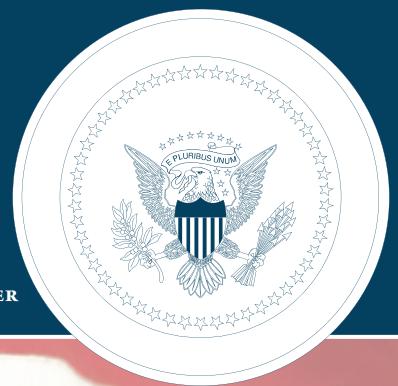


SAVING AMERICA'S FUTURE

A CHALLENGE TO THE AMERICAN PEOPLE

CENTER FOR THE STUDY OF THE
PRESIDENCY AND CONGRESS

DAVID ABSHIRE, NORMAN AUGUSTINE, ROY ROMER, AND DAVID WALKER



**SAVING AMERICA'S FUTURE:
A CHALLENGE TO THE AMERICAN PEOPLE**

Report 1

The Strengthening America's Future Initiative

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

Steering Committee Co-Chairs

Norman Augustine

Roy Romer

David Walker

Project Sponsor

David Abshire



CENTER FOR THE STUDY OF THE PRESIDENCY AND CONGRESS

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ACKNOWLEDGEMENTS

This project would not have been possible without the generous support of the Peter G. Peterson Foundation, a foundation that reflects the concerns of two noble leaders: founder and Chairman, Pete Peterson, who for so many years expressed concern about long-term fiscal discipline, and CEO and President, David Walker, who so ably led the Government Accountability Office. The Dr. Scholl Foundation, the Ford Foundation, Sarah Scaife Foundation and the Chevron Corporation also contributed to this project and, over the years, have provided significant support to many Center programs.

The project was originally conceived in my book, *A Call to Greatness: Challenging Our Next President*. With the difficulties facing the nation at home and abroad, the penultimate pages of that book proposed a vehicle for mobilizing America's best talent – modeled after President Eisenhower's "Solarium Project" – to be led by David Walker, then head of the GAO, and Norman Augustine, who chaired the monumental National Academies' study, *Rising Above the Gathering Storm*. However, we failed to anticipate the magnitude of the challenges our nation now faces, especially the gravity of the economic collapse from which we have yet to recover.

In September, when this project became a reality, we asked David Walker, Norman Augustine, and Leon Panetta, former Chair of the House Budget Committee and White House Chief of Staff for President Clinton, to be our distinguished co-chairs. Unfortunately, we lost Leon to the new Administration but, fortunately, replaced him with Roy Romer, Chairman of Strong American Schools and former Governor of Colorado. We are very grateful to the 23 high-level thinkers and policy leaders on our Steering Committee and very important leaders and members of the 13 issue teams. The teams' findings will continue to inform the Administration and Congress and will be published in a report later this year. We are honored and impressed that the President's education speech of March 10, 2009 reflected so exactly our Education and Competitiveness Issue Team's findings; our Infrastructure Issue Team's suggestions won support in parts of the stimulus and the 2010 federal budget. A depth of gratitude goes to our Senior Advisor Erik Peterson, for his help and guidance on all aspects of the project.

Within the Center, Project Director Dana Martin has ably led a highly motivated team under pressure to bring this report to a successful conclusion. The entire Center staff contributed much time and effort to this project, especially Ryan Browne, Katharine McFarland, and Matt Purushotham. Also highly involved in the project were Susan Blumenthal, John Boyer, Alex Douville, Sarah Ficenc, Thomas Kirlin, Cora Mendoza, Emily Shaftel, Anne Solomon and Jessica Zapf. Limor Ben-Har, who has since left the Center, was instrumental in defining the project's methodology and assisting with its launch. Ultimately, this project is a team effort and its success should be shared among all.

A handwritten signature in cursive script that reads "David M. Abshire".

David M. Abshire
President & CEO, Center for the Study of the Presidency and Congress



LETTER TO THE AMERICAN PEOPLE

Dear Fellow Americans:

Times are tough. The economic news is not good, and for many families the consequences cannot be overstated: lost jobs, lost homes, lost savings. As President Obama said in his Inaugural Address, we find ourselves “amidst gathering clouds and raging storms.”


It is hard to imagine that things may worsen – and yet sadly, today’s economic reality is only the tip of the iceberg. We face serious structural challenges in financing our government, providing efficient energy, protecting the environment, strengthening national and homeland security, ensuring quality public education, competing globally for jobs, extending health care while reducing its cost, and more. If we do not take measures to right our course, a far greater crisis awaits below the surface and threatens to sink our ship of state.

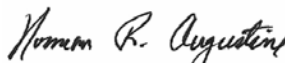
Though difficult, it is important to place the blame where it belongs – on ourselves. But if our wounds are self-inflicted, caused by our own behavior, the solution is within our control – we must, as a nation and individually, change our behavior.

We can and *will* get through this. Despite inadequate attention to many of these issues in the past and our many and massive challenges, a united America can overcome – just as it has, time and again, throughout our history. But, in the words of Lincoln, “we must think anew and act anew.” And the President needs our support; he cannot do it alone.


Indeed, President Obama has called us to service. We must rise to the occasion, but we need to know *how* to rise and *why* it’s urgent to do so now. This report, therefore, is founded on the principle that the American people want and need a clear-eyed assessment of our country’s state. Our intent is not to frighten, but to inform. Throughout our nation’s history, information has been a source of empowerment. If we understand the challenges facing our government, we can support politicians who are making good decisions and hold accountable those who aren’t. Truly knowing the state of our nation is the first step in taking it back. Hope should neither be blind nor feeble. Real hope is guided by knowledge and given force through action.

The American Dream is founded on the belief that our children should have a better life than we have today, and that each of us can reach our greatest potential, both as individuals and as a nation. But as President Obama said in his Inaugural, “Greatness is never a given.” Rather, the American Dream – and our responsibility to uphold it – is the “price and promise of citizenship.” Yes we can successfully address the many challenges outlined in this report. But it will require real change and dramatic action, and the sooner the better. Only then will our future be better than our present, and only then can the United States be the first republic to stand the test of time.


David Abshire
(Sponsor)


Norman Augustine
(Co-Chair)


Roy Romer
(Co-Chair)


David Walker
(Co-Chair)



STEERING COMMITTEE MEMBERS

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DR. DANIEL YERGIN



KEY FINDINGS

In this report, the first one issued by the Strengthening America's Future Initiative (SAFI), the Center for the Study of the Presidency and Congress (CSPC) identifies **ten grand challenges** facing America.

1. **Stabilize the Economy**: The economy must be addressed before attempting to reform any other major areas in government. In the fourth quarter of 2008, America's GDP shrank by 6.2 percent, the largest drop since 1982. Since November 2008, over 2.6 million jobs have been lost.
2. **Restore Strategic Leadership**: Many of the big problems facing the country exist because this broken system did not prevent them from happening in the first place. The federal government spends \$4 on older Americans for every \$1 it commits to education, health care, income support, and other programs relating to children.
3. **Address our Deteriorating Fiscal Condition**: We cannot continue building up the national debt. National debt is almost \$11 trillion and the government has committed to over \$56 trillion in liabilities and unfunded promises.
4. **Reform the Health Care System**: Despite our high level of investment, our health care system lags behind its counterparts in other industrialized countries. We spend over \$2,000 more on health care per person than the second-highest-spending nation on Earth, but our health care ranks 31st in the world and nearly 46 million Americans are uninsured.
5. **Strengthen our Educational System**: In a world more competitive by the day, we are graduating young Americans who are already behind many of their international counterparts. We spend more per student than any other developed nation, yet we rank 29th in science and 31st in math.
6. **Reinvest in Innovation**: The future prosperity of the United States is inexorably linked to its continued preeminence in science and technology. That prosperity is now at risk. A recent assessment ranked America dead last in progress over the past decade.
7. **Address Energy Dependence and the Environment**: The time has finally arrived to shift the country's energy signature toward clean energy sources and higher levels of domestic supply. The United States is the world's largest energy consumer – we produce 10 percent of the world's petroleum, but consume 24 percent.



8. **Invest in Infrastructure**: The physical infrastructure is crumbling around us, and the level of investment needed to bring us up to speed is extremely high. We have neglected the nation's physical infrastructure to such a degree that it would cost \$2.2 trillion just to bring it up to "good" condition.
9. **Modernize National and Homeland Security**: There is a pronounced need to modernize the national security architecture to reflect new challenges and opportunities. The current national security system, which was crafted in 1947, is a relic and poorly equipped to tackle current and future threats at home and abroad.
10. **Reinforce the U.S. Military**: The U.S. all-volunteer force is being pushed to the extreme, and the Pentagon alone needs to protect over 15,000 local, regional, and wide-area information networks including over 7 million IT devices.

To remedy these critical issues, SAFI offers four major recommendations:

1. **Develop a ten-year national strategy** based on a comprehensive assessment and integrated national purpose to align all elements of government and the allocation of resources.
2. **Create a bipartisan Fiscal Future Commission (FFC)** to develop statutory budget controls, comprehensive tax, entitlement, and other fiscal reforms.
3. **Emphasize prevention/wellness and develop strategies to reduce costs in the health care system**, while increasing overall efficiency and effectiveness.
4. **Raise educational standards** to equal or better than the best in the world; **provide current and prospective teachers the resources, incentives, and training** to give them equal standing with teachers globally.

Is America flatlining? Not yet. But we must change our course, organize for reform, and overhaul the way we think and act in the world. No less will do.



INTRODUCTION

The aim of the Strengthening America's Future Initiative (SAFI) is simple: to identify the nation's critical issues, to highlight the connections between them, and to offer specific actions that the American people and the government can take toward the nation's recovery. This first report is meant for a broad audience—for all citizens inside and outside of Washington, including politicians, teachers, doctors, business owners, city workers, lawyers, and others across America. We are concerned with identifying the problems and helping the government address them—a government without a framework for reform will waste effort, time, and money. Our subsequent reports will make specific, detailed recommendations and suggestions for implementation.

Our project is guided by a bipartisan Steering Committee of leaders from both the public and private sectors. This committee oversees our 13 specific issue teams and is co-chaired by Norman Augustine, Roy Romer, and David Walker. Utilizing the expertise of 150 issue team members* who have over 2,500 cumulative years of experience in government and the military, we have already and will continue throughout the project to send time-sensitive recommendations to the Obama Administration and Congress. The 13 issue teams have been categorized into ten overarching "Grand Challenges" facing the country. To identify themes, the Innovation, Comparative Advantage, and Synergies Team has been tasked with analyzing the results of each issue team's work and recommending crosscutting solutions.

The culmination of the project will be a final report in the fall, which will integrate the different pieces of the initiative into one comprehensive document. Our aim is, above all, to help the American people and the government imagine a clear path toward creating a sustainable future.

Strengthening America's Future Initiative Issue Teams:

- Budget and Taxes
- Education and Competitiveness
- Energy, Climate Change, and Resource Management
- Finance, Trade, and Economics
- The Health Care System
- Infrastructure
- Innovation, Comparative Advantage, and Synergies
- National and Homeland Security
- Restoring America's Trust and Influence Abroad
- Revitalizing the U.S. Armed Forces
- Science and Technology
- Small and Midsize Business
- U.S. Geopolitical Relations: Africa; Asia; Europe; Latin America; Middle East

For information on issue team membership and results, please visit www.thePresidency.org.

* It should be noted that while a consensus of members of this project supports the overall thrust of the report, not all members would necessarily agree with every item. Members of the issue teams are not responsible for the opinions expressed throughout this document.

