

DMI ON THE 2008 STATE OF THE UNION



INTRODUCTION

The American people want change. Every Presidential candidate, Democrat and Republican, has made this a mantra. But the State of the Union Address reveals no alteration from President George W. Bush. This year the President labored to keep breathing life into the same worn out ideology that has repeatedly failed America's current and aspiring middle class.

The President continues to proclaim the foundation of our economy sound when so many current and aspiring middle-class Americans are losing their spot in the American Dream. He prioritizes ideology over proven methods of stimulating the economy and providing health care. He uses the language of consumer choice to dress up what really amounts to unbridled corporate power and profiteering. He continues to assert that the market will right itself, if only people understand it more and restrict it less, despite all of the evidence to the contrary.

Despite the praise-worthy components of President Bush's address tonight – his signing of the Energy Independence and Security Act, his cooperation with Congress to pass a stimulus reform that would include millions of low-income Americans he initially intended to exclude, his newfound interest in supporting military families – his approach reflected a commitment to ideology, as opposed to willingness to see how that ideology has actually impacted current and aspiring middle-class Americans.

After years of insisting that the economy was doing great as middle-class families were squeezed by stagnant wages and a rising cost of living, it takes weak corporate profits to make the President recognize that times are tough.

- Because the President's ideology insists that tax cuts are always preferable to government spending, the stimulus proposal includes costly and ineffective incentives for business rather than a fast and efficient expansion of unemployment benefits that would both boost the economy and help the middle-class households hardest hit by the downturn.
- Looking at the corporate recklessness and lack of government oversight that created the subprime mortgage crisis, President Bush avoids regulating the industries at fault. Rather he touts a plan that allows banks to decide on a purely voluntary basis whether they care to work out a payment plan with beleaguered homeowners. We don't imagine that's the kind of volunteerism he heralded elsewhere in his address.
- A middle-class standard of living is defined by things like access to education, health coverage and the opportunity to hold down a stable, well-paid job, yet from education to health care to tax policy, the President preferred to experiment with market-based solutions that won't help aspiring Americans work their way into the middle class. It was particularly shocking that the President urges Congress to make his failed tax cuts for the wealthy permanent, despite their failure to help the nation recover from the last economic downturn.

The President tells us that he trusts the American people. The more important question is whether the American people have any reason to trust the White House. The President's support of choice in this State of the Union address reveals that he is choosing not to heed the call of the American people for common-sense solutions to the challenges they face.

DMI ON THE 2008 STATE OF THE UNION



Yet, what is most important in this address, is not the President delivering it, but the ideas represented. This State of the Union can either serve as a blueprint for continuing to move backwards, or a line of demarcation away from a policy outlook that has caused irreparable harm to America's middle class. While the President's years of imposing dangerously flawed policies on the nation are drawing to a close, future leaders, in Congress and the White House, will determine whether his distorted worldview lives on, and continues to afflict the middle class and the nation.

DMI ON THE 2008 STATE OF THE UNION



ECONOMY

PRESIDENT BUSH SAYS: The economic picture is mixed.

“Our economy is undergoing a period of uncertainty. America has added jobs for a record 52 straight months, but jobs are now growing at a slower pace. Wages are up, but so are prices for food and gas. Exports are rising, but the housing market has declined. At kitchen tables across our country, there is real concern about our economic future.”

DMI SAYS: “The time to put a positive spin on the economy is long past. For most of America’s current and aspiring middle class, there was no economic recovery during the Bush years: even during the economic peak stagnant wages barely kept up with the rising cost of living. Now, as the economy slumps, unemployment rises, and more middle-class families are at risk of losing both their greatest financial asset and the roof over their heads, Bush must act quickly and intelligently to head off a greater crisis.”

- Economists predict tough economic times in the coming year, but middle-class Americans have been feeling the squeeze for some time. In 2007, prices rose faster than wages, with the cost of middle-class essentials like health care and college tuition soaring particularly high. Why didn’t the President notice sooner? Perhaps because the pain was not felt by everyone: the stock market ended the year up 6.43 percent, while the share of the nation’s total after-tax income going to the top 1% of households reached a record high in 2007. But for the 7 million Americans unemployed, the 47 million uninsured, and the millions of others at risk of foreclosure, there’s no need to look at corporate profit statements to gauge whether the economy is in crisis.
- Rising oil prices and a tumbling real estate market represent new strains on the economy. Again it is middle-class Americans struggling to hold on, and low-income workers striving to attain a middle-class standard of living, who have the most to lose. Throughout the purported economic recovery, middle-class homeowners borrowed against the value of their homes to make ends meet. Now that the collapse of the housing market and the tightening of credit has made that more difficult, debt on high-interest credit cards is soaring. It is little surprise that more than 800,000 Americans filed for consumer bankruptcy in 2007, an increase of more than 40 percent from the previous year.
- Without a rapid change in course, the worsening middle-class squeeze will be President Bush’s primary economic legacy. Budget-busting tax cuts for the wealthiest Americans alongside cuts to necessary public services; vetoed legislation to extend health coverage to children who can’t afford to see a doctor; support for legislation that made it harder for families facing economic crisis to discharge their debts in bankruptcy; and a Department of Labor that permitted employers to slash overtime pay and bust unions with impunity are among the Bush policy choices that made life more difficult for the nation’s current and aspiring middle class.

Relevant Statistics

DMI ON THE 2008 STATE OF THE UNION



- Number of people unemployed in the United States in 2000 and 2007, respectively: **5,692,000** and **7,078,000**.
- Approximate percentage change in real hourly and weekly wages in the past 12 months: **minus 1.0**.
- Average price of gasoline per gallon in 2006, 2007, and 2008 (projected), respectively: **\$2.58**, **\$2.82**, **\$3.14**.
- Percentage increase in the cost of tuition and fees at public 4-year colleges since 2000: **84**.
- Annual percentage decline of home prices in the last 10 months, as recorded in October, 2007: **6.7**.
- Annual rate at which credit card debt increased in November 2007: **11.3%**.
- Approximate percentage increase in the number of consumer bankruptcy filings in 2007: **40**.
- Approximate ratio of children living in poverty in the United States: **1 in 5**.
- Number of Americans who could not afford sufficient food at some point during the course of 2006: **35.5 million**.

STIMULUS PACKAGE

PRESIDENT BUSH SAYS: Congress should act quickly to pass the stimulus package without additional spending.

“My Administration reached an agreement with Speaker Pelosi and Republican Leader Boehner on a robust growth package that includes tax relief for individuals and incentives for business investment. The temptation will be to load up the bill. That would delay it or derail it, and neither option is acceptable.”

DMI SAYS: “The middle-class will benefit from a stimulus package that efficiently boosts the economy and helps those hardest hit by the economic downturn. Unfortunately, the President wants to include ideological pet projects that drain needed resources. Although the temporary tax rebates are likely to be successful at stimulating consumer demand, research shows that tax cuts for business investment are not a very effective means of economic stimulus. A host of other policies, including extending and expanding unemployment benefits, are priorities that far from ‘loading up the bill’ would have provided much greater ‘bang for the buck’ and done far more to help those in need than the business tax cuts.”

- An effective economic stimulus package must quickly direct money to those who will stimulate the most short-term economic growth. This makes the tax rebates effective, if the checks can be sent quickly. Cash-strapped middle-class and aspiring middle-class Americans are more likely than wealthier people to spend the money they receive immediately, rather than saving it. The short-term boost to consumer spending is just what the economy needs during a downturn. The

DMI ON THE 2008 STATE OF THE UNION



spending increases consumer demand, prompting increased production and economic expansion.

- The one-time tax rebate approved by the House of Representatives will provide money to current and aspiring middle-class Americans, regardless of whether they owe income taxes. The rebates will be phased out for higher-income households. By contrast, the rebate Bush administration officials had originally proposed would give no money at all to families of four making less than \$24,900 even though these families pay payroll and sales taxes and would be hard hit by an economic downturn. Even middle-class families making about \$41,000 would not have been eligible for the full rebate amount under the Administration's original plan, according to the Center for Budget and Policy Priorities.
- Research demonstrates that a temporary tax rebate could generate GDP growth of 1.2% by the third quarter of 2008, and that policies providing tax rebates to all Americans are at least 6 times more effective in stimulating the economy than incentives for business investment. Offering tax incentives for business investment, as the President has insisted upon, frequently fails to generate substantial economic growth because many businesses use the tax cuts for investments they already planned to undertake anyway, costing the public lost revenue but creating no additional economic activity.
- To be most effective, economic stimulus should have a rapid impact on the economy. Yet it takes considerable time for businesses to make new investments and for investments to result in increased employment or purchasing. The lag time is a considerable drawback for this means of stimulus.
- The Center for Budget and Policy Priorities points out that business incentives harms state budgets, since state and federal tax codes are linked. Many states are already facing a revenue crunch due to the economic downturn, and, unlike the federal government, they cannot run budget deficits. The result could be cuts in state and local services that middle-class Americans rely on, from education to road maintenance to public safety.
- Economists find many types of economic stimulus more effective than incentives for business investment. For example, President Bush should call for strengthening unemployment benefits, a policy that particularly helps current and aspiring middle-class Americans unlucky enough to be laid off. Unemployment is already on the rise and it takes longer to find work during an economic downturn when jobs are scarce, so extended benefits are needed. People who are out of work tend to spend nearly all of the money they receive in government benefits very quickly, providing the quick jolt to consumer spending that the economy needs. Far from being "unnecessary spending," as the President calls it, extending unemployment benefits is one of the most effective stimulus measures yet conceived.
- Congressional leaders and President Bush could also consider several other economic stimulus measures that target aspiring middle-class and middle-class Americans. Food stamp payments could be increased very quickly, aiding very needy Americans who would stimulate the economy immediately by spending the money they no longer need to put towards food; home heating credits would ease the burden on current and aspiring middle-class families trying to pay high energy bills, freeing up cash that can be spent on other necessities; and federal aid to state governments would offset revenue shortfalls, preventing cuts in state spending on programs like health care and education that benefit the middle class.

