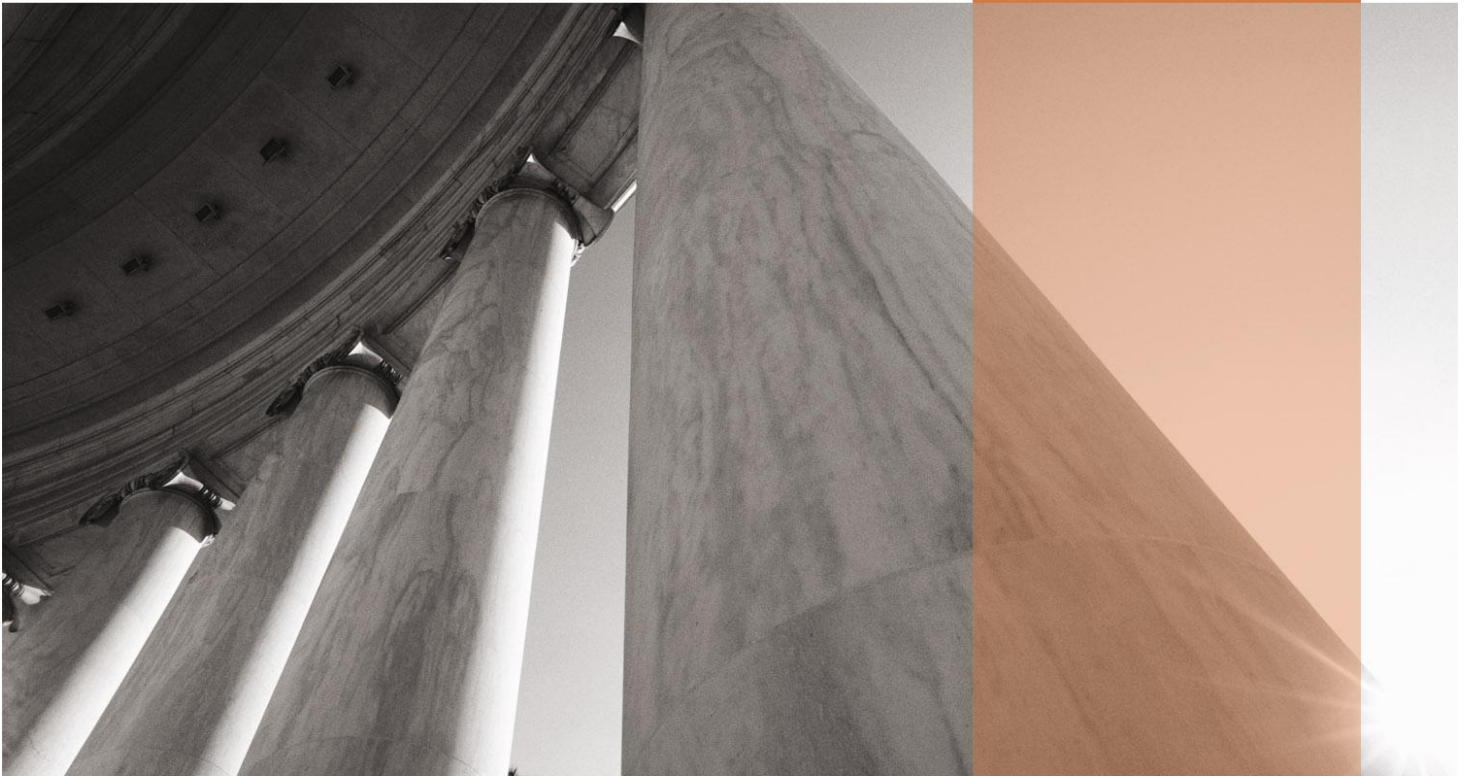


November 5, 2008

Senator Obama's Victory Signals New Policy Shift

APCO
worldwide®



Senator Obama's Victory Signals New Policy Shift

Introduction

In politics, as an old adage says, it is better to be lucky than good. There is no doubt that Sen. (now President-elect) Barack Obama ran a smart, disciplined, well-funded campaign. He turned conventional Democratic campaign wisdom on its head, focusing not simply on core urban states, but instead running a 50-state campaign targeted at urban, suburban and rural areas. But he was also the beneficiary of plain old good luck.