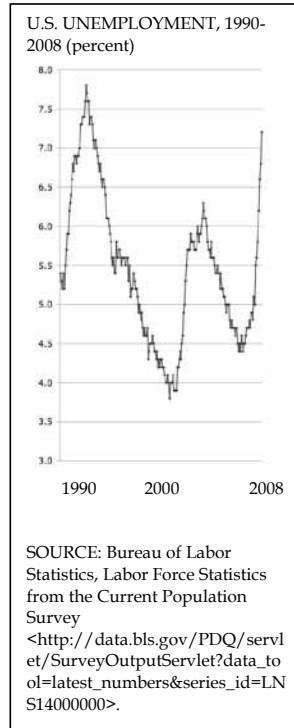
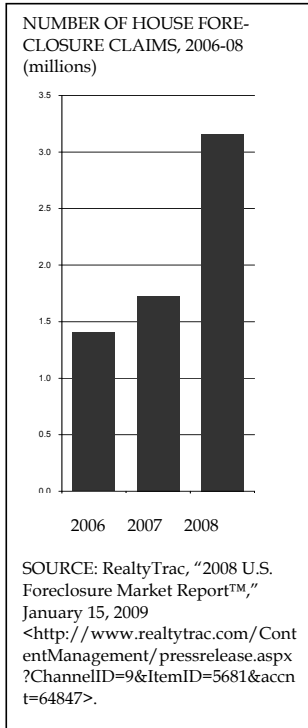
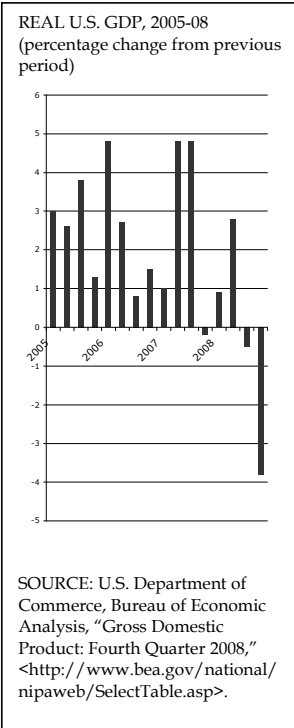


1

GRAND CHALLENGE NUMBER ONE: STABILIZE AND GROW THE ECONOMY

The scope of the challenge: Addressing the current economic and financial crises is the obvious top priority for the new Administration. Unemployment has surged with the mounting economic recession. In mid-February, the number of new housing contracts fell to an all-time low. The economy has shrunk as a result of the financial crisis.

The Administration's current strategy – an economic stimulus package designed to restore growth and job creation – necessarily will look for results in the short term. These efforts include \$288 billion in temporary tax cuts to individuals and corporations; \$13.6 billion for programs to mitigate the housing crisis; \$4.8 billion to train workers in high-growth areas and help the unemployed find jobs; and \$720 million for Small Business Administration programs to support small businesses.¹ Additional legislation targeting oversight of the banking sector is in the process of being created at the time of this publication. What remains to be seen is the extent to which these efforts will stem the erosion afflicting the nation, and what percentage of the current deficit-financed investment will support “shovel-ready” programs that may have limited relevance to the future trajectory of the country. The new Administration has stressed the importance of devoting expenditures to





developing alternative energy sources, increasing energy efficiencies, and expanding education, research and development, but the political process often yields results that fall short of expectations. The less-than-optimal outcome of the initial financial industry rescue plan enacted in October 2008 is a clear indication of the various complexities associated with such programs.

Another urgent priority closely related to revitalizing the economy is a set of measures designed to shore up the ailing financial sector. The Administration is faced with the daunting task of finding new approaches to regulating a realm of financial processes and instruments characterized by unimaginable intricacies, speeds, and volumes. At the core of this challenge is defining a coordinated approach with other regulatory bodies that can be applied both to the U.S. and to global financial systems. Such an approach could be based on, among other things, harmonization of accounting standards, consolidation of regulatory bodies in the United States, transparency of financial statements, and advancement of a regulatory system which includes principles-based elements.²

The economy is not good:

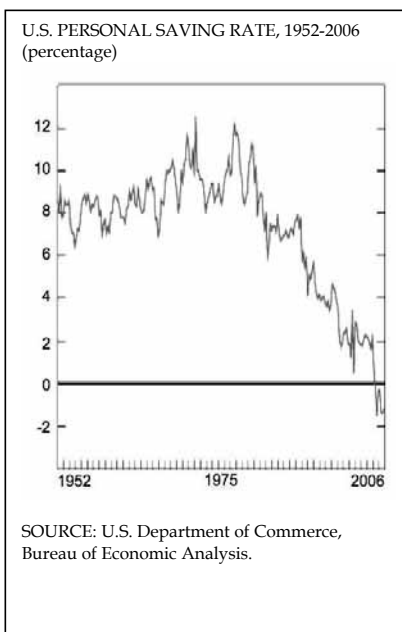
- In the fourth quarter of 2008, the country's gross domestic product (GDP) shrank by 6.2 percent, the largest quarterly drop since 1982.³
- Since November 2008, more than 2.6 million jobs have been lost.⁴
- In February 2009, the economy lost more than 23,000 jobs each day, pushing the unemployment rate to 8.1 percent – the highest it has been in more than 25 years.⁵
- The rate of home foreclosures continues to climb rapidly – by some 225 percent over the past two years.⁶
- Dramatic losses on the stock market have wiped out the hard-won retirement savings of millions of Americans even as most pension plans are seriously underfunded.
- In 2008, household net worth decreased \$11.2 trillion.⁷
- Over the past year, an estimated \$50 trillion in the value of financial assets, equivalent to one year of the world's GDP, has been destroyed.⁸
- According to the World Bank, the world economy will shrink in 2009 for the first time since World War II.⁹
- The debts of the financial world, which amounted to 21 percent of GDP in 1980, soared to 120 percent of GDP by 2007. Household debt rose from about 50 percent of a \$3 trillion GDP in 1980 to over 100 percent of a \$13 trillion GDP today.¹⁰



- After a peak in the early 1980s, our household saving rate – the ratio of savings to disposable income – has been, and continues to be, the lowest of any G7 country.¹¹
- Only 39 percent of Americans now express confidence in the stability of the U.S. banking industry, with just 6 percent “very confident,” according to a recent survey. This marks a 29-point drop since last July and a 25-point fall since September. Most Americans – 57 percent – lack confidence in the banking system, including 12 percent who are not at all confident.¹²

Hardworking families are fighting to make ends meet:

- Workers who have devoted years to their companies and organizations worry about getting a pink slip.
- College is too expensive for many young Americans, and graduates now confront a workforce that offers them few opportunities.
- Between October 9, 2007 and October 9, 2008, the value of equities in retirement plans dropped by about \$4 trillion, with the decline divided equally between defined benefits and 401(k)/Individual Retirement Accounts (IRAs).¹³
- Our current path will make it impossible to pass on a better life to our children and grandchildren.



- More than half of American households are cutting back on health care, and a third are skipping checkups or regular dental care.¹⁴

Small and midsize businesses are struggling:

Small and midsize businesses provide an enormous share of private-sector employment, job creation, exportation, technological development, innovation, and social entrepreneurship. Their impact often exceeds that of larger firms, as they have the ability to adapt and respond more quickly to changing market forces than larger, more cumbersome organizations. Innovation and the employment of high-tech workers is one area where smaller enterprises have had a major impact. Evidence of the dramatic impact of small business is seen in the areas of job creation and retention.



The recent economic turmoil has severely affected small and midsize businesses. At present, access to capital—the lifeblood of entrepreneurial efforts—is scarce, capital markets are less accessible, and acquiring venture capital is that much harder for business owners and entrepreneurs. Capital is essential to the creation and sustainability of small and midsize businesses, and its recent scarcity represents a major challenge. In recent years the principal federal entity tasked with aiding these smaller businesses, the Small Business Administration (SBA), has fallen into severe disrepair and lacks the capacity to provide credit and relief to small businesses during these economically turbulent times. A bolstered SBA, with a streamlined loan guarantee program, might be able to assure that the availability of credit is not as severely contracted for small and midsize businesses, which are vital to American economic and job growth.

In addition to the absence of capital, the nation's economic framework creates undue difficulties for business owners and entrepreneurs. Burdensome tax codes, accounting practices, and regulations that do not incorporate the unique needs of smaller firms have placed an unnecessary hindrance on these companies and could seriously damage their ability to help revive the flagging economy.

- Very small firms with fewer than 20 employees annually spend 45 percent more per employee than larger firms to comply with federal regulations. These very small firms spend 4.5 times as much per employee to comply with environmental regulations and 67 percent more per employee on tax compliance than their larger counterparts.¹⁵
- Small and midsize businesses employ about 40 percent of high-tech workers, including scientists, engineers, and computer workers. Small and midsize businesses also produce 13 times as many patents per employee as larger firms.¹⁶
- Small businesses employ over 50 percent of all private-sector employees.¹⁷ Of the 116.3 million nonagricultural private sector workers in 2005, smaller firms employed about 58.6 million.
- Smaller firms also represent a considerably large share of the number of American exporters and account for about 97 percent of all identified exporters of American goods.¹⁸

The bottom line: The economy must be addressed before attempting to reform any other major areas in government. The \$787 billion American Recovery and Reinvestment Act has attempted to jump-start the economy, but it will take time for its effects to be felt. Without vigilant attention from the Obama Administration and Congress, the economy will continue to hemorrhage jobs and hinder future growth.



The government has already responded to the economic crisis of 2008 with the bailout and Troubled Asset Relief Program (TARP), but more work remains. The Finance, Trade, and Economics Issue Team is generating recommendations addressing not only how the government can lead the country out of the economic crisis, but also how legislation should be structured to prepare for future events.

*Co-chairs: Dr. Peter Ackerman, Managing Director, Rockport Capital Inc.
The Honorable James Leach, Former U.S. Congressman and Former
Chairman of the House Budget Committee
Mr. Stephen Schwarzman, Co-Founder, Blackstone Group*

The Small and Midsize Business Issue Team is developing solutions specifically aimed at generating more jobs and innovation through small businesses. It is identifying the primary challenges for small and midsize businesses and proposing the best support the government can provide.

*Co-chairs: The Honorable Don Beyer, Former Lieutenant Governor of Virginia
Mr. Bruce Ferguson, Chairman and CEO, Edenspace
Ambassador Francis Rooney, Chairman and CEO, Rooney Holdings*



2

GRAND CHALLENGE NUMBER TWO: RESTORE STRATEGIC LEADERSHIP TO THE NATION'S CAPITAL

The scope of the challenge: In his first Inaugural Address, President Reagan said, "Government is not the solution to our problem. Government *is* the problem." Certainly not everyone agrees with his characterization of government, but leaders on both sides of the political aisle can acknowledge that the process of governing has become considerably more difficult even since the days of the Reagan Administration. Indeed, both nominees in last fall's Presidential campaign agreed that Washington was "broken" even as they disagreed fundamentally on what was broken and how to fix it.

The Cold War united the country to face the threat of nuclear annihilation and destruction of our society. A national strategy organizing the American government and people was the only way to confront this challenge and protect our way of life. In 1953, President Eisenhower embraced a new framework for the United States and believed that a competitive evaluation of alternative strategies was of vital importance.

Washington must relearn Eisenhower's strategic philosophy of intersecting national security and economic security, defined by both economic performance and the government's fiscal solvency. As the current Director of National Intelligence stated during testimony before the Senate Select Committee on Intelligence, today's economic crisis and its geopolitical implications pose the greatest security threat to the United States. Even as the country and the world attempt to recover from the economic crisis, the detrimental effects of decades of fiscal irresponsibility will undermine the global economy and could potentially create a crisis worse than today's recession. U.S. economic and national security depends upon making tough choices to limit federal deficits and creating sustainable economic growth for future generations.

To address the issues outlined in this report, we need strategies, involving sometimes painful trade-offs and often elusive political compromise while addressing multiple symptoms. This will involve a test of leadership that calls for closer cooperation and coordination among an ever-widening scope of actors—federal, state, and local governments; the private sector; nongovernmental organizations (NGOs); and academia and the research community. To succeed, these challenges need to overcome the partisan divide creating deadlock in Washington.

- Voters reinforce this tendency by characterizing compromise as weak. Politicians fear that voters will accuse them of "caving in" or "flip-flopping" when they compromise on an issue, even when their change in position is based on new information or is in the country's best interest.



- Divisive special interest groups lobby not only with their words but also with their wallets. These interests are disproportionately represented on the agendas of Members of Congress and those in the Executive Branch. In 2008, \$3.24 billion was spent on over 15,000 lobbyists attempting to influence Congress and federal agencies.¹⁹
- Today's 24-7 news cycle drives politicians to address the most pressing short-term issues rather than the root causes of the problems. As a result, we are reduced to "attention deficit disorder" politics rather than policies based on strategic insight and planning.
- The interests of the Baby Boom generation have been put above those of their children and grandchildren, who have the most at stake in the debates taking place today over economic and fiscal policy.
- The federal government spends \$4 on older Americans for every \$1 it commits to education, health care, income support, and other programs relating to children.²⁰

The bottom line: Over the past couple of decades, the federal government has become increasingly dysfunctional. It is politically and ideologically divided, shortsighted, compartmentalized, bureaucratic, and arcane. Both major political parties seem unable to agree on the approaches necessary to address the structural challenges confronting the country. To make matters worse, these impediments to effective leadership seem to be growing by the day.

Many of the big problems facing the country exist because this broken system did not prevent them from happening in the first place. Similarly, many of the current challenges reflect leaders' failure to act quickly enough to solve them.

