FY2013

A Platform to Revitalize America

Budget of the U.S. Government

Senator Rand Paul

United States Senate

FY2013

February 25, 2012

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Table of Contents

Preface 5
Analysis 6
Major Budget Policy Options 21
- Legislative Branch 22
- Department of Agriculture 24
- Department of Commerce 26
- Department of Defense 28
- Department of Education 31
- Department of Energy 35
- Department of Health and Human Services 37
- Department of Housing and Urban Development 40
- Department of Homeland Security 44
- Department of the Interior 46
- Department of Transportation 48
- National Aeronautics and Space Administration 50
- International Assistance Programs 52
- Miscellaneous Policy Changes 55

Tax Reform – Flat Tax 58
Budget Process Reform 67
Social Security Reform 68
Medicare Reform 70
Regulatory Reform 78
Summary Tables 87
- Discretionary Function Totals 89
- Mandatory Function Totals 90
- Function Totals 91
- Budget Totals 92
- Budget Comparisons 93
- Major Categories 94

Brief Policy Explanation 95

Appendix 98
Endnotes 100

Preface

In 2010, Carmen Reinhart and Kenneth Rogoff, authors of This Time Is Different, and researchers on financial crises and debt, officially proclaimed the United States in a "decade of debt."[1]

The economy is stagnant because the crisis has been misdiagnosed. In almost every instance, attempts by Washington policy makers to solve this persistent nightmare have only made things worse. The catastrophe of 2007 was built upon massive leverage both in the private and public sectors. A loose monetary policy allowed asset prices to skyrocket, and the regulatory system was too convoluted to understand and even more complicated to enforce.

Since then, the prescription of even greater leverage, looser monetary policy, and more regulation has resulted in a more fragile country. If we tip back into recession, the consequences will be significantly worse than what was recently experienced in 2008. Even if we stay the course without further contraction, the projections are dire. We are on a path of slow economic growth, mountains of debt, permanently high unemployment, and a deteriorating standard of living.

The time for experimentation has concluded. The Keynesian economic proposals, increased regulation, special interest endorsed tax code, and monetary policy gamble have failed.

Although we are in the midst of the decade of debt, this budget seeks to reverse the trend by reducing debt and spending, eliminating unnecessary regulations, replacing the tax code with a fair and viable flat tax, and halting the growth of America's massive unfunded liabilities.

This plan accomplishes a number of important achievements while still balancing the budget in five years:

- Cuts and reduces the overall size of government;
- Not only stops the growth of debt in nominal terms, but begins to reduce it;
- Projects net interest costs at more realistic levels, above those provided in the Congressional Budget Office (CBO) baseline;
- Reduces trillions of dollars in unfunded liabilities by reforming Social Security and Medicare;
- Addresses and budgets for the cost of the federal regulatory burden;
- Repeals Obamacare and Dodd-Frank; and
- Reforms the current tax code in favor of an efficient and competitive low-rate flat tax.

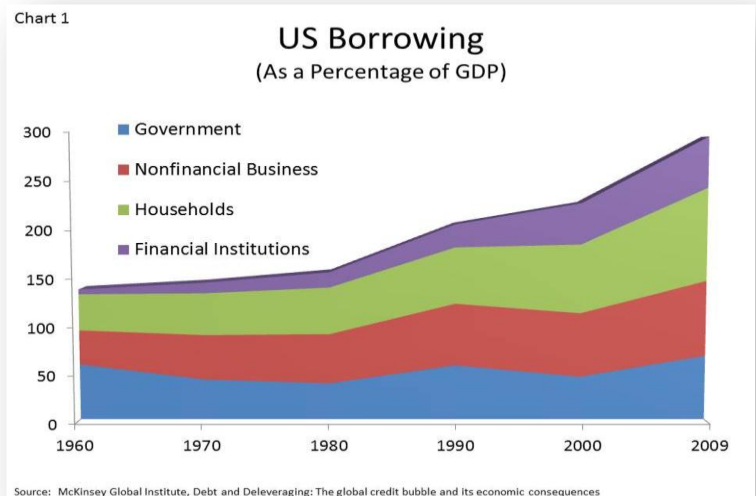
Analysis

The world economy remains in a volatile state. Fragility, low confidence, and the risks of overleveraged societies continue to threaten further economic decline. The United States continues to sink deeper into debt; Europe, forced into austerity, is facing major financial turbulence. Japan is recovering from a natural disaster that has left it nearly paralyzed; the Middle East is in chaos, and the structural system of Asia is of concern. According to the Bank of International Settlements, total industrialized country public sector debt is now expected to exceed 100 percent of gross domestic product (GDP), something that has never happened during a time of peace.[2]

