

# COMPETING AND WINNING IN THE WORLD ECONOMY

Taking steps to strengthen our economic recovery now so that we can spur job creation is critical to getting Americans back to work and our Nation back on its feet. But our focus cannot just be the short term. We also must look ahead to what will create the economic growth and the jobs over the next several years so that we can keep the American Dream alive for our children and grandchildren. That starts with recognizing that in the high-tech, interdependent world of the 21<sup>st</sup> Century, our companies and our workers are not just competing with each other, but with their counterparts all over the world. Indeed, we, as a Nation, are competing with countries all over the globe that are eager to win the contest for growth, jobs, and prosperity for their people.

There should be little doubt that America can win this race. Our universities and research facilities are the best in the world, as are the students, researchers, and scientists who study and work there. Throughout our history, the American people have demonstrated ingenuity and a drive that have birthed whole new industries, from automobiles to information technology. We are a Nation of innovators, builders, and risk-takers who never shy away from a challenge. But with economic competitors the world over eager to emulate our success and surpass it, we cannot stand still or take success for granted. We must transform our economy from one too focused on speculation, spending, and borrowing to one that is educating, innovating, and building. We need to construct a new foundation for long-term economic growth that has as its pillars what is needed to win in the world economy: an educated and skilled workforce; cutting-edge research into the innovations that will power the industries of tomorrow; and a modern, robust

infrastructure that can support a growing, high-tech economy and the jobs to support a growing middle class. With that as a base, we can out-compete any country and thrive in the years to come.

Making these investments and re-tooling our Nation for this challenge is not an easy task, and the effects of the recession and the irresponsibility that preceded it will make it even more difficult. Putting the Nation on a sustainable fiscal path and getting our deficits under control are critical to making the United States competitive in the global economy, and the Budget lays out a strategy to do that. At the same time, it also recognizes that we cannot cut back on investments that will fuel future economic growth particularly since sustained and robust economic growth plays a very significant, long-term role in reducing deficits. So while the Budget identifies cuts and savings and asks for shared sacrifices across the Government, it also invests in areas critical to helping America win the race for the jobs and industries of the future.

## ***Educating a Competitive Workforce***

For decades, the strength of our schools and universities as well as our ability to provide a quality education to a large number of our people has been an engine of our economy. From the land-grant universities of the 19th century to the GI Bill in the 20th, we have worked to open the doors of college to more and more of our people. Looking ahead, a highly-educated and skilled workforce will be critical to competing in the global economy. Yet the United States is in danger of falling behind. In a generation,

we have dropped from first to ninth place in the proportion of young people with a college degree. Out of 24 industrialized nations, the United States ranks 18th in high school graduation rate, and we lag behind other nations in the quality of our math and science education. When it comes to education, we cannot afford to fall to the back of the class. That is why the President has set an ambitious goal: by 2020, we will once again have the highest proportion of college graduates in the world. Meeting this goal will give us a workforce that is second to none, and a steady stream of inventors and entrepreneurs to create the businesses and jobs of the future.

Our approach to investing in education is not just to direct significant resources to where they are needed, but also to ensure that those funds are being invested in programs that are effective in educating our children. Over the past two years, the Administration has funded evaluations and required greater use of evidence in grant competitions, so we can see and fund what works. Central to this effort has been the Race to the Top (RTT) initiative for elementary and secondary education, which created a competition for funds that spurred States across the Nation to bring together teachers, school leaders, and policy makers to achieve difficult, yet fundamental improvements to our education system. By offering competitive funding, demanding significant reforms with deep support, requiring outcomes, and measuring success, the RTT competition fostered meaningful change even in States that ultimately did not win an award. In the 2012 Budget, the Administration continues the work of reform not just by devoting more resources, but also by making sure that funds are used to deliver results efficiently and effectively. To meet the President's goal on college access and completion, the Administration is proposing investments and reforms that touch every phase of a lifetime of learning. We will:

**Establish a Competitive Early Learning Challenge Fund.** Recognizing that quality early education is an investment that pays off for years to come, the Administration proposes extending the RTT approach to early childhood education.

Accordingly, the Budget includes \$350 million to establish a new, competitive Early Learning Challenge Fund, administered by the Department of Education and the Department of Health and Human Services, for States that are ready to take dramatic steps to improve the quality of their early childhood programs. The Early Learning Challenge Fund builds on the Administration's initiatives to expand Head Start and improve its quality through competition. The proposal also works in tandem with the Administration's proposal to increase child care funding while also enacting new legislation that empowers parents and lifts the quality of child care programs.

**Reform Elementary and Secondary School Funding by Setting High Standards, Encouraging Innovation, and Rewarding Success.** Too often, education funds are allocated based on variables that are not tied to success or the educational goals we need to reach to educate a competitive workforce. As the Congress moves forward to reauthorize the Elementary and Secondary Education Act, the Administration will work with the Congress to restructure K-12 funding to focus resources on the Nation's most critical educational goals. Specifically, we want to encourage States to adopt standards that prepare all students for college and a career; to support dramatic improvements in the quality of assessments; and to recognize and reward schools and teachers for helping students make important gains. Our proposal also offers new flexibility for successful States and districts to pursue solutions to help all students graduate from high school, college- and career-ready. In addition, we would encourage innovation by consolidating narrow programs into broader authority. Key support for this proposal in the Budget includes:

- Bringing the Race to the Top (RTT) reform to school districts, with a focus on cost-effective reforms that improve student achievement in an era of tight budgets.
- Continuing the Investing in Innovation program to test, validate, and expand effective approaches to student learning and launching the new "pay for success" bonds

that provide funding only after results are achieved.

- Expanding educational options by helping to grow effective charter schools and other autonomous public schools that achieve positive results and give parents more choices.
- Providing significant funding for School Turnaround Grants to help States and school districts turn around our Nation's lowest performing schools.
- Eliminating 13 discretionary programs and consolidating 38 K-12 programs into 11 new programs that emphasize using competition to allocate funds, giving communities more choices around activities and using rigorous evidence to fund what works. The Administration will make sure that, under these competitions, there is an equitable geographic distribution of funds nationwide, including to rural communities.

