, and more impaired health than previous generations.

America's dependence on foreign oil and energy, reliance on foreign lenders, overstretched military, and rising military competitors may make it significantly harder for American policymakers to influence global events and policies. Multiple scenarios of the future are possible but, without significant changes to these adverse trends, future generations will face a life that is both less prosperous and less secure.

WHAT DOES SAFI WANT TO ACHIEVE?

The goal of the Strengthening America's Future Initiative is simple in concept: to advance our national interests of prosperity and security for future generations. Abraham Lincoln and Dwight Eisenhower, two of the best strategic thinkers ever to occupy the Oval Office, provide valuable lessons for today. Lincoln believed that investing in the nation's most important asset—the American people—was vital to national strength. Accordingly, in 1862 he signed into law the Morrill Act creating land-grant colleges to “provide Colleges for the Benefit of Agriculture and the Mechanic Arts.”¹⁴ This legislation had been vetoed by President Buchanan, but with the Southerners no longer serving in Congress, a new version was prepared for Lincoln. In a foreshadowing of the strategy employed to drum up support for the interstate highways nearly a century later during Eisenhower's Presidency, new language was inserted into the Morrill bill



calling for “scientific and classical studies, including military tactics”¹⁵ to be taught at the land-grant colleges. A year later, codifying a dream of Benjamin Franklin, perhaps America’s first futurist, Lincoln also signed legislation creating the National Academy of Sciences “to investigate, examine, experiment, and report upon any subject of science or art.”¹⁶ Both acts have served to this day as pillars of strength for the nation’s higher education and for scientific research and training.

President Eisenhower showed similar foresight in positioning the country for success in the Cold War by adopting a “long-haul” strategy that aligned all elements of national power. Eisenhower’s strategy aimed to stimulate economic growth through investments in innovation and infrastructure and to bolster national security by creating valuable supporting entities to the military such as the President’s Foreign Intelligence Advisory Board and the U.S. Information Agency. Across all elements of his strategy, Eisenhower held to the concept of proportionality that dictates aligning the pursuit of national objectives with adherence to fiscal responsibility.

The success of these Presidents was based on their ability to look over the horizon, target areas vital to American interests, and put in place the proper policies and structures. SAFI has built upon these examples and focused on the following areas as vital to sustaining our national interests:

- Defining America’s strategic direction.
- Maintaining fiscal balance and a dynamic economy.
- Fostering healthy and educated citizens.
- Leading global innovation.
- Protecting the American people and their interests.

These objectives are fundamental to sustaining the nation’s prosperity and security today and well into the future. Although the domestic and global environment have changed significantly since the beginning of the initiative—underscoring the need for strategic thinking in a fast-changing world—the report’s conclusions and recommendations look beyond the day-to-day concerns and address structural issues that threaten America’s future well being.

HOW DO WE ADDRESS THESE CHALLENGES?

After his electoral victory, President-elect Obama spoke of a long road and steep climb ahead of the nation. SAFI recognizes two interdependent and concurrent steep “climbs” we must make. The first focuses on putting a process in place to address the looming fiscal crisis while stabilizing the economy; the second involves setting the country’s strategic course and aligning human, capital, and security investments for the most efficient use of government resources. The challenges we face as a nation will require constant adaptation to keep up with or keep ahead of the rest of the world.

THE FIRST CLIMB:

MAINTAINING FISCAL BALANCE AND A DYNAMIC ECONOMY

Dwight Eisenhower’s conviction that a sustainable fiscal outlook and a healthy economy are essential to national security and prosperity has been shared by every modern U.S. president,



including the one who faced the gravest economic crisis: Franklin Delano Roosevelt. Federal government finances and the overall economy hang in an interconnected balance: Robust government spending, as distasteful as it may be to many Americans, can help bolster a sagging economy—just as too much government spending can tap out private markets and slow the very recovery government is trying to jump-start. Meanwhile, a reduction of federal spending that is effectuated too quickly can undermine an economic recovery.

Franklin Roosevelt took office and implemented multiple policies to stimulate the economy. These steps appeared to have measurable effects: The unemployment rate that peaked at 24.9 percent in 1933 declined gradually, but significantly, to 14.3 percent in 1937. (These figures, as bracing as they are, were almost certainly much worse than they sound: The 1930s job seekers were disproportionately male and their families' sole breadwinner, and teenagers were undercounted; in other words, those figures would even be higher today.) Then, in 1938, a politically weakened FDR was unable to muster additional New Deal legislation. A recession in the midst of the Depression took a toll on the GNP, which fell some 4.5 percent, and the unemployment rate kicked back up to 19 percent. Falling government revenue and worries about the burgeoning deficit impelled Congress and the President to scale back federal spending. But that approach exacerbated the problem: The economy remained in recession until massive government spending triggered by the U.S. entry into World War II effectively ended the recession—and the Great Depression.¹⁷

The lessons learned from the 1930s need to be applied to the current economic and fiscal situation. But what are those lessons, exactly? Although inspirational, FDR's famous assertion was not quite right that the only thing the American people had to fear was fear itself. They also had to fear—as they do today—the uncertain moves by a well-intentioned but sometimes hidebound federal government. The actions by Congress and the White House in the run-up to the Second World War illustrate the importance of timing shifts in federal fiscal and economic policy. SAFI recommends a number of initiatives to not only put the government in a position to cut deficits and balance the budget when appropriate but also to bolster the economy.

“We must begin to make some payments on [our enormous national debt] if we are to avoid passing on to our children an impossible burden of debt.”

– President Dwight D. Eisenhower,
Remarks on the State of the Union
Message, Key West, Florida,
January 5, 1956

ESTABLISH A BIPARTISAN FISCAL FUTURE COMMISSION: The President has done this. Although a statutory commission would have had more teeth, formation of the National Commission on Fiscal Responsibility and Reform is still a step forward. The goal of the commission should be to balance the federal budget within ten years through reform of entitlements, tax policy, and the budget process. Ideally, the recommendations would be presented as a package and be subject to a Congressional vote without amendments. This is less likely without a statutory commission that would be required by law to act. In January 2010, the Senate actually voted in favor of a binding commission (the vote was 53 to 46)¹⁸, but under a previous “unanimous consent” agreement, sixty votes were needed for passage. After the measure failed, a disappointed Judd Gregg said that the result was “yet another indication that Congress is more concerned with the next election than the next generation.”¹⁹ It must be noted,



however, that even a statutory commission hardly ensures success. But what a bipartisan commission can do is allow politicians to do the right thing.

That was certainly the case with the commission chaired by Alan Greenspan, the future Federal Reserve chairman, which in 1983 provided a Social Security solution that has lasted nearly three decades. In recent years, revisionists on both the political right and the left have downplayed the success of the Greenspan Commission. Top policy advisers to George W. Bush lamented that the 1983 compromise hadn't produced a "permanent" fix. This is true enough: Social Security, rescued from the brink in 1983 by raising the payroll tax and gradually lifting the retirement age to 67, is now on a trajectory to pay out more than it takes in by 2016.

Some Democratic policy advisors have embraced a competing revisionist view that also holds that the Greenspan Commission didn't really do all that much. In this telling, the commission had become stalemated, and it was elected politicians who rode in on white horses and forged the deal that saved the day. This view was bolstered by a January 18, 2010, *New York Times* story by Jackie Calmes quoting from the unpublished memoir of Robert M. Ball, an influential Greenspan Commission member. "A commission is no substitute for principled commitment,"²⁰ Ball wrote. "We should not allow ourselves to fall into the trap of expecting miracles from another Greenspan Commission—by deluding ourselves into believing, mistakenly, that the first one was a great success."

While both of these competing critiques have a body of fact behind them, we believe they are missing the essential historical point. First of all, a policy compromise between the two major political parties and Congress and the White House that lasts twenty-seven years is a notable accomplishment, not a failure. In other words, democracy isn't something we practice twice a century—it's a continuous process. Second, the key lesson of the Greenspan Commission may be that even at a time of recession (in this way, 1983 was like 2010) and even with a confident president and a House Speaker and Senate Majority Leader who enjoy the firm support of their caucuses, political compromise on a major economic-fiscal policy often requires both strong political leadership *and* the cover of a respected and bipartisan panel of men and women of good faith who are expert in their subject matter. Such a panel's work must be implemented and enacted by a Legislative and Executive Branch committed to the national good—while also somehow being shoehorned into the exigencies of elective politics.

In January of 1983, both sides concluded the time was right for a deal. House Speaker Thomas P. "Tip" O'Neill Jr. had seen his Democrats pick up twenty-six seats in the 1982 midterm elections, and his confident caucus was ready to vote to raise the Social Security retirement age. At the other end of Pennsylvania Avenue, White House Chief of Staff James A. Baker III was prepared to negotiate, too; the deepening recession had taken its toll on the President's popularity, and as Ronald Reagan's job approval rating dropped below 40 percent for the first (and only) time in his Presidency, Reagan and Baker believed that accepting some payroll increases was in their interests—and the nation's. In his own memoir years later, Greenspan acknowledged that most commissions don't do much. "But Jim Baker, the architect of this one, believed passionately that government could be made to work,"²¹ he observed.



In contemplating the moral of that 1982-1983 story, Senator Gregg lamented recently, “It was very helpful to have a few giants around then who were willing to put their credibility on the line and take a position. We’re pretty lacking in that right now.”²² Maybe it seems that way, but one of this nation’s more enduring traits is that in times of crisis, ordinary men and women step up and do extraordinary things. Without sounding melodramatic, one of the goals of this report is to encourage the men and women of the Executive and Legislative branches of government to rediscover their inner “giants.”

FOSTER SUSTAINABLE GROWTH: Tax cuts and investments have been made in sectors such as infrastructure, green energy, and health technology, which will allow the United States to effectively advance our fundamental challenge of providing economic growth opportunities in the near term. It is important to note that the bipartisan commission we recommend would look at how changes to the tax code could foster greater sustainable economic growth. More can be done to ensure lasting job creation. Health reform should reduce costs in the health care system while increasing overall quality, efficiency, and effectiveness. Immigration laws should allow the American economy more access to hardworking, skilled students and workers from abroad. The international trade system should be made as cooperative as possible to help grow our economy. Finally, the legal system must be reformed in a way that curbs the kind of excessive awards and predatory legal lawsuits that stifle innovative and productive business growth, while protecting people’s ability to redress grievances and right wrongs committed against them.

METRIC FOR SUCCESS: All of these policies can be deemed successful when the unemployment rate drops at a substantial steady rate and remains low (with a target of between 4 and 6 percent) for a sustained period.

THE SECOND CLIMB:

SETTING THE NATION’S COURSE

Over the past twenty years, the world has been dealing with the paradigm shift caused by the fall of the Soviet Union, rapid globalization, and the Internet revolution. As with any dramatic change in the global environment, developing and implementing a national strategic course requires understanding the new milieu. As we noted earlier, President Eisenhower understood that the paradigm shift caused by the escalation of the Cold War would require the nation’s strategic course and investments to be clearly defined. It is time, once again, to align the disparate elements of government around a common vision to help ensure the sustainable prosperity and security of all Americans. The blueprints for such a vision will necessarily evolve, even after they are implemented. And they will need constant updating in an ever-changing world. “Plans are worthless, but planning is everything,” is the way President Eisenhower explained this paradox. “So, the first thing you do is to take all the plans off the top shelf and throw them out the window and start once more,” Eisenhower added. “But if you haven’t been planning, you can’t start to work, intelligently at least.”²³ In that spirit, and aware of the daunting task ahead, SAFI recommends the following:

CREATE A COMPREHENSIVE, TEN-YEAR NATIONAL STRATEGIC FRAMEWORK (2011-2021) that is framed by national purpose, tempered by fiscal discipline, elevated by stewardship for future generations, and informed by an acute awareness of America’s global



position in an ever-changing world that will enable the United States to safeguard both its immediate and long-term strategic interests. This strategy should include reforming core elements in the way government organizes itself and trains its people. This strategy also needs to align, coordinate, and prioritize our national investments, to ensure fiscal discipline and that the most pressing and efficient programs are funded first. We see our national investments as falling into three equally important and interrelated categories of investments: human investments, capital investments, and security investments. Few Presidents have undertaken such an endeavor, Eisenhower being a rare exception.

OVERHAUL FEDERAL CIVIL SERVICE EDUCATION to prepare government and its administrators to face a 21st century marked by rapid technological transformation and new challenges globally and at home. America's government is run by the civil service, and the demands on it only continue to grow. Even with these great and growing demands, civil servants are not receiving the education, leadership training, or skill development necessary to keep pace. From the beginning of their careers to the highest level leadership in the federal government, civil servants must be given the opportunity to acquire the best education and training to address the challenges of today's world.

HUMAN INVESTMENTS

These are investments the government makes to ensure the ability of its people to seize opportunity and live happy and prosperous lives. Armed with a high-quality education and well-nurtured health, Americans can avail themselves of the opportunities offered by our American system of free enterprise. This truth was manifested by FDR's investment in the Servicemen's Readjustment Act of 1944 (commonly known as the GI Bill).²⁴ Not only did this bill recognize the service of our military personnel in World War II, through college or vocational training and unemployment benefits, and low-cost home loans, it also strengthened our economy for decades.

“Our deep spiritual confidence that this nation will survive the perils of today—which may well be with us for decades to come—compels us to invest in our nation's future, to consider and meet our obligations to our children and the numberless generations that will follow.”

– President John F. Kennedy
Special Message to Congress on
Conservation, March 1, 1962

Furthermore, healthy and educated citizens are important not just for achieving and sustaining national economic strength; they are ends in themselves. Ultimately, all policies should be attempts to improve the way of life of our people and those in the rest of the world.

EFFECTIVELY EDUCATE OUR COUNTRY'S FUTURE LEADERS by retaining highly motivated teachers and providing them with the resources, incentives, and instruction necessary to prepare students for STEM (science, technology, engineering, and mathematics) and other globally competitive careers as we strive to maintain our innovative and competitive edge in a knowledge-based world economy. The President and Secretary of Education Arne Duncan have a great opportunity to advance these ends and the President's stated reform aspirations through their Race to the Top initiative.



METRIC FOR SUCCESS: We will know that our education policies are successful when we rise in the education rankings issued by the Organisation for Economic Co-operation and Development, the prestigious international association that has been ranking education internationally for forty years. We recommend a target of being in the top five nations in the world in science and math by 2020. Our current rankings are 21st in science and 25th in math.²⁵

REFORM AND RE-ENGINEER THE HEALTHCARE SYSTEM to increase access to quality, cost-effective care, significantly invest in research, effectively bridge the gap from science to service, emphasize disease prevention and health promotion, and recognize that America's health is global health. The United States spends nearly two times more than any other country on health care, yet patients in our country receive the correct treatment only 55 percent of the time. Significant health disparities exist for different segments of the population in the United States. Many Americans die as a result of current inefficiencies, inequities, and ineffectiveness in the U.S. health care system. Nearly 100,000 Americans die each year from medical errors, another 100,000 from hospital acquired infections that are largely preventable, and an estimated 22,000 die annually because they lack health insurance. This is more than five times the number of deaths caused by automobile accidents every year. Additionally, over a million Americans per year die prematurely due to poor lifestyle habits, especially tobacco use, lack of physical activity, poor nutrition, and abuse of alcohol. Many of these deaths could be prevented if well designed health promotion programs were offered in workplace, school, clinical and community settings. Furthermore, only 10 percent of hospitals and 20 percent of physicians use electronic medical records despite the fact that health information technology could help improve care, reduce medical mistakes, and decrease costs as well. Clearly, these problems in the U.S. health system warrant investment and action. "We are not getting what we pay for. . . it's just that simple," says Denis Cortese, MD, former President of the Mayo Clinic and CSPC Health Commission Co-Chair. Our Health Commission team has identified strategies that the government, in partnership with the American people, can take to move us forward towards a healthier, more prosperous future. Susan Blumenthal, MD, former U.S. Assistant Surgeon General and CSPC Health Commission Co-Chair, emphasizes, "Healing our nation's health care system means ensuring quality and access, as well as investing in prevention and research."

METRIC FOR SUCCESS: There is no single metric to measure success in improving health care, considering how many factors are at play. Our goal must be to help people of all ages increase their life expectancy and improve their quality of life. This means implementing strategies to ensure that the United States has an effective, efficient, and equitable health system as well as increasing investments in research. Consider that the United States ranks 49th in life expectancy and 36th in infant mortality worldwide. Certainly we expect that improvements in quality of care, as well as an increased emphasis on, and funding for, disease prevention and health promotion programs will result in elevation in these rankings by 2020. Goals for advancing health in the United States over the next decade include 1) ensuring that all Americans have access to quality care, 2) promoting the adoption of healthy behaviors, 3) establishing an electronic medical record for every person in an interoperable health information system in the United States, 4) decreasing health costs by at least 30 percent, 5) increasing funding for health research and scientific careers, and 6) ensuring that 0.7 percent of GDP is invested in global health and development assistance as specified by the UN Millennium Development Goals.



Meeting these six goals will fuel progress, stimulate the economy and provide hope for a healthier future for all Americans in a healthier world.

CAPITAL INVESTMENTS

These are investments in the raw materials and the physical platform upon which our economy and security are built. Without developing the infrastructure and technology base of our country, we will be at a significant disadvantage in a global economy in which innovation and commerce are occurring at an unprecedented pace. The way we fund scientific and technological research and deploy it throughout our government, as well as the way we care for our transportation, energy, telecommunications, and information technology systems will determine our ability to protect our people and thrive economically.

DEVELOP A STRATEGIC FRAMEWORK THAT HARNESSSES THE ELEMENTS OF SCIENCE AND TECHNOLOGY as they relate to primary national objectives and global concerns, for our scientific and technological capabilities empower discovery, research, and investment in the tools necessary for sustainable economic growth and the capacity for staying globally competitive. The stimulus made admirable commitments in this area, but the degree to which the United States has fallen behind in these areas may not yet be readily apparent. While many Americans still receive Nobel Prizes in science and related fields, those are generally in recognition of work performed decades ago. Norm Augustine, who now chairs NASA’s Review of U.S. Human Space Flight Plans Committee, fears that the United States is losing its lead in space, saying, “My worry will be that the Chinese will land on an asteroid and scare the hell out of us, as they could do relatively soon if they decide to do it. Maybe if they’re smart they won’t do it, because it probably will wake us up like Sputnik did.”²⁶

METRIC FOR SUCCESS: One indication of our flagging lead in science and technology is the reduction in patent filings in the United States. This number had increased for more than a decade before falling in 2009. A key metric for success will be turning this trend around within two years.

ACCELERATE INCENTIVES FOR INNOVATION AND OPPORTUNITIES IN ENERGY AND INFRASTRUCTURE THAT BOOST U.S. COMPETITIVENESS in the global marketplace and restore a national vision of integrated decision making and federal fund matching that repairs and cares for our nation’s infrastructure through initiatives such as an infrastructure bank and a “smart grid” that encourage disciplined, concentrated investment. California Governor Arnold Schwarzenegger and Pennsylvania Governor Ed Rendell joined New York City Mayor Michael Bloomberg in an initiative to urge greater federal infrastructure investment. Governor Rendell noted, “The infrastructure crisis includes the basic necessities communities and businesses need to survive: schools, waterlines, wastewater treatment systems, dams, flood mitigation, hospitals, energy, aviation, rail lines, and ports. This is an issue that crosses party lines, and we need significant federal investments now to ensure the safety of our citizens and economic prosperity of our nation.”²⁷ While significant money for infrastructure and energy was included in the American Recovery and Reinvestment Act and through the Advanced Research Projects Agency – Energy (ARPA-E), sustained funding mechanisms are needed going forward.



METRIC FOR SUCCESS: We recommend a goal of raising the nation's infrastructure grade up to a C+/B- by the 2020 American Society of Civil Engineers' National Infrastructure Report Card. Our current overall grade is a D.

SECURITY INVESTMENTS

These are investments we make in discouraging, deterring, disrupting, repelling, and responding to attacks against our people, our nation, our friends, and our interests. These are investments we make not only in military strength and capability or intelligence gathering, but also in diplomatic presence and humanitarian outreach. The current system is too unbalanced, and the various government institutions responsible for our security are incapable of effective cooperation. As Defense Secretary Robert Gates recently put it, "America's interagency tool kit is a hodgepodge of jerry-rigged arrangements constrained by a dated and complex patchwork of authorities, persistent shortfalls in resources, and unwieldy processes."²⁸

PRIORITIZE CYBER SECURITY as one of the greatest threats to American security and prosperity. Currently, the United States is woefully unprepared for a major cyber attack and does not have the necessary authorities or capabilities to deter, stop, or respond to any future attacks. Even with the increasing coverage of high-profile cyber attacks, Members of Congress, the Administration, and the American people lack a meaningful understanding of the threat to our nation and the steps that will have to be taken to address it.

MOBILIZE AND FORTIFY OUR NATIONAL SECURITY by strengthening coalitions at home and abroad, fostering indigenous support, and helping to promote regional stability. These factors are critical to America's short- and long-term geopolitical strategic interests as our nation endures through two wars and attempts to maintain its unrivaled strength and flexibility, and as it trains and educates our future military leaders. Critical efforts will include securing the future of the NATO Alliance through a successful mission in Afghanistan and continuing to develop Iraq as a strategic ally in the Middle East.

RESTORE AMERICA'S TRUST AND INFLUENCE ABROAD by matching the nation's national security resources to achieve our increasingly complex international priorities. Development and communications funds controlled now by the Department of Defense should be shifted to develop a stronger, more agile Department of State. The United States can harness the information revolution by launching the Foundation for International Understanding, a grant-making "innovation fund" that will support the brightest communications ideas and co-productions of a network of global nongovernmental organizations, media professionals, and nontraditional actors. This groundbreaking idea has been described by Ed Ney, Chairman Emeritus of Young & Rubicam, as a "Marshall Plan for the spirits and minds of the youth of the world."

A Pew Research Center poll shows that of twenty-five countries surveyed, respondents in all but three (among those who responded both years) had a more favorable view of the United States in 2009 than they did in 2008. And in the three cases in which favorability dropped—Pakistan, Poland, and Russia—the largest decrease was 3 percent.²⁹ Certainly the tone of engagement that President Obama has established has had a large impact on these numbers. The Foundation for International Understanding would be a means by which the President could realize many of the aspirations he spoke about in his Cairo speech.



I THE FIRST CLIMB — THE FISCAL CRISIS AND JOBS

In his Grant Park victory speech in November 2008, the President-elect acknowledged that addressing the nation's numerous challenges would not be easy. "The road ahead will be long," he said. "Our climb will be steep." The Strengthening America's Future Initiative (SAFI) recognizes two distinct, yet interdependent, climbs that we must make as a nation, the first for immediate recovery and the second for sustained security and prosperity.

The first climb that the government must make is to lead the nation away from its unsustainable fiscal course even while it is working to create jobs and stimulate economic growth in the short run.

America faces massive deficits, caused by insufficient revenue, and continued overspending resulting from entitlement programs, the wars in Afghanistan and Iraq, and systemic inefficiencies. Current projections suggest that without substantive policy changes, this picture will persist. The Congressional Budget Office (CBO) and the Office of Management and Budget (OMB) have projected record deficits over the next ten years. If not addressed, these shortfalls will soon give foreign holders of our debt such as China, Japan, and Middle East oil exporters greater potential leverage over Washington policy; the shortfalls also will shatter international confidence in the U.S. economy and threaten the standard of living of future generations of Americans. "In 2000, the United States had a balanced federal budget," observes Richard A. Posner, a federal judge and author of *A Failure of Capitalism*. "Today, America has a deficit problem that threatens the country's future."³⁰

In addition, the job creation portion of this climb has proven even steeper than originally anticipated. The Administration is attempting to find the right mix of financial stimulus, tax, and regulatory reform to ensure economic recovery—new jobs, revitalization of small business, resumption of lending—and, perhaps most important, rebuilding the trust of the American people in the economy and the government.

Only by addressing in coordination the twin challenges of our gross fiscal imbalances and our immediate and enduring need for job creation can the President and Congress lift the nation out of the current crisis and lead it into a sustainable recovery.

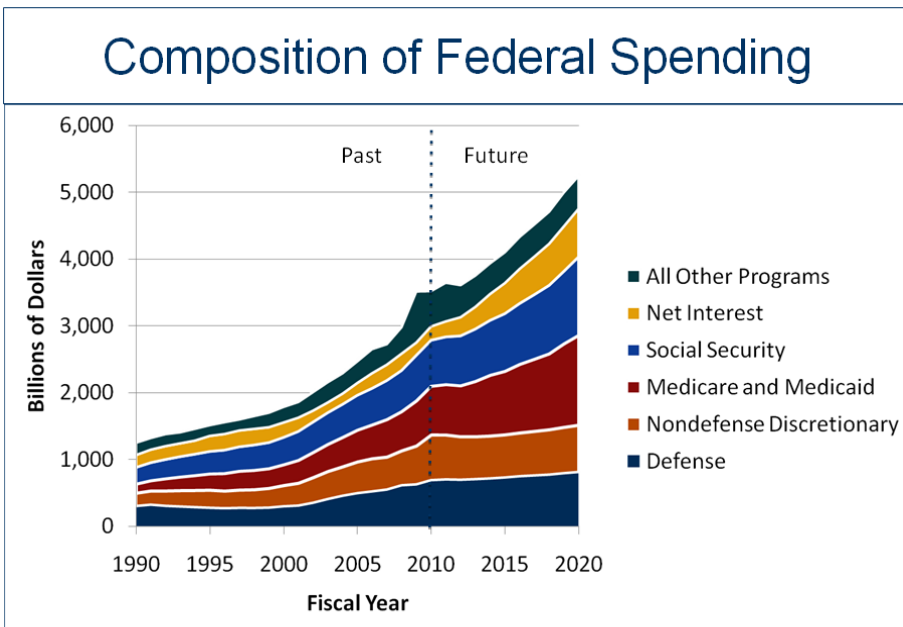
"The road ahead will be long. Our climb will be steep. We may not get there in one year, or even one term, but America—I have never been more hopeful than I am tonight that we will get there. I promise you: We as a people will get there."

— President-elect Barack Obama,
November 5, 2008



THE FISCAL CRISIS

The nation faces a three-part deficit and debt problem. First, there is the national debt, which is more than \$12 trillion. Second, there is the short-term budget deficit caused by bailout and stimulus spending related to the current economic crisis and the two wars. Third, and most threatening, are the structural deficits caused by federal entitlement programs (Medicare, Medicaid, and Social Security). Costs within these programs, especially Medicare and Medicaid, are projected to grow exponentially in coming decades. Without a drastic increase in government revenue—meaning severe tax increases or unimaginable GDP growth—fundamental changes are required in these entitlement programs to prevent a national fiscal collapse.



Sources: Data from the Congressional Budget Office *The Budget and Economic Outlook: Fiscal Years 2010 to 2020*, and from Office of Management and Budget *Historical Tables: Fiscal Year 2010*. Compiled by PGPF.