DMI ON THE 2008 STATE OF THE UNION



Relevant Statistics

- Maximum amount the proposed rebate would provide to an individual taxpayer: **\$600**
- Additional amount for every child: **\$300**
- Income amount at which the rebate would begin to phase out for married couples: **\$150,000**
- Amount of stimulus produced for every \$1 in tax cuts targeted to low-income households, according to Economy.com: **\$1.19**
- Amount of stimulus produced for every \$1 in tax cuts provided through a business investment writeoff policy, a previous Bush Administration effort to increase business investment: **\$0.24**.
- Amount of stimulus produced for every \$1 spent on extending emergency federal unemployment insurance benefits: **\$1.73**.
- Amount of stimulus produced for every \$1 spent on state government aid: **\$1.24**.
- Number of different stimulus policies implemented under President Bush that were more effective per public dollar than business investment incentives, according to an Economy.com study: **7**
- Minimum amount of revenue states are projected to lose as a result of the investment incentives, according to the Center for Budget and Policy Priorities: **\$4 billion**
- Percentage of businesses in a 2006 survey that said that bonus depreciation, a type of investment incentive implemented in the past, was an important factor in their decisions about investment level or timing: **10**.

MAKING THE TAX CUTS PERMANENT

PRESIDENT BUSH SAYS: We must make the 2001 and 2003 tax cuts permanent.

“Unless Congress acts, most of the tax relief we have delivered over the past seven years will be taken away... make the tax relief permanent.”

DMI SAYS: “No matter what the economic situation, President Bush insists that tax cuts for the highest income households are the answer. However, these extremely costly tax cuts have done little to strengthen the economy so far, and a permanent tax windfall for the wealthy would fail the middle class by dramatically worsen deficits while providing little economic stimulus.”

- Making President Bush’s tax cuts permanent would not promote economic growth or alleviate the current financial strain felt by middle-class Americans. According to the nonpartisan Congressional Budget Office, an economic stimulus package should be timely in order to address a looming crisis, should provide financial incentives to the households and businesses that are most likely to spend, and should be short-term so that budget deficits don’t balloon. The tax cuts are in no way timely: they will already remain in effect through 2010, so there is no

DMI ON THE 2008 STATE OF THE UNION



direct taxpayer effect until 2011. The cuts have precisely the wrong target: they primarily hit a narrow and wealthy slice of the population that is particularly unlikely to spend the money quickly. Finally, the tax cuts make permanent an economic strategy that has consistently increased the budget deficit, an unsustainable situation that puts the financial future of the middle class at risk.

- President Bush's tax cuts let the nation's wealthiest individuals off the hook, leaving middle-class Americans increasingly responsible for the cost of needed public services. Millionaires receive tax cuts in the hundreds of thousand of dollars, but the aspiring middle class and the middle class receive little. While the top 20% of earners received two-thirds of the benefit from the President's tax cuts in 2007, the middle 20% of earners received only 11% and the lowest 20% less than 1%.
- President Bush's tax cuts did little to help the nation recover from the last recession. In fact, they coincided with an economic recovery that was weaker than those in the past. Previous recoveries stimulated larger increases in employment, wages and salaries, GDP, consumption, investment, and net worth that were beneficial to the middle class; the recovery President Bush oversaw stimulated only larger increases in corporate profits. An analysis of economic cycles by the Economic Policy Institute demonstrates that the 1990s recovery that included tax *hikes* produced a 10.2% increase in employment, while the recovery period coinciding with the President's tax cuts yielded an increase of only 4.1%. Previous recoveries that did not include tax cuts – and that even included tax increases – were much better for the American middle class.
- President Bush claims that immediate extension of his tax cuts would alleviate economic uncertainty by ensuring a consistent tax rate beyond 2010. Yet, middle-class Americans are struggling to make ends meet now and largely do not make spending decisions about everyday necessities based on what the income tax rate will be three years down the road. Middle-class Americans will not benefit from the certainty of future tax cuts that overwhelmingly benefit the wealthy who can afford to make current financial decisions based on the expectation of higher or lower taxes.
- President Bush also claims that extension of his tax cuts will prevent tax increases on small businesses that generate new jobs. The truth is, only 1.5% of small businesses would be subject to increases when the President's tax cuts expire. Additionally, the Congressional Budget Office found that there is little evidence that making President Bush's tax cuts permanent now would result in small business investment activity that would produce significant short-term economic stimulus.
- While some have argued that the tax cuts need to be permanent because to not to do would be considered a tax hike, we think that type of circular reasoning is ultimately vacuous. You do not make permanent a mistake.

Relevant Statistics

- Amount received in 2006 from tax cuts enacted between 2001 and 2006 by the average household in the top .3% with incomes above \$1 million dollars: **\$118,000**.

DMI ON THE 2008 STATE OF THE UNION



- Amount received in 2006 from tax cuts enacted between 2001 and 2006 by the middle 20% of earners: **\$740**.
- Percentage of the 2001 and 2003 tax cuts that will go to the top 20% of earners and to the bottom 20% of earners if the tax cuts are extended through 2017, respectively: **74** and **0**.
- Cost of making President Bush's tax cuts permanent over the next decade (assuming extension of relief for the Alternative Minimum Tax): **\$3.5 trillion**.
- Approximate increase in budget deficit between 2001 and 2006 that resulted from President Bush's 2001 and 2003 tax cuts: **\$1.2 trillion**.
- Ratio of this number to the total increase in the budget deficit: **1/2**.
- Cumulative increase in employment during the first six years of the economic recoveries in the 1990s (with tax increases) and the 2000s (with the Bush tax cuts), respectively: **10.2%** and **4.1%**.
- Percentage of small businesses that would be subject to increases in the two top tax rates if President Bush's tax cuts expire: **1.5**.

TRADE

PRESIDENT BUSH SAYS: Pass trade agreements with Colombia, Panama and South Korea and renew trade promotion authority

“On trade, we must trust American workers to compete with anyone in the world and empower them by opening up new markets overseas... I ask you to approve agreements with Colombia, Panama and South Korea.”

DMI SAYS: “More NAFTA-style trade deals may be at the top of Corporate America's agenda, but they aren't a priority for the nation's middle class. Most Americans already see their wages and benefits constrained by the intense global competition that exists today. At the same time, middle-class consumers are threatened by dangerous products imported from abroad with little oversight. We need a fundamentally different model of trade, in which the benefits don't just flow to a small elite, but help to grow the middle-class in the U.S. and throughout the world.”

- Increased international trade can contribute to economic growth, but the way trade rules are formulated in NAFTA-style agreements like the proposed deals with Colombia, Panama, and South Korea means that the benefits of trade are distributed unevenly, ultimately undermining the middle class and aspiring middle class in both the U.S. and the nations it trades with.
- A central problem is that these trade agreements empower businesses and investment capital to cross international borders more easily, providing a decisive advantage over working people who are not so internationally mobile and whose rights are not equally well protected in all of the nations covered by the agreement. This imbalance of power creates incentives to move U.S. jobs overseas and puts downward pressure on the wages of American workers as they are placed

DMI ON THE 2008 STATE OF THE UNION



in more direct competition with poorly-paid, disempowered workers in the developing countries we trade with.

