

JUMPSTARTING THE ECONOMY AND INVESTING FOR THE FUTURE

There are no quick and easy fixes to the recession plaguing our economy. This crisis has been many years in the making, and it is likely to get worse before it gets better. There is no doubt that our Nation has the creativity, capability, and industriousness to lift ourselves out of this downturn and begin the process of transforming our economy for the 21st Century. As we do this, we need to remember that throughout our history, the United States has grown and prospered when all Americans have shared in the opportunities created by our economy. While our economy has made the transition from an agrarian economy to an industrial one and on to an information-age economy, this essential truth has not changed: America thrives when all our people have the chance to succeed.

The past eight years have discredited once and for all the philosophy of trickle-down economics—that tax breaks, income gains, and wealth creation among the wealthy eventually will work their way down to the middle class. In its place, we need economic opportunity to trickle up. We need policies that will strengthen the middle class and create the conditions to spur innovation and sustainable economic growth. Some may say that in this current environment this is aiming too high. Settling never has been the American way, and now is no time to lower our sights. While we have inherited unprecedented budget deficits and a weakened economy, now is precisely the time for the country to make the long overdue investments that will fundamentally transform our economy so that we can compete and thrive in the decades ahead. As we jumpstart our economy out of this recession, the American people expect and demand that their Government does so with unprecedented transparency and accountability so that they know

where their tax dollars are going and how these funds are being spent.

IMMEDIATE RELIEF AND ECONOMIC STIMULUS

As the year started, it became clear there was a wide and growing shortfall between what the economy could produce and what it was producing. If we kept on this course, economists predicted that the economy would shed millions of additional jobs, the unemployment rate could exceed 10 percent, and over the next two years, the country would lose roughly \$2 trillion in income. With traditional monetary policy levers largely exhausted, the Congress passed and the President signed into law the American Recovery and Reinvestment Act of 2009 (the “Recovery Act”), a nationwide effort to create jobs and transform our economy to compete in the 21st Century.

Because speed is of the essence when it comes to acting to save our economy and millions of jobs, approximately three-quarters of the funds in this package will be spent out over the next 18 months. Many of the long-term investments will stimulate the economy too as these elements of the package are simultaneously designed to spark economic growth, save or create 3 to 4 million jobs, and help families through these tough times. To provide immediate relief and get the economy moving again, the Administration will:

Make Permanent the \$800 “Making Work Pay” Tax Cut for Workers and Their Families. The Recovery Act created the Making Work Pay tax credit, a refundable income tax credit, which will offset the payroll tax on up to the first \$6,450 of earnings for about 95 percent of all American workers while still preserving the

important principle of a dedicated revenue source for Social Security. This helps small business owners struggling to meet expenses. And with families squeezed, this tax cut will put needed money in their pockets for them to make ends meet and cover the costs of necessities. This is the first-stage of a middle-class tax cut promised during the presidential campaign. The Budget will make Making Work Pay permanent.

Continue to Cut Taxes for the Families of Millions of Children Through an Expansion of the Child Tax Credit. By expanding the Child Tax Credit, the Recovery Act provided a new tax cut and increased the generosity of the existing credit to millions of children—fulfilling the promise that a family that works hard and plays by the rules will be able to raise their children above the poverty line. The Budget makes this tax cut permanent.

Increase Food Stamp Benefits for Over 30 Million Americans. Even in tough times, our Nation is a nation of plenty, and no one should have to go hungry. The Recovery Act will spend nearly \$20 billion to increase food stamp benefits for overstretched families, and provide additional support for food banks, school lunch programs, and the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) program.

Provide Nearly 60 Million Retired and Disabled Americans an Immediate \$250 Through Temporarily Increasing Benefits. These vulnerable populations are the first ones to feel an economic downturn. Through the Recovery Act, we will spend almost \$15 billion to provide nearly 60 million retired Americans and Americans with disabilities an immediate \$250 through temporarily increasing Social Security, Supplemental Security Income, and Veterans benefits.

Extend, Expand, and Reform Unemployment Insurance (UI) Benefits. With unemployment on the rise and those out of work going longer without new jobs, we have provided both a boost to our economy and to these workers' well-being by extending the Emergency Unem-

ployment Compensation program through December 2009, increasing weekly UI benefits by \$25, and providing financial incentives for States to modernize their UI systems to expand coverage. Beyond this year, the Administration will update the Nation's UI system to better address the challenges and realities of the 21st Century workforce. The Budget proposes changes to make the UI program a more responsive and effective social safety net and economic stabilizer. The Administration will propose to make the permanent Extended Benefit program more responsive to changing economic conditions, making benefits available more quickly and avoiding the delays associated with special, temporary extended unemployment programs. Finally, despite the efforts of States to reduce improper benefit payments, over \$3.9 billion in UI benefits were erroneously paid in 2008. The Administration will tackle this problem by increasing funding for program integrity and proposing legislative changes that would have the direct and indirect effect of reducing UI improper payments by \$3.9 billion and reducing employer tax evasion by almost \$300 million over 10 years.

Reform Asset Tests. The Administration would like to work with the Congress to revisit asset limits for Federal means-tested programs in the wake of new and expanded refundable tax credits. Current asset rules across a variety of programs are antiquated, inconsistent, and present obstacles for low-income individuals who aspire to achieve self-sufficiency. The intersection of the new credits and outdated asset rules may disqualify new and current individuals and families from Federal benefits, including Medicaid and Supplemental Nutrition Assistance Program (formerly Food Stamps).

CREATING JOBS AND INVESTING IN LONG-TERM ECONOMIC GROWTH

These tax and benefit provisions of the recovery plan will provide an immediate stimulative effect on the economy. The other part of the stimulus comes from expenditures on projects that will promote medium-term economic activ-

ity while also providing some lift to the economy in the near term—as homes are weatherized, and health records are digitized—to name just a few. In addition to immediate hiring and expansion as these projects begin, the American people will reap benefits from these investments for years to come because the economic benefits of modern infrastructure, world-class schools, investments in research and development, health care reform, and clean energy will be enjoyed by generations of Americans. The expenditures in many of these areas then serve a dual role: to revive the economy in the short term and to restore its health for the long term. Through ambitious investments in clean energy, health care, education and other key areas, the plan will address long-ignored national priorities and make a historic down payment on our Nation's economic future. The 2010 Budget will support, and in some cases extend as well as expand the down payments made in the Recovery Act.

Building a 21st Century Infrastructure

A century ago, Theodore Roosevelt called together leaders from business and government to develop a plan for a 20th Century infrastructure. More than 50 years ago, Republican Dwight Eisenhower and Democrat Al Gore, Sr. worked together to launch the Interstate Highway System. Today, however, too many of our Nation's railways, highways, bridges, airports, and neighborhood streets are aging and congested due to lack of investment and strategic long-term planning. In the short term, modernizing our infrastructure will create new jobs and provide a boost to the economy. In the longer term, infrastructure investment will provide our Nation a foundation for long-term economic growth. The Budget will:

Establish a National Infrastructure Bank. The Budget proposes to expand and enhance existing Federal infrastructure investments through a National Infrastructure Bank designed to deliver financial resources to priority infrastructure projects of significant national or regional economic benefit. The mission of this entity will be to not only provide direct Federal investment but also to help foster coordination through State, municipi-

pal, and private co-investment in our Nation's most challenging infrastructure needs. These projects will directly and indirectly support jobs and stimulate substantial long-term economic growth.

Invest in Our Nation's Roads, Bridges, and Mass Transit. The President is committed to instituting accountability for the \$35.9 billion provided in the Recovery Act and to responsibly reauthorizing the Nation's highway and mass transit programs. The Administration intends to work with the Congress to reform surface transportation programs both to put the system on a sustainable financing path and to make investments in a more sustainable future, enhancing transit options and making our economy more productive and our communities more livable. Further, our surface transportation system must generate the best investments to reduce congestion and improve safety. To do so, the Administration will emphasize the use of economic analysis and performance measurement in transportation planning. This will ensure that taxpayer dollars are better targeted and spent.

Initiate a New Federal Commitment to High-Speed Rail. To provide Americans a 21st Century transportation system, the Administration proposes a \$1 billion-a-year high-speed rail State grant program, in addition to the \$8 billion provided in the Recovery Act. This proposal marks a new Federal commitment to give the traveling public a practical and environmentally sustainable alternative to flying or driving. Directed by the States, this investment will lead to the creation of several high-speed rail corridors across the country linking regional population centers.

Improve and Modernize Air Traffic Control. Because of an outdated air-traffic control system and over-scheduling at airports already operating at full capacity, an ordinary trip to a business meeting or to visit family can become marred by long delays. The Budget provides \$800 million for the Next Generation Air Transportation System in the Federal Aviation Administration, a long-term effort to improve the efficiency,

safety, and capacity of the air traffic control system. The 2010 Budget supports moving from a ground-based radar surveillance system to a more accurate satellite-based surveillance system; development of more efficient routes through the airspace; and improvements in aviation weather information.

Maintain Rural Access to the Aviation System. The Administration is committed to maintaining small communities' access to the National Airspace System. The Budget provides a \$55 million increase over the 2009 level to fulfill current program requirements as demand for subsidized commercial air service increases. However, the program that delivers this subsidy is not efficiently designed. Through the budget process, the Administration intends to work with the Congress to develop a more sustainable program model that will fulfill its commitment while enhancing convenience for travelers and improving cost effectiveness.