Source: <http://www.pgpf.org/resources/CBO.pdf>

- Interest on the federal debt could be the single largest line item in the federal budget by 2021, and that does not assume an increase in overall interest rates.³¹
- The fiscal 2009 federal deficit was \$1.42 trillion, which represented the highest share of GDP since World War II (9.9 percent). Total government revenue fell below 15 percent of GDP.³²
- By 2030, net debt is expected to reach \$50 trillion, or 140 percent of estimated GDP.³³
- By 2030, 7 percent of U.S. economic output—about \$2.5 trillion—will be transferred to foreign lenders to service debt.³⁴
- Over the past year, U.S. public debt grew from 41 to 53 percent of GDP.³⁵
- Sixty-six percent of voters say that leaders in Washington are not paying enough attention to our federal budget problems; 59 percent feel this way strongly.³⁶
- The United States ranks 109th in the world in savings rate as a percentage of GDP.³⁷



Getting to this sorry state didn't happen overnight—and it represents a concerted effort by both parties at ignoring the simple mathematical facts of life. “America used to have a liberal and a conservative party,” writes Judge Posner. “The Democrats, the liberal party, favored big government and therefore big government spending—and therefore high taxes to pay for the big spending. The conservative party, the Republicans, opposed big government and big government spending, and therefore favored low taxes. These were coherent positions.” These rational, if diametrically opposed political philosophies, have been replaced by so-called “big government conservatives” and “spend and borrow” (instead of “tax and spend”) Democrats. To the many voices calling for fiscal prudence, it is scant consolation that fiscal irresponsibility is bipartisan. Or, as Posner put it: “From the standpoint of economic policy, the United States has only one party, and it is the party of profligacy.”³⁸

To reverse this hazardous course, the Administration and Congress can take a number of steps to instill confidence that we, as a nation, can address the fiscal challenge. Here are four of them:

1. Overhaul federal spending with a bipartisan Fiscal Future Commission.
2. Focus on making entitlement programs (Medicare, Medicaid, and Social Security) sustainable for future generations.
3. Simplify and rationalize the tax system.
4. Reform the Executive and Legislative budget process with discretionary spending limits.

DEFINE SUCCESS: A successful overhaul of federal spending will entail ensuring the sustainability of government programs over twenty- to thirty-year cost projections. The goal is to avoid bankrupting the country while still providing as many necessary or highly desirable services as possible with the revenue that is generated. This requires that spending programs be authorized based on the cost-effectiveness of their results. Because balancing the budget over ten years will require citizens to take on more responsibility to plan for their future, education programs and incentives should be created or continued to ensure a smooth transition. The reorienting of long-run federal spending must be balanced with the immediate need to lower unemployment and create economic growth. Movement toward government fiscal stability should be paired with great fiscal responsibility among the American people. For too long, the economy relied on Americans spending beyond their means; a successful sustainable recovery will necessitate Americans saving more and paying down their debt.

*THE BROADER IMPLICATIONS
OF HIGH GOVERNMENT DEBT LEVELS*

The good news is that the ever-increasing amount of federal government debt is something that Americans of all political views are worried about. For conservatives, who value smaller government and less spending, the source of angst is the prospect of having to pay much higher taxes to cover the costs of entitlements. For liberals, who believe in active government and more (or larger) discretionary programs, it is the fact that mandatory spending will choke out other parts of the budget. And it should give all Americans pause that as our national debt increases, so do annual

“You and I, as individuals, can, by borrowing, live beyond our means, but for only a limited period of time. Why, then, should we think that collectively, as a nation, we're not bound by that same limitation?”

– President Ronald Reagan
First Inaugural Address,
January 20, 1981



interest payments for servicing of the debt. As indicated above, this interest could soon represent the largest line item in the federal budget, and, just like a finance charge on a credit card, it is money spent for which we get nothing in return. Worse still, the very thing that has allowed us to sustain our current level of debt—the willingness of China and Japan and other foreign lenders to buy our Treasury bonds—is dependent on the confidence those lenders have in the long-term health of our economy and their belief that our government will take the action necessary to restore the nation's fiscal solvency. If that confidence erodes, the Treasury will have to raise interest rates to coax lenders into buying our debt—the same way a borrower with a low credit score will get a loan from a bank, but at a higher interest rate. If that happens, every dollar we borrow as a nation will result in an interest payment that is even larger than it is now, which would grow the debt more quickly and require that the government borrow even more money. Ownership of our debt will give the nations that hold it greater influence over American domestic and foreign policy.

AN AMERICAN SUEZ?

A half century ago, Great Britain was one of the world's major powers. It had stood alone against Germany. And then it had joined with the United States and the Soviet Union to repulse the Nazi onslaught and, with the United States, to achieve victory in the Pacific. In accord with its position, it held a permanent seat on the United Nations Security Council. Britain had its own nuclear weapons, retained strategically vital military bases across the globe, commanded a well-respected army, and possessed a preeminent navy. Yet British geopolitical power stood on an unsustainable foundation, a fact that became critically important during the Suez Crisis.

The British, along with the French, had overseen the Suez Canal for nearly eighty years. When Egyptian President Gamal Abdel Nasser nationalized the canal on July 26, 1956, Britain feared that its oil supply and other national interests could be threatened. The French shared similar concerns. In response, Prime Minister Anthony Eden began considering a military option to retake this vital strategic asset. When Eden failed to persuade President Dwight D. Eisenhower to intervene militarily, he turned to a clandestine plan with France and Israel. After Israel's initial invasion of Egypt in October, 1956, Britain and France militarily intervened under the rubric that they were safeguarding the canal.

However, Britain's battlefield success was undermined by the country's severe fiscal weakness. By the 1950s, Britain, its finances exhausted by the war, had amassed unsustainable levels of debt and turned to the United States for loans. Because of British debts, the United States owned significant sterling reserves, which gave it the ability to manipulate the value of British currency.

Eisenhower strongly opposed the British military intervention. Believing that such an action would turn world opinion against the West, he used America's superior fiscal position to force Britain to change course. The United States threatened the value of sterling by blocking the International Monetary Fund from granting emergency loans to Britain. Britain ran into a "brick wall at every turn" in Washington, as one official put it. This forced Britain to capitulate and halt the invasion.

The damage done to Britain's international position was substantial. Britain began to withdraw from the region, and there was widespread understanding that Britain was no longer capable of acting independently of America in the geopolitical sphere. A little more than a decade later, Britain definitively announced that it was ending its defense commitments east of Suez. It would also withdraw its military presence from the Persian Gulf altogether – creating a vacuum into which the United States would be fatefully drawn.

Earlier, in the immediate aftermath of the Suez debacle, Harold Macmillan, the Chancellor of the Exchequer and future Prime Minister, had said to U.S. American Secretary of State John Foster Dulles, "The British action [at Suez] was the last gasp of a declining power ... perhaps in two hundred years the United States would know how we felt." Unfortunately, with its looming fiscal crisis, the United States could face a similar situation much sooner than Macmillan prophesized.



Secretary of State Hillary Rodham Clinton worries about the national security implications of high levels of debt. “We have to address this deficit and the debt of the United States as a matter of national security not only as a matter of economics,” Clinton said. “I do not like to be in a position where the United States is a debtor nation to the extent that we are.”³⁹ This is not hypothetical.

A similar situation played out in the 1956 Suez Crisis with the United States in the role of lender.

Such examples do not exist only in the past: Asked in early 2010 whether Chinese-held U.S. debt will impact American policy, former U.S. Comptroller General David Walker replied: “It’s already been manifested. One of the reasons American taxpayers now guarantee \$5 trillion in Fannie Mae and Freddie Mac debt is because the Japanese and the Chinese demanded it.”⁴⁰



Chinese State Councilor Dai Bingguo;
Secretary of State Hillary Clinton
Source: U.S. Department of State

1. RISING ABOVE A BROKEN WASHINGTON SYSTEM

Reform of entitlement programs and taxes is a politically charged issue. Many Members of Congress are reluctant to vote for reform because it involves selling tough choices to voters, usually in the form of tax increases or benefit cuts. However, for the sake of future generations and the American economy, these are the very measures required. Because of the extraordinary challenge we face, a wholesale review of government spending and tax policy is necessary. This process must be transparent, with carefully timed policy changes based on economic conditions, and most importantly, it must be able to ensure government action on these important issues.

Originally, SAFI supported the creation of a statutory Commission that would by law force an up-or-down vote on its recommendations in Congress. The version of this proposal put forward by Senator Kent Conrad, the chairman of the Senate Budget Committee, and Senator Judd Gregg, the ranking member of the committee, was dramatically defeated in Congress despite receiving a majority of votes cast (fifty-three) because it needed sixty. The bill received late support from Speaker Nancy Pelosi and Senate Majority Leader Harry Reid. However, in a tragedy for bipartisanship, many Republicans who had previously supported the bill, including seven co-sponsors, changed sides and voted against the bill, killing it. Individual motivations may have varied, but the pressure applied by Grover Norquist and Americans for Tax Reform, a prominent editorial in the *Wall Street Journal*, and the President’s endorsement of the idea in his State of the Union address, all seem to have factored into the political calculus. This flip prompted *Washington Post* Editorial Page Editor Fred Hiatt to write of Senate Minority Leader Mitch McConnell’s leadership of his party on this issue:

No single vote by any single senator could possibly illustrate everything that is wrong with Washington today. No single vote could embody the full cynicism and cowardice of our political elite at its worst, or explain by itself why problems do not get solved. But here’s one that comes close.⁴¹

We accept the President’s executive order establishing a commission as the next best alternative and his selection of Erskine Bowles and Alan Simpson as co-chairs. Congressional leaders have



vowed that the recommendations of this commission will not be amended and will receive a vote, and their promises will be key measures of the commission's effectiveness. If they are kept, the Executive Branch commission could prove to be a major step forward.

The National Commission on Fiscal Responsibility and Reform that President Obama has established should engage with the American public and various key stakeholders to review entitlement programs, national savings rates, tax policies, and the federal budget process. It should offer recommendations that are not amended, and it should receive a vote in Congress.

The Commission is a bipartisan, independent body composed of leaders from the Legislative and Executive branches as well as selected nongovernmental experts. Its template is modeled on the successful Base Realignment and Closure Commission (BRAC), which identified underused military bases that were superfluous after the end of the Cold War. The rub was that Congress and the President had to take the entire list, not cherry-pick among the recommendations for reasons of political sensitivity. In this case, there is no forced vote, but to get recommendations through the Commission itself requires the votes of fourteen of the eighteen members.

Primarily, the Commission will propose reforms that would, over time, reduce the nation's deficits, relative debt burdens, and dependency on foreign lenders. The Commission is composed of six members from outside government chosen by the President, including its co-chairs, Mr. Bowles, a former White House Chief of Staff, and Mr. Simpson, a former Wyoming Senator. An additional twelve members are to be chosen by Congress with three sitting members being chosen by each party in each chamber. The outside advisers will be crucial, as neither the governmental members nor their staffs will have time to complete all the due diligence necessary to formulate recommendations.

The Commission is set to report out in December. Some of its recommendations should be phased in over time in order based on the state of the economy. For the process to be successful, all options must be on the table. If some spending or tax provisions are allowed to remain outside the Commission's consideration process, members will seek to exclude their pet spending or tax provisions. If only a few commissioners did this, there would be little meaningful left for the Commission to consider.

The American people understand the importance of forming a commission. Seventy percent of voters in one poll said they favor the creation of such a body.⁴² Of course, the creation of such a body leaves open the question of what policy changes need to be made—and it will be up to the National Commission on Fiscal Responsibility and Reform to forge a balance among changes to entitlements, tax policy, and the federal budget process itself.

“The U.S. is arguably the greatest nation in history, but we are facing a range of large, known, and growing sustainability challenges that threaten our future. The time has come to address these major challenges, so our future can be better than our past.”

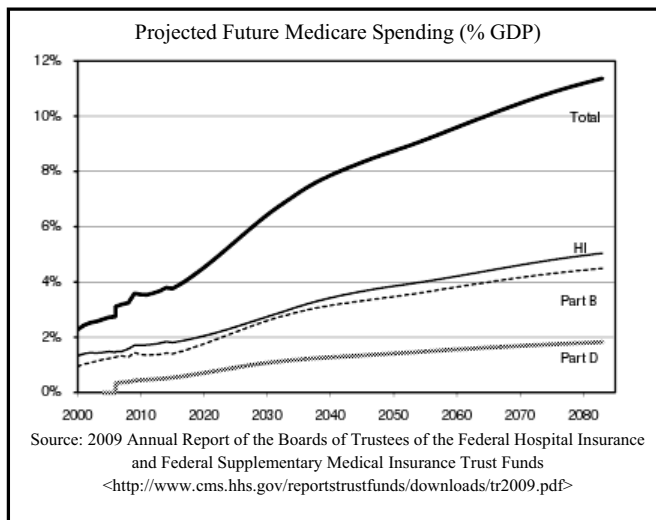
— David Walker
President and CEO, Peter G.
Peterson Foundation, former U.S.
Comptroller General



2. ENACTING ENTITLEMENT REFORM

Without prejudging this process, a consensus of entitlement program experts—not to mention the precepts of basic math—point to the futility of attempting to address excess federal spending without tackling the future spending issues presented by Medicare, Medicaid, and Social Security. It is almost axiomatic that future generations of Americans will not receive the same benefits their parents and grandparents currently enjoy. The challenge for the Commission—and for future Congresses and Presidents—will be balancing budgetary integrity with the safety net requirements of needy and elderly Americans. The solutions to such dilemmas are likely to be neither liberal nor conservative but pragmatic. In an effort to control deficits, for example, Medicare cost growth cannot be contained without reforming medical provider practices as well as altering patient expectations.

- As of September 30, 2008, the federal government had more than \$56 trillion in liabilities and unfunded promises for Social Security and Medicare, which equals a \$184,000 debt burden for every American.⁴³
- In fiscal year 2008, Social Security, Medicare, and Medicaid spending totaled \$1.3 trillion, or 43 percent of government spending (more than twice military spending).⁴⁴
- Assuming the continuation of current policies, Social Security, Medicare, and Medicaid will grow from 10 percent of GDP in 2011 to 18 percent of GDP by 2050.⁴⁵ Overall health care is now 17 percent of GDP.
- More than 40 million Americans are projected to be over the age of 65 in 2010, and that number will double by 2040.⁴⁶



MEDICARE AND MEDICAID

Medicare was created at a time when many of our nation’s seniors were driven into poverty by burdensome health care costs. Since that time, health care costs have risen dramatically. In a way, this has bolstered the argument for Medicare; without it, these enormous health costs would break seniors’ bank accounts even faster today than when the program was introduced. At the same time, these escalating costs make the program increasingly unsustainable. To

ensure that Medicare continues to be available to American seniors, the government must find a way to reduce its costs in addition to instituting comprehensive health care reform (see Climb 2). Some of these same principles apply to Medicaid, which covers the poor and disabled.

- When Medicare was created in 1965, life expectancy in the United States was 70.2 years. By 2005, this number had reached 77.8.⁴⁷



- At the beginning of 2009, the assets of the HI trust fund were \$321 billion and are projected to be exhausted in 2017, under the intermediate assumptions.⁴⁸
- Today there are 45 million Medicare participants and 60 million in Medicaid.⁴⁹

A balance of the following Medicare/Medicaid cost reduction mechanisms will have to be considered: increase the age of eligibility; increase premiums, co-pays and deductibles; decrease the percentage of government coverage; reduce the number of services covered; eliminate or limit the exclusion of employer-provided health insurance from income tax. Medicare should also be allowed to use its purchasing power to negotiate better prices.

The overall increase in life expectancy since Medicare's inception should make Americans proud, but it does have some budgetary consequences. Medicare is now insuring the average participant for more than twice as long as when the program began. What this means is that unless Americans are willing to pay significantly more in taxes or slash spending elsewhere in the budget, the total amount that Medicare pays out needs to be reduced. It is not pleasant to consider such measures as raising the age of eligibility; increasing premiums, co-pays and deductibles; decreasing the percentage of government coverage; or reducing the number or types of services covered, but adopting one or more of these measures may be necessary.

Currently, health care benefits are not taxed for employers or employees. Removing this tax protection from some or all beneficiaries is another possible source of revenue to help pay for Medicare and Medicaid. If health care coverage for the rest of America is not to be thought of as an entitlement, it may make sense to treat income used to pay for health care like any other income—and that means taxing it. Politically, this would be a hard sell—of that there can be no illusion. For reform efforts to be successful all options must be on the table.

Finally, the Department of Veterans Affairs is allowed to negotiate drug prices with pharmaceutical companies on behalf of retired members of the military. Given the size of the VA system, its negotiating power is significant. Currently, Medicare is prohibited from using this same advantage to help America's seniors save money. This doesn't make sense. Allowing Medicare to negotiate prices would be a source of savings within the program that would require neither a tax increase nor a reduction in services.

“It is a lot easier to expand health care coverage than it is to find ways of paying for it...Failing to budget responsibly for the necessary changes may make the patient feel better in the short term. Long term it will make us sicker.”

—Former U.S. Senators Bob Kerrey and Warren Rudman, Concord Coalition Op-Ed, September 8, 2009

Source: <http://www.concordecoalition.org/issue-briefs/2009/0908/op-ed-former-us-senators-warren-b-rudman-and-bob-kerrey-we-urge-president-oba>

SOCIAL SECURITY

As part of the New Deal, Social Security was enacted as a government retirement program for the elderly and was signed into law by Franklin Roosevelt. The age of eligibility was set at 65, which was a common retirement age at the time, but the seeds of a problem, actuarially speaking, were sown by the time FDR put pen to the Social Security Act in the summer of 1935. For



starters, changes in sanitation, nutrition, health, and medicine were ushering in an era of inexorable expansion of Americans' life expectancy. Much of this change had to do with lowering the infant mortality rate and, thus, extending the average American's life expectancy. This, in itself, didn't affect Social Security, but the changes taking place at the other end of life's journey most assuredly did. Life expectancy in 1935 was 61.7 years.⁵⁰ That means that when Social Security was signed into law, the average American didn't live long enough to collect it. Life expectancy is now projected to be 78.3 years. In addition, the number of Americans living well into their 80s and 90s has increased significantly.

The program was never funded as though it were a private insurance system anyway. The first monthly retirement check was cut to a legal secretary from Ludlow Vermont named Ida May Fuller. A schoolgirl classmate of Calvin Coolidge, Miss Fuller retired in November 1939 at age 65 after having paid into the new program for three years. The total amount of her cumulative contribution was \$24.75—just slightly more than her first monthly check of \$22.54, which was dated January 31, 1940. Miss Fuller lived to be 100 years old, dying in 1975 having collected some \$22,888.92—or 925 times what she paid into Social Security.⁵¹

Such discrepancies were always built into the system—that's why it's called insurance: We all pay in, and those who live longer than average would be taken care of by this collective fund. The concept of "I paid in, so I'm going to get every penny out" didn't exist. How could it? Many people paying in wouldn't live long enough to see a single penny, let alone every penny they paid in. Because Americans are now living longer, the eligibility age for Social Security has already been adjusted up to 67 for those born in 1960 or later, but the program still faces sustainability issues. "There is a stick of dynamite in the room, and the wick has been lit,"⁵² is the colorful way Florida Republican Marco Rubio has taken to explaining the problem. This is perhaps overdramatic. The problem is real, to be sure, but compared with Medicare and Medicaid, Social Security is relatively easier to fix. No less an interested party than President Obama is now on the record as saying as much. In a town hall meeting in Henderson, Nevada, the President declared: "It is actually true that Social Security is not in crisis the way our health care system is in crisis. I mean, when you think about the big entitlement programs, you've got Social Security, Medicare, Medicaid...But the fixes that are required for Social Security are not huge, the way they are with Medicare."⁵³

"... [Social Security] will act as a protection ... against the necessity of going deeply into debt to furnish relief to the needy. The law will flatten out the peaks and valleys of deflation and of inflation. It is, in short, a law that will take care of human needs and at the same time provide for the United States an economic structure of vastly greater soundness."

– President Franklin D. Roosevelt,
August 14, 1935;
Statement on Signing the Social
Security Act

And yet the problems with Social Security's solvency will not disappear on their own—and won't be handled without creative, and courageous, political leadership:

- According to the 2009 Trustees Report, Social Security will begin to pay out more than it takes in by 2016. At that point, paying full benefits will require the Social Security



program to draw upon its trust fund assets, which consist of special U.S. Treasury bonds. This will have a growing affect on the federal budget because the cash needed to redeem these bonds must come from the government's general revenue.⁵⁴

- Unless reforms are instituted, the Social Security trust fund assets will be exhausted by 2037, less than thirty years from now, and Social Security will be able to pay only 76 percent of promised benefits.⁵⁵
- The annual shortfall in Social Security will grow to around \$250 billion by 2030 in inflation-adjusted dollars and the program's cost will grow from roughly 4 percent of GDP today to around 6 percent in 2030. That means Social Security will require 50 percent more from workers' wages than it does today.⁵⁶

To address Social Security reform, a balance of the following will have to be considered: raise the cap on taxable wages; raise the qualifying age; index benefits for longevity; reduce the generosity of initial indexing; make the benefit structure more progressive.

Social Security is funded through the payroll tax. This tax, however, does not treat all income equally. It applies only to income below \$106,800.⁵⁷ Put another way, if you make \$110,000 a year or \$110 million, you pay the same amount of payroll tax (of course, you pay significantly different amounts of income tax). One of the possible solutions to correct the gap between projected Social Security spending and payroll tax revenue is to raise or eliminate this cap. It could be done in such a way that it exempts income between \$106,800 and, for argument's sake, \$500,000 to weight the increase toward wealthier taxpayers.

3. SIMPLIFYING THE TAX SYSTEM

Congress passed, and Ronald Reagan signed, the Tax Reform Act of 1986. Widely heralded as a measure that would simplify the tax code and eliminate many specious tax shelters, the law serves today as a reminder of a tax system that is needlessly complex, rigged in favor of industries with sharp-eyed lobbyists, and chock-full of unintended consequences. Twenty-four years after it became law, that same 1986 tax bill was again in the news—this time when a deeply disturbed computer software engineer named Andrew Joseph Stack III killed himself and another man when he flew his small plane into the Internal Revenue Service offices in Austin, Texas. Nothing excuses Stack's actions—the government employee who died at his desk was a diligent family man and Vietnam veteran—but the anti-tax suicide note he left behind was eye-opening. Stack believed he had been ruined by an amendment inserted into the 1986 bill to accommodate the wishes of IBM. That provision, known as Section 1706, was designed to make it virtually impossible for information technology experts to work as independent contractors.

“This law has ruined many people's lives, hurt the technology industry, and discouraged the creation of small, independent businesses critical to a thriving domestic economy,”⁵⁸ a Washington attorney named Harvey J. Shulman told *The New York Times*. In other words, it discouraged exactly the kind of entrepreneurial activity that benefits the nation. This effect was ancillary damage: according to the newspaper, all IBM really wanted in that 1986 tax bill was a tax break on its overseas operations that was estimated at some \$60 million a year. The anti-software engineer provision, designed to keep the programmers working for big companies where they couldn't wiggle out of their own tax obligations, was an ill-conceived offset. And it



didn't even raise the anticipated revenue. Yet once it was in the statute, it couldn't be jackhammered out of there: Moynihan himself tried to get it repealed, to no avail.

This country can do better. "Taxes are what we pay for a civilized society,"⁵⁹ Supreme Court Justice Oliver Wendell Holmes Jr. wrote in a 1927 dissent. A year later, in another case, Holmes added an important caveat that Congress would do well to remember: "The power to tax is not the power to destroy while this Court sits."⁶⁰

The *sine qua non* of meaningful tax reform is to clean out and rationalize the exclusions, exemptions, deductions, and credits in the tax system. A tax system with a broader base would treat various activities on an equitable basis, make the system simpler and more efficient (by "leveling the economic playing field"), and allow for lower rates to achieve a given revenue target. And while it's necessary when attempting to simplify the system to do so in ways that generate sufficient revenue, assessing the impacts of new taxes—as these examples demonstrate—must be done carefully, and with deliberation and foresight.

Although the United States has the second-highest corporate income tax rate among developed nations, it ranks much lower in the effective tax rate because of the many special preferences that permeate the code. However, both businesses and the government end up bearing greater administrative costs incurred while respectively navigating and managing the overly complex system. Consider the following:

- The tax code contains 3.7 million words.⁶¹
- Americans spend 7.6 billion hours annually preparing their federal tax returns—the equivalent of 3.8 million workers spending 2,000 hours annually (a normal work year) on tax preparation.⁶²
- The gap between taxes owed and taxes paid is roughly \$300 billion per year.⁶³

To reform the tax system, a balance of the following options must be achieved: repeal or reform the Alternative Minimum Tax (AMT); limit, repeal, consolidate and/or convert itemized deductions into fixed refundable tax credits; eliminate special corporate subsidies; improve compliance and enforcement.

The current complex system of tax deductions and credits distorts the progressive income tax system because it cannot reliably be predicted how much tax an individual is going to pay based on that person's income tax bracket. Originally dubbed "the millionaire's tax," the AMT was created because a number of wealthier taxpayers ended up paying very little or no taxes after deductions and credits. As its name suggests, the AMT is an alternative tax calculated alongside the income tax, and taxpayers pay whichever amount is higher. Among other problems with this tax is that it unnecessarily complicates the tax code.

Instead of attacking head-on the web of adjustments that were the problem, the government created another system to try to make up for the problems that those adjustments created. Moreover, because it was poorly designed, the AMT quickly began unintentionally catching in its net not millionaires but "thousandaires"—sometimes with disastrous results for their family finances. Eric Delore, a Silicon Valley entrepreneur, was granted stock options from Commerce



One, the start-up he went to work for during the halcyon days of the dot-com boom. At their peak, those options were worth—on paper—about \$1.1 million, although capital gains considerations and insider trading regulations required Delore to hold onto them. By the time he could sell them, they were worth virtually nothing—\$5, to be exact. But under the arcane terms of the AMT, the IRS ruled he had to pay taxes on the \$1.1 million. So did the state of California. Eric Delore hired attorneys, refinanced his house, and cleaned out his bank accounts to fulfill this extreme tax lien.⁶⁴

Such horror AMT stories entered the lore of tax protesters and would-be tax reformers, served as the basis for Steve Forbes's presidential runs, and launched a group called the Coalition for Tax Fairness. After a five-year congressional battle, the IRS's AMT rules regarding such stock options were reversed. Still, the AMT has never been repealed, and Congress each year passes an expensive "patch" so that middle-class families don't get socked. In fact, billions of dollars from the 2009 stimulus package went to alleviating the AMT's effects on non-millionaires. This, at a time when that money was sorely needed to create jobs. There has to be an easier way.

In regards to corporations' tax obligations, most companies pay less than the 35 percent corporate tax rate.⁶⁵ However, by maintaining a complicated system of deductions and credits to offset the high base rate, the country puts itself in a lose-lose situation—we scare off companies by having a high base rate, and we do not collect adequate revenue from the companies that remain because of all of the advantageous tax breaks.

Finally, a key aspect of simplifying the tax system will be bolstering the ability of the IRS to enforce the tax laws on the books. Noncompliance and the resultant tax gap do more damage than simply depriving the government of money it is owed and thereby expanding the national debt. It also distorts the revenue side of the federal budget and therefore the government's ability to budget responsibly.

