



**THE HAMILTON PROJECT POLICY RESPONSE
TO THE STATE OF THE UNION ADDRESS**
February 14, 2013

In his State of the Union address, President Barack Obama outlined an ambitious second-term agenda focusing on policies to help strengthen America’s middle class through broad-based economic growth. In his speech, the President highlighted the need for a balanced approach to deficit reduction and prioritized several areas for enhanced investment, including technology and innovation, the nation’s infrastructure, and our education system. Since its launch in 2006, The Hamilton Project has released a range of targeted policy proposals that provide innovative, evidence-based approaches to addressing many of the priorities set forth in this year’s address.

DEFICIT REDUCTION AND BROAD-BASED ECONOMIC GROWTH

“...broad-based economic growth requires a balanced approach to deficit reduction, with spending cuts and revenue, and with everybody doing their fair share.”

“In 2011, Congress passed a law saying that if both parties couldn’t agree on a plan to reach our deficit goal, about a trillion dollars’ worth of budget cuts would automatically go into effect this year. These sudden, harsh, arbitrary cuts would jeopardize our military readiness. They’d devastate priorities like education, energy, and medical research. They would certainly slow our recovery, and cost us hundreds of thousands of jobs.”

The Hamilton Project has asked leading experts from a variety of backgrounds—the policy world, academia, and the private sector, and from both sides of the political aisle—to develop policy proposals that could form a partial menu of options to achieve the dual goals of reducing the deficit and promoting broad-based economic growth. The resulting [15 papers](#) are included in The Hamilton Project’s forthcoming report that will be released as part of a two-part policy series later this month, [Real Specifics: 15 Ways to Rethink the Federal Budget](#), and will feature discussion on broad-based and innovative deficit reduction strategies.

[Part I: Budgeting for a Modern Military](#) (February 22, 2013)

The Hamilton Project will host a forum on ways to create greater efficiency in the U.S. defense budget while maintaining our national security, and feature two new proposals for reducing future defense budgets from Admiral Gary Roughead, U.S. Navy (Ret.), former chief of Naval Operations, and Cindy Williams, a former assistant director of the Congressional Budget Office.

[Part II: Addressing Entitlements, Taxation, and Revenues](#) (February 26, 2013)

A diverse group of authors will convene on February 26th to present their [13 proposals](#) in a series of roundtable discussions—including options to reduce mandatory and discretionary programs, to improve economic efficiency, and touching on topics as wide ranging as immigration, transportation, healthcare, and mortgage interest.

TAX REFORM

“Now is our best chance for bipartisan, comprehensive tax reform that encourages job creation and helps bring down the deficit. The American people deserve a tax code that helps small businesses spend less time filling out complicated forms, and more time expanding and hiring; a tax code that ensures billionaires with high-powered accountants can’t pay a lower rate than their hard-working secretaries; a tax code that lowers incentives to move jobs overseas, and lowers tax rates for businesses and manufacturers that create jobs right here in America. That’s what tax reform can deliver. That’s what we can do together.”

The Hamilton Project recently hosted a forum on [Economic Facts About Taxes: Rates, Revenues and Reform Options](#) where we released [A Dozen Economic Facts About Tax Reform](#) to help inject evidence-based thinking into discussions around tax reform. The facts are based on the premise that the United States is contending with three economic problems: (1) a daunting outlook for budget deficits that imperils our well-being, (2) an increasingly competitive global economy for many American workers and industries, and (3) rising income inequality. The tax code interacts with each of these problems, and a successful tax reform effort will need to address each of them—or at least avoid making any of them worse.

The Hamilton Project has additional tax reform papers that can serve as a useful resource in ongoing discussions and can be found [here](#). Examples include:

[*A Modern Corporate Tax*](#)

Alan J. Auerbach proposes two reforms to the U.S. corporate tax system: first, an immediate deduction for all investments that would replace the current system of depreciation allowances, and second, replacing the current approach to taxing foreign-source income with a system that ignores all transactions except those occurring exclusively in the United States.