The Innovation, Comparative Advantage, and Synergies Issue Team is identifying crosscutting problems and mis-investments at the federal level and then isolating solutions that cut across issues and have multiplier effects. The team has a special focus on science and technology, fields that often produce such solutions.

Co-chairs: *The Honorable Dr. Richard Meserve, President, Carnegie Institution for Science*
 Ms. Deborah Wince-Smith, President, Council on Competitiveness

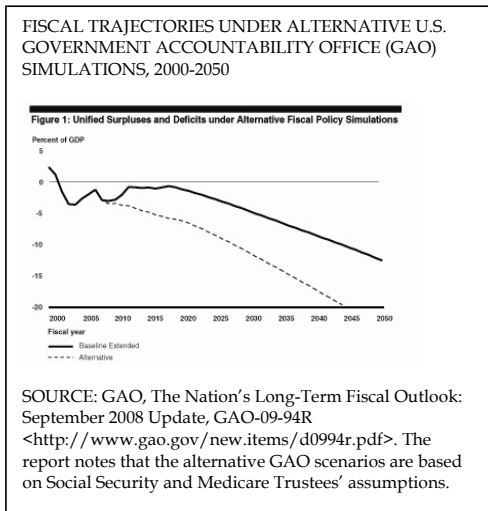


3

GRAND CHALLENGE NUMBER THREE: SHORE UP THE COUNTRY'S FISCAL CONDITION

The scope of the challenge: At the core of the country's structural challenges is the state of its financial condition. In this regard, we face multiple obstacles that go well beyond the current problems: a growing government deficit; mounting limitations on government spending; a dysfunctional budget process; an arcane, costly, and agonizing tax system; and a looming "agequake" of retirees that will further restrict the options available to the next generation. In these areas, we are on countdown.

On February 23, 2009, President Obama convened a bipartisan Fiscal Responsibility Summit at the White House aimed at tackling the country's rising deficits. The chief culprit was acknowledged to be increasing health care costs. The goal of the summit was to find ways to restore fiscal stability without deepening the recession. Congressional leadership of both parties, as well as a range of business, academic, financial, and labor leaders participated. President Obama warned that the country cannot continue its current rate of deficit spending without facing dire economic consequences.



Federal debt:

According to the Peter G. Peterson Foundation, "Every [single] American is now burdened, most of them unknowingly, with more than \$184,000 in federal liabilities and unfunded government promises."²¹ Think about it this way: With this large and growing debt burden, the next generation of Americans will start their race to the future from well behind the financial starting line. Here are the dimensions of this growing challenge:

- For the first time in history, the United States owes more than Americans are worth. As of September 30, 2008, America had debt and unfunded commitments exceeding \$56.4 trillion, while the value of the country's total family household net worth was \$56.5 trillion.²² Since that point, American debt and unfunded commitments have increased and family household net worth has decreased.
- At the close of the last fiscal year, September 30, 2008, the national debt stood at \$10 trillion – an increase of more than \$1 trillion from the previous fiscal year.²³



- This amounts to \$2.8 billion in new federal debt every day since September 2007.
- According to a Peter G. Peterson Foundation poll from March 2009, voters ranked addressing the growing federal deficits and debt levels as the second priority, behind the economy, for the Obama Administration.²⁴
- We depend on other countries to finance most of our debt. The top owner of U.S. debt is China, which holds \$727 billion.²⁵
- According to the Federal Reserve Bank of New York, the United States borrowed \$4.4 trillion between 1999 and 2006 to finance its current account deficits – 85 percent of total net borrowing worldwide.²⁶
- Over the past 40 years, the average federal budget deficit has been 2.3 percent of GDP, demonstrating that Washington has become addicted to deficits and debt.²⁷
- Stimulating the economy is a necessity to avoid a deeper crisis. Trillions of dollars are being pumped into the economy and banking system by the Treasury Department, Federal Reserve Bank, and other sources and may have a major impact on the deficit.

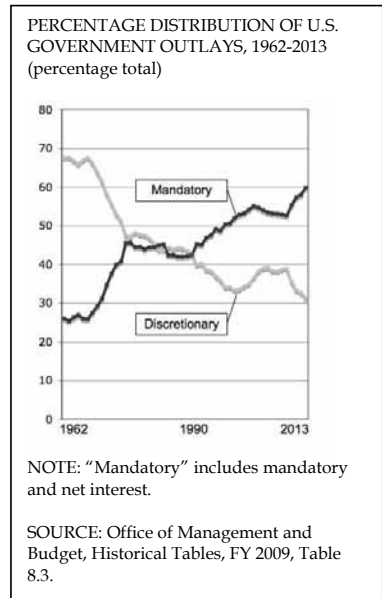
Restrictions on government spending:

Thanks to a number of high-profile legislative mandates when it comes to spending, the federal government has undergone a remarkable shift in its ability to support discretionary programs. Many areas implied in the “remaking of America,” as President Obama mentioned in his Inaugural Address, fall under the discretionary side of the spending spectrum, including restoring the country’s military capabilities, reforming educational structures, modernizing the physical infrastructure, safeguarding the environment, and positioning the country to succeed in a resource-constrained future.

- Since 1962, the amount spent on “mandatory programs” (such as Social Security and Medicare) has risen from around 26 percent to over 50 percent of total outlay. By contrast, “discretionary” spending has fallen from over 67 percent to less to 31 percent.²⁸

The budget process:

Our budget process is encumbered by a focus on the immediate budget year. Beyond that, it is cash-based and therefore discounts or ignores future costs. Separate





and distinct budget processes of the Executive Branch and Congress create an absence of cohesive vision.

Tax system:

The Organisation for Economic Co-operation and Development (OECD) reports that the U.S. tax system would benefit from reform in three critical areas. First, the system is tremendously complex and unnecessarily ambiguous. Second, the tax system often serves to create disincentives to work, save, and create new businesses or to expand existing ones. Third, there are looming questions regarding the inefficiency of generating a higher proportion of revenue from taxes on income rather than on consumption.²⁹

- The tax code contains 3.7 million words.
- Americans spend 7.6 billion hours annually preparing their federal tax returns—the equivalent of 3.8 million workers spending 2,000 hours annually (a normal work year) on tax preparation.³⁰
- The tax system needs to strike a better balance between taxing income and consumption.
- The tax and investment systems motivate short-term actions rather than sustained investments.

The looming “agequake”:

After World War II, Americans became accustomed to working for one or two companies before retiring at age 65 with a pension and health and federal benefits. But in 1946, the average American lived to age 66, so most companies were paying retirement benefits to former employees for only about one year. Today, the average U.S. life expectancy has risen to 78. Funding retirement benefits, therefore, is much more expensive for businesses, and to lower their costs, they have reduced the benefits they provide to employees. It has become the government’s burden to pick up the slack. But the burden is too great to sustain.

Washington has neglected to make appropriate policy adjustments in light of demographic changes. The country is not only getting more populous; it is getting older. Aging has significant implications for the country’s economic outlook, its fiscal policy, the balance of domestic politics, military capacities, and intergenerational equity issues.

- By 2050, more than one out of every five people in the United States will be over 65.
- An average of more than 10,000 Americans per day will become eligible for Social Security retirement benefits over the next two decades.³¹



- The Government Accountability Office (GAO) has calculated that if things don't change in the next ten years, "76 cents of every dollar of federal revenue will be spent on retirees and their health care providers, health care providers for the poor, and our bond holders."³²

The bottom line: Our current fiscal and financing practices are unsustainable. We cannot continue building up the national debt. We cannot let mandatory commitments squeeze out discretionary outlays without creating a tremendous backlash from the public. We cannot perpetuate a budget process that skews the way we think about spending. And we cannot maintain a tax system that so antagonizes the public. What's more, we need to rethink a range of intergenerational equity issues. If the rubric "generation gap" was important in the 1960s, it will pale in comparison to the kinds of competition for resources – government and otherwise – that we can now foresee.

Given current budget trends and reliance on foreign lenders, the Budget and Taxes Issue Team is examining the revenue and spending side of the federal budget. The recommendations will look for ways to reduce deficits and restore the fiscal health of the government while stimulating economic growth.



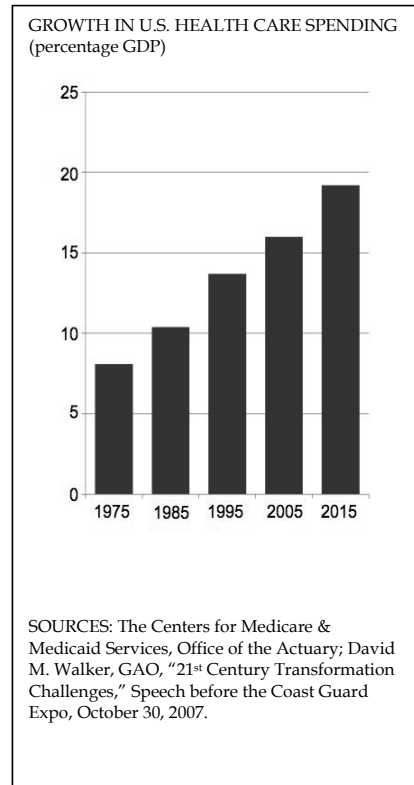
4

GRAND CHALLENGE NUMBER FOUR: REFORM THE AMERICAN HEALTH SYSTEM

The scope of the challenge: America's health system is in crisis. Although the United States has long been a global leader in health and medicine, skyrocketing costs and a troubled economy now threaten the path to a healthier future for all Americans. To begin to address some of the systemic issues in health care, the stimulus package allocated \$19 billion for health information technology and \$2 billion to provide for preventive care and to evaluate the most effective health care treatments. This represents a positive initial investment in our health care system, but major improvements in the system are still needed.

The list of health care-related issues is as extensive as it is daunting: lack of access to health care; equity issues in access; rapidly rising costs in health services; inefficiency throughout the system; growing pressures associated with the looming retirement of the Baby Boomers; access and stratification of access to existing and new health technologies; and the role of government in financing health care. The massive challenge for the new Administration is to develop an integrated approach to health care reform that is affordable and sustainable and one that can generate sufficient popular and political support.

President Obama hosted a White House Forum on Health Reform on March 5, 2009. The President pledged an overhaul of the U.S. health care system this year, an ambitious undertaking in light of the nation's current financial crisis. In attendance were representatives from Congress, academia, business leaders, and advocates. The President used this summit to emphasize the necessity of reform, stressing that unless significant, timely health care reform takes place, the current health care system will almost certainly "break the bank."





TOTAL EXPENDITURE ON HEALTH, PER CAPITA (\$U.S./PPP), 2005

United States	6,347
Norway	4,328
Luxembourg	4,153
Switzerland	4,069
Austria	3,507
Canada	3,460
Belgium	3,385
Iceland	3,373
France	3,306
Germany	3,251
Denmark	3,179
Ireland	3,126
Sweden	3,012
Australia	2,999
Average	2,699
United Kingdom	2,580
Finland	2,523
Italy	2,496
Japan	2,474
Greece	2,283
Spain	2,260
Portugal	2,029

SOURCE: OECD, 2008 Factbook, Stat Extracts
 <<http://stats.oecd.org/WBOS/index.aspx>>.

The Obama Administration indicates that it will pursue a strategy that “strengthens employer coverage, makes insurance companies accountable, and ensures patient choice of doctor and care without government interference.”³³ To achieve these goals, however, it will need to address several fundamental obstacles. The President described the stakes when he addressed a joint session of Congress on February 24:

*By the end of the year, [healthcare] could cause 1.5 million Americans to lose their homes. In the last eight years, premiums have grown four times faster than wages. And in each of these years, one million more Americans have lost their health insurance. It is one of the major reasons why small businesses close their doors and corporations ship jobs overseas.*³⁴

- As a percentage of GDP, health care spending has grown steadily – from 8.1 percent in 1975 to 16.0 percent in 2005 to a projected 19.2 percent in 2015.³⁵
- Americans receive the recommended medical treatment only 55 percent of the time.³⁶
- An estimated 30 to 50 percent of all U.S. health expenditures are wasted through the overuse, underuse, and misuse of medical and administrative services.^{37,38}
- Nearly 46 million Americans do not have health care insurance.³⁹
- Spending on disease prevention accounts for only 1 to 3 percent of the government’s health budget.⁴⁰
- An estimated 85 percent of medical bills contain errors.⁴¹
- “When extrapolated to the over 33.6 million admissions to U.S. hospitals in 1997, the results of the study in Colorado and Utah imply that at least 44,000 Americans die each year as a result of medical errors. The results of the New York Study suggest the number may be as high as 98,000.”⁴² “But the Institute of Medicine (IOM) also found that more than 90 percent of these deaths are the result of failed systems and procedures, not the negligence of physicians.”⁴³

The effects of the inefficient and expensive health care system can be felt throughout the economy and government.