The globalization of world economies means that the U.S. remains intertwined with the affairs of others. Should economies remain fragile, the failure of one country could lead to a depressive shock to the others, leading to economic contractions potentially worse than 2008. It is necessary for countries, especially the United States, to structurally strengthen their economies, achieving a resilience that will be able to withstand significant volatility and challenges in the future.

The United States

The last decade in the United States left its mark with mountains of debt. By way of sophisticated financial engineering, we allowed banks to issue unprecedented levels of debt without assuming the risk. During this same period, the Federal Reserve was also maintaining artificially low interest rates, which contributed to housing prices increasing three times as rapidly as general prices. This sharp increase induced a construction boom, and housing starts reached two million units per year – about 500,000 more units than the number required to satisfy the growth in population, the losses to fires, storms, and similar factors.[3] The result was significant increases to home prices, enabling Americans to further leverage themselves. In 2009, homeowners extracted $719 billion dollars from their homes – nearly as much as President Obama's deficit-financed economic stimulus plan.



The U.S. economy was running on debt, and that debt accumulation was not binary. Nearly every segment of the economy became massively overleveraged; between government, Fannie Mae and Freddie Mac, bank debt, asset-backed

securities, household debt, and corporate debt, total debt reached historically high levels.

In some respects, we should have been cognizant of the situation. After all, the United States, more than most other countries, incentivizes debt accumulation. The tax code promotes home buying, rather than renting, through the mortgage deduction. Businesses and corporations can write off borrowing costs, promoting debt over equity. Politicians borrow to avoid raising taxes or cutting spending. And we've become a society that provides few consequences for indebtedness: Large and highly leveraged corporations are bailed out, and individuals can claim Chapter VII or XIII bankruptcy and be given second and third chances to become leveraged again with limited personal sacrifice or economic consequence.

Unfortunately, the belief that our nation could prosper with so much debt overshadowed the fact that at some point, the game must end – it always does. Since 1800, the world has experienced financial crises nearly 270 times, often as the result of housing.[4]

Failed Policy Response

The first and most notable problem was Washington's failed attempt at curing the crisis. Much like the past, policy makers and economists insisted on Keynesian economics, promoting large government spending programs to spur growth, coupled with an incredibly loose monetary policy to provide for extra liquidity. While it might be fair to say that both of these policy initiatives artificially dampen the overall effects of the recession, the treatment was benign, ultimately creating a much more fragile system, promoting moral hazards, and hurting long-term growth potential.

The fundamental difference between a typical recession and financial crisis is the difference between a liquidity crisis and a solvency crisis. During a normal cyclical recession, liquidity crises are the result of a need for additional capital in the system and short-term bridge loans. In other words, assets may be greater than liabilities, but for many reasons those assets are illiquid or short-term capital is difficult to obtain. However, in a solvency crisis, asset prices decline, resulting in greater liabilities than assets. Even with the ability to liquidate those assets, individuals and entities are still left with negative equity. The differences between the two are important. During a liquidity crisis, access to capital may often result in continued consumption and investment (although lessened) – whereas during a solvency crisis, entities are far less inclined to partake in those activities and are much more inclined to pay down debt and fix their balance sheets.

John Mauldin and Jonathan Tepper provide their own analysis of the debt phenomenon, in their book, Endgame:

> All the assets that had been securitized and sat on the balance sheets of money market funds would eventually make their way back onto the balance sheets of banks. The run wasn't only restricted to the commercial paper market. Foreign central banks started dumping Fannie Mae and Freddie Mac mortgage bonds, forcing the Fed to start buying them back…

> …Governments tried to stop the effects of the private sector paying back its debt and unleashing a major debt deleveraging by running large fiscal deficits and printing massive amounts of money, causing the balance sheets of central banks and governments to explode…
>
> …While households and corporations started paying back their debts, governments massively ramped up their borrowing.[5]

It is important to note that the 2008 financial crisis was the result of a massively overleveraged society – both in the private and public sectors. Unfortunately, the tribulation caused by this debt has not been treated, but merely transferred from the private sector to the balance sheets of the federal government and our central bank.