[*Achieving Progressive Tax Reform in an Increasingly Global Economy*](#)

Jason E. Bordoff, Jason Furman, and Lawrence H. Summers present a strategy paper based on six broad principles that reflect the new challenges facing our tax system in the twenty-first century.

IMMIGRATION REFORM

“...real reform means fixing the legal immigration system to cut waiting periods, reduce bureaucracy, and attract the highly-skilled entrepreneurs and engineers that will help create jobs and grow our economy.”

The Hamilton Project clarifies many of the myths around immigration’s impact on wages, jobs, and America’s economic health in [Ten Economic Facts About Immigration](#). As part of a 2012 [policy forum](#), The Project also released a discussion paper by Giovanni Peri of UC Davis that explores a market-based approach to immigration reform. A recent *Wall Street Journal* [op-ed by Peri](#) highlights the key aspects of his proposal.

[*Rationalizing U.S. Immigration Policy: Reforms for Simplicity, Fairness, and Economic Growth*](#)

Giovanni Peri proposes market-based reforms to our immigration system to tie employment-based inflows to labor-market demand. The proposed system uses market-based auctions to allocate employment-based permits to employers and visas to immigrants that have the greatest propensity to contribute to economic activity and thus to generate the largest benefits for the U.S. economy.

INFRASTRUCTURE

“Tonight, I propose a ‘Fix-It-First’ program to put people to work as soon as possible on our most urgent repairs, like the nearly 70,000 structurally deficient bridges across the country. And to make sure taxpayers don’t shoulder the whole burden, I’m also proposing a Partnership to Rebuild America that attracts private capital to upgrade what our businesses need most: modern ports to move our goods; modern pipelines to withstand a storm; modern schools worthy of our children.”

The Hamilton Project has addressed a number of ways to [improve the nation’s infrastructure](#), including specific proposals to target infrastructure priorities and to use public-private partnerships to improve our infrastructure:

[*Fix It First, Expand It Second, Reward It Third: A New Strategy for America’s Highways*](#)

Matthew Kahn and David Levinson propose a reorganization of our national highway infrastructure priorities to preserve, maintain, and enhance existing infrastructure and the creation of the Federal Highway Bank to meet these goals.

[*Public-Private Partnerships to Revamp U.S. Infrastructure*](#)

Eduardo Engel, Ronald Fischer, and Alexander Galetovic propose a series of best practices for state and local governments to follow when using public–private partnerships to provide infrastructure.

HIGHER EDUCATION

“And tomorrow, my Administration will release a new ‘College Scorecard’ that parents and students can use to compare schools based on a simple criteria: where you can get the most bang for your educational buck.”

A previous discussion paper by Bridget Terry Long, written for The Hamilton Project and the Center for American Progress, outlines a strategy for providing better and more consolidated information about higher education, and better-packaging it to meet the needs of potential students.

[*Grading Higher Education: Giving Consumers the Information They Need*](#)

Potential students and their families must navigate a labyrinth of incomplete and uncertain information when deciding where to go to college, what to study, or what career to pursue, resulting in an array of poor choices being made every day. In this proposal, Bridget Terry Long calls for the federal government to expand the types of information that are available and allow users to compare indicators like cost, financial aid, student debt, employment outcomes, and average salaries following graduation, across peer institutions.

“It’s a simple fact: the more education you have, the more likely you are to have a job and work your way into the middle class. But today, skyrocketing costs price way too many young people out of a higher education, or saddle them with unsustainable debt.”

Several Hamilton Project proposals address the need to [improve access to higher education](#) for all Americans, including:

[*College Grants on a Postcard: A Proposal for Simple and Predictable Federal Student Aid*](#)

Susan M. Dynarski and Judith Scott-Clayton examine the federal student aid system and finds that the level of complexity makes it ineffective at increasing college enrollment. The paper then outlines a simplified system to address this issue.

PRE-K -12 EDUCATION

“Tonight, I propose working with states to make high-quality preschool available to every child in America. Every dollar we invest in high-quality early education can save more than seven dollars later on—by boosting graduation rates, reducing teen pregnancy, even reducing violent crime...”