Enhance Security at Over 90 Major Ports, to Improve Homeland Security, Increase International Trade and Commerce, and Create Jobs. This investment will help make our Nation's ports a vital and secure link to the global economy, not a vulnerable entry point for those who seek to harm us. The Administration is committed to improving the protection of our critical port infrastructure. The Budget continues to provide risk-based funding through the Port Security Grant Program and builds upon the over \$1.4 billion provided for port security grants over the past few years. These awards can be used by grantees to purchase a wide variety of security-enhancing investments including watercraft for increased patrolling of facilities, canine, bomb-sniffing units, and updating port vulnerability assessments. Additional funding will be used by Customs and Border Protection to purchase technology enhancements, such as non-intrusive inspection X-ray equipment and radiation portal monitors to detect nuclear materials.

Invest in Clean and Safe Drinking Water. The Budget requests \$3.9 billion for the Environmental Protection Agency's Clean Water State

Revolving Fund and the Drinking Water State Revolving Fund (SRFs), in addition to the \$6 billion provided in the Recovery Act. With this historic increase, the programs will fund over 1,000 clean water and nearly 700 drinking water projects annually based on average project costs. In addition, the Recovery Act will support over 1,300 new wastewater projects and over 700 new drinking water SRF projects. Through Recovery Act funding for the Department of Agriculture's (USDA's) rural water and wastewater grants and loans, the Administration will support a \$3.8 billion program level for the repair, upgrade, and construction of 2,000 rural water and sewer systems, providing new or improved service to 3 million people. Together with funding increases for the SRFs, the Administration will pursue SRF program reforms that will put resources for these ongoing needs on a firmer foundation.

Expand Access to Broadband. As a country, we have made significant public investments so that, regardless of economic status, Americans have access to telephone service and electricity. In this day and age, we must do the same for broadband. Like any network, the more people who are a part of it, the stronger we all are. The more communities that have access to high-speed Internet connections, the more businesses can grow and jobs can be created. When that happens, the entire Nation wins. That is why the Recovery Act included \$7.2 billion for broadband expansion and the 2010 Budget includes \$1.3 billion in USDA loans and grants for the Department of Agriculture to increase broadband capacity and improve telecommunication service as well as education and health opportunities in rural areas.

Invest in the Sciences. Investments in science and technology foster economic growth; create millions of high-tech, high-wage jobs that allow American workers to lead the global economy; improve the quality of life for all Americans; and strengthen our national security. The Recovery Act included a \$5 billion investment in key science programs, which is by itself an almost 50-percent increase for these programs over 2008 and represents a significant down-payment toward the President's plan to double the fund-

ing for these agencies over 10 years. Under the President's doubling plan, the Budget provides a 16-percent increase over 2008 funding levels for the National Science Foundation and similarly large increases for the Department of Energy's Office of Science and the Department of Commerce's National Institute of Standards and Technology. The Budget also increases support for promising, but exploratory and high-risk research proposals that could fundamentally improve our understanding of climate, revolutionize fields of science, and lead to radically new technologies. In addition, the Budget funds cutting-edge, fundamental research in traditional and emerging disciplines to help transform the Nation's air transportation system and to support future aircraft. The National Aeronautics and Space Administration (NASA) research in aeronautics will focus on how to increase airspace capacity and mobility, enhance aviation safety, and improve aircraft performance while reducing noise, emissions, and fuel consumption.

Creating a Clean Energy Economy

The high gas prices of last summer only underscored what we have known for decades: we cannot afford to depend so heavily on foreign oil and other fossil fuels to power our economy. While the national security implications have been clear for some time, the more we learn about global warming, the more we see that failure to wean ourselves off of fossil fuels also jeopardizes our economy and our entire planet.

Countries and companies around the world recognize this and are working day and night to develop clean energy technologies that will change everything from how we generate our electricity to how we power our cars and trucks. While the challenge is great, the promise of the moment is unparalleled. If we lead the world in the research and development of clean energy technology, we can create a whole new industry with high-paying jobs that cannot be shipped overseas. Some compare the promise of this sector to information technology. The difference is that with clean energy we can bring new jobs to rural areas long left behind in economic growth. Moreover, if we take the time

now to start transforming our economy, we will enjoy the benefits of a lower cost and more efficient energy supply for years to come. As a down payment on an energy independent, clean energy economy, in this Budget, the Administration will:

Begin a Comprehensive Approach to Transform Our Energy Supply and Slow Global Warming. The Administration is developing a comprehensive energy and climate change plan to invest in clean energy, end our addiction to oil, address the global climate crisis, and create new American jobs that cannot be outsourced. After enactment of the Budget, the Administration will work expeditiously with key stakeholders and the Congress to develop an economy-wide emissions reduction program to reduce greenhouse gas emissions approximately 14 percent below 2005 levels by 2020, and approximately 83 percent below 2005 levels by 2050. This program will be implemented through a cap-and-trade system, a policy approach that dramatically reduced acid rain at much lower costs than the traditional government regulations and mandates of the past. Through a 100 percent auction to ensure that the biggest polluters do not enjoy windfall profits, this program will fund vital investments in a clean energy future totaling \$150 billion over 10 years, starting in FY 2012. The balance of the auction revenues will be returned to the people, especially vulnerable families, communities, and businesses to help the transition to a clean energy economy.

Provide the Capital to Double Renewable Energy Generating Capacity. Renewable power has grown dramatically over the past several years. Unfortunately, the current credit crisis has brought this dynamic progress to a halt. The programs in the Recovery Act will help to revive the renewable industry, doubling the amount of renewable energy generated. Collectively, the loan guarantees provided in the recovery plan and in this Budget are expected to leverage tens of billions of dollars in private capital. The Recovery Act also extends the production tax credit (PTC) to 2012 for wind and 2013 for other renewable sources of energy. This extension creates three years of certainty for investors, eliminating the

delays historically associated with the PTC. The Act also expands authority for clean renewable energy bonds and creates new manufacturing tax credits to spur domestic manufacturing of clean energy equipment

Develop Low-Carbon Emission Technologies. The Recovery Act provides funding to meet the President's campaign commitment to build five commercial scale coal-fired plants with carbon capture and storage technology through public-private partnerships. The Energy Department will also scale up its demonstration projects for geologic storage for carbon dioxide. Combined, this funding will set the foundation for significant efforts to mitigate greenhouse gas emissions from coal-fired power plants.

Modernize Federal Buildings and Slash the Federal Government's Energy Bill by 25 Percent. The Federal Government is the largest energy consumer in the world. Making substantial investments to reduce Federal energy consumption can spur job creation while delivering long-term Government savings through lower energy bills. The Budget will build upon the more than \$11 billion provided for building modernization in the Recovery Act to achieve the President's 25 percent energy efficiency improvement goal by 2013.

Weatherize Low-Income Homes, Saving Working Families on Average \$350 Per Year.

Across the Nation, families spend a significant portion of their budget running their furnaces and air conditioners as well as keeping the lights on. By upgrading a home's furnace, sealing leaky ducts, and adding insulation, a homeowner can cut their energy bills by 20 to 40 percent, and the substantial savings accrue in summer as well as winter and for years to come. By adding energy efficient appliances and lighting, the savings are even greater. The Department of Energy's weatherization budget of \$227 million in 2008 could only provide benefits for 76,000 U.S. homes. While the Nation has weatherized about six million low-income homes since 1976, more than 28 million remain eligible. The Budget will build upon the \$5 billion provided in the Recovery Act for weath-

erization assistance in order to spur development of an industry that will have the capacity to meet the President's goal of weatherizing one million homes annually.

Use Title XVII Loan Guarantee to Reduce Greenhouse Gas Emissions. Loan guarantee volume under Title XVII of the Energy and Policy Act of 2005 will support innovative and advanced technologies that avoid, reduce, or sequester anthropogenic greenhouse gas emissions or air pollutants. The Budget will support a wide-range of eligible projects such as renewable energy systems, electric system transmission projects, and carbon capture and sequestration projects that will result in a cleaner environment and potentially, a transformed energy sector.

Help State and Local Governments be More Energy Efficient. After the Federal Government, State and local governments are some of the largest users of energy. Facing budget shortfalls, many States and local governments now lack sufficient financial resources to tap the full potential of clean energy development and deployment. This situation is exacerbated by private sector financing drying up as a result of the recent credit crisis. The Budget will build upon \$6.3 billion provided for clean energy and energy efficiency grants to state and local governments in the Recovery Act to help support their efforts to reduce their energy use.

Green Our Nation's Farms. The Budget increases funding levels over those provided in previous years for programs, such as the Conservation Stewardship Program and the Environmental Quality Incentives Program that provide incentives for farmers to better conserve their lands and reduce pollution such as from animal feeding operations. In addition, USDA intends to work with farmers to help them take advantage of opportunities to participate in emerging markets for carbon credits, alternative energy and in other environmental services, such as wildlife habitat, clean water, and clean air.

