
TO: PRESIDENT BARACK OBAMA
RE: GETTING AMERICA MOVING AGAIN

As you prepare for the State of the Union address, you are no doubt focused on the generational challenges that this nation faces.

A decade of war, self-inflicted economic wounds, and political deadlock has taken a toll on Americans' legendary optimism: only one in seven believe their children will have a better life than theirs; most erroneously think that China already has surpassed the United States as the world's leading economic power; and many fear that a looming deficit crisis will smother our economy in debt while putting us deeper in hock to foreign creditors.

Even if these worries are exaggerated, the underlying trends are real enough. Our country is slipping behind in global competition, as once-mighty U.S. banks and auto-makers falter, and others take the lead in emerging markets for clean energy and high speed rail. Our economy is not yet generating enough good jobs to drive unemployment down to normal levels or keep inequality from growing worse. Our government's debts are exploding, even as we need to invest more in modernizing our antiquated public infrastructure. Our schools are failing to prepare too many young Americans to meet the new standards for competitive success.

We have no doubt that the American people are ready to do their part. The question is whether U.S. political leaders are willing to do theirs. The hyper-partisanship on display these days in Washington is more than discouraging – it suggests a political class whose idea of problem-solving is to blame the other party for everything that's gone wrong.

Mr. President, you have a real opportunity here to rise above partisanship, and to rally a restive country behind the bold and difficult steps required to spark a national economic resurgence.

Your message should be simple: it's time to get America moving again. It's time to champion big ideas that can move us past the partisan deadlock, and towards a more prosperous future.

In this memo, the Progressive Policy Institute outlines 10 big ideas, grounded in a spirit of radical pragmatism, for rebuilding America's economic strength.

1. Removing Obstacles to Growth: A Regulatory Improvement Commission

Innovation is America's biggest comparative advantage in global competition and the best hope we have for driving sustainable job growth. As you recognized in this month's executive order, one source of inadvertent obstruction is the dead weight of accumulated regulations, which slows innovation and prevents the economy from reaching its full potential.

Your executive order was a positive step toward a healthier, more dynamic environment for innovation in the U.S., but we believe that goal requires a more direct and results-driven approach. We advocate a review process that looks broadly at the full patchwork of regulations and draws on many perspectives from outside government, rather than relying on the agencies themselves to look critically at their own regulations in isolation.

We propose a periodic review process conducted by a Regulatory Improvement Commission,

modeled loosely on the BRAC Commission for military base closures. This Commission would take a principled approach to evaluating and pruning existing regulations, solicit balanced input from all stakeholders (not just industry groups or agencies themselves), and do so in a manner that ensures we protect public health, safety, and the environment.

Once appointed, each Commission will have a limited time and budget to complete its work. After agreeing on a package of regulations to eliminate or simplify, the Commission will send it to Congress for a fast-track, up-or-down vote without amendments or filibusters. This bill would then require your signature for the changes to take effect.

If we are to maintain trust and confidence in our regulatory system, it's essential that we have a process by which the government can periodically be held accountable for its regulations by the people and businesses subject to them. This will ensure not only that our private-sector economy remains vibrant and healthy, but that our public sector does as well.

2. Internal National Building: A National Infrastructure Bank

After decades of wasteful spending that too often directed taxpayer dollars to Congressional pork projects while neglecting to invest in our most critical infrastructure, states and local governments are now confronting massive rebuilding challenges they can no longer avoid.

We need to think more strategically about prioritizing infrastructure projects that have significant national and regional benefits. And we need smart, innovative financing solutions that enable us to restore the backbone of our economy.

A well-structured National Infrastructure Bank can play this role by leveraging public dollars with the participation of private-sector investors, as we have seen in Europe and in several states here in America as well.

You should ask Congress to provide the start-up capital this year for a publicly-owned, independent Bank focused on lending for projects that produce real economic returns. This means the Bank could generate enough returns to pay for itself over time, and it won't require continued support from the federal budget every year.

It's a great deal for taxpayers, and for state and local governments who will benefit from lower borrowing costs for new projects. It's also a solid way to help create thousands of productive jobs and billions in new investments – involving private investors who can tap into the \$2 trillion in cash that corporations are now keeping on the sidelines. And it sends a clear signal that your administration has shifted away from short-term, sugar-high stimulus toward a longer-term economic strategy focused on investment for sustainable private-sector job growth.