The political backdrop of the 2008 presidential campaign is well known:

- A drawn-out war in Iraq, where the exit strategy for the United States is not yet fully conceived;
- An unpopular president, weakened in 2006 by the loss of his party's control of Congress and nearing the end of his eight years in office;
- A sluggish economy, performing below expectations and entering a recession;
- And an anti-incumbent mood by the citizenry, which seemed to be aimed most notably at the Republican Party, even though it has not been the congressional party in power for the last two years.

All of this would have been good news for any Democratic candidate running for president in 2008. Obama, however, was also the beneficiary of fortunate circumstances and timing. These included:

- Republican Sen. John McCain's decision to nominate as his vice-presidential running mate an untested, relatively unknown Alaskan governor, Sarah Palin, whose strong conservative credentials energized a portion of the Republican voters but whose stances and inexperience antagonized a large percentage of moderate and independent voters who McCain needed to win the general election.
- A mid-September economic meltdown which engulfed the nation's largest banks, investment houses and insurance companies, the Bush administration's response to which split the Republican Party faithful, blunting the McCain campaign's momentum and shifting the campaign focus from security and foreign affairs to economics.
- An ever-evolving McCain campaign narrative that alternately characterized him as a patriot, a maverick and a fighter, never cementing in the minds of the voters who the candidate really was or what kind of president he would be.

In the end, concerns about Obama's relative inexperience, his race and his liberal positions were washed away by the tide of a good political environment and bad decisions made by McCain and his campaign strategists.

The Results

Obama's victory was a national victory. He carried all the states carried in 2004 by Sen. John Kerry (D-Mass.) plus many states carried by President George W. Bush in 2004, including Ohio, Florida, Iowa, Virginia, Nevada, New Mexico and Colorado. He won more votes among women, young, minorities and first-time voters. He carried 95 percent of the African-American vote (which was not unexpected), and he carried 66 percent of the Latino vote (which was unexpected). Although he won only about 43 percent of the white male vote, his total was higher than the percentage won by Kerry four years ago and former Vice President Al Gore eight years ago. He won, as of the writing of this document, 53 percent of the popular vote and 349 electoral votes.

He benefitted in some states from popular Democrats running for other offices, as in Virginia, where popular former Democratic Governor Mark Warner decisively defeated a Republican in an open seat. His appeal among lower-income or minority voters, however, also helped elect Democrats in states where Democrats have not held offices in years, for example Alabama, or in regions of states such as southeastern Virginia, where Republican incumbent House members were defeated. With several races still to be decided, Democrats in the Senate increased their number by five for a total of 56 (counting two independents). In the lower chamber, the House of Representatives, and with a number of races to be decided, the Democrats increased their overall total by 20 seats. No Democratic incumbent lost in the Senate, and so far, only four incumbent Democratic House members were defeated; 12 Republican incumbents were defeated, including Connecticut's Chris Shays, who was the only Republican House member in New England.

Aside from the loss of seats, the impact on the Republican Party is stark. A number of those who lost seats, especially in the House were old-line, New England or Mid-Atlantic moderate Republicans, such as Shays and Phil English of Pennsylvania. Those who won, or who were returned to office, tend to be more conservative, more regionally focused and more willing to promote conservative ideology over pragmatic governance. Just as the Democratic rank and file is more conservative than its current congressional leadership, so too are the Republicans – its rank and file for the next Congress are currently more conservative than its leadership. This will make for some interesting party in-fighting on both sides of the aisle later this year and next.

It will also make for some re-examination within the Republican Party, particularly its congressional wing, as to who they are and how they should work with the new president and the expanded Democratic majority. Already, one of the members of the House Republican leadership team, Rep. Adam Putnam (R-Fla.), has announced he will resign from the leadership (although he won re-election) to give his party a chance to start fresh.