A Hamilton Project discussion paper by Jens Ludwig and Isabel Sawhill addresses the critical importance of early education:

[Success by Ten: Intervening Early, Often and Effectively in the Education of Young Children](#)

Jens Ludwig and Isabel V. Sawhill propose a program designed to help every child achieve success in school by age ten. It calls for a major expansion and intensification of Head Start and Early Head Start, so that every disadvantaged child has the opportunity to enroll in a high-quality program of education and care during the first five years of his or her life. Because the benefits of this intensive intervention may be squandered if disadvantaged children go from this program to a low-quality elementary school, the second part of the proposal requires that schools devote their Title I spending to instructional programs that have proven effective in further improving the skills of children, especially their ability to read.

“Let’s also make sure that a high school diploma puts our kids on a path to a good job. Right now, countries like Germany focus on graduating their high school students with the equivalent of a technical degree from one of our community colleges, so that they’re ready for a job.

“We’ll reward schools that develop new partnerships with colleges and employers, and create classes that focus on science, technology, engineering, and math—the skills today’s employers are looking for to fill jobs right now and in the future.”

The Hamilton Project hosted a [policy forum](#) on ways to improve federal training programs to better prepare the nation’s displaced and disadvantaged workers for the jobs of the future. Harry Holzer, winner of The Hamilton Project’s 2011 Policy Innovation Prize, presented his proposal for aiding disadvantaged youth as part of this event:

[Raising Job Quality and Skills for American Workers: Creating More-Effective Education and Workforce Development Systems in the States](#)

Harry Holzer proposes a series of competitive grants to train less-educated workers and connect them with good-paying jobs in high-growth industries. The grants would fund education, training, and career counseling initiatives that feature private-sector connections based on the experience of existing successful workforce development programs.

A more recent Hamilton Project discussion paper by Aaron Chatterji and Benjamin Jones, proposes a way to harness innovation and technology to improve America’s schools.

[Harnessing Technology to Improve K-12 Education](#)

This proposal considers how we can take a signature American strength—innovation—and apply it to K–12 education. We argue that the advent of Common Core State Standards (CCSS) and broadband Internet create promising opportunities for developing new learning technologies but that a fundamental obstacle remains: the effectiveness of learning technologies is rarely known. The proposed EDU STAR system will solve this problem by (a) undertaking rapid, rigorous, and low-cost evaluations of learning tools and (b) reporting results to the public. EDU STAR will bring together K–12 schools, teachers, and innovators and continually improve this critical foundation for economic prosperity.

“It’s a simple fact: the more education you have, the more likely you are to have a job and work your way into the middle class.”

A recent Hamilton Project policy memo outlines [A Dozen Economic Facts About K-12 Education](#), highlighting the economic imperative of education for our nation’s youth. Several additional discussion papers offer innovative strategies to reform our education system and keep at-risk kids in school:

[Learning from the Successes and Failures of Charter Schools](#)

Because many successful charter schools represent a radical departure from traditional public schools, they often embody a black box to educational reformers. Roland Fryer demonstrates how preliminary results in Houston and Denver public schools provide a path forward for applying effective charter school methods in traditional public schools.

[The Power and Pitfalls of Education Incentives](#)

Recent incentive programs demonstrate that well-designed rewards to students can improve student achievement at relatively low costs. Bradley Allan and Roland Fryer draw on field experiments to propose a set of guidelines to design a successful education incentive program. Those guidelines include paying students to perform tasks that will lead to better academic performance rather than paying them for grades and test scores alone.

[Staying in School: A Proposal to Raise High School Graduation Rates](#)

Philip Oreopoulos presents a strategy for reducing the dropout rate through a carrot-and-stick approach starts with raising the compulsory schooling age to 18, and also combines stricter and better-enforced school-attendance laws with programs that have been statistically proven to prevent disengagement among at-risk students.

[Organizing Schools to Improve Student Achievement: Start Times, Grade Configurations, and Teacher Assignments](#)

While education reform is often focused on dramatic changes, Brian Jacob and Jonah Rockoff suggest that implementing managerial reforms and making sure the “trains run on time” can substantially increase student learning at modest cost. Jacob and Rockoff propose three organizational reforms to improve student performance at moderate cost: 1) starting school later in the day for middle and high school students; 2) shifting from separate to elementary and middle schools to K-8; 3) allow teachers to teach the same grade level for multiple years or have teachers specializing in the subject where they appear most effective.