4. REFORMING THE BUDGET PROCESS

The budget process can promote transparency and accountability by setting ground rules for decision making. It should: encourage responsible decision making that counteracts political shortsightedness; restrict automatic growth of entitlements and taxes; and provide more information on medium- and long-term implications of fiscal proposals. It should also limit the ability of lawmakers to fund pet projects through earmarks added to unrelated legislation or to get bills authorized with no indication of how the proposal will be funded. The bipartisan Peterson-Pew Commission on Budget Reform made the following observations:

- FY 2009 saw 11,914 earmarks, the second highest number ever.⁶⁶
- In FY 2009, Congress and the President could not agree on spending levels in nine of the appropriations bills for five months, and major government departments and agencies had to be funded through a stopgap legislative device known as a "continuing resolution," which simply extends funding at current levels.⁶⁷
- Between \$160 billion and \$170 billion in spending is for unauthorized programs, which constitutes about 15 percent of discretionary spending.⁶⁸



Discretionary spending caps and statutory pay-as-you-go rules (PAYGO) should be reinstated. Congress should also consider more long-term scoring by the CBO of selected, major changes to entitlement and tax programs.

While the annual Congressional budget resolution includes a cap on discretionary spending and both houses of Congress have now adopted PAYGO rules, neither of these enforcement provisions has the force of law. The original version of caps and PAYGO, established in the 1990 Budget Enforcement Act, was statutory and could be enforced through sequestration (automatic cuts). While not in itself a means by which to reduce the national debt, PAYGO would at least ensure that it did not get any larger.

The Congressional Budget Office (CBO) provides valuable analysis of the projected cost of proposed legislation. However, sometimes near-term cost projections don't provide an accurate picture of a particular piece of legislation's fiscal impact. Some proposals will not start saving or costing the government significant money until ten years after they are enacted. The CBO should be encouraged to do longer-term scoring of selected, major changes to entitlement and tax programs. A good example of this is the twenty-year estimate of the budgetary effects of the Senate Finance Committee's health care reform bill in September 2009.

BOTTOM LINE

There is no avoiding the tough choices that lie ahead. It is simply not feasible to think that we can bring the national debt and deficits to a responsible level without raising any tax or cutting any program. It is very difficult for the two major political parties to make the necessary tough choices on these issues through the normal legislative process, and, frankly, voters rarely reward politicians who prescribe bitter medicine. Collectively and individually, we have amassed huge amounts of debt—and turning our country onto a sustainable path will require the will of both the government and the people.

CREATING JOBS

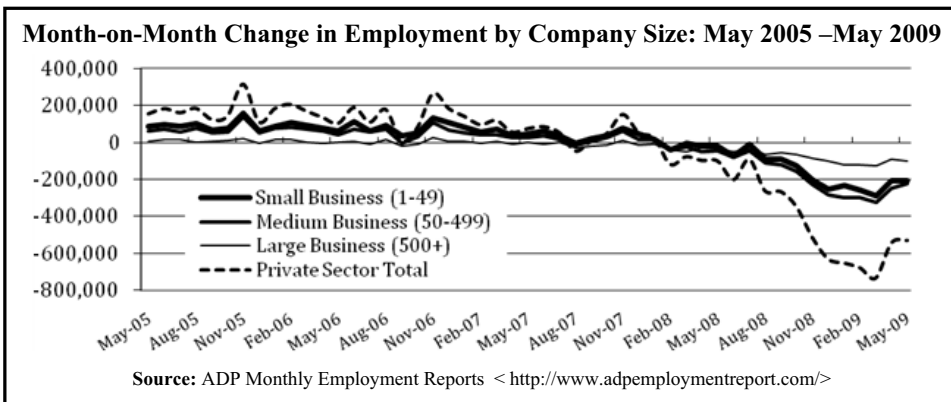
The American economy needs a jump-start to bring down rampant unemployment and stagnant growth, and create an economic environment in which the fiscal challenge can be addressed. Achieving these goals will require the government to make smart near-term investments targeted to resolve the employment crisis, while laying a foundation for sustained long-term growth. These are daunting challenges. Recession-related unemployment has exacerbated problems caused by changing markets and global competition, resulting in communities hollowed out by forces not of their own making, and in desperate condition.

- From December 2007, when the Great Recession began, through February 2010, some 8.4 million American jobs were lost.⁶⁹
- Unemployment in June 2009 reached 9.5 percent, the highest rate in 26 years. In October, it passed the psychologically significant 10 percent mark. San Francisco Federal Reserve President Janet Yellen said she expected U.S. unemployment “to remain painfully high for years.”⁷⁰
- The equivalent of 3 million full-time jobs has been eliminated because of decreased hours, furloughs, and reduced wages.⁷¹ A new phrase has crept into the labor literature:



marginally attached. Notes Heidi Shierholz of the Economic Policy Institute: “The [unemployment] number would be much higher if we included the mechanical engineers working at 7-Eleven.”⁷²

- Less well recognized, but no less alarming, an additional 9.3 million Americans are “underemployed”—they want a full-time job but can find only part-time work.
- When those who have simply given up their search are added to the mix, the ratio of Americans who can’t find full-time employment is roughly one-in-five.⁷³
- Of the jobs lost since the autumn of 2007, 79 percent are from small and midsize businesses, the entities that are the normal drivers of economic recovery. “We’ve never seen anything like it,” lamented William Dunkelberg, chief economist at the National Federation of Independent Business.⁷⁴



We recognize the President’s efforts to curb these devastating and virtually unprecedented job losses through the stimulus bill, jobs summit, and more recent jobs bill. We also recognize that these efforts may have succeeded in preventing greater job losses rather than creating new jobs, an achievement that would be difficult to see statistically. However, clearly more can be done to promote the creation of jobs that will last through the recovery and beyond.

IMMEDIATE AND SUSTAINABLE JOB CREATION

As stubborn as this recession is proving to be, there are stratagems available to the government to get Americans back to work. The government can create immediate jobs in, for example, the infrastructure sector, which President Obama himself proposed doing in his jobs speech in early December 2009. As the President acknowledged, it will be vitally important to select projects for funding that provide immediate jobs to Americans and that are also smart investments toward the growth of the economy. Do not just rebuild that venerable drawbridge as it was before, for example; rebuild it so that it’s powered with new, cleaner, and more efficient technologies, and equip it with a detection system that can avert boat and automobile accidents.



We would highlight four specific foundational approaches that the Administration and Congress can take that would galvanize the private sector while helping to create the kind of jobs that would go on generating wealth into the future.

1. Make smart investments in infrastructure projects that address urgent needs, provide sustainable jobs and increase commerce. Here is one example: Loan guarantees the Administration will provide to build nuclear power plants in Georgia will create 3,500 construction jobs and 800 jobs that will last well beyond the construction of the plants.⁷⁵
2. Accelerate efforts to provide access to credit and tax incentives to small businesses, which the President himself has stressed, are “the engine of job growth in America.”⁷⁶ One way to do this is to bolster community banks, which have a tradition of lending to small business. In his 2010 State of the Union address, President Obama proposed offering small banks up to \$300 million at a 5 percent interest rate—one that would fall to 1 percent if that bank increased lending by at least 10 percent over the next two years.
3. Ensure that health reform legislation reduce the costs to employers of providing health care to employees. Just as skyrocketing health care costs have stagnated wages, curbing this increase will allow employers to pay their employees more.
4. Welcome skilled immigrants, who want to bring their knowledge and abilities to this country and create new businesses or bolster existing ones. Maintain a free system of global trade to benefit American companies, workers, and consumers.

DEFINE SUCCESS: Jobs programs will be successful when the unemployment rate drops at a substantial steady rate and remains low (with a target of between 4 and 6 percent) for a sustained period. Creating jobs now that are lost once stimulus funding expires merely delays fully healing the wounds of the recession. At the same time, we cannot minimize the importance of providing immediate employment opportunities to American families, who have been losing jobs for nearly two years. Success will entail significant growth in small business and in government policies designed to foster entrepreneurship and job creation. This will require lowering the costs of running a small business, including health care costs; enabling vibrant labor markets; and opening new export markets for businesses.

1. PROVIDING EMPLOYMENT THROUGH CRITICAL INFRASTRUCTURE PROJECTS

As Franklin Roosevelt and Dwight D. Eisenhower proved, through New Deal-era programs and the National Interstate and Defense Highways Act, great and lasting benefits in economic growth and efficiency, national security, public health and safety, and environmental protection can be attained through targeted investments in national infrastructure. With the deteriorating condition of the country’s infrastructure, these projects can create jobs while fulfilling urgent needs.

- The American Society of Civil Engineers gave U.S. infrastructure an overall grade of D in its 2009 Report Card. The United States would have to invest \$2.2 trillion over a five-year period “to bring the nation’s infrastructure to a good condition.”⁷⁷
- For every \$1 billion spent on infrastructure, about 27,800 jobs are supported or created for one year.⁷⁸



The President and Congress provided money for infrastructure in the American Recovery and Reinvestment Act (ARRA)—the so-called stimulus package—and the President indicated in his December 2009 jobs speech that he wanted Congress to direct more money to such projects. As they understand, there is a difference between shortsighted efforts that would yield fleeting employment opportunities and merely temporarily remedy our ailing national infrastructure and wise investments in projects that provide needed jobs, advance other national priorities, and lay the foundation for greater economic efficiency and sustained job creation for years to come.

The federal government doesn't keep up with infrastructure needs even on the property it owns, including those among the immensely popular destinations in the National Park Service, the federal department that routinely shows up in public opinion polls as the government's *most beloved agency*. The backlog for capital improvements and maintenance projects at the NPS's 776 campgrounds, 27,000 buildings, 505 dams, 1,800 bridges and tunnels, 700 waste and water treatment facilities, and at its nearly 400 national parks, seashores, battlefields, historic landmarks, monuments, and wilderness areas is estimated at nearly \$9 billion.⁷⁹ Last year's stimulus package earmarked some \$750 million for this purpose.⁸⁰ Much more is needed. As Interior Secretary Ken Salazar noted during a 2009 visit to the Grand Canyon, restoring the infrastructure in what has been called America's crown jewels would "put people to work now while making investments that have long-term value for our country and our communities."⁸¹

Examples of other project areas include: integrated multimodal mobility hubs that connect different forms of transportation and use information technologies to maximize efficiency and reduce congestion in urban areas; a national Smart Energy Grid to distribute energy more effectively and secure the nation's energy infrastructure; the FAA's Next Gen overhaul of the national air traffic control system to improve safety, efficiency and lower environmental impact; and high-speed rail projects that incentivize use of public transportation by making train travel faster and cleaner.

**2. ASSISTING SMALL AND MIDSIZE BUSINESSES:
ENGINES OF JOB CREATION**

One sector seems especially well poised to provide jobs for out-of-work Americans: small and midsize businesses. According to the Bureau of Labor Statistics, firms with 500 or fewer employees account for more than half the nonfarm workforce⁸², including 80 percent of employment in construction.⁸³

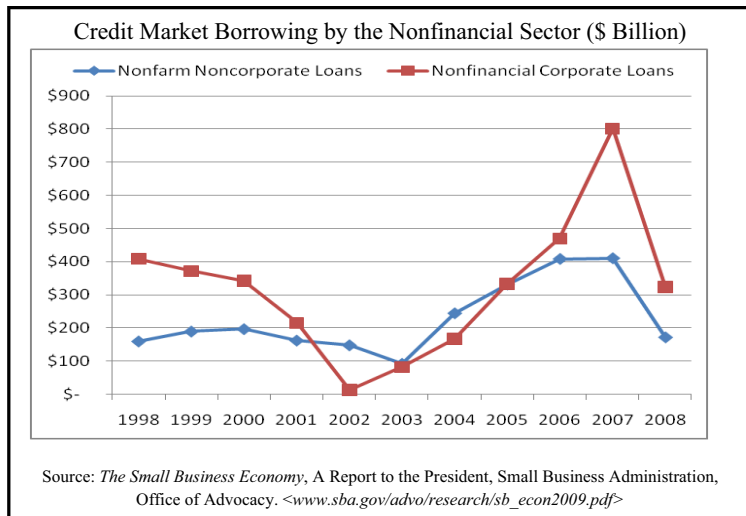
But smaller companies have been hit hard by the recession, and public policy will have to be implemented to provide the support they need to start hiring again. As we have all learned from the mortgage and credit crises, access to capital and credit is the lifeblood of a healthy economy. The credit crisis impaired the ability of small and midsize businesses to get loans and attract venture capital investment, which in turn impaired the ability of high-tech businesses to gain access to the investors they need to innovate effectively.

“Entrepreneurship is the cornerstone of American capitalism and the American dream. And in this country, small businesses are best at marshaling America’s human capital and creating jobs.”

— Francis Rooney
Owner, Rooney Holdings, Former
Ambassador to the Vatican



- In December 2008, 49 percent of National Small Business Association members reported using credit cards, with their generally high interest rates, in the previous twelve months to finance their firms. By April of 2009, that share had jumped to 59 percent.⁸⁴



- A 2007 Federal Reserve report on small and midsize business financing notes that venture capital investment experienced a significant bubble in the late 1990s that grew to more than \$100 billion before bursting in 2001.⁸⁵
- The Kaiser Family Foundation reports that the insurance premiums of small and medium-size businesses are 18 percent higher on average than those of larger companies.⁸⁶

The Administration and Congress have responded to the crisis with a series of measures that expand the access of smaller firms to loans and reduce their tax burdens.

The Administration should continue efforts to expand access to credit for small and midsize businesses through Small Business Administration loan guarantees and other incentives for banks to lend to them. It should also build upon earlier efforts to close investment gaps by supporting small businesses through tax credits.

These measures to provide direct financial support to smaller firms should be coordinated with other policy changes important for fostering job growth in the economy.

3. RELIEVING PRESSURE ON EMPLOYERS THROUGH HEALTH CARE REFORM

One of the most pressing issues facing all businesses, but especially small and medium-size firms, is the struggle to provide health insurance to employees and their families. Smaller employers who continue to offer health insurance must choose between suppressing wage increases to pay for premiums and passing along to their workers an ever greater percentage of their health costs. Many have balked at new hiring—even if they have the work—because of rising health care costs and uncertainty about their future obligations under proposed legislation. As the government continues to consider options for expanding health insurance, lawmakers



need to place a high priority on ensuring health coverage for employees of small and medium-size firms—but without creating onerous burdens on those businesses.

- The health insurance premiums of small and medium-size businesses are on average 18 percent higher than those of larger companies.⁸⁷
- While the share of large employers offering health care benefits has remained fairly constant at about 98 percent, coverage among employers with fewer than 200 employees has dropped from 68 percent to 60 percent since 2001.⁸⁸
- Twenty million of the 45.7 million U.S. residents without health insurance are either employees or family members of employees of businesses with fifty or fewer workers.⁸⁹
- A Government Accountability Office study of competition among insurance providers for the small employer market in the fifty states finds that the median market share of the largest small-group carrier increased from 33 percent in 2002 to 43 percent in 2005 and reached 47 percent in 2008. In thirty-four of thirty-nine states, the five largest insurance carriers combined accounted for three-quarters or more of the small employer market, up from twenty-six of thirty-four states in 2005 and nineteen of thirty-four in 2002.⁹⁰

The Administration and Congress should consider creating purchasing cooperatives, which help companies pool risk and resources on par with large employers; institute insurance exchanges, which would create competition for small companies' business; and reward physicians for value and results over volume of procedures.

Currently, small and midsize businesses have a double disadvantage compared with larger competitors when purchasing health insurance. Smaller employers offer insurance companies fewer clients (employees), and, as a result, they also offer the insurers smaller risk pools or, in other words, a higher risk that one employee will cost the insurer a significant amount. Both of these factors drive up the rates that small employers are charged by insurers. On top of this, the smaller companies incur a higher cost per employee for administering coverage. The creation of purchasing cooperatives or insurance exchanges for smaller firms would lessen or eliminate many of these challenges. Any reform of the health care system should include encouraging the formation of these kinds of groups nationwide subject to high patient protection standards. Doing so will help to increase choices available to small employers while at the same time improving the quality of competition in the marketplace, which could help to contain costs over the long term.

There is also insufficient competition among insurers for small employers' business. Consolidation within the health insurance industry has worsened the problem, turning many markets into oligopolies. In addition, competition in the private health insurance markets focuses largely on obtaining the lowest-risk enrollees. Insurance exchanges are intended to shift competition toward a lower cost. Exchanges do this by providing incentives for increasing the number of available plans, establishing common rules regarding how insurance is priced, and providing information to help consumers better understand the available options.

One factor that drives up the cost of health care is the fact that physicians' compensation is based on the number of procedures rather than on the results they produce. This approach incentivizes doctors to perform more tests and procedures than might be necessary, as does the possibility of



their being sued for malpractice. Moving toward a system in which doctors are paid on a results basis would align their incentives more closely with their patients' health interests. This approach is open to criticism on the basis that it discourages doctors from entering high risk fields such as oncology or surgical specialties as well as discounts the contribution of patients' behaviors in their health outcomes. However, differences among specialties as well as other factors would need to be taken into account when considering how to restructure the compensation system.

4. KEEPING AMERICA OPEN TO THE WORLD

The United States has been built and sustained throughout its history by continuous waves of immigrants. However, the current immigration system is broken and putting the nation's future in jeopardy. Maintaining open, safe borders is important to a dynamic, vibrant economy. At the same time, having sufficient seasonal and unskilled laborers is a key part of the economy. There are a number of concerns over increasing immigration because of a perception that jobs could be taken from Americans already here and the national security implications of illegal immigration. While a number of reforms have been attempted, they have not been enacted. It is important to continue these efforts and push through bipartisan reform.

The United States reaps significant benefits from keeping its society and its markets open to the world. In fact, American competitiveness is predicated on an open and free labor pool, access to highly skilled workers from abroad, and open global markets. Despite xenophobia that crops up like clockwork at election time, the best available evidence suggests that skilled immigrant workers are more likely than the general population to start companies and engage in activities leading to innovation.⁹¹

Moreover, since the end of World War II, international trade has been a key driver in global economic growth. The international trade system has provided many benefits, including markets for our exporters. As an example of the benefits of such agreements, the United States Free Trade Agreement with Singapore, signed May 6, 2003, increased U.S. exports to Singapore by 73 percent through 2008.⁹²

Inevitably, the phony elixir of protectionism is peddled—and finds some gullible buyers—during economic crises such as the present mess. But it's a tribute to the innate wisdom of the American people that immigrant-bashing on television and some politicians' paeans to the supposed evils of globalization are no longer driving much of the national conversation in mainstream politics.

In 1987, when U.S. officials were dismayed by the decision of the Toshiba Corporation to sell propeller-milling technology and equipment to the Soviet Union, California House member Duncan Hunter led a group of angry congressmen in smashing a Toshiba radio with a sledgehammer—an act that was, literally, Japan-bashing. And though it wasn't without provocation, the underlying source of American ire was the trade imbalance, and the perception that Japan's markets were closed to the United States while ours were open to theirs. A revealing contrast occurred this year when Americans were given a much greater provocation against a Japanese corporate giant that was unloading unsafe automobiles on an unsuspecting public.



“It’s not going to turn into scenes of beating a Toyota Prius with a sledgehammer on Capitol Hill,” said Brad Glosserman, the director of research at the Pacific Forum, a Hawaii-based think tank operated under the auspices of the Center for Strategic and International Studies.⁹³

LEGAL IMMIGRATION

The role that immigrant workers play in society is politically contentious, and the policies governing this aspect of the labor market are muddled at best. The current approaches have had the doubly problematic effect of diminishing our ability to attract and keep the most highly sought-after workers while also maintaining policies that contribute to the exploitation and uncertainty of unskilled laborers. Beyond the economy, how we treat those who visit or migrate to the United States has a profound effect upon our image abroad and other nations’ treatment of our people and goods. To address these issues, the nation must reexamine its approach.

“There is an industry that brings the best and brightest from all over the world into the United States quite easily—professional sports. Why should the barriers be greater for the world’s best and the brightest scientists, engineers, and innovators?”

– Bruce Ferguson
Founder and Chairman,
Edenspace

Talented people from all over the world come to work or study in the United States every year. The immigration of highly skilled and highly innovative people into the United States is a major stimulus to American prosperity and job creation. For workers, what makes this access possible is the H1-B visa program. Appropriate concerns are raised about the current system’s vulnerability to fraud and to unintended consequences that counteract its benefits. Specifically, critics complain that the current system is open to abuse by foreign companies seeking to establish relationships in the United States that can then facilitate the offshoring of work.

- Immigrants were CEOs or lead technologists in one of every four tech and engineering companies started in the United States from 1995 to 2005 and in 52 percent of Silicon Valley start-ups. These immigrant-founded companies employed 450,000 workers and generated \$52 billion in revenue in 2006.⁹⁴
- Immigrants constitute 12.5 percent of U.S. business owners and start 25 percent of new engineering and technology companies.⁹⁵
- Current law limits the annual number of H-1B visas to 65,000 with an additional exemption of up to 20,000 foreign nationals holding a master’s degree or higher from a U.S. university. The annual cap on green cards for skilled workers is 40,000.
- The total business income generated by immigrant business owners is \$67 billion, representing 11.6 percent of all business income in the United States. Immigrant business ownership is concentrated in a few states.⁹⁶
- Immigrants are nearly 30 percent more likely than non-immigrants to start a business, and they constitute 16.7 percent of all new business owners in the United States.⁹⁷

ILLEGAL IMMIGRATION

This is a separate issue from streamlining the system of visas and work permits for the world’s best and brightest, whom we would like to attract and retain. And there are, within the issue of



illegal immigration, several subtopics. For starters, one person's "family unification" is another's "string migration"—begging the question of whether an immigration policy based on blood ties to immigrants already here is really the right policy. Second, it has become evident that porous borders are a security risk. Third, there is a moral dimension to unfettered illegal access the United States; namely, the disadvantaging of the hundreds of thousands who go through the process the way the law allows, waiting in line for their chance. Fourth, having said all that, what about the estimated 12 million illegal immigrants who have put down roots in the United States, bought homes, paid taxes, and who bore and raised offspring here, children who are, in deed and law, utterly American? Finally, Americans have always struggled with reconciling a rational and orderly immigration process with our heritage, with that noble promise engraved in stone on the Statue of Liberty: "Give me your tired, your poor, your huddled masses yearning to breathe free."

Presidents, most especially, have been taken with the assurance that America is the world's refuge. In his farewell address before leaving the White House, Ronald Reagan put it this way: "I've spoken of the 'shining city' all my political life, but I don't know if I ever quite communicated what I saw when I said it. But in my mind it was a tall, proud city built on rocks stronger than oceans, windswept, God-blessed and teeming with people of all kinds living in harmony and peace; a city with free ports that hummed with commerce and creativity. And if there had to be city walls, the walls had doors and the doors were open to anyone with the will and the heart to get here."⁹⁸

Two years earlier, Reagan had signed the Immigration Control and Reform Act of 1986, a statute eight years in the making that was supposed to solve the problem of illegal immigration once and for all. But as Reagan's farewell address suggests, his heart wasn't really in it—nor was Congress's. And so, despite this problem's having been wrestled with for the better part of a decade, a law was enacted that couldn't possibly have solved it. "Future generations of Americans will be thankful,"⁹⁹ President Reagan said as he signed it. Actually, those who were thankful were the estimated 3 million newly legalized citizens who had originally come to the United States without papers. The law did not end or even slow illegal immigration, however, because the measures that would really have put teeth in the law—a national identification card and tough sanctions against employers who knowingly hired illegals—had been stripped out of the legislation by a coalition of liberals and conservatives.

Today, tourist visas are once again easy to manipulate, the Mexican border is a sieve, and the laws preventing employers from hiring illegal aliens are difficult to enforce. Now, an estimated 12 million illegal immigrants could qualify for amnesty if another round of legalization occurred. "Next time it will be 24 million,"¹⁰⁰ warns Georgia Congressman Johnny Isakson. "We will have lost control." This very prospect is what has paralyzed Congress and kept it from enacting controls. Although it's probably not possible to end illegal immigration altogether, some sensible alternatives are available. First, the federal government can pass the legislation it said it was passing two decades ago: a comprehensive approach including a guest worker program, a path toward citizenship for those already here, strict sanctions against employers who hire illegal immigrants, and a national ID card, this time using advanced biometric technology.



In the meantime, some border experts believe that tensions would be eased on both sides of the border if Immigration and Customs Enforcement relied less on fences, helicopters, and well-armed Border Patrol agents who make crossing the border so perilous. Wayne Cornelius, director of the University of California-San Diego Center for Comparative Immigration Studies, has shown that making the border harder to navigate has created a “bottleneck” on the U.S. side for migrants who previously traveled back and forth, particularly to harvest seasonal crops, but who are now more or less trapped in the United States.¹⁰¹

Finally, it makes sense for the country receiving so many immigrants to pay more attention to accommodating those who make the journey. In *Becoming a Citizen: Incorporating Immigrants and Refugees in the United States and Canada*, University of California-Berkeley sociologist Irene Bloemraad demonstrated that the dearth of U.S. policies aimed at formally integrating immigrants has resulted in lower participation in American civic life than in Canada, which has more programs and better policies.¹⁰²

“At a minimum,” says Bloemraad, herself an immigrant, “this requires practical assistance in learning English, help in becoming an American citizen, and bilingual and bicultural services.”¹⁰³

While reforms are needed to ensure that foreign and domestic employers not misuse the program, the number of H-1B visas and green cards available to foreign workers should be significantly expanded; students traveling on education visas should be automatically eligible for employment-based visas except those traveling on scholarships (Fulbright Scholarship); country visa quotas should be removed (allowing the market to determine what skills are needed); total visas offered should be increased and general immigration should be tied to economic and seasonal conditions; a national program should be implemented to enforce a legal worker program using biometric scanning; and a program to lead to citizenship should be adopted, following the appropriate penalties, time period, background check, and commitment to America.

Highly skilled workers can enter the U.S. labor force by obtaining an employment-based green card, which allows an individual to stay in the United States as a permanent resident, or an H-1B visa, which allows an immigrant to work here for three years, renewable to six years. Demand, for both H-1B visas and green cards, far outstrips supply. The result is that many highly skilled workers in scientific and technical fields who are currently working in the United States on temporary H-1B visas are forced to leave their jobs each year and return home. Similarly, many foreign students completing scientific and technical training at U.S. colleges and universities who might otherwise remain in the United States to work and build companies return to their home countries, taking their U.S.-acquired skills and knowledge with them.

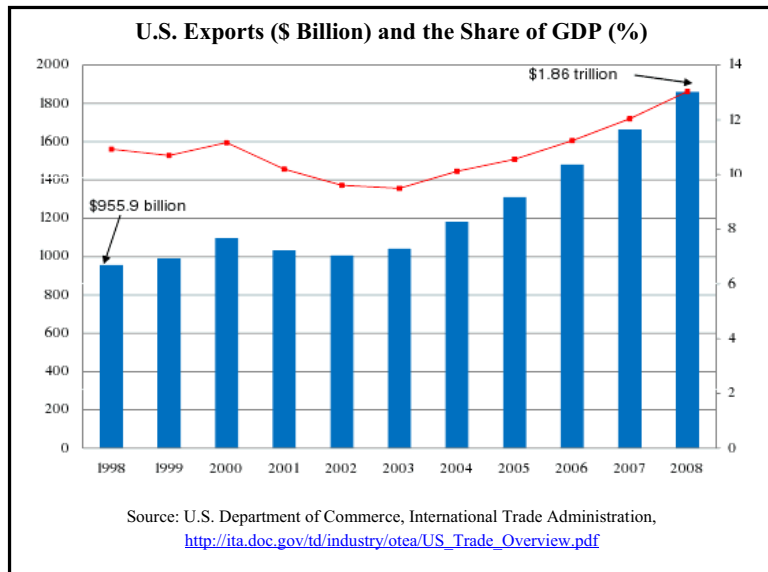
TRADE

Trade has been an important tool for increasing overall American household wealth, but troubling and persistent increases in income inequality have occurred in recent decades.¹⁰⁴ The share of income going to the top 10 percent of households, after remaining stable at 30 to 35 percent from 1942 to 1980, now exceeds 45 percent.¹⁰⁵ This increasing inequality, and the rapid loss of manufacturing jobs, has led to stagnating or declining real incomes for many households.