Analysis

There is no doubt that the incoming Obama Administration will differ in style and substance from the administration of George W. Bush. At the root of the differentiation domestically will be an emphasis on re-regulation and extension of government oversight and control over the American economic landscape, as well as over the world economy.

There is always a pull and tug in the United States over the amount and kind of regulation needed by the federal government. For the past eight years, the Bush administration, sometimes publicly and sometimes out of the public limelight, has followed a course of action to remove, as much as possible, government from the economy. In addition, it has weakened government standards or government enforcement of current law in areas related to food safety, environment, land use and others.

Given the issues arising from the financial crisis, traced at least in part to inadequate government oversight of the sector, an Obama administration, backed by a Democratic Congress still eager to highlight the policy shortcomings of the outgoing administration, will likely move aggressively to rein in, through regulation, what they perceive to be the excesses of the last eight years.

Beyond an emphasis on re-regulation, especially in the area of financial services, there will be an attempt to tackle the large issues discussed during the campaign – fiscal soundness, health care reform, energy independence, education and climate change.

The other major point of differentiation will be in the formulation and conduct of foreign policy. As explained and expanded upon below, the United States is not likely to be so willing to conduct a

unilateralist foreign policy program. Rather, multilateralism is likely to be the watchword of the new foreign policy direction, perhaps with Vice President-elect Joe Biden leading the way for the new administration.

A key political conundrum for Obama will be the order of the issues he will tackle. Had McCain been elected, the Democratic Congress, still in power and with newly expanded majorities, would have immediately challenged the new Republican president's policies and priorities, likely leading to policy stalemate. Obama will avoid that issue but will still face battles with the Republican minority and may well face problems with his own party over the details of any broad policy debate. To limit these potential landmines, the new president will need to decide which of these big-ticket items he will tackle first to build trust with the Congress and win the confidence of the American people.

(NOTE: The Democratic Party is not nearly as united as its leaders might have once believed. It has recaptured a number of seats over the past two election cycles by effectively recruiting conservative Democrats to run for office. This has moved the rank and file of the party to the right in relative terms, while its leadership largely reflects the liberal wing of the party. This poses some real practical issues in terms of governance that may well quickly become evident.)

The final point of differentiation is that the depth and breadth of his national victory gives Obama an ability to push back against the special interest groups who helped elect him when they come asking for him to fulfill all campaign promises. No one special interest group was responsible for his election. It does not mean he can elect not to listen to them, but it does give him some freedom to order priorities and to cut deals as he sees fit.

Key Policy Area Analysis

Foreign Policy

Obama has outlined the following key foreign policy priorities: secure loose nukes from terrorists; pursue tough, direct diplomacy without preconditions to end the threat from Iran; and renew American diplomacy.

As much as these are driven by the political requirements of a presidential election, they also signal clearly a sincere concern about nuclear safety and a desire for collaborative diplomacy. Obama also emphasized his intention to end the war in Iraq responsibly and to work hard with the Iraqi leadership to achieve political consensus. He also noted that addressing the Israeli-Palestinian issue, stopping the genocide in Darfur and engaging China are priorities as well. In his discussions of foreign affairs, he often mentions that he will undertake smart diplomacy and will try to address problems by rallying international support for collaborative American leadership.

[Click to read more on Foreign Policy...](#)

Energy & Environment

Obama's goal of a large shift in federal energy policy to balance traditional sources (oil, natural gas, coal) with renewable sources (wind, solar, geothermal, biomass) is consistent with many in the Congress and for that reason has a good chance of success. The potential opposition among traditional energy players and the possibility for different industries and constituencies in the energy arena to pit themselves against each other is considerable, however. Obama favors clean coal technology, limited and environmentally friendly oil exploration, and safe nuclear power with clean disposal of waste; however, these are the very issues that could complicate any energy bill. Many of

the Democratic committee and subcommittee chairs in Congress, such as Sens. Barbara Boxer of California and Byron Dorgan of North Dakota share his vision on renewable energy and environmental reform, but rank-and-file House members from oil, gas and coal districts and the corporate and voter constituencies they represent are not likely to agree.