**Prepare 100,000 STEM Teachers Over the Next Decade.** Students need to master science, technology, engineering, and mathematics (STEM) in order to thrive in the 21<sup>st</sup> Century economy. Steadily, we have seen other nations eclipse ours in preparing their children in these critical fields. That is why the President has set the ambitious goal of preparing 100,000 STEM teachers over the next decade, and recruiting 10,000 STEM teachers over the next two years. The Budget allocates \$100 million toward that goal, including \$80 million from the Department of Education to expand promising and effective models of teacher preparation in STEM and \$20 million from the National Science Foundation (NSF) to launch a new teacher-training research program called Teacher Learning for the Future. In cooperation with the Department of Education, NSF's Teacher Learning for the Future program will fund innovative efforts that design, develop, implement, and test new teacher-training programs. To encourage undergraduates from groups historically underrepresented in STEM fields, the Budget also proposes \$20 million for an

ogy workforce program at NSF. These programs will be developed in conjunction with a Government-wide effort to improve the impact of Federal investments in math and science education by ensuring that all programs supporting K-12 and undergraduate education adhere to consistent standards of effectiveness.

**Open the Doors of College to More Americans.** To boost the number of college graduates, we need to make it easier for students to afford a postsecondary education and support efforts to increase the number of students who get their degree. One of the most effective ways to help students afford college is the Pell Grant program. Since 2008, the Administration has increased the maximum Pell Grant by \$819, ensuring access to postsecondary education for over 9 million needy students. The Budget maintains this commitment by sustaining the \$5,550 maximum award and paying for this expansion with a difficult but necessary Pell Grant Protection Act that suspends the costly and ineffective new year-round Pell Grant and eliminates the poorly-targeted in-school interest subsidy for loans to graduate students. This approach fully funds the currently anticipated growth in Pell Grants and the Administration is also committed to working with the Congress to develop an approach that addresses unanticipated growth. The Administration also proposes to introduce into the Fund for Improvement of Postsecondary Education an evidence-based framework, enabling the Fund to become a postsecondary "Investing in Innovation" program that will test, validate, and expand effective approaches to improving college access and completion and educational productivity. In addition to these competitive grants, the Budget provides \$50 million in 2012 and a total of \$1.3 billion over five years in performance-based funding to institutions that successfully enroll and graduate high-need students and enable them to enter successful employment.

**Bring Competition to and Encourage New Approaches for Job Training.** To compete in the global economy, we need skilled workers who can access opportunities to upgrade and hone their skills as their careers progress and tech-

nology changes. The Budget provides nearly \$10 billion for Workforce Investment Act programs, which match unemployed people with jobs and give individuals with skill gaps the training they need to secure family-sustaining employment. The Administration will work with the Congress on a reauthorization bill that streamlines service delivery and breaks down program silos, better meets the needs of employers and regional economies, holds the system accountable for serving all workers and job-seekers well, learns more easily from experience, and promotes innovation and reform based on what works. Recognizing that the best ideas often come from the bottom up, the Budget establishes a Workforce Innovation Fund that, paired with broader waiver authority, will encourage States, regions, and localities to break down barriers among programs, test new ideas, and replicate proven strategies for delivering better employment and education results in a more cost-effective way.

### ***Investing in American Innovation***

From Franklin to Edison, from Ford to Gates and Jobs, American inventors and entrepreneurs have transformed the world. To compete in the 21st Century economy, we need to create an environment where invention, innovation, and industry can flourish. That starts with continuing investment in the basic science and engineering research and technology development from which new products, new businesses, and even new industries are formed. It means writing our rules, regulations, and laws in a way that promote growth and innovation and make it easier for scientists and inventors to bring their ideas to market and see those ideas become thriving businesses. And, we must focus our efforts in areas that show the most promise for job creation to compete with growing countries that are devoting more of their resources to these industries.

That is why the Budget makes a significant investment in clean energy technology. Whoever leads in the global, clean energy economy will also take the lead in creating high-paying, highly-skilled jobs for its people. More than that, mov-

ing toward a clean energy economy will reduce our reliance on foreign oil and on other energy sources that contribute to global warming. We are at the cusp of a future in which hundreds of thousands of cars and trucks that do not rely on a gasoline-powered engine will be on our roads, and where millions of homes will be powered by electricity from clean sources. To bring about this future and to nurture the incalculable number of good ideas that one day will be ready to go from lab to market, we need to make the United States the world leader in innovation. The Budget proposes to:

**Increase Investment in Research and Development (R&D) and the Creation of Transformational Technologies.** For many years, the United States has been a world leader in R&D spending, as well as in the quality and impact of that spending. The challenge is for the United States to make private and public investments in science, research and development that will keep the United States as the world's leader in innovation for decades to come. The 2012 Budget does that by providing \$148 billion for R&D overall, while targeting resources to those areas most likely to directly contribute to the creation of transformational technologies that can create the businesses and jobs of the future. Among the steps taken are:

- Continuing the effort to double investments in basic research conducted at NSF, the Department of Energy's Office of Science, and the National Institute of Standards and Technology labs. Within these agencies, funds will be focused on basic research directed at priority areas, such as clean energy technologies, advanced manufacturing technologies, and cybersecurity.
- Maintaining robust investment in biomedical research at the National Institutes of Health (NIH). To get the most from these investments, NIH will increase its focus on reducing barriers to the translation of basic research discoveries to clinical trials, which will facilitate the development of new therapeutics to treat diseases and disorders that



affect millions of Americans.