Reacting to the challenge of wage stagnation by moving toward protectionism would be counterproductive and damage the economy's long-run performance because it would close markets to the goods and services that our businesses export. It would also deprive Americans of cheap and plentiful goods they have come to rely on for their quality of life. The challenge, then, is to promote both free trade and policies that support wage growth throughout the income distribution. Rather than erecting barriers to the flow of goods and services, our policy should be focused on helping U.S. manufacturers succeed on a fair international playing field.

America can act as a global leader to help enhance open trade while moving the international system toward freer, balanced trade through a revitalized Doha round of the World Trade Organization. We should work to liberalize agricultural trade, with the United States and European Union leading the way by reducing agricultural subsidies. Freer trade would benefit the American and international economies and enhance peace and prosperity worldwide.



- Between 1962 and 2000, exports as a share of GDP grew by more than a factor of three, both in the United States and worldwide.¹⁰⁶
- Small businesses account for about 97 percent of all identified exporters of U.S. goods.¹⁰⁷
- U.S. exports have grown to nearly \$2 trillion and more than 12 percent of GDP.¹⁰⁸
- The United States is the world's third-largest exporter of goods and the largest exporter of services.¹⁰⁹
- The United States ranks 44th in the world based on the extent to which its trade barriers prevent imports from entering the country (i.e., forty-three nations have trade policies more favorable to imports than the United States).¹¹⁰

Congress should quickly approve and implement the Free Trade Agreements that have been signed with Colombia, South Korea, and Panama; the United States Trade Representative (USTR) should work with our trading partners toward locking in current levels of tariffs across the board as an absolute ceiling; the USTR and Cabinet agencies should continue to quickly identify and respond to barriers initiated by our trading

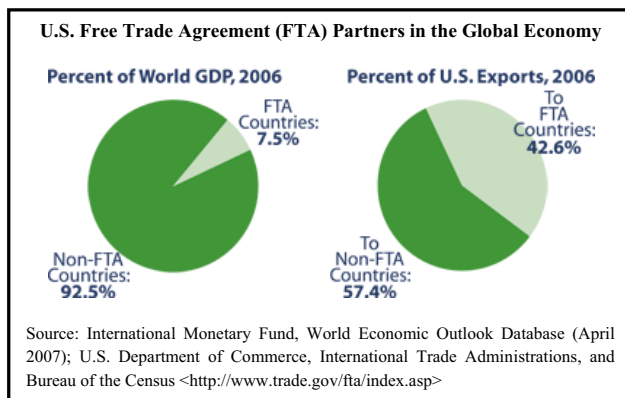


partners; and the federal government should assist displaced workers through adjustment assistance, retraining opportunities, and portable health care.

There is no justifiable reason for Congress to hold up the implementation of our signed agreements with willing trade partners. Instead, Congress should immediately approve these agreements and examine ways in which it can make trade freer. By committing to at least not making tariffs higher than they currently are, the United States could signal to the world its willingness to usher in a new era of liberalized global trade. Part of establishing this new era will be carefully dealing with countries that choose to erect or heighten trade barriers, such as tariffs or manipulated currencies. Retaliatory protectionism is not the answer. Proactive engagement is. These measures are also important for bolstering America's regional influence and position.

Free trade is often demonized as the cause of jobs going overseas. The truth is that many of these jobs are eliminated not because of free trade but because of advances in technology that raise productivity. Thus, the United States should move toward liberalizing trade with willing partners from around the globe. As the Administration and Congress continue to develop new trade policy, they should seek to shape a global economic environment that offers U.S. companies as much opportunity as possible for growth and that keeps America open to knowledge, technology, and goods from abroad.

While improvements in productivity and changing markets have led to far more unemployment than international competition, it is true that the apparent benefits reaped as a result of free trade are not effectively shared throughout the economy. These benefits can be realized by a greater share of the population through programs that help workers bridge the gap between jobs that are eliminated by advancements in technology or that allow workers to move from employer to employer without worrying about losing health care and other benefits for their families.



The only way to ensure that Americans who regain employment during this recovery stay employed is to take steps that allow the economy to continue to grow. Making education and training programs broadly available allows people to develop adaptable skills so they can seize the new opportunities that arise from a dynamic marketplace. Economic growth happens most efficiently *because* of a free and fair international system of trade, not in spite of it.



5. TORT REFORM

Lawsuits are a necessary way to redress grievances in our society. Those who are wronged have a right to seek proportional compensation from the parties responsible. The current system can be reformed in ways that preserve this function, while rationalizing it. The need to rationalize the system comes from a significant number of frivolous lawsuits that hinder economic growth and also dramatically affect people's lives. In 2006, as a result of temporarily misplacing a set of pants, a Korean-born owner of multiple dry cleaning stores in Washington, D.C., faced a \$54 million lawsuit. This family-owned small business offered the plaintiff up to \$12,000 to settle the claims out of court but was unable to reach an agreement. After two years of litigation, the claims of the plaintiff were dismissed, but the staggering costs of the lawsuit forced the dry cleaner to close all but one store.¹¹¹ These and thousands of other stories show the debilitating effects of frivolous lawsuits and the need to encourage tort reform.

Litigation has proved to be a powerful force for change when individuals, companies, or the government overstep their legal rights or endanger citizens. From environmental disasters to selling defective products, there are numerous examples of the legal system acting as a watchdog to get dangerous products off the market and compensate those affected. A balance must be found between the continued effort to safeguard Americans through legal action and the economic costs to overall economic growth.

Tort reform is being addressed at the state and federal level but faces significant challenges. Recently in Illinois, the state Supreme Court ruled that limits on medical malpractice damages violated the separation of powers between the legislative and legal branches of government. Texas, Tennessee, Georgia, and Oklahoma have all passed medical malpractice limits, but the laws still face legal challenges. Numerous states continue to push for medical malpractice tort reform against difficult hurdles.

- The total cost of litigation in the United States was \$254 billion in 2008—equivalent to more than \$830 per person.¹¹²
- One in ten companies spends more than \$10 million per year on litigation.¹¹³
- In 2007, small businesses paid \$98 billion in tort costs, which was over 60 percent of total corporate litigation costs.¹¹⁴

Tort reform has been brought to the fore in the debate over health care. Under current law, individuals may “pursue civil claims against physicians and other health care providers for alleged torts—breaches of duty that result in personal injury.”¹¹⁵ The CBO claims there are two objectives to this system: deterring negligent behavior by providers and compensating claimants for losses they incur resulting from injuries that occur because of negligence. A great deal of money changes hands in legal fees and damages each year. The current system also incentivizes costly behavior. The threat of being sued forces doctors to carry costly malpractice insurance and to prescribe needless tests and procedures. These costs are passed on to all of us.

Reform suggestions generally fall into one of two categories: caps on the payments that may be made and limits on who may be found liable. Typical proposals, according to the CBO, have included:



- Caps on awards for noneconomic damages.
- Caps on awards for punitive damages.
- Modification of the “collateral source” rule to allow evidence of income from such sources as health and life insurance, workers’ compensation, and auto insurance to be introduced at trial.
- A statute of limitations.
- Replacement of joint and several liability with a fair-share rule, under which a defendant in a lawsuit would be liable only for the percentage of the final award that was equal to his or her share of responsibility.

This report does not endorse any specific measure, but we recognize that the current system is not as fair or effective as it should be and that reforming it would reduce costs for businesses and individual citizens. For now, it may make sense to leave this to the states, many of which are already enacting reforms of their own.

BOTTOM LINE

Americans have been hurt by the current recession, and the natural ebb and flow of the economy will not provide them with the jobs they so desperately need now. Through a mix of targeted near-term government projects, smart forward-looking investments and well-designed incentives for the private sector, the President and Congress can accelerate America’s rise from its current economic lows. In doing so, they must not jeopardize the nation’s ability to avert its ever-present and ever-growing fiscal challenge. Whatever near-term gains might be achieved through large-scale, non-strategic, direct job creation efforts now could create proportionally greater problems for the economy in the not-too-distant future. Conversely, wise investments offer the opportunity to put Americans back to work and to revolutionize our economy and quality of life.

PREPARING FOR THE SECOND CLIMB

The first climb addresses near-term crises—painfully high unemployment and the looming fiscal crisis—through a comprehensive set of recommendations. Without job growth, the implementation of a systemic overhaul to “bend the cost curve” of entitlement programs and overhaul the tax system and budget process could have catastrophic consequences on the economy. At the same time, economic recovery and job growth will be difficult without a proactive sign from the federal government that it can address the most difficult issues: the federal deficit and debt. Both of these challenges must be top priorities but framed within a sustainable strategy that balances rethinking global engagement, investing in people, and maintaining American innovation and competitiveness.



II THE SECOND CLIMB—ADOPTING A NEW “LONG-HAUL” STRATEGY

The second steep climb for the American people and their government is maintaining America’s place and role in the world and positioning the country to be competitive in the future. Between 1998 and the end of 2008, India’s GDP more than doubled. China’s has more than quadrupled. U.S. GDP increased by 60 percent.¹¹⁶

It’s not quite a fair comparison. The Indian and Chinese economies are developing, while the U.S. economy has been long established. On top of that, the U.S. economy is still more than three times the size of China’s and eleven times the size of India’s. In addition, the U.S. military budget eclipses those of China and Russia combined by nearly five times.¹¹⁷ However, the economic lead is not guaranteed forever, and it is hard to imagine that the military spending gap

“Today I say to you that the challenges we face are real. They are serious and they are many. They will not be met easily or in a short span of time. But know this, America: They will be met.”

—President Barack Obama
Inaugural address, January 20, 2009

is sustainable. The United States must refine its strategic direction, addressing the institutional impediments to good governance, and reorganizing our national human investments, capital investments, and security investments. With the national agenda dominated by the economic crisis, fiscal challenge, health care and education reform, and two wars, the country faces obstacles that would be impossible to address comprehensively in the short term.

A ten-year strategy would enable America to look beyond immediate threats, risks, and hostile actors and to examine long-standing and emerging trends. The United States must have the ability to deal with immediate crises such as terrorism and armed engagements in Afghanistan and Iraq, while retaining a framework to prepare for the rise of potential peer competitors in the future. In crafting such a strategy, the President must factor in a range of global trends:

- Forty percent of people worldwide reported paying between 1 and 10 percent of their annual household income in bribes.¹¹⁸
- In NATO countries, 10,000 deaths a year are attributed to heroin overdose. This figure is five times as high as the number of NATO troops killed in Afghanistan since 2001.¹¹⁹
- World marketed energy demand is projected to increase by 44 percent from 2006 to 2030.¹²⁰
- There were 11,770 terrorist attacks worldwide in 2008, resulting in a combined total of 54,747 deaths, injuries, and kidnappings.¹²¹
- 884 million people across the planet do not have access to safe drinking water, and 2.5 billion do not have access to decent sanitation.¹²²

LESSONS FROM PRESIDENTIAL HISTORIES

Abraham Lincoln, one of history’s greatest Commander in Chief, saw the importance of moving to “think anew and act anew.” All of our greatest Presidents, including Lincoln, Woodrow Wilson, FDR, and Eisenhower, demonstrated a willingness to seek outside wisdom and inputs in



their efforts to find new ways of strengthening America and overcoming challenges. The President must once again forge partnerships with thinkers outside of government who can help find innovative solutions. History provides numerous examples of Presidents using these partnerships to bolster America's position.

BUILDING THE SINEWS OF OUR FUTURE NATIONAL POWER. Lincoln formed the National Academy of Sciences even before he even knew the outcome of the decisive Civil War battle of Antietam. Lincoln knew that this off-site Academy could provide the innovative breakthroughs not only to help win the Civil War, but also to build the sinews of our future national power.

FORGING A NEW PEACE. Soon after America's entry into World War I, Woodrow Wilson marshaled unparalleled talent on a committee of outside experts called the "Inquiry." This group examined how to establish a lasting postwar peace. The result of this effort was Wilson's remarkable Fourteen Points. Tragically, America's allies opted for a more vindictive peace that planted the seeds for the Second World War. However, the outcome must not detract from the point that this extraordinary group of outsiders prepared one of the great Presidential documents in history.

CREATING ECONOMIC STRENGTH AND INTERNATIONAL COOPERATION THROUGH INNOVATION. During World War II, Franklin Roosevelt recruited the brilliant scientist and engineer Vannevar Bush to head the National Research Council. Bush was tasked with marshaling the innovative universities and research labs of the nation. President Roosevelt also assembled an expert group to plan the United Nations and the Bretton Woods Agreement. Through these efforts he established the foundation for national economic strength and international cooperation after World War II.

EXAMINING ALL ASPECTS OF AMERICAN SECURITY. Soon after taking office in 1953, President Eisenhower, who had been a five-star general, was concerned that the previous Administration's NSC 68 was too focused on crisis response rather than a comprehensive strategic approach. As President, Eisenhower wanted to create a balanced-enduring "long-haul" strategy for shaping the next years and beyond. He turned to outside teams of experts in what came to be called the "Solarium Project." These three bipartisan teams of prominent experts developed three separate Cold War strategies. All of these strategies adhered to Eisenhower's fundamental belief that credible national power relies on fiscal integrity over the long haul. This meant avoiding debilitating deficits and debt with a sense of proportionality that matched ends with appropriate ways and means.

Within the subsequent grand strategic framework for the Cold War, Eisenhower created the United States Information Agency for what today we would call "soft power"; the President's Science Advisor to foster innovation; and the President's Foreign Intelligence Advisory Board, to double-check the quality of intelligence and avoid preconceived mind-sets that had produced erroneous estimations concerning the Japanese attack on Pearl Harbor and the North Korean invasion of South Korea.



HART-RUDMAN COMMISSION. In 1998, rising to the challenge of developing a national security structure for the 21st century, President Clinton’s Secretary of Defense, William Cohen, chartered the U.S. Commission on National Security/21st Century, chaired by former Senators Gary Hart and Warren Rudman. With influential commissioners such as Anne Armstrong, Norm Augustine, John Galvin, Newt Gingrich, and Lee Hamilton, the Commission sought to reform the national security system for the shift away from a Cold War posture. This project correctly identified the rise of terrorist threats and the role of economics in national security, as well as the importance of innovation, education, and flexibility.

The President should work with organizations outside of government to develop and communicate a long-term national strategy to frame the nation’s policy decisions. An overarching, ten-year strategy that is fueled by national purpose and aims to balance the budget and that is elevated by stewardship for future generations and informed by an awareness of America’s position in a changing world will allow the United States to protect both its immediate and long-term strategic interests.

The nation cannot sustain current levels of spending and debt, and the President must make tough choices to prioritize the government’s spending, favoring the historical tenets of American power: innovation, human capital, and economic strength. This will require the President and Congress to innovate, “think smarter, not richer,” and align all elements of national power toward a common purpose.

In crafting a ten-year strategy, the President should embrace the enduring principles of strategy that have proved themselves repeatedly during times of war and peace. These are: fostering unity of effort; gaining freedom of action; promoting agility in planning and execution; mobilizing alliances, partners, and third parties; and remaining on the cusp of innovation in the technological and innovating revolutions. History’s lessons show that these are all essential elements of a comprehensive strategy that will be adaptable to a constantly changing global environment.

HUMAN INVESTMENTS

The American economy and way of life depend on the highest development of the American people. Education is the key to our long-term competitiveness and to the success of all of our other social policies. Our health care system must encourage innovation and more effectively bridge the gap from science to service. Our ability to be active, positive participants in rebuilding the economy and country depends on America’s being able to move beyond polarized debates to strategic investments in the minds and bodies of the American people.

CAPITAL INVESTMENTS

The United States has been a global leader in science, technology, and innovation since its inception. True to the American heritage, President Obama has moved to expand federal funding for critical basic research and development. Even with this new focus, the United States confronts a wide array of problems that are interconnected and require interagency cooperation to overcome. Managing and preparing to confront complex problems, both now and in the future, require bringing to bear multidisciplinary knowledge, new ideas, and frontier innovations, including the best science available and the most advanced technologies.



SECURITY INVESTMENTS

As the President, Congress, and the American people bring a focus to facing our human challenges, the country must embrace the fact that the world, and America's position in it, has changed. Maintaining credible U.S. influence in an evolving global environment is a reality the President and Congress must plan for, knowing that a new strategic direction is needed. Barack Obama's election and approach to the world have been a transformative factor in changing the world's perception of the United States presidency. This new approach to global engagement can change the way government works and the way our nation protects itself and interacts with the international community.

It will also necessitate changing the way that the government is elected, structured, and operated. The following issues are necessary for effective government. In some cases we are offering specific recommendations for how to accomplish this reform. In others we do not, either because SAFI issue teams did not specifically take up the issues or because of the intensely political nature of the issues. In those instances, we have chosen simply to highlight them as points that should be addressed. Some excellent analysis exists on these issues, and we suggest that further work be done, but we are not offering detailed recommendations here.

ORGANIZING GOVERNMENT FOR THE LONG-HAUL

1. U.S. LEADERSHIP INSTITUTE

America is facing a 21st century marked by rapid technological transformation and new challenges globally and at home. The skills required of the U.S. Civil Service have never been as wide-ranging or diverse. Issues, policies, and ethical considerations once driven by one agency now require interagency cooperation to address and implement. A nation that fails to establish a culture of cooperation, dignity, opportunity, and integration in its civil service runs the risk of being outperformed by its competitors and overwhelmed by its obstacles—other nations, terrorist networks, and natural disasters. The transformation of the federal workplace requires providing equal, fair opportunities to receive a modern, forward-leaning education and the training for America's next civil service leaders. The development of strong leaders is vital to avoiding this fate. This is aimed not only at the 250,000 federal workers in the Washington area but also the 1.5 million civil servants across the country who work for the federal government.

President Clinton and Vice President Al Gore, in their effort to "reinvent" government, and Secretary of State Colin Powell's initiatives to invigorate the education of our nation's diplomats are examples of how government performance can be improved. The great corporate meltdown of 2007 has made it unfashionable for politicians to proclaim they want government to run more like a business. But no serious person doubts that government can be made more efficient.

Significant progress has been made in the training and education of civil servants over the past twenty years, and a number of education and training programs exist. Even with this progress, the Office of Personnel Management (OPM) estimates that only 32 percent of senior executives receive continuing education. OPM noted that few agencies identify areas in which employees need additional training and that no agency has an employee development tracking system. It is



widely accepted that during cutbacks within agency budgets, training and education funding is the first to be reduced.¹²³

A U.S. Leadership Institute (USLI) should be formed as an accredited graduate civil servant facility that would unify the training and education programs, administrative functions, employee assessment, and standards across all civilian agencies. A USLI education would provide a general education in all leadership competencies and would be combined with area specific training and skill development designed around lessons learned and best practices at the agency and department level. Programs to train Presidential nominees in need of Senate confirmation would be required through the USLI.

The USLI would prioritize leadership, skill development and continued education throughout the government and help increase the standards and proficiency of the civil service. The focus on interagency cooperation and coordination would help break down stove-pipes that have hindered the government's ability to handle the increasingly complicated crises it faces. With escalating federal deficits, the USLI could lower costs while creating a more agile, dynamic civil service.

THE CURRICULUM: The USLI would focus on highlighting teamwork across agencies through interactive case studies and gaming scenarios. This educational environment would re-create daily situations civil servants face and help develop cross-agency networks. To broaden the skills of civil servants, the core competency would include not only management, strategic planning, and budgeting but also an understanding of economics, national security, public diplomacy, ethics, and innovation and technology implementation. Each agency would help develop the curriculum that would supplement the broader, required continuing education.

SELECTION PROCESS: To encourage the strongest candidates for future leadership, a fast-track program with a competitive selection process would enable the rapid education and promotion of those selected. The selection process would include the recommendations of a number of supervisors to help offset the influence of a boss who did not want an employee to leave for training. Civil servants would be asked to complete self-assessments to determine which classes and training were needed and what proficiencies had already been met. Through these programs, civil servants would have defined metrics and assessments that would increase feedback to employees. Eligibility for increases in pay grade would be tied to meeting core and agency competencies either through the completion of classes or through a verified job portfolio of experience and accomplishments. Upon completion of the senior competencies, civil servants would be eligible to earn a master's degree.

SCHEDULING: Classes would be offered at times to accommodate the busy schedules of employees and would use e-learning when it provided the best learning environment. A significant portion of the training would be offered electronically through video-lectures and interactive presentations. E-learning could significantly reduce costs and give civil servants access to the best professors in the world. The regional education facilities used currently would continue to help educate federal civil servants around the country. To accommodate the longer education programs, agencies would be encouraged to temporarily promote subordinates and, over time, build in the capacity to fill in for senior executives taking time to be trained and educated.



DYNAMIC LEARNING ENVIRONMENT: Experienced professors from the world's best universities would be awarded a part-time or full-time three-year fellowship to teach classes and research the civil service. The USLI would partner with domestic and foreign universities, corporate leadership schools, and government training programs. American civil servants would participate in classes with private citizens from academia and the business sector, as well as foreign civil servants. Additionally, senior civil servants would be asked to lead training exercises and give the lessons learned from real-world experiences to students. The USLI would reach out to business leaders to teach classes as well and would provide a unique perspective on best practices and improving coordination and cooperation with the private sector.

2. REORGANIZATION AUTHORITY

Since the end of the Cold War, the federal government has gone through one major reorganization, the creation of the Department of Homeland Security. Even though the challenges America faces have changed drastically and the capabilities required to address those challenges have changed dramatically, the federal government has resisted significant overhauls to streamline departments, human capital strategies, and capabilities. From 1932 until 1984, Presidents had the authority, established by Congress, to submit Executive Branch Reorganization Plans to Congress for an expedited vote. The authority to propose and execute these reorganization plans was framed by the authorizing legislation and required that only one proposal be submitted every thirty days, a detailed analysis of the economic benefits be stated, and Congress not pass a joint resolution to disapprove of the plan. This authority has been used for a wide variety of reforms—from changing human capital strategies to creating new agencies such as the Environmental Protection Agency under President Nixon.

In 1983, the Supreme Court ruled that the existing structure of reorganization authority was unconstitutional; the authority was subsequently modified so that Congress would approve the reorganization plan with a joint supporting resolution. This authority expired in 1984, and since then no President has requested or been granted the authority. President Bill Clinton's National Performance Review recommended management reforms that were implemented through executive order and did not require Congressional approval. In the authorizing legislation creating the Department of Homeland Security (DHS), President George W. Bush, in coordination with the Secretary of Homeland Security and the Director of OMB, was given authority to reorganize DHS to streamline management functions and human resources. This authority was used but is needed throughout the government to establish new baselines for federal programs.

Congress should authorize Presidential reorganization authority to allow the President to submit one proposal every thirty days including detailed cost-saving analyses and implementation plans. The President would have sixty days, while Congress is in session, to change the plan; Congress has ninety days from whenever the plan was originally submitted OR from whenever the President makes the last change to the plan, to perform a review of the proposal upon which a joint House and Senate resolution will be voted. The President should be encouraged to reconstitute the bipartisan Presidential Commission on Executive Organization and Management.



The structure of reorganization authority required by the Supreme Court ruling in 1983 strengthens the role of Congress in the process. Because of its success, a voting procedure similar to the BRAC should be used under which a member not voting indicates approval and voting indicates disapproval. There is a strong incentive for Congress to authorize reorganization authority because it is very easy to vote down within the required ninety-day voting period but provides the President an incentive to push for Executive Branch reorganization. The requirements for submitting a reorganization plan should focus on developing clear goals; integrating agencies and departments with overlapping responsibilities; creating human resourcing strategies; and maintaining the necessary capabilities, fully developing implementation plans, and establishing competent oversight. The reorganization plans should not change policy by cutting services or programs but should cut costs through combining activities across agencies and departments that can be consolidated and managed more effectively and efficiently.

3. RATIONALIZE CONGRESSIONAL DISTRICTS

One of the core beliefs of our project is that Washington and many state governments are broken. Central to this disrepair is the lack of civil and productive discourse among representatives and between legislatures and their respective executives. At the heart of this breakdown in constructive engagement is a simple and depressing reality. In the House of Representatives today, members of one party not only see no real need to talk to members of the other party, they don't have to talk to constituents from their districts who are not members of their own political party. Worse, reaching out to members of the other party can be hazardous to their political health.

The experience of the nation's largest state shows how entrenched this system is—and how difficult it is to change it. California Forward, a reform group headed by former White House Chief of Staff and former head of the Office of Management and Budget Leon Panetta (before his becoming Director of Central Intelligence), produced a plan for the creation of a bipartisan commission to draw the lines for the Legislature's districts. Governor Schwarzenegger, a Republican, signed off on it, as did Democratic Assembly Speaker Fabian Nunez. But then Washington politics intervened and the districts used for Congressional elections were exempted from reform plan. The measure still passed by only 51 to 49 percent, validating the organizers' prudence while also underscoring the fact that an opportunity for true reform had been lost. Either goal—protecting incumbents or maximizing partisan advantage—has the same effect on the body politic, which is to essentially disenfranchise voters and contribute to Congressional dysfunction.¹²⁴

California's map-making may be extreme in that it entails collusion in incumbent-protection by both political parties, but nearly every state has some version of it. Voters are supposed to choose their elected officials, but when it comes to the House of Representatives, it's the often other way around. The process is fundamentally skewed. A more representative system would divide states into more simply shaped geographical regions with common-sense adjustments in size based on population distribution. In practice, most districts are complex jumbles of loosely connected territory seemingly based solely on the prevailing political leanings of the residents.

We are convinced that the two parties have entered into a largely implicit compact that states,



“We will give you all your party’s adherents in this district, if you will give us all of ours in that one.” The results of this “deal,” or of outright gerrymandering by a party with sufficient majority control in a given state, are as obvious as they are frightening: An overwhelming majority of incumbents face little to no opposition in the general election, and thus have no need for contact with the people they purport to represent. Worse, because general elections offer little challenge, primaries are decisive. Inevitably, candidates find it necessary to appeal to the more extreme elements within their party, for they are ones who vote in primaries. The consequence of this abuse of the natural and intended election process is that the two parties have slowly been drawn to their political edges. They find themselves farther and farther removed from our nation’s center, and certainly from the other party. The resultant erosion of civility is important evidence of the failure of our legislative branches, national as well as state, to work together in common purpose to resolve critical national problems. That failure is what necessitates this project.

4. CONGRESSIONAL COMMITTEE STRUCTURE

As the project acknowledges that our nation’s electoral system is in need of repair, the project also believes that the committee system and structure on Capitol Hill is in need of reform. Because districts have been shaped to favor the reelection of many Members of Congress, many committees on Capitol Hill are being run and organized by the same Members for multiple consecutive terms. This entrenches the power of Members in some of the “safest” districts. In addition, committee chairs dictate which members are able to join their committees, limiting the ideological diversity represented on key committees.