[Click to read more on Energy & Environment...](#)

Foreign Investment & Trade

An Obama administration will most certainly represent new challenges for the business community on these two issues. First, the Democratic Party is expected to be less friendly and accessible than the departing Republicans, and the populists' sentiment in Washington come next January will likely be more hostile to business.

Second, the so-called bailout of the financial sector and greater government influence in the economy will represent both opportunities and threats to U.S. domestic and international businesses.

How the new administration addresses direct foreign investments remains to be seen, but it will likely involve greater scrutiny through the Committee on Foreign Investment in the United States (CFIUS) process. Last year, Congress passed a CFIUS reform bill that more clearly defined what constitutes a national security threat (critical infrastructure and percentage of foreign control over a U.S. entity) and also increased Congressional oversight on certain transactions. Both Congress and the administration must balance the need to attract more foreign investment with national security concerns and also take into account public opposition to certain transactions. This clearly means more due diligence and consultations with policy-makers and other audiences on behalf of parties filing their applications with CFIUS.

[Click to read more on Foreign Investment & Trade...](#)

Financial Services Regulation

In the area of financial services, policy activity in 2009 will be constant, relentless and intensive, taking place at a level not seen in decades.

There is widespread agreement among Obama's economic advisors that regulatory arbitrage was an important factor in the current global financial crisis. They see lack of standardized regulation of entire categories of entities that intersected with banks (e.g., hedge funds, private equity firms, insurance companies) as having played a substantial role in the economic collapse. They also are concerned that existing ratings mechanisms failed to identify areas of risk to banks and enabled the mispricing of trillions of dollars worth of financial instruments, especially various forms of derivatives, held by financial institutions, leading to the conditions that at minimum exacerbated the collapse when it came.

[Click to read more on Financial Services Regulation...](#)

Health Care

Obama has positioned health care reform as an important issue. With the economic and financial crisis continuing to unfold, however, questions have been raised about whether the new president will be able to sufficiently address the challenges in our health care system.

As part of his reform plan, Obama focuses on two major areas for change: coverage and cost. The central ideas he proposes to increase coverage include creating a new Medicare-like government offering that people could buy, similar to the program offered to federal employees. He also proposes creating a national health insurance exchange in which approved private health insurance companies and the new federal program would offer health insurance plans to those without coverage. To participate, plans would have to meet several coverage mandates. In both cases the federal government would provide subsidies based on a sliding scale.

[Click to read more on Health Care...](#)

Additional Issues

In addition to these broad issues, there are a number of more focused issues which the Obama administration will need to confront. Two of these include:

- Rebuilding the nation's infrastructure – During the first session of this Congress, the United States will need to enact legislation to reauthorize road, rail, urban planning and port programs. Much of this is the strict allocation of federal funds, but there are also important policy decisions to be made, particularly against the back drop of fiscal restraint. It is possible that current law will be extended one year (until 2010) and then a new law debated. Fiscal issues may also delay the proposed \$60 billion National Infrastructure Reinvestment Bank.
- Education reform – Obama has placed much emphasis on expansion of early childhood education, improved teacher training and tax credits for college in return for community service. As the No Child Left Behind Act has expired, Congress and the new administration will have an early opportunity to come to grips with some of these issues.

