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Several readers of *The Economy and You Report* have asked me what I would do about our economy if I was President. Many specific recommendations are contained in my book, *Thin Ice – and Melting*, but here is my answer to what I would have done months earlier.

Will Kaydos

What Obama Should Have Said About the State of Our Economy

My fellow Americans, this is going to be a State of the Union Address unlike any you have ever heard. The usual State of the Union Address is little more than a publicity event that maximizes accomplishments, however small they may be; minimizes problems, however large they may be; and paints a rosy picture, no matter how many dark clouds are on the horizon.

I'm not going to do that. I'm going to be brutally honest and tell you some things that you don't want to hear, but you need to hear. I am everyone's President and I am obligated to tell you the truth, even if it is unpleasant. If I don't, no one else will.

I can't give you all the details during this brief address, but I want to assure you that I have facts and figures to support every statement I make, and they will be available on my official website.

I implore you to challenge everything I say. In fact, I sincerely hope someone will be able to show me where I am wrong about the depth of our economic problems. Nothing would make me happier than having someone show me how we can quickly get out of the mess we are in without any hard work and temporary pain.

No one from either party has been honest about our weakening economy for at least thirty years. Although the downward trends of many of our economy's key indicators weren't readily apparent in the mid-'70s, warning signs, such as declining real weekly wages and a growing trade deficit were clearly visible by the early '80s.

Working Americans recognized our economy was failing, as did a few analysts and politicians, but instead of dealing with the problems of rising global competition and growing dependence on foreign oil, your government chose to cut taxes to prop up consumer spending, while simultaneously increasing government outlays. This led to several years of good economic

growth, but it also created large budget deficits that reversed a 36-year downward trend of our national debt (the debt owed to parties outside of our government) as a percentage of Gross Domestic Product (GDP). In 1981, our national debt was 26% of GDP; in 1989, it was 41%; by 1993, it had risen to 49%. In 12 years, we erased 23 years of progress on our national debt.

In theory, deficit spending to stimulate economic growth is a good strategy, and it might have worked if we used most of the money we borrowed for investments that would strengthen our economy. But we didn't do that. We kept taking the easy way out by increasing government spending, while we borrowed more money to support personal and government lifestyles we couldn't afford.

According to the "supply-side economics" theory that was popular in the '80s, tax cuts and budget deficits would pay for themselves by creating strong economic growth. This was a very appealing concept: borrow money to spend on consumer goods, and by some mysterious process never explained by the supply-siders, your income would increase enough to pay off your debt.

This theory was easily sold to the public because it was so appealing, but it was only a theory, not a fact. Subsequent results showed the Tax Fairy story was at best only a figment of someone's wishful thinking or, at worst, carefully crafted political propaganda. The payback from tax cuts was not the advertised 100% or more; it was at most an estimated 30%. By my analysis, the payback was between 10 and 20%, which explains the rapid growth of our national debt as a percentage of GDP from 1981 to 1993.

When our national debt reached 49.4% of GDP in 1993, it was considered excessive, triggering steps to reduce spending and increase taxes. This helped reduce debt relative to GDP, but it was not our government's fiscal policy that was primarily responsible for the improvement. Instead, it was the '90s high-tech/internet boom that played the biggest role in increasing GDP and tax revenue to the point where our government actually achieved small budget surpluses from 1998 to 2001.

Unfortunately, the boom did very little to repair our economy's fundamental weaknesses. Our trade deficits in oil and consumer goods continued to grow rapidly, and average real weekly wages for production workers hardly increased at all from 1980 to 2000.

The high-tech boom collapsed in 2000, putting us in the grip of a recession in 2001. Once again, we reduced taxes, increased government spending, and borrowed money, so that consumers could enjoy a lifestyle they couldn't afford. But this time around, government policies – including substantially reduced interest rates – facilitated an explosion of private sector debt throughout our economy that ran from 1993 to 2005.

The expansion of private debt went way beyond what our economy could support, and the residential mortgage and consumer credit bubbles inevitably collapsed. We now find ourselves mired in a deep recession, with record-breaking unemployment, skyrocketing foreclosures, tight credit markets, and a rapidly growing national debt that exceeds anything thought possible just a few years ago.

I am not going to rehash what happened in 2008 and 2009, but when I took office, we confronted enormous financial and economic crises on a variety of fronts. Naturally, my administration felt compelled to do something to prevent a financial and psychological breakdown within our economy and in economies around an increasingly interdependent world.

The TARP and stimulus bills that were passed in late 2008 and early 2009 had many flaws, but to some extent those flaws were the result of our having to act in haste in unknown territory. Undoubtedly, we could have done better, but there is no denying that the programs injected needed money and confidence into our economy, thus preventing a complete breakdown – at least so far.