- Workers who actually lose their jobs are the hardest hit by unfair trade. Economists estimate that while about one million new U.S. jobs were created as a result of NAFTA, another two million have been lost due to the deal. Additional trade agreements could be expected to multiply these job cuts.
- With today's improved communications technology, it is no longer just manufacturing work that is vulnerable to being sent overseas. Any work that can be done remotely, from accounting, to analyzing x-rays, to computer programming, can be performed more cheaply outside the U.S. Many of these are jobs that require advanced training and higher education – a college degree is no longer sufficient to protect American workers from the job instability and wage cuts that result from increased international competition.
- Poorly regulated international trade also hurts middle-class consumers. While the prices of imported consumer goods may be low, the middle-class pays when they are exposed to contaminated seafood from abroad, children's toys coated in potentially deadly lead paint, and a host of other poorly-regulated imported foods and consumer products. U.S. oversight of imported goods has not yet caught up to the existing volume of international trade.
- There is also reason for concern about the specific countries these pending trade deals have been negotiated with. Colombia is renowned for keeping its wages low through violence –more union organizers have been murdered in Colombia than anywhere else in the world. Panama, meanwhile, is an international haven for tax evasion and money laundering. The proposed trade deal would make it easier for U.S. companies to dodge their tax obligations by setting up Panamanian subsidiaries.
- It's worth noting that none of these trade agreements are really "free": they include thousands of arcane rules protecting the profits of multinational corporations, the interests of investors, and the patents of drug companies, for example. Rather than passing these agreements, Congress should insist that they be renegotiated to benefit middle-class workers and consumers, as well as the environment and the desperate working people in the nation's we trade with.
- It is particularly ironic that Bush touts his support for trade adjustment assistance when he threatened to veto a bill that would have expanded the program. While assisting workers displaced by trade is no substitute for building an economy based on fair trade, it would have been a helpful reform.
- Truly fair trade agreements should include provisions that: protect internationally recognized labor rights and environmental standards with the same enforcement mechanisms as investor rights; protect against currency manipulation; do not restrict federal, state or local governments' procurement choices, including the ability to favor local producers; do not grant special dispute-settlement privileges to foreign investors; and, safeguard governments' ability to establish consumer, environmental and workplace regulations.
- Beyond the agreements themselves, domestic policy reforms are needed to help the U.S. compete more fairly and effectively in the global arena. Policies like universal health care, strengthened labor rights and enforcement, stronger import inspection standards, and closing

DMI ON THE 2008 STATE OF THE UNION



tax loopholes that prevent off-shoring help middle-class Americans to thrive in a globalized world.

Relevant statistics:

- Net loss to the typical middle-class American household, with two earners making the nation's median wage, due to trade in 2006: **\$2,000**
- Estimated net number of U.S. jobs displaced due to NAFTA during its first decade in effect: **1,015,291**
- Percentage of all U.S.-owned manufacturing production currently located overseas: **50%**
- Percentage of today's American jobs that could potentially be sent overseas, according to the Economic Policy Institute: **18% to 22%**
- Minimum number of workers with a four-year college degree or more whose jobs could be sent overseas: **8 million**
- Increase in the U.S. trade deficit since November 2006 a year earlier: **\$4.7 billion**
- Wages of the average manufacturing worker displaced by trade in their original job and their new job, respectively: **\$40,154** and **\$32,123**

Minimum number of hazardous children's toys manufactured in China recalled by Mattel Corp. in August 2007: **9,500,000**

HOPE NOW PROGRAM FOR BORROWERS

PRESIDENT BUSH SAYS: Through HOPE NOW mortgage lenders and servicers have agreed to freeze interest rates for up to five years at their introductory rate. The HOPE NOW alliance has also agreed to move eligible borrowers into an *FHASecure* loan or help them refinance an existing loan into a new private mortgage. In addition, the Administration has proposed allowing cities and States to issue tax-exempt mortgages to refinance existing loans. These are effective ways to deliver financial relief to borrowers with adjustable rate subprime mortgages.

“My Administration brought together the HOPE NOW alliance, which is helping many struggling homeowners avoid foreclosure.”

DMI SAYS: “The President has rightly focused on the need to refinance and modify abusive subprime mortgages. Millions of homeowners with subprime adjustable rate mortgages have already experienced or will soon experience payment shock when their interest rates rise dramatically. Significant loan modification – changing the terms or the amount of the loan to make it affordable – is the only viable option for many homeowners. Unfortunately, the President's plan to fix subprime rates excludes the vast majority of subprime borrowers and thus will not be available to perhaps millions of mortgage borrowers whose rates have already reset, or will reset in the future. Any federal effort to address the subprime and foreclosure crisis must also include structural reform of the mortgage industry so that middle class homeowners are not targeted by discriminatory and predatory lending practices in the future.

DMI ON THE 2008 STATE OF THE UNION



- The HOPE NOW rate fixing plan arbitrarily excludes borrowers whose introductory rates expire before January 1st 2008. Hundreds of thousands of borrowers who received adjustable rate mortgages in 2005 and before will not be eligible. More than \$50 billion dollars worth of subprime loans reset at higher rates in the final quarter of 2007 alone. Pushing back the qualifying expiration date for introductory rates would enable the plan to include many more borrowers who were targeted by the recent generation of predatory subprime loans.
- The plan will not cover many different forms of abusive subprime loans such as “Option” ARMS, “No Doc”/”Low Doc” loans and “piggyback” mortgages that will also confront borrowers with exploding payment resets over the coming years. These products should be also targeted in any plan to fix subprime rates.
- President Bush should have expanded and improved on the recommendation made by Sheila Bair, chairman of the FDIC, who in October 2007 proposed a plan that would have permanently frozen rates on all 2/8 and 3/27 subprime loans in cases where the borrower has been making timely payments.” But, even at lower interest rates, a new loan at the full payoff amount will still be too large and unaffordable to many homeowners. In other instances, either because the home was over appraised or has simply gone down in value, refinancing is not an option for many homeowners because the amount they owe is larger than the actual value of the home.
- This plan is purely voluntary; it is up to mortgage servicers and investors to decide if they want to participate and modify subprime loans. Given the fact that most servicers are prone to pursue foreclosure rather than modify loans, the federal government must provide strong incentives for servicers to modify unaffordable subprime loans. So far, the Administration has shown no interest in doing this.
- Borrowers must be current on their mortgage to qualify for the plan. A fairer plan would recognize that borrowers have often fallen behind because of predatory practices.
- The President should support the Homeownership and Preservation Act of 2007 which would: Create a federal standard for lenders to ensure that mortgages are affordable and suit the needs of the borrower; prevent brokers from steering borrowers to more expensive loans; avoid the overriding of state laws while giving state governments more power to enforce laws; and hold mortgage holder liable for illegal practices.

Relevant Statistics:

- Approximate percentage of all subprime borrowers who are currently are delinquent on their payments: **22**
- Percentage of subprime borrowers who will be helped by the President’s plan to freeze mortgage rates, according to the Center for Responsible Lending: **7%**
- Number of homeowners with teaser rates that are scheduled to jump 30% or more over the next two years: **2,000,000**

DMI ON THE 2008 STATE OF THE UNION



- Percentage of these who could lose their homes according to federal officials: **25**
- Percentage of subprime loans that had reset through July 2007 that had been modified to help borrowers make payments, according to a survey conducted by Moody's Investor Service: **1**

FHA REFORM

PRESIDENT BUSH SAYS: Congress should modernize the Federal Housing Administration and reform Freddie Mac and Fannie Mae.

“Tonight I ask you to pass legislation to reform Fannie Mae and Freddie Mac [and] modernize the Federal Housing Administration.”

DMI SAYS: Reforming Fannie Mae and Freddie Mac and modernizing the FHA are common-sense steps that will genuinely help many middle-class families keep their homes.

- The Federal Housing Administration provides mortgage insurance that protects lenders against loss, thus encouraging more lenders to extend credit to people who might otherwise find it difficult to secure a mortgage. Currently there are limits on the size of mortgages that can be insured by FHA and these limits have not kept pace with rising real estate prices. Bringing these limits in line with the current housing market is key to creating viable refinance options for middle-class Americans who have been targeted by predatory loan practices, and are trapped in unaffordable adjustable rate mortgages and other abusive loan products.
- Given how high home prices have risen in recent years, especially in regions like New York and California, resetting the FHA insurance limit of \$729,750 is necessary.
- When lenders have the ability to sell mortgages on the secondary market they have the means to readily refinance mortgages and help ordinary homeowners escape unaffordable loans. Freddie Mac and Fannie Mae can help expand the secondary market. However, current limits on the size of mortgages that meet Freddie Mac and Fannie Mae standards preclude potentially hundreds of thousands of refinanced mortgages from being sold on the secondary market. FHA modernization must be accompanied by Freddie Mac and Fannie Mae modernization which will expand the conforming loan limit and enable Freddie Mac and Fannie to buy mortgages up to \$730,000.

Relevant Statistics:

- Percentage by which sales of single-family homes fell in 2007: 13 percent, the largest amount in 25 years
- Percentage by which construction on new homes fell in December 2007: 14%, the slowest building pace in more than 16 years.
- Before 2007, length of time since annual home prices fell: 40 years
- Medium home price in California: \$597,640

DMI ON THE 2008 STATE OF THE UNION



BUDGET

BUDGET CUTS

PRESIDENT BUSH SAYS: We should balance the budget through spending cuts.

“Next week, I will send you a budget that terminates or substantially reduces 151 wasteful or bloated programs totaling more than \$18 billion. And this budget will keep America on track for a surplus in 2012. American families have to balance their budgets, and so should their Government.”