Cabinet Choices and Rumors

Perhaps nothing more will signal how an Obama administration will govern, or will approach governance, than its selection of Cabinet officials. There are far more rumors as to who will be chosen than there are positions, but there are some names already floating to the surface. These include:

- Secretary of State – Sens. John Kerry (D-Mass.), Republican Chuck Hagel of Nebraska and New Mexico Governor Bill Richardson
- Secretary of Defense – the current secretary of defense, Robert Gates, Richard Danzig, former secretary of the Navy and current Obama advisor
- Secretary of the Treasury – Lawrence Summers (former treasury secretary), Paul Volcker (former Federal Reserve chairman), Timothy Geithner (current head of The Federal Reserve Bank of New York)
- Secretary of Health and Human Services – former Sen. Tom Daschle (D-S.D.)
- Secretary of Transportation – Rep. James Oberstar (D-Minn.), (chairman of Transportation Committee in the House), Jane Garvey (former head of the Federal Aviation Administration)
- Secretary of Agriculture – Tom Vilsack, former governor of Iowa

Conclusion

Winston Churchill described the victory of his armies in North Africa as not the beginning of the end of the war, but rather the “end of the beginning.” Barack Obama's historic campaign truly marks the end of one beginning. As president, he will now have to move to the beginning of a whole new phase –

governing. The American people have put their trust in him, and those around him, to solve the economic and social issues of greatest concern. He has a wonderful opportunity to do so.

For more information about how APCO can help with your government relations or public affairs needs contact:

Barry Schumacher
senior vice president
APCO Worldwide
700 12th Street, N.W., Suite 800
Washington, D.C. 20005
U.S.A.
Tel: +1.202.778.1000
Fax: +1.202.466.6002
bschumacher@apcoworldwide.com

To learn more about APCO Worldwide visit www.apcoworldwide.com

Foreign Policy continued...

Obama intends a genuine break from the Bush administration's practice of declarative policy, whereby the United States stated what wanted and did not work to form an international consensus to try to accomplish the stated goal. Obama would seek, instead, through active, even aggressive engagement internationally, to generate interest and collaboration to form a consensus on policy and action plans. While this will, take more time and energy, this does not mean that Obama will allow issues to languish for lack of consensus. He is likely to appoint energetic, activist Cabinet and sub-Cabinet-level officials to help him push his policies hard and ensure that these policies have genuine, tangible results.

Obama is likely to undertake an early initiative to form a genuine consensus with Europe – through NATO, the European Union and bilaterally – on a variety of issues, starting especially with the financial crisis, but including: global social issues (poverty, health, water, narcotics, trafficking in persons); security issues (nuclear weapons, terrorism, arms control); and governance (rule of law, corruption, political choice, media freedom, human rights, religious tolerance). He will press hard for greater European participation in addressing these problems, especially as they manifest themselves in Afghanistan and Pakistan. NATO member states can expect to be pressured strongly and early to contribute more substantially to the effort in Afghanistan.

Obama has signaled that he will turn to addressing issues with Russia once he has built a clear consensus with Europe on the way ahead. It will no longer be easy for the Russian leadership to split Europe and the United States on energy, climate change, missile defense, democracy and human rights, and nuclear safety. While this probably means trade-offs and some compromises to achieve consensus on some issues, do not expect a weakening of core U.S. principles.

Obama has been careful in his statements to leave the door open for Russia to decide whether it wishes to reengage with the United States and Europe on issues of importance to all players. He has not shut the door on Russia, but he has been clear, for example, that Russian military action in Georgia, no matter the circumstances that precipitated intervention, was unacceptable. This means that an Obama administration will not run after Russia to reengage but will be open to engagement once Russia decides that doing so is in its own interest.

Obama maintains that he will deploy tough, direct presidential diplomacy with Iran without preconditions, offering WTO membership, investment and normal diplomatic relations in exchange for abandoning its nuclear program and support for terrorism. Failure to take this path will result in increased economic pressure and political isolation. He would strengthen the Nuclear Proliferation Treaty to provide for international sanctions against countries such as North Korea and Iran if they break the rules. Obama also wants to secure existing stockpiles of nuclear weapons and materials and to negotiate a global ban on the production of nuclear weapons material, principally to keep these out of the hands of terrorists. His ultimate goal is a nuclear-free world. This is the issue on which Obama concentrated while in the Senate, and he has gathered around him individuals with considerable technical expertise and political weight on this issue.