In addition, the committee system itself is broken. There are hundreds of committees and subcommittees, many of which have overlapping jurisdictions. What’s more, because authority can be scattered, the policy process is drastically slowed, in many cases resulting in a complete halt and dismissal of key initiatives. Indeed, this flawed structure has contributed to the necessity of this report.

We recognize the difficulties of committee reform. It will require creative approaches and slow progress over time. But there are good examples like the Joint Economic Committee, which under creative chairs has broken through topical and cameral stove-pipes and done remarkable work to reform the economy. The Senate Foreign Relations and House Foreign Affairs Committees have also worked together through joint hearings.

These are but a few examples of successful models to be built upon. Because the problem runs deep and is highly politicized, it will not be more fully addressed in these pages.

5. CAMPAIGN FINANCE REFORM

Campaign finance reform is extremely contentious. It is difficult to dispute that money drives elections. Money is what determines a candidates’ ability to broadly educate voters on their positions and organize “get out the vote” drives. Having the most money doesn’t always guarantee victory, but it clearly provides a leg up, and having the least money is an electoral death sentence. Some view this system as a reflection of Americans freely choosing leaders by using their campaign contributions to express their support for candidates. At the same time, though as citizens we all get one vote at the polls, we don’t all have the same amount of money. Thus we don’t all have the same ability to influence elections with our resources or run for office.



6. PRESIDENTIAL APPOINTMENT PROCESS

“White House calling!” Those words strike fear in the heart anyone who knows what a nightmare the Presidential appointments process has become. A 2001 report by the Brookings Institution, *To Form a Government: A Bipartisan Plan to Improve the Presidential Appointments Process*, quoted one leading participant of the process as calling it “nasty and brutish without being short.” The confirmation process has become so complex, invasive, and protracted as to endanger effective governance. The reasons range from admirable intention to promote merit and avoid corruption in appointments to the not-so-commendable motivations of Senators to hold up appointments for questionable political gain.¹²⁵

For potential appointees, the process likely involves the media’s disclosing the most intimate details of their professional, personal, and financial life, their life being in limbo for months, and their nomination ultimately being torpedoed for reasons that have nothing to do with their qualifications or character. Accordingly, talented individuals are discouraged from accepting the call to public service.

For new administrations, the bureaucratic and political morass of the appointments process significantly delays the establishment of a strong and effective new leadership and thus inclines presidents to expand the number of White House appointees or policy “czars,” as well as presidential “at-will” sub-Cabinet appointees who serve without Senate confirmation and thus are not accountable to the Senate.

Although the Congress has considered various proposals for reform and passed bills through committee, none has achieved final passage or signature by the President. Such inaction inhibits effective governance and puts the country at risk of facing a crisis with key leadership positions unfilled.

DEFINE SUCCESS: Success will entail a more efficient and effective strategy that aligns all tools of national power within a framework that balances the immediate and longer-term strategic interests of the United States.



HUMAN INVESTMENTS

Education and health care are the keys to our long-term competitiveness and to the success of all of our other social policies. Our health care system is putting a stranglehold on the American economy and at the same time isn't keeping people as healthy as those in countries that spend far less per capita. Our education system is not preparing our youths with the skills or knowledge they need to compete globally. The challenges of America's education and health care systems require special leadership from the President and Congress. As a recent Harvard Business Review article on this topic explains, "As the United States strives to recover from the current economic crisis, it's going to discover an unpleasant fact: The competitiveness problem of the 1980s and early 1990s didn't really go away. It was just hidden during the bubble years behind a mirage of prosperity."¹²⁶

"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...The countries that out-teach us today will out-compete us tomorrow."

—President Barack Obama
Address to a joint session of
Congress, February 24, 2009

To move from our current situation to a future orientation requires a new level of leadership from Washington and cooperation and sacrifice on the part of the American people. President Obama and leaders in Congress must think of education and health as part of a comprehensive strategy for improving the future generations of Americans. Congress must act now to preserve the strength of the President's Race to the Top education initiative and move beyond the current health care debate to create a rigorous system that will prepare Americans for challenges deep into this century. Finally, just as we must come together to face America's fiscal challenge, the American people must be honest about the current state of disrepair of our health and education systems. Our ability to be active, positive participants in rebuilding the economy and country depends on America's ability to move beyond polarized political debates and special interests, toward strategic investments in the minds and bodies of the American people.

Smart investments in four key areas will be important for putting the United States on a course to surmount the current crises and thrive throughout the 21st century:

1. Transforming our national education system to give Americans the skills they need to compete in a global economy and to spark U.S. innovation.
2. Reforming the health care system to better serve more Americans and reduce overall health care costs, which are on course to bankrupt the nation.
3. Ensuring prudent and sustained investments in scientific research and effectively deploying technology throughout the federal government.
4. Addressing growing economic efficiency, energy security, public health, and environmental protection concerns by prioritizing national energy and infrastructure projects based on such factors and creating a reliable financing mechanism for these projects.

DEFINE SUCCESS: The key to overcoming the next era of challenges is for the United States to invest in both the minds and the bodies of the American people, allowing them to compete globally. After the fiscal challenge, the United States has the highest imperative to keep a



competitive position by investing in two key priorities: education for the next generation of Americans and a health care system to match the needs of a 21st-century America. Success will be seen through a new approach of “Health in All Policies” and an education effort in which the best practices of a few outstanding states are exported widely across the country. No longer do we want our country to have the most expensive health care system, but be low in results. In addition, an education system should place our nation among the top performers in the international community.

1. INVESTING IN THE MIND

When it comes to both the education and science and engineering dimensions of the overall sustainability challenge facing the current leadership, it is axiomatic that continued innovation and prosperity are essential to maintaining the America built by our parents and grandparents. It is also increasingly clear, as the *Gathering Storm* report concluded, that “[i]f the United States is to retain its edge in the technology-based industries that generate innovation, quality jobs, and high wages, we must act to broker a new, collaborative understanding among the sectors that sustain our knowledge-based economy—industry, academia, and government—and we must do so promptly.”¹²⁷

“The world has changed dramatically. ... But while that's been happening, K-12 education hasn't changed at all. Meanwhile, China's graduating five times as many engineers as we are, and you look at India and you get alarmed.”

—Eli Broad, Chairman, the Eli and Edythe Broad Foundation

Source:

<http://query.nytimes.com/gst/fullpage.html?res=9E07E7D7103EF932A1575BC0A9639C8B63>

Many private efforts have paved the way for a successful presidential reform initiative. The Bill and Melinda Gates Foundation and the Eli and Edythe Broad Foundation have been fundamental, notably supporting Strong American Schools of which Roy Romer served as chairman. The Bill and Melinda Gates Foundation is also one of several foundations supporting the National Center on Education and the Economy's New Commission on the Skills of the American Workforce, chaired by Bill Brock. The commission put out the *Tough Choices or Tough Times* report in 2007 that laid out a number of recommendations for needed changes to the education system. Given Senator Brock's leadership of SAFI's Education Team, some are mirrored here.

The core issues in public education are thorny and often partisan. They range from how much weight to give standardized tests to the motives of teachers' unions; from “mainstreaming” physically and intellectually challenged students to the most basic question of funding disparities in schools that need the most assistance. But the fact of the matter is that the last three men to occupy the Oval Office, Bill Clinton, George W. Bush, and Barack Obama, have all come to the conclusion that improving the quality of public education in this country—and doing so on a national basis—will determine whether the United States stays competitive in the world economy.

Accordingly, it is time for the federal government to hold states and school districts accountable for reforms in education from kindergarten through high school.



- In terms of the percentage of the workforce that are high school graduates, the United States has fallen from first to eleventh.¹²⁸
- Seventy percent of eighth-graders cannot read at their grade level—and most will fall further behind. These educational gaps have been described as imposing on the United States “a permanent national recession,” according to a 2009 report by McKinsey & Company.¹²⁹
- Some 1.2 million students drop out of school every year—and 44 percent of high school dropouts under age 24 are jobless.¹³⁰
- In a World Economic Forum survey of people ranking the quality of their national primary education system, the United States ranked 30th.¹³¹
- The U.S. graduation rate of 36 percent ranks just below the OECD average.¹³²

RACE TO THE TOP

The Obama Administration has moved aggressively ahead in reshaping education reform in America. Arguably, the Race to the Top initiative has the potential to become the most successful domestic effort of the Obama Administration to date. The initiative puts in place incentives for governors and state education officers to be innovative and develop strategies for improving the quality of education in their state. It allows for states to work independently but toward a shared goal of



Secretary of Education Arne Duncan
Source: Department of Education

establishing a common set of globally benchmarked standards and assessments for U.S. schools. In April 2010, President Obama’s team will select the initial winners of this unprecedented \$4 billion fund. These funds must be deployed, absolutely without political interference, to no more than five to seven states, so that laboratories are created in the most committed and innovative states around the country. In this way, their demonstrated successes can then be deployed nationwide.

- In 2010, the federal government—through the American Recovery and Reinvestment Act of 2009—is allocating \$4 billion to reform education in the United States.¹³³
- The money will be given to states in two phases. Phase 1 funding will be awarded in spring 2010, and Phase 2 funding will be awarded by September 2010.¹³⁴

Race to the Top Schedule

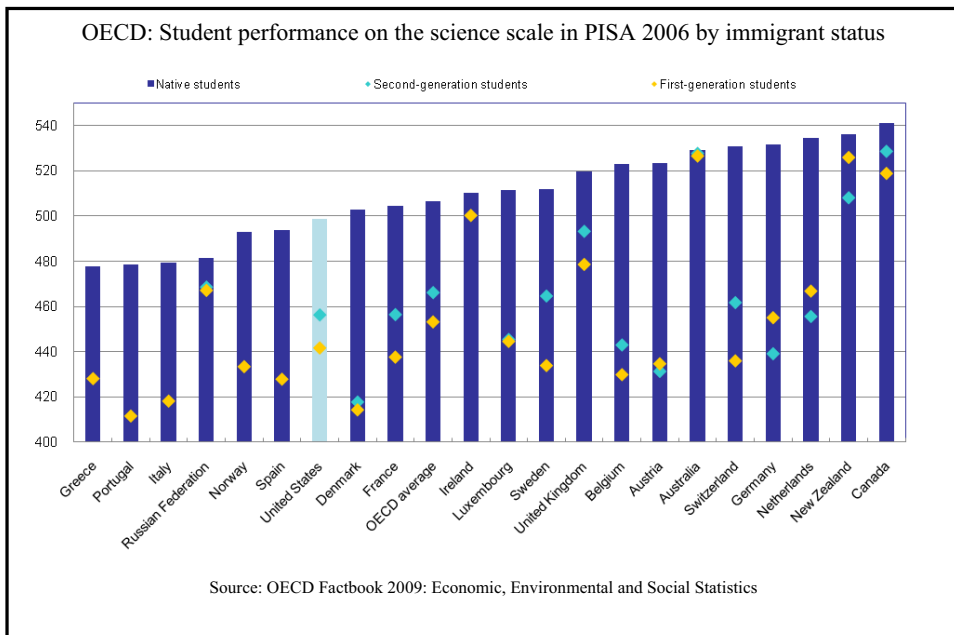
April 2010	Winners announced for Phase 1. Feedback provided to applicants who do not win.
June 1, 2010	Race to the Top Phase 2 applications due.
September 2010	Winners announced for Race to the Top Phase 2.



Leadership in the United States must use the President’s Race to the Top initiative to usher in real education reform that will make the United States competitive deep into the 21st century.

It is imperative that the Obama Administration use ARRA and Race to the Top funds to hold states and districts accountable for significant reforms in K-12 education. The Race to the Top proposals must be evaluated through a merit-based peer review involving educators who are able to identify proposals that can lead to transformative changes. Establishing a national laboratory in a small cadre of states with excellent plans for creating effective educational systems that move all students forward will achieve far more for the country than simply spreading the funds across all states that apply.

It is time for the federal government to hold states and school districts accountable for reforms in education from kindergarten through high school.



AMERICA’S COMPETITIVE EDGE—EDUCATION AND INVESTMENT

President Clinton called it “Goals 2000.” George W. Bush borrowed some of those precepts and expanded it to “No Child Left Behind.” President Obama calls it a “Race to the Top.” The upshot is that strengthening public education is beneficial not only for the young people who are directly affected, but also for the rest of us. The economic and societal well-being of the United States depends on it. Here is how we get there using the President’s Race to the Top initiative:



- a) Strengthen the teacher corps. This means setting rigorous standards for entrance into the profession, fully adequate incentives to recruit new teachers from our best and brightest entering college students, and pay and performance criteria competitive with other professional careers.
- b) Employ cutting-edge technology to increase teacher and student productivity.
- c) Encourage and prepare more students for STEM (science, technology, engineering, and mathematics) careers.

These areas have traditionally been a source of pride of America, and a source of consternation when we fell short. Every so often, Americans must be jolted out of periods of complacency. One such time was October 4, 1957, when a series of sounds—"beep, beep, beep"—came uneasily out their radios. Those beeps were the sound of a small, 184-pound Soviet satellite named Sputnik. "Never before," wrote Daniel J. Boorstin, "had so small and harmless an object created such consternation."¹³⁵

Out of that consternation came immediate resolve. President Eisenhower demanded of his aides to know why the United States had been caught with its scientific smocks down. In response, he helped launch NASA, Congress approved billions for science and math education, and Eisenhower's successor famously committed the United States to landing an astronaut on the moon by the end of a momentous decade. That was just the beginning. The emphasis on STEM led not just to outer space, but also to the invention of the microchip, to computers, to nanotechnology. It is time to tap into the latest American impulse for discovery again, and to do this, the United States must again create an education system for the future. This concern was vocalized by Norm Augustine, chairman of NASA's Review of U.S. Human Space Flight Plans Committee: "The United States is not graduating enough engineers and scientists, and is in danger of losing its advantage in space."

STRENGTHENING THE TEACHER CORPS

It is no longer acceptable for the United States to recruit its teachers from a shallow talent pool. The most successful countries focus intently on bringing the most gifted people from colleges into the profession. America can do better than pulling its teacher talent into the system from the bottom half of the nation's college classes.

- More than 450,000 new teachers are projected to be hired between now and 2018.¹³⁶
- Median annual wages of kindergarten, elementary, middle, and secondary school teachers ranged from \$47,100 to \$51,180 in May 2008.¹³⁷
- The World Economic Forum ranks the United States 22nd in how well our educational system meets the needs of a competitive economy.¹³⁸

To develop and retain effective teachers, the United States must change its recruitment, preparation, professional development, compensation, and evaluation practices to reflect best practices of the highest-performing countries.

The research is clear that one of the greatest determinants of students' academic achievement is teacher quality. It is essential to provide every child access to a highly effective teacher who can help that child achieve one or more years of academic growth for each year in school. Along



with higher entry and exit standards for pre-service education, a different compensation system and more professional working conditions are needed to attract and retain effective teachers. Initial compensation must be competitive with the other options available to well-educated college graduates, and salary growth should be predicated on effective performance in the classroom. A new system of evaluation and continuous improvement is clearly as important

“We can no longer accept the bottom third of students becoming our teachers and expect success. We want the top third, the best teachers everywhere—in all disciplines.”

– Former Tennessee Senator and Former Secretary of Labor Bill Brock

for our teachers as it is for our students. In addition, the compensation system should be restructured so that it does not dissuade talented career changers (scientists and engineers) from entering teaching by conditioning retirement benefits on long tenures of service. Bringing this element of the free enterprise system into education is not without precedent. It reflects common practices in higher education in which pay is differentiated by field and by effectiveness.

HARNESS TECHNOLOGY IN THE CLASSROOM

Technology can be a catalyst in the effort to reform American education. The focus must be on more than just hardware and software in schools. The nation must begin to think of technology as the X factor in creating a modern and competitive American education system. Secretary of Education Arne Duncan has articulated an ambitious next-generation vision of how computer technology can be harnessed to give educators the picture they need. “I want to be able to track every child throughout their educational trajectory, so we know what they are doing,” he told a group of journalists at a breakfast in June 2009. “Secondly, I want to track children back to teachers, so we know the impact the teachers are having on those children. And third, I want to be able to track those ... teachers back to the schools of education, so we can understand which schools of education and which feeder programs are producing the teachers that are producing the students that had the most gain.”¹³⁹ The technology to do such correlating exists now, and such software is in the hands of educators, but it is not being used this way—yet. Arne Duncan, in other words, must change the mind-sets of the education establishment, not its handsets.

He’s trying. On a visit to California, home of the nation’s largest public school system, Duncan learned that the state has a “phenomenal” student data tracking system. It also has a state-of-the-art teacher data system. But, apparently as a way of protecting teachers, never the twain shall meet. “There is this firewall between them,” Duncan noted in frustration. “This thing is a huge, huge barrier that is hurting kids.” To the top officials in California education, the Secretary was just as blunt: “Your top 10 percent—your top 30,000 teachers—would be among the best in the world,” he said. “Your bottom 30,000 should find another profession. And no one in this room can tell me who is in what category. That is a real problem.”¹⁴⁰

So, too, is the nation’s commitment to getting basic technology into the classroom. The culprits are lack of training, outdated equipment, and uneven priorities.

- “23 percent of public school teachers reported feeling well prepared and an additional 10 percent reported feeling very well prepared to use computers and the Internet in their teaching.”¹⁴¹



- “Less than 10 percent of teachers reported using computers or the Internet to access model lesson plans or to access research and best practices.”¹⁴²

We must use technology to raise education productivity, innovation, and achievement.

Currently, education is one of the only sectors in which the introduction of technology has neither reduced costs nor added to productivity. Students seek innovative learning strategies in all subject areas, including the visual arts and graphic design that are key drivers of future success. In addition, technology can provide access to effective teachers in advanced courses or specialty areas for students in rural and inner-city schools. All teachers need access to technology tools for diagnostic purposes; for access to student files, student achievement data, and instructional resources; and for communication and collaboration with teachers and content experts from across the world. While technology cannot replace the important interactions between students and effective teachers, it can provide effective tools and options for expanding access to education excellence for all students, including students with disabilities and English language learners.

FOCUS ON SCIENCE, TECHNOLOGY, ENGINEERING, AND MATHEMATICS (STEM)

A key factor for the United States is to focus on both teachers and students in STEM tracks. The nation has the opportunity to not only pull more students into these careers, but also to educate teachers about how to teach these crucial science and technology classes. Shortly after assuming his job, Education Secretary Duncan visited a New Orleans-area charter school to trumpet his intentions of launching “a new era” of science education in the United States. “Whether it’s global warming, evolution, or stem cell research, science will be honored,”¹⁴³ Duncan told the students. The Secretary noted that one reason U.S. students lag behind students in other nations in math and science is the dearth of qualified teachers—and he said flatly that schools must respond to market forces by paying more for math and science specialists.

- Fewer than 15 percent of U.S. high school graduates have sufficient mathematics and science credentials to even begin pursuing an engineering degree.¹⁴⁴
- The World Economic Forum ranked the United States 48th for the quality of the country’s math and science education.¹⁴⁵
- Despite U.S. spending that is more per student than any other nation on primary through tertiary education,¹⁴⁶ 15-year-olds here rank 21st in science and 25th in mathematics among developed nations.¹⁴⁷

The United States must increase the pool of students pursuing STEM careers.

International competition requires that the United States support a vibrant STEM community producing breakthroughs and patents that maintain U.S. competitiveness. To accomplish this, students must have access to top-quality STEM education that is highly engaging and motivating, leads to higher order thinking skills, and prepares them for civic engagement on STEM issues. In elementary through high schools, teachers must have a solid knowledge base in mathematics and science, continued professional development, and access to collaboration with colleagues and experts. The curriculum in STEM subjects should focus on fewer, clearer,



and higher standards; practical applications of scientific and mathematical concepts; and engagement of students in “doing science” in functioning science labs.

Note: This team focused on K-12 education in the United States. However, our higher educational system, traditionally a national strength, is experiencing budget cuts and tuition increases related to the current economic crisis. Other nations are using this as an opportunity to pull away the best and the brightest from U.S. universities. Though our experts did not deal with this issue specifically, they realize that we cannot turn a blind eye to our struggling colleges and universities.

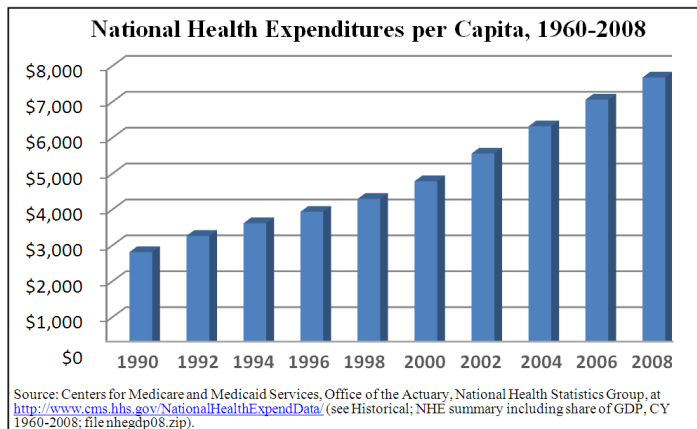
2. INVESTING IN THE BODY

Throughout the history of health reform in America and continuing in contemporary times, policymakers have focused too narrowly on the financing and distribution of medical services, rather than on the design and results produced by the entire health system. While much of the current health care debate has centered on cost containment issues and expanding insurance coverage, achieving a healthy America involves more than having insurance and access to care.

Our nation must adopt a *comprehensive health system perspective* in which *health—rather than disease*—is the focus. To achieve this goal, progress must be made in four key areas: 1) re-engineering America’s health care system; 2) strengthening the public health infrastructure to underscore the power of prevention and community health; 3) promoting global health and health diplomacy; and 4) securing sustained funding for scientific and medical research. A cornerstone of these efforts involves Federal leadership that ensures “Health in All Policies,” mobilizing the resources of all governmental agencies, working in partnership with the American people, to improve health in the United States.

A new national prescription is needed to advance America’s health. Here are some of the reasons for urgent action:

- The United States spent 17.3 percent of GDP on health in 2009,¹⁴⁸ far greater than any other industrialized nation.¹⁴⁹
- Health care costs are escalating in America. The United States spent almost \$2.5 trillion on health care in 2009.¹⁵⁰ Given current trends, the average rate of health spending is expected to outpace overall economic growth by 1.7 percent per year through 2019.¹⁵¹ If health care expenditures continue to increase at this rate, the Centers for Medicare and Medicaid Services (CMS) estimates that by 2019, health expenses in the United States will total \$4.5 trillion, accounting for nearly one-fifth (19.3 percent) of GDP.¹⁵²
- Americans are paying far too much on health care for far too little health in return. An estimated 30 to 50 percent of health care costs are wasted on overuse, underuse, and misuse of medical and administrative services;¹⁵³ patients receive the recommended treatment only 55 percent of the time;¹⁵⁴ and America ranks only 49th on life expectancy worldwide.¹⁵⁵
- Currently 46 million Americans do not have health insurance, and their numbers are growing.¹⁵⁶
- In 2007, more than 60 percent of bankruptcies in the United States were linked to an inability to pay medical bills.¹⁵⁷



DEFINE SUCCESS: A comprehensive re-engineering of the health care system cannot be achieved through fragmented investments and reforms. A 21st century strategy for re-designing the health system in the United States must harness the commitment of all Americans and the power and resources of *all* sectors of society. It must involve both social and personal responsibility to achieve a healthier population. All Americans should be able to live in communities in which they can achieve the best of health and well-being; receive high-quality, effective, and compassionate care when it is needed; and be protected from economic hardship due to medical expenses. Now is the time for individuals, families, schools, businesses, foundations and government to work together to move our nation and world toward a healthier and more prosperous future.

RE-ENGINEERING AMERICA'S HEALTH CARE SYSTEM

To improve health in the United States, *value* must be the cornerstone of a re-engineered system to improve quality, minimize waste, and lower costs. This can in part be accomplished by promoting team-based medicine, strengthening primary care, providing incentives such as loan-forgiveness programs, and conducting comparative effectiveness (CER) and health systems research, among other measures. Information technology can also accelerate progress toward the creation of a modern health care system that serves people better today and is engineered to meet tomorrow's challenges.

- Currently, only 20.5 percent of physicians¹⁵⁸ and 8 to 10 percent of hospitals employ basic electronic health records (EHRs)¹⁵⁹ and far fewer meaningfully integrate health information technology (HIT) into clinical practice.¹⁶⁰ If used in innovative ways, estimated savings from HIT expansion could reach \$261 billion over ten years.¹⁶¹

Efforts to re-engineer the health care system must harness information technology and new media to enhance health decision making, empower consumers, reduce medical errors, and improve health outcomes.

A critical component of a 21st-century health care system is the use of health information technology, including utilizing EHRs, which will help improve medical decision making and

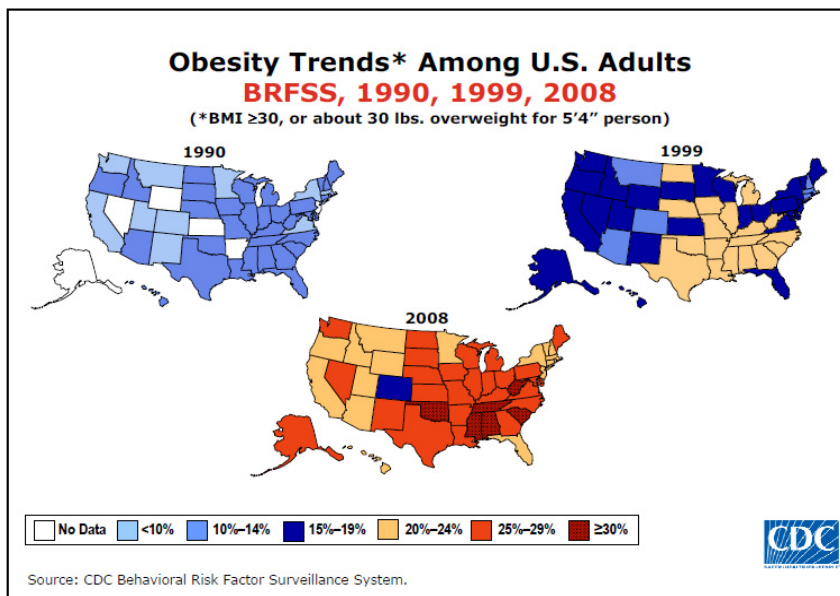


also facilitate CER research and the evaluation of health outcomes. Health information technology is critical to reducing medical errors that are linked to as many as 98,000 deaths annually.¹⁶² The *American Recovery and Reinvestment Act (ARRA) of 2009* made an important investment of \$19 billion to establish an interoperable health information system in the United States.¹⁶³

ADVANCING PUBLIC HEALTH IN THE UNITED STATES

Current health care reform efforts will be considered successful if access to quality care and better health for all Americans can be achieved while “bending the cost curve” down. Investing in prevention is a cornerstone of improving health and reducing costs and must be a critical component of health care reform efforts.