3. A Way to Pay for High-Speed Rail

The most recent transportation reauthorization bill in Congress ended up in the same state as our transportation system itself: overextended, underfunded, and suffering from a prolonged lack of public attention. Given the country's pressing infrastructure needs and the economic benefits of modernizing transportation, it's time to make this bill a priority and to use it as an opportunity to reshape the administration's spending plans for high-speed rail (HSR).

Now is the time to prioritize the high-speed rail initiative by concentrating public resources on a small number of strategic, viable projects that already have participation from private investors, and to identify a stable, long-term source of funding for those projects.

We propose restructuring the Highway Trust Fund into a Surface Transportation Trust Fund that recaptures its original mission—to build and maintain an efficient national transportation network—and updates that mission to reflect 21st-century priorities, including upgrades to our passenger and freight rail systems. Instead of continuing to throw \$50 billion a year into our current pork-laden Trust Fund, we must create a

results-oriented transportation fund that can move viable HSR projects forward and provide seed money for public-private partnerships. Congress could easily allot \$5 billion a year for HSR construction—without an increase in the gas tax—by cutting out earmarks and formula-based grants that now soak up billions of dollars. While this amount would not be enough to fund an ambitious, full-scale national HSR system, it would go a long way toward making smart projects a reality in the Northeast Corridor, Florida, and California.

4. Restoring Fiscal Discipline in Washington

The national debt is on course to reach 90 percent of GDP by the end of the decade. This is economically and politically unsustainable. Restoring fiscal discipline in Washington is integral to America's economic comeback.

Some urge you to give priority to economic growth over deficit reduction. We are glad you have rejected this false choice. Fiscal restraint is a crucial ingredient of a new growth strategy. It will yield a bigger U.S. economy, as Americans divert less of their savings from interest payments to productive investment. It will boost investor confidence in the essential soundness of the U.S. economy. And it will safeguard America's economic sovereignty by reducing our reliance on foreign lenders.

If restoring fiscal discipline is sound economics, it's also sound ethics. This is particularly true of the independent and moderate voters progressives need to reach. To them, big deficits stand as a symbol of an insular and irresponsible political class that mispends the people's money to entrench itself in power.

For all these reasons, we urge you to include in your State of the Union Address a credible plan for long-term deficit reduction. Following the general contours of your Fiscal Commission's proposals, such a plan should include these key steps:

- Radically prune tax expenditures, which are nothing more than backdoor spending through the tax code. These subsidies, totaling over \$1.1 trillion a year, are popular,

but many of them are outdated, inefficient, or regressive. Scaling them back would allow us to narrow budget deficits and lower individual and corporate tax rates.

- Restore budget discipline by capping domestic spending, including for defense, and adhering to strict PAYGO rules that demand offsets for all new spending or tax cuts. These measures would take effect next year, and can be adjusted if economic demand remains weak and unemployment high.
- In addition to the cuts Defense Secretary Gates has proposed, the Pentagon can contribute to restoring the fiscal stability by eliminating supplemental spending bills, which have been used to evade normal budget controls. Combining future appropriations into one defense budget per year would effectively represent a hard cap on cost growth and force appropriators to make hard choices that prioritize battlefield needs.
- Slow mandatory spending. The unsustainable growth of public health and retirement costs is driving America's long-term fiscal dilemmas. We believe the progressive way to get automatic entitlement spending under control is to trim benefits for affluent future retirees, rather than raises taxes on working families. PPI also proposes a health care budget which would oblige Congress to periodically reconcile spending and revenue for public health programs.

5. Setting National Targets: A Balanced Energy Portfolio

After the failure by Congress to pass comprehensive energy and climate legislation last year, U.S. energy policy has been left adrift, with no clear direction or vision for how we are going to meet our growing energy needs. As a starting point for defining that vision, the country needs some idea of what our target should be for an energy mix that will best serve our nation's interests over the next three decades. Such a framework will guide specific trade-

offs and policy choices, and allow us to mark progress on the way to a clean energy economy.