- Supporting research into cutting-edge areas of manufacturing—such as nanotechnology and bio-manufacturing—that stands to create thousands of new jobs.
- Launching a new Advanced Research Projects Agency-Education (ARPA-ED) to engage in directed development projects and pursue ground-breaking technology applications which could dramatically increase productivity throughout the Nation's education system.
- Making a significant commitment to U.S. energy technology leadership by more than doubling energy efficiency research, development, and deployment; increasing renewable energy investments by over 70 percent; investing in research and licensing support for modular nuclear reactors; and providing \$36 billion in loan authority for nuclear power plants, as well as up to \$2 billion in loan guarantees for renewable and energy efficiency projects.

**Bring the Best Minds Together to Work on Critical Clean Energy Research.** Innovation and breakthroughs often happen when scientists and thinkers from different disciplines have a chance to work together on some of our toughest problems. This was the approach undertaken in the Manhattan Project to develop the atomic bomb and in the effort to develop radar, and collaboration is increasingly the source of the highest-impact ideas. As we look at the challenges facing the Nation, especially those related to clean energy, we need to foster this kind of creativity. That is why we are challenging America's scientists and engineers to assemble teams of the best minds in their fields to focus on the hardest problems in clean energy. The best proposals will be funded as new Energy Innovation Hubs. Currently, we have three Hubs in place, which specialize in fuels from sunlight, energy efficient buildings, and modeling and simulation technologies for nuclear power. The Budget doubles the number of Energy Innovation Hubs, creating

three more hubs across the country. These new Hubs will bring together top scientists to work in teams on cross-disciplinary research related to: critical materials, including rare earth elements; battery manufacturing for new vehicle technologies; and the development of new grid materials and systems to help Smart Grid technology and improve energy transmission efficiency. These Hubs will capture the same creative spirit that birthed some of the most important innovations of the last century to make advances on some of the most important technological problems of this century. They can be the Apollo projects of our time.

**Bring About a Clean Energy Economy and Create the Jobs of the Future.** Moving toward a clean energy economy will reduce air and water pollution and enhance our national security by reducing dependence on foreign oil. Cleaner energy will play a crucial role in slowing global climate change, meeting the President's goals of cutting greenhouse gas emissions in the range of 17 percent below 2005 levels by 2020, and 83 percent by 2050. Just as important, ensuring that the Nation leads the world in the clean energy economy is an economic imperative. This industry, which was in its infancy just a few years ago, is now growing by leaps and bounds. Renewable energy capacity in both the world and in the United States more than tripled between 2000 and 2009. Wind energy—the fastest growing renewable energy technology—grew even faster during that same period, with generation increasing by a factor of almost 9 worldwide and a factor of 14 in the United States. Across the globe—from Europe to Asia to South America—countries are making significant investments in clean energy technologies to win the race to dominate this growing industry. The Administration supports a range of investments and initiatives to help make the United States the leader in this industry and bring about a clean energy economy with its new companies and jobs:

- *Putting One Million Advanced Technology Vehicles on the Road by 2015.* In 2008, the President set an ambitious goal of having one million advanced technology vehicles

on the road by 2015. To reach that goal and become the first in the world to do so, the Budget proposes a new effort to support electric vehicle manufacturing and adoption in the United States through new consumer rebates, investments in R&D, and competitive programs to encourage communities that invest in electric vehicle infrastructure. Specifically, the Budget proposes to: transform the existing \$7,500 tax credit for electric vehicles into a rebate that will be available to all consumers immediately at the point of sale; advance innovative technologies through new R&D investments, building on Recovery Act investments, by investing \$588 million for vehicle technologies at DOE—an increase of 80 percent; and reward communities that invest in electric vehicle infrastructure through a \$200 million program, modeled after Race to the Top, which provides an incentive for communities to invest in electric vehicle infrastructure and remove regulatory barriers.

- *Doubling the Share of Electricity from Clean Energy Sources by 2035.* The President's proposed Clean Energy Standard is the centerpiece of the Administration's strategy to ensure strong American leadership in the clean energy economy. To support this goal, the Budget increases funding for renewable energy research and development; supports advances in fossil energy technologies that reduce carbon emissions from coal-fired power plants; supports nuclear energy; and promotes the expansion and use of clean energy across the country including rural areas. The Budget also builds on current financing efforts by providing up to an additional \$36 billion in loan authority for new nuclear power facilities and an additional \$200 million in credit subsidy to support \$1 billion to \$2 billion in loan guarantees for innovative energy efficiency and renewable energy projects.
- *Reduce Buildings' Energy Use by 20 Percent by 2020.* The 80 billion square feet of non-residential building space in the United States

present an opportunity to realize large gains in energy efficiency. In 2010, commercial buildings consumed roughly 20 percent of all energy in the U.S. economy. The President's Better Buildings Initiative will, over the next 10 years, seek to make non-residential buildings 20 percent more energy efficient by catalyzing private sector investment through a series of incentives to upgrade offices, stores, universities, hospitals and commercial buildings. The Budget proposes to make American buildings more energy efficient through three new initiatives: re-designing the current tax deduction for commercial buildings and upgrades to a credit and increasing the program to an estimated \$1 billion; launching a new loan guarantee program at the Department of Energy to increase financing opportunities for universities, schools, and hospitals; encouraging use of the Small Business Administration's 504 Certified Development Company loan guarantee program to support energy-sufficiency retrofit investments in commercial buildings; and creating a \$100 million "Race to Green" competition for State and municipal governments to implement innovative approaches to building codes, standards, and performance measurement so that commercial building efficiency will become the norm. This program builds on the Administration's commitment to retrofitting residential and government buildings, particularly through Recovery Act investments and our proposed Homestar program.

- *Issuing Permits for 9,000 Megawatts of New Solar, Wind, and Geothermal Energy Generation on Federal Lands.* The vast acreage of Federal land holdings presents an opportunity for the Nation to facilitate large-scale clean energy projects. The Budget includes \$73 million to maintain capacity to review and permit new renewable energy projects on Federal lands, with the goal of permitting at least 9,000 megawatts of new solar, wind, and geothermal electricity generation capacity on Department of the Interior-managed lands by the end of calendar year 2011.