Modernize the Electric Grid. We know that the existing electricity grid today is insuf-

ficient and outdated. In order to bring significant amounts of renewable energy online, tens of thousands of miles of new, high-voltage national transmission is necessary. For example, North Dakota—a State with significant wind energy potential—cannot carry the energy to the population centers that need the electricity without a new transmission superhighway. The Budget will build on efforts in the Recovery Act to create this new, smarter electric grid for the integration and use of greater amounts of renewable energy; increased utilization of innovative efficiency technologies; and a reduction in the electric congestion that costs ratepayers billions of dollars each year. The Recovery Act includes funds to complete additional significant work in improving the national grid with regional transmission planning and interconnection based transmission planning. Included is a \$100 million workforce training program. To make the grid smarter, millions of Smart Meters—a key first step to a Smart Grid—will be deployed as well as investments in a host of other smart grid technologies.

Preparing Our Children for the 21st Century Economy

America faces few more urgent challenges than preparing our children to compete in a global economy. The decisions our leaders make about education in the coming years will shape our future for generations to come. The Administration is committed to meeting this challenge, and its vision for a 21st Century education begins with demanding more reform and accountability coupled with the resources needed to carry out that reform; asking parents to take responsibility for their children's success; and recruiting, retaining, and rewarding an army of new teachers to teach at new, successful schools that prepare our children for success in college and the workforce. Throughout our history, our Nation's schools from the local elementary school to the large university have been the gateway into the middle class and a better life for millions. That is why it's so important that the investments we make in education are ones that work—that help children learn and pursue their dreams. When it comes to our children's future, we cannot waste dollars

on methods, programs, and initiatives that are not effective and efficient. Consequently, in this Budget, the Administration makes significant investments in approaches that have proven to deliver for our children and will reallocate funds away from and terminate programs that do not. To restore the promise of America's public education and to help America's children again lead the world in achievement, creativity, and success, the Budget will:

Make A New Investment In Early Childhood Education. We know that a dollar invested in early education will pay off handsomely as these children grow older. That is why the Administration is proposing to help States strengthen their early education programs. The Administration will broaden the reach of these programs and boost their quality—encouraging new investment, a seamless delivery of services, and better information for parents about program options and quality. In addition, through funds from the Recovery Act and this Budget, the President will provide funding to double the number of children served by Early Head Start and expand Head Start, both of which have proven to be successful with younger children. Finally, the Department of Health and Human Services will begin a major effort to ramp up a new Nurse-Home Visitation program. Rigorous research has shown that a well-structured program can have large and measurable impacts in helping at-risk expectant and new parents give their children a healthy start in life.

Support High Standards and Rigorous Assessments Aligned with the Demands of the Global Economy. Students need to meet high standards, and tests need to measure the full range of skills that children must learn. Building on investments made through the Recovery Act, the Administration will help States strengthen their standards so they are rigorous and reflect readiness for success in college and a career. Resources will also be available to improve the quality of assessments, including assessments for students with disabilities and English language learners. Such reforms will lay the ground-

work for reauthorizing the Elementary and Secondary Education Act.

Prepare and Reward Effective Teachers and Principals. Almost all successful students can remember a teacher who had an outsized impact on their education. Indeed, the quality of the education workforce is a critical factor in educational success. The Budget builds on the investments funded under the Recovery Act designed to significantly upgrade the skills and effectiveness of the education workforce. The Administration will invest in efforts to strengthen and increase transparency around results for teacher and principal preparation programs, including programs in schools of education, alternative certification programs, and teacher and principal residency programs. The Budget supports additional investments in State and local efforts, developed in consultation with teachers and other stakeholders, to implement systems that reward strong teacher performance and help less effective teachers improve or, if they do not, exit the classroom. Resources are also included to develop better systems and strategies for recruiting, evaluating, and supporting teachers and other educators to provide a better supply and distribution of well-prepared and effective education workforce.

Increase Support for Effective Charter Schools. The President's Budget will promote successful models of school reform by taking the first major step to fulfilling its commitment to double support for charter schools. The Department of Education will help create new, high-quality charter schools, ensure that States properly monitor and support these schools, and, in the case of chronic underperformance, close existing charter schools.

Expand Pell Grants and Put the Program on Sure Footing. Because the Administration is committed to making college affordable for all Americans, the 2010 Budget builds on the Recovery Act by supporting a \$5,550 Pell Grant maximum award in the 2010-2011 school year. But it's not enough just to make Pell Grants more generous and to put on a short-term patch. Fourteen times since 1973, the maximum Pell Grant has

failed to increase even in nominal dollars. To make sure that we have a highly educated workforce and that the opportunity to go to college is not determined by how much money you have, the Budget puts the Pell Grant program on sure footing. The Administration will index Pell grants to the Consumer Price Index plus 1 percent in order to account for inflation in this sector. In addition, the Administration proposes to make the Pell Grant program mandatory to provide a regular stream of funding and eliminate the practice of "backfilling" billions of dollars in Pell shortfalls each year.

Stabilize the Student Loan Program for Students and Save Billions of Dollars for Taxpayers. Right now, the subsidies in the Government-guaranteed student loan program are set by the Congress through the political process. That program has not only needlessly cost taxpayers billions of dollars, but has also subjected students to uncertainty because of turmoil in the financial markets. The President's Budget asks Congress to end the entitlements for financial institutions that lend to students, and instead to take advantage of low-cost and stable sources of capital so students are ensured access to loans—while providing high-quality services for students by using competitive, private providers to service loans. The approach in the Budget, originating all new loans in the direct lending program, saves more than \$4 billion a year, and reinvests it in aid to students. The Budget also makes campus-based, low-interest loans more widely available through a new modernized Perkins Loan program, overhauling the inefficient and inequitable current Perkins program.

Help At-Risk Students Complete College. It is not enough for our Nation to enroll more students in college; we also need to graduate more students from college. A few States and institutions have begun to experiment with these efforts to accomplish this, but there is much more they can do. The Budget includes a new five-year, \$2.5 billion Access and Completion Incentive Fund to support innovative State efforts to help low-income students succeed and complete their college education. The program will include a rigorous

evaluation component to ensure that we learn from what works.

Make Permanent the New American Opportunity Tax Credit. If we do not make college more affordable, we run the risk of losing a whole generation of potential and productivity. To help students pay for college, the Administration created a new \$2,500 American Opportunity Tax Credit in the Recovery Act. The credit makes college more affordable for millions of middle-class families and for the first time makes college tax incentives partially refundable. The Budget proposes to make this tax cut permanent.

Eliminate or Cut Education Programs with Records of Low Performance. When it comes to educating our children, we cannot afford to waste a dollar. The Administration proposes to eliminate, cut, or place under intensive review Education Department programs that are not helping to improve educational outcomes for students. These are efforts that lack strong evidence to justify taxpayer support and that, in many cases, could be funded in competitive funding streams that require evidence of results.

Invest in Innovations and in What Works. While it is important to increase support for education, it is also critical to invest in learning which programs are effective and in growing the ones that are. Through the Innovation Fund, the Administration will invest in school systems and non-profit organizations with demonstrated track records of success in raising student achievement to expand their work or implement new innovative approaches. For instance, the Harlem Children's Zone aims to improve college-going rates by combining a rigorous K-12 education with a full network of supportive services—from early childhood education to after school activities to college counseling—in an entire neighborhood from birth to college. It has yielded encouraging results, and the President's Budget provides funds to expand this concept by supporting "Promise Neighborhoods," a new effort to test innovative strategies to improve academic achievement and life outcomes in high-poverty areas. The Budget also increases funding for rigorous evaluation in

a first step toward doubling the Department of Education's support for education research. The Department's Institute of Education Sciences will use this funding to conduct rigorous evaluations of approaches to improve student learning and achievement with a focus on evaluating and scaling up promising innovative practices.

Triple the Number of Graduate Fellowships in Science to Help Spur the Next Generation of Home-Grown Scientific Innovation. The industries of tomorrow will begin with ideas dreamed up in the classrooms and laboratories of today. Without investments in human capital today, we will not be able to reap the benefits of scientific innovation. That is why the Administration provided in the Recovery Act funds to be used as a down-payment toward the goal of tripling the number of graduate fellows in science.

Lowering Health Care Costs and Ensuring Broader Health Care Coverage

One of the biggest drains on American pocket-books is the high cost of health care. Many families are one illness or accident away from financial ruin. Health insurance costs reduce workers' take-home pay to a degree that is both underappreciated and unnecessarily large. At the same time, health care costs are consuming a growing share of Federal and State government budgets. The United States spends over \$2.2 trillion on health care each year—almost \$8,000 per person. That number represents approximately 16 percent of the total economy and is growing rapidly. By 2017, almost 20 percent of the economy—more than \$4 trillion—will be spent on health care.

Across our Nation, health care costs vary substantially, yet the higher-cost areas do not generate better health outcomes than the lower-cost areas. Even among our Nation's leading medical centers, costs vary significantly—with costs at some centers twice as high as others—but the higher-cost centers do not achieve higher quality than the lower-cost centers. Some researchers believe that health care costs could be reduced by a stunning 30 percent—or about \$700 billion a

year—without harming quality if we moved as a Nation toward the proven and successful practices adopted by the lower-cost areas and hospitals.

Capturing this opportunity would help to boost family take-home pay and put the Nation on a sounder fiscal path. It will require many steps, including expanding the use of health information technology, more aggressively studying what works and what doesn't, experimenting with different payment systems to health care providers, and promoting prevention and healthy living—many of which are advanced dramatically through the Recovery Act.

