

## ECONOMIC REPORT OF THE PRESIDENT

TO THE CONGRESS OF THE UNITED STATES:

As we begin a new year, the American people are still experiencing the effects of a recession as deep and painful as any we have known in generations. Traveling across this country, I have met countless men and women who have lost jobs these past two years. I have met small business owners struggling to pay for health care for their workers; seniors unable to afford prescriptions; parents worried about paying the bills and saving for their children's future and their own retirement. And the effects of this recession come in the aftermath of a decade of declining economic security for the middle class and those who aspire to it.

At the same time, over the past two years, we have also seen reason for hope: the resilience of the American people who have held fast—even in the face of hardship—to an unrelenting faith in the promise of our country.

It is that determination that has helped the American people overcome difficult periods in our Nation's history. And it is this perseverance that remains our great strength today. After all, our workers are as productive as ever. American businesses are still leaders in innovation. Our potential is still unrivaled. Our task as a Nation—and our mission as an Administration—is to harness that innovative spirit, that productive energy, and that potential in order to create jobs, raise incomes, and foster economic growth that is sustained and broadly shared. It's not enough to move the economy from recession to recovery. We must rebuild the economy on a new and stronger foundation.

I can report that over the past year, this work has begun. In the coming year, this work continues. But to understand where we must go in the next year and beyond, it is important to remember where we began one year ago.

Last January, years of irresponsible risk-taking and debt-fueled speculation—unchecked by sound oversight—led to the near-collapse of our financial system. We were losing an average of 700,000 jobs each month. Over the course of one year, \$13 trillion of Americans’ household wealth had evaporated as stocks, pensions, and home values plummeted. Our gross domestic product was falling at the fastest rate in a quarter century. The flow of credit, vital to the functioning of businesses large and small, had ground to a halt. The fear among economists, from across the political spectrum, was that we could sink into a second Great Depression.

Immediately, we took a series of difficult steps to prevent that catastrophe for American families and businesses. We acted to get lending flowing again so ordinary Americans could get financing to buy homes and cars, to go to college, and to start businesses of their own; and so businesses, large and small, could access loans to make payroll, buy equipment, hire workers, and expand. We enacted measures to stem the tide of foreclosures in our housing market, helping responsible homeowners stay in their homes and helping to stop the broader decline in home values.

To achieve this, and to prevent an economic collapse, we were forced to use authority enacted under the previous Administration to extend assistance to some of the very banks and financial institutions whose actions had helped precipitate the turmoil. We also took steps to prevent the collapse of the American auto industry, which faced a crisis partly of its own making, to prevent another round of widespread job losses in an already fragile time. These decisions were not popular, but they were necessary. Indeed, the decision to stabilize the financial system helped to avert a larger catastrophe, and thanks to the efficient management of the rescue—with added transparency and accountability—we have recovered most of the money provided to banks.

In addition, even as we worked to address the crises in our banking sector, in our housing market, and in our auto industry, we also began attacking our economic crisis on a broader front. Less than one month after taking office, we enacted the most sweeping economic recovery package in history: the American Recovery and Reinvestment Act of 2009. The Recovery Act not only provided tax cuts to small businesses and 95 percent of working families and provided emergency relief to those out of work or without health insurance; it also began to lay a new foundation for long-term growth. With investments in health care, education, infrastructure, and clean energy, the Recovery Act has saved or created roughly two million jobs so far, and it has begun the hard work of transforming our economy to thrive in the modern, global era.

Because of these and other steps, we can safely say that we've avoided the depression many feared. Our economy is growing again, and the growth over the last three months was the strongest in six years. But while economic growth is important, it means nothing to somebody who has lost a job and can't find another. For Americans looking for work, a good job is the only good news that matters. And that's why our work is far from complete.

It is true that the steps we have taken have slowed the flood of job losses from 691,000 per month in the first quarter of 2009 to 69,000 in the last quarter. But stemming the tide of job loss isn't enough. More than 7 million jobs have been lost since the recession began two years ago. This represents not only a terrible human tragedy, but also a very deep hole from which we'll have to climb out. Until jobs are being created to replace those we've lost—until America is back at work—my Administration will not rest and this recovery will not be finished.