- *Pursue Responsible Oil and Gas Production.* Even as we develop next generation energy technologies, we will continue to rely on oil and gas. As was underscored by the tragic explosion of the Deepwater Horizon and the oil spill that followed, we must take immediate steps to make production safer and more environmentally responsible. In the wake of the spill, the Administration has focused on implementing more rigorous safety and environmental standards than ever before, and making structural reforms within the Department of the Interior to increase oversight of offshore drilling, including greater independence for a new environmental enforcement agency to be created through the restructuring. The Budget proposes over \$500 million to restructure the Bureau of Ocean Energy Management, Regulation, and Enforcement; hire new oil and gas inspectors, engineers, scientists, and other key staff to oversee industry operations; establish real-time monitoring of key drilling activities; conduct detailed engineering reviews of offshore drilling and production safety systems; and implement more aggressive reviews of company oil spill response plans. In addition, the Administration is committed to holding the oil and gas industry accountable for the risks associated with oil and gas production by removing the existing liability cap for damages associated with offshore drilling activity and increasing the liability caps for other activities that could result in a spill.

**Reform our Tax Code to Foster Innovation and Competitiveness.** Over the nearly three decades since the last comprehensive reform effort, the tax system has been loaded up with revenue-side spending such as special deductions, credits, and other tax expenditures that help well-connected special interests, but do little for middle-class families or our Nation's economic growth. Now more than ever, when we want to compete and win in the world economy, we cannot afford a tax code burdened with special interest tax breaks. Successful comprehensive tax reform is a long process, often taking several years, but

even though it is a daunting task, we cannot afford to shirk from the work. In an increasingly competitive global economy, we need to ensure that our country remains the most attractive place for entrepreneurship and business growth. As a first step toward reform, the President calls on the Congress to immediately begin work on reform that will close loopholes, lower the overall rate, and not add a dime to the deficit.

**Simplify, Expand, and Make Permanent the Research and Experimentation (R&E) Tax Credit.** The R&E tax credit is a powerful incentive for private firms to make investments in the research and development necessary to keep a pipeline of new and improved products coming to market, which is critical to economic growth and job creation. Yet the United States currently ranks 24th out of 38 countries in the generosity of our R&E tax incentives. That's why, as part of corporate tax reform, the President supports making the R&E tax credit permanent to give businesses the certainty they need to make these important investments. In addition, the Administration wants to expand the credit by about 20 percent, the largest increase in the credit's history, and simplify it so that it is easier for firms to take this credit and make the investments our economy needs to compete.

**Improve the Patent System and Protect Intellectual Property.** The Budget proposes to give the U.S. Patent and Trademark Office (USPTO) full access to its fee collections and strengthen USPTO's efforts to improve the speed and quality of patent examinations through a temporary fee surcharge and regulatory and legislative reforms. The surcharge will better align application fees with processing costs. In total, this will provide USPTO with more than \$2.7 billion in resources in 2012, or more than 34 percent above 2010 levels. The Budget also supports strengthened intellectual property enforcement domestically and overseas as set out in the Intellectual Property Enforcement Coordinator's Joint Strategic Plan required by the 2008 PRO-IP Act.

### **Establish New Economic Growth Zones.**

To bolster economic rejuvenation in hard-hit areas of our country, the Administration proposes a new Growth Zone program that will deliver expanded tax incentives for investment and employment and a more streamlined access to Federal assistance to 20 areas facing economic distress, but showing clear growth potential. Replacing the Empowerment Zone program, the Growth Zones will include a mix of rural and urban areas that will be selected through a national competition that will judge their competitive strategies and their need and ability to attract investment and growth.

### ***Building a 21<sup>st</sup> Century Infrastructure***

From the Erie Canal to the transcontinental railroad, from the interstate highway system to the Internet, infrastructure has been critical to the economic growth and competitiveness of the American economy. For too long, we have neglected our Nation's infrastructure, its roads, bridges, levees, waterways, communications networks, and transit systems. In fact, the Department of Transportation's Bureau of Transportation Statistics estimates that more than 11 percent of U.S. highway bridges were structurally deficient and 13 percent of bridges were functionally obsolete at the end of 2008, the most recent period for which data are available. Further, the Texas Transportation Institute recently reported that Americans wasted 3.9 billion gallons of fuel in 2009 due to traffic congestion—an amount equal to 130 days of flow in the Alaska pipeline. In addition, we lag behind other nations when it comes to the infrastructure of the future. For example, only 63 percent of American households subscribe to high-speed, broadband Internet compared to 95 percent in South Korea and 77 percent in the Netherlands.

To compete in the 21<sup>st</sup> Century, we need an infrastructure that keeps pace with the times and outpaces our rivals. In the Recovery Act, the Administration made the largest one-time investment in our Nation's infrastructure since President Eisenhower called for the creation of a national highway system. Now, we must build on

those efforts, and we must do so responsibly by paying for what we build. We cannot strengthen our economy with a modern infrastructure if at the same time it weakens our fiscal standing. To build the infrastructure we need to compete in the 21<sup>st</sup> Century, the Budget proposes to:

### **Enact a Historic \$556 Billion Surface Transportation Reauthorization and Better Allocate Those Dollars to Get Results.**

Recognizing the importance of a modern transportation infrastructure to the growth and competitiveness of the economy, the President proposes a \$556 billion, six-year surface reauthorization package—expanded to include inter-city passenger rail transportation—which is an increase of more than 60 percent above the inflation-adjusted levels in the previous six-year bill plus annual appropriated funding for passenger rail during those years. This proposal is not just a historic commitment of funds, but also seeks to reform how these dollars are spent so that they are directed to the most effective programs and projects. It will hold States and localities accountable for real results and make Federal funding decisions based on more sound and inclusive transportation plans. Specifically, the plan seeks to:

- Create hundreds of thousands of jobs in the short term with a \$50 billion up-front investment for roads, rails, and runways. This is a key part of the President's initiative to deepen the economic recovery and spur job creation.
- Provide 80 percent of Americans with convenient access to a passenger rail system, featuring high-speed service, within 25 years. The Budget provides \$53 billion over six years to fund the development of high-speed rail and other passenger rail programs as part of an integrated national strategy. This includes merging Amtrak's stand-alone subsidies into the high-speed rail program as part of a larger, competitive System Preservation Initiative.
- Create a National Infrastructure Bank to support projects critical to national competi-



tiveness. Too often, transportation dollars are viewed from the perspective of an individual State or locality. Yet, there are projects that have national or regional significance and need to be approached in that way. For example, improvements in road and rail access to a West Coast port benefit farmers in the Midwest. The National Infrastructure Bank will be funded at \$30 billion over six years to support these kinds of projects. A cornerstone of the Bank's approach will be a rigorous project comparison method that transparently measures which projects offer the biggest "bang for the buck" to taxpayers and our economy.