DMI SAYS: During President Bush’s seven years in office, the federal government’s budget went from surplus to deficit as wealthy Americans benefited from tax cuts and middle-class Americans struggled to make ends meet. The President has continually requested increased spending for the wars in Iraq and Afghanistan, while proposing budgets that cut funding for the very programs that help middle-class Americans balance their household budgets.

- While the President criticizes “wasteful” and “bloated” spending programs, he continues to add to an already astronomical defense budget and to push to make his tax cuts permanent. Even excluding funding for military operations in Iraq and Afghanistan and other activities related to terrorism, discretionary spending on the Department of Defense would increase .4% by 2012, while discretionary funding for all other agencies would fall 6% over the same period. The Brookings Institution estimates that 70% of the slide from budget surplus to budget deficit since January 2001 is attributable to President Bush’s tax cuts and to increased spending on defense and homeland security, while non-defense spending has accounted for just 22% of the fiscal downturn.
- President Bush has consistently sought funding cuts for programs that benefit middle-class Americans. The Center on Budget and Policy Priorities predicts that cuts in discretionary spending over the 2008-2012 period will focus on energy assistance for low-income Americans; child care programs; employment training programs; education funding, including Title I resources that provide money to disadvantaged schools; health care services such as community health centers and HIV/AIDS programs; and social services programs like Head Start. In the past year, President Bush vetoed the state children’s health insurance plan (SCHIP) twice and omitted from his fiscal stimulus plan expanded unemployment insurance and food stamp proposals that would have directed money to the cash-strapped Americans who in the most need. At the same time, the President has requested that Congress make permanent the tax cuts that have created the bloated budget deficit and benefited almost exclusively wealthy Americans, while failing to produce economic growth equal to that of past economic recoveries.
- The President’s persistent attempts to starve social programs of vital funding puts the aspiring middle-class and middle-class Americans who rely on these programs at great risk. While the federal government should certainly serve as a model of fiscal responsibility, it can do so only if it first protects the well-being of American families rather than the pockets of the super-rich.

Relevant statistics:

DMI ON THE 2008 STATE OF THE UNION



- The 2007 budget surplus that was projected by the Congressional Budget Office in 2001: **\$573 billion**
- The 2007 budget deficit that was projected by the Congressional Budget Office in 2007: **\$177 billion**
- Expenditures for non-defense discretionary programs (including international affairs and homeland security) in 1980, as a percentage of the 1980 budget: **24**
- Expenditures for non-defense discretionary programs (including international affairs and homeland security) in February 2007, as a percentage of 2007 budget: **18**
- Percentage of fiscal deterioration since January 2001 that the Brookings Institute estimates was caused by tax cuts: **40**
- Percentage of fiscal deterioration since January 2001 that the Brookings Institute estimates was caused by defense and homeland security increases: **31**
- Percentage of fiscal deterioration since January 2001 that the Brookings Institute estimates was caused by non-defense spending outlays: **22**

EARMARKS

PRESIDENT BUSH SAYS: I will veto any bill that does not cut the number of earmarks in half and will order federal agencies to veto any earmark Congress doesn't vote on.

“The people’s trust in their government is undermined by Congressional earmarks – special interest projects that are often snuck in at the last minute, without discussion or debate.”

DMI SAYS: “Earmarks only make up a very small part of the overall budget. While reining them in is a worthwhile goal, especially if budget transparency is increased in the process, the President’s proposed earmark reforms will do little to balance the budget or impact the average middle-class American. And since the President’s promise to veto bills with excessive earmarks only applies to 2009 spending, it is unlikely that many of these bills will cross his desk before he leaves office.”

- Earmarks for 2008 are projected to be just one half of one percent of the budget – hardly a significant item overall. However, the President is right that much more transparency is needed in a budget process that currently allows for billions of dollars – often targeted at special interests and projects without a public purpose – to go undisclosed every year.
- Earmarking, which is different than the normal budgetary process in which funds are pooled for general expenses, designates certain funds for a specific institution, project or business. The problem is that there has been very little oversight in the process - allowing anonymous Congressional sponsors to back earmarks whose structure and purpose are not fully disclosed. This had led to a corrupt budgetary process wherein Congressmembers can earmark funds for special interests, pet projects, and projects that serve little purpose.

DMI ON THE 2008 STATE OF THE UNION



- A 2006 USA Today poll found that a large number of special interest projects received earmarks after they hired lobbyists with close personal ties to lawmakers or staffers working with the House and Senate appropriations committees. The President's call to print the substance of earmarks in the actual text of bills, not in the undisclosed reports that accompany them, will be an important tool in tracking and cracking down on these sorts of kickbacks.
- Cutting earmark funding in half by the end of this session is a laudable goal, but it is also important that earmarks remain part of the budgetary process because they allow Congress to direct some of the White House's fiscal priorities. While spending on earmarks has reached enormous heights over the last decade, it's important that earmark reform not only scale back the portion of the budget spent on earmarks, but also include measures to guarantee as much transparency as possible.
- What would complete the President's plan is a measure to require that the sponsors of every earmark also be disclosed, thus allowing both those within and those outside of the government to keep tabs on tax dollars, and discourage Congressmembers from granting kickbacks to special interests.

Relevant Statistics

- Total number of earmarks in 2008 spending bills, according to Taxpayers for Common Sense: **11,145**
- Dollar value of these earmarks according to TCS: **\$15.3 billion**
- Approximate total federal spending for 2008: **\$2,901 billion (\$2.9 trillion)**
- Amount that Senator Mitch McConnell earmarked in 2008 for the McConnell Technology Training Center to be built in his state: **\$3.2 million**
- Minimum number of buildings, bridges and roads in West Virginia that are named for Senate Appropriations Committee Chair Robert Byrd: **8**

SOCIAL SECURITY, MEDICARE, AND MEDICAID

PRESIDENT BUSH SAYS: We must make Social Security, Medicare and Medicaid fiscally sound.

“Every Member in this chamber knows that spending on entitlement programs like Social Security, Medicare and Medicaid is growing faster than we can afford... I have laid out proposals to reform these programs.”

DMI SAYS: “Unfortunately, when President Bush proposes reforming something, it usually means weakening it.”

- In his 2008 budget, the President proposed cuts in Medicaid that would shift costs to the states, driving them to restrict eligibility or diminish benefits. Similarly, the President's ill-fated 2005 Social Security privatization plan included steep cuts in the benefits guaranteed to retirees,

DMI ON THE 2008 STATE OF THE UNION



survivors, and the disabled. While putting these vital components of our nation's social safety net on sound fiscal ground is imperative, we must not undermine needed health care or retirement income for the elderly, sick, and poor to do so.

- Cutting Social Security benefits is not necessary to ensure the program's solvency. Social Security will have enough money to pay all benefits through 2046, with no changes to the system at all.
- Modest reforms, including raising the cap on income subject to Social Security taxes so that high earners, like low and middle-income Americans, pay the tax on all of their earned income, would go a long way towards ensuring solvency.
- Workers who have paid into the Social Security system have a right to full benefits. For the government to deny full benefits would, in effect, mean that the United States has defaulted on its government bonds.
- The erosion of traditional pensions means that Social Security is even more essential to the retirement security of middle-class and aspiring middle-class Americans than ever before.
- Medicare and Medicaid costs are growing because overall health care costs are increasing, not because these programs are administered inefficiently, or because benefits are too generous. While "reforms" could push more of the costs onto the states or onto poor families and the elderly, lower federal costs would be achieved at the expense of needed medical care.
- The President's interest in securing these programs for the benefit of America's middle class will be illustrated by the substance of the proposals he offers, and his willingness to suspend "market" ideology and preserve the intention that drove the founding of these programs in the first place. Social Security remains an insurance program, not an investment opportunity.

Relevant Statistics:

- Percentage of the typical retirees' income provided by Social Security: **75**
- Number of senior citizens lifted above the poverty line by their Social Security benefits: **13 million**
- Approximate percentage of the Social Security shortfall over 75 years that could be erased by repealing the President's tax cuts on the top one percent of Americans: **100**
- Number of Americans who rely on Medicaid: **55 million**
- Proportion of children who get their health care through Medicaid: **More than 1 in 4**

DMI ON THE 2008 STATE OF THE UNION



ENERGY AND ENVIRONMENT

PRESIDENT BUSH SAYS: We must reduce our dependence on oil and reduce greenhouse gas emissions.

“Our security, our prosperity, and our environment all require reducing our dependence on oil. Last year, I asked you to pass legislation to reduce oil consumption over the next decade, and you responded.”

DMI SAYS: “The Energy Independence and Security Act is one of the best pieces of legislation the President has signed during his entire term in office. The bill will cut costs for middle-class families filling up at the pump, reduce the greenhouse gas emissions that cause global warming, and decrease U.S. dependence on foreign oil all at once. But this is only a first step in tackling the serious energy and environmental problems we face. In fact the original bill, which the President threatened to veto, included \$13 billion for clean, renewable energy.”