Specifically, PPI proposes a national Balanced Energy Portfolio with a target fuel mix allocated into thirds by 2040: one third of our electricity generated by renewable resources, one third by nuclear power, and one third from traditional fossil fuels. This approach recognizes that while our use of clean energy must be dramatically increased, the promise of renewable energy technologies has not yet reached the potential for wholesale replacement of other energy sources in the next 30 years. So for now we must focus on managing our current resources and technologies to move us closer to ensuring both sustainable economic growth and responsible environmental stewardship.

By setting these realistic goalposts with a Balanced Energy Portfolio, we can have an honest debate about our energy future and focus on the specific policies necessary to make this vision a reality. This approach complements but does not replace other proposals such as carbon pricing or adoption of Clean Energy Standards, which set minimum thresholds for states and utilities to use low-carbon generation sources like wind, solar, nuclear, clean-coal technology, along with credits for efficiency measures and new natural gas resources used to replace aging coal plants. And since any realistic plan to reduce greenhouse emissions during this period must include strong support for nuclear power, we call on Congress and the administration to speed the review of applications for new reactors and resolve inter-agency disputes and funding uncertainties for nuclear loan guarantees.

6. Greening the Pentagon: An Energy Security Innovation Fund

Necessity is the mother of invention, and our armed forces have made it clear that the need for energy innovation has become a critical national security priority. The military is already “greening” because it can’t afford to rely exclusively on fossil fuels, whose transportation to the war zone is long, dangerous and expensive. This past year, for example, the US Navy flew an F-18A Super Hornet on nothing but domestically-

produced biofuels. But there’s a real problem for other worthy green fuel products—they often lack the capital necessary to get from the test-lab to the battlefield, and maybe beyond.

We need an Energy Security Innovation Fund, housed in the Pentagon, to help companies bridge the gap. Such a fund would leverage public dollars with private money to support research and deployment of the most promising green products. The most successful could be transferred to the public market, just like radar, GPS, and the Internet, all of which began life as military products. This would follow the lead of CIA’s In-Q-Tel, program, which began in 1999 to help small companies develop technologies for the intelligence community. For a relatively paltry \$50 million a year, In-Q-Tel has spawned \$1.4 billion in innovative products for the CIA.

7. Bringing Public Education into the 21st Century

We are strong supporters of your school reform agenda, which incorporates many innovations PPI has long championed: public charter schools, early learning, performance pay for teachers, and a commitment that the federal government stop funding failure and instead demand real accountability for results. Nonetheless, we urge you to take even bolder steps to speed the pace of school innovation and improvement. Our country cannot be satisfied with the persistence of large achievement gaps between white and minority students, or our students’ mediocre performance on international tests.

America’s standard school model—whose roots lie in the late 19th century—is obsolete. We need to replace it with a 21st century school system organized around two principles: high, common standards benchmarked to those of our fiercest competitors; and individualized learning enabled by digital media and online-instruction. Here are several ways your administration could accelerate the radical innovations we need to transform, not just reform, our public schools:

- Encourage exponential growth of high-performing charter schools, to expand

high quality options for disadvantaged youth. We urge you to endorse Rep. Jared Polis’s “All Star” proposal, which would offer competitive grants to states that want to scale up proven charter management organizations. Your administration also could fund pilot projects in the states that enhance funding for the best charters, giving them the means to expand and grow.

- End tenure as we know it. Your Race to the Top initiative gives states incentives to link teacher pay to classroom performance, and to include student growth as a factor in teacher evaluations. It’s time to go a step further and reward efforts to abolish the old tenure system. It shields incompetent teachers from accountability, discourages talented people from entering the profession, and keeps teachers from achieving the professional status they deserve.
- Spur a national network of Innovation Zones. Last year, New York City created the first such zone to produce at least 100 schools based on dramatically new approaches to instruction. Many are experimenting with new school designs that use cutting edge technology to customize instruction for different learning styles. Your administration should give other states or localities incentives to push the envelop of innovation in public schools.
- Create a Digital Teacher Corps. Efforts to use digital tools and social media to develop new and more individualized approaches to learning are in their infancy. A key reason is that education training programs don’t teach teachers how to use them. We commend an idea from the Joan Ganz Cooney Center at Sesame Studios: establish a national Digital Teachers Corps to train teachers in the use of digital tools to customize student learning.

8. Lifting Housing Markets: One Million Homeowner Vouchers

Many economists believe that a sluggish housing sector continues to hold back our economic

recovery. So far, federal initiatives to shore up the housing sector, costing tens of billions of dollars, have been ineffective and ill-targeted.