- “Starbucks expects to spend about \$200 million this year [2005] for health care for its 80,000 U.S. employees – more than the total amount it spends on green coffee from Africa, Indonesia and other countries.”⁴⁴
- General Motors CEO Rick Wagoner “told the [U.S. Senate Special] Committee on Aging that the company spent \$5.3 billion on health care coverage for its U.S. employees, retirees and their dependents in 2005, which he said is more than the company spends on steel in its cars.”⁴⁵

The bottom line: Health care in the United States is in crisis. Despite our high level of investment, our system lags behind its counterparts in other industrialized countries. We are not getting the health care we deserve. Nor are enough Americans gaining access to the health care they need.

The Health Care System Issue Team has formed the *Commission on U.S. Leadership in Health and Medicine: Charting Future Directions* to develop recommendations on specific policies and actions that should be taken to address the inefficient and ineffective health care system.

Co-chairs: Dr. Susan Blumenthal, Director, Health and Medicine Program,
Center for the Study of the Presidency and Congress
Dr. Denis Cortese, President and CEO, Mayo Clinic



5

GRAND CHALLENGE NUMBER FIVE:
REFORM THE EDUCATIONAL SYSTEM

The scope of the challenge: "America is widely acknowledged as having one of the worst K-12 education systems in the world, yet it spends more on it per student than all but two other nations. The more our children are exposed to our educational system, the more poorly they perform on international tests."⁴⁶ As President Obama asserted during his February 2009 speech before the joint session of Congress, "This is a prescription for economic decline, because we know the countries that out-teach us today will out-compete us tomorrow."⁴⁷

Immediate concerns stemming from the financial crisis have been addressed by the stimulus package, which assigns \$53.6 billion for a state fiscal stabilization fund and \$22 billion for school construction bonds.

Former Federal Reserve Chairman Alan Greenspan has suggested that "[i]f you don't solve the [K-12 education challenge], nothing else is going to matter all that much."⁴⁸ Thomas Donohue, the president of the U.S. Chamber of Commerce, has been even more blunt: "If companies were run like many educational institutions, they wouldn't last a week."⁴⁹

The various symptoms of this dislocation in American education are indeed profound:

- Compared with 57 highly developed countries, the United States ranks 29th in science and 31st in math.⁵⁰
- "More than 1.2 million students drop out of school every year. That's more than 6,000 students every school day."⁵¹
- "More than one in three college freshmen have to take remedial courses to catch up on skills they should have learned in high school."⁵²
- "Only 56 percent of students who enroll in four-year colleges after high school manage to earn a bachelor's degree within six years."⁵³
- "Four in five American manufacturing companies (84 percent) say schools are not doing a good job preparing students for jobs, and more than half cite specific deficits in math and science."⁵⁴

ANNUAL EXPENDITURE ON EDUCATIONAL INSTITUTIONS, PER STUDENT FOR ALL SERVICES (\$U.S./PPP), 2005

United States	12,788
Switzerland	12,195
Norway	10,980
Austria	10,407
Denmark	10,108
Sweden	9,156
Iceland	8,931
Japan	8,378
Australia	8,340
France	8,101
Belgium	8,034
Germany	7,872
United Kingdom	7,741
Finland	7,711
Italy	7,540
Spain	7,134
Ireland	7,108
Korea	6,212
Portugal	6,197
Greece	5,692
Czech Republic	4,545
Hungary	4,423
Poland	3,592
Slovak Republic	3,139
Mexico	2,405

SOURCE: OECD, *Education at a Glance 2008: OECD Indicators*, Indicator B1 <http://www.oecd.org/document/9/0,3343,en_2649_39263238_412667_61_1_1_1_1,00.html>.



- “America once had the best high school graduation rate in the world, but has now slipped to 20th out of 28 countries.”⁵⁵
- “As recently as 1998, the U.S. still ranked first in percentage of 25-34 year olds with at least a bachelor’s degree, but by 2006 it had dropped to 10th.”⁵⁶
- “Between 2000 and 2005, out of 23 countries, the U.S. was the only country that showed no increase in the percentage of its population obtaining a postsecondary degree.”⁵⁷
- In 2006, workers with a high school education made only 60 percent as much as workers with a college degree or greater education.⁵⁸
- Two-thirds of engineering Ph.D.s granted by U.S. universities go to non-U.S. citizens.⁵⁹

The bottom line: In a world more competitive by the day, we are graduating young Americans who are already behind many of their international counterparts. This is unacceptable. The education gap has negative implications for the economic future of the country and its competitiveness relative to other economies, as well as for America’s ability to provide better opportunities to the next generation.

The Education and Competitiveness Issue Team is examining the nation’s educational system and creating recommendations to address its critical shortcomings. The team’s recommendations focus on how to develop a quality system of national standards and how to enhance national competitiveness through education.

*Co-chairs: The Honorable William E. Brock, Former Secretary of Labor
Mr. Joel Klein, Chancellor, NYC Department of Education
The Honorable Roy Romer, Former Governor of Colorado*



6

GRAND CHALLENGE NUMBER SIX: SHORE UP THE COUNTRY'S POSITION IN SCIENCE AND INNOVATION

The scope of the challenge: Science and research and development have made major contributions to the economic growth and productivity gains of the United States. At the core of the challenge is the quantity and quality of scientists, engineers, and others with science and technology knowledge emerging from the country's educational system. As suggested previously, the United States faces formidable obstacles in that regard:

- "...a variety of studies have concluded that between 50 and 85 percent of the growth in America's gross domestic product over the past half-century has its root in advancements in science and engineering."⁶⁰
- "Because other nations have, and probably will continue to have, the competitive advantage of a low wage structure, the United States must compete by optimizing its knowledge-based resources, particularly in science and technology, and by sustaining the most fertile environment for new and revitalized industries and the well-paying jobs they bring."⁶¹
- An assessment by the Information Technology and Innovation Foundation of global innovation and competitiveness just dropped the United States to sixth place among the 40 nations it considered. In progress over the last decade, it ranked America dead last.⁶²

In testimony before House Democratic Steering and Policy Committee in January, Norman Augustine noted that since the release of the *Rising Above the Gathering Storm* report he chaired in 2007:

... a new research university was established with an opening-day endowment equal to MIT's after 142 years; next year over 200,000 students will study abroad, mostly pursuing science or engineering degrees, often under government-provided scholarships; government investment in R&D is set to increase by 25 percent; an initiative is underway to make the country a global nanotechnology hub; an additional \$10 billion is being devoted to K-12 education, with emphasis on math and science; the world's most powerful particle accelerator will soon begin operation; a \$3 billion add-on to the nation's research budget is being implemented; and a follow-on to the 'Gathering Storm' study has been completed. These actions are, of course, taking place in Saudi Arabia, China, the U.K., India, Brazil, Switzerland, Russia and Australia, respectively.

By contrast, he noted, in the United States (even prior to the onset of the current financial and economic crisis):



*... one premier national laboratory announced the imposition of two-day-a-month 'unpaid holidays' on its science staff; several laboratories began laying off researchers; the U.S. portion of the international program to develop plentiful energy through nuclear fusion was reduced to 'survival mode'; America's firms continued to spend three times more on litigation than research; and many young would-be scientists presumably began reconsidering their careers.*⁶³

These observations are emblematic of a self-inflicted erosion of U.S. leadership in the areas of science and technology. According to the Committee on Prospering in the Global Economy of the 21st Century, "the scientific and technological building blocks critical to our economic leadership are eroding at a time when other nations are gaining strength."⁶⁴

The bottom line: The future prosperity of the United States is inexorably linked to its continued preeminence in science and technology. We face greater global competition than ever before and must refocus on science, innovation, and technology to strengthen our economy. While the stimulus package allocates \$15 billion for scientific facilities, research, and instrumentation, sustained investment in research and innovation is required to ensure that America maintains its competitive edge in an increasingly globalized economy.

In 2008, the Science and Technology Issue Team made recommendations to the two Presidential nominees on requirements to assure a science and technology-informed Presidency. The team is developing its recommendations further to focus on the science and technology issues facing President Obama and the Congress.

*Co-chairs: The Honorable Dr. Richard Meserve, President, Carnegie Institution for Science
Ms. Anne Solomon, Senior Advisor on Science and Technology Policy,
Center for the Study of the Presidency and Congress*



7

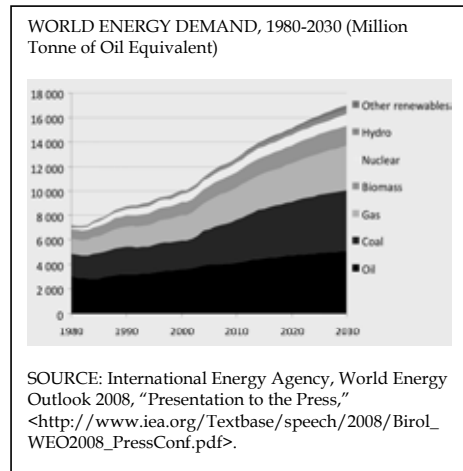
GRAND CHALLENGE NUMBER SEVEN:
ADDRESSING ENERGY DEPENDENCE & THE ENVIRONMENT

The scope of the challenge: It is well known that we need to diversify energy sources and substitute clean energy sources for fossil fuels. A critical dimension related to the energy conundrum is environmental degradation and, in particular, the global warming challenge. As the evidence continues to mount about the systemic effect of the global warming phenomenon, the need to change the mix of energy sources becomes all the more urgent.⁶⁵

The longer-range energy outlook, the current demand decline notwithstanding, is dominated by the kind of massive shift in the global supply-demand framework that we witnessed prior to the onset of the current recessionary conditions. It is likely that with revived economic growth around the world, energy markets will experience a recurrence of the demand explosion generated by rapid economic growth in China, India, and other high-growth emerging economies. Such a scenario has profound implications for the United States.

In light of established dependency patterns in the country (e.g., on fossil fuels) and the complexities associated with switching fuel sources implicit in the goal of having one million plug-in hybrid cars on the road by 2015, the Administration faces a steep uphill climb when it comes to meeting the sustainability challenge in energy. Although the stimulus package invests \$30 billion toward a smarter and more secure energy grid and renewable technologies, additional sustained investments are needed to make an impact on our dependence on foreign oil and to combat climate change.

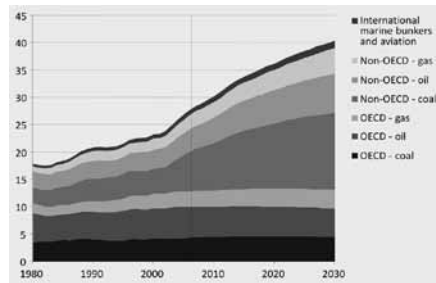
A critical related dimension to the energy conundrum is concern over environmental degradation and, in particular, the global warming challenge. As the evidence continues to mount about the systemic effect of the global warming phenomenon, the need to reassess our use of energy sources becomes all the more urgent. Without immediate and sustained intervention, climate impacts are only expected to worsen, and there is now no articulated domestic or global climate policy.





Federal and state regulators, notably in the power sector, can help or hinder needed investment in new climate and energy-producing technologies. Though cap-and-trade regimes are politically attractive, a direct carbon tax is the more efficient and enforceable approach to limiting greenhouse gas emissions. Currently, carbon emissions are not properly priced. There is little government provided incentive, such as an R&D tax credit or to partially fund industrial research consortia, for private companies to invest in such new technologies. Investors and companies, therefore, have not invested sufficient sums of money in cleaner energy technology and production. The absence of effective policies addressing the technology transfer challenge, especially on carbon capture and sequestration, adds to a greater lack of governmental guidance in climate R&D and a governmental avoidance to absorb and shift risk for the testing and deployment of new technologies (e.g., regulatory guarantees and co-financing) through loan guarantees.

ENERGY-RELATED CO₂ EMISSIONS, 1980-2030
(Gigatonnes CO₂)



SOURCE: International Energy Agency, World Energy Outlook 2008, "Presentation to the Press," <http://www.iea.org/Textbase/speech/2008/Birol_WEO2008_PressConf.pdf>.