ENERGY AND CLIMATE CHANGE

“I urge this Congress to pursue a bipartisan, market-based solution to climate change. ... I will direct my Cabinet to come up with executive actions we can take, now and in the future, to reduce pollution, prepare our communities for the consequences of climate change, and speed the transition to more sustainable sources of energy.”

The Hamilton Project has extensively covered issues relating to [energy and the environment](#), including the following evidence-based proposals to combat climate change and promote clean energy innovation. At a [policy forum](#) on America’s energy future, The Project focused on strategies to give all energy sources equal footing in the marketplace and expand America’s opportunities to utilize cleaner, low-cost sources of energy.

[A Better Approach to Environmental Regulation: Getting the Costs and Benefits Right](#)

Ted Gayer proposes three reforms addressing several problems that undermine the role played by cost-benefit analysis in environmental regulation: 1) agencies should use a check list of good empirical practices for using cost-benefit analysis; 2) regulators should presume that consumers can make their own energy-saving decisions and focus on regulations addressing harm people impose on

others; and 3) a six-month, early regulatory review process should be established for particularly important regulations.

[Promoting Clean Energy in the American Power Sector](#)

Joseph Aldy proposes a technology-neutral national clean-energy standard for the U.S. power sector. The proposal would lower carbon dioxide emissions by as much as 60 percent relative to 2005 levels over twenty years, streamline the fragmented regulatory system that is currently in place, generate fiscal benefits, and help fund energy innovation.

[An Energy Technology Corporation Will Improve the Federal Government's Efforts to Accelerate Energy Innovation](#)

John Deutch proposes a series of best practices for government support of U.S. technology demonstration and a new institution that would be responsible for managing and selecting technology demonstration projects.

[A U.S. Innovation Strategy for Climate Change Mitigation](#)

Richard Newell addresses market problems hindering technology innovation relative to mitigating greenhouse gasses. The two-part strategy would induce innovation in industry, and complement this innovation through increased public support for targeted climate mitigation research.

“... the natural gas boom has led to cleaner power and greater energy independence. That’s why my Administration will keep cutting red tape and speeding up new oil and gas permits. But I also want to work with this Congress to encourage the research and technology that helps natural gas burn even cleaner and protects our air and water.”

The Hamilton Project recently held a [policy forum](#) at Stanford University to explore how to best manage these opportunities while achieving our long-term energy and environmental goals. As part of this event, the Project released papers to specifically address opportunities and challenges associated with natural gas:

[Modernizing Bonding Requirements for Natural Gas Producers](#)

Lucas Davis proposes stronger bonding requirements to help ensure that funds would be available to clean up sites when natural-gas-drilling accidents occur, but more importantly, to incentivize producers to work hard to avoid environmental damages in the first place.

[Leveling the Playing Field for Natural Gas in Transportation](#)

Christopher R. Knittel presents a pair of policy proposals to improve the natural gas fueling infrastructure in homes, at local distribution companies, and along long-haul trucking routes; and to promote the use of natural gas vehicles and fuels.

[A Strategy for U.S. Natural Gas Exports](#)

Michael Levi poses a framework for assessing liquefied natural gas exports along six dimensions: macroeconomics (including output, jobs, and balance of trade), distributional, oil security, climate change, foreign and trade policy, and local environment. The paper also proposes steps that the United States should take to leverage potential exports in order to promote its broader trade and foreign policy agendas.

INNOVATION

“If we want to make the best products, we also have to invest in the best ideas. Every dollar we invested to map the human genome returned \$140 to our economy. Today, our scientists are mapping the human brain to unlock the answers to Alzheimer’s; developing drugs to regenerate damaged organs; devising new material to make batteries ten times more powerful. Now is not the time to gut these job-creating investments in science and innovation. Now is the time to reach a level of research and development not seen since the height of the Space Race.”