There is no question that “stimulating” our economy with increased government spending and cutting taxes to subsidize consumer spending will temporarily create jobs and boost GDP. There is also no question that tax cuts and increased government spending will not pay for themselves or strengthen our economy, unless we radically change our ways.

It appears our economy has bottomed out, but many storm clouds are still on the horizon. The stimulus package is not a lasting cure for our economic troubles; it is only a starting point for rebuilding our economy. In fact, we have been stimulating our economy with substantial budget deficits and increasing private debt for most of the past thirty years.

Although the money your government borrowed and spent since 1980 has produced many benefits, we have lost much of our industrial base; real wages are lower than they were in the ‘70s; we have huge trade deficits in oil and consumer goods; U.S. industry is generally less competitive in world markets; our national debt has doubled relative to GDP; and our forecast budget deficits are frightening. On top of this, the social insurance and other obligations we are committed to pay in the future are staggering, and no one has offered any realistic way of paying for all of them.

After thirty years of government fiscal irresponsibility and ignoring or denying economic problems that were plainly evident to many Americans, it is difficult to see where our economy is fundamentally any stronger than it was in 1980. If you can show me where it is stronger, please send me your explanation. You know where I live.

I know nobody wants to hear this, but most analysts are expecting a long and slow recovery. I agree we face some serious challenges, for which there are no easy, rapid, and permanent solutions. The only tools your government has for quickly creating jobs is putting money into consumers’ pockets by reducing taxes and increasing government spending.

Unfortunately, both of those actions require borrowing more money, so there are limits to what your government can do to create sustainable jobs and economic growth. The real capability to rebuild our economy to solve our economic problems rests in the private sector, not within the halls of government. It has always been that way, and it always will. The best your government can do is help.

The truth of the matter is that we have been living beyond our means for decades. We were able to do this by running up government and private debt – and now the bills are coming due. We have already spent a lot of tomorrow’s disposable personal income, and having spent it once, we can’t spend it again.

Our national debt was 53% of GDP at the end of fiscal year 2009 and is expected to be 64% in 2010. This is high by historical standards, and it is weakening your government’s borrowing capacity. Right now, there are only minor signs of danger to being able to finance our national debt, but you have to wonder when our creditors will reduce their appetite for our debt. If this happens, interest rates will increase, putting the brakes on our economy’s growth.

No matter how you look at where we are today, the only real and lasting way out of this recession is to rebuild our economy through investment, innovation, and hard work. Rebuilding our economy will also restore our government’s financial health, assuming Congress can be fiscally responsible (which it has not been for decades). If we don’t try to rebuild our economy the right way, our efforts will fail, and we, along with future generations, will undoubtedly suffer painful consequences.

We cannot let this happen.

I know Democrats like to blame everything on the Republicans and the Republicans like to reciprocate. But I don’t want to play that game because it is a game with no end and no winner; it accomplishes nothing; and it makes it impossible to find the best solution to any problem through rational analysis and discussion. And, if there ever was a time when we needed rational analysis and discussion on Capitol Hill, it is now.

However, the best reason for not playing the blame game is that our economy’s decline and the current recession did not happen overnight. It spans the last 30-40 years and cuts across periods of both Republican and Democratic control of the White House, the Senate, and the House. Both parties helped dig this economic hole we are in, and both must contribute to getting us out of it.

We and our predecessors are all responsible for where we are today. We have not been honest with the American people; we have been fiscally irresponsible; and we have not only made many bad decisions, we have refused to make the unpleasant and unpopular decisions we should have made.

In our zeal to win elections, we have poorly served the American people who depend on us to do what is best for our country. This has to stop, and I will do everything in my power to stop it.

Although I probably contributed to some bad decisions as a senator and as your president, I do not feel personally responsible for everything that has transpired over the past thirty years. I am, however, responsible for leading us out of this wilderness.

That’s my job, and I will do it to the best of my ability.

I don't have all the answers. No one does. But there are answers, and we have the resources within our borders to find and implement them. Unfortunately, one resource that is in short supply is time. If we don't substantially improve our economy within the next 5-10 years, we will be forced to significantly increase taxes, cut back social insurance programs, and reduce all other government spending. Ten years from now might seem to be far away, but when you consider that it usually takes several years to create a new business, develop a new technology, or build any significant infrastructure element, 2020 is right around the corner.

If we reach the point where our backs are up against the wall – and we will if we don't act decisively – there will be severe economic and social impacts no matter what choices we make. We can avoid reaching that point only if we start making the significant changes that we must make today - not next month or next year.