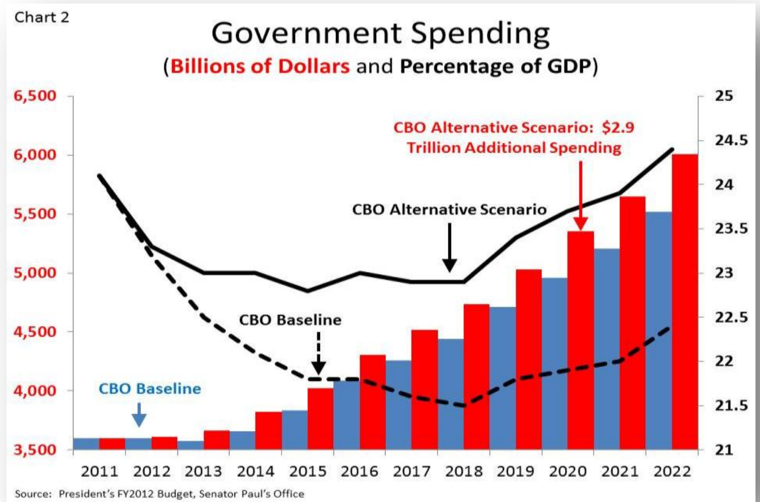
When the economy is going through a period of deleveraging, cleaning up balance sheets and eliminating bad debt and toxic assets, there are only a few policy provisions, many of which aren't being applied today, that will allow the system to recover without increasing risks and hurting future prosperity. Periods of deleveraging typically last six to seven years, and are accompanied by slower growth. Businesses and individuals are less likely to consume and invest, consumption growth is much slower than pre-crisis levels, and spending patterns shift.[6] But these symptoms are characteristics of the past; proper handling and the right policies can shorten the duration of downturns and increase growth and employment more quickly.

A solvency crisis necessitates correcting upside-down balance sheets, a result of asset and security prices declining (deflation). There are two kinds of deflation: good deflation, which is the result of prices dropping by way of technology, efficiencies and increased productivity, and bad deflation, which happens when prices plummet as a result of distorted price inflation. Bad deflation has negative consequences such as high unemployment, excess capacity leading to slack in the economy, and wealth destruction. But most of these problems can be corrected with capitalism in a free market. For example, by allowing distressed assets to be purchased by the healthiest firms, the economy soon stabilizes and puts wealth creation and employment back on track. As is later shown in this analysis, the Federal Reserve's attempts to inflate prices and promote consumption only create greater fragility in the system as well as the risk of high inflation.

Washington Responds: Private-to-Public Debt Transfer Leads to Out of Control Spending and Lack of Reform

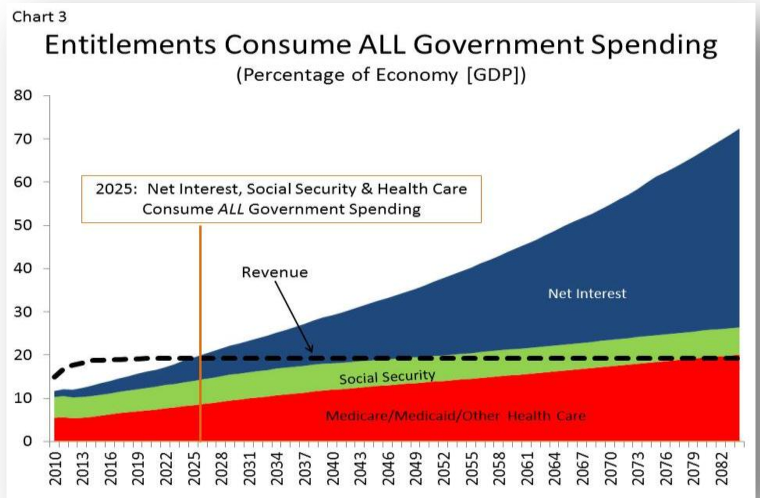
In 2011, federal spending rose by 4 percent or nearly $142 billion over 2010, to a total of $3.6 trillion. As a total of the economy (GDP), the government spent nearly 24.1 cents of every dollar produced in the economy in 2011. While spending is estimated to fall, the Congressional Budget Office (CBO) projects the federal government will continue to spend 23.2 cents of every dollar produced – a level higher than any year between 1984 and 2008.