- The Energy Independence and Security Act requires that all new cars and trucks get at least 35 miles per gallon by 2020, the first increase in fuel economy standards by Congress since 1975. The bill also includes assistance for U.S. automakers to shift their production lines to manufacture the more efficient vehicles in the U.S., preserving middle-class jobs while cutting the cost to fuel cars.
- In addition, the legislation sets new standards for energy-efficient appliances and federal buildings, provides assistance for small businesses to conserve energy, and requires increased use of biofuels, including ethanol made from sources other than corn. Reducing wasted energy and shifting away from oil toward homegrown fuels that reduce greenhouse gas emissions put the U.S. on a more sustainable path that begins to cut the risk of global warming.
- Finally, the bill provides \$125 million a year to train workers for “green” jobs such as retrofitting buildings to make them more energy efficient. The legislation’s mandate to make buildings and appliances more fuel-efficient will also create middle-class jobs in construction and allied industries, which include “electricians, boilermakers, sheet-metal workers, engineers, and designers” according to the Apollo Alliance.
- Although this legislation is a significant step into the energy future, the nation must do more to prevent global warming, which left unchecked would have a profound negative impact on Americans’ standard of living. This bill is projected to reduce greenhouse gas emissions by 24% of the total amount needed to prevent the worst effects of global warming. The nation must act quickly to cut emissions further.
- Additional measures were removed from the original bill, in part because they provoked a veto threat from the President. For example, the legislation originally included \$13 billion in subsidies for renewable energy to help new industries like solar power get off the ground and become viable. This investment would have been paid for by repealing massive, unnecessary tax breaks for oil companies. The President wanted to keep these subsidies for the oil industry, and they remain in place in the final bill.

DMI ON THE 2008 STATE OF THE UNION



- Also cut from the final bill was a measure establishing a standard for the amount of electricity that must be generated from renewable sources, which would have further helped to mitigate global warming.
- Finally, legislation to cap greenhouse gas emissions is needed to prevent global warming. The Global Warming Pollution Reduction Act of 2007, currently pending before Congress, represents one way to make the needed reductions.

Relevant statistics:

- Estimated annual savings to middle-class Americans at the pump from higher fuel economy standards in this bill: **\$700-\$1,000**
- Daily decrease in the number of barrels of oil used by the U.S. in 2020 as a result of this legislation: **2.3 million**
- Estimated number of jobs that will be created due to the fuel economy provisions in this bill: **149,300**
- Mandated increase in fuel efficiency in U.S. cars and trucks by 2030: **40%**
- Date on which a group of 200 leading U.S. climate scientists and policy experts reported that “the state of the nation's climate policy is poor”: **1/24/08**
- Approximate proportion of the world’s greenhouse gas emissions generated by the United States: **¼**
- Amount of the total U.S. greenhouse gas reduction needed to prevent global warming that is achieved in this bill: **24%**

COAL AND NUCLEAR POWER

PRESIDENT BUSH SAYS: Nuclear power and carbon sequestration are clean energy sources.

“Let us fund new technologies that can generate coal power while capturing carbon emissions. Let us increase the use of... emissions-free nuclear power.”

DMI SAYS: “In a time when global warming is a top concern for ordinary Americans, any energy source that reduces dirty emissions and alleviates Americans’ reliance on oil is worth considering. However, concerns about the integrity of current nuclear facilities and about safe storage of nuclear waste suggest that nuclear power is far from the panacea the President claims. Capturing carbon emissions from coal, meanwhile, presents serious environmental concerns of its own.”

- From mining and enrichment to fuel production, nuclear power emits significantly lower levels of greenhouse gases than traditional fossil fuels. However, safety at nuclear reactors remains a prominent concern not only among the lay public because of frightening accidents like those at Three Mile Island and Chernobyl, but among scientists as well. The Union of Concerned

DMI ON THE 2008 STATE OF THE UNION



Scientists reports 35 instances of reactor shutdown since 1979 and the General Accountability Office cites 4,000 cases since 2001 in which inspectors found that reactor unit operators had not fully complied with safety procedures. Leaks of nuclear material into groundwater have been frequently documented. The influence of private industry on the Nuclear Regulatory Commission (NRC) has produced a culture of intimidation in which employees are afraid to speak up about safety problems.

- Federal regulation of nuclear safety has been so lax, that it casts doubt on the government's ability to ensure the public's safety if the nuclear power industry was expanded. The NRC's policy for new reactors that requires adherence only to current safety standards. Meanwhile, the renewal of the Price-Anderson Act limits a nuclear facility owner's liability in the case of a serious accident.
- Although the Department of Energy has drafted a strategy to consolidate and dispose of the nuclear waste that remains radioactive for thousands of years and now lies vulnerable in pools of water or casks near ground level, the Government Accountability Office reports that Energy's plans are woefully inadequate. Indeed, the earliest that the long-delayed first disposal site at Yucca Mountain in Nevada could be completed is 2017 at a cost of approximately \$77 billion. Meanwhile, scientists have raised concerns that the Yucca site might even be unsuitable for nuclear waste storage (the U.S. Geological Survey has been accused of falsifying quality assurance and water infiltration data). While solutions for storing nuclear waste continue to fall short, public health is endangered by exposure to nuclear material stored at operating facilities that are vulnerable to disasters, both natural and manmade.
- Carbon capture and sequestration (CCS), a process in which carbon dioxide emissions are captured and stored underground – is a feasible means of reducing the greenhouse gas emissions that contribute to global warming. However, environmental concerns are serious, while current proposals for CCS are neither economical nor practical in the short-term. CCS requires energy and so may actually *increase* the use of fossil fuels, while the potential for CO2 leakage puts groundwater, soil quality, and human health at risk. CCS technology remains expensive, utilities have little incentive to develop the technology without concomitant constraints on carbon emissions, and the availability of geological storage capacity is by no means certain. The use of CCS technology to reduce greenhouse gas emissions might prove effective, but such a strategy must be explored along with actual constraints on emissions.

Relevant Statistics:

- Percentage of total U.S. electrical output generated by nuclear power: **20**
- Width in inches of metal cladding preventing a reactor breach and a possible nuclear meltdown when acid erosion forced the shutdown of the Davis-Besse nuclear plant in Ohio: **3/8**
- Metric tons of high-level radioactive waste that are produced annually by the 103 operating nuclear reactors in the United States: **2,000**
- Number of states through which nuclear waste would pass to reach the Yucca Mountain nuclear waste disposal site: **45**

DMI ON THE 2008 STATE OF THE UNION



- Percentage of people who said they were opposed to building new nuclear power plants in a 2005 worldwide survey commissioned by the International Atomic Energy Agency: **59%**
- Number of cancer deaths resulting from the Chernobyl nuclear meltdown, as estimated by the European Green Party: **30,000-60,000**
- Square kilometers of agricultural land rendered unusable by radioactive fallout from Chernobyl: **4,400**

DMI ON THE 2008 STATE OF THE UNION



HEALTH CARE

PRESIDENT BUSH SAYS: Expanding consumer choice will give us affordable health care.

“We share a common goal: making health care more affordable and accessible for all Americans. The best way to achieve that goal is expanding consumer choice, not government control.”

DMI SAYS: President Bush lost all credibility on the question of health care affordability for the middle class when he ruthlessly vetoed State Children’s Health Insurance Program (SCHIP) coverage for millions of American children – not once, but twice in 2007. In addition to the poorest of the poor, the program would have covered a smaller number of middle-class children whose families are nevertheless unable to afford needed medical care for them. In his insistence that only private market solutions to the crisis of the uninsured are acceptable; the President demonstrated his narrow fixation on a health care system that is failing a growing number of middle-class families.

Given the shortage of fresh ideas from the President about the nation’s growing health care problems, it should come as little surprise that the State of the Union once again presents the same damaging health care schemes we’ve seen in years past. Once again, the proposals share three common themes: (1) they shift the cost and risk of health care from employers and the public sector on to individuals and families; (2) they threaten the existing health benefits middle-class Americans get through their jobs; and (3) they pressure ordinary Americans to second-guess their doctors’ advice and to cut back on needed care. Together, these ‘market-based’ proposals favor the wealthy and healthy to the detriment of the sick, poor, and anyone who suffers a medical emergency.

STANDARD DEDUCTION FOR HEALTH INSURANCE

PRESIDENT BUSH SAYS: Health insurance should be tax deductible up to \$7,500 for individuals and \$15,000 for families, both for people who purchase health care on their own and for people who get insurance from their employers.

“I have proposed ending the bias in the tax code against those who do not get their health insurance through their employer. This one reform would put private coverage within reach for millions.”

DMI SAYS: “Despite the impressive sounding numbers, President Bush’s proposal offers tax benefits that are modest at best for the middle class, as part of a plan that will actually do little to make insurance more affordable for the low-income uninsured. What’s more, the President’s proposal would provide a dangerous incentive for employers to stop offering job-based health coverage entirely.”

- The President promotes this deduction as an incentive for the uninsured to purchase coverage, but the reason 1 in 7 Americans aren’t insured isn’t a lack of incentives. It’s the cost of health insurance -- which is simply out of reach for these Americans.