That's why I am continuing to call on the Congress to pass a jobs bill. I've proposed a package that includes tax relief for small businesses to spur hiring, that accelerates construction on roads, bridges, and waterways, and that creates incentives for homeowners to invest in energy efficiency, because this will create jobs, save families money, and reduce pollution that harms our environment.

It is also essential that as we promote private sector hiring, we continue to take steps to prevent layoffs of critical public servants like teachers, firefighters, and police officers, whose jobs are threatened by State and local budget shortfalls. To do otherwise would not only worsen unemployment and hamper our recovery; it would also undermine our communities. And we cannot forget the millions of people who have lost their jobs. The Recovery Act provided support for these families hardest-hit by this recession, and that support must continue.

At the same time, long before this crisis hit, middle-class families were under growing strain. For decades, Washington failed to address fundamental weaknesses in the economy: rising health care costs, growing dependence on foreign oil, an education system unable to prepare all of our children for the jobs of the future. In recent years, spending bills and tax cuts for the very wealthiest were approved without paying for any of it, leaving behind a mountain of debt. And while Wall Street gambled without regard for the consequences, Washington looked the other way.

As a result, the economy may have been working for some at the very top, but it was not working for all American families. Year after year, folks were forced to work longer hours, spend more time away from their

loved ones, all while their incomes flat-lined and their sense of economic security evaporated. Growth in our country was neither sustained nor broadly shared. Instead of a prosperity powered by smart ideas and sound investments, growth was fueled in large part by a rapid rise in consumer borrowing and consumer spending.

Beneath the statistics are the stories of hardship I've heard all across America—hardships that began long before this recession hit two years ago. For too many, there has long been a sense that the American dream—a chance to make your own way, to work hard and support your family, save for college and retirement, own a home—was slipping away. And this sense of anxiety has been combined with a deep frustration that Washington either didn't notice, or didn't care enough to act.

These weaknesses have not only made our economy more susceptible to the kind of crisis we have been through. They have also meant that even in good times the economy did not produce nearly enough gains for middle-class families. Typical American families saw their standards of living stagnate, rather than rise as they had for generations. That is why, in the aftermath of this crisis, and after years of inaction, what is clear is that we cannot go back to business as usual.

That is why, as we strive to meet the crisis of the moment, we are continuing to lay a new foundation for prosperity: a foundation on which the middle class can prosper and grow, where if you are willing to work hard, you can find a good job, afford a home, send your children to world-class schools, afford high-quality health care, and enjoy retirement security in your later years. This is the heart of the American Dream, and it is at the core of our efforts to not only rebuild this economy—but to rebuild it stronger than before. And this work has already begun.

Already, we have made historic strides to reform and improve our education system. We have launched a Race to the Top in which schools are competing to create the most innovative programs, especially in math and science. We have already made college more affordable, even as we seek to increase student aid by ending a wasteful subsidy that serves only to line the pockets of lenders with tens of billions of taxpayer dollars. And I've proposed a new American Graduation Initiative and set this goal: by 2020, America will once again have the highest proportion of college graduates in the world. For we know that in this new century, growth will be powered not by what consumers can borrow and spend, but what talented, skilled workers can create and export.

Already, we have made historic strides to improve our health care system, essential to our economic prosperity. The burdens this system

places on workers, businesses, and governments is simply unsustainable. And beyond the economic cost—which is vast—there is also a terrible human toll. That’s why we’ve extended health insurance to millions more children; invested in health information technology through the Recovery Act to improve care and reduce costly errors; and provided the largest boost to medical research in our history. And I continue to fight to pass real, meaningful health insurance reforms that will get costs under control for families, businesses, and governments, protect people from the worst practices of insurance companies, and make coverage more affordable and secure for people with insurance, as well as those without it.

Already, we have begun to build a new clean energy economy. The Recovery Act included the largest investment in clean energy in history, investments that are today creating jobs across America in the industries that will power our future: developing wind energy, solar technology, and clean energy vehicles. But this work has only just begun. Other countries around the world understand that the nation that leads the clean energy economy will be the nation that leads the global economy. I want America to be that nation. That is why we are working toward legislation that will create new incentives to finally make renewable energy the profitable kind of energy in America. It’s not only essential for our planet and our security, it’s essential for our economy.