CBO estimates that under current law, spending will decrease from an average of 24.1 percent of GDP the past two years to an average of 22 percent over the next decade – still a much higher average than the 20.1 percent of GDP spent during the 1990s.



To some, this small decrease in spending relative to the past few years might provide optimism, but even as CBO suggests, this is more like political fantasy, not reality. These spending figures assume future Congresses abide by spending restrictions allocated today and certain entitlement programs simply just disappear into the abyss.

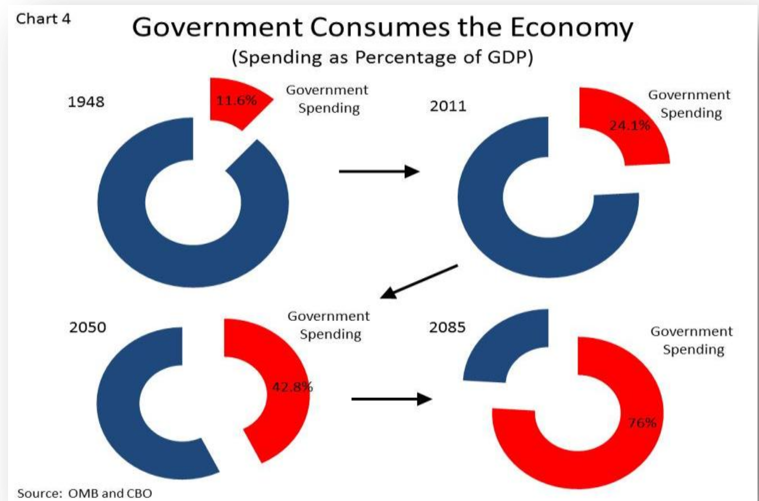
In the Congressional Budget Office's more realistic estimate, government spending never drops below an average of 23.3 percent of the economy (GDP), resulting in an additional $2.885 trillion of federal outlays over the next ten years. This alternative baseline assumes that future Congresses over the next decade disregard the spending caps designated in 2011 and provide funding for the "doc fix."



We're Not Finished – More Spending to Come

Politicians have made attempts over the past few years to quell the public's concern regarding Washington's aggrandized spending. We have had a presidential debt commission and Congressional spending negotiations, which produced such legislation as the Budget Control Act. Unfortunately, these attempts at solving the problem do virtually nothing to prevent a massive spending explosion in the future. Even when you take all discretionary spending out of the equation (e.g. defense, education, homeland security, agriculture, state and transportation, infrastructure spending, etc.), federal government spending, particularly on entitlement programs, continues to grow at alarming rates. In fact, in 13 years, CBO estimates that spending on Medicare, Social Security, and interest payments on our national debt will consume the entire federal budget (see Chart 3).

Not long after entitlement spending consumes the entire federal budget, it continues on a trajectory that eventually consumes the entire economy (see Chart 4). Unfortunately, Washington remains uncommitted to any serious attempt at fixing the nation's entitlement programs and the accompanying trillions of dollars in unfunded liabilities. The willingness to reduce additional spending has only been attainable by "cutting" spending in the out years, as in the Budget Control Act, which assumes that more than $1 trillion of the $2 trillion in spending cuts will take place after 2018. And it only became convenient for populist politicians to denounce the bailouts of Wall Street and big business after billions of dollars of taxpayer money had already been handed over.