DMI ON THE 2008 STATE OF THE UNION



- What's more, a tax deduction won't help. A tax deduction is only useful if you earn enough to pay income taxes. Many of the uninsured pay little or no income taxes to begin with.
- Instead, the tax break will act as an incentive for well-off and healthy people to leave traditional employer-sponsored plans and go off on their own. With a lower risk of illness, these healthy people may get cheaper coverage in the marketplace, but they leave behind a weakened insurance pool, raising the cost of coverage for older, sicker, and lower-income Americans.
- The tax breaks offer a disincentive to employers to provide coverage. This will harm middle-class Americans who will lose their employer-provided coverage and be stuck paying more out of pocket to maintain the quality of their coverage.
- The President's proposal assumes that the quality of existing care is too high, leading people to use too much health care – but, as we explain in the section on Associated Health Plans, this is not what's driving up costs.
- The skyrocketing costs of health care are attributable to a host of factors, from new technology, to inefficiencies in the system, and soaring HMO profits.
- The fact that people with insurance can see a doctor when they want is one of the few strengths of our current system, not a weakness.

Relevant Statistics:

- Number of children without insurance: **8.7 million**
- According to the National Priorities Project, the U.S. could pay for a year of health care coverage for every American child more than **three and a half times over** for roughly the same amount of money the nation has spent so far on the war in Iraq.
- Percentage of uninsured Americans who could get health care coverage for the same cost projected for the Iraq War in 2008: **94**
- Number of Americans who currently get private health insurance through their employers: **177 million**
- Estimated amount the U.S. would save each year on paperwork if it adopted single-payer health care: **\$161,000,000,000**
- Percentage of working-age Americans with moderate to middle incomes who did not have employer-based health coverage in 2006: **47**

HEALTH SAVINGS ACCOUNTS

PRESIDENT BUSH SAYS: Health care should be consumer-driven, and expanding Health Savings Accounts will help to meet this goal.

“Congress must also expand health savings accounts.”

DMI ON THE 2008 STATE OF THE UNION



DMI SAYS: “Health Savings Accounts (HSAs) do nothing to address the fundamental problems of our enormously expensive and inefficient private health care system; HSAs just push risk and costs from businesses and the government on to America’s squeezed middle class and exacerbate existing strains in the health care system.”

- Health Savings Accounts are predicated on the notion that people are spending too much on unneeded health care expenses and will spend less if they have to pay for it out of their own pockets.
- Presenting HSAs as a solution to the health crisis in America is disingenuous. The reason health care is so expensive isn’t because middle-class Americans are reveling in their gold-plated plans and spending unnecessarily. The cost of health insurance is high because of many causes, including skyrocketing HMO profits and industry expenditures that have nothing to do with medical care.
- One such non-medical cost is the tens of billions of dollars that the pharmaceutical industry shells out every year to pay for advertising and marketing. According to one new study, these promotional costs are almost twice what the industry spends on researching and developing new medications.
- Other health care spending that did not go into providing care was the \$8.8 billion in profits health insurance companies raked in during the first six months of 2007 alone.
- The idea that individuals should control their own health care defies the central principle of insurance—to spread risk so that no insured individual is left with overwhelming costs or without access to needed care.
- President Bush expects busy middle-class Americans with no medical training to evaluate which tests and treatments are worthwhile. Doctors and other health care professionals—not patients trying desperately to save a buck—should decide what care is really warranted.
- By individualizing risk rather than spreading it among many people, HSAs will be attractive to healthier, wealthier people, who have less risk and more money to begin with, draining them from the insurance risk pool and leaving traditional insurance plans to cover the much steeper costs of providing coverage to higher-risk people.
- For the most part, HSAs do not make health care less expensive: instead they just move costs from employers, who may previously have paid for comprehensive health care benefits, to employees, who must now pay high health care deductibles out-of-pocket.
- Any health care savings that do arise from HSAs are the result of providing less health care—including skimping on needed care.
- HSAs are more effective as tax shelters for the very wealthy than opportunities for middle-class Americans to access quality health care.
- Contributions to the accounts are tax-deductible, and withdrawals from the accounts to pay for out-of-pocket medical costs are tax-free, providing an unprecedented opportunity for the very wealthy to shield money from taxation.

DMI ON THE 2008 STATE OF THE UNION



- Meanwhile, these tax breaks will not help the aspiring middle class (who comprise the bulk of the uninsured), because the majority pay little or no income tax. President Bush's plan makes the situation worse by requiring additional costs that have nothing to do with providing medical care — billions of dollars in fees the middle class would have to pay banks and money managers to manage their health savings accounts.

Relevant Statistics:

- Predicted net increase in the number of uninsured people if the Administration's health care proposals were put into place: **600,000**
- Projected new spending to subsidize HSAs: **\$10 billion**
- Average deductible for an HSA-qualified family plan offered by employers in 2007: **\$3,596**
- Approximate proportion of patients with deductibles over \$1,000 who decide to forgo needed medical care because of the cost, according to one study: **2 in 5**
- Approximate proportion with deductibles over \$1,000 who reported difficulty paying medical bills or paying off medical debt: **1 in 2**
- Average deductible for family coverage under a preferred provider organization (PPO) plan: **\$1,040**
- Percentage more that a person in the 50-percent tax bracket saves in taxes per dollar that they deposit into an HSA than a person in the lower-income 15-percent tax bracket: **30 percent**
- Cost, according to the Bush Administration, of the HSA proposals over the next ten years: **\$156 billion**

ASSOCIATION HEALTH PLANS

PRESIDENT BUSH SAYS: Association Health Plans will help small businesses to provide health coverage to their employees.

“Congress must also... create Association Health Plans for small businesses.”

DMI SAYS: “Association Health Plans (AHPs) will harm the middle class — raising the cost of health care for small businesses and increasing the number of uninsured Americans — if they are exempt from state insurance laws that prohibit insurance companies from only insuring the healthiest consumers.”

- Exempting AHPs from state regulations increases average health care costs for small businesses and reduces the number of workers with health insurance. State laws prevent insurance plans from cherry-picking only the healthiest people for insurance coverage, allowing businesses with relatively healthy employees to join for less money, while charging higher rates to those with older and sicker workers. Such cherry-picking would destabilize the health care marketplace:

DMI ON THE 2008 STATE OF THE UNION



state regulated health care plans would see their healthy workers siphoned off to the AHPs, leaving them with a disproportionate number of older and sicker employees who are more expensive to cover. As a result, an estimated 4 out of 5 small businesses would see their premiums increase under unregulated AHPs.

- Small businesses should be able to band together to get a better deal on health insurance without this harmful disaggregating of risk that will ultimately rebound to make health care less accessible and more expensive for many middle-class Americans and small businesses.

Relevant Statistics:

- Number of Americans who do not have health insurance: **47 million**
- Percentage that individual coverage health care premiums have increased since President Bush took office: **169**
- Percentage of U.S. companies that offered their workers health insurance in 2007: **60**
- Percentage that did so in 2000: **69**
- Among the 95 percent of U.S. businesses considered “small,” percent that offered health benefits in 2007: **less than 60**
- Number of middle-income families that will spend more than a quarter of their income on health care in 2008: **5,813,000**
- Ratio of growth in premiums for employer-sponsored health insurance to the growth of an average worker’s salary since 2001: **4 to 1**
- Increase in employee contributions to company-provided family health insurance since 2000: **202 percent**
- Proportion of small business employees that would see their premiums increase if AHPs became common: **4 out of 5**
- Average estimated increase in health care premiums for small employers with state-regulated coverage under AHP legislation: **23 percent**

MALPRACTICE LIABILITY CAPS

PRESIDENT BUSH SAYS: We should reduce medical malpractice lawsuits.

“Congress must... promote health information technology and confront the epidemic of junk medical lawsuits.”

DMI SAYS: “Health information technology has the potential to both increase patient safety and reduce medical costs, both important goals for middle-class Americans. But appealing to the myth of rampant “junk lawsuits” will lead to measures that put patient safety in grave danger. By

DMI ON THE 2008 STATE OF THE UNION



blocking Americans' ability to sue medical providers such "reform" would eliminate a critical incentive for maintaining high quality patient care."

- Medical lawsuits of any kind are hardly an epidemic: the number has remained stable and at points even decreased over the past ten years. However, capping medical malpractice liability would make middle-class Americans *more* likely to be injured or killed by medical negligence or a preventable error and eligible for *less* compensation if their lives are devastated by such malpractice.
- Capping malpractice liability limits the amount of money patients can receive when injured by medical negligence, and can effectively grant hospitals immunity from the consequences of their malpractice. As a result, capping liability for lawsuits is actually likely to increase the amount of medical errors that contribute to the cost of healthcare.
- The focus on malpractice lawsuits is misguided and will not make a significant impact on health care costs--the vast majority of medical errors that occur are the result of failed patient safety systems and not negligent doctors, and the costs associated with malpractice lawsuits account for less than 1 percent of the costs associated with health care.
- The best way to reduce the lawsuits President Bush complained about this evening is to modernize the practice of medicine and eliminate the avoidable medical errors that are the only reason these lawsuits exist.
- Insurance companies are profiting from of lawsuit sensationalism and misleading the public about the cause of malpractice premium increases. These companies make up for profit losses that naturally occur due to cyclical changes in the investment market by overcharging doctors for medical malpractice insurance.