- The year 2008 marked the most volatile period for energy since 1990.⁶⁶
- The United States is the world's largest energy consumer. It produces 10 percent of the world's petroleum but consumes 24 percent.⁶⁷
- The International Energy Agency forecasts that world demand for energy could grow by 45 percent by 2030.⁶⁸
- Emissions from electricity generation accounted for the largest share of U.S. greenhouse gases (38.9 percent of U.S. production of carbon dioxide) in 2006, with transportation emissions close behind, at 31 percent.⁶⁹
- Although coal power accounted for only 49 percent of U.S. electricity production in 2006, it was responsible for 83 percent of carbon dioxide emissions caused by electricity generation that year. Other industrial coal-burning applications released additional carbon dioxide.⁷⁰

The bottom line: After decades of complacency about growing U.S. energy dependence on foreign suppliers, the time has arrived to shift the country's energy signature toward clean energy sources, greater levels of domestic supply, and increased innovation. At the same time, sustained investment is required across the energy spectrum, and around the world, to avoid new oil supply and price shocks over the next decade.



The Energy, Climate Change, and Resource Management Issue Team is meeting to develop recommendations addressing the numerous facets of U.S. energy policy, including energy and how it relates to international finance, energy and global climate change, and domestic energy production.

Co-chairs: Dr. Thomas Kirlin, Vice President, Center for the Study of the Presidency and Congress
Mr. Jonathan Lash, President, World Resources Institute
Dr. David Victor, Director, Stanford University Program on Energy and Sustainable Development



8

GRAND CHALLENGE NUMBER EIGHT: MODERNIZE THE COUNTRY'S PHYSICAL INFRASTRUCTURE

The scope of the challenge: The symptoms of a steady and systemic decline in America's physical infrastructure are growing rapidly. The American Society of Civil Engineers gave the state of infrastructure in the United States an overall grade of D on its most recent report card.⁷¹ The grade reflects further deterioration in three areas and improvement in only one (energy infrastructure) since the last scoring in 2005. When the country's dilapidated structures, contaminated water, congested traffic, and corroding

bridges were all taken into account, the society concluded that the United States needed to invest \$2.2 trillion over a five-year period "to bring the nation's infrastructure to a good condition."⁷²

- Over 25 percent of the nation's bridges are structurally deficient or functionally obsolete.
- The average U.S. dam is 51 years old, and nearly 2,000 "high-hazard" dams are deficient.
- America's deficient roads cost the economy \$78.2 billion in time and fuel, \$67 billion in repairs and operating costs, and 14,000 lives.⁷³
- "Severe highway bottlenecks have increased by 40 percent during the past five years. Americans spend 3.5 billion hours per year in traffic. ... The cost of aviation delays to the U.S. economy is expected to rise from \$9 billion in 2000 to more than \$30 billion annually by 2015. ... The nation's infrastructure facilities are deteriorating at an alarming rate."⁷⁴
- "Half of the 257 locks on the more than 12,000 miles of inland waterways operated by the Army Corps of Engineers are functionally obsolete; three-quarters of the nation's public school buildings fail to meet the basic needs of children; ... \$11 billion annually is needed to replace aging drinking water facilities."⁷⁵

AMERICAN SOCIETY OF CIVIL ENGINEERS:
REPORT CARD FOR AMERICA'S
INFRASTRUCTURE, 2009 AND 2005

	2005	2009	Δ
Aviation	D+	D	↓
Bridges	C	C	→
Dams	D	D	→
Drinking Water	D-	D-	→
Energy	D	D+	↑
Hazardous Waste	D	D	→
Inland Waterways	D-	D-	→
Levees	NA	D-	NA
Public Parks & Recreation	C-	C-	→
Rail	C-	C-	→
Roads	D	D-	↓
Schools	D	D	→
Security	I	NA	NA
Solid Waste	C+	C+	→
Transit	D+	D	↓
Wastewater	D-	D-	→

SOURCE: American Society of Civil Engineers, "2009 Report Card for America's Infrastructure," January 2009
<<http://www.asce.org/reportcard/2009/index.html>>;
and "2005 Report Card for America's Infrastructure,"
<<http://www.asce.org/reportcard/2005/index2005.cfm>>.

At present American infrastructure faces two simultaneous crises that will require sustained strategic investment extending far beyond the stimulus. Traditional American infrastructure is aged, crumbling, and poorly maintained. The transportation



infrastructure is decades old and faces a number of critical problems that require immediate attention. First and foremost, the Highway Trust Fund, the principal mechanism for funding highway and transit programs, is “out of gas.” Accordingly, cuts in federal payments to states for construction projects are imminent. In addition, the Aviation Fund, Transit Fund, and Inland Waterway Trust Fund could all soon be in financial distress.

The second critical problem is the absence of new infrastructure systems that can help meet the needs of the 21st century. Faced with the current structural recession, the American economy needs to grow and diversify. New infrastructure is critical to the fostering of economic growth, energy independence, enhanced national security, technological innovation, and revolutionary transportation. Revitalizing infrastructure can provide the jobs and the cross-economy multiplier effect required for sustained growth and, more importantly, vitality. Both traditional and new infrastructure projects are stymied by a series of bureaucratic roadblocks that make any effort to revitalize or revolutionize the American infrastructure system excessively difficult.

Infrastructure programs are also impeded by public perception. Many fail to grasp the potential national benefit of improving infrastructure and see the “shovel-ready” emphasis of past programs as wasteful efforts to promote short-term job creation. The President must ensure that the public grasps the importance of the nation’s infrastructure in economic growth, national security, energy independence, and the environment. The approval of any infrastructure project must be contingent upon whether the project provides crosscutting benefits to all of these sectors. This will enable the U.S. government to invest in infrastructure programs that propel the United States forward and allow it to emerge from the recession renewed and enriched.

The stimulus package contains a significant amount of infrastructure spending, including \$27.5 billion for highway construction; \$16.5 billion to modernize public infrastructure; \$18.8 billion for clean water, flood control and environmental restoration; and \$17.7 billion for transit and rail. The stimulus is a first step in achieving the needed sustained investment in American infrastructure.

The bottom line: The physical infrastructure is crumbling around us, and the level of investment needed to bring us up to speed is extremely high to avoid not only direct costs and risks in the future but also higher secondary costs, including traffic time. The stimulus package is a good down payment on that investment.

The Infrastructure Issue Team is examining the nation’s roads, bridges, waterways, electrical grid, air traffic control systems, and other elements of infrastructure and is looking for flaws in the current system. It also is developing recommendations to use infrastructure spending in a crosscutting way to meet wide-ranging challenges from alternative energy to homeland security.

*Co-chairs: The Honorable John Engler, Former Governor of Michigan
 The Honorable Rodney Slater, Former Secretary of Transportation*



9

GRAND CHALLENGE NUMBER NINE: STRENGTHEN NATIONAL AND HOMELAND SECURITY

The scope of the challenge: Despite the anxiety of many Americans regarding threats to our national and homeland security, the United States has successfully thwarted potential terrorist attacks since September 11, 2001. Nevertheless, in December 2008, the bipartisan Commission on the Prevention of Weapons of Mass Destruction Proliferation and Terrorism released its report, entitled *World at Risk: The Report*

of the Commission on the Prevention of WMD Proliferation and Terrorism, which concluded that “unless the world community acts decisively and with great urgency, it is more likely than not that a weapon of mass destruction will be used in a terrorist attack somewhere in the world by the end of 2013.”⁷⁶

The current national security system, which was crafted in 1947, is a relic and poorly equipped to tackle the numerous current and future threats to U.S. national security. These challenges – much broader and more complex than they were even a couple of decades ago – include state-sponsored terrorism, regional instability (highlighted now in Somalia), competition for energy and other natural resources, the potential rise of China as a conventional threat, ongoing insurgencies in Iraq and Afghanistan, and the proliferation of weapons of mass destruction. The multinational character of these threats requires the use of all instruments of national power to successfully combat them.

President Obama will be further hindered by a series of strained alliances, dwindling international support, and weakening bilateral relationships. He will need to pursue policies that involve “smart power” – a combination of military action, aid, development, technological innovation, intelligence gathering and analysis, diplomacy, and communication that are widely dispersed across a number of government institutions.

Within this national security structure, the Department of Homeland Security (which recently celebrated its sixth anniversary) faces a range of daunting challenges in addressing the changing threat environment. A recent Congressional study, entitled *The State of Homeland Security 2007: An Annual Report Card on the Department of Homeland Security*, argued that “there are troubling signs that the Department’s leadership is critically challenged with regard to executing the basics of strategic planning and

PARTNERSHIP FOR A SECURE AMERICA: 2008 WMD REPORT CARD

Grades	

Nuclear Terrorism:	
Prevention	C+
Detection/Interdiction	B
Integration of Govt. Programs	D
Sustainment of Programs	D
Overall Nuclear Prevention	C
Chemical Terrorism:	
Recognition and Prevention	C-
Response	B
Protecting Critical Infrastructure	C+
Elimination	B
Overall Chemical Prevention	B-
Biological Terrorism:	
Denial of Access	B
Detection of Preparation Labs	C-
Interdiction	B-
Confidence Building	D+
Resilience: Vaccines and Drugs	C-
Mitigation	B
Biological Terrorism	C-

Source: Partnership for a Secure America, “WMD Report Card: Evaluating U.S. Policies to Prevent Nuclear, Chemical, & Biological Terrorism Since 2005,” August 25, 2008 <<http://www.psaonline.org/downloads/ReportCard%208-25-08.pdf>>.



organizational planning, financial management, integration and coordination.” Additionally, 86 Congressional committees and subcommittees have oversight of Homeland Security and consume a significant amount of the time of senior staff addressing inquiries and testifying. The oversight structure significantly hinders the ability of senior leadership to meet the agency’s operational demands.⁷⁷

Diplomacy must be reinvigorated:

Our nation has sustained a devastating loss of trust. The world thinks that America has strayed from its values, or, worse, that it does not adhere to core values at all. Perceived transgressions with regard to the Kyoto Protocol, the detention center at Guantanamo Bay, and Abu Ghraib prison have all had a negative impact on the U.S. image abroad and have limited the United States’ ability to bring pressure to bear on nations like Iran that are pushing the limits of international law.

- The Department of Defense has created a \$100 million project to produce news and entertainment for the Iraqi public. That is more than one-eighth of the State Department budget for the entire world. And while \$100 million per year is substantial funding for public diplomacy programs, it is negligible for the military, which spends \$434 million per day in Iraq.⁷⁸
- When asked about American ideas and customs, more than 50 percent of the people in Bulgaria, Britain, Tanzania, the Czech Republic, and Germany all said that it is “ ‘bad’ that they are spreading here.” Germany was nearly the worst at 80 percent. The rates had all grown by at least 14 percentage points between 2002 and 2007.⁷⁹
- In 2008, the United States received the following favorability ratings in the Middle East: Egypt, 22 percent; Jordan, 19 percent; Turkey, 12 percent – these are American *allies* in the region.⁸⁰

Since his Inauguration, President Obama has taken great steps to reach out to the global community. The appointment of special envoys to Afghanistan/Pakistan and the Middle East, Richard Holbrooke and George Mitchell, respectively, has shown a concerted effort to find a path to resolve these areas of sustained conflict.

The bottom line: Seven years after the attacks on the World Trade Center and the Pentagon, the United States still must be concerned about a potential attack on its territories or interests involving weapons of mass destruction. In addition, there is a pronounced need to modernize the national security architecture to reflect new challenges and opportunities. President Obama is making great strides in repairing the image of the United States abroad.

The National and Homeland Security Issue Team is looking at an array of issues relevant to national security, including homeland security, intelligence, and nuclear proliferation. The team will develop recommendations on integrating the national security system, creating greater efficiency through the system, and strengthening American security through other means.



*Co-chairs: Dr. Jessica Mathews, President, Carnegie Endowment for International Peace
Mr. John McLaughlin, Former Deputy Director, Central Intelligence Agency*

The Restoring America's Trust and Influence Abroad Issue Team is developing recommendations on American foreign policy, public diplomacy, and "soft power" with an eye toward how the United States can repair its global standing and image.

*Co-chairs: The Honorable Joseph Duffey, Former Director, U.S. Information Agency
The Honorable Stuart Holliday, President and CEO, Meridian International Center*

The U.S. Geopolitical Relations Issue Teams are addressing the myriad of issues confronting U.S. geopolitical relations and are developing region-specific recommendations to repair and strengthen relationships around the globe.