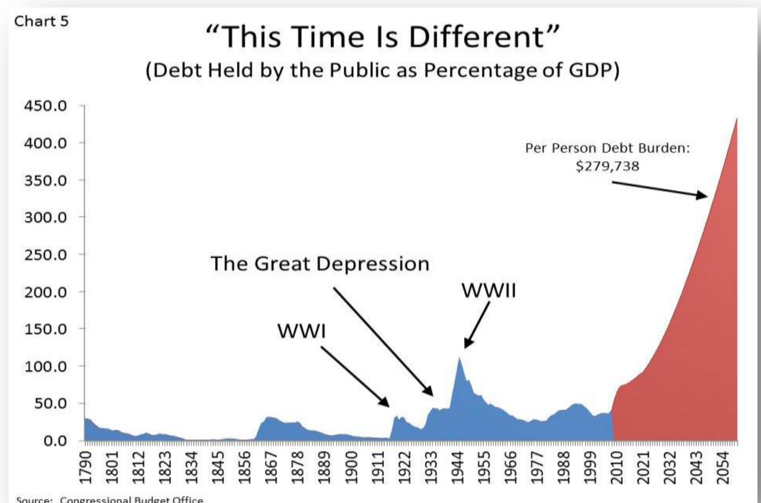
Deficits and Debt

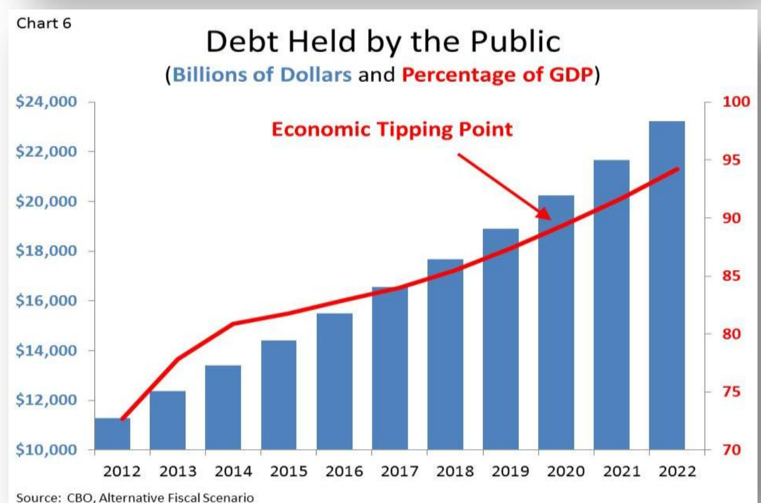
In 2007, the federal deficit was $161 billion, about 1.2 percent of GDP. In 2009, the first year President Obama was in office, the deficit grew to $1.4 trillion and has remained at trillion dollar or more deficits every year since. Based on the most realistic assumption of deficits over the next ten years, CBO estimates trillion dollar deficits nearly every year and well above what is considered sustainable (see Appendix figure 3), putting the ability to continue to pay and finance our debts into question. What worries investors and policy makers around the world is that U.S. deficits are almost permanently structural and are not due to cyclical weaknesses, which means that even if the economy were to improve or return to pre-crisis growth, we would continue to see large government deficits.[7] In fact, CBO assumes that if the economy were operating at full capacity, the U.S. would still run a $711 billion deficit in fiscal year 2012 (see Appendix figure 2).

Today, the debt held by the public stands at $10.6 trillion – or nearly $34,435 for every man, woman and child alive (see Appendix Figure 6). By the time every child born today is a middle-aged adult, his or her tab will have increased to nearly $280,000. In the coming years, the levels of debt accumulated by the United States will create tremendous vulnerabilities, especially as the ratio of federal debt to gross domestic product continues to climb into unprecedented territory.

In the not too distant future, the debt held by the public will exceed 100 percent of GDP – significantly more than any time during the past century except during World War II (see chart 5). However, there are notable differences between today's fiscal climate and WWII.

- While the US was highly leveraged in order to fight the war, it was still the safest and most reliable place in the world to hold debt; nearly 40 percent of the nations around the world were in default[8];
- The debt accumulated during the war was temporary in nature; most debt was attributed to the war cause, whereas today's debt is becoming increasingly linked to long-term policies such as Social Security and Medicare;
- Our current debt path is on a steep trajectory with little evidence that trend will change. Immediately following the conclusion of WWII, however, the debt level immediately decreased by 10 percent, and went from 109 percent of GDP down to 46 percent of GDP in a little over a decade.[9]





By studying the history of debt, Reinhart and Rogoff acknowledge a number of consistent factors between wartime and peace debt accumulation, "[W]ar debts are arguably less problematic for future growth and inflation than large debts that are accumulated in peace time. Postwar growth tends to be high as war-time government spending, typically the cause of the debt buildup, comes to a natural close as peace returns. In contrast, a peacetime debt explosion often reflects unstable underlying political economy dynamics that can persist for very long periods."[10]

The current debt held by the public for this year is predicted to reach $11.3 trillion; within the next decade, it is estimated to grow by 106 percent, exceeding more $23.2 trillion by 2022. Even more concerning than the continued buildup of debt is the milestone this debt reaches by 2020. In that year, debt held by the public will reach 90 percent

of GDP, leading to serious deterioration in the economy based on historical precedence. When the ratio of debt to GDP rises above 90 percent, there appears to be a reduction of about 1 percent of GDP, mostly as a result of crowding out effects and capital outflows[11]. As shown in the Appendix Figure 1, economic growth that is as little as one- tenth of a percentage point lower than CBO's estimated baseline will add more than $300 billion to the deficits over the next ten years.