At the same time that we strive to contain costs, we cannot stand by as tens of millions of American lack health care coverage. An unhealthy workforce leads to an unhealthy economy, and moving to provide all Americans with health insurance is not only a moral imperative, but it is also essential to a more effective and efficient health care system.

The President has already begun the process of reforming health care by:

Instituting Temporary Provisions to Make Health Care Coverage More Affordable for Americans Who Have Lost Their Jobs. As part of the Recovery Act of 2009, the Administration will provide Americans who lose their jobs or have recently lost their jobs a tax credit to keep their health insurance through COBRA. These steps are estimated by the Joint Committee on Taxation to help provide coverage for approximately seven million Americans.

Increasing Health Care Coverage for Children. In one of his first official acts, the President signed into law the reauthorization of the Children's Health Insurance Program (CHIP)—bipartisan legislation vetoed twice by the previous President. It provides the support, options, and incentives for States to provide coverage for an additional four million children on average in CHIP and Medicaid who are now uninsured. The President is committed to implementing this law quickly and aggressively to help families whose

children are at risk of losing coverage in this weak economy.

Computerizing America's Health Records in Five Years. The current, paper-based medical records system that relies on patients' memory and reporting of their medical history is prone to error, time-consuming, costly, and wasteful. With rigorous privacy standards in place to protect sensitive medical record, we will embark on an effort to computerize all Americans' health records in five years. This effort will help prevent medical errors, and improve health care quality, and is a necessary step in starting to modernize the American health care system and reduce health care costs.

Developing and Disseminating Information on Effective Medical Interventions. Medicine is changing so rapidly it is almost impossible for any individual physician to keep abreast of all the latest research studies. Without the most recent information on effective treatments, it is increasingly more difficult for a doctor to give a patient the type of individualized treatment he or she deserves. Each month, for instance, nearly 500 articles are published on breast cancer alone. Despite this profusion of research, there are often gaps especially an absence of data that compares how well different diagnostic tests and treatments work for the very same conditions and diseases. To help physicians get the information they need to provide the highest quality care for patients, the Recovery Act of 2009 devotes \$1.1 billion to comparative effectiveness research—the reviews of evidence on competing medical interventions and new head-to-head trials. The information from this research will improve the performance of the U.S. health care system.

Investing in Prevention and Wellness. Over a third of all illness is the result of poor diet, lack of exercise, and smoking. Indeed, obesity alone leads to many expensive, chronic conditions including high blood pressure, heart disease, diabetes, and even cancer. Furthermore, there are important vaccines that can prevent diseases, and screening tests that can detect cancer and other diseases at an early stage when they are more curable. Yet

many Americans are not getting these effective interventions. For instance, according to the Centers for Disease Control and Prevention fewer than 75 percent of women get mammograms, and fewer than 50 percent of Americans receive any type of colon cancer screening. The President has devoted in the Recovery Act an unprecedented \$1 billion for prevention and wellness interventions. This will dramatically expand community-based interventions proven to reduce chronic diseases.

These investments made in the Recovery Act will help, in the long-run, to slow health care cost growth which is the key driver of the Nation's overall long-term fiscal gap. Specifically, the investments in information technology will provide not only higher quality of care and less hassle for patients, but also the data necessary to examine what works and what doesn't—which, in turn, will be the focus of the research on effective medical interventions. The emphasis on prevention and wellness will help reduce the incidence of diseases and chronic conditions and lead to a healthier, more productive America. All in all, these investments will create the underpinnings of a more efficient health care system—one that delivers better care rather than just more care—and will put the Nation on a much sounder long-term fiscal path.

TRANSFORMING AND MODERNIZING AMERICA'S HEALTH CARE SYSTEM

To build on these steps, the Budget sets aside a reserve fund of more than \$630 billion over 10 years that will be dedicated towards financing reforms to our health care system. The President recognizes that while a very large amount of money and a major commitment, \$630 billion is not sufficient to fully fund comprehensive reform. But this is a first crucial step in that effort, and he is committed to working with the Congress to find additional resources to devote to health care reform. The Administration will explore all serious ideas that, in a fiscally responsible manner, achieve the common goals of constraining costs, expanding access, and improving quality. This past year, for instance, the President proposed to

use rescission of the high-income tax provisions. Others have proposed different ideas to finance expanded health coverage such as capping the tax exclusion for employer-sponsored health insurance, a value-added tax, or additional offsets in existing health care programs. To achieve these goals and finance reform, the President looks forward to working with the Congress over the coming year, and as he does, the President will adhere to the following set of eight principles:

- *Protect Families' Financial Health.* The plan must reduce the growing premiums and other costs American citizens and businesses pay for health care. People must be protected from bankruptcy due to catastrophic illness.
- *Make Health Coverage Affordable.* The plan must reduce high administrative costs, unnecessary tests and services, waste, and other inefficiencies that consume money with no added health benefits.
- *Aim for Universality.* The plan must put the United States on a clear path to cover all Americans.
- *Provide Portability of Coverage.* People should not be locked into their job just to secure health coverage, and no American should be denied coverage because of pre-existing conditions.
- *Guarantee Choice.* The plan should provide Americans a choice of health plans and physicians. They should have the option of keeping their employer-based health plan.
- *Invest in Prevention and Wellness.* The plan must invest in public health measures proven to reduce cost drivers in our system—such as obesity, sedentary lifestyles, and smoking—as well as guarantee access to proven preventive treatments.
- *Improve Patient Safety and Quality Care.* The plan must ensure the implementation of proven patient safety measures and provide incentives for changes in the delivery system to reduce unnecessary variability in patient care. It must support the widespread use of health information technology and the development of data on the effectiveness of

medical interventions to improve the quality of care delivered.

- *Maintain Long-Term Fiscal Sustainability.* The plan must pay for itself by reducing the level of cost growth, improving productivity, and dedicating additional sources of revenue.

Financing Health Care Reform. The reserve fund is financed by a combination of rebalancing the tax code so that the wealthiest pay more as well as specific health care savings in three areas: promoting efficiency and accountability, aligning incentives toward quality, and encouraging shared responsibility (see Table 1). Taken together, the health care savings would total \$316 billion over 10 years while improving the quality and efficiency of health care, without negatively affecting the care Americans receive. These savings include:

- *Reducing Medicare Overpayments to Private Insurers Through Competitive Payments.* Under current law, Medicare overpays Medicare Advantage plans by 14 percent more on average than what Medicare spends for beneficiaries enrolled in the traditional fee-for-service program. The Administration believes it's time to stop this waste and will replace the current mechanism to establish payments with a competitive system in which payments would be based upon an average of plans' bids submitted to Medicare. This would allow the market, not Medicare, to set the reimbursement limits, and save taxpayers more than \$175 billion over 10 years, as well as reduce Part B premiums.
- *Reducing Drug Prices.* Prescription drug costs are high and rising, causing too many Americans to skip doses, split pills, or not take needed medication altogether. The Administration will accelerate access to make affordable generic biologic drugs available through the establishment of a workable regulatory, scientific, and legal pathway for generic versions of biologic drugs. In order to retain incentives for research and development for the innovation of breakthrough products, a period of exclusivity would be guaranteed for the original innovator prod-

uct, which is generally consistent with the principles in the Hatch-Waxman law for traditional products. Additionally, brand biologic manufacturers would be prohibited from reformulating existing products into new products to restart the exclusivity process, a process known as "ever-greening." The Administration will prevent drug companies from blocking generic drugs from consumers by prohibiting anticompetitive agreements and collusion between brand name and generic drug manufacturers intended to keep generic drugs off the market. Finally, the Budget will bring down the drug costs of Medicaid by increasing the Medicaid drug rebate for brand-name drugs from 15.1 percent to 22.1 percent of the Average Manufacturer Price, apply the additional rebate to new drug formulations, and allow States to collect rebates on drugs provided through Medicaid managed care organizations. All the savings would be devoted to the health care reserve fund.

- *Improving Medicare and Medicaid Payment Accuracy.* The Government Accountability Office (GAO) has labeled Medicare as "high-risk" due to billions of dollars lost to overpayments and fraud each year. The Centers for Medicare and Medicaid Services (CMS) will address vulnerabilities presented by Medicare and Medicaid, including Medicare Advantage and the prescription drug benefit (Part D). CMS will be able to respond more rapidly to emerging program integrity vulnerabilities across these programs through an increased capacity to identify excessive payments and new processes for identifying and correcting problems.
- *Improving Care after Hospitalizations and Reduce Hospital Readmission Rates.* Nearly 18 percent of hospitalization of Medicare beneficiaries resulted in the readmission of patients who had been discharged in the hospital within the last 30 days. Sometimes the readmission could not have been prevented, but many of these readmissions are avoidable. To improve this situation, hospitals will receive bundled payments that cover not just the hospitalization, but care from cer-

Table 1.