Relevant Statistics:

- Maximum percentage that limiting medical malpractice liability would reduce U.S. health care costs, according to the non-partisan Congressional Budget Office: **0.5**
- Number of hospital deaths each year that are attributable to preventable medical errors: **44,000 - 98,000**
- Number of hospital injuries each year that are attributable to preventable medical errors: **300,000**
- Total amount of annual medication errors that are preventable: **1.5 million**
- Amount that these medication errors cost each year: **\$3.5 billion**
- Amount that each preventable medication error adds to the cost of the inflicted individual's hospital stay: **\$8,750**
- Percentage of doctors responsible for a majority of all medical malpractice awards: **5.9**
- Percentage of doctors with 10 or more malpractice liability payouts that received no disciplinary action from their state medical board: **67**

DMI ON THE 2008 STATE OF THE UNION



- Cents per each dollar in doctors' malpractice premium payments that the 15 leading insurance carriers said they expected to spend in 2006 on actual claims payments: **31.4**

DMI ON THE 2008 STATE OF THE UNION



EDUCATION

PRESIDENT BUSH SAYS: No Child Left Behind is a success. Congress should reauthorize it and establish Pell Grants for Kids in underperforming schools to pay tuition at private or parochial schools.

“The No Child Left Behind Act is a bipartisan achievement. It is succeeding. And we owe it to America’s children, their parents, and their teachers to strengthen this good law... I ask you to support a new \$300 million program called Pell Grants for Kids. We have seen how Pell Grants help low-income college students realize their full potential... now let’s apply that same spirit to help liberate poor children trapped in failing schools.”

DMI SAYS: “Lacking any original new ideas, the President turned to reauthorizing No Child Left Behind (NCLB) and offering school vouchers as his routes to improving public education. Although math and reading scores have risen moderately since – but not necessarily because of – NCLB’s enactment, problems with its implementation and the President’s own refusal to properly fund the program doomed it almost from the start. Unless the President is willing to reform and fully fund NCLB, it will once again stand no chance of helping American children get the start they need to attain a middle-class standard of living in adulthood.

“Pell Grants for Kids,” is nothing more than a voucher scheme. Moving children from one school to another is an inadequate substitute for a broad, aggressive effort to improve all of our public schools. Under the President’s school voucher approach, while some students may enroll in better schools, scores of other children will be left to fend for themselves in failing schools that have been stripped of their stronger students. The ‘Many Children Left Behind’ approach created by school voucher programs moves entirely in the wrong direction towards ensuring all American children receive a quality public education.”

- NCLB’s impact on the narrowing of racial and poverty achievement gaps is dubious. The research predicts that less than a quarter of poor and black students will achieve reading proficiency by the Bush administration’s goal of 2014 and less than half will attain math proficiency at the current rate of advancement.
- Research does not substantiate the Department of Education’s praise for NCLB as the source of student gains in reading and in math. Student gains in 2007 – primarily in the math scores of fourth and eighth graders – are at best a result of the interaction of the federal program with state and local education reforms undertaken before and after NCLB’s enactment. Indeed, a 2006 Harvard study concludes that NCLB did not have a significant impact on reading and math achievement, while a report published by the Center for Education Policy in late 2007 reveals that the disappointing reading scores of eighth graders are not “good news for supporters of No Child Left Behind...”
- A significant reason NCLB has failed to live up to its early promise is that it has never been adequately funded. Since the law’s passage, President Bush has requested funding levels more than \$70 billion less than the authorized level. Schools and school systems were never provided

DMI ON THE 2008 STATE OF THE UNION



with sufficient resources to support student achievement, yet schools have been have received funding based on how well students perform on standardized tests.

- Preparing students for the 21st century requires much more than NCLB has to offer. President Bush could have used his address tonight to lay out plans for what the nation really needs: a comprehensive education policy that extends from pre-school to college. Modest policy changes could ensure that elementary and secondary students receive adequate education in history and civics as well as literacy and math; could ensure that every eligible child has access to Head Start; and could raise the maximum Pell Grant that is available to college students. Had these education policies been endorsed in tonight's address, we would be closer to ensuring that America's youth have the resources they need for the future.
- A "Pell Grant" provides needs-based aid to low-income students to promote access to postsecondary education. Its function is to facilitate access to higher education, which is not universal in the United States, not to undermine a system of public education, which is. Naming a controversial voucher program designed to benefit a few at the expense of the many after a college-aid program that has served millions of Americans is disingenuous at best.

Relevant Statistics

- Number of elementary school teachers that could be hired for one year with the money spent in fiscal year 2007 on the Iraq War, as estimated by the National Priorities Project: **2,342,626**.
- Number of elementary and middle school teachers currently in the United States: **2.7 million**.
- Amount by which NCLB has been underfunded since its enactment in 2002: **\$70.9 billion**.
- Minimum ratio of states that reported receiving inadequate federal funds to carry out their obligations under NCLB: **2/3**.
- Maximum percentage of students who will meet proficiency targets in reading by 2014 if present trends continue, according to the Harvard University Civil Rights Project: **34**.
- Average score of white fourth graders on the National Assessment of Educational Progress's 2007 math test: **248**.
- Average score of black fourth graders on the National Assessment of Educational Progress's 2007 math test: **222**.
- Minimum return for every dollar invested in early childhood education: **\$4**.

DMI ON THE 2008 STATE OF THE UNION



VETERANS

PRESIDENT BUSH SAYS: We should expand support for military families.

“I call on Congress to enact the reforms recommended by Senator Bob Dole and Secretary Donna Shalala, so we can improve the system of care for our wounded warriors... Our military families sacrifice for America... So I ask you to join me in expanding their access to childcare, creating new hiring preferences for military spouses across the federal government, and allowing our troops to transfer their unused education benefits to their spouses or children.”

DMI SAYS: “It is heartening to see that President Bush is now taking an interest in veteran’s issues and supporting military families after years of neglect. After completing their service to the country, veterans and their families have a right to expect quality health care as they strive to reintegrate into civilian life. Historically, America has considered it a national priority to ensure that our veterans can establish a middle-class standard of living; this should be true today.”

- The G.I. bill, enacted to benefit the veterans of World War II, is one powerful way of repaying our nation’s veterans and helping them access the middle class. The President’s proposal targets the spouses and children of veterans who are often overlooked victims in the calculation of the consequences of war. Although the National Defense Authorization Act of 2002 authorized each branch of the military to establish transferable G.I. Bill credits for members of the Armed Forces with critical skills, only the Army and Air Force have created programs that allow for such transfers. We welcome President Bush’s support for legislation that makes transferable G.I. credits open to all service members, while ensuring that service and reenlistment qualifications are not overly stringent, forcing the same soldiers to reenlist for long periods of time simply to provide their spouses and children with an affordable education.
- The creation of new hiring preferences in the Federal government for military spouses is an additional way to recognize the significant burden that both soldiers and their families assume upon enlistment. Hiring preferences for spouses have been employed in the past to ease the strain on spouses’ careers of the frequent moves associated with military service. However, military spouses must deal not only with frequent moves that disrupt or even prevent careers, but with ineligibility for unemployment compensation and in-state tuition. Now, President Bush should expand the federal government’s hiring preferences for spouses to ensure that the families of soldiers are able to maintain a middle-class standard of living while a service member is serving his or her country both inside and outside of the United States.
- Revelations of terrible conditions and intractable bureaucracy at the nation’s premier military hospital Walter Reed led to the creation of the bipartisan Commission on Care for America’s Returning Wounded Warriors. Congress passed many of the Commission’s recommendations on veterans’ health care in the Wounded Warriors Act that was included in the Defense Authorization bill currently awaiting President Bush’s signature. The bill improves family leave for families of wounded soldiers, expands care for Post-traumatic Stress Disorder, and integrates policy between the Departments of Defense and Veterans Affairs – the two agencies responsible for care for service members. Whereas the President vetoed a previous version of the Defense Authorization Act, sacrificing veterans’ health for a narrow provision regarding

DMI ON THE 2008 STATE OF THE UNION



legal claims in Iraq, Congress's action demonstrates a commitment to veterans' wellbeing that was absent throughout much of President Bush's first seven years in office. Because some reforms can be undertaken only by the executive branch – particularly changes to prevent inefficient and costly bureaucratic overlap between the Departments of Defense and Veterans Affairs – the President must follow through on his promise to complete the reforms recommended by the Commission. Returning to civilian life already presents veterans with the challenges of reestablishing family and personal connections, finding new employment, and adjusting to civilian life; veterans and their families should not have to worry about receiving efficient, high quality, affordable health care.

Relevant Statistics:

- Regular military compensation for a single enlisted member in the lowest pay grade in 2006: **\$29,700**
- Regular military compensation for an enlisted member with a spouse and two children in the lowest pay grade in 2006: **\$32,800**
- Number of dollars added to the national economy for every dollar spent on educational benefits under the original G.I. Bill: **\$7**
- Approximate amount of tuition support a service member can receive, in total, under the current G.I. Bill: **\$39,600**
- Average price of one year at a 4-year private college: **\$22,218**
- Percentage of troops who pay a nonrefundable \$1,200 contribution towards G.I. Bill benefits who never use the G.I. Bill: **30**
- Percentage of veterans who use their whole G.I. Bill benefit: **8**
- Average amount less per hour that military wives earn compared to their civilian counterparts: **\$3**
- Percentage of active-duty military spouses who have their high school diploma: **97**
- Number of veterans that the Department of Veterans Affairs says are homeless on any given night: **195,000**
- Approximate proportion of Iraq and Afghanistan War veterans who will face serious mental health injuries: **1 in 3**
- Percentage of active duty licensed clinical psychologist billets in the Army and Navy that were vacant as of February 2007: **40**

DMI ON THE 2008 STATE OF THE UNION



IMMIGRATION

PRESIDENT BUSH SAYS: Congress should pass comprehensive immigration reform. But in the meantime, I am more strictly enforcing the existing law.

“America needs to secure our borders – and with your help my Administration is taking steps to do so... Yet we also need to acknowledge that we will never fully secure our border until we create a lawful way for foreign workers to come here and support our economy.”

DMI SAYS: President Bush is congratulated for recognizing that immigrants support the U.S. economy and need a legal way to work here. But the nation's immigration system is broken. Millions of undocumented immigrants are inextricably a part of our economy and society. Yet the routine exploitation they face in the workplace threatens to drive down the wages and working conditions of current and aspiring middle-class Americans. Increasing enforcement the current, dysfunctional immigration law is worse for the middle class than doing nothing at all, because it drives undocumented immigrants further underground, increasing exploitation. At the same time, these ineffective enforcement efforts cost middle-class taxpayers money.

- Middle-class Americans benefit from the economic contributions of undocumented immigrants. The labor of undocumented workers in restaurants, landscaping, hotels, childcare, and throughout the economy directly supports the middle class. In addition, undocumented immigrants are estimated to have contributed nearly \$50 billion in federal taxes between 1996 and 2003. These tax contributions finance vital middle-class goods like public schools and Social Security. Immigrants – both authorized and undocumented – also stimulate the economy by starting small business and increasing consumer demand. Since the American middle class relies on the economic contributions of undocumented immigrants trying to drive them out of the country is not in the interest of middle-class Americans.
- At the same time, the vulnerability of undocumented immigrants in the workplace puts downward pressure on wages and working conditions for all workers, making it harder to achieve and hold onto a middle-class standard of living. Many employers take advantage of immigrants' precarious status to cut costs for wages, benefits, and workplace safety. They may then be less willing to hire U.S.- born workers if they demand better wages and working conditions. U.S.-born workers are left to either accept the same poor conditions as immigrants living under the threat of deportation or be shut out of whole industries. If undocumented immigrants had the opportunity to attain legal status, they would no longer have to live in fear, and would no longer be so vulnerable to exploitation at work.
- The workplace raids, flawed employment verification systems, and detention facilities capable of holding tens of thousands that President Bush champions may succeed in driving some people out of the country, but they will not induce millions of others who risked their lives to come and work in the United States to leave. Instead, these workers will be driven further underground, deepening exploitation. During the economic downturn, employers will find this cheap and desperate labor even more appealing, and the wages of Americans aspiring to a middle-class standard of living will be further threatened.

DMI ON THE 2008 STATE OF THE UNION



- Trying to enforce immigration laws that are fundamentally at odds with the nation's economic reality is expensive and unworkable. Since the early 1990s, spending on border enforcement has tripled, yet the number of undocumented immigrants has also nearly tripled. We should fix immigration laws first and then work to enforce them.
- While it's crucial that immigrant workers have an opportunity to work in the U.S. legally, the temporary worker programs that President Bush has championed in the past are not the answer. Temporary worker programs institutionalize a permanent two-tiered labor market, formalizing some of the workplace exploitation that already exists informally. They also ensure that a continued stream of vulnerable workers will always be available, threatening to undermine middle-class wages and working conditions much as undocumented workers do now. It is plausible that many jobs will be transformed into "temporary worker jobs" at the cost of jobs that could provide the wages and benefits capable of providing a middle-class standard of living. Although some temporary worker proposals promise to enforce workplace rights for temporary workers, no matter what protections are in place, the temporary status of these workers ensures that this class of workers will always remain more vulnerable and less secure than the mainstream of American workers. We should instead allow the workers the economy needs to immigrate to the U.S. permanently.

Relevant Statistics:

- Percentage of the national workforce that undocumented workers constitute: **5**
- Total number of immigrants living and working in the United States: **36 million**
- Estimated number of undocumented immigrants living and working in the United States: **12 million**
- Percent of the nation's purchasing power represented by Hispanic and Asian-American consumer markets, to which immigration is a major contributor: **12**
- Cost to build and maintain a border fence, over 25 years: **\$60 billion**
- Spending on border security in 1993: **\$480 million**
- Spending on border security in 2005: **\$1.4 billion**
- Estimated increase in the number of undocumented immigrants in the U.S. between 1993 and 2005: **7.2 million**
- Estimated percentage of undocumented workers who enter the country legally: **40 – 50%**

DMI ON THE 2008 STATE OF THE UNION



FISA IMMUNITY

PRESIDENT BUSH SAYS: Congress should grant retroactive immunity to telecommunications companies to protect them from lawsuits by citizens who were subjected to warrantless wiretap surveillance.

“One of the most important tools... is the ability to monitor terrorist communications... The Congress must ensure that the flow of vital intelligence is not disrupted. The Congress must pass liability protection for companies believed to have assisted in efforts to defend America.”

DMI SAYS: “Establishing after-the-fact that it was acceptable for telecommunications companies to break the law and spy on American citizens has nothing to do with protection from terrorism, but everything to do with shielding powerful corporations from accountability for their actions. Granting retroactive immunity in this case would set a dangerous precedent for corporations to trample the rights of middle-class Americans.”

- Telecommunications companies, at the behest of the Bush Administration, illegally monitored American citizens’ private e-mail correspondence, phone calls, password protected web activity, and other communications. This violated Americans’ Fourth Amendment right against unwarranted searches and seizures, the Foreign Intelligence Surveillance Act and the contractual rights of private customers who signed privacy agreements with these companies.
- The Administration insists that granting retroactive immunity to these companies will ensure that they continue to willingly cooperate with requests for foreign intelligence, but the government already had legal authority to obtain this cooperation, granted by legislation that the telecommunications industry had a role in crafting 30 years ago.
- Instead of following the thirty year old law establishing how to obtain a warrant to conduct surveillance properly, and despite evidence that the overwhelming majority of requests for warrants are approved, the Administration acted above the law.
- At least one telecommunications company refused to cooperate with the government because it knew the actions were illegal. Companies that did not do the same should not be rewarded for cooperating with Administration-sanctioned lawlessness.
- Our civil justice system allows regular Americans to hold corporations accountable when they violate cherished rights such as those outlined in our Constitution. Granting retroactive immunity would weaken middle class Americans’ ability to take on powerful corporations for breaking the law. What’s more, retroactive immunity would weaken the ability of middle class consumers to trust that their contracts with corporations will be honored and that the legal system will treat their constitutional rights as more than symbolic. In short, granting retroactive immunity would severely undermine Americans faith in the legal system.
- Granting retroactive immunity also sets a dangerous precedent by giving the Administration unbridled power, under the guise of pursuing security interests, to pressure companies into violating Americans’ rights with impunity, and to protect those corporations from liability for a range of other violations of the law.

DMI ON THE 2008 STATE OF THE UNION



- If the Administration is concerned about protecting the public, it should recognize that Americans need protection from corporations that violate their rights and from the government entities that pressure corporations into doing so.
- Safety and security go hand in hand, and one does not need to be compromised in pursuit of the other. Middle-class Americans cannot feel secure and safe knowing that the corporations with which they do business, and the government that is supposed to protect them, are violating their constitutional rights, and that they have no recourse for this violation.

Relevant statistics

- Year in which the United States Constitution established “the right of the people to be secure in their persons, houses, papers, and effects, against unreasonable searches and seizures”: **1791**
- Year when the Church Committee Report concluded that a balance between Americans’ privacy rights and the country’s security interests “can, and must, be achieved,” and that government surveillance had unduly spread “beyond persons who could properly be characterized as enemies of freedom and have extended to a wide array of citizens engaging in lawful activity”: **1976**
- Year FISA was passed: **1978**
- Number of warrants the federal courts approved under the Foreign Intelligence Surveillance Act (FISA) in 2004: **18,738**
- Number of warrants courts rejected under FISA in 2004: **5**
- Date on which federal district court judge ruled that "the president of the United States ... has undisputedly violated the Fourth in failing to procure judicial orders" for unwarranted wiretap surveillance activities: **August 17, 2007**