Crowding out Private Investment

As deficits and debts continue to increase, America's ability to finance both a growing debt and private investments diminish. With more of the country's capital and savings allocated into government securities, less money will be available for investment in the private sector, which will lead to a smaller capital stock and lower output and incomes in the long-run than if the debt was reduced.

In addition, as this growing debt increasingly becomes financed by capital inflows from other countries (foreigners currently own nearly 45 percent of total debt held by the public, see Appendix Figure 4), the debt service will require more and more U.S. capital to flow to countries such as China, Japan, oil exporting countries, and other foreign nations. Such a trend will continue to weaken economic growth and hurt the standard-of-living in the long-run. Without private investment in new factories, research and development, and innovative expansion, the economy will be stymied from the lack of increasing productivity growth and new job creation.

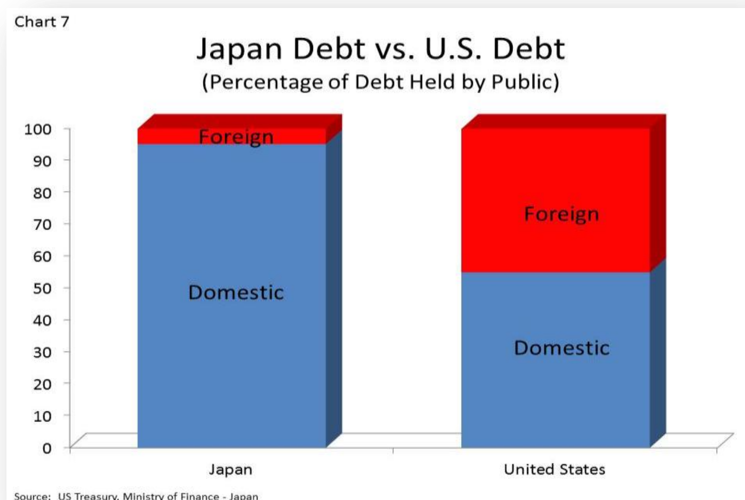
Investor concerns/Interest Rates

In their book, This Time Is Different, Reinhart and Rogoff point out that one of the most important features that impact the fragility of the system is mere confidence, "Perhaps more than anything else, failure to recognize the precariousness and fickleness of confidence… Highly indebted governments, banks, or corporations can seem to be merrily rolling along for an extended period, when bang! – Confidence collapses, lenders disappear, and a crisis hits."[12]

Unfortunately, the point at which individuals and the world refuse to continue to finance our debt, or alternatively, request significantly higher rates of return for holding Treasuries is difficult to determine. For example, Japan has a very high ratio of debt to GDP and has so far avoided default, whereas Russia in the late 1990's defaulted with debt as little as 12.5 percent of GDP. The U.S debt held by the public is a staggering 71 percent of GDP.

Without the political will to make the necessary and difficult decisions to reduce the unsustainability of government spending and debt accumulation, investors will increasingly lose confidence in the ability of the government to maintain such a high debt to GDP ratio, and in the interim, will begin to demand a higher risk premium for holding the bonds issued. Higher interest rates will have significant adverse effects on the economy, leading to higher borrowing

costs, making it more expensive for consumers to finance new homes and vehicles, take out student loans, expand businesses or make capital equipment purchases. Increased borrowing costs hit all sectors, but it especially impacts the government's spending on servicing the debt. If interest rates rise to the average rate during the 1990's, the government will have to pay out more than $1 trillion in additional interest costs. And, if rates should increase to the average rates during the 1980's, net interest costs will increase by more than $5 trillion.[13]



Unlike Japan, which has very high domestic savings rates and owns the majority of their public debt, the United States is increasingly relying more on foreign investors to purchase U.S. Treasuries, making the U.S. more vulnerable to political and global fluctuations. Foreign investors now own more than 45 percent of the U.S. government's debt, up from 34 percent in 2000. And although their holdings create more fragility, they have provided the means for cheaper borrowing costs and increased consumption over the past two decades. Studies have shown that foreign inflows into U.S. bonds reduce the 10-year Treasury yield by an economically and statistically significant amount. Foreign inflows have contributed to a reduction of 90 basis points on the 10-year treasury over particular years – and inversely, the loss of such foreign inflow would have resulted in an increase in the Treasury yield by as much as 180 basis points.[14] Not only do we need to prove to domestic investors that we have a handle on our nation's finances, but we also need to convince the world.