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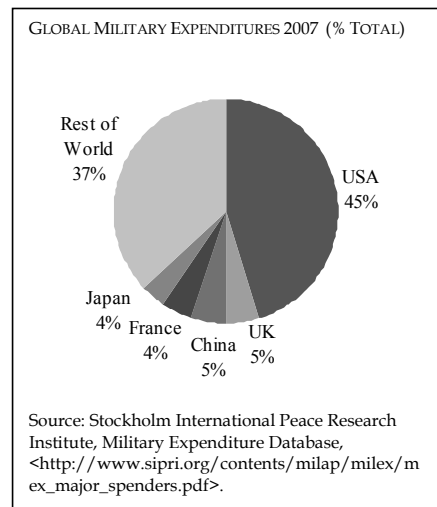


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GRAND CHALLENGE NUMBER TEN: REINVIGORATE AND MODERNIZE THE AMERICAN MILITARY

The scope of the challenge: The U.S. military has no equal. Yet, military analysts across the board agree that with the current engagements in Iraq and Afghanistan, U.S. military capabilities are stretched taut. Both those conflicts, moreover, have demonstrated that the U.S. military capability – as remarkable as it is – has its limits. The latest National Intelligence Council assessment concludes that in the future (out to the year 2025), the emergence of a global multipolar system will be a relative certainty; the assessment identifies as a “likely impact” that “[s]hrinking economic and military capabilities may force the United States into a difficult set of trade-offs between domestic and foreign-policy priorities.”⁸¹

As the United States will continue to be engaged in these countries for years to come, the Department of Defense (DOD) needs to allocate its remaining resources to adequately prepare the U.S. military for future roles and missions – some of which will remain unforeseen. The reality for the Obama Administration is that, on average, at least 75,000 to 100,000 soldiers will need to remain in Iraq for at least the next two years. In addition, the Administration has already signaled its intention to increase ground troops in Afghanistan (17,500 to date and possibly more). Thus, the serious strains on the U.S. military structure are likely to persist.



However, DOD does not think or act in a vacuum, and its leaders will have to consider political pressures, the ramifications from the current financial crisis, and resource limitations when implementing future policies.

- In 2007, the United States accounted for 45 percent of total world military expenditures and had the second-largest active-duty force (behind China).⁸²
- As of April 2008, 26 percent of Marine Corps equipment is engaged overseas; 43 percent of the National Guard’s equipment is overseas or worn out. Army equipment in Iraq and Afghanistan is wearing out at up to nine times the normal rate. The Army told the GAO that it will need \$12 billion to \$13 billion per year



to replace lost, damaged, and worn equipment for the duration of the war in Iraq and at least two years beyond. The Marine Corps estimates it will need \$15.6 billion to replace used equipment.⁸³

- Suicides among active-duty soldiers in 2007 reached the highest level since the Army began keeping track in 1980.⁸⁴
- In 2006, Army recruits scored above average in an aptitude test at the lowest rate since 1985.⁸⁵
- In 2007, more than 14,000 recruits with criminal records were granted “moral waivers” to enter the Army. They represented 18 percent of those inducted, compared with an average of less than 6 percent between 2003 and 2006.⁸⁶
- Currently the Defense Department alone needs to protect more than 15,000 local, regional, and wide-area networks, including over 7 million IT devices (e.g., computers, phones).⁸⁷

The bottom line: The Iraq and Afghanistan theaters are pushing the U.S. all-volunteer force to its limit. Although we can anticipate a drawdown in Iraq, residual military involvement in that country, intensified involvement in Afghanistan, and unforeseen future situations mean that the current strains will persist for the foreseeable future.

After more than seven years of war in Afghanistan and, for most of that time, Iraq, the U.S. military faces serious challenges. The Revitalizing the U.S. Armed Forces Issue Team is identifying recommendations to these challenges and ways to create a sustainable United States Armed Forces.

*Co-chairs: Admiral Jonathan T. Howe, USN (Ret.), Former Deputy National Security Advisor
 General Edward C. Meyer, USA (Ret.), Former Chief of Staff of the U.S. Army*



ORGANIZING THE GOVERNMENT FOR REFORM

While the financial crisis and wars in Afghanistan and Iraq require immediate attention, the government must address its institutionalized problems to ensure America's continued strength. The Steering Committee selected four recommendations to help coordinate reform needed throughout the government. These organizational recommendations will be supplemented with detailed recommendations in a future CSPC report developed by the SAFI issue teams with specific consideration given to cost-effective solutions providing multi-issue benefits.

1. DEVELOPING A NATIONAL STRATEGY

President Eisenhower believed that a vibrant economy, free of overwhelming debt, was the country's greatest asset of national power. The strategies of containment and deterrence were adopted because they were affordable, realistic, and flexible enough to evolve with the changing global environment.⁸⁸ Through this strategy, the United States conveyed to its citizens and the international community expectations of its leadership, policies, and use of resources. Allies and opponents shaped their actions around the expected reaction of the United States and NATO and were willing to take calculated risks but would not act if the consequence would be all-out war (e.g., the Cuban Missile Crisis). The proof of the underlying wisdom of Eisenhower's strategy came with the end of the Cold War when the weakness of the Soviet economy, not the might of the American military, forced a resolution.

After the Soviet Union fell and communism retreated in Europe, the strategies of containment and deterrence were rendered obsolete. The United States has not sufficiently replaced those strategic principles as part of a national strategy clearly outlining intentions, intended outcomes, and the means of achieving them. Consequently, expectations about U.S. actions and policies vary widely. The uncertainty has carried over to U.S.-led alliances such as NATO, whose mission and role throughout the world have lacked definition and undermined its effectiveness. This uncertainty has encouraged non-allies to push, and even break, the limits of international law (e.g., Iranian nuclear aspirations contrary to the Nuclear Non-Proliferation Treaty and International Atomic Energy Agency mandates). Once domestic and international expectations are clearly defined, allies and non-allies will shape their policies and actions around our leadership and expected response. But first, fundamental change must occur in Washington.

President Obama has discussed reforming nearly every part of the government. To effectively tackle these overwhelming challenges, a strategy to achieve these goals must be developed. A national strategy outlining where the country stands, where it needs to go, and how to get there would provide a road map to the American people, other countries, global businesses and markets, and the government.



The President and Congress should: Develop a ten-year national strategy based on a comprehensive assessment and national purpose to align all elements of government and the allocation of resources.

President Obama should immediately announce the initiation of a task force headed by Vice President Biden, composed of both Administration and nongovernmental experts, to complete a national strategy within the next year.

First Six Months:

- The Chief Performance Officer should oversee a comprehensive assessment of the current operation of the government to identify its capabilities, inefficiencies (not only programs that do not provide proportional returns, but also duplicative programs in separate agencies), current investment strategies, overall tax preferences, and vulnerabilities undermining the country's future. This effort would coincide with the current line-by-line review of the budget being conducted by the Administration. President Obama should direct Department Secretaries to cooperate fully with the effort to ensure the accuracy and speed of the effort. A version of the assessment should be made available to the public.
- Vice President Biden should lead a team of nongovernmental policy, strategy, and investment experts to develop national goals for the next decade based on the pillars of President Obama's campaign – sustainability, stewardship, and innovation. The team should aim to codify flexible guidelines and the desired American role in international policy and realistic goals for domestic programs. This national framework can help create expectations, both domestically and internationally, for America's willingness to take action in various circumstances.

Second Six Months:

- Following the completion of the assessment and goals, the teams should cooperatively develop a ten-year national strategy integrating an investment strategy and national priorities required to meet the goals. This strategy would help with the current development of a ten-year budget by the Office of Management and Budget (OMB). Based on national priorities, the investment strategy should develop cross-departmental resource allocation that supports the desired outcomes and should prepare for unforeseen contingencies. The investment strategy should also balance short-term interests with developing the technologies and capabilities needed by the next generation.

A national strategy will allow the government and its investments to be greater than the sum of its individual parts.



2. ESTABLISHING A FISCAL FUTURE COMMISSION

Today, Americans are encouraged to spend nearly one-quarter of their adult lives in retirement, reducing the share of benefits available to the truly needy. We need to reform our entitlement programs to reflect current economic realities and longer life spans, to adjust to the needs of the modern family, and to do more to prevent poverty or near-poverty in old age while also making the programs solvent, sustainable, and more savings-oriented. These reforms can prevent the spiraling costs of the entitlement and tax programs from rapidly expanding our national debt and forcing the government to impose major tax burdens on younger workers to support the growing number of retirees collecting entitlements.

In light of the demonstrated inability of the existing political process to address these major structural problems, a promising alternative is the establishment of a Fiscal Future Commission, or FFC. This approach would be modeled, in part, on the Defense Base Closure and Realignment Commission (BRAC), a bipartisan commission that develops a plan of action on base closings that Congress ratifies in an up-or-down vote. Already, a significant coalition of Democrats and Republicans on Capitol Hill has built widespread support for such a commission.

Acting quickly would send a positive message to central bankers around the world that America is serious about its – and the world's – fiscal health. This confidence-building measure would encourage bankers to invest in America during the recovery and beyond. In addition, our children and grandchildren will rejoice that we are not bequeathing them a high-tax America.

The President and Congress should: Create a bipartisan Fiscal Future Commission (FFC) to develop statutory budget controls and comprehensive tax and Social Security reform legislation as well as to reorient government spending programs and tax preferences for the future.

This action would prevent the spiraling costs of the entitlement programs and tax preferences from rapidly expanding our national debt and forcing the government to institute major tax burdens on younger workers. Budget controls, program evaluation, spending constraints, and tax increases must ultimately be implemented to provide resources to address new priorities and meet new needs.

The Commission must act in a nonpartisan manner so that the best interests of the country are placed ahead of any ideology. The FFC would be free of the pressure and influence of interest groups and partisan elements and would therefore be able to bring about needed change. This adjustment is absolutely necessary as it is the only thing that can prevent a total fiscal collapse, which would constitute a disaster for the American economy and require much higher taxes to be paid in the near future.



The FFC should begin soon to bolster the international credit markets and show the Administration and Congress' commitment to fiscal responsibility after the necessary resources are devoted to addressing the economic crisis. Because of the number of issues facing the Administration and Congress, major changes to tax and budget policy should be released after some stability has come to the economy but no later than shortly after the midterm elections. The Commission could also be asked to report on certain issues (e.g., budget controls, Social Security) in a more expeditious manner for action before the midterm elections.

Throughout the course of the Commission's work, its progress and findings should be presented to the American public in a series of town hall meetings across the country and through a dedicated web site. Once the results come before the Congress, the legislation would face an up-or-down vote and allow only those amendments that do not affect the bottom line of the budget.

3. REENGINEERING THE AMERICAN HEALTH SYSTEM

The United States urgently needs a health system that works for all Americans. Currently, we pay too much for "health care" that gives us too little "health." This state of affairs is unacceptable and unsustainable. The following initiatives are intended to help our nation begin to achieve the effective, affordable, high-quality health system that Americans need and deserve.

The President and Congress should: Assemble a federal task force to review and implement mechanisms to decrease costs, improve value, and reduce waste in the federal health insurance programs.

Nearly one-third of Americans across the nation are enrolled in one of the many federal health insurance programs: Medicare, Medicaid, Federal Employees Health Benefits Plan, or veterans' and military health plans. With health care costs spiraling out of control, the federal government must devise mechanisms for reducing health spending while improving the quality of care provided to beneficiaries of federal programs. Although the American Recovery and Reinvestment Act provides critically important funds for comparative effectiveness research and for health information technology, we still lack the ways and means to make certain that these investments produce the lifesaving dividends of which they are capable. A federal task force should be appointed to review the strategies necessary (e.g., a federal health board) to simplify and harmonize administrative and medical functions across the federal plans. The federal task force would explore ways and means to achieve a comprehensive health care reform plan that addresses coverage, cost, and personal responsibility. These new approaches should be enhanced by findings from a proposed Comparative Effectiveness Institute to foster better health outcomes and decrease health care costs.



The President and Congress should: Join with leaders at the state and local levels and nonprofit and private sectors to design and implement a National Disease Prevention and Health Promotion Initiative.

America can save money and improve health by stemming the growing tide of chronic conditions – from diabetes to obesity and heart disease – through prevention and wellness programs. The American Recovery and Reinvestment Act includes a \$1 billion investment in a “Prevention and Wellness Fund.” We must require, however, that these and future investments be linked to a comprehensive national strategy to achieve a healthier America. It is not enough merely to invest; we must invest smartly with funds directed to effective community and public health initiatives, galvanizing the private and public sectors to work together toward a set of well-defined national goals. At the local level, individuals and voluntary associations must commit to living and promoting healthy lifestyles. In our nation’s capital, federal leaders should craft prevention initiatives that mobilize every federal health-related agency, from the Departments of Agriculture and Transportation to the Department of Health and Human Services.