- Bring more accountability, goal-driven performance, competition, and innovation to transportation funds through a competitive, Race to the Top-style grant program that also will create incentives for States and localities to adopt critical reforms in a variety of areas, including safety, livability, and demand management. Proposed funding for this program is \$32 billion over six years.
- Get the most out of taxpayer dollars with a new "fix-it-first" emphasis for highway and transit grants and through the consolidation of 55 duplicative, often-earmarked highway programs into five streamlined programs.
- Pay for any surface transportation reauthorization package so that it does not increase the deficit. To that end, the Budget follows the recommendation of the Fiscal Commission and proposes to make all programs included in surface transportation reauthorization subject to PAYGO (i.e., outlays classified as mandatory). This is intended to ensure that loopholes in budgetary treatment do not obscure the important goal of generating broad consensus for a fiscally responsible plan.

**Build a 21<sup>st</sup> Century Aviation System that Reduces Delays and Improves Safety.** The Budget provides \$1.24 billion for the Next Generation Air Transportation System, the Federal

Aviation Administration's multi-year effort to improve the efficiency, safety, and capacity of the aviation system. This will help the country move from a national, ground-based radar surveillance system to a more accurate satellite-based one which will result in the development of more efficient routes through airspace. This, in turn, would allow more planes to fly, reduce delays, save fuel, and improve overall safety. To assist those airports that need the most help, the Administration proposes to focus Federal grants to support smaller commercial and general aviation airports that do not have access to additional revenue or other outside sources of capital and reduce grants for larger airports. At the same time, the Budget would allow larger airports to increase non-Federal passenger facility charges, creating the flexibility to generate their own revenue as they see fit.

**Invest in Smart, Energy-Efficient, and Reliable Electricity Delivery Infrastructure.**

The Budget continues to support the modernization of the Nation's electrical grid, by investing in research, development, and demonstration of smart-grid technologies that will spur the transition to a smarter, more efficient, secure and reliable electrical system. The end result will promote energy- and cost-saving choices for consumers, reduce emissions, and foster the growth of renewable energy sources like wind and solar. In addition, the Budget supports the Power Marketing Administration to reliably operate, maintain, and rehabilitate the Federal hydro-power and transmission systems.

**Bring Next-Generation, Wireless Broadband to All Parts of the Country.**

The advances in wireless technology and the adoption of and reliance on wireless devices in daily commercial and personal life have been dramatic. High-speed, wireless broadband is fast becoming a critical component of business operations and economic growth. The United States needs to lead the world in providing broad access to the fastest networks possible. To do that, however, requires freeing up underutilized spectrum currently dedicated to other private and Federal uses. To that end, the Budget proposes legisla-

tion to provide authority for “voluntary incentive auctions” that will enable spectrum licensees to auction the rights to use their spectrum in return for a share of the proceeds. This step is critical both for reallocating spectrum and re-purposing it over the coming decade to greatly facilitate access for smart phones, portable computers, and innovative technologies that are on the horizon. Voluntary incentive auctions, along with other measures to enable more efficient spectrum management, will generate more than \$27 billion over the next 10 years, providing funds that will enable us to:

- Build an interoperable wireless broadband network for public safety that would allow for seamless use by first responders across the country and reserve additional spectrum for public safety use.
- Expand high-speed, wireless broadband to rural America, complementing the Federal Communications Commission’s reform of its Universal Service Fund.
- Establish a Wireless Innovation Fund to accelerate the research and development of cutting-edge wireless technologies and applications.

Taken together, these investments will give more Americans access to the data networks that will be central to future economic growth and job creation. And nearly \$10 billion of the funds generated from spectrum re-allocation will be used for deficit reduction.

**Invest in High-Priority Water Resources Infrastructure and Eliminate Duplicative Programs.** While there are a number of worthy water infrastructure projects, we cannot fund them all. In the Budget, the Administration gives priority for funding the operation and maintenance of the key infrastructure that is most important to the Nation, including the inland waterways with the most commercial use (the Mississippi and Ohio Rivers and the Illinois Waterway) and the major coastal harbors and their channels. The Budget also emphasizes funding

for dam safety work, construction of projects with substantial life-saving benefits, and projects that will complete construction in 2012. The Administration proposes to eliminate programs that duplicate other Federal, State, or local efforts, including Corps funding of local water and wastewater treatment projects. The Administration also will focus on ways to ensure the responsiveness, accountability, and operational oversight of the civil works program in order to best meet current and future water resources challenges. Together, these efforts will improve performance and free up resources for other uses and deficit reduction.

**Reduce Funding for State Revolving Funds (SRFs) While Spurring Efficiency and Reform.** As part of the Administration’s long-term strategy, the Environmental Protection Agency is implementing a Sustainable Water Infrastructure Policy that focuses on working with States and communities to enhance technical, managerial, and financial capacity. Important to the technical capacity will be enhancing alternatives analysis to expand “green infrastructure” options and their multiple benefits. Future year budgets for the SRFs gradually adjust, taking into account repayments, through 2016 with the goal of providing, on average, about 5 percent of water infrastructure spending annually. When coupled with increasing repayments from loans made in past years by States the annual funding will allow the SRFs to finance a significant percentage in clean water and drinking water infrastructure. Federal dollars provided through the SRFs will act as a catalyst for efficient system-wide planning and ongoing management of sustainable water infrastructure. Overall, the Administration requests a combined \$2.5 billion for the SRFs.