An innovative way to jump-start the housing market would be for the federal government to provide a million vouchers that allow low-income renters to become homeowners. We should also allow some of the two million holders of rental vouchers to convert them into homeownership vouchers.

Because the plan would substantially increase the demand for owner-occupied dwellings, inventories of unsold homes would decline and prices would rise in many markets. The net costs of the initiative (about \$2.5 billion, according to Urban Institute economist Robert Lerman) would be less than funding an equivalent number of rental vouchers at current levels, since the carrying costs are substantially lower than the fair market rent in most areas.

The homeownership voucher proposal would speed up demand for owner-occupied housing, while reducing the housing burdens on a large number of low-income families.

9. Align Innovation and Immigration

America’s ability to compete for high-wage jobs in a fiercely competitive world increasingly depends on a high-skilled workforce capable of ceaseless innovation. We particularly need more workers with high-order technical skills, or what we call “knowledge capital”. While comprehensive immigration reform may be a bridge too far in 2011, less sweeping changes can help the United States fill its need. Specifically, we urge two reforms:

- First, we need to make it easier for foreign students who receive advanced degrees from U.S. institutions in science, technology, engineering and math (STEM) to stay in the U.S. and join the workforce. Our current immigration system makes it unnecessarily difficult for STEM advanced-degree graduates who are here legally to gain employment.

Those students have to compete with foreign-educated and more experienced workers for only 65,000 and 80,000 priority worker and advanced-degree green cards issued every year. By stapling a green card—granting lawful permanent residence—to every foreign student’s post-graduate STEM degree diploma, we can encourage capable young immigrants to establish U.S. citizenship and contribute their skills to our knowledge economy.

- Second, we should offer an expedited pathway to citizenship for the children of illegal immigrants who go to college or engage in meaningful national service. Every year up to 65,000 undocumented children graduate high school. While it’s not illegal for them to attend college, universities and colleges have given new scrutiny to immigration status in the wake of 9/11, which has had a chilling effect on undocumented immigrants’ enrollment. We salute you for fighting last year to pass the DREAM Act. We hope you will propose similar legislation this year to grant conditional permanent-resident status to undocumented immigrants who entered the U.S. before their 16th birthday, lived here for at least five years, are of good moral character, and either graduated from high school or attained admission to college.

10. Taking Power from Special Interests: A Fair Way to Finance Elections

A major obstacle to enacting any of the progressive reforms offered here is our current state of political paralysis. Instead of a search for common ground upon which reasonable compromises can be forged, politics has degenerated into a zero-sum shouting match in which each side attempts not just to defeat their opponents, but to delegitimize them.

On both sides, ideologues lay down gauntlets of purity tests that few moderates can survive, and special interests threaten scorched-earth responses should they not get their favored outcomes. This means that while calls for political civility, compromise, and tolerance are

important, we must also tackle the structural roots of our dysfunctional national politics. As long as congressional campaigns are privately funded, and as long as the big donations come primarily from ideologues and special interests, pragmatic candidates are going to have a tough time raising the resources they need to get started, and a difficult time winning in all-important low-turnout primaries.

Like you, Mr. President, we support a hybrid Fair Elections system introduced by Sen. Dick Durbin (D-Ill.) to allow federal candidates to choose to run for office without relying on large contributions by using federal money to match small donations. Such a funding system has already been proven successful in seven states and more than a dozen cities. We urge you to give this reform the presidential push it needs.

The Bottom line

Last year’s elections showed once again that voters are deeply frustrated by the failure of either party to rise above partisanship and put their country’s interests first. That’s why many independent and moderate voters have restlessly switched back and forth between the parties. They keep searching for some political configuration that will break the partisan impasse in Washington, reverse our economic slide, and keep the American dream alive for their children.

This hunger for purposeful action creates a fresh opportunity for you to govern in a post-partisan way that taps into the great can-do spirit of American pragmatism. More than anything else, Americans need an economic success story we can believe in. We believe these ideas are part of that story.

About the Progressive Policy Institute

The Progressive Policy Institute (PPI) is an independent research institution that seeks to define and promote a new progressive politics in the 21st century. Through policy analysis and dialogue, PPI challenges the status quo and advocates for radical policy solutions.

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