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An Economy That's Built to Last: The 2012 State of the Union Address

National Priorities Project takes apart President Obama's last State of the Union Address in his first term as president.

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Jackie Bray is a single mother who lost her job as a mechanic but has a new one working at a wind turbine factory in Charlotte, North Carolina. In his State of the Union Address on Tuesday night, President Obama used this story to illustrate his vision for America's economy. His focus was on the middle class and a government that will create the conditions for the middle class to flourish. To that end, he described measures for tax reform, domestic job creation, consumer protection, and regulation of financial institutions. The president also described his strategy to expand America's home-grown energy and his firm commitments to maintaining a robust military and to restraining Iran.

The State of the Union Address lays the vision for the president's budget blueprint for the coming fiscal year, which the White House will release in February. Here are details on some of the proposals the president put forth in his speech on Tuesday night, and National Priorities Project offers analysis of tension between some of his stated goals and the hurdles he is likely to face:

Tax Reform - Everyone must do their fair share, President Obama said, noting that if some people avoid paying taxes, other people must pick up the tab. He renewed the call for the legislature to let the Bush tax cuts expire for taxpayers who earn more than \$250,000, and to enact the Buffett Rule, named for billionaire Warren Buffett. That rule would ensure that millionaires do not pay lower tax rates than middle-class Americans. The president proposed a minimum tax rate of 30 percent for those making over \$1 million per year. Noting that many corporations use loopholes and create tax shelters to avoid paying taxes, the president said that all corporations should pay a basic minimum tax. Many lawmakers in Congress, however, have expressed unwillingness to raise income taxes for corporations or for well-off Americans. For more on current tax rates, including the cost of the Bush-era tax cuts, see CostofTaxCuts.com.

President Obama also urged lawmakers to extend the payroll-tax holiday. In December 2010, the president signed into law a tax cut which lowered the payroll tax for employees from 6.2 percent to 4.2 percent through December 2011. One year later, Congress renewed the tax cut, but only for two months. The president made a case for continuing the tax break through 2012, which would keep an [estimated \\$120 billion per year](#) in consumers' hands to continue to boost the economic recovery.

American Made - Ask what you can do to bring jobs back to the U.S., President Obama said to business leaders. To promote the return and resurgence of manufacturing in America, he proposed measures to encourage businesses to build new factories on U.S. soil and to train workers. Outsourcing by U.S. companies is a huge issue for the domestic economy – the Congressional Research Service estimated that, at the end of 2007, 2,270 U.S. parent companies had 26,342 affiliates around the world employing 11.7 million foreign workers.

Veterans - President Obama noted that businesses now benefit from a tax credit when they hire unemployed or disabled veterans, a provision that he proposed in his September jobs plan called the American Jobs Act. These tax credits [passed Congress in November](#).

Higher Education - In 2011 the Federal Reserve Bank of New York reported that student debt exceeded credit card debt, surpassing \$1 trillion in total. There are several federal programs meant to offset some of the costs of higher education. Subsidized Stafford Loans, which are available to low-income students, offered temporarily low interest rates for the past two years. However, interest rates for new loans jump from 3.4 percent to 6.8 percent in July if Congress does not act. On Tuesday night, President Obama urged lawmakers to prevent this increase. The federal government also [offers Pell grants to low-income students](#), though cuts to Pell grant funding have been repeatedly discussed in Congress, and such cuts are likely to reduce financial aid next year. ([See Pell grant awards in your state](#) in the Federal Priorities Database.) President Obama threatened to pull federal support from colleges and universities that do not make efforts to contain their costs in order to keep down tuition and fees.

K-12 Education - For U.S. students to compete in the global economy, the president said, primary and secondary education must be world-class. As part of the American Recovery and Reinvestment Act of 2009, the Department of Education implemented the Race to the Top program, which encourages school districts to compete for money in return for developing methods for promoting good teachers, measuring student achievement, bettering low-performing schools, and preparing students for college. Of the \$1.13 trillion that was spent nationwide on education in 2011, \$1.35 billion went to Race to the Top.

President Obama also challenged states to require all students to stay in high school until they graduate or turn 18. Currently, only 20 states and the District of Columbia have a minimum dropout age of 18; other states allow students to drop out at age 16 or 17. The Alliance for Excellent Education estimates that the dropouts of the class of 2011 would have earned an additional \$154 billion over the course of their lifetimes if they had graduated with a diploma. ([See your state's high school dropout rate](#).)

Energy - President Obama called for a strategy that develops every available source of home-grown energy. He discussed his ongoing support for renewable energy, though in past years the development of renewable sources has not figured prominently in his budget. (See [annual production of renewable energy in your state](#), and [the amount the federal government spends on research and development for](#)

[clean energy](#).) On Tuesday night he emphasized his support for further development of off-shore oil resources and the expanded development of natural gas. He noted that he would require all companies that drill for natural gas on public land to disclose the chemicals they use. This would affect companies engaged in hydraulic fracturing, also known as fracking, a process in which liquids are injected into the ground in order to more easily extract natural gas. This requirement would apply only to federal lands, however, and would come at a time when the Environmental Protection Agency and many states are also considering increased regulation of fracking.

President Obama's energy policy in the past has included an increasing reliance on nuclear power. His emphasis in Tuesday's address on pursuing all sources of domestic energy likely meant expanding nuclear sources. While nuclear power does not add carbon emissions or other greenhouse gases to the atmosphere, dealing with the radioactive by-products of nuclear power generation poses other challenges.

Infrastructure - The president proposed using half the money saved from declining war spending for infrastructure repairs. The [American Society of Civil Engineers](#) estimates it would take a five-year investment of \$2.2 trillion to fix roads, bridges, water and sewage systems, and other vital parts of U.S. infrastructure. To put that in perspective, the president requested \$3.7 trillion for the entire federal budget in 2012, including the military, Social Security, and Medicare. The Department of Defense received \$121.2 billion to fund the wars in Iraq and Afghanistan in fiscal 2012. Thus, even if war costs declined to zero in 2013—which is not projected—using half the savings for infrastructure improvements will make only a small stride toward the repairs currently required.

Foreign Policy and the Military - On security issues, President Obama responded to criticism of the Pentagon's new strategy, which some people say will create a hollow military. According to the president, the strategy calls for smaller, more agile armed forces that are better able to respond to real threats to national security. He asserted that anyone who says the United States is in decline “doesn't know what they're talking about.... America is back.” He also re-affirmed the nation's commitment to Israel. In reference to Iran's effort to develop nuclear arms, the president noted that a peaceful solution to end the Iranian nuclear program is possible and preferable, but he said that “no options are off the table” in dealing with the threat of a nuclear-armed Iran.

Deficits - The August debt deal, officially called the Budget Control Act, created the super committee and tasked it with finding \$1.2 trillion in deficit reduction over 10 years. The super committee did not fulfill this task, however, which triggered across-the-board budget cuts, called [sequestration](#), which are scheduled to take effect in 2013. The president did not mention sequestration in his speech, or whether he will work with lawmakers to create an alternate means of deficit reduction. The president did propose using half the money saved from declining war costs to pay down federal debt.