### ***Opening Markets Abroad and Keeping America Safe***

To thrive in the interdependent, global economy, we must manufacture the goods and provide the services that the world needs—and have the ability to export them to consumers all over the globe. Doing that will take a concerted effort to

promote American exports and remove barriers that prevent American businesses from selling their products and services in growing markets. It will require working in concert with other leading economies to make sure that rules of the road are being laid down and enforced and that we are collaborating with our partner nations to keep the global economy growing.

It also will take security and stability in regions throughout the world. Just as modern technology makes it possible for commerce to happen across the planet, it also makes it possible for remote threats—such as terrorism, pandemics, and failed states—to affect us at home. That is why it is imperative that we continue to strengthen our alliances and America’s standing in the world. American leadership is indispensable in marshalling the world against many of our shared threats, such as stopping the spread of nuclear weapons; disrupting, dismantling, and defeating al Qaeda; halting global warming; and improving the health of the world’s poorest populations and the health systems of the nations where they live. The Budget is committed to keeping America engaged in the world to keep our people safe and our economy strong. The Administration proposes to:

**Double American Exports by 2014.** The President, in 2009, set the goal of doubling American exports over five years. To that end, the Administration will work to pass the U.S.-Korea Free Trade Agreement, which will open up the market of the twelfth-largest economy to U.S. goods and services and support thousands of jobs. The Budget proposes \$526 million for the International Trade Administration (ITA) to continue implementation of the National Export Initiative, a broad Federal strategy to increase American exports and export-related jobs. With this funding, ITA can strengthen its efforts to promote exports from small businesses; help enforce international free trade agreements; fight to eliminate barriers to sales of U.S. products; and improve the competitiveness of U.S. firms. The Budget also supports the activities of the Export-Import Bank to strengthen its efforts to promote small business exports and to meet increased financing demands at no cost to the taxpayer. This will support bil-

ions of dollars in new exports and hundreds of thousands of U.S. jobs. The Administration also supports U.S. Trade and Development Agency activities to promote U.S. exports for priority development projects in emerging economies.

**Create a Unified Approach to Budgeting Operations in Iraq, Afghanistan, and Pakistan.**

In the past, war funding was done through supplemental appropriations measures, which obfuscated the true cost of these operations. This Administration has consistently included the extraordinary costs associated with funding military operations in Iraq and Afghanistan through a separate Overseas Contingency Operations (OCO) budget request for the Department of Defense (DOD), thus making it transparent and clear what these operations cost and their impact on our fiscal situation. In this Budget, the Administration proposes to apply this approach to both military and civilian efforts in these countries, to reflect the role that non-Defense agencies play in our operations and specifically to reflect the transition from military to civilian-led missions in Iraq. Indeed, this makes it easier to see when costs increase as the situation warrants and when costs decrease as these operations wind down. In turn, this transparency helps with fiscal discipline as it ensures that extraordinary funding does not permanently become part of an agency’s base budget. Specifically, certain temporary and extraordinary Department of State and U.S. Agency for International Development (USAID) diplomatic, development, and related assistance in Iraq, Afghanistan, and Pakistan will be requested as OCO funding and be similarly funded. An OCO budget is of great help as we transition from military-led to civilian-led operations since it provides a mechanism through which we can view and budget for a transition to a more normal diplomatic presence in these countries when appropriate. In the Budget, overall OCO spending goes down in 2012, with the defense drawdown in Iraq significantly larger than civilian increase. Specifically, DOD has an OCO decrease of \$41 billion, and the Department of State and USAID have increases of \$3 billion. Overall, OCO funding is \$126 billion, \$38 billion less than requested for 2011.

**Fund the Transition to a Civilian-led Mission in Iraq and Begin the Drawdown in Afghanistan.** On August 31, 2010, combat operations in Iraq officially ended. To support the U.S. transition from a military to a civilian-led mission in Iraq, the Budget helps Iraq develop its energy sector so that it can support itself in due time, funds a more intense diplomatic presence to triage flashpoints; and supports efforts to help Iraq build its civilian and military capabilities. Specifically, the Budget includes funding for: the drawdown of all U.S. troops in Iraq by December 31, 2011 and transfer of over 500 bases back to the government of Iraq; the establishment of two additional regional consulates and two Embassy Branch Offices; the transfer of more than 400 essential activities from DOD to the State Department; and the establishment of police and criminal justice hub facilities and security cooperation sites to continue enhancing security forces and ministry capabilities. In Afghanistan, the Budget supports operations necessary to fulfill our mission with funding for: force protection; reconstitution of damaged equipment; intelligence activities; and training, equipping, and sustaining the Afghan Army and police. Funding to build Afghan capacity is key to the planned drawdown of U.S. forces in Afghanistan beginning in the summer of 2011.

**Pursue Efficiencies, Reduce the Growth in Military Spending, and Maintain Military Readiness.** Although security spending cannot be frozen while the country is engaged in Afghanistan and Iraq, all parts of Government must share in the sacrifices needed to put the country on the sustainable fiscal path that is critical to our global competitiveness. The Department of Defense is pursuing a variety of strategies to set a course for zero real growth in defense spending, and saving \$78 billion in its base budget as compared to the 2011 estimate for the next half decade. This will reduce DOD spending by \$13 billion in 2012. To accomplish this, Secretary Gates is implementing a package of terminations, consolidations, and efficiencies that range from the elimination of the Marine Corps Expeditionary Fighting Vehicle to the consolidation of two Air Force air operations centers in the United States

and two in Europe and reducing the number of flag officers by more than 100. These savings are a critical component of our long-term plans as the projected savings—where they materialize—will be used to fund efforts to combat higher priority national security concerns such as cybersecurity, satellites and satellite launch vehicles, and nuclear security.