In his pronouncements about China, Obama has put forward a balanced assessment: an understanding of the challenges China faces and a desire for a constructive relationship to foster peace and prosperity. He argues for more transparent military-to-military relations, while noting U.S. support for its allies in the region and a desire for a better understanding of the goals of China's growing military. Obama wants China to play by the economic and market rules and to participate more effectively in fair trade. China, Obama says, could be a constructive partner on energy and environmental issues. At the same time, Obama would seek an end to China's support for genocidal and repressive regimes in Sudan, Burma, Iran and Zimbabwe and would press China to live up to human rights standards.

Obama has an exceptionally ambitious foreign policy agenda – an agenda that will be competing with his equally ambitious agenda on domestic issues. In this environment, the urgent will tend to drown out the merely important. As a result, it will take considerable focus and finesse to gain commitments from officials to focus on many of the issues which fall into the latter category.

[Click to go back to main document](#)

Energy & Environment continued...

Obama's energy plan seeks to shift government investment from its heavy oil, gas and coal focus to renewable energy through research and development (R&D) and tax policies. Obama's renewable energy platform and his \$150 billion renewable energy plan over the next 10 years is the centerpiece of his proposed change. He seeks to double renewable energy R&D and require 25 percent renewable energy by 2025. He also pledged to create and invest \$10 billion yearly in a Clean Technologies Deployment Venture Capital Fund to help finance companies involved in the alternative energy sector. Overall, the costs of Obama's ambitious plan, not the focus on renewable energy, may be a limiting factor during very difficult fiscal times. Obama's key environmental team includes Jack Darin, director of the Illinois chapter of the Sierra Club; Howard Lerner, executive director of the Environmental Law and Policy Center; and Jason Grumet, founder and president of the Bipartisan Policy Center and executive director of the National Commission on Energy Policy.

Obama is committed to a cap-and-trade regime for carbon emissions. It will be the major environmental issue next year after the economic crisis, considering that Obama and McCain, as well as Democrats in Congress, support cap-and-trade-based legislation and pledged action next year. The model legislation is the Warner-Lieberman (S. 2191) bill that was proposed in the Senate last year. Many influential environmental advocacy groups, including the Environmental Defense Fund, have been working with Sen. Barbara Boxer and others in 2008 to ensure any legislation going forward adheres to their very strict standards for environmental protection and leaves little room for industry groups and others affected by this legislation to compromise.

The House Energy Committee also drafted a climate change proposal that includes using a cap-and-trade schematic but is very different than the bill in the Senate. That proposal includes looser emissions limits in the earlier years of the program and a policy that puts the House bill in line with recommendations from the U.S. Climate Action Partnership, a group of businesses seeking to shape the legislation. Environmental groups have protested the proposal. Committee Chairman John Dingell hails from Michigan, so he is more closely aligned with automakers that stand to be affected by tight tailpipe emissions standards proposed in states like California. He is also less closely aligned with the environmental lobby than his colleagues Boxer and Rep. Edward Markey of Massachusetts.

Power, manufacturing, natural gas and cement industries will likely join automakers to fight for a bill that looks more like the House proposal.

The other issue that could also have an effect on businesses is reform of the Toxic Chemical Safety Act, which has not been reformed since the 1970s. Europe has been toughening their regulations on chemicals and with Democrats controlling Congress; it is likely that reform in this area will widely impact businesses as well. The recent media attention around the safety of the chemical Bisphenol-A (BPA) and mistrust of FDA regulatory process only heightens the likelihood that reform of this kind will take place within the next few years.

Other clean air rules and regulations that affect many industries could become prominent in 2009 as well. The courts recently overturned two major clean air rules in 2008, and there is a possibility that new proposed rules would be sought to aggressively combat other emissions.

[Click to go back to main document](#)

Foreign Investment & Trade continued...