Reserve for Health Reform

\$ in billions	2010	2011	2012	2013	2014	2010-14	2010-19
Federal Health Savings	-1.8	-5.1	-18.0	-24.5	-34.3	-83.7	-316.0
Aligning incentives toward quality	0.0	-0.4	-1.3	-1.7	-2.1	-5.4	-20.5
Promoting efficiency/accountability	-1.8	-4.3	-16.2	-22.2	-31.5	-75.9	-287.4
Encouraging shared responsibility	0.0	-0.4	-0.6	-0.7	-0.8	-2.4	-8.1
New Revenues	-11.1	-30.8	-33.5	-35.5	-110.8	-317.8
Subtotal: Reserve for Health Reform	-1.8	-16.2	-48.8	-58.0	-69.8	-194.6	-633.8
Additional resources and new benefits, to be determined with Congress							
Net Cost—Reserve Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0

tain post-acute providers the 30 days after the hospitalization, and hospitals with high rates of readmission will be paid less if patients are re-admitted to the hospital within the same 30-day period. This combination of incentives and penalties should lead to better care after a hospital stay and result in fewer readmissions—saving roughly \$26 billion of wasted money over 10 years. The money saved will also be contributed to the reserve fund for health care reform.

- *Expanding the Hospital Quality Improvement Program.* The health care system tends to pay for quantity of services not quality. Experts have recommended that hospitals and doctors be paid based on delivering high quality care, or what is called “pay for performance.” The President’s Budget will link a portion of Medicare payments for acute in-patient hospital services to hospitals’ performance on specific quality measures. This program will improve the quality of care delivered to Medicare beneficiaries, and the higher quality will save over \$12 billion over 10 years. Again, the money saved will be contributed to the Reserve Fund for health care reform.
- *Reforming the Physician Payment System to Improve Quality and Efficiency.* The Administration believes that the current physician

payment system, while it has served to limit spending to a degree, needs to be reformed to give physicians incentives to improve quality and efficiency. Thus, while the baseline reflects our best estimate of what the Congress has done in recent years, we are not suggesting that should be the future policy. As part of health care reform, the Administration would support comprehensive, but fiscally responsible, reforms to the payment formula. The Administration believes Medicare and the country need to move toward a system in which doctors face better incentives for high-quality care rather than simply more care.

- *Reducing Itemized Deduction Rate for Families With Incomes Over \$250,000.* Lowering health care costs and expanding health insurance coverage will require additional revenue. In the health reform policy discussions that have taken place over the past few years, a wide range of revenue options have been discussed—and these options are all worthy of serious discussion as the Administration works with the Congress to enact health care reform. The Administration’s Budget includes a proposal to limit the tax rate at which high-income taxpayers can take itemized deductions to 28 percent—and the initial reserve fund would be

funded in part through this provision. This provision would raise \$318 billion over 10 years.

Restoring America's Place in the World and Keeping America Safe

Just as a strong economy bolsters our standing in the world and enhances our national security, strong leadership in the world helps us thrive in an interdependent, global economy. The line between economic policy and foreign policy is now very hard to draw. In the past, our greatest threats came from distant countries with armies and navies who engaged us in direct battle. Now, our open, interdependent world that makes it so easy to do business, travel, or communicate with people from all over the globe also makes us vulnerable to new threats and security challenges. As we all learned on September 11th, a small band of terrorists has the ability to kill thousands of civilians who are just going about their lives. Dangerous weapons, including nuclear materials, could fall into the hands of terrorists. Programmers sitting in their local coffee shop could launch cyber-attacks on the Pentagon, the CIA, or key parts of our security infrastructure. A small nation thousands of miles away which slips into chaos and anarchy could become a failed state that incubates terrorists and regional conflict. An outbreak of a deadly infectious disease in a rural, undeveloped corner of the world can quickly make its way to our biggest cities.

America alone cannot defeat these threats, but neither can the world defeat them without America. That is why the Administration will invest in our Armed Forces and our wounded warriors to ease the burdens of two wars and multiple deployments, while also asking more of our allies in Afghanistan and elsewhere. And it is why the Administration will increase investments in other elements of our national power—like diplomacy, economic development, and education—so that we end the reliance on our military alone to defeat emerging threats. In addition, the Administration will make critical investments for America's veterans to make sure that they receive the funding and the care they deserve for defending this country.

Taken together, this will restore America's leadership role in the world after years of disregarding our allies and ignoring the values that have earned America respect the world over. Already, the President has pledged to close the detention facility at Guantanamo Bay, Cuba within a year and has overhauled detention and interrogation practices. He is committed to responsibly redeploying our combat brigades from Iraq while bringing all the elements of American power to bear on the threat posed by extremists from Afghanistan and Pakistan. The President will work with our allies to ensure that Iran lives up to its responsibilities to the world community, and rededicate America to the agreement at the heart of the Nuclear Nonproliferation Treaty to work toward a world without nuclear weapons while working over the next four years to lock down all loose fissile material.

These are big challenges, and while we recognize the perils we face, we must not forget that it is also a time of immense promise. We can rebuild our alliances and rally the world to tackle these truly transnational challenges, replace despair with hope, and keep America secure, prosperous, and free. To achieve these goals, we need to allocate our resources to reflect the reality of the threats we face today and do so in a way that limits waste. The Administration will:

Increase Funding for the Department of Defense (DOD). As we look to the challenges facing our Nation, it's imperative that we invest our defense dollars effectively and wisely. To that end, the President is committed to supporting the men and women who make our military the best in the world. He wants to increase the size of the Army and Marine Corps, improve the pay for our men and women in uniform, and improve the medical treatment of wounded servicemembers. At the same time, the President will pursue a reform of the acquisition process to make sure that funds are not being wasted on expensive and outdated weapon systems. To fund these efforts, the Administration requests for DOD an increase of \$20.4 billion, or 4 percent, from the 2009 enacted level of \$513.3 billion excluding funding in the Recovery Act. This funding increase allows DOD

to address the President's highest priorities. In addition, the Administration will request sufficient funding to enable the Department to carry out the recommendations of the 2005 Defense Base Closure and Realignment Commission and meet the mandated September 2011 implementation deadline, which will help to align DOD's domestic bases and medical facilities with operational needs—and will go a long way to preventing the mistreatment reported at Walter Reed Army Medical Center over the past few years.

Responsibly Remove Combat Forces From Iraq and Focus on the Fight in Afghanistan.

The Budget recognizes and funds the President's strategy to increase our resources in Afghanistan while responsibly removing combat brigades from Iraq. To address the costs of military operations in Iraq and Afghanistan, the Administration requests \$75.5 billion for the remainder of 2009 and \$130 billion for 2010. The Administration will provide the details of the 2009 supplemental appropriations request to the Congress in the next few weeks, and will transmit the detailed 2010 request with the President's 2010 Budget.

Increase the Size of the Army and Marine Corps.

While the best technology and up-to-date equipment are important to maintaining the predominance of our military, our Armed Forces ultimately rely on the commitment and skill of the men and women who wear its uniform. Recognizing this, the Budget supports additional permanent forces in the Army and Marine Corps, which will increase to 547,400 and 202,000, respectively, by the end of 2010. This growth is two years ahead of schedule and will reduce stress on servicemembers and their families, while providing heightened readiness for a full spectrum of military operations anywhere in the world.

Increase Pay for Men and Women in Uniform. After years of asking more and more from our troops and their families, this Budget reflects the priorities of an Administration that is committed to caring for the servicemembers who protect our security and the families who support them. The Budget includes funding for a 2.9 percent pay raise for men and women in

uniform, an amount that will improve their purchasing power.

Improve Mental Health Care for Soldiers and Veterans.

The Budget funds expanded efforts at DOD to address mental health needs. Post-traumatic stress disorder, traumatic brain injury (TBI) and associated ailments are, and will continue to be, key military medical challenges facing the Armed Forces for years to come. DOD will fully implement a comprehensive TBI registry including a single point of responsibility to track incidents and recovery. The armed services will expand the number of integrated mental health professionals with their deployed units to better channel medical attention to those who need help quickly. In addition, the National Intrepid Center of Excellence for Psychological Health and TBI will be dedicated in the late fall of 2009. This will serve as the clinical research and educational arm of DOD's Center of Excellence for psychological health and TBI. The Budget expands the mental health screening and treatment services offered by the Department of Veterans Affairs (VA) and focuses on reaching veterans in rural areas. The VA also will increase the number of Vet Centers and mobile health clinics to expand access to mental health screening and treatment in rural areas. In addition, new funding ensures that veterans and their families are informed of these resources and are encouraged to pursue needed care.

Reform Defense Department Acquisition.

When it comes to the defense of our Nation, it's critical that every dollar is spent in the most effective way possible. Funds need to be allocated in ways that take into the account the needs of today as well as the threats of tomorrow. Moreover, we must make sure that the men and women who serve our Nation in its defense have the training, resources, material, and support they need to do the job. We know that DOD's new weapons programs are among the largest, most expensive, and technically difficult that the Department has ever tried to develop. Consequently, they carry a high risk of performance failure, cost increases, and schedule delays. With this in mind, the Administration is committed to reforming the de-

fense acquisition process so that taxpayer dollars are not wasted. The Administration will set realistic requirements and stick to them and incorporate “best practices” by not allowing programs to proceed from one stage of the acquisition cycle to the next until they have achieved the maturity to significantly lower the risk of cost growth and schedule slippage.

Put the United States on a Path to Double Foreign Assistance. It has become clear over the past decade that all the elements of American power must be developed to protect our people, interests, and values. That is why the Administration is committed to placing the Nation on a path to double foreign assistance to \$50 billion. Doing so, the United States will reach out to the global community, lay the groundwork for stability and security at home and abroad, and strengthen its role as a leader in global development and diplomacy. These are important investments that will help bring stability to other parts of the globe and greater security for our Nation. Through increased foreign assistance funding, the United States will embark on several new initiatives that will give children in the poorest countries access to education; foster global food security through sustainable agriculture; expand goodwill and inspire service by increasing the size of the Peace Corps; and help stabilize post-conflict states, creating room for them to plant the seeds of democracy.

Expand the Size of the Foreign Service. To face the threats of the 21st Century, we need to use all the instruments of our power, including diplomacy, to ensure the safety and security of the United States. The 2010 Budget includes funding for the first year of a multi-year effort to significantly increase the size of the Foreign Service at both the Department of State and the U.S. Agency for International Development (USAID). An increased cadre of State and USAID Foreign Service officers will help advance our critical foreign policy goals and deliver on our expanding U.S. foreign assistance commitments.

Increase Funding for Global Health Programs. Boosting the quality of health around

the world is not only a moral consideration; it is also in the country’s interest as pandemics and poor health care can destabilize whole regions as well as travel around the globe. In the Budget, the United States will continue to build on its commitment to save lives through increasing investments in global health programs, including in areas such as maternal and child health, family planning and other core health programs, while also emphasizing a commitment to HIV/AIDS, malaria, and tuberculosis through successful programs such as the President’s Emergency Plan for AIDS Relief and the Malaria Initiative. In addition, together with our multilateral partners, the Administration will continue to provide global leadership to improve the health status of the world’s poorest populations.

Reinvigorate Counter-Proliferation, Anti-Terrorism, and Transnational Crime-Fighting Efforts. The Budget will fund reinvigorated efforts to counter nuclear proliferation, terrorism, and transnational crime. Specifically, the Budget includes first-year funding for a multi-year counterterrorism and law enforcement assistance program that strengthens the capabilities of our international partners in the Western Hemisphere and other critical regions around the world. The Budget also provides additional non-proliferation and counter-proliferation funding to help secure nuclear materials and promote safe civilian uses of nuclear energy.

Meet Our Challenges in Afghanistan, Pakistan, and Iraq. The 2010 Budget refocuses U.S. resources toward addressing the resurgence of al Qaeda and the Taliban in Afghanistan and Pakistan. The Administration increases non-military assistance to both countries, providing additional funding for governance, reconstruction, counter-narcotics, and other development activities that will help counter extremists. It expands the number of civilian personnel in Afghanistan and Pakistan in an effort to stabilize strategic areas of the countries, build government capacity, and successfully manage expanded assistance programs. In Iraq, the Administration strengthens our assistance to those who have been displaced from their homes because of the war, and realigns

our assistance efforts in Iraq to ensure that Iraqis can assume more responsibility for their own political and economic future.

Boost Compensation to Disabled Military Retirees. The Budget contains a proposal to expand concurrent receipt of military retired pay and Veterans Disability Compensation to retirees who were medically retired from active service. Under current law, these benefits are offset. Disabled military retirees would receive significantly greater compensation when the offset is removed.

Improve the Quality of Life for Our Armed Forces. The Administration is committed to improving the quality of life for American military personnel. Therefore, the Budget continues to sustain and modernize barracks and dormitories housing service members around the world and works to end all inadequate housing for military families. It provides funds to build or renovate base facilities at a rate sufficient to ensure the safety and functionality of all structures while meeting the needs of users.

Care for Wounded, Ill, and Injured Servicemembers. DOD will continue its efforts to improve the medical care and housing for wounded, ill, and injured servicemembers. DOD will add 21 more Warrior in Transition Complexes at posts throughout the continental United States, as well as sites in Alaska, Hawaii and Germany. DOD and the VA will expand pilot programs to expedite processing of injured troops through the Disability Evaluation System. The expedited system substantially reduces the time required to determine disability rating and, more importantly, alleviates frustration caused by a needlessly complex process.

Increase Funding for VA by \$25 Billion Over the Next Five Years. The President's Budget increases funding for VA by \$25 billion over the next five years in order to honor our Nation's veterans and expand the services they receive. Some of these funds will be used to transform VA into a 21st Century organization, including investments in information technology that directly benefit veterans in the areas of both health

care and benefits. Through improved electronic medical records, VA will more efficiently retrieve active duty health records from DOD and enable all VA care sites to access the records of veterans needing care. The VA will also invest in the development of rules-based electronic processes to increase accuracy, consistency, and timeliness in veterans' receipt of benefits.

Dramatically Increase Funding for VA Health Care. The President's Budget funds VA medical care with the resources it needs to provide 5.5 million veterans with timely and high quality care. This funding also enables VA to create Centers of Excellence for hearing and vision impairment and to provide additional veteran-oriented specialty care in areas including prosthetics, spinal cord injury, aging, and women's health.

Restore Health Care Eligibility for Modest-Income Veterans. For the first time since January 2003, the President's Budget restores eligibility for VA health care to non-disabled veterans earning modest incomes. By 2013, this initiative will bring over 500,000 additional veterans into the VA health care system while maintaining high quality and timely care for the lower-income and disabled veterans who currently rely on VA medical care.

Combat Homelessness by Safeguarding Vulnerable Veterans. The Administration expands VA's current services to homeless veterans through a collaborative pilot program with non-profit organizations. This pilot will help maintain stable housing for veterans who are at risk of falling into homelessness while helping VA to continue providing them with supportive services.

Facilitate Timely Implementation of the Comprehensive Education Benefits Veterans Earn Through Their Dedicated Service. This Budget supports VA's prompt, accurate, and efficient implementation of the Post-9/11 GI Bill—providing unprecedented levels of educational assistance to the men and women who have served our country through active military duty.

CHANGING THE WAY WASHINGTON DOES BUSINESS

Just as important as changing what Washington does is to change how it does it. We cannot begin to tackle the challenges we face in the short term to revive our economy and in the long term to put us on the path to growth without restoring responsibility and accountability to Government. Being entrusted with Americans' tax dollars is a huge responsibility, and for far too long, there has been insufficient regard for how those funds are spent; a high tolerance of waste, fraud, and abuse; and a passive acceptance of inefficiencies and ineffectiveness. Changing this will take time, and in the few weeks that the Administration has been in office, it has started that lengthy process.

Restoring Fiscal Discipline and Planning for the Future

Over the past eight years, fiscal recklessness replaced fiscal responsibility. Huge tax cuts and spending increases were undertaken without being paid for. Large extra-budgetary expenses put a veneer on our fiscal situation. Special interest-driven spending grew out of control. Long-term challenges to our country and our fiscal situation were ignored. Taken together, this has put the Nation in an even more precarious fiscal position as we confront this economic crisis. In light of this inheritance of irresponsibility, the Administration in its first weeks has taken the initial steps to restore fiscal discipline by requesting and signing into law an economic recovery bill that is free of all earmarks and by instituting a system whereby the public will be able to track how and where recovery funds are actually used. To continue this progress in the months and years ahead, the Administration will:

Cut the Deficit in Half by End of the President's First Term. The current economic crisis has resulted in a \$1 trillion a year gap between what the economy can produce and what it is actually producing. With all the monetary policy levers already employed, the Government had to step in to stimulate the economy and avoid an economic catastrophe. While the Recovery Act

has entailed increasing deficit spending—since that is the fastest and surest way to create jobs in a recession—we cannot see this as a new norm. It is an extraordinary response to an extraordinary crisis. So while this Budget will add to our national deficit in the short-term, the President is committed to cutting in half by the end of his first term in office the deficit he inherited on January 20, 2009.

Review the Budget Line-By-Line for Waste. The President believes that we should be investing taxpayer dollars in efforts and programs with proven records of success and reallocating or cutting programs that do not work or whose benefits are not worth their cost. To this end, the Administration has begun an exhaustive line-by-line review of the Federal Budget, the first stage of which will be partially reflected in the spring release of the full FY 2010 Budget and will continue in subsequent years. However, already the Administration has identified cuts and savings that include:

- *Increasing Federal Health Savings.* As discussed in detail above, the President is proposing substantial savings in health care by aligning incentives toward quality, promoting efficiency, and encouraging responsibility.
- *Eliminating Cotton Storage Credits.* The President's Budget proposes to eliminate the requirement for the Government to pay the storage costs of cotton that is put under loan with USDA. Cotton is the only commodity for which this assistance is provided without exception. Storage credits for cotton have been found to have a negative impact on the amount of cotton on the market. Because cotton storage is covered by the Government, producers may store their cotton for longer than necessary. There is no reason the Government should be paying for the storage of cotton, particularly since it does not provide this assistance for most other commodities.
- *Eliminating Mine Clean-Up Payments to States that Have Completed Clean-Up.* Abandoned Mine Lands (AML) payments from the Office of Surface Mining are made to States

with abandoned coal mines requiring clean up. These AML payments were originally intended to be used only for clean-up efforts. In 2006, a provision was added that provided payments, available for unrestricted use, for States that have completed clean-up of all of their abandoned coal mines. This proposal would eliminate these unrestricted payments to States that have completed clean-up, saving close to \$200 million in 2014.

- *Eliminating the Resource Conservation and Development (RC&D) Program.* The Budget eliminates funding for RC&D. First begun in 1962, the program was intended to build community leadership skills through the establishment of RC&D councils that would access Federal, State and local programs for the community's benefit. After 47 years, this goal has been accomplished. These councils have developed sufficiently strong State and local ties that the Administration believes they are now able to secure funding for their continued operation without Federal assistance.
- *Reforming the Market Access Program (MAP).* The Budget reforms MAP by reducing program funding for overseas brand promotion and minimizes the benefits that large for-profit entities may indirectly gain as members of trade associations who participate in MAP. An annual funding reduction of 20 percent will improve the program by placing greater emphasis on promoting generic American agricultural products overseas and assisting small business entities.
- *Reducing Direct Payments to Farmers.* The President wants to maintain a strong safety net for farm families and beginning farmers while encouraging fiscal responsibility. As part of a broad effort to move farmers from a program of direct payments to a program where agricultural producers earn payments from environmental improvements, the President's Budget phases out direct payments over three years to farmers with sales revenue of more than \$500,000 annually. Presently, direct payments are made to even large producers regardless of crop prices, income, and profits or whether the land is still farmed.
- *Increasing Collection of Delinquent Tax From Federal Contractors.* Federal contractors owe billions of dollars in unpaid Federal taxes. IRS currently collects some of this debt by levying Federal payments made to these debtors. In some cases, administrative procedures prevent IRS from collecting this debt. In fact, IRS loses the opportunity to collect approximately \$114 million per year in tax debt because of administrative delays. The Budget proposes to address this problem by streamlining administrative processes in order to make it easier for IRS to collect tax debt owed by Federal contractors.
- *Eliminating or Reforming Small, Ineffective Housing and Urban Development Programs.* Programs that are either ineffective or duplicative divert us from achieving their ultimate policy goals and are a waste of taxpayer dollars. The Administration proposes eliminating a list of programs that includes: the American Dream Down-payment Initiative, which is too small to operate effectively and the Community Development Loan Guarantee program, which is not structured effectively to encourage communities to finance large-scale development; plus reform the Rural Housing and Economic Development program so that it is not duplicative of similar USDA programs.
- *Eliminating Education Programs With Records of Low Performance.* When it comes to educating our children, we cannot afford to waste a dollar. The Administration proposes to immediately terminate, or intensively review with an expectation of overhauling or terminating, a series of small Education Department programs. Many of these programs have long provided funding for narrowly focused curricula, staffing choices, or school types. None has strong evidence to justify this support; the programs either have never been seriously evaluated or have received weak evaluations; and the programs often could be funded in competitive

funding streams that could require evidence of results.

- **Return to Honest Budgeting.** Too often in the past several years, budget tricks were used to make the Government's books seem stronger than they actually were. If this Budget used the gimmicks employed in recent budgets, it would show in excess of another \$250 billion annually in available funds each year, and a bottom line that would appear approximately \$2.6 trillion better over 10 years. Pretending that the Budget has this money available may be gratifying, but it's an accounting sleight-of-hand, not reality. We should not tolerate these kinds of tricks when it comes to accounting for the public's tax dollars. This Budget, therefore, provides a projected cost for the wars in Iraq and Afghanistan; does not assume that all of the 2001 and 2003 tax legislation magically disappears at the end of 2010; does not allow the alternative minimum tax to take over the tax code, which almost every observer agrees is unrealistic; recognizes the statistical likelihood of natural disasters instead of assuming that there will be no disasters over the next decade; includes a contingent reserve as a placeholder in case further legislative action becomes necessary to stabilize the financial system; and provides a 10-year rather than a 5-year look into our fiscal situation.

Account for Future Emergencies. One can never know what kind of disaster or unexpected emergency may occur that will require the help of the Federal Government. If we do not account for these costs as we project the Federal Government's future fiscal health, we run the risk of allowing these unforeseen events to cause even more economic pain and derail our long-term growth. In the past, budgets assumed that there would not be any natural disasters in our Nation that would necessitate Federal help—no major earthquakes, hurricanes, floods, or man-made disasters. This omission is irresponsible, and has permitted past Administrations to project deficits that were lower than were likely to occur. Breaking with past practice, the President's Budget

puts more than \$20 billion annually (the statistical probability of the costs of dealing with these emergencies) in its budget projections.

Return to Pay-As-You-Go Budgeting. While the economic crisis we have inherited is a once-in-a-generation meltdown, it should not be seen as an opportunity to abandon the fiscal discipline that we owe each and every taxpayer in spending their money. This discipline is critical to keeping the United States strong in a global, interdependent economy. Moving forward, we need to return to pay-as-you-go budgeting that we had in the 1990s for all non-emergency measures. The President and his economic team look forward to working with the Congress to develop budget enforcement rules that are based on the tools that helped create the surpluses of a decade ago, including statutory pay-as-you-go rules.

Create a Reserve for Financial Stabilization Efforts. The Nation has inherited deep problems in its financial system. Additional action is likely to be necessary to stabilize the financial system and thereby facilitate economic growth. Although the Administration is not requesting additional funds from the Congress at this point and although it is not yet possible to provide a precise estimate of how much additional Federal action may be involved should the Administration need to request such funds, the President's Budget nonetheless includes a \$250 billion contingent reserve for further efforts to stabilize the financial system. The approach for this financial stabilization reserve is similar in spirit to the one adopted with regard to future war costs; the Budget includes a placeholder for future war costs even though such costs if any are difficult to predict. Estimates of the value of the financial assets acquired by the Federal Government to date suggest that the Government will get back approximately two-thirds of the money spent purchasing such assets—so the net cost to the Government is roughly 33 cents on the dollar. These transactions are typically reflected in the budget at this net cost, since that budgetary approach best reflects their impact on the Government's underlying fiscal position. The figure recorded in this Budget as a placeholder simi-

larly reflects this net cost concept. The \$250 billion reserve would support \$750 billion in asset purchases.

The existence of this reserve in the Budget does not represent a specific request. Rather as events warrant, the Administration will work with the Congress to determine the appropriate size and shape of such efforts, and as more information becomes available the Administration will define an estimate of potential costs. In addition, should a request become necessary, the Administration is committed to working with the Congress so that to the maximum extent possible, taxpayers are paid back over time for any additional emergency assistance provided to the financial system. The compensation to taxpayers could include requiring dividend payments, warrants, equity and other forms of upside opportunities from those firms receiving assistance. The compensation could also include a fee or assessment on financial institutions or financial activity, which would have to commence only when the financial system had stabilized and which would be designed to minimize adverse effects on the long-term recovery of our financial system.

Limit Pay Increases in the Federal Workforce. As families are tightening their belts in this economic crisis across the country, the President ordered a freeze of White House senior staff pay. In this Budget, Federal employees also will be asked to do their part: the 2010 pay increase for Federal civilian employees, 2.0 percent, is responsive to the current economic climate, bringing Federal pay and benefit practices more in line with the private sector.

Making Saving for Retirement Easier as the Economy Recovers. Over the long-term families need personal savings, in addition to Social Security, to prepare for retirement and to fall back on during tough economic times like these. However, 75 million working Americans—roughly half the workforce—currently lack access to employer-based retirement plans. In addition, the existing incentives to save for retirement are weak or non-existent for the majority of middle- and low-income households. The President's 2010

Budget lays the groundwork for the future establishment of a system of automatic workplace pensions, on top of and clearly outside Social Security, that is expected to dramatically increase both the number of Americans who save for retirement and the overall amount of personal savings for individuals. Research has shown that the key to saving is to make it automatic and simple. Under this proposal, employees will be automatically enrolled in workplace pension plans—and will be allowed to opt out if they choose. Employers who do not currently offer a retirement plan will be required to enroll their employees in a direct-deposit IRA account that is compatible with existing direct-deposit payroll systems. The result will be that workers will be automatically enrolled in some form of savings vehicle when they go to work—making it easy for them to save while also allowing them to opt out if their family or individual circumstances make it particularly difficult or unwise to save. Experts estimate that this program will dramatically increase the savings participation rate for low and middle-income workers to around 80 percent.

Creating a More Ethical and Transparent Government and Improving Oversight

Washington cannot be responsive to the American people if the doors of Government are shut to everyone except those with lobbyists and influence. An unresponsive Government not only offends our democratic sensibilities; it also leads to disastrous policy outcomes—initiatives and programs that are constructed to serve a select few and not the public interest.

That is why in his first days in office, the President signed an executive order that: prohibits executive branch employees from accepting gifts from lobbyists; closes the revolving door that allows Government officials to move to and from private sector jobs in ways that give that sector undue influence over Government; and requires that Government hiring be based upon qualifications, competence, and experience—not political connections. The President has ordered every one of his appointees to sign a pledge abiding by these tough new rules as a down payment on the change

he has promised to bring to Washington. In three separate Presidential Memoranda, the President instructed all members of his Administration to operate under principles of openness, transparency, and of engaging citizens with their Government; and ended the practice of having others besides the President assert executive privilege for records after an administration ends.

Building on his career working for a more ethical and transparent Government, the President will:

Shine a Bright Light on Washington Lobbying. The Administration will take steps to make sure that the public has specific, useful, and meaningful information about how lobbyists are trying to influence Federal spending and tax policy. A centralized, online database will contain lobbying reports, disclose how much money Federal contractors are spending on lobbying, and provide other relevant information.

Let Americans Track How Their Tax Dollars Are Spent. Americans have a right to know how the Government spends their tax dollars, but that information is usually hard to find and often not made available at all. The President is committed to changing that by making this data easy to find and review. He will:

- Maintain *Recovery.gov*, an unprecedented effort to bring transparency and accountability to the money spent in the American Recovery and Reinvestment Act. This site will allow taxpayers learn where recovery funds are going, for what purpose, and to what result.
- Give the public five days to review all non-emergency bills before they are signed into law.
- Disclose each earmark and the name of the legislator who asked for each earmark, and make this information available on a searchable public website.
- Clean up military contracting by establishing the reporting requirements, accounting, and accountability needed for good govern-

nance and cost savings, and by scrutinizing no-bid contracting.

Increase Transparency in Earmarks. From 1994 until 2006, the cost and number of Congressional earmarks expanded dramatically, raising concerns that lawmakers were funneling Federal money home to projects that may not be the best use of taxpayer dollars. In 2007 and 2008, the Congress took important steps to shine light on the allocation of congressional earmarks by requiring members' names to be listed next to requests funded in appropriations bills and reports, while also reducing the total funding for earmarks. However, more work needs to be done. The Administration will continue to work with the Congress to provide greater transparency and accountability of earmarks, and to ensure that the American people are made well aware of how and where Federal money is spent.

Bolster Oversight of the Financial Markets. Robust markets depend on clear rules of the road enforced by strong, impartial regulators. This past year, the consequences of poor market oversight became abundantly clear. The Budget, therefore, will increase resources for the Securities and Exchange Commission (SEC) by over 13 percent and the Commodity Futures Trading Commission (CFTC) by over 44 percent relative to 2008 levels. In 2010, the SEC will build its staff and technology resources and pursue a risk-based, efficient regulatory structure that will better detect fraud and strengthen markets. The CFTC will implement new program responsibilities promulgated in the Farm Bill—filling gaps in regulatory oversight of energy and over-the-counter derivatives trading, as well as foreign exchange.

Making Government More Effective

For decades, the argument in Washington has been between those who say that government is the cause of every problem and those who say that it's the answer. What has become clear over the past eight years, especially in light of the Federal Government's response to Hurricane Katrina, is that what bothers Americans is bad gov-

ernment—government that does not do its job effectively and efficiently. To make Government more effective, the Administration will:

Eliminate Wasteful Redundancy. Too often, Federal departments take on functions or services that are already being done or could be done elsewhere within the Federal Government more effectively. The result is unnecessary redundancy and the inability of the Government to benefit from economies of scale and integrated, streamlined operations. The Administration will conduct an immediate and periodic public inventory of administrative offices and functions and require agency leaders to work together to root out redundancy. Where consolidation is not the right strategy to improve efficiency, the Administration will improve information-sharing and use of common assets to minimize wasteful duplication.

Streamline Government Procurement. The President will implement the GAO's recommendations to reduce erroneous Federal payments, reduce procurement costs with purchase cards, and implement better management of surplus Federal property.

Reform Federal Contracting and Acquisition. The Administration will take several steps to make sure that taxpayers get the best deal possible for Government expenditures. We will review the use of sole source, cost-type contracts; improve the quality of the acquisition workforce; and use technology to create transparency around contracting. We will review acquisition programs that are on the GAO high-risk list for being over-budget and prone to abuse. The Administration also will clarify what is inherently a governmental function and what is a commercial one; critical Government functions will not be performed by the private sector for purely ideological reasons.

Put Performance First. The President is creating a focused team within the White House that will work with agency leaders and the Office of Management and Budget (OMB) to improve results and outcomes for Federal Government programs while eliminating waste and inefficiency. This unit will be composed of top-performing and

highly-trained Government professionals and will be headed by a new Chief Performance Officer (CPO). The CPO will work with Federal agencies to set tough performance targets and hold managers responsible for progress. The President will meet regularly with cabinet officers to review the progress their agencies are making toward meeting performance improvement targets.

Enforce Standards in Addition to Measuring Performance. The Administration will fundamentally reconfigure the Program Assessment Rating Tool. We will open up the insular performance measurement process to the public, the Congress and outside experts. The Administration will eliminate ideological performance goals and replace them with goals Americans care about and that are based on congressional intent and feedback from the people served by Government programs. Programs will not be measured in isolation, but assessed in the context of other programs that are serving the same population or meeting the same goals.

Increase Use of Technology. Meeting 21st Century challenges will require a Government that leverages 21st Century technologies and keeps up with the private sector. The President will appoint the Nation's first Chief Technology Officer (CTO) to ensure that our Government and all its agencies have the right infrastructure, policies and services for the 21st Century. The CTO will work with each of the Federal agencies, to ensure that they use best-in-class technologies and share best practices.

Make Sure that Taxpayer Dollars Are Spent Wisely in Our Large Entitlement Programs. With billions of dollars being spent in programs such as Social Security, Medicare, and Medicaid upon which so many Americans rely, it is important that they are run efficiently and effectively. The Administration will make significant investments in activities to ensure that taxpayer dollars will be spent correctly, expanding oversight activities in the largest benefit programs and increasing investments in tax compliance and enforcement activities.

The Administration proposes a significant increase in program integrity activities at the Social Security Administration (SSA), the Department of Health and Human Services (HHS), the Department of Labor (DOL), and the Internal Revenue Service (IRS). The Administration proposes a multi-year strategy, which will permit the agencies to pay closer attention to the risk of improper payments, commensurate with the large and growing costs of the programs administered by these agencies, including Social Security, Medicare, Medicaid, and Unemployment Insurance (UI). As an example, the funding provided for SSA will enable the agency to work down a backlog of Continuing Disability Reviews, which determine whether an individual continues to qualify for Disability Insurance or Supplemental Security Income. The number of these reviews has fallen in recent years even as the Disability Insurance program has grown.

There is solid and rigorous evidence that these investments can significantly decrease the rate of

billion in lower spending and additional tax revenue over the next 10 years, with additional savings accruing after the 10-year period.

In addition to the initiatives described above, the Administration will launch a new Federal-State partnership to reduce error and improper payments in Federal means-tested programs administered by States. Many State-administered programs—such as Medicaid and the Supplemental Nutrition Assistance Program (formerly Food Stamps)—operate independently of each other yet serve similar low-income populations. Integrating and modernizing processes will provide opportunities to improve services to beneficiaries, improve eligibility determination, and reduce errors. Through this initiative, the Federal Government will collaborate with States to identify the most promising approaches and fund development and rigorous testing to determine which ones have a high return on investment that could be replicated on a broader scale.

Table 2.

Program Integrity Savings from Increased Investment in Years 2010 through 2014

(in billions of dollars)	2011	2012	2013	2014	2010-2014	2010-2019
SSA	-1.7	-2.5	-3.4	-4.4	-12.1	-27.9
HHS	-0.5	-0.5	-0.6	-0.6	-2.7	-2.7
UI	-0.2	-0.2	-0.3	-0.3	-1.1	-1.2
IRS	-1.1	-2.3	-3.9	-5.7	-13.3	-16.6
Total Savings	-3.5	-5.6	-8.1	-11.0	-29.2	-48.5

Increased revenue due to IRS enforcement funding is shown as a negative for consistency. Numbers may not add to totals due to rounding.

improper payments and recoup many times their initial investment. For every \$1 spent by SSA on a disability review, \$11 is saved in erroneous payments. Similarly, for every \$1 spent by HHS to fight health care fraud, approximately \$1.60 is saved or averted, and the IRS activities recoup \$5 for every \$1 spent. As shown in Table 2, the initial five-year investment of \$13.5 billion for 2010 through 2014 is estimated to result in nearly \$50

OMB will oversee the development of rigorous methodologies for measuring the potential savings from these investments, including both administrative efficiency gains and reductions in erroneous payments. No projects would be funded unless they demonstrate their potential to result in more than one dollar in administrative and program savings for each dollar invested once the project is fully in effect. The

Table 3.

Program Integrity Allocation Adjustment Requests
(budget authority in millions of dollars)

		2010	2011	2012	2013	2014	2010- 2014
SSA Program Integrity	Base	273					
	Allocation adjustment	485	722	837	1,020	1,225	4,289
HHS Health Care Fraud and Abuse Control Program	Base (mandatory)	1,179					
	Allocation adjustment	311	327	343	361	381	1,723
DOL Unemployment Insurance Improper Payments	Base	10					
	Allocation adjustment	50	55	60	65	70	300
IRS Enforcement	Base	7,100*					
	Allocation adjustment	890	1,115	1,357	1,724	2,105	7,191
Federal-State Partnership	Allocation adjustment	175					175
Total Allocation Adjustment Request		1,911	2,219	2,597	3,170	3,781	13,678

* The IRS enforcement base total should be considered a placeholder pending final approval and will be updated in subsequent Budget documents.

results of the pilots will be reported to the Congress and used to inform administrative and legislative policies for achieving programmatic savings in future years.

Budget Mechanism for Improving Program Integrity

The Administration proposes to protect the dollars requested for these activities in the appropriations process through allocation adjustments, a mechanism that has been used by past administrations and Congresses. Allocation adjustments are increases in the ceiling or allocation for annual

appropriations, but these increases are granted only if appropriations bills increase funding for the specified programs integrity purposes above specified base levels. This budget mechanism will ensure that this funding will not supplant other Federal spending on these activities or be diverted to other purposes. The base level of funding assumed in each appropriations request and the allocation adjustment for each agency is listed in the table.