At a recent Hamilton Project [policy forum](#) on the future of innovation in the United States, we explored the challenges to, and opportunities for, furthering advancements to create jobs and spur economic growth. As part of our continued emphasis on the importance of technology and innovation, The Hamilton Project has released the following papers:

[*A Dozen Economic Facts About Innovation*](#)

During the last century, medical, technical, and business innovations have driven economic growth, increased wages, and improved living standards in the United States. In recent years, however, those gains have stagnated. The Hamilton Project examines the role of innovation in driving the U.S. economy, including its historical importance, the current pace of growth, and opportunities for investments to benefit America’s future.

[*Prizes for Technological Innovation*](#)

Thomas Kalil proposes expanding the U.S. government’s use of prizes and Advanced Market Commitments to stimulate technological innovation in space exploration, African agriculture, vaccines for diseases of the poor, energy and climate change, and learning technologies.

DISTRESSED COMMUNITIES

“Let’s put people back to work rebuilding vacant homes in run-down neighborhoods. And this year, my Administration will begin to partner with 20 of the hardest-hit towns in America to get these communities back on their feet. We’ll work with local leaders to target resources at public safety, education, and housing. We’ll give new tax credits to businesses that hire and invest.”

The Hamilton Project recently hosted a [policy forum](#) focused on policy solutions for renewing American communities and released a number of proposals to help the nation’s [distressed communities](#), including:

[*Bringing Jobs to People: How Federal Policy Can Target Job Creation for Economically Distressed Areas*](#)

Timothy Bartik proposes three solutions to bring jobs to distressed areas: customized job training programs for businesses and employees, advice and consulting services through the Manufacturing Extension Partnership program, and a package of grants for local services and tax breaks through a reformed and revitalized Empowerment Zone program.

[*The Mobility Bank: Increasing Residential Mobility to Boost Economic Mobility*](#)

Jens Ludwig and Steven Raphael propose the creation of a “mobility bank” at a government cost of less than \$1 billion per year to help finance the residential moves of U.S. workers relocating either to take offered jobs or to search for work, and to help them learn more about the employment options available in other parts of the country.

MEDICARE

“On Medicare, I’m prepared to enact reforms that will achieve the same amount of health care savings by the beginning of the next decade as the reforms proposed by the bipartisan Simpson-Bowles commission. Already, the Affordable Care Act is helping to slow the growth of health care costs. The reforms I’m proposing go even further. We’ll reduce taxpayer subsidies to prescription drug companies and ask more from the wealthiest seniors. We’ll bring down costs by changing the way our government pays for Medicare, because our medical bills shouldn’t be based on the number of tests ordered or days spent in the hospital – they should be based on the quality of care that our seniors receive.”

The Hamilton Project has offered several ideas on how to bend the cost curve in health care, including the following proposal:

[Mending the Medicare Prescription Drug Benefit: Improving Consumer Choices and Restructuring Purchasing](#)

Stuart Butler proposes a series of reforms to address the challenges facing Medicare’s Part D prescription drug benefit. These reforms include creating a standardized set of plans, increasing competition, and lowering prices paid for drugs.

The Project’s forthcoming report, *[Real Specifics: 15 Ways to Rethink the Federal Budget](#)*, will feature two proposals that provide strategies to reduce the deficit by reforming Medicare:

Transitioning to Bundled Payments in Medicare

Slowing the rate of health care spending growth will likely require transitioning away from fee-for-service payment to a global payment system, which will improve health outcomes and save money. Michael Chernew and Dana Goldman explore policy issues and budget consequences associated with this transition (to be released on 2-26-13).

Restructuring Cost Sharing and Supplemental Insurance for Medicare

Cost sharing under the Medicare Parts A & B programs is both variable and uncapped, with an overall structure that is hard to rationalize. Jonathan Gruber discusses reforms to Medicare cost sharing that can provide budget savings while encouraging appropriate care and discouraging inappropriate care (to be released on 2-26-13).

Additional Hamilton Project work on health care can be found by [clicking here](#).

For more information on The Hamilton Project’s policy work, visit our website at hamiltonproject.org.

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