Make no mistake. Big changes are needed in our government and throughout our economy. If all we do is nibble around the edges and keep doing what we have been doing, we will undoubtedly get the same unacceptable results. Einstein was right when he defined insanity as "doing the same thing over and over again, and expecting different results."

We must make the best moves we can, as soon as we can, without spinning out of control. We cannot do everything at once, so we must carefully choose our priorities and broaden our base of resources in order to accomplish as much as possible, as quickly as possible.

Since there is no free lunch and no lottery we can win that will solve our economic problems, we have only two choices for rebuilding our economy: doing it now or doing it later. But we are kidding ourselves if we think we can do it later, when our economic problems will be larger; we will have fewer resources available; and we will be closer to falling into a very deep hole.

My proposal for Rebuilding America

Accordingly, I am proposing an approach to rebuilding our economy and restoring our government's fiscal strength that has been successfully used by many private and public organizations. Not all of the details have been worked out, but the central theme is to use Rebuilding America Decision Teams to develop a comprehensive plan to grow our economy, and then vigorously implement the plan.

Team structure

Each Decision Team will consist of four Democrats, four Republicans, and four non-aligned persons from the private sector. Some adjustments may be required on each team, but the idea is to make each Decision Team as politically neutral as possible.

The Rebuilding America Steering Team will be responsible for determining what issues need to be addressed and their priorities; deciding what Decision Teams are needed; defining Rebuilding America policies, procedures, and schedules; and managing the overall project. The President – that's me - will lead the Steering Team, which will have twelve other members with the same mix mentioned earlier.

The Steering Team will determine what issues must be addressed, but a preliminary shopping list includes the following items:

- Reducing government discretionary spending (target: \$300 billion per year, not \$30 billion)
- Increasing tax and other government revenue without increasing income tax rates (target: \$200 billion per year)
- Making America competitive and growing our industrial base
- Encouraging and facilitating business investment, development, and innovation
- Reducing tax and policy uncertainties for businesses
- Improving the cost-effectiveness of our healthcare system
- Reducing social insurance costs
- Reducing our dependence on foreign oil and increasing the use of renewable energy
- Increasing exports to reduce our trade deficit and increase jobs

The private sector built our economy, and only the private sector can restore its strength. That's what this effort is primarily about: facilitating business expansion and new business development by removing obstacles and perhaps providing incentives that have a high probability of earning a positive return.

Rebuilding America is also about reducing waste and re-allocating resources throughout government and our economy to areas where they will provide the most return. Taxpayers cannot afford to subsidize inefficiency and spend money on things that are nice to do, but are not necessary or do not provide an important economic or social return. History shows that when your government rewards inefficiency, all it gets is more inefficiency.

If we don't rebuild our economy, many of the things we would like to accomplish, including meeting commitments already made to millions of Americans, will be impossible. We must never forget that much of America's greatness comes from our strong economy, and that our security and quality of life depend upon our economic strength.

That is why Rebuilding America must be our country's top priority, and it will be my number one priority. Your government will be able to work on other matters, but Rebuilding America will take precedence over everything except national security and unexpected emergencies. Consequently, it will be necessary to defer some matters that are less urgent.

The Steering Team will be responsible for determining priorities, but two items I want to put on hold until the Decision Teams can make their final recommendations, are healthcare reform and the cap-and-trade system.

This doesn't mean these issues are going away, but we need to make sure we get them right the first time because they will have a large impact on our economy. There is much that is right about the healthcare bill, but it doesn't do enough to improve the cost-effectiveness of our healthcare system, and it has other weaknesses. The cap-and-trade system is also highly controversial, and we must agree on the costs and benefits of each bill before we take such big steps.

These issues are only going on the back burner until we have developed a plan for rebuilding our economy and the plan's implementation is well underway. If Congress will do its job, it should take less than eight months to get to that point. Healthcare and cap-and-trade can then be examined more closely, and perhaps more rationally, under less stressful conditions.

Another very important reason for deferring action on these, and potentially other programs, is to remove most of the uncertainty hanging over the business community. Businesses are less likely to invest, innovate and expand as long as the rules they have to follow are poorly defined or keep changing, and we need to do everything we can to help businesses develop and grow.

We must act quickly, but responsibly. Every day that we do nothing digs the economic hole we are in a little deeper. This is why I am setting an ambitious schedule that calls for our being able to start implementing the Decision Teams' recommendations in less than twenty weeks (the details are in the Addendum to this transcript).

If this schedule is met – and it should be beaten – the new wheels for rebuilding our economy will start turning in less than six months. This does not mean we can expect to see significant results this year. Thirty years of economic erosion and living beyond our means by piling up debt cannot be erased in a year or two.

I am confident, however, that if we apply ourselves and our resources wisely, we will accomplish more than we think is possible. I foresee our economy on much firmer ground five years from now, and I predict that in ten years, we will be looking back with pride - and perhaps a degree of amazement - at what we accomplished.

However, we will know how we did it: investment, ingenuity, sacrifice, working toward a common cause, and hard work.

The biggest threat to this all-important initiative is the political culture in Congress and the White House. Everybody talks about reducing government spending and making changes to policies and procedures, but when it comes time to do something bold, they jump back like they just stepped on a rattlesnake, fearing that it may cost them a few votes.

Most citizens in this great country have a similar perspective on waste and change. Everyone is eager to cut spending, as long as it does not affect their subsidies, tax breaks, and pork-barrel projects, regardless of how unjustified they may be. Everyone also wants a robust economy as long as the changes necessary to build one don't adversely affect them. This is understandable, but it cannot be acceptable if we are going to achieve our national economic goals.

I am fully aware that everything the Decision Teams and the Steering Team will propose is going to be controversial. Screams will be heard from Hawaii to Maine from thousands of organizations that will protest changing any program. We will hear cries that the changes we must make will lead to the collapse of our country and the end of the world.

However, any pain we experience now will pale in comparison to what lies in store for us if we sit on our hands and pretend the faults in our economy will magically mend themselves. That is

why we must get beyond hysteria, playing political games, thinking small, and trying to preserve the past instead of focusing on building our future.

Many necessary decisions will be difficult and painful, but if we make the hard decisions and take action now, while we have the resources and time to avoid hitting an economic iceberg, we can rebuild our economy, ensuring prosperity for ourselves and future generations.

If we do nothing, life will become very unpleasant for a great many Americans who deserve better. But I am confident that Congress, the White House, and the American people will meet the formidable challenges facing us.

The stakes are too high to fail, so we must – and will – succeed.

Thank you and goodnight.

Addendum - Administrative Details

Team member requirements

1. Team members must be knowledgeable about the issues the team will address.
2. Team members will pledge to seek the best solution for our country, regardless of its political implications.
3. Team members must pledge to forget which party they belong to and not campaign while they are conducting team business.
4. Team members will pledge to keep all team deliberations and votes confidential in order to insulate team members from as many external pressures as possible.
5. Team members must commit the time required to conduct the team's business. Perfect attendance at team meetings is expected. Attendance records will be kept and disclosed.

Team rules

1. The members will elect their team leader and establish any working rules they feel are necessary.
2. The Decision Team leaders and individual members will serve at the pleasure of the team. Any member may be eliminated and the team leader can be replaced by a two-thirds vote of the other members.
3. Adoption of any recommendations or conclusions requires a two-thirds vote of the team members.

The schedule

1. By day 15, establish the Rebuild America Steering Team.
2. By day 45, define national economic priorities and the Decision Teams required to address them.
3. By day 75, each Decision Team will publish its findings and recommendations.
4. By day 105, the Steering Team will review the Decision Teams' recommendations and define implementation priorities.

5. By day 135, action plans for implementing each approved recommendation will be developed by the Decision Teams and approved by the Steering Team.
6. Implementation will start by day 136.

Disclosure

1. Invitations to be on Decision Teams, accepts/declines and voluntary/involuntary team member resignations will be made public.
2. Team deliberations and votes will be confidential, but the recommendations made by each Decision Team will be made public.
3. Team involvement with lobbyists should be limited to what is necessary to provide relevant information. Teams may allow or request lobbyists to address the team on specific matters, but lobbyists may not confer with individual team members about team business, participate in a team's decision-making, or participate in writing any legislation.
4. A record will be kept of all team and team member contacts with lobbyists, and this will be disclosed every two weeks.
5. The American public will receive a monthly progress report on Rebuilding America. This report will give citizens a good understanding of decisions made, action plans, implementation successes and failures, program changes, forecasts and any other important matters.

Note: Do yourself and your friends a favor by forwarding this newsletter to them. Our economy is in much deeper trouble than anyone in Washington will admit, there is no comprehensive plan to rebuild it, and the stimulus and proposed job creation packages are woefully inadequate.

Please bring this message to the attention of your representatives in Washington and in your state, the press, and any organizations that can help get our country on the path to a real economic recovery. This report is available at http://www.rstu.org/economy_and_you/report.

If you want to be on our mailing list, please register at <http://www.rstu.org/register/>. There is no obligation and you can unsubscribe at any time.

*Work hard, play hard, help someone who needs it,
and remember to count the day lost that you don't learn something new!*

Regards,
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