Few issues separate the two political parties more than international trade, as evidenced by the Bush Administration's push for more free trade agreements and a Democratic Congress that strongly resisted approving such agreements. Such differences were aired in the recent presidential election, with Obama advocating greater scrutiny of trade agreements and more incentives to U.S. manufacturers to keep their operations and jobs at home. With Democrats controlling both the White House and Congress, there will be a major shift in U.S. trade policy, away from bilateral trade initiatives and more on the multilateral front, with early efforts at restarting the WTO's Doha Round. Democrats will also push hard to have all trade accords include international worker rights and environmental standards, which will impede efforts in future trade negotiations.

The fate of all pending free trade agreements is unknown. Deals with Panama, Colombia and Korea have all been negotiated, but only the Colombian agreement is being submitted to Congress for consideration. The other two have yet to be submitted and may indeed die with a change of administrations. In addition, while he has not spoken about it for some time, Obama did express interest in renegotiating existing free trade agreements, such as NAFTA, in order to strengthen worker rights and environmental standards. Altering these will be more difficult, as it would take agreement by our trading partners to change existing law.

[Click to go back to main document](#)

Financial Services Regulation continued...

The primary purpose of the \$700 billion financial rescue bill was to enable The U.S. Treasury to purchase mortgage debt products from heavily indebted domestic and foreign banks and brokerage firms. However, its authorities extended far wider, to the purchase of any type of financial instrument deemed necessary by The U.S. Treasury to address financial stability, including student loans, automobile loans, credit card debt and even commercial paper. Any sector that winds up selling debt to the U.S. government will wind up being comprehensively regulated as well. The bailout bill requires The Treasury, by April 30, 2009, to provide Congress with a comprehensive plan to modernize the entire U.S. financial regulatory structure, from banks to hedge funds and from municipal bonds to credit default swaps, expressly including the need to deal with over-the-counter swap markets implicated in the current crisis. This provision – atop the monthly reporting on the bailout by The Treasury and The Oversight Board to Congress – essentially ensures that the new administration and Congress will be returning to these issues throughout 2009.

When the package of modernized regulation and supervision emerges and becomes law sometime during 2009, the entire range of financial services market participants will see their existing regulatory and supervisory authorities change. The only question is how much. Factors such as insurance and hedge funds that were not subject to federal regulation in the past are squarely within the cross-hairs of regulatory coverage by the new administration and Congress, as are Credit Reporting Agencies (CRAs), and any entity that has off-balance sheet transactions that are funded in whole or in part by any bank or other credit institution.

A major goal of Obama's economic advisors and of key Democrats in Congress is to secure regulatory coverage of derivative instruments through one mechanism or another. At minimum, this will require greater transparency regarding risk exposures to publicly traded entities associated with such instruments; broader controls are under discussion. Some new structures to facilitate oversight are likely and come in the form of the proposed domestic financial markets stability commission suggested by Joseph Stiglitz, chair of the Council of Economic Advisors under President Clinton and an advisor to the Obama campaign. Such a commission would take over the supervision function from the Federal Reserve and broaden it to include responsibility for the safety and soundness of all financial market participants. Stalled legislation to impose broader controls and disclosure obligations on student loan companies is also likely to return early in the next Congress with broad support.

The incoming administration is also certain to seek equivalent coverage of foreign financial institutions in the same businesses, regardless of where they are located. We anticipate that mechanisms such as the Financial Stability Forum, convened by the G-8 in April 1999 to promote international financial stability through information exchange and international cooperation in financial supervision and surveillance, will be used by the Obama administration to drive global standardization of financial regulation. Notably, the forum, which is made up of the finance ministries and central banks of the countries with the world's major financial centers, has identified the need to ensure that banks take into account *all* types of risk on their balance sheets. To date, the forum has chosen not to seek to directly regulate hedge funds or special purpose vehicles. As of October 2008, however, they are moving toward covering both. In practice, they may do this through indirect regulation of every type of business that borrows meaningful amounts from banks, by requiring banks – through detailed regulations issued by their supervisors – to take into account the risk of lending to them.