- Today, 75 percent of health care costs are due to chronic diseases, many of which are preventable.¹⁶⁴ Tobacco use remains the leading preventable cause of mortality (1 in 5 deaths) in the United States and is linked to approximately \$96 billion annually in health care costs.^{165,166} Obesity is the second leading preventable cause of death in the United States. Two of every three adults in America are overweight or obese.¹⁶⁷
- Yet, it is estimated that current U.S. health care spending for prevention accounts for only 3 to 5 percent of total health expenditures in America.^{168,169, 170}



- In 2008, the cost of treating the health-damaging effects of obesity was estimated to be as high as \$147 billion, accounting for 9 percent of all annual medical spending.¹⁷¹
- Left unchecked, it is predicted that 43 percent of Americans will become obese in the next decade. Health expenditures as a result of this condition are projected to increase to



\$344 billion, accounting for more than 21 percent of the nation's direct health care spending in 2018.¹⁷²

- Studies and estimates suggest that an investment of \$10 per person per year in community-based prevention that promotes physical activity and healthy diets, and discourages tobacco use, could lead to \$16 billion in annual savings within five years. Of this \$16 billion, private payers have the potential to save more than \$9 billion; Medicare more than \$5 billion; and Medicaid more than \$1.9 billion.¹⁷³

A national plan is needed that uses innovative approaches to achieve value and cost-effectiveness in the U.S. health care system by putting prevention into practice.

Public health and prevention should be emphasized and integrated in current health reform efforts. The outdated Congressional Budget Office (CBO) scoring metrics that currently evaluate financial benefits from prevention over a restrictive ten-year time frame should be extended to twenty years to provide a more accurate estimate for policymakers of the long-term cost savings from these programs. Innovative prevention programs and policies are needed across federal agencies to promote a culture of health and wellness for individuals and communities. A national health education campaign using marketing strategies and outreach interventions should be implemented to disseminate public health messages about healthy behavior, including tobacco and obesity prevention. To achieve this goal, important steps forward include the First Lady's recent launch of a childhood obesity prevention campaign, "Let's Move," and a Presidential Memorandum that mandates optimal coordination between government agencies in partnership with the private sector to eliminate childhood obesity within a generation. To enhance these efforts, an engaging, interactive Web site is needed that would serve as a go-to comprehensive resource for disease prevention and health promotion information for the public, health care providers, and communities. Policies must be implemented that provide incentives to create healthy conditions in communities—safe and accessible streets and parks for physical activity, availability of fresh fruits and vegetables, and attention to the built and natural environment—so that people are able to make healthy choices and adopt healthier lifestyles.

PROMOTING GLOBAL HEALTH AND HEALTH DIPLOMACY

America cannot think about its health care challenges in isolation from the rest of the world. With more than 2 million people crossing national borders every day and the spread of a disease only a jet plane away, potentially threatening the health of communities across the globe, our common humanity compels, and our national security requires, that global health be a critical priority for the U.S. government. Our strength in science and medical technology can also serve as a global resource for many countries to assure the healthy populations needed for national economic and social development. The Administration should develop a comprehensive vision and commitment for U.S. support of health programs globally and should leverage health diplomacy and "smart power" as tools for promoting global peace and development.

- The United States is the single largest donor of international health assistance in the world, accounting for 25 percent of all bilateral commitments in 2006 (the next largest donor being the United Kingdom with 9 percent), but when computed as a share of the donor economies, America ranks only 10th.¹⁷⁴



- An enhanced federal focus on global health is supported by public opinion. Despite being in the midst of an economic recession, two-thirds of Americans support maintaining (32 percent) or increasing (34 percent) current levels of spending on efforts to improve the health of people in developing countries.¹⁷⁵

In the 21st century, America's health is global health, and global health is America's health. The United States must develop a long-term strategic plan for advancing global health and security.

Global health has humanitarian, economic, and national security implications. To most effectively direct U.S. resources toward improving global health, a U.S. federal interagency collaborative framework should be established for supporting global health initiatives, using health diplomacy as a foreign policy tool,¹⁷⁶ and strengthening as well as coordinating programs and investments in key government agencies. U.S. global health assistance should focus on an *integrative* and collaborative approach to combating diseases worldwide, strengthening health systems, and helping to meet the Millennium Development Goals.

STRENGTHENING U.S. MEDICAL AND PUBLIC HEALTH RESEARCH

An essential ingredient for securing America's future in the 21st century is investing in scientific research. This includes speeding the pathway from research and development, to the dissemination of findings and services to individuals and to communities. Research serves as the backbone for all components of a comprehensive 21st-century health care system and provides the foundation for re-engineering the system, advancing public health, and promoting global health. However, U.S. funding for biomedical and public health research has been erratic in recent years, resulting in a real decline in the amount of funding available to support medical breakthroughs and a new generation of scientists. Now is the time to make strong, sustained investments in health research.

- It is estimated that if funding at the National Institutes of Health (NIH) were increased by just 6.6 percent (the amount needed to begin reviving our vibrant research enterprise, offsetting losses due to inflation in recent years), the economic benefit to our country could potentially result in an estimated \$3.1 billion worth of new business activity, 9,185 additional jobs and \$1.1 billion in new wages.¹⁷⁷

The United States must make research the foundation of modernizing the nation's health care system.

Investing in research (including basic and behavioral science, health care delivery, comparative effectiveness, and translational research) is the foundation for all health and medical interventions and should help guide health care reform efforts. Science serves as the engine of progress and promotes growth and innovation. Investments in human capital and academic education reform are urgently needed to drive high-impact research and fund the next generation of scientists. A National Strategy should be created for sustaining increases in health research at AHRQ and the NIH after the expiration in 2011 of the short-term stimulus funds provided by the *American Reinvestment and Recovery Act (ARRA)*.¹⁷⁸ Without a strategy for sustaining the investment in research, the \$1 billion NIH budget increase proposed for FY 2011 will still keep



the scientific enterprise far behind inflation as it has been over the last seven years, with a likelihood of impeding some of the most valuable ongoing research programs as well as new studies to understand and cure diseases such as AIDS, Alzheimer's disease, cancer, multiple sclerosis, diabetes, and asthma.¹⁷⁹

Funding should also be increased for behavioral and prevention research, particularly at NIH. A strong body of public health and prevention science will help improve the health of the nation as well as decrease costs. Although the Centers for Disease Control and Prevention (CDC) support the design and implementation of preventive interventions, there is currently no agency that has a significant portfolio of basic public health research. A Center for Public Health Research should be established at the CDC to support science in this area as well as new innovations in interdisciplinary studies. A joint framework involving the CDC and NIH should be considered to increase the knowledge base in this important area and explore the continuum of basic and behavioral research findings to application in community settings.

BOTTOM LINE

In the 21st century, America's economy and national security are linked to our ability to compete globally through education and science and to protect citizens from international enemies like pandemic flu, obesity, cancer, and bioterrorist threats. The global economic crisis may, in fact, provide an opportunity for Americans to more honestly face the challenges before us, abandon any sense of complacency that would impede progress, and resolve to move forward with the same dedication and hard work that epitomized America's success following World Wars I and II—and the space race. The solution now—as it was then—rests on the talent, imagination, innovation, and grit of the American people. Advancing education and health are the key domestic priorities that will lead to a competitive and successful nation.

The President has moved the agenda strongly forward by creating the Race to the Top initiative, and by spearheading health care reform efforts and creating a new Global Health Initiative. Indeed, the last three presidents and last several Congresses have ponied up more U.S. money for distressed U.S. schools—and for combating HIV/AIDS in sub-Saharan Africa. Our potential to be active, positive participants in rebuilding the economy and country, and to take our rightful place as a global leader in public health and medicine, depends on America's ability to move beyond polarized political debates and special interests and toward strategic investments in the minds and bodies of the American people for generations to come.

CAPITAL INVESTMENTS

Our nation's primary national objectives and global concerns—economic prosperity, national security, the public's health and well-being, climate change, energy security, environmental degradation, global food and water scarcity, pandemic infectious disease, proliferation and threat of nuclear attack—all require the application of the best scientific knowledge and technological capabilities.

“Science is more essential for our prosperity, our security, our health, our environment, and our quality of life than it has ever been before.”

— President Barack Obama
Speech before the National
Academy of Sciences, April 27,
2009



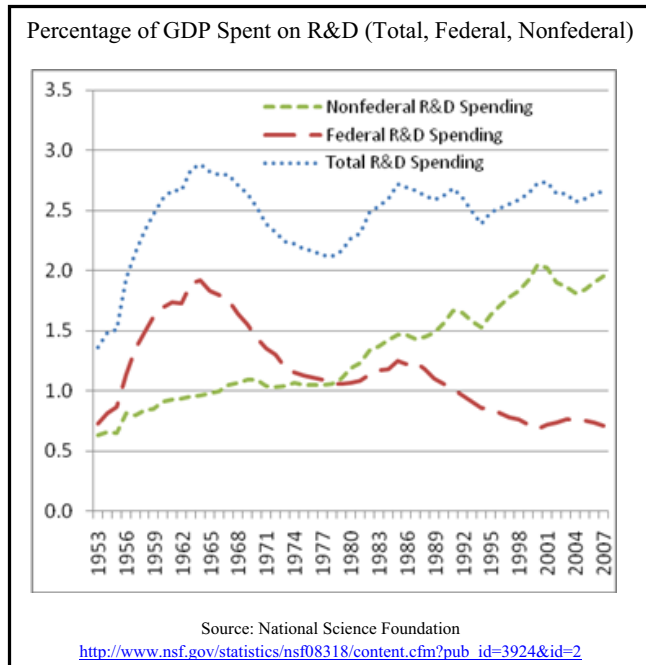
Fundamental to American scientific achievements and innovative capacity historically has been passion to explore, to discover, and to invent—desires that were nurtured within a national environment distinguished by the rule of law, intellectual property rights protection, controls on corruption, an abundance of venture capital, and such intangibles as acceptance of failure, openness to radical ideas, and freedom to challenge accepted practices.

Although the United States has been a leader in science, technology, and innovation for more than half a century, our relative lead is now narrowing. This is due in part to the progress of others, but it also reflects weakening of the national research and development infrastructure in Washington and throughout the nation.

FEDERAL SCIENCE AND TECHNOLOGY INVESTMENTS AND MANAGEMENT

The federal government provides direct support of research and innovation through funding of basic research, training of young scientists, and procurement of advanced technologies to meet government missions. Indirectly, government tax, regulatory, and patent policies have helped shape the environment within which technologies develop.

There is growing concern, however, that the federal government lacks the requisite expertise and organizational capacity to meet science- and technology-laden problems now and into the future. This will hamper informed governmental policy formulation and implementation in areas relevant to the nation’s innovative capacity and to the science and technology issues embedded in almost every policy arena. Systemic weaknesses have developed in the management and oversight of science and technology policy over time as Washington has failed to keep up with technological change.



- Although President Obama’s proposed budget for FY 2010 includes significant increases for basic research from the 2009 budget, the total federal support of basic and applied research (both defense and nondefense) in inflation-adjusted dollars will continue a significant downward trend, now down 6.8 percent from 2004. As a result, federal support for research in nearly all disciplines is in decline.¹⁸⁰



- The American Association for the Advancement of Science forecast for science funding prospects is dire as efforts to reduce budget deficits gather steam in the coming years. The Office of Management and Budget guidance to agencies for the FY 2011 budget is to develop two alternatives: a freeze at the FY 2010 level and a 5 percent reduction from that level.¹⁸¹
- The National Science Foundation reported that 73 percent of the main science papers cited by American industrial patents in 1995 and 1996 involved domestic and foreign research financed by government or nonprofit agencies.¹⁸²
- It is estimated that a 1 percent decline in GDP translates into a 0.5 to 1 percent drop in business R&D and that this has almost immediate effects.¹⁸³
- The estimated annual rate of return on R&D investments ranges from 28 to 50 percent.¹⁸⁴

There is chronic organizational stove-piping within the federal government, both the Executive Branch and Congress, that inhibits cohesive research and innovation-related policies, programs, and budgets in support of national objects. The federal system also requires timely, usable, and credible research and innovation-related data, information, and analysis, especially in the Congress, that is now lacking. Perhaps most serious is a paucity of science and engineering manpower in critical areas such as cyber security.

The lack of federal systemic change toward science and technology has been especially detrimental to the U.S. “innovation ecology” shaped in part by federal laws, regulations, and policies—tax policy, antitrust laws, patent law, intellectual property rights, export controls—that were created in the context of old technologies and have not adapted adequately to ensure future technological progress.¹⁸⁵

“America has had a great lead in science and engineering. It’s a lead that we’re losing, partly because others are getting better but also partly because we have not paid attention.”

— Norman Augustine, Chairman,
National Academies, *Rising Above
the Gathering Storm* study

President Obama has taken initial steps to address these problems. Immediately after taking office, he appointed a Senior Advisor to the President for Science and Technology, established a President’s Council of Advisors on Science and Technology, and appointed scientists to major posts throughout the federal system. Furthermore, the President indicated at the outset of his administration that policy would be guided by the best science available, and he has followed up on that by launching programs aimed at strengthening the nation’s STEM education and innovation infrastructure.

For the United States to remain at the forefront of global science and technology progress, however—an essential element in meeting the challenges of technologically advanced adversaries and competitors—will require a scientifically literate electorate and governing bodies and a national commitment to support science and engineering research, education, and training that will be difficult to sustain through tough economic times ahead. Some additional steps that should be taken are:

Fill a greater number of leadership positions in Executive Branch agencies and Congress and throughout the federal workforce with scientists and engineers; create a Congressional



entity that will provide for members of Congress reliable and timely materials on science and technology-related matters; enhance the dialogue and partnerships with science and technology-relevant actors beyond the federal system to the private sector, nongovernmental organizations, state and local governments, international organizations, and governments globally; strengthen coordination of science and technology policy across agencies; encourage the science and engineering communities to commit to a new level of effort directed at public education.

PATENT SYSTEM

The U.S. patent system is one of the primary federal structures shaping the nation's "innovation ecology," the environment within which discovery, invention, and commercialization takes place. It is also one of the earliest federal initiatives in that the Constitution states that "Congress shall have power . . . to promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries." (U.S. Const., art. 1, sec. 8) Yet, as the importance of intellectual property to innovation has become more critical, concerns over the effectiveness of the patent system have increased. These concerns include the quality of issued patents; the expense and complexity of patent litigation; the need for harmonization of U.S. patent law with the laws of leading U.S. trading partners; potential abuses committed by patent speculators; and the special needs of individual inventors, universities, and small firms with respect to the patent system.¹⁸⁶

- The U.S. Patent and Trademark Office reports that the number of patent filings by U.S. inventors and businesses fell, by 2.3 percent, for the first time in thirteen years, while those by foreign entities increased by 6.3 percent during the same period.¹⁸⁷
- Half of the U.S. science and engineering workforce is older than forty, according to National Science Board reports, and barring changes in retirement patterns, significant numbers will retire in the next two decades.¹⁸⁸ A new generation to take their place is not apparent, however. There is a dearth of home-grown graduates in science and engineering, and foreign young people are beginning to look elsewhere for science and engineering training and employment.

Certainly the recession is the primary factor slowing down the introduction of new products into the economy, but inefficiencies in the patent system may be significant inhibiting factors. Both the National Academies¹⁸⁹ and the Federal Trade Commission¹⁹⁰ have charged that the patent system has not kept up with technological advances and have urged reforms.

A Presidential initiative to encourage a *New Era of Discovery and Innovation* aimed at ensuring the nation's preeminence in technological innovation and advanced technology global competitiveness and trade would include a sector-by-sector review of patent system impact and effectiveness.

INFRASTRUCTURE

As important as job creation is in the current economy, improvements to national infrastructure are much more than make-work projects. As the levy breaches in New Orleans in 2005 and the bridge collapse in Minnesota in 2007 make clear, infrastructure failures can have catastrophic consequences. Make no mistake: Hurricane Katrina was an act of nature, but the flooding of



New Orleans was an act of man. So are the diminishing wetlands in the bayou country south of the city. That damage was caused by human activity as well, mostly timbering and drilling for oil. Repairing damage to the environment and improving the quality of roads, waterways, bridges, and rail systems would have profound effects on the economy, public health, the environment, and national security. Given limited resources, it is important to find a way to prioritize these projects and ensure that they do not compound the country's existing fiscal problems.

Building a new, clean energy infrastructure will require trillions of investment dollars during the next twenty years—a task made even more difficult and delicate by the recent deep recession and tough recovery. The only practical way to finance America's lower-carbon and more competitive future is to harness the market system and the private investors who make it work. This means continuing the centuries-old partnership between public stewards of natural resources and the private entities that develop and sell them. But given growing concern about climate change, government and industry leaders also must educate energy users about the costs and trade-offs of an economic transformation that will require decades and trillions of dollars.

- America's deficient roads cost the economy an estimated \$78 billion in wasted time and fuel, \$67 billion in repairs and operating costs, and 14,000 lives.¹⁹¹
- The cost of aviation delays to the U.S. economy is expected to rise from \$9 billion in 2000 to more than \$30 billion annually by 2015.¹⁹²
- By 2030, assuming no changes in government policies, world primary energy demand will increase 40 percent from 2007 levels.¹⁹³
- Oil demand will rise from around 85 million barrels per day in 2008 to 105 million barrels per day in 2030, an increase of around 24 percent, according to the latest International Energy Agency outlook. Demand for coal will grow by 53 percent from 2007 to 2030, and demand for natural gas will rise by 42 percent over that period.¹⁹⁴

Innovations that enhance U.S. competitiveness in the global marketplace and restore a national vision for repairing and caring for our nation's infrastructure should be accelerated. A sense of urgency should be instilled, and federal decision making and funding processes should be encouraged to create incentives for innovation.

Opportunities abound for greater innovation to be applied in the arena of urban regional transportation systems to address congestion and other obstacles to mobility and accessibility. Equally important is the nation's rural transportation network, which sustains the arteries through which the lifeblood of commerce flows. We must, therefore, provide adequate incentives for such multimodalism and innovation as part of future federal infrastructure provisions, such as in the upcoming authorization of the federal surface transportation and aviation programs. These programs should be revitalized to seek out and reward innovation and to challenge state, local, and private partners to seek out and test new creative, cost-effective ways to apply our limited resources in addition to attending to the basic needs of our system.

Utilize existing revenue mechanisms to revitalize the user pay construct and address immediate needs. Specifically, increase the gas tax by 10 cents a gallon and peg it to inflation.



The Highway Trust Fund has served an important role directly connecting costs and benefits in a user pay construct. We recommend that steps be taken to preserve the Highway Trust Fund mechanism into the future. Historically, the federal surface transportation program has been the most stable source of funding for state transportation investment. It provides nearly half of all highway and transit capital investments and, given states' constitutional requirements for balanced budgets coupled with reliance on some relatively volatile funding sources such as sales taxes, the federal program provides a critical base funding level less subject to fluctuations.

After substantial study, two congressional commissions (the National Surface Transportation Infrastructure Financing Commission and the National Surface Transportation Policy and Revenue Study Commission) separately recommended increases to the federal fuel taxes to meet a significant portion of the defined infrastructure investment gap and to adjust the tax rate based on inflation going forward. Current fuel taxes and tolls combined do not provide enough revenue to properly maintain, let alone enhance, our nation's infrastructure. An increase in the gas tax of 10 cents per gallon would raise the cost of filling a 15-gallon tank by \$1.50 (put another way, if you fill your tank twice a week, the tax would cost you an extra \$156 a year). However, it would provide needed funding for critical infrastructure projects and would avoid deficit spending to finance them. It would also redistribute the cost of infrastructure financing toward those who are using that infrastructure the most.

There is another benefit that runs somewhat in contrast to the first, which is that it would disincentivize the use of gasoline. On the surface, it seems that if this policy goal were achieved in the extreme, it would negate the revenue benefit. Actually, however, a reduction in driving would also reduce the frequency of infrastructure maintenance projects (thus saving money) while reaping enormous benefits to the environment and public health, not to mention America's collective pocketbook. It would also make alternative energies more competitive with gas, speeding the development of alternatively powered vehicles. Provisions could be made for Americans living in rural communities with long commutes and lower income households.

A national infrastructure financing entity should be established to bring focus, resources, and discipline to the infrastructure investment challenge; explicit goals for establishing a national infrastructure financing entity should be carefully studied, and these goals should be incorporated into the design of a new federal entity.

The President's FY 2010 Budget Proposal and Congress's budget resolution include a down payment on the concept of a national infrastructure financing entity, or National Infrastructure Bank. The President's budget called for \$5 billion per year to establish a National Infrastructure Bank and outlined design principles for such an entity, as follows:

The National Infrastructure Bank will invest funds directly into large capital infrastructure projects that promise significant national or regional economic benefits. Federal funds are to be delivered through a variety of credit and grant mechanisms designed to not only provide Federal resources but also attract and coordinate State, local, and private co-investment. The Administration has reserved these funds to ensure adequate resources are available to capitalize the Bank and enable multi-year commitments.¹⁹⁵



A national infrastructure bank would offer the combined value of addressing identified financing objectives and bringing focus and discipline to the infrastructure investment process more globally. Together that may tip the balance in favor of creating such an institution. Even then, it should be done only with due caution about the problems that it should appropriately address.

FINANCING AMERICA'S TRANSITION TO CLEAN, SECURE, AND SUSTAINABLE ENERGY

In late 2007, as the nation was unknowingly slipping into a deep recession, President Bush signed an energy bill with new fuel standards requiring automakers to increase the average fuel economy of their cars and light trucks to 35 miles per gallon by 2020.¹⁹⁶ The new fuel standards were hailed by the Republican President and the Democratic Congress as a bipartisan breakthrough that would help Americans tapped out by paying \$3 a gallon for gasoline. “Today we make a major step toward reducing our dependence on oil, confronting global climate change, expanding the production of renewable fuels and giving future generations a nation that is stronger, cleaner and more secure,” proclaimed George W. Bush. “This is a choice between yesterday and tomorrow,” added House Speaker Nancy Pelosi. “It’s groundbreaking.”¹⁹⁷

Figure 1 – Selected National Energy Consumption and Demographic Statistics, 2000-2006

Country	2006 Energy Intensity of GDP, Btu/\$ of GDP (2000 dollars)	2000-2006 Energy Intensity of GDP Change	2006 Per Capita Energy Consumption, MMBtu/Person	2000-2006 Per Capita Energy Consumption Change	2000-2006 Average Population Growth	Population Density per Square km, 2006
United States	8,844	-12.3%	335	-4.5%	1.00%	30.71
Denmark	5,375	-7.1%	165	0.6%	0.30%	126.06
Japan	6,496	-7.0%	179	1.0%	0.10%	337.23
France	6,550	-5.6%	179	1.2%	0.55%	110.88
Germany	6,439	-3.2%	178	2.5%	0.05%	230.89

Source: ClearView Energy Partners, LLC, using data from EIA, U.S. Census Bureau and the CIA World FactBook

Changing CAFE standards for the first time since 1975 was a start. But in that time, the United States lost the initiative, as well as our reputation for innovation in a field where Americans had always led the way. Others filled the vacuum. Europe’s fuel efficiency standard is already 40 miles per gallon and heading soon to 49 mpg. Japan expects to hit 47 mpg by 2015.¹⁹⁸ There are, of course, mitigating factors including the fact that the United States is far larger geographically with a more dispersed population than those smaller, more densely populated competitors. However, this can also be seen as a reason why achieving greater energy efficiency is that much more important for the United States.

The United States can also improve its competitive position by developing affordable, secure, reliable, and increasingly clean energy supplies. Many new energy sources can reduce greenhouse gas emissions, and conservation and increased energy efficiency also are important. Effective U.S. action requires the development of a long-range plan that balances economic vitality and environmental sustainability. Both are possible, provided that legislative, regulatory,



and investment decisions are adjusted to meet changing environmental, market, and security objectives and are done so in an overall context.

- The United States, which has 4.54 percent of the world's population,¹⁹⁹ will consume 19.5 percent of the world's energy in 2010.²⁰⁰ However, the United States uses this energy to produce approximately 20 percent of the world's wealth.²⁰¹
- Our \$14 trillion economy depends on fossil fuels for 85 percent of its energy. The U.S. economy probably will remain heavily dependent on hydrocarbon consumption and greenhouse gas emissions for several decades. The challenge is to manage energy use and greenhouse gas emissions more effectively as new technologies are developed.²⁰²
- The cost of wind and solar is coming down. Investors, aided by government subsidies, are teaming wind and solar with natural gas and nuclear power. You might call them "Prius power plants," because they mix fossil and alternative energy sources to produce greener electricity.
- Nuclear power can reduce greenhouse gas emissions but faces cost and waste disposal issues, which require both federal and private sector attention,

The United States needs to develop a national energy plan—and stick to it. This plan should balance our growing energy needs with our responsibility to maintain the environment for future generations. Doing so will enable the United States to create jobs, increase trade, and be a responsible environmental steward.

A balanced mix is key to a smart plan for meeting the nation's energy needs of the future. The move toward a more diverse energy mix will require continued reliance on inexpensive fossil sources plus the development of policies that encourage producers and consumers to pursue energy efficiency while developing a broader, more competitive, clean-energy supply chain.

Legislators, regulators, and investors who lead this transition need to create near-term value above and beyond the status quo. The promise to save the planet often pales next to the immediate need for a job, health care, and housing. Political leaders must therefore distribute fairly across all regions, industries, and the energy value chain the pain that inevitably will come with these changes. Periodic review of legislation and regulation also will be needed to rebalance economic, environmental, and other interests.

U.S. leaders must think and act on both a small scale and a large scale to bring about this energy transition. Individuals and local communities can conserve residential and commercial energy use by changing construction codes, weatherizing buildings, and increasing public transportation options. State and federal leaders can set standards, plan urban communities more thoughtfully, and regulate emissions. But these efforts will fail unless balanced national legislation creates the investment environment required to attract the private financing needed to realize a multitrillion-dollar, decades-long strategic shift toward a cleaner energy infrastructure.

Through the American Recovery and Reinvestment Act and other spending measures, the President and Congress have set aside nearly \$90 billion to encourage greater use of clean energy. These efforts alone, however, will not produce the intended effect unless an investment



environment is created that respects existing financial commitments while encouraging additional private investment in cleaner energy supplies. Engaging the private sector will be vital to building a “smart grid” and also developing improved batteries for electric cars.²⁰³

Two more ingredients are needed to rebuild America’s energy infrastructure: sustained government investment in basic R&D and international cooperation on the climate. While the near-term focus appropriately is on installing the technologies we have at hand to combat greenhouse gas emissions, breakthrough technologies are needed to reduce costs and perhaps find more effective means to generate energy supplies for a growing U.S. and global economy and population. Additionally, some agreement—if only to act nationally and in parallel—is needed by all nations if human impacts on climate are to be mitigated. Unilateral action by one or several nations will not make a significant difference if others don’t also take action. This lesson was reinforced in December 2009 in Copenhagen, where more than 192 nations made progress on deforestation and compensation issues, though they continue to struggle with equitably constraining greenhouse gas emissions from industrial activities.

The climate challenge extends well beyond the scope of this section, and even this paper, but it brings into focus many of our central themes: education, setting our course, investing in people and innovation, and taking personal responsibility and unified action to ensure America’s future.

SECURITY INVESTMENTS

In 2002, the favorable opinion of the United States in Indonesia—the world’s largest Muslim nation—stood at a healthy 61 percent. A year later, after the invasion of Iraq, this number stood at a stunning 15 percent.²⁰⁴ “It’s very easy for the masses in the Islamic world to conclude that this war against Iraq is in the end a war against Muslims,” Indonesian foreign minister Hassan Wirajuda said at the time.²⁰⁵ These words proved prophetic, especially in Indonesia, where historic goodwill turned to distrust and fear.

Then, although the United States was still mired militarily in both Iraq and Afghanistan, America’s popularity doubled in Indonesia—and kept rising. The reason for the sudden sea change was symbolized by two images. The first was George H.W. Bush and Bill Clinton, two former U.S. presidents of rival parties—they had run against each other for national office—pulling together to coordinate the extraordinary outpouring of U.S. relief efforts, both private and public, after the devastating December 2004 tsunami. The second indelible image was that of a veritable armada of U.S. Navy ships, led by the *USS Abraham Lincoln* and an expeditionary force of 1,300 United States Marines all there on a humanitarian mission to dispense tents, blankets, food, medicine, water, and ... mercy to a beleaguered population staggered and dispossessed by the sea.

“America has learned in places as diverse as Pakistan and Indonesia [that] in the struggle against extremism, the effective and targeted use of U.S. aid can be as effective—if not more effective—than the deployment of bombs and guns,” observed former House Foreign Affairs Committee Chairman Lee Hamilton. “To win the war of ideas and to combat the swelling turmoil around the world, the United States must use all aspects of American power, including the power of generosity.”²⁰⁶



It is difficult to argue that Americans have not made a large enough investment in national security. The United States spends more total than any other nation on defense. Yet the case can be made that, because of our military's sacrifices on the battlefield, or perhaps in spite of them, U.S. policymakers have undervalued the complimentary elements of diplomacy and development when it comes to the nation's spending priorities:

- The United States accounted for 41.5 percent of international military expenditures in 2008. The next closest country was estimated to be China at 5.8 percent.²⁰⁷
- The International Crisis Group reports that of seventy-five international conflicts, seventy-two are unchanged since November while three (in the Democratic Republic of the Congo, Venezuela, and Yemen) are deteriorating.²⁰⁸
- At the beginning of 2009, there were 15.2 million refugees of one kind or another worldwide as well as 26 million internally displaced people.²⁰⁹

For the better part of a century, Americans debated the efficacy of Uncle Sam attempting to be the “world’s policeman.” What the statistics above show—and what the lengthy conflicts taking place in Afghanistan and Iraq also show—is that regardless of the moral and geopolitical arguments at work, it simply is not practicable for the United States to tamp out all the world’s fires, protect all those who need protecting, and promote democracy by primarily military means. It is essential that we take a smart approach when it comes to investing in global security. For one thing, barriers between our government agencies must be torn down to avoid wasteful redundancies while also ensuring that we maximize our efforts through collaboration. The Administration and Congress can take immediate action that effectively reorients America’s tools of global engagement so that the United States can better meet immediate crises as well as long-term challenges. Among the actions that could be taken:



General David H. Petraeus, U.S. Central Command;
Ambassador David Abshire, CSPC President
Source: CSPC

1. Respond to the growing vulnerabilities in our national IT systems and the frequency of cyber attacks by foreign entities by establishing clear responsibilities, authorities, capabilities and expectations.
2. Deal with the immediate crises in Afghanistan and Iraq with a focus on bolstering NATO and ISAF efforts in Afghanistan and creating a political environment that will allow a successful transition in Iraq and the strengthening of a stable and strategic partner there.
3. Enhance the flexibility of the U.S. military through the promotion of education and training techniques that emphasize new ways of thinking about asymmetric warfare and other post-Cold War challenges.
4. Restore America’s trust and influence abroad through the development of new tools of communication and new institutions to promote international understanding and cooperation.



DEFINE SUCCESS: Success will also involve a drawdown in Iraq and Afghanistan that leaves behind stable partners that share our interest in promoting regional stability and combating extremism. A positive outcome would also include the continued development of an effective and flexible military capable of dominating new battlefields. This would happen in conjunction with the creation of more effective and robust tools of “soft power” that would enable the United States to bolster its position in the world.

AVOIDING THE STRATEGIC FAILURES OF 18TH CENTURY FRANCE

After the conclusion of the American Revolution in 1783, France had secured a major strategic victory against its long-time rival Britain. Yet France’s victory was short-lived, and its government would collapse a mere six years later amid a violent revolutionary upheaval.

Despite the preeminence of the French military, battlefield successes could not save the French Empire from collapse. The French government’s inability to strategically prioritize the acquisition of its immediate military and foreign policy objectives with the need to ensure its long-term sustainability led to the collapse of the government.

Throughout the 18th century, French leaders sought to achieve near-term strategic goals through the pursuit of an aggressive foreign policy. France was involved in multiple large-scale wars during this period, including the Seven Years’ War and American Revolution. While these wars were costly, France’s irresponsible fiscal policies only amplified the burden of these military engagements. Together they dragged France into unsustainable levels of debt.

France’s tax system prevented the government from receiving sufficient revenue to pay for these conflicts as the largely untaxed nobility used their political influence to block any attempts to levy new taxes. In the face of this revenue shortfall, the French government was forced to borrow heavily and take on massive public debt to finance its high level of spending. From 1720 to 1789, the level of debt owed to government-issued bonds more than quintupled, and by 1780 half of France’s national budget was geared toward paying interest on this public debt. This large-scale borrowing reached unsustainable levels by the 1780s, and in 1783 European banks refused to make loans to the French government because of France’s well-known inability to address its fiscal imbalance.

Finally cognizant of the crisis, King Louis XVI appointed Charles de Calonne to be Controller of General Finances in 1783. Calonne convened the largely untaxed elements of French society to persuade them to support cutting government spending and assuming some of the country’s tax burden in the interest of addressing the fiscal crisis. But members of this group refused to acquiesce to any tax increases, preferring to safeguard their own self-interest. The King was then forced to call a meeting of the Estates-General, which provided the impetus for the French Revolution and the dissolution of the government.

The French government’s collapse was the result of pursuing immediate strategic interests without understanding their long-term impact. To avoid the fate of 18th-century France, the United States must not fail to consider its long-term fiscal solvency while pursuing its immediate strategic objectives.

Within an overarching National Strategy, a coordinated effort is needed to align all of the agencies with national security responsibilities and budgets. Led by the National Security Council, the Departments of State, Defense, Justice, Intelligence, and Homeland Security all need to move beyond the current ad hoc national security process and work together for the United States to meet the diverse challenges facing our nation.



The security environment today requires the Commander in Chief to recalibrate our national investment strategy. Our national security investment currently equals that of the rest of the world, but we continue to spend money on programs and priorities that are keyed to a past era. Therefore, recalibrating the prioritization of national security investments will be critical to the process of developing a new strategic framework in which national security-tasked agencies will operate.

- The Congressional Research Service calculates that uniformed personnel now cost 40 percent more in real terms than in 1999.²¹⁰
- From 1993 to 2001, overall funding for the State Department’s educational and cultural exchange programs fell more than 33 percent, from \$349 million to \$232 million (adjusted for inflation).²¹¹
- The FY2010 Budget request for the Department of State and USAID is \$48.6 billion²¹² and the request for Department of Homeland Security received,²¹³ while the Department of Defense requested \$663.8 billion.²¹⁴

The President should integrate a National Security Strategy with a National Security Budget to align goals with resources to create the necessary capabilities. The President and Congress must develop the tools necessary to match the foreign policy doctrine with the nation’s actions. This should include a larger role for the State Department on development and communications.

For too long our government departments, agencies, laws, authorities, and programs have been artificially divided, or “stove-piped,” between domestic and foreign and defense and diplomacy interests. These divisions undermine the strategic flexibility the United States will need to meet the ever-evolving threats. Immediate action is required to break down the walls between the institutions involved in American global engagement, and, equally important, to align these institutions toward a common national purpose.

The post-Cold War reality has morphed into an even more complex environment for the world’s remaining superpower. New challenges—including the information and communications revolutions, globalization, cyber warfare, regional instability, violent extremism, and the ongoing conflict in Afghanistan—expose the need for a comprehensive review and overhaul of our National Security Structure. Each of these issues, not to mention vigorous global competition, is pushing the United States and the President to rethink the way U.S. national security apparatus operates in the post-Cold War environment.

An aligned national security strategy and national security budget would help America move a long way toward a more balanced use of its military and diplomatic resources. This new process would help the Administration and Congress break out of a cycle of short-term thinking and move aggressively toward a long-term view of governing, communicating America’s message, diplomatic efforts, and development. Such a process would eliminate waste and overlap, thereby generating additional resources for positive projects and missions.

A focused National Security Strategy and Budget will help the United States navigate, and hopefully master, these new challenges. This includes managing the immediate conflicts of



Afghanistan and Iraq, while reacting to challenges that move beyond borders and organized systems. This could be the realities of nuclear proliferation or the danger presented by a failed state in a strategically important region. The United States has a key interest in marginalizing al-Qaeda and other terrorist activity, while the nation must prevent breaches in public and private cyber security.

1. THE THREAT TO CYBER SECURITY

On January 2, 2010, product engineers at McAfee Labs, an antivirus software company, discovered that sophisticated programmers had exploited a heretofore unknown “hole” in Internet Explorer to hack into their system in order to steal encrypted information. McAfee dubbed it Operation Aurora, after the name of a file folder on the computer where the hackers put their stolen source code. Ten days later, in an extraordinary public announcement, Google announced that it, Adobe, and some 32 other major companies in the technology, finance, and defense sectors had all been hit.

Google termed the attack coordinated, highly sophisticated, and aimed at stealing the company's intellectual property in order to access the Gmail accounts of Chinese human rights activists. In other words, Google identified the Chinese government as the likely culprit. The Silicon Valley giant also took the extraordinary step of saying it might well have to shut down its Chinese operation to protect users from the Chinese government. The same day, Adobe posted an announcement of its own, acknowledging that the complexity of the cyber attack might take “some time” to unravel.

“We have never ever, outside of the defense industry, seen commercial industrial companies come under that level of sophisticated attack,” said Dmitri Alperovitch, vice president of threat research for McAfee. He added that attacks used nearly a dozen pieces of malware and several levels of encryption to get behind the companies' firewalls. “It's totally changing the threat model.” The origin of the attacks—and the presumed involvement of the Chinese government—made this a matter of corporate safety, human rights, and national security all rolled into one.²¹⁵

The U.S. government and private sector have become utterly dependent on the Internet and computer technologies to perform everything from basic operations to high-level functions. While this dependency has yielded widely apparent benefits in efficiency and productivity, it has also left our agencies and corporations vulnerable to attacks by technologically knowledgeable adversaries. This is no less true within our national security agencies and contractors. Numerous major cyber attacks have been attempted, and several have succeeded. The security of our people and our economy depends on our government and our business community finding solutions to this growing threat.

“Countries or individuals that engage in cyber attacks should face consequences and international condemnation.”

– Secretary of State Hillary Clinton Speech at the Newseum, January 21, 2010

- The number of incidents reported by federal agencies to US-CERT (United States Computer Emergency Readiness Team) has increased dramatically, from 5,503 incidents



reported in fiscal year 2006 to 16,843 incidents in fiscal year 2008 (about a 206 percent increase).²¹⁶

- A long-term persistent campaign, long attributed to China, to collect sensitive but unclassified information from U.S. government and U.S. defense industry networks using computer network exploitation techniques has successfully exfiltrated at least 10 to 20 terabytes of data from U.S. government networks as of 2007, according to Air Force estimates, and that figure has possibly grown in the past two years, although no figure is publicly available.²¹⁷

Many countries are in the process of developing capabilities to either respond defensively to this cyber security threat or build their own offensive network operations programs. China is most frequently cited as the primary actor behind much of the activity noted in media reporting, and U.S. officials are increasingly willing to publicly acknowledge that China's network exploitation and intelligence collection activities are one of this country's most consuming counterintelligence challenges.²¹⁸

The U.S. government needs to establish authorities and develop the capabilities necessary to deter, prevent, and respond to future cyber attacks. Government employees need to be educated on practices that will keep essential information and networks secure. Finally, the government should find a reliable way to share cyber security information with the private sector without putting national security at risk.

2. TWO WARS AND MILITARY TRAINING

The President and Congress must continually adapt the tactics used to responsibly draw down in Iraq and address an increasingly complex situation in Afghanistan and Pakistan. A stable Iraq and Afghanistan capable of combating extremists and helping to promote regional stability are critical to America's short- and long-term geopolitical strategic interests. In leading America through these conflicts, the President must also keep his eye on the state of our armed forces and the way they are trained and educated.

- The estimated cumulative costs for the Afghan and Iraq wars could reach \$1.08 trillion. As troop levels rise in Afghanistan and fall in Iraq, reflecting President Obama's decisions in March and December 2009, the share of overall costs begins to shift to Afghanistan.²¹⁹
- Estimates range from \$350,000 to \$1 million per year for each soldier deployed in Afghanistan.²²⁰
- Fulfilling the President's planned deployment of 30,000 additional troops will bring the U.S. total to 64,800.²²¹
- Of the 545,000 active-duty soldiers in the U.S. Army, 20 percent are currently deployed and 49 percent have deployed previously to Iraq or Afghanistan.²²²



Secretary of Defense Robert Gates and Chairman of the Joint Chiefs of Staff Admiral Michael Mullen
Source: U.S. Department of Defense



AFGHANISTAN/PAKISTAN

It is essential that the President mobilize our national security apparatus and our NATO and International Security Assistance Force (ISAF) allies to bring stability to the Afghanistan-Pakistan region and prevent the Taliban and al-Qaeda from reestablishing a strong presence there. A failure in Afghanistan would foster instability across much of Central and South Asia, abet the spread of extremist groups and ideologies throughout the region, increase the threat of terrorism to Europe and North America, and irrevocably damage the transatlantic relationship.

Failure would allow Afghanistan to once again serve as a safe haven for emboldened radical forces and terrorist networks, while serving as a rallying cry and recruiting call for militant Islamists throughout the world. From a Taliban-controlled Afghanistan, or from an Afghanistan with no effective state, these forces could plan and launch attacks, destabilize Pakistan and Central Asia, and jeopardize the security of the Pakistani nuclear arsenal. In addition to increasing the threat of extremist terror, such a development would threaten America's long-term strategic interests in South and Central Asia.

- In May 2009, the United States had provided only 44 percent of the embedded training teams required to train the Afghan National Army and only 44 percent of the mentor teams needed to train the Afghan National Police.²²³
- Forty-three countries participate in the International Security Assistance Force.²²⁴
- The total number of troops from all participating countries is 84,150. They join 100,000 personnel in the Afghan National Army.²²⁵

To achieve success in Afghanistan and the region, the President, Congress, our NATO allies, and partners on the ground must work together. There are several actions that must be taken to solve these problems, including:

Strengthening coalitions at home and abroad, fostering indigenous Afghani and Pakistani support, adopting a fully regional approach, and, especially, strengthening Pakistan.

After a thorough deliberative process that sought to examine all angles, in his speech at West Point in December, President Obama revealed his plan to send 30,000 American troops to Afghanistan in an attempt to turn the tide against the Taliban insurgency. President Obama also expressed his hope that international forces could begin handing over responsibility to Afghan forces in July of 2011. During both that speech and the Nobel Peace Prize acceptance ceremony the following week, the President defended his decision and provided the reasons for his reinforcement of the mission and why that mission was imperative to American and international security.

“The War in Afghanistan is a crucial test of the greatest alliance in history of the world. Success is vital to NATO’s future.”

– Dr. David Abshire, Former NATO Ambassador

The vast majority of international actors have a vested interest in preventing extremists from gaining power in Afghanistan and Pakistan, and their capabilities must be effectively tapped to ensure regional



stability. NATO, the principal kinetic force in Afghanistan, has been beset by problems in its operations there. Dramatic action must be taken at the Presidential level to remedy these problems and promote additional burden sharing within the Alliance. The President must also manage the relationship with Congress to ensure that political support remains constant throughout our engagement in South and Central Asia. The support of regional actors and nongovernmental organizations is critical as well for developing a civilian and military effort designed to combat extremist elements throughout the region.

The cultivation of indigenous support should be pursued through the promotion of development and good governance. Development assistance must be expanded to promote good governance at the local level in Afghanistan and to marginalize corrupt actors. The United States must actively engage Afghanistan's tribes to split them from the Taliban. America cannot rely on the government of Afghanistan and should instead begin to work with supportive elements, including tribal leaders, Afghan civilians, and local and provincial governments to develop long-term stability in the region.

The United States and NATO must also adopt a fully regional approach that brings all of the regional actors to the table. Unfortunately, the international effort has focused almost exclusively on Afghanistan, even though the Taliban and al-Qaeda leadership are located in Pakistan in close proximity to nuclear weapons. These extremists continue to traffic in vast amounts of opium and heroin and threaten both the vast energy reserves of Central Asia and the stability of India and Pakistan. Efforts must be made to facilitate a rapprochement between India and Pakistan so that Pakistan can focus on counterinsurgency and counterterrorism as opposed to an Indo-Pak war.

While NATO and the United States can't send troops to Pakistan, both recognize its centrality to the crisis. The twenty-eight members of the Alliance and the fourteen non-NATO members of the ISAF should coordinate their military and civilian aid in a way that boosts Pakistani efforts to combat extremists. This should include training efforts that can occur similar to that of the NATO Training Mission-Iraq. A NATO-led training effort would be better received than one that is American-led and would help strengthen ties between the Pakistani and Western militaries.

IRAQ

For much of the American public and media, Iraq has become the forgotten war. To a great degree, this can be attributed to positive changes in the country. Despite a few recent large-scale attacks, there are reasons for optimism.

- Monthly Iraqi civilian fatalities, which peaked at around 3,700 in November 2006, have fallen to 250 per month as of November 2009.²²⁶
- Through January 25, 2010, there had been four U.S. troop deaths in 2010; Iraqi civilian casualties in 2009 through November were fewer than half those that occurred in 2008 and fewer than 1/12 the number that occurred in 2006.²²⁷
- In October of 2009 there were 1.5 million Internet service subscribers in Iraq, up from a prewar estimate of 4,500.²²⁸
- Fewer than 100,000 U.S. troops are in Iraq.²²⁹



Despite an outlook vastly improved from that of 2006, is essential that the United States not lose focus of its commitment in Iraq. Otherwise, post-surge gains risk being lost. Violence has declined sharply, and the increasing popularity of political parties unaffiliated with any particular sect demonstrates that political progress is being made. But several challenges could cause a reversal in the situation.

- Forty percent of Iraqis indicated that Iraqi security forces were not ready to take over without the presence of coalition forces.²³⁰
- Sixty-nine percent of Iraqis indicated that since the invasion, U.S. and coalition forces have done either a quite bad or very bad job carrying out their responsibilities in Iraq.²³¹
- In 2009, Iraq ranked near the bottom, 176th of 180 countries, on Transparency International's Corruption Perceptions Index.²³²
- Iran is still believed to be arming militant Shiite groups, and in December 2009, Iran's military briefly seized control of an oil well along the Iran-Iraq border, raising tensions between the two countries.²³³
- In 2009, despite being battered by the financial crisis, the Russian defense budget increased 25 percent.²³⁴

The United States should bolster its efforts to establish a stable and secure Iraq that is a strategic partner both economically and militarily.

There is a great peril and uncertainty regarding Iraq's security after the United States withdraws its 120,000 troops. Violent actors are likely to increase their ability to stage large-scale bombings, and intractable ethnic- and geographic-based disputes persist about the distribution of oil revenue—and the very boundaries and limits of Iraqi statehood, particularly regarding what is a nearly autonomous and *de facto* Kurdistan. There are strong fears among the Kurds that a U.S. pullout will jeopardize their gains. Shiites worry that Sunnis will attempt to reassert their dominance. Sunnis (and some Shiites and Kurds as well) fear a growing Iranian influence in the region will become even more pronounced. It is imperative that the President and Congress use all of the elements of U.S. power—military, economic, diplomatic, and development—to help Iraqis bridge these fears and make the transition from a war-torn sectarian-ridden land to a modern, multi-ethnic and democratic state. U.S. foreign policy aims in a variety of fields are much more likely to come to fruition if Iraq becomes a secure regional partner. A strong and independent Iraq with a well-trained and U.S.-supported security force could help provide a check on Iranian influence, thereby further isolating an Iranian regime that appears intent on rejecting international calls to halt its nuclear program. It is for this reason that the United States must place increased emphasis on developing an independent Iraqi security force with strong capacities.

The United States should continue to insist that the security forces remain diverse, a key component of keeping ethnic and sectarian tensions in check. The United States should also use its influence to persuade Iraqi politicians to ensure a smooth political transition after the 2010 elections and to address questions concerning oil revenue sharing.



3. THE FUTURE OF THE MILITARY

Although the American military is unmatched in strength, significant concerns have emerged about strains on the force. With more than 200,000 U.S. troops in Iraq and Afghanistan, the military has experienced unparalleled durations in deployments. Simultaneously during these deployments, our Armed Forces have encountered a diverse array of nontraditional threats and must be prepared for an ever-changing security environment. As the United States draws down from Iraq and increases its presence in Afghanistan, it is critical that the unrivaled strength and flexibility of our Armed Forces be maintained.

- Of the 366,000 U.S. Army National Guardsmen, 12 percent are currently deployed and 39 percent have deployed previously to Iraq or Afghanistan.²³⁵
- Of the 405,000 reserve soldiers in the U.S. Army, 4 percent are currently deployed and 35 percent have deployed previously to Iraq or Afghanistan.²³⁶
- 1.9 million military personnel have deployed to Iraq, Afghanistan, or related operations since September 11, 2001—half of them with the U.S. Army.²³⁷
- Of the 966,000 Army personnel who have deployed to Iraq and Afghanistan since 9/11, 715,000 are still in service with some branch of the U.S. Army.²³⁸
- The percentage of Army recruits with a GED instead of a high school diploma is at an all-time high.²³⁹

The United States must adapt the Armed Forces to 21st-century battlefield demands with an emphasis on shifting the focus of modern military education.

The kinds of conflicts we are engaged in require cultural awareness, intellectual agility, and the ability to command greater discernment and restraint than in the past. This means that continued strong leadership at the junior officer level must be ensured. The United States should devote more resources (including within ROTC and the military education systems) to developing the intellectual capital of junior officers, noncommissioned officers, and potential flag officers.

The United States must also ensure the creation of an experienced base of junior officers and noncommissioned officers who will guide our military into dominance of asymmetric warfare. This requires a cultural shift from high-intensity combat to high-intensity knowledge that can perceive changing circumstances and rapidly adapt to them. This will also require a better understanding of cultural and environmental battlefield landscapes. Essential to this effort will be inculcating a stronger culture of leadership and innovation. We need to retain our battle-proven veterans and incentivize them to apply their combat experience to a broader understanding of the world and a better understanding of our enemies.

Efforts to retain significant numbers of competent junior officers, noncommissioned officers, and general officers must be expanded—including more opportunities to pursue military and nonmilitary education, and better benefits packages for military personnel and their families.

4. RESTORING AMERICA'S TRUST AND INFLUENCE ABROAD

For the United States to accomplish its near- and long-term strategic goals, it is imperative that America strengthen its trust and influence abroad. Restoring our nation's trust and influence



requires that the government be a ready and effective partner in executing the President's vision.

The State Department and other agencies have too few options or tools that can be quickly and efficiently deployed in times of crisis. Further, the Department of Defense has a better developed ability to deploy funds and to bring in private communications and development experts in times of crisis. Secretary Gates has proposed merging current and new funding into three long-term funds totaling nearly \$2 billion that would be shared by the Departments of State and Defense.²⁴⁰ The money would be used to support nation-building efforts in a more efficient way.

In addition to this and more comprehensive long-term budgeting and strategic planning in national security and strategic communications, there is a need to establish an "innovations fund" that would allow the current Administration to be creative in real time and fund initiatives that can advance American interests and ideals abroad. This fund would allow the government to effectively adopt new technologies, bring in people, and capitalize on new ideas and events.

- Opinion surveys since September 2001 reveal that large majorities in Muslim countries believe the United States acts unilaterally without regard to the interest of others and is ruthless, aggressive, and easily provoked.²⁴¹
- In a Pew Global Attitudes Survey, the five countries with the lowest opinions of the United States were all in the Middle East, North Africa, or South Asia regions (Egypt 27 percent, Jordan 25 percent, Pakistan 16 percent, Palestinian Territory 15 percent, and Turkey 14 percent).²⁴²
- Eighty-seven percent of Pakistani Muslims said that suicide bombings and other forms of violence are never justified in order to defend "Islam from its enemies." Only 5 percent said it was often or sometimes justified.²⁴³

"The U.S. should focus much less on what we choose to call one-way push-down mass communication and replace it with genuine dialogue, debate, and with a lot more listening. I was rather struck by the numbers. In this country, **we only spend about \$5 [million] to \$10 million** on opinion polls overseas, and that's less than some governors or senators spend in one state."

—Peter G. Peterson
Chairman *Emeritus*,
Council on Foreign Relations

These bracing survey results alarm U.S. policymakers, but government officials lack the research tools of their own that would help guide the government in formulating the kind of communications strategy Pete Peterson alluded to—the kind that any statewide candidate for elected office would have at his or her fingertips. Here's one example: In 2008, as part of the run-up to the presidential election, *Reader's Digest* commissioned a global poll designed to supplement Pew Research Center's vast repository of information in a fluid political environment. The results were eye-opening. To be sure, Barack Obama was the preferred candidate over John McCain on every continent, in every one of seventeen nations surveyed—and by the kind of overwhelming margins one does not find in U.S. elections. But most of the internal data in that survey was much more nuanced—and potentially useful to officeholders and civil servants in Washington.

For one thing, despite the perceived unpopularity of the United States during the presidency of George W. Bush, the *Reader's Digest* Global Poll revealed that America is still a nation that



inspires, and one that still beckons to the citizens of the world. Asked if they would personally move to the United States if economic and political barriers were removed, for example, some three-quarters of respondents in India said yes, which is understandable given that nation's poverty, but 52 percent of the French answered that question affirmatively as well. To renowned French writer and filmmaker Philippe Labro, the lesson was that "the reality of the American Dream" was embedded in the life stories of both Senators Obama and McCain. "America is still that land of the second chance, of multiple opportunities, where anyone can succeed."²⁴⁴

The survey also sought to measure whether "anti-Americanism" was genuine and deep—or a superficial impression that had taken on a kind of faddish cast. The pollsters asked whether the "policies" of the United States government—a question tailored to allow respondents to consider the invasion of Iraq—made them feel "anti-American" or "pro-American" or "neutral." The vast majority chose neutral, and as many nations came down in the pro-American camp as in the anti-American camp—usually by small margins. In other words, the people of the world may have soured on George W. Bush, but not on his nation—or even his government.

The poll also ranked eight issues in order of importance by nation, an exercise that revealed some fascinating and useful insights. "Global Poverty," which was the number one issue in six of the seventeen nations polled, tallied only 4 percent in the United States. At first blush, this would suggest indifference. A more sophisticated explanation is that the question seems a code phrase for a request for more foreign aid—and higher U.S. taxes. A more sophisticated explanation still is that most Americans believe world poverty cannot be addressed in any meaningful way with a thriving "Global Economy," the issue that ranked first in the United States and near the top in India, Taiwan, and Indonesia. In this way, Americans are very much oriented toward the nations of the Pacific Rim more than Europe. This is the kind of data every U.S. agency dealing with foreign policy ought to have at its fingertips, every year, for every country.²⁴⁵

"Less than a decade ago, the general attitude of the rest of the world was, 'What can the United States do for us?' The message today is that we have to do it together. Today, the United States is acting as a partner and engaging in dialogue rather than carrying on a one-way conversation ... [restoring trust] requires listening to what people are saying and treating the rest of the world with respect."
– Dr. Joseph Duffey,
Former Director,
U.S. Information Agency

The President should support a broad and forward-leaning vision for global engagement by creating a Foundation for International Understanding, which would bring a new agility as we work to communicate effectively in an increasingly dynamic international community.

As part of this long-term effort, the government must collaborate with and support private institutions that can facilitate and expand global engagement. To achieve these goals, the SAFI project proposes that the federal government support the launch and continued operation of an independent Foundation for International Understanding (FIU). This grant-making entity would support the use of media productions and interactive digital technologies to promote mutual understanding and engagement across borders, cultures, and religions.



The FIU, on which CSPC and Meridian International Center have collaborated, could be a key conduit for repositioning the United States around the world and creating an organic, interactive, and flexible communications infrastructure. The FIU can take advantage of the emerging global media market—characterized by audience expansion, media diversification, and growing demand for content (especially locally produced content). The FIU would focus on supporting the full range of media and interactive tools, people-to-people collaboration, and people-to-people interactive media, while remaining flexible and responsive to new opportunities and challenges.

As a public-private partnership, the FIU could use a combination of public and private funding to marshal talent and innovation from media providers, content developers, and social entrepreneurs around the world. The FIU can also be a resource multiplier, using matching grants and co-funding partnerships to leverage financial participation from corporations, foundations, and other donors worldwide.

MAKING THE UNITED STATES MORE AGILE AROUND THE GLOBE

Currently, instead of identifying strategically important areas and developing a coordinated approach between the appropriate governmental agencies to shape events and build relationships in advance of crises, we react to incidents, which is a much costlier way of affecting events. We believe our government should become both more effective and more efficient in engaging the world.

The military has taken the lead in attempting to identify ways to have “whole of government” representation. Regional commands such as the U.S. Southern Command, or SOUTHCOM, whose mission is inherently interagency, have incorporated interagency cells directly into their military headquarters. The Department of Defense has gone even further with respect to Africa, an area of increasing concern because terrorism migrates to locales where the state either lacks effective sovereignty or chooses not to exercise it. African states, however, do not share our preoccupation with terrorism, believing that greater threats to them include ravaging of the labor force by disease, corruption of state-owned extraction industries, drought, and decline in food security. These problems require cross-boundary, routine involvement of U.S. government agencies if we are to help build partnerships and governmental capacity for these countries.

We should begin the process of creating integrated regional teams, by establishing interagency teams in all geographic headquarters and setting up an interagency post-conflict lessons learned process.

We recommend building on the U.S. African Command, or AFRICOM, model in other regions, even regions with long-established relationships with the United States, such as Europe and South Asia. Constructing regional action teams with participation from federal organizations, including the Departments of State, Agriculture, and Treasury, as well as agencies such as USAID, will give us an enhanced ability to develop integrated policies and much better coordination of policy execution. This should be undertaken immediately, with a goal of completion within a year.



AFRICOM was established by removing responsibility for the region from U.S. European Command, giving focus to the interests and problems of African states. From its inception, the headquarters had a military commander with a diplomatic deputy and a staff composed of representatives from agencies with expertise in specific issue areas. While the AFRICOM example has not been without difficulties, the experiment is a significant step forward for integrating U.S. government activity.

Post-conflict initiatives are an area of policy formulation and execution that would particularly gain from an inherent, sustainable, and organic effort of this type. The lessons we have learned from wars in Iraq and Afghanistan, particularly with regard to the need for interagency cooperation—and the cost of not achieving it—provide a starting point for developing these teams. The military uses a lessons learned process to evaluate its performance. We recommend a similar interagency process be developed and routinely used. This should be undertaken within a year.

Strong oversight by the National Security Council can ensure that departments have the latitude for autonomy, provided their activities are in support of the national security strategy. Regional activities are a supplement to rather than a substitute for the state focus of diplomatic activity. Military commanders need not be the leader, as U.S. interests in some regions may argue for an integrated politico-military team (as has been effectively utilized in Iraq) or a more fluid “supported and supporting” relationship of the kind unified and specified commanders have within military chains of command. Finally, cultural differences are manageable when respect for unique contributions is fostered. At the end of the day, integrated teams stand a greater chance of being knowledgeable about the region and able to respond to new challenges and opportunities as they arise.

BOTTOM LINE

America must develop a long-term strategy that will enable the strengthening of our geopolitical position over the course of the next decade. Simultaneously, the immediate challenges in Iraq and Afghanistan must be dealt with in a sustainable manner that prevents instability in either country from threatening the long-term geopolitical interests of the United States. Therefore, it is essential that the United States create a unified National Security Strategy and Budget that will allow America to bring to bear its military, diplomatic, development, and all other instruments of national power to engage more effectively in the international arena.



CONCLUSION: CHOOSING PROSPERITY

Over the past eighteen months, more than 200 experts from around the country have come together to participate in the Strengthening America's Future Initiative. These experts have all participated in the project without compensation because they share a sense of urgency prompted by the challenges confronting the nation in the coming decade. For the first time in America's history, the next generation faces the prospect of a lower standard of living, lower level of education, and lower level of health than the preceding generation.

The two "climbs" described in this report are complimentary. The government will not be able to sustain the investments in education, health, and technology necessary for a prosperous future for America if we do not first emerge from the immediate economic crisis and right our fiscal footing. Likewise, there is no point in mounting an economic recovery only to allow all of the investments that would provide for sustainable economic growth and quality of life to lapse. We need to find a way to balance meeting short-term needs like job creation with long-term needs like sustainable economic growth and job preservation. With limited resources, the key to making all of this work is being able to prioritize. As former Federal Reserve Board Chairman Alan Greenspan recently testified before Congress, very little of the legislation considered by Congress is wasteful on its face.²⁴⁶ It's just that in the context of the government's limited funds, tough choices need to be made about what we can afford as a nation.

And so we need to develop a guiding national vision and begin to implement an accompanying strategy that helps our country adapt to a complex and dynamic global environment, while also working to proactively shape the direction in which that very environment is moving. Doing so will require restructuring the way our government is organized.

FISCAL RESPONSIBILITY AND ECONOMIC STRENGTH: Few people want to hear about fiscal responsibility when it threatens funding for their priorities or districts. However, there must be an overall understanding that fiscal responsibility is central to ensuring the *sustainability* of support for all government initiatives. Without such sustainability, battling for maximum funding in the near term is shortsighted, as it jeopardizes future funding. This same principle applies to taxes, as spending and taxes are opposite sides of the same coin. Fighting for maximum preferential tax treatment in the near term can increase government indebtedness and interest payments on that debt, as well as require large tax increases down the road. Therefore, while the benefits will not be immediately realized, it is important for those who support expanded government programs and those who champion lower taxes to base their near-term demands on their sustainability.

We must also recognize that all of our power and influence, including our military might, flow from the health of our economy. We need to make sure that as many of our people as possible have good jobs, not only because it is the moral thing to do, but also because if we do not right our economic course, it will be much more difficult to right our fiscal course. These crises can feed off each other and make things worse at an increasing pace. Conversely, they can just as powerfully improve each other. More jobs mean more revenue, which means less debt, which enables the government to make more targeted investments in the economy, fueling job creation.



SMART INVESTMENTS: Even within a new paradigm of fiscal responsibility, some investments in our nation cannot be deferred. Just as a struggling company cutting back on marketing and R&D would only precipitate its demise, the United States needs to sustain or, in some cases, increase funding in key areas needed for long-term growth, quality of life, and national power. Abraham Lincoln's creation of the National Academies made a vital investment in science and innovation during the nation's greatest security crisis in its history. Franklin Roosevelt's establishment of the G.I. Bill during World War II made a critical investment in the minds and skills of soldiers returning home, and it laid the foundation for relative economic prosperity for more than twenty years. Finally, Dwight Eisenhower's National Interstate and Defense Highways Act of 1956 served to enhance national security at a time when nuclear war seemed to be a reasonable fear, and it also spurred the economy by vastly increasing the ease of commerce across the country.

President Obama and the 111th Congress have an opportunity to focus federal spending toward these kinds of investments in the American people and in the environment, resources, and infrastructure that allow them to live their lives in a secure and prosperous way. Investments such as the ones described in this report support multiple national priorities, including job creation and economic growth.

SUSTAINING AMERICA'S STANDING AND POWER: The United States has been and can be a force of remarkable good and a facilitator of peace and stability worldwide. To maintain this role, the actions our nation takes must improve and must be perceived to improve the security, freedom, and standard of living of people all over the world. Achieving this will require the United States to align all of our instruments of national power in a cohesive strategy and budgeting process to ensure the best use of resources and consistency of both message and action. We need to also effectively communicate our intentions and their rationales to the world, not only through our government but also by using technology to connect our people with global populations. Finally, we need to ensure that the message we carefully craft and communicate to allies and adversaries matches our actions around the world.

CALL TO ACTION: A lot of tough choices are on the table. The test of a nation's greatness is illustrated through its capacity to readjust, reposition, and grow to meet new circumstances. As President-elect Obama stated in his address on election night, "In this country, we rise or fall as one nation, as one people. Let us resist the temptation to fall back on the same partisanship and pettiness and immaturity that have poisoned our politics for so long."²⁴⁷ As a nation, we must follow the President's lead and answer his call to action—or watch as our nation progresses down its current unsustainable path and continues to endanger the opportunities available to future generations. We can rise to this challenge.



APPENDIX A: STEERING COMMITTEE BIOGRAPHIES

PROJECT CONVENER

THE HONORABLE DR. DAVID ABSHIRE is the President and CEO of the Center for the Study of the Presidency and Congress; President of the Richard Lounsbery Foundation, a grant-making organization focused on the fields of science and education; and Vice Chairman of the Board of the Center for Strategic and International Studies, which he co-founded with Admiral Arleigh Burke in 1962. Dr. Abshire served as Assistant Secretary of State for Congressional Relations from 1970-1973, before becoming the first chairman of the Board for International Broadcasting, and in 1980 served at the request of President-elect Reagan as the head of the National Security Group, which included the State and Defense Departments, the U.S. Information Agency, and the Central Intelligence Agency. Dr. Abshire was the U.S. Ambassador to NATO in 1983-1987, before he was called back to the U.S. to serve on President Reagan's Cabinet to help restore confidence in the Presidency during the Iran-Contra crisis. In addition to being one of four co-conveners of the 2006 Congressionally-mandated Baker-Hamilton Iraq Study Group, Dr. Abshire was a director of Proctor & Gamble and now serves on the board of the George C. Marshall Foundation and is the Vice-Chairman of the Council of American Ambassadors board.

PROJECT CO-CHAIRS

THE HONORABLE NORMAN AUGUSTINE has held positions in government, industry, academia, and the nonprofit sector. Augustine has served as Undersecretary and acting Secretary of the Army, chairman and CEO of Martin Marietta Corporation and later chairman and CEO of Lockheed Martin Corporation, and professor at Princeton University. He has been chairman of the National Academy of Engineering, the Defense Science Board, the American Red Cross, and the Aerospace Industries Association, served as president of the Boy Scouts of America and was a 16-year member of the President's Council of Advisors on Science and Technology. He is a Regent of the University System of Maryland, a former trustee of MIT and Princeton University, a trustee emeritus of Johns Hopkins and holds 23 honorary degrees. His honors include the National Medal of Technology and the Vannevar Bush Award, and he is a five-time recipient of the Defense Department's Distinguished Service Medal. Born in Colorado in 1935, he graduated magna cum laude from Princeton University, where he earned bachelors and masters degrees in aeronautical engineering.

THE HONORABLE ROY ROMER, a Senior Advisor at the College Board, was formerly the Chairman of Strong American Schools. From 2000 to 2007, he was Superintendent of Schools for the Los Angeles Unified School District, where he focused resources on improving instruction and constructing new schools and advocated for ambitious literacy and math curriculum and teacher training. Romer was Governor of Colorado for three terms, from 1986 to 1998, becoming the nation's senior Democratic governor, and was the general chairman of the Democratic National Committee from 1997 to 2000. He was chairman of the nation's 50 governors in 1993. He served as chair of the Educational Commission of the States and the National Education Goals Panel, was a legal officer in the U.S. Air Force and practiced law in Colorado.



THE HONORABLE DAVID WALKER is the current President and CEO of the Peter G. Peterson Foundation. He has over 36 years of public, private and not-for-profit sector experience in a variety of executive leadership positions. Mr. Walker received Presidential appointments from Presidents Reagan, Bush (41), and Clinton, and was confirmed unanimously by the Senate each time. His most recent appointment was as Comptroller General of the United States and head of the U.S. Government Accountability Office (GAO) from 1998-2008. Most recently, Mr. Walker published the book *Comeback America: Turning the Country around and Restoring Fiscal Responsibility*.

PROJECT MEMBERS

THE HONORABLE C. FRED BERGSTEN has been Director of the Peterson Institute for International Economics, which was recently noted “Top think Tank in the World” in the first comprehensive survey of over 5000 such institutions, since its creation in 1981. He has been the most widely quoted think-tank economist in the world during 1997-2005 and has been called “one of the ten people who can change your life” by *USA Today*. He is the author, coauthor, or editor of 40 books on a wide range of international economic issues. Dr. Bergsten was assistant Secretary for international affairs of the US Treasury (1977-81) and Assistant for International Economic Affairs to Dr. Henry Kissinger at the National Security Council (1969-71). He was chairman of the Competitiveness Policy Council from 1991 to 1995 and Chairman of the APEC Eminent Persons Group from 1993 to 1995.

THE HONORABLE WILLIAM BROCK, following his service in the U.S. Congress, joined President Reagan’s Cabinet as the United States Trade Representative in 1981, and in 1985 he was named Secretary of Labor where he initiated the landmark study of workforce and workplace demographic trends entitled *Workforce 2000*. Senator Brock has devoted himself to the cause of major education reform and life-long human development, leading initiatives in both the private and public sector, including the National Commission on the Skills of the American Workforce and its widely heralded report, *America’s Choice: High Skills or Low Wages*, and the Secretary’s Commission on Achieving Necessary Skills (SCANS), whose report and recommendations set a new course for elementary and secondary education. He went on to chair the Wingspread Group and its report, *An American Imperative: Higher Expectations for Higher Education*, proposing that higher education raise its sights, place more emphasis on students and on values, and commit anew to improving elementary and secondary education, and subsequently received the National Academy of Human Resources’ highest tribute and recognition for “outstanding life achievement in advancing human development. Presently he is actively working to implement the nationally recognized major education reform report, *Tough Choices, or Tough Times*, which has been endorsed by the National Education Association, the Business Round Table, the US Chamber, and the National Association of Manufacturers.

DR. WILLIAM BRODY, President of the Salk Institute for Biological Studies, is an acclaimed physician, scientist, and former president of The Johns Hopkins University. In addition to his past service as the provost of the Academic Health Center at the University of Minnesota and as the CEO of Resonex Inc, Dr. Brody has held a variety of prestigious positions including roles on



the President's Foreign Intelligence Advisory Board and the FBI's National Security Higher Education Advisory Board. Dr. Brody is the co-founder of three medical device companies, has over 100 publications, and holds two U.S. patents in the field of medical imaging. Dr. Brody is a member of the Institute of Medicine and the National Academy of Engineering, and a fellow of the Institute of Electrical and Electronic Engineers, the American College of Radiology, the American College of Cardiology, the American Heart Association, the International Society of Magnetic Resonance in Medicine, the American Institute of Biomedical Engineering, and the American Academy of Arts and Sciences. He and his wife, Wendy, have two grown children.

GENERAL MICHAEL CARNS, USAF (RET.) is a graduate of the USAF Academy, Harvard Business School and the Royal College of Defence Studies (UK). His military profession was fighter pilot, flying 200 combat missions in Vietnam, earning the Silver Star, the nation's third highest combat decoration. His senior appointments included: Deputy Commander in Chief, Pacific; Director of the Joint Staff, Joint Chiefs of Staff, during the Desert Storm period; and Vice Chief of Staff, USAF, during the Bush and Clinton Administrations. In retirement, he remains engaged in public service, serving on the Defense Science Board, NSA Advisory Board, and many other governmental commissions, panels and studies.

THE HONORABLE CHUCK HAGEL a former U.S. Senator from Nebraska, was a senior member of the Senate Banking, Housing and Urban Affairs Committee. He Chaired the Foreign Relations International Economic Policy, Export and Trade Promotion Subcommittee; and the Banking Committees International Trade and Finance; and Securities Subcommittees.

THE HONORABLE LEE HAMILTON, president and director of the Woodrow Wilson International Center for Scholars, and director of The Center on Congress at Indiana University. Hamilton served for 34 years in Congress representing Indiana's ninth district, from January 1965 - to January 1999. Since leaving the House, Hamilton has served on the United States Commission on National Security in the 21st Century (the Hart-Rudman Commission), and was co-chair of the Baker-Hamilton Commission to Investigate Certain Security Issues at Los Alamos. Mr. Hamilton served as Vice-Chair of the National Commission on Terrorist Attacks Upon the United States (the 9/11 Commission), and as co-chair of the Iraq Study Group. He is Co-Chair of the National Security Preparedness Group with Tom Kean, Co-Chair of the National Advisory Committee to the Campaign for the Civic Mission of Schools with Justice Sandra Day O'Connor, co-chair of the Department of Energy Blue Ribbon Commission on America's Nuclear Future with Brent Scowcroft, and serves on the President's Intelligence Advisory Board, the FBI Director's Advisory Board, the US Department of Homeland Security Task Force on Preventing the Entry of Weapons of Mass Effect on American Soil, and the CIA External Advisory Board. Hamilton is the author of *A Creative Tension - The Foreign Policy Roles of the President and Congress*; *How Congress Works and Why You Should Care*; *Strengthening Congress*; and co-author of *Without Precedent: the Inside Story of the 9/11 Commission and The Iraq Study Group Report*.

THE HONORABLE CARLA HILLS is Chairman and Chief Executive Officer of Hills & Company, International Consultants, which advises companies on global trade and investment issues. Ambassador Hills served as U.S. Trade Representative (1989-93), in the first Bush Administration, Secretary of the U.S. Department of Housing and Urban Development and



Assistant Attorney General, Civil Division, U.S. Department of Justice in the Ford Administration. She currently serves on the International Boards of J.P. Morgan Chase, Rolls Royce, and the Coca-Cola Company and is a member of the Board of Gilead Sciences. She also serves as Co-Chair of the Council on Foreign Relations; Chair of the National Committee on US-China Relations and of the Inter-American Dialogue; member of the Executive Committee of the Peterson Institute for International Economics and of the Trilateral Commission, and Co-Chair of the International Advisory Board of the Center for Strategic and International Studies.

ADMIRAL JAMES LOY, USCG (RET.) is a Senior Counselor at The Cohen Group, an international advisory firm that provides global business consulting services and advice on tactical and strategic opportunities in virtually every market. In 2005, he completed a 45-year career in public service retiring as Deputy Secretary of Homeland Security; he was also the first administrator of Transportation Security Administration (TSA). Admiral Loy retired from the U.S. Coast Guard in 2002, having served as its Commandant since May 1998. Admiral Loy is a native of Altoona, Pennsylvania.

GENERAL BARRY MCCAFFREY, USA (RET.) is currently President of his consulting firm, BR McCaffrey Associates, LLC. He also serves as a national security and terrorism analyst for NBC News and is an Adjunct Professor of International Affairs at the United States Military Academy at West Point, NY. Prior to his recent tenure as Director of the White House Office of National Drug Control Policy (ONDCP) during the Clinton administration, General McCaffrey served as the Commander-in-Chief of the U.S. Armed Forces Southern Command coordinating national security operations in Latin America. General McCaffrey was the most highly decorated four-star general in the U.S. Army at the time of his retirement after a distinguished military career, and has since been honored with a number of civilian awards and recognitions including two Distinguished Service Cross medals, the nation's second highest medal for valor, and three Purple Heart medals. General McCaffrey is highly active in national security affairs, and serves on several boards and councils. In October 2004, General McCaffrey was elected by the Board of Directors of HNTB Corporation where he also serves as the chairman for the company's federal business unit.

THE HONORABLE EDWIN MEESE is the Ronald Reagan Distinguished Fellow and Chairman of the Center for Legal & Judicial Studies at The Heritage Foundation in Washington, DC. He is also a Distinguished Visiting Fellow at the Hoover Institution at Stanford University in California. He served as the 75th Attorney General of the United States from 1985-1988. He also served as Counselor to President Ronald Reagan from 1981-1985.

THE HONORABLE NEWTON MINOW, former Chairman of the Federal Communications Commission under the Kennedy Administration, is currently Senior Counsel to the law firm of Sidley Austin LLP. In addition to a notable legal career in the private sector, Mr. Minow has also served as a law clerk to Chief Justice Fred M. Vinson of the U.S. Supreme Court and as Assistant Counsel to Governor Adlai E. Stevenson. Mr. Minow is the author of 5 books and numerous articles and has held a number of director, chairman, and trustee positions. Mr. Minow and his wife, Josephine (Jo) live in Chicago and have three daughters.



THE HONORABLE SAM NUNN is Co-Chairman and Chief Executive Officer of the Nuclear Threat Initiative and is retired from the King & Spalding law firm. He served as a United States Senator from Georgia for twenty-four years after two terms as a member of the Georgia House of Representatives. Prior to his entry into politics, Senator Nunn served in the U.S. Coast Guard and U.S. Coast Guard Reserve. Senator Nunn has continued his public service as a distinguished professor in the Sam Nunn School of International Affairs at Georgia Tech and as Chairman of the Board of the Center for Strategic and International Studies in Washington, DC.

THE HONORABLE THOMAS PICKERING retired from the State Department in 2000 as Under Secretary of State for Political Affairs. In a diplomatic career with service in each of the major continents, Ambassador Pickering also served as U.S. Ambassador to the Russian Federation, India, Israel, El Salvador, Nigeria, and Jordan. He also was the U.S. Ambassador and Representative to the United Nations in New York, and has held additional positions in Tanzania, Geneva, and Washington, including as Under Secretary of State for Political Affairs, Assistant Secretary of State for the Bureau of Oceans, Environmental and Scientific Affairs and as Executive Secretary of the Department and Special Assistant to Secretaries of State William P. Rogers and Henry A. Kissinger. After retiring from the State Department, Ambassador Pickering joined The Boeing Company as Senior Vice President of International Relations, and is currently Vice-Chairman of Hills & Company International Consultants while also serving on several not-for-profit boards.

ADMIRAL JOSEPH PRUEHER, USN (RET.) is the James R. Schlesinger Distinguished Professor at the Miller Center of the University of Virginia, as well as Senior Advisor to the Stanford-Harvard Preventive Defense Project, working on dialogue for US-China security matters. Prior to his foreign service as the U.S. Ambassador to the People's Republic of China for two years, Admiral Prueher served thirty-five years in the U.S. Navy, holding the positions of Commander-in-Chief of the U.S. Pacific Command (CINPAC); Commandant at the U.S. Naval Academy at Annapolis; Commander of the Carrier Battle Group ONE; Commander of the U.S. Mediterranean Sixth Fleet and of NATO Striking Forces in Italy; and Vice Chief of Naval Operations in the Pentagon. Foremost a carrier based attack pilot for his first 24 years of service and qualified in 52 types of aircraft, he also has extensive flight and combat experience, with over 5600 flight hours and over 1000 carrier landings. Admiral Prueher has received multiple military awards for combat flying and naval and Joint Service, and has been honored with induction into the highest military Orders of the governments of Singapore, Thailand, Japan, Korea, the Philippines, Indonesia, and Australia. In addition to co-authoring the Performance Testing manual used by naval test pilots for many years, he has published numerous articles on leadership, military readiness, and Pacific region security issues.

THE HONORABLE THOMAS RIDGE is president and CEO of the international consulting firm Ridge Global. He served as the nation's first Secretary of the U.S. Department of Homeland Security from January 2003 through January 2005, and as the Assistant to the President for Homeland Security from October 2001 through December 2002. Previously, he was Governor of the Commonwealth of Pennsylvania from 1995 through October 2001 and a member of the U.S. House of Representatives from 1983 through 1995. A Vietnam combat veteran, Secretary Ridge continues to work with organizations to assist our nation's veterans, serves as chairman of the National Organization on Disability and co-chairs the Flight 93 National Memorial.



THE HONORABLE RICHARD SOLOMON has been President of the United States Institute of Peace since 1993. Solomon has served as Assistant Secretary of State for East Asian and Pacific Affairs from 1989 to 1992; U.S. Ambassador to the Philippines; Director of Policy Planning at the State Department; and as a senior staff member on the National Security Council. Before his public service, Solomon served as head of the Social Science Department at the RAND Corporation and professor of political science at the University of Michigan. In 1995, he was awarded the State Department's Foreign Affairs Award for Public Service, and he has received awards for policy initiatives from the governments of Korea and Thailand, and the Cambodian community in the U.S. In 2005, he received the American Political Science Association's Hubert H. Humphrey career award for "notable public service by a political scientist."

THE HONORABLE DR. LOUIS SULLIVAN, former Secretary of Health and Human Services, is the founder, former dean and president emeritus of the prestigious Morehouse School of Medicine in Atlanta. Dr. Sullivan is also the founder of the Boston University Hematology Service at Boston City Hospital, and has enjoyed a distinguished career in education with a number of faculty positions in medical education and administration. As Secretary of Health and Human Services, Dr. Sullivan battled the tobacco industry and championed victims of HIV/AIDS. Dr. Sullivan has been honored by many diverse organizations, such as the Southern Christian Leadership Conference and the National Association of Minority Medical Educators, and is active in numerous other civic organizations, including the Boy Scouts of America.

THE HONORABLE TOGO WEST, JR. was Secretary of the Army, later Secretary of Veterans Affairs, and Chairman of the Board of Directors of the Panama Canal Commission in the Clinton Administration. In previous administrations he served as General Counsel of the Department of Defense, Special Assistant to the Secretary and Deputy Secretary of Defense, General Counsel of the Navy, and Associate Deputy Attorney General in the U.S. Department of Justice. Secretary West is a member of the Defense Health Board, was Co-chair of the Department of Defense's Independent Review Group of rehabilitative health care at Walter Reed Army Medical Center and the National Naval Medical Center, he recently co-chaired the Department of Defense Independent Review Related to Fort Hood, and has previously served as a member of the Defense Policy Board. He has been named a Distinguished Eagle Scout by the Boy Scouts of America; is currently Chairman of TLI Leadership Group, of Noblis, Inc., of the Advisory Committee to George Washington's Mount Vernon; and is a member of several corporate boards.

DR. DANIEL YERGIN is chairman of IHS Cambridge Energy Research Associates and executive vice president of IHS. He is the author of *The Prize: the Epic Quest for Oil, Money, and Power*, for which he received the Pulitzer Prize, and *Commanding Heights: the Battle for the World Economy*. He is writing a new book on the challenges of energy and geopolitics. Most recently, he was vice chair of the National Petroleum Council study, *Facing the Hard Truths about Energy*. He serves as CNBC's Global Energy Expert. He received his BA from Yale University, and his Ph.D. from Cambridge University, where he was a Marshall Scholar.



APPENDIX B: ISSUE TEAM MEMBERSHIP LIST

The views expressed in this report do not necessarily reflect the views of the members of the issue teams or their institutions. Members of issue teams and working groups were involved in their areas of expertise and did not necessarily write, review, or endorse the contents of the entire report.

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