But this is not all we must do. For growth to be truly sustainable—for our prosperity to be truly shared and our living standards to actually rise—we need to move beyond an economy that is fueled by budget deficits and consumer demand. In other words, in order to create jobs and raise incomes for the middle class over the long run, we need to export more and borrow less from around the world, and we need to save more money and take on less debt here at home. As we rebuild, we must also rebalance. In order to achieve this, we’ll need to grow this economy by growing our capacity to innovate in burgeoning industries, while putting a stop to irresponsible budget policies and financial dealings that have led us into such a deep fiscal and economic hole.

That begins with policies that will promote innovation throughout our economy. To spur the discoveries that will power new jobs, new businesses—and perhaps new industries—I have challenged both the public sector and the private sector to devote more resources to research and development. And to achieve this, my budget puts us on a path to double investment in key research agencies and makes the research and experimentation tax credit permanent. We are also pursuing policies that will help us export more of our goods around the world, especially by small

businesses and farmers. And by harnessing the growth potential of international trade—while ensuring that other countries play by the rules and that all Americans share in the benefits—we will support millions of good, high-paying jobs.

But hand in hand with increasing our reliance on the Nation’s ingenuity is decreasing our reliance on the Nation’s credit card, as well as reining in the excess and abuse in our financial sector that led large firms to take on extraordinary risks and extraordinary liabilities.

When my Administration took office, the surpluses our Nation had enjoyed at the start of the last decade had disappeared as a result of the failure to pay for two large tax cuts, two wars, and a new entitlement program. And decades of neglect of rising health care costs had put our budget on an unsustainable path.

In the long term, we cannot have sustainable and durable economic growth without getting our fiscal house in order. That is why even as we increased our short-term deficit to rescue the economy, we have refused to go along with business as usual, taking responsibility for every dollar we spend. Last year, we combed the budget, cutting waste and excess wherever we could, a process that will continue in the coming years. We are pursuing health insurance reforms that are essential to reining in deficits. I’ve called for a fee to be paid by the largest financial firms so that the American people are fully repaid for bailing out the financial sector. And I’ve proposed a freeze on nonsecurity discretionary spending for three years, a bipartisan commission to address the long-term structural imbalance between expenditures and revenues, and the enactment of “pay-go” rules so that Congress has to account for every dollar it spends.

In addition, I’ve proposed a set of common sense reforms to prevent future financial crises. For while the financial system is far stronger today than it was one year ago, it is still operating under the same rules that led to its near-collapse. These are rules that allowed firms to act contrary to the interests of customers; to hide their exposure to debt through complex financial dealings that few understood; to benefit from taxpayer-insured deposits while making speculative investments to increase their own profits; and to take on risks so vast that they posed a threat to the entire economy and the jobs of tens of millions of Americans.

That is why we are seeking reforms to empower consumers with the benefit of a new consumer watchdog charged with making sure that financial information is clear and transparent; to close loopholes that allowed big financial firms to trade risky financial products like credit defaults swaps and other derivatives without any oversight; to identify

system-wide risks that could cause a financial meltdown; to strengthen capital and liquidity requirements to make the system more stable; and to ensure that the failure of any large firm does not take the economy down with it. Never again will the American taxpayer be held hostage by a bank that is “too big to fail.”

Through these reforms, we seek not to undermine our markets but to make them stronger: to promote a vibrant, fair, and transparent financial system that is far more resistant to the reckless, irresponsible activities that might lead to another meltdown. And these kinds of reforms are in the shared interest of firms on Wall Street and families on Main Street.

These have been a very tough two years. American families and businesses have paid a heavy price for failures of responsibility from Wall Street to Washington. Our task now is to move beyond these failures, to take responsibility for our future once more. That is how we will create new jobs in new industries, harnessing the incredible generative and creative capacity of our people. That is how we’ll achieve greater economic security and opportunity for middle-class families in this country. That is how in this new century we will rebuild our economy stronger than ever before.

A handwritten signature in black ink, appearing to read 'Barack Obama', with a large, stylized initial 'B' and a circular flourish.

THE WHITE HOUSE  
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