**Reform Defense Department Contracting.** DOD contracts account for approximately 70 percent of all Federal procurement spending, making DOD reform initiatives critical to broader efforts to improve Government-wide purchasing so that we get better services and goods at lower prices for taxpayers. Building on efforts begun in 2010, DOD will continue to improve its acquisition policy, reduce its use of high-risk contracts, such as those awarded without competition and those priced on a time-and-materials basis, and eliminate or reconfigure lower-priority acquisitions.

**Make Foreign Affairs Operations More Efficient and Effective.** Although foreign affairs funding is not part of the freeze on non-security discretionary spending, it is critical that these funds are used in a way that maximizes the impact of every dollar and that assures funds are not wasted on the unnecessary. The State Department budget reflects a program-by-program review that identified reductions and focused resources on high priority areas. For instance, entire bilateral programs in six countries have been eliminated and the Assistance for Europe, Eurasia and Central Asia account has been reduced by \$115 million in order to focus funding on regions with the greatest assistance needs. Similarly, several countries will no longer receive bilateral security assistance funding, as resources are being focused on countries with strategic significance. The African Development and Inter-American Foundations have been cut by 20 percent and directed to reduce their overhead and seek partnerships to leverage their remaining funds. The State Department will use information technology to achieve efficiencies and save approximately \$15 million in 2012, including eliminating duplication of data center services and infrastructure to control energy use and



facility costs, phasing out legacy messaging systems, and implementing the more efficient Global Foreign Affairs Compensation System (GFACS). USAID has launched a far-reaching initiative to improve overseas acquisitions and contracting processes through procurement reform which will lead to more effective partnerships with host country governments and other donors. And within the Global Health Initiative, the costs of commodities and service delivery continue to fall dramatically; notably, the per patient cost to the United States of providing anti-retroviral treatment for AIDS patients has fallen by over 50 percent since 2008 due to increased use of generic drugs, task-shifting to nurses and community health workers as appropriate, and increased involvement from and improved coordination with partner governments.

**Modernize the Nation's Nuclear Weapons Arsenal, Reduce Proliferation Risks, and Maintain a Strong Strategic Deterrent.** The Administration remains dedicated to modernizing America's nuclear arsenal and the complex that sustains it as well as sustaining and modernizing U.S. strategic delivery systems. The Administration proposes \$11.8 billion for the National Nuclear Security Administration (NNSA). This investment includes \$7.6 billion, to maintain a safe, secure, and effective nuclear arsenal by improving and replacing aging facilities and infrastructure, continuing nuclear weapon life extension programs, and sustaining stockpile surveillance and certification activities. The Administration funds \$2.5 billion to prevent the proliferation of nuclear weapons by fully funding efforts to secure and dispose of nuclear material, develop technologies to detect and deter nuclear testing and smuggling, and support international nonproliferation treaties, regulatory controls, and safeguards. The Administration also proposes \$1.2 billion for naval reactors, to include construction of new reactor fuel handling infrastructure and continued reactor development for a new ballistic missile submarine to sustain a robust nuclear deterrent. Finally, reflecting their close partnership and shared commitment, a portion of 2013-16 funding for weapons activities will be included in the Defense Department's

budget, with allocations being made to the NNSA each budget year.

**Prepare for Emerging Threats Including Cyber-Attacks.** There are a range of emerging threats for which our military must be prepared: from chemical and biological weapons to cyber-attacks on the information technology networks that are integral to the running of our economy and our society. The Budget invests in a host of initiatives to improve our ability to protect the United States from these emerging threats. These include: full funding of \$31.8 million for the reorganized chemical, biological, radiological, nuclear and high-yield explosive consequence management structure, which will be in place prior to the end of 2012; \$665 million to enhance the advanced development of next generation medical countermeasures against chemical, biological, radiological and nuclear threats; \$200 million for a public-private partnership of a vaccine manufacturing facility in support of the Administration's new Medical Counter Measure Initiative; \$138 million to continue building DOD's Institute of Infectious Disease at the new Interagency Biodefense Campus; \$97 million to improve the security of online transactions, enhance cybersecurity education efforts, increase cutting-edge cybersecurity R&D, and improve network security at small Federal agencies; and funding to support the full operational capability of the new U.S. Cyber Command and other programs to protect our information networks. Moreover, the Administration proposes \$459 million to support the operations of the National Cyber Security Division of the Department of Homeland Security, which will strengthen the defense of Federal civilian networks and help to support private-sector capabilities as well.

**Address Root Causes of Conflict and Security Threats.** In our increasingly interdependent world, failed states or regional conflicts can quickly have effects all over the world. Intense poverty, pandemics, and food insecurity all can contribute to political instability and eventually conflict. Alleviating these conditions is the right thing to do, and it is also the smart thing to do as attacking these root causes of suffering can

prevent future security threats. To that end, the Budget funds:

- *The Global Health Initiative.* The President's Global Health Initiative (GHI) will save millions of lives while fostering sustainable health care delivery platforms through increased investments in global health. This approach will achieve ambitious health outcome targets by focusing on country-led strategies to address the full range of developing country health needs in an integrated way while strengthening partner-country health systems. The GHI supports innovation by investing in promising technologies and bringing potential advances to scale. Overall, the Administration will invest \$9.8 billion in the GHI in 2012 and continues to pursue the ambitious health outcome targets laid out in the GHI strategy document as well as efficiencies in program delivery.
- *Feed the Future.* The Administration includes funding for agriculture development and international nutrition programs as part of a multi-year plan—as well as a G-20 commitment—to lift a significant number of people out of poverty and reduce malnutrition for millions of children under five-years-old by 2015. The Administration provides funding through bilateral assistance and a multi-donor facility administered by the World Bank for poor countries that make policy and financial commitments to address their internal food security needs. The Administration also maintains strong support for food aid and other humanitarian assistance, including \$4.2 billion to help internally displaced persons, refugees, and victims of armed conflict and natural disasters.

**Foster the Creation of an Advanced, Interoperable Communications System for First Responders.** Today's public safety agencies largely lack access to the level of wireless capabilities used by the military and large commercial enterprises. Federal, State and local public safety agencies largely rely on their legacy land mobile radio systems, which only provide voice

communications and are often not interoperable with other local and regional systems. This fragmented system of voice only communications has left public safety organizations with 1990's technology to face the problems of a 21<sup>st</sup> Century world. To support the creation of an interoperable, 4G wireless network for public safety, the Administration is calling for a total of \$10.6 billion toward this effort derived from the sale and reallocation of spectrum. Specifically, the Budget proposes to reallocate "D Block" spectrum valued at over \$3.1 billion (which will be reserved for public safety and not auctioned as called for under existing law), \$7 billion to support the deployment of this network, and \$500 million to fund R&D and support for standards and technologies to ensure the network capabilities meet the mission requirements of public safety.

**Safeguard the Nation's Air Transportation System.** The Administration proposes \$54 million to support the deployment of up to 1,275 new Advanced Imaging Technology (AIT) screening machines at airport checkpoints by the end of 2012. AIT machines allow security officers to detect both metallic and non-metallic anomalies such as weapons and explosives on persons entering an airport's secure area. These machines will be used with stringent privacy measures including maintaining anonymity between those being screened and those viewing the image, and the inability to store or transmit images captured by AIT. To improve the operation of Transportation Security Administration processes and systems and reduce redundancy, the Administration proposes \$58 million for the continued modernization and streamlining of transportation security vetting and credentialing.

**Strengthen Border Security and Immigration Verification and Integration Programs.** The Budget includes funding to support 21,370 Border Patrol agents and funding for 300 new Customs and Border Protection Officers for passenger and cargo screening at ports of entry as well as expansion of pre-screening operations at foreign airports and land ports of entry. This enhancement will reduce wait times and increase seizures of unlawful items. In addition, the

Budget proposes \$132 million to enhance and expand immigration-related verification programs at U.S. Citizenship and Immigration Services. Through E-Verify, U.S. employers can maintain a legal workforce by verifying the employment eligibility of their workers, while the Systematic Alien Verification for Entitlements (SAVE) program assists Federal, State, and local benefit-granting agencies with determining eligibility for benefits by verifying immigration status. These programs promote compliance with immigration laws and prevent individuals from obtaining benefits they are not eligible to receive. The Administration also increases support for integration of new immigrants, proposing \$20 million to promote citizenship through education and preparation programs, replication of promising practices in integration for use by communities across the Nation, and expansion of innovative English learning tools.

**Support the Nation's Troops and Their Families.** The men and women of our armed forces rely on the families that support them in their service. To support them as they answer their call to service, the Budget provides \$8.3 billion to support military families, including \$1.2 billion to expand availability of affordable, high-quality child care; \$4.7 billion to improve servicemembers' quality of life; and \$2.4 billion to support and build DOD schools, supporting quality education for military dependents. In addition, the Budget shifts \$73 million from the OCO budget to the base Department of Defense budget. This is a more honest budgeting approach and will bring more transparency about long-term needs, which will help ensure stability and adequate resources for important family support programs over the long-term. For the Coast Guard, the Budget provides investments in Coast Guard-owned family housing developments to provide suitable and affordable housing for Coast Guard members and their families assigned to areas where there are documented shortages. The President has also directed his Cabinet to make military families a top priority, ensuring the entire Federal Government supports military families, encouraging greater collaboration between agencies, and reducing unnecessary duplication of programs and services.

**Care for Wounded, Ill, and Injured Servicemembers.** To provide high-quality medical care to the more than 9.6 million servicemembers, retirees, and their families, the Budget includes funding for a variety of programs. The request includes support for wounded warrior transition units and centers of excellence in vision, hearing, traumatic brain injury, and other areas to continuously improve the care provided to wounded, ill, and injured servicemembers, including: \$32.2 billion overall for medical care; \$677 million to provide care for traumatic brain injury (TBI) and psychological health; and \$415 million for continued support of wounded, ill, and injured medical research, including psychological health and TBI/Post Traumatic Stress Disorder. To ensure beneficiaries receive treatment in state-of-the-art hospitals and clinics, the Budget plans for completion of the Walter Reed National Military Medical Center, and funds construction of the Fort Bliss hospital replacement, and ambulatory care centers at Andrews Air Force Base and Lackland Air Force Base.

**Prioritize Specialized Care for Veterans with Psychological and Cognitive Health Needs.** The President's Budget includes \$6 billion to enhance the Department of Veterans Affairs (VA's) ability to provide the best possible specialized care for post-traumatic stress, traumatic brain injury, and other mental health needs. The Budget makes possible collaborative programs between the Department of Defense and VA that target psychological health, research new evidence-based approaches, and increase outreach to veterans. Those programs will increase our ability to care for the psychological and cognitive conditions that will continue to impact our veteran population for many years to come.

**Continue Efforts to End Veteran Homelessness by 2015.** The President's Budget invests \$939 million to continue the expansion of VA services for homeless and at-risk veterans. These funds will move us toward the goal of ending veteran homelessness by 2015. Facilitating this will be collaborative partnerships with local governments, non-profit organizations,

and the Departments of Housing and Urban Development, Justice, and Labor.

**Begin Implementation of a New Paperless System to Boost Efficiency and Responsiveness at the Department of Veterans Affairs.**

We have been caring for veterans of our Nation's wars for centuries. But this long-held commitment cannot rely on outdated processes and tech-

nology to deliver the benefits veterans need and the Nation needs. That is why the Budget provides \$183 million for the implementation of a new paperless claims processing system. These funds will allow the VA to move away from its reliance on paper records, thereby improving the speed and efficiency of claims processing while simultaneously enhancing the security of veterans' personal information.