In Washington, there will be ongoing consultation, oversight and review of the entire regulatory regime governing the global and local capital markets. Rep. Barney Frank (D-Mass.), chairman of the House Financial Services Committee, will be one central figure on Capitol Hill for this territory. To date, Sen. Christopher Dodd (D-Conn.), has expressed his intention of continuing to chair the Senate Banking Committee, although this could change if Sen. Ted Kennedy (D-Mass.) found himself unable for health reasons to continue his chairmanship of the Senate Health, Education, Labor and Pensions (HELP)

Committee. On the Republican side, the most influential figure will likely remain Sen. Richard Shelby (R-Al.), the ranking member of the Senate Banking Committee, with Rep. Spencer Bachus (R-Al.) playing a similar role as ranking member on the House Financial Services Committee.

Rep. Henry Waxman (D-Calif.), chairman of the House Committee on Oversight and Government reform, is likely to convene a series of hearings governing aspects of the credit market collapse and bailout. In the Senate, Carl Levin (D-Mich.), will continue his ongoing investigation of major financial institutions, with a cross-border emphasis, through his chairmanship of the Permanent Subcommittee on Investigations.

[Click to go back to main document](#)

Health Care continued...

As part of his plan to help provide coverage for the uninsured, he also proposes a mandate for children, but he did not propose or support a mandate for adults as his former rival Sen. Hillary Clinton (D-N.Y.) has done.

Other ideas to improve coverage include offering tax credits for families and small business, requiring large employers to contribute to the cost of the national plan if they do not offer ample coverage to their employees and expanding Medicaid and State Children’s Health Insurance Program (SCHIP).

Obama’s cost-saving ideas include: allowing drug importation from Canada (though recently his campaign said they are rethinking that position based on safety concerns raised by the tainted Heparin out of China); allowing Medicare to “negotiate” drug prices (these two issues could be stand-alone bills that move as soon as early February along with FDA pre-emption repeal); comparative effectiveness review and research; cutting the reimbursement rates for Medicare Advantage plans; limiting insurance company reserves in non-competitive markets (force insurers to pay out excessive reserves); increasing the use of generic drugs, including taking measures to speed generics coming to market; and improving access to prevention and disease-management programs, including improved coordination of care in the workplace, communities and schools as well as support for such efforts in government and private health plans.

This is an expansive and aggressive health care reform agenda and to do it will cost a great deal of money and, likely, meet with a great deal of opposition from various corners. The two key questions are whether the government has the resources necessary to fulfill it, and how they will approach their health care agenda legislatively. Will they do it all at once or do it piece-meal over time?

Many people point to Massachusetts as a model for what the federal government could do to provide greater coverage. While Massachusetts has seen major gains in providing coverage, there is also one other lesson learned – the Massachusetts program proved to be more costly than expected, and this is just one state.

Obama won’t have to wait long to demonstrate his commitment and in what direction he may be moving when it comes to reform. There are two key health care issues that will come up early in 2009: physician reimbursement in Medicare and reauthorization of the (SCHIP). If Congress, with the backing of the new administration, tries to actually pass a long-term fix to the physician reimbursement formula rather than simply push it forward to next year, that may send a signal they are getting ready to take on the whole reform agenda. The reason is that fixing the formula is costly. The other bellwether is the SCHIP program. In the last Congress, Democrats tried hard to expand the program, but were defeated by Republicans and the administration. Any expansion of the program will be expensive so if the new Obama administration is willing to take this step it may be yet another sign it is willing and intends to take on the larger reform issues. If they go beyond a simple reauthorization, they may also use the reauthorization to make some of their proposed reforms including mandating health care for children and an expansion of Medicaid among others.

A final sign of how seriously they are considering pushing their health care agenda is who they pick for HHS Secretary. If it’s Tom Daschle that would be a sign they intend to be aggressive and push reform, as it is hard to imagine Daschle coming on board unless he has the chance for major reform. If the HHS Secretary is someone with a low profile it may signal that health care reform is not a top-tier issue.

[Click to go back to main document](#)