



THE DIRECTOR

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

February 3, 2009

The Honorable Harry Reid
Majority Leader
United States Senate
522 Hart Senate Office Building
Washington, D.C. 20510

Dear Majority Leader Reid:

The economy faces its most serious crisis since the Great Depression, and the economic recovery package being considered on the floor of the Senate is an essential step in putting the economy back on a path to growth.

Last week, we learned that gross domestic product shrank by 3.8 percent in the fourth quarter of 2008, the largest decline in 26 years. According to the Bureau of Labor Statistics, more jobs were lost last year than were lost in any calendar year since 1945. If nothing is done, many outside experts estimate that the unemployment rate could reach double digits, and our economy would fall \$1 trillion short of its capacity each year – a shortfall that translates into about \$12,000 in lost income on average for a family of four. The American Recovery and Reinvestment Act is a well-crafted response to our economic difficulties since it will both jumpstart the economy in the near term (and thereby help to mitigate some of the job losses and income declines that would otherwise occur) and make key investments that will promote long-term growth.

As you consider the American Recovery and Reinvestment Act this week, I wanted to lay out the principles that guide the President as he considers the type of plan that the country needs – principles that both the House legislation and the legislation you are considering meet.

First, it is critical that we jumpstart job creation with a direct fiscal boost that will help to lift the nation out of this deep recession. The plan should bolster economic activity sufficiently to save or create three to four million jobs by the end of 2010. The plan you are considering is estimated to meet this standard.

Critically important to jumpstarting the economy is reviving the housing sector. That is why in the coming days, the President and Secretary Geithner will be releasing a comprehensive proposal to strengthen and reinvigorate this part of the economy. Their plan will build on the \$50 billion to \$100 billion commitment to the housing sector made by the Director of the National Economic Council in connection with the Senate's decision last month to permit additional TARP funding. By boosting economic activity in the short-term, the recovery package itself will have a significant and immediate impact on the housing and construction sectors. In addition, the

recovery package also includes some promising ideas to create incentives for individuals to purchase homes which also will help the housing sector. The Administration supports these provisions, while believing that any major new housing measures should be considered only after the release of the Administration's comprehensive proposal.

Second, as the President has made clear, he is adamant that all of the spending must be made with unprecedented levels of transparency and accountability. He is deeply committed to making sure that every American is able to know what is in this plan, can be confident that it will accomplish the goals we set forth, and has the ability to hold Congress and the Administration accountable for their actions. The Administration will post information online about how this plan's money is being spent and where it's going. In addition, he is insistent that the bill not include any earmarks or special projects. While many such projects may be worthy, this emergency legislation is not the proper vehicle for those aspirations.

Third, we need to recognize that focusing only on the short term is part of why the economy is in such dire straits today. That is why as we address the pressing demands of lifting the economy out of a recession, we also must look to the future and begin the process of reinvesting in priorities like clean energy, education, health care, and infrastructure so that the United States can enhance its long-term growth and thrive in the 21st Century.

This begins with putting the nation in position to lead in the clean energy economy. The President wants to make investments that will double our renewable energy generating capacity, modernize and expand our nation's electrical grid, and undertake the largest program to weatherize homes in history.

On health care, the President believes that we need to move immediately to lower costs and expand coverage. That would entail not only protecting coverage for millions of Americans during these difficult times, but also modernizing our health care system for the future with a serious commitment to health care information technology systems and prevention efforts.

As the global economy becomes more competitive, the President believes that investing in education is the best way we can help our children succeed. He wants the recovery package to renovate and modernize 10,000 schools so our children have libraries and labs in which to learn; make college more affordable through funding the shortfall in Pell Grants and a new higher-education tax cut; and triple the number of fellowships in science to spur the next generation of innovation.

The President also believes that we need to rebuild and retrofit America for the demands of the 21st Century. This will entail repairing and modernizing roads and mass transit options across the country as well as expanding broadband access so that businesses all across our nation can compete with firms from all over the world.

Finally, we need to recognize that this recovery and reinvestment plan is an extraordinary response to an extraordinary crisis. It should not be seen as an opportunity to abandon the fiscal discipline that we owe each and every taxpayer in spending their money -- and that is critical to keeping the United States strong in a global, interdependent economy. Although it is not feasible

to avoid any spillover whatsoever of the recovery package on out-year spending, the Administration believes that the package should minimize such effects on out-year spending as much as possible. Furthermore, the President is committed to paying for any extension of the temporary tax cuts included in the recovery plan that he would like to make permanent, and will detail the manner of doing so in his budget submission.

Moving forward, we need to return to the fiscal responsibility and pay-as-you-go budgeting that we had in the 1990's for all non-emergency measures. The President and his economic team look forward to working with the Congress to develop budget enforcement rules that are based on the tools that helped create the surpluses of a decade ago. Putting the country back on the path of fiscal responsibility will mean tough choices and difficult trade-offs, but for the long-term health of our economy, the President believes that they must be made.

I look forward to working with you and your colleagues in the coming days to craft a recovery package that embodies these principles and achieves these goals.

Sincerely,

A handwritten signature in black ink, appearing to read 'P. Orszag', written in a cursive style.

Peter R. Orszag
Director

Identical Letter Sent to:

The Honorable Mitch McConnell
The Honorable Daniel Inouye
The Honorable Thad Cochran
The Honorable Max Baucus
The Honorable Chuck Grassley