4. CONFRONTING THE EDUCATIONAL CRISIS

Education is the foundation upon which our nation’s strength is built. But as then-Presidential nominee Obama said on September 9, 2008, the educational road we tread is “economically untenable for America. It is morally unacceptable for our children. And it is not who we are as a nation.”⁸⁹ For, despite years of serious efforts on the part of countless individuals and groups, too much time has passed without the dramatic gains in education that are demanded by devastating domestic social inequality, a highly competitive global economy, and the urgency of addressing the current recession. America faces nothing less than an educational crisis. And so we are beyond the point of fine-tuning, band-aids, and adjustments. We are at a moment that calls for transformational leadership and major structural changes. No matter where one stands on the political spectrum, all agree that a key component to America’s reasserting itself as an international leader is a major reinvestment in its people.

The President and Congress should: Hold a national education summit of all governors and state education leaders as soon as possible to raise K-12 standards to meet or exceed those of the highest-performing nations in the world.

The President should gain an initial commitment from no fewer than 15 states to voluntarily create and adopt common and rigorous standards, curriculum and assessments that are internationally benchmarked to the highest-performing nations. To incentivize participation, the federal government should pay for the cost and administration of the assessments, which will enable states to accurately measure



student progress against the best education systems in the world. The federal government should invest in research to develop assessments that best measure student growth over time.

As further incentive for states to participate, the federal government should offer a new deal under No Child Left Behind, with different timelines and accountability provisions to support meeting the higher standards. Other states could join the program later as it begins to show results. This would encourage parents, business leaders, and higher education administrators to urge their respective governors to participate. The state of our failing school system will generate the public support needed to move forward. Without such a system, we will be unable to determine the level of competitiveness of our education with other nations.

The President and Congress should: Incentivize, recruit, and train new talent into the teaching force.

This would strengthen the teaching corps and dramatically improve the quality of American education. For example, ready-to-retire Baby Boomers could constitute ideal teachers and mentors as they could pass on the knowledge and experience they have amassed throughout their careers. In a more fundamental sense, we must acknowledge that this nation now recruits a solid majority of its new teachers from the bottom 30 percent of entering college students. Better policies to treat these individuals as true professionals in every respect will allow us to attract and retain those from the top 30 percent, as the best-performing nations do. We must. We cannot have a world-class education system without world-class teachers.

These improvements of our education system would benefit all Americans by raising our standard of living and simultaneously making us more competitive in an increasingly globalized economy.



CONCLUSION

This project is being conducted by a group of concerned citizens from all over America – we are Republicans, Democrats, and Independents; we have held a variety of responsibilities in the public and private sectors; we are united in our deep concern for the future of this country. We have all reached the same general conclusion: The current course of our country is unsustainable – change must be transformational, and taking an incremental approach will not work.

We believe that this is a defining moment in American history. Our actions will determine whether we build a more solid foundation for future generations of Americans or whether we allow business-as-usual practices to carry the day. The country must rise to the challenge and develop a nonpartisan strategy to guide our nationwide response. Each of us must be prepared to make sacrifices. We do not have the luxury of time. **The longer it takes for the country to change course, come together, and mobilize our resources, the worse the current problem will become and the greater our future costs and risks will be.**

“A DEFINING MOMENT”

Our actions will determine whether we build a more solid foundation for future generations of Americans or whether we allow business-as-usual practices to carry the day.

Our project revealed two overarching themes. The first was sustainability. Our current practices are unsustainable, and fundamentally different approaches need to be defined and pursued. In many cases, this translates into a need for innovation – new drivers of economic growth and prosperity. The second theme is stewardship. The problems associated with the “remaking” of America belong to all of us – policymakers and the public alike. We all have a stake in pulling the country out of its current crises and in building a solid foundation for the future. Certainly, Americans have risen to great challenges in the past. We can, and will, do it again.

Spending more money is not enough. Our recent experience in the areas of education and health care suggest the need to think “smarter and not necessarily richer.” Despite the considerable investments we make in our K-12 system, for example, we are being outperformed by countries that spend far less per student. We should study the policies of other nations to learn best practices before we can set about making real changes in our own country. **The United States has reached a defining moment – a “tipping point” – and the only option is to make a fundamental change. Accomplishing this profound transition is not the responsibility of government alone; it will require the support and participation of a wide range of people and constituencies.**



Assessing the Consequences

As we survey the challenges identified in this assessment, three broad scenarios emerge. The first can be characterized as “business-as-usual” – the continuation of current practices. The second scenario, “muddling through,” involves limited transformation in some key areas but continued paralysis in others. Finally, the scenario with the highest rate of return is “transformational change” – in which an integrated, proactive approach is achieved across government and with the consensus and support of American people of all persuasions. Each of these scenarios has profoundly different benefits and costs; each depends on the ability of leaders to bring about transformational change against different kinds and degrees of resistance; and each has remarkably important consequences for the kind of America that we pass to future generations.

The “Business-as-Usual” Future

We know that unless fundamental changes are made to government spending, rising national debt will continue to crowd out discretionary spending in important areas (the entire national security budget, for example, is “discretionary” spending). Your share of the federal financial burden is now \$184,000; imagine what it will be for the children born a decade or two from now.

“DEBT CARRIED FORWARD”

Your share of the federal financial burden is now \$184,000; imagine what it will be for the children born in the United States a decade or two from now.

- As government debt continues to grow, nations funding American spending may decide to no longer finance our current level of deficits. Such a cutoff would have drastic repercussions throughout the economy.
- As the American population ages, Social Security obligations, retirement spending, and pressures on Medicaid and Medicare will increase significantly, depleting essential government spending in other areas. Alternately, runaway health care costs could bankrupt America.
- If we fail to transform health care, an even greater number of Americans will find themselves “outside” the system – without medical insurance, regular care, access to new technologies, and the prospect of preventive medicine.
- Even with the significant injection of funding to the K-12 education system under the American Recovery and Reinvestment Act, failure to make structural changes will maintain what is an inefficient and ineffective system.
- If we continue to reduce the amount of money invested in basic science and research and development capabilities, the rest of the world will quickly catch up to – and surpass – the United States.
- If we fail to modernize the country’s physical infrastructure, Americans can expect to suffer more tragedies such as the August 2007 bridge collapse in Minneapolis.



- Without dedicated and sustained efforts to develop alternative energy sources and to reduce environment damage, the next generation of Americans will face mounting environmental problems, higher levels of dependence on foreign energy sources, and the potential for heightened volatility in the availability and pricing of energy supplies.
- In the absence of a farsighted strategy to deal with the most pressing global issues, the United States could experience an accelerated decline in its standing in the world and in its ability to pursue policies in support of its own national interests.

This kind of “business-as-usual” scenario could flow from any number of causes – including “politics-as-usual,” the overwhelming size and scope of the immediate problems that our leaders face, or the temptation to engage in quick-fix solutions that lack lasting benefits. Whatever the cause, this scenario will lead to a set of negative outcomes.

The “Muddle-Through” Future

A more likely scenario is that the American leadership will succeed in attacking only a portion of the tremendously complex and diverse set of challenges that confront the nation. The “easier” goals would be achieved, while actions to effect transformational change in key areas would be impeded, hindered, diluted, or blocked by special interest groups, red tape, and an unwillingness to make sacrifices. As we scan the spectrum of challenges the country now faces, it is clear that addressing some will be easier than others. It should be emphasized that the most pressing challenges are, unfortunately, the hardest to fix.

This lowest-common-denominator outcome implies that by definition there is a limit to how much progress leaders can make without changing the current system itself. Change depends upon the level of political consensus, the various complexities that go with transformational challenges, and the process by which priorities are assigned to addressing the country’s needs. The debate over the most recent stimulus package revealed the extreme difficulties associated with developing and maintaining political consensus. In this regard, one of the more challenging areas of reform is likely to be the health care system – an area with a history of serious political disagreement. While we all hope that the stimulus package and the other efforts to stabilize the economy succeed, disagreements surrounding these efforts have highlighted ideological differences that will continue into the future.

“PASSING THE BUCK”

Under this “muddle-through” scenario, the next generation of Americans would inherit a number of these structural challenges at a stage when they will be even more difficult to address.

Under this “muddle-through” scenario, the next generation would inherit a number of these structural challenges at a stage when they will be even more difficult to address. Future leaders no doubt will wonder why their predecessors failed to act on



issues that were so obvious and, relatively speaking, so much less daunting and so much more addressable.

The "Transformational" Future

In the third scenario, the leadership succeeds in defying political and institutional inertia by unifying an integrated, proactive government strategy and the support of the American people. This implies redirecting the nation's policies – in the areas of fiscal policy, education, health care, physical infrastructure, management of the financial system, environment and energy, and national and homeland security – from those that are currently unsustainable. Confronting these "sustainability" challenges amounts to treating the chronic political and economic problems of our time. This forward-looking agenda would enable leaders to move the country toward higher levels of productivity, innovation, entrepreneurship, and opportunity.

In Summary

In the hope that America can move ultimately from where we are now to where we need to be tomorrow, this report suggests organizational recommendations. Together, they represent a process for unifying the efforts of government and the American people toward a new America. In the end, today's political leaders will be judged on their success in preparing the country for the challenges we all face. Responding to the current predicament with actions that are less than transformational would be a failure of leadership.

We have maintained that the American people are an essential ingredient for success. A critical element in strengthening the United States will be fostering a sense of stewardship in ourselves. As citizens, we must not simply be spectators; we must be part of the solution. Our support and participation are essential in insisting that our leaders set aside short-term interests and take bold, nonpartisan steps; promoting the spirit of creativity, innovation, and entrepreneurship that has carried the country since its inception; and deploying America's "can-do" culture in achieving the transformational change to build a better country for ourselves and future generations.



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APPENDIX A: STEERING COMMITTEE BIOGRAPHIES

CO-CHAIRS

THE HONORABLE NORMAN AUGUSTINE was Chairman and CEO of Lockheed Martin and is a former Under Secretary of the Army and a former member of the Princeton faculty. He is a former Chairman of the National Academy of Engineering and chaired the National Academies' *Gathering Storm* study of global competitiveness. He is a former President of the Boy Scouts of America, Chairman of the American Red Cross, Chairman of the American Institute of Aeronautics and Astronautics, Chairman of the Department of Defense's Defense Science Board, and President and Chairman of the Association of the U.S. Army. He holds a Bachelor's and Master's degree in Aeronautical Engineering from Princeton, has been a Trustee of Princeton, MIT and Johns Hopkins and a Regent of the University System of Maryland, has received the National Medal of Technology and has been granted 23 doctorate degrees.

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

THE HONORABLE DAVID WALKER is the current President and CEO of the Peter G. Peterson Foundation. He has over 35 years of public, private and not-for-profit sector experience in a variety of executive leadership positions. Mr. Walker received Presidential appointments from Presidents Reagan, Bush (41), and Clinton, and was confirmed unanimously by the Senate each time. His most recent appointment was as Comptroller General of the United States and head of the U.S. Government Accountability Office (GAO) from 1998-2008.

MEMBERS

THE HONORABLE C. FRED BERGSTEN has been Director of the Peterson Institute for International Economics, which was recently noted "Top Think Tank in the World" in the first comprehensive survey of over 5000 such institutions, since its creation in 1981. He was the most widely quoted think-tank economist in the world during 1997-2005 and has been called "one of the ten people who can change your life" by *USA Today*. Dr. Bergsten was Assistant Secretary for International Affairs of the U.S. Treasury (1977-81) and Assistant for International Economic Affairs to Dr. Henry Kissinger at the National Security Council (1969-71). He was Chairman of the



Competitiveness Policy Council from 1991 to 1995 and Chairman of the APEC Eminent Persons Group from 1993 to 1995.

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

DR. WILLIAM BRODY, President of the Salk Institute, is an acclaimed physician and former president of The Johns Hopkins University. In addition to his past service as the provost of the Academic Health Center at the University of Minnesota and as the CEO of Resonex Inc, Dr. Brody has held a variety of prestigious positions including roles on the President's Foreign Intelligence Advisory Board and the FBI's National Security Higher Education Advisory Board. Dr. Brody is the co-founder of three medical device companies, has over 100 publications, and holds two U.S. patents in the field of medical imaging.

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

THE HONORABLE CHUCK HAGEL is a former two-term United States Senator (1997 - 2009) and currently serves as a Distinguished Professor at Georgetown University. He also serves on the Advisory Board of Corsair Capital, as a Director of Wolfensohn and Company, and as Chairman of the Atlantic Council.



THE HONORABLE LEE HAMILTON is President and Director of the Woodrow Wilson International Center for Scholars, and director of The Center on Congress at Indiana University. Since leaving the U.S. House of Representatives after 34 years representing Indiana's ninth district, Mr. Hamilton has served on the United States Commission on National Security in the 21st Century (the Hart-Rudman Commission), and was co-chair of the Baker-Hamilton Commission to Investigate Certain Security Issues at Los Alamos. Mr. Hamilton served as Vice-Chair of the National Commission on Terrorist Attacks Upon the United States (the 9/11 Commission), and in March 2006 he was named co-chair of the Iraq Study Group, created at the urging of Congress as a forward-looking, bi-partisan assessment of the situation in Iraq. Mr. Hamilton is the author of *A Creative Tension - The Foreign Policy Roles of the President and Congress* and *How Congress Works and Why You Should Care* and co-author of *Without Precedent: the Inside Story of the 9/11 Commission* and *The Iraq Study Group Report*.

THE HONORABLE CARLA HILLS is Chairman and Chief Executive Officer of Hills & Company, International Consultants, which advises companies on global trade and investment issues. Ambassador Hills served as U.S. Trade Representative (1989-93), in the first Bush Administration, Secretary of the U.S. Department of Housing and Urban Development and Assistant Attorney General, Civil Division, U.S. Department of Justice in the Ford Administration. She currently serves on the International Boards of J.P. Morgan Chase, American International Group, Rolls Royce, and the Coca-Cola Company and is a member of the Board of Gilead Sciences. She also serves as co-chair of the Council on Foreign Relations; Chair of the National Committee on U.S.-China Relations and of the Inter-American Dialogue; member of the Executive Committee of the Peterson Institute for International Economics and of the Trilateral Commission; and co-chair of the International Advisory Board of the Center for Strategic and International Studies.

THE HONORABLE DR. SHIRLEY ANN JACKSON, President of Rensselaer Polytechnic Institute, in Troy, New York, and former Chairman of the U.S. Nuclear Regulatory Commission (1995-1999), earned an SB in physics and a Ph.D. in theoretical particle physics (both from MIT), and has held senior leadership positions in government, industry, research, and academe. Her research and policy focus includes energy security and the national capacity for innovation, including addressing the "Quiet Crisis" of looming gaps in the science, technology, and engineering workforce and reduced support for basic research. She co-chairs the Council on Competitiveness' *Energy Security, Innovation and Sustainability* initiative, is past President (2004) and Chairman of the Board (2005) of the American Association for the Advancement of Science, a member of the National Academy of Engineering, the American Philosophical Society, and a Fellow of the American Academy of Arts and Sciences, the American Physical Society, and AAAS. She is a Regent of the Smithsonian Institution, serves on the Board of the Council on Foreign Relations, and is a Director of the NYSE Euronext, IBM, FedEx, Marathon Oil, Medtronic, and PSEG.



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

GENERAL BARRY MCCAFFREY, USA (RET.) is currently President of his consulting firm, McCaffrey Associates, LLC. Prior to his recent tenure as Director of the White House Office of National Drug Control Policy (ONDCP) during the Clinton administration, General McCaffrey served as the Commander-in-Chief of the U.S. Armed Forces Southern Command coordinating national security operations in Latin America. General McCaffrey was the most highly decorated four-star general in the U.S. Army at the time of his retirement after a distinguished military career, and has since been honored with a number of civilian awards and recognitions. General McCaffrey is highly active in national security affairs, and serves on several boards and councils.

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

THE HONORABLE NEWTON MINOW, former Chairman of the Federal Communications Commission under the Kennedy Administration, is currently Senior Counsel to the law firm of Sidley Austin LLP. In addition to a notable legal career in the private sector, Mr. Minow has also served as a law clerk to Chief Justice Fred M. Vinson of the U.S. Supreme Court and as Assistant Counsel to Governor Adlai E. Stevenson. Mr. Minow is the author of five books and numerous articles and has held a number of Director, Chairman, and Trustee positions.

THE HONORABLE SAM NUNN is co-Chairman and Chief Executive Officer of the Nuclear Threat Initiative and is retired from the King & Spalding law firm. He served as a United States Senator from Georgia for 24 years after two terms as a member of the Georgia House of Representatives. Prior to his entry into politics, Senator Nunn served on the U.S. Coast Guard and U.S. Coast Guard Reserve. Senator Nunn has continued his public service as a distinguished professor in the Sam Nunn School of International Affairs at Georgia Tech and as Chairman of the Board of the Center for Strategic and International Studies in Washington, DC.

THE HONORABLE THOMAS PICKERING retired from the State Department in 2000 as Under Secretary of State for Political Affairs. In a diplomatic career with service in each of the major continents, Ambassador Pickering also served as U.S. Ambassador to the Russian Federation, India, Israel, El Salvador, Nigeria, and Jordan. He also was the



U.S. Ambassador and Representative to the United Nations in New York, and has held additional positions in Tanzania, Geneva, and Washington, including as Assistant Secretary of State for the Bureau of Oceans, Environmental and Scientific Affairs and as Executive Secretary of the Department and Special Assistant to Secretaries of State William P. Rogers and Henry A. Kissinger. After retiring from the State Department, Ambassador Pickering joined The Boeing Company as Senior Vice President of International Relations, and is currently Vice-Chairman of Hills & Company International Consultants while also serving on several not-for-profit boards.

ADMIRAL JOSEPH PRUEHER, USN (RET.) is a Consulting Professor at Stanford and Harvard Universities where he is a Senior Advisor on the Preventive Defense Project, working on dialogue for U.S.-China security matters. Prior to his foreign service as the U.S. Ambassador to the People's Republic of China for two years, Admiral Prueher served 35 years in the U.S. Navy, holding the positions of Commander-in-Chief of the U.S. Pacific Command (CINPAC); Commandant at the U.S. Naval Academy at Annapolis; Commander of the Carrier Battle Group ONE; Commander of the U.S. Mediterranean Sixth Fleet and of NATO Striking Forces in Italy; and Vice Chief of Naval Operations in the Pentagon. Admiral Prueher has received multiple military awards for combat flying and naval and Joint Service, and has been honored with induction into the highest military Orders of the governments of Singapore, Thailand, Japan, Korea, the Philippines, Indonesia, and Australia. In addition to co-authoring the Performance Testing manual used by naval test pilots for many years, he has published numerous articles on leadership, military readiness, and Pacific region security issues.

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

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

THE HONORABLE DR. LOUIS SULLIVAN, former Secretary of Health and Human Services, is the founder and former Dean and President of the prestigious Morehouse



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

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

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



APPENDIX B: PROJECT STAFF BIOGRAPHIES

THE HONORABLE DR. DAVID ABSHIRE is the President and CEO of the Center for the Study of the Presidency and Congress; President of the Richard Lounsbery Foundation, a grant-making organization focused on the fields of science and education; and Vice Chairman of the Board of the Center for Strategic and International Studies, which he co-founded with Admiral Arleigh Burke in 1962. Dr. Abshire served as Assistant Secretary of State for Congressional Relations from 1970-1973, before becoming the first Chairman of the Board for International Broadcasting, and in 1980 served at the request of President-elect Reagan as the head of the National Security Group, which included the State and Defense Departments, the U.S. Information Agency, and the Central Intelligence Agency. Dr. Abshire was the U.S. Ambassador to NATO in 1983-1987, before he was called back to the U.S. to serve on President Reagan's Cabinet to help restore confidence in the Presidency during the Iran-Contra crisis. In addition to being one of four co-conveners of the 2006 Congressionally-mandated Baker-Hamilton Iraq Study Group, Dr. Abshire is a member of many boards and advisory groups, has received a number of prestigious awards for his outstanding public service, has authored seven published books and numerous articles, and has been decorated by seven heads of government.

REAR ADMIRAL SUSAN BLUMENTHAL (RET.) is the Director of the Health and Medicine Program at the Center for the Study of the Presidency and Congress (CSPC), a Clinical Professor at Georgetown and Tufts Schools of Medicine, and Chair of the Global Health Program at the Meridian International Center. As a top government health leader with over 20 years of federal service, Dr. Blumenthal served as Assistant Surgeon General of the United States, as the first Deputy Assistant Secretary of Women's Health and as Senior Global Health Advisor in the U.S. Department of Health and Human Services and as a White House advisor on health issues. Admiral Blumenthal has received numerous awards including honorary doctorates and has been decorated with the highest medals of the U.S. Public Health Service for her distinguished leadership and landmark contributions to improving health in the United States and worldwide.

MR. ALEX DOUVILLE is Director of Policy Studies at the Center for the Study of the Presidency and Congress and is responsible for managing the Center's policy initiatives, including the Strengthening America's Future Initiative. During the last three years Mr. Douville has contributed to the Iraq Study Group and the Afghanistan Study Group, directed the Center's Nuclear Defense Working Group, advised the European Exchange Program, and written a published case study on the Iran-Contra affair for the Project on National Security Reform. Mr. Douville joined the Center in 2004 as a Research Assistant to the Director of Homeland Security Projects before serving as Strategic Planning Director and Special Assistant to the President. Mr. Douville holds a B.A. in European History from Union College and M.A. in U.S. Military History from Temple University, and received the 1998-1999 U.S. Marine Corps' Master's Thesis Fellowship for his thesis on the Pacific War.



DR. THOMAS KIRLIN is Senior Vice President of Operations and Chief Financial Officer of the Center for the Study of the Presidency and Congress, and co-chair of the Energy and Environment issue team for the Strengthening America's Future Initiative. Before joining the Center, Dr. Kirlin served for five years as an NGO delegate to the UN climate change negotiations in London, Bonn, Berlin and Kyoto. Prior to his work with the UN, Dr. Kirlin provided educational and communications services to professional societies and taught humanities courses at the University of Wisconsin-Madison and Clark College. He is the editor of *Dialogues on Presidential Leadership* and *The Character of George Washington*, and was the assistant editor of *Triumphs and Tragedies of the Modern Presidency: Seventy-Six Case Studies in Presidential Leadership*.

MR. ERIK PETERSON is Senior Vice President at the Center for Strategic and International Studies (CSIS), where he is Director of the Global Strategy Institute. As Director, he heads the Seven Revolutions Initiative, an internationally recognized effort to identify and forecast global trends out to the year 2025 and beyond. Mr. Peterson also holds the William A. Schreyer Chair in Global Analysis at CSIS; before joining CSIS, he was Director of research at Kissinger Associates. Peterson serves on several advisory boards, including those of the X Prize Foundation, the Center for Global Business Studies at Pennsylvania State University, and the Center for the Study of the Presidency and Congress.

MS. ANNE SOLOMON is the Senior Advisor on Science and Technology Policy for the Center for the Study of the Presidency and Congress, a position she comes to from the Center for Strategic and International Studies where she served as senior advisor for science and technology policy and Director of the biotechnology program. During the mid-1990s, Ms. Solomon served as Deputy Assistant Secretary for Science, Technology and Health at the Department of State, coordinating international global positioning system (GPS) policy and overseeing U.S. bilateral and multinational science and technology ties, international health initiatives and civilian and commercial health space activities. Ms. Solomon began her career at the National Academy of Sciences directing the Committee on Scholarly Communication with the People's Republic of China, and later developed the first U.S.-China science technology agreement during her service in the Office of Science and Technology Policy of the Executive Office of President Jimmy Carter. Her professional work over three decades has focused on research, innovation, foreign and domestic policy and economic and security implications of science and technology globalization, leading to numerous publications including CSIS's *Technology Futures and Global Power, Wealth and Conflict*, and "The Global Positioning System" and "The Genesis of the Human Genome Project" in CSIS's *Triumphs and Tragedies of the Modern Presidency*.



APPENDIX C: PROJECT STAFF LIST

President & CEO

David Abshire

Vice-President of Operations & CFO

Thomas Kirlin

Executive Assistant to the President

Corazon Mendoza

Director of Policy Studies

Alex Douville

Project Senior Advisors

Susan Blumenthal

Erik Peterson

Anne Solomon

Project Director

Dana Martin

Project Coordinators

Ryan Browne

Katharine McFarland

Matthew Purushotham

Project Executive/Legislative Relations Director

John Boyer

Project Communications Director

Sarah Ficencic

Project Staff

Melanie D'Evelyn

Phyllis D'Hoop

Katie Fourmy

Nancy Harloe

Justin Mutter

Mary O'Connor

W. Gray Reilly

Emily Shaftel

Jeffrey Thomas

Jessica Zapf

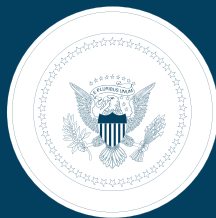
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