The Federal Reserve and Monetization of Debt

"With the exception only of the period of the gold standard, practically all governments of history have used their exclusive power to issue money to defraud and plunder the people."

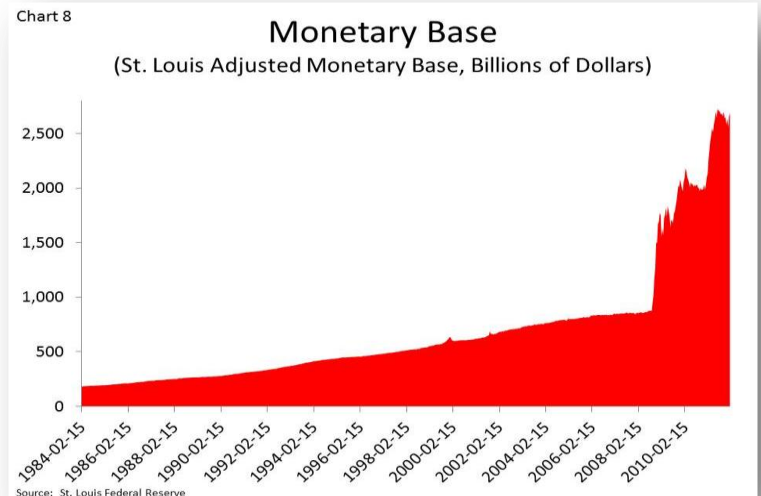
--F.A. Hayek, Nobel Prize Economist

The Federal Reserve was created in 1913 with the prime mandate to protect the purchasing power of the dollar, but that achievement has seen little success. Since 1913, the dollar has lost 95 percent of its value. James Rickards' book, Currency Wars, makes an important comparison:

> The Fed's track record on dollar price stability should be compared to that of the Roman Republic, whose silver denarius maintained 100 percent of its original purchasing power for over two hundred years, until it began to be debased by the Emperor Augustus in the late first century BC. The gold solidus of the Byzantine Empire had an even more impressive

track record, maintaining its purchasing power essentially unchanged for over five hundred years, from the monetary reform of AD 498 until another debasement began in 1030.15

The deterioration of the dollar through inflation creates tremendous economic distortions to investment decision making, misallocation of resources and capital, asset bubbles and income inequality. And the perilous impacts of high inflation are at our doorstep. In 2008, as the U.S. entered a recession, the Federal Reserve began to inject large amounts of money into the system.[16]



Since 2007, the Fed's balance sheet has skyrocketed from $840 billion to nearly $3 trillion, leading to a monetary base that has increased 220 percent. With falling prices as a result of a credit freeze, deleveraging, bankruptcies and high unemployment, the Fed's policies were primarily focused on the threat of deflation; completely ignoring what history has taught us about financial crisis and the threat of high inflation. As our nation has experienced a severe solvency crisis, coupled with huge accumulations of debt, the Federal Reserve has injected large amounts of dollars into the system, hoping to artificially reverse the pains of the irresponsible debts and ignoring free market tendencies of prices to realign.

While the Federal Reserve has the printing press on full throttle, many wonder why we haven't seen large scale inflation, with core consumer price index (CPI) running at only about 2 percent. The answer is twofold: the Federal Reserve has succeeded in exporting a lot of the inflation, and the velocity of money has been falling.

First, as a result of particular countries, such as China, pegging their currency to the dollar, the U.S. running large current account deficits, and capital chasing safer investment opportunities overseas, a great deal of this newly printed money has gone abroad.[17] Once this trend reverses, or once these foreign countries begin to send this capital back to the U.S., we will be flooded with dollars, faced with real inflation, and the value of the dollar will have been destroyed.

The second reason has to do with the velocity of money, which is the speed at which money is spent. All things constant, as the velocity of money begins to drop, as it does during both liquidity and solvency crises, gross domestic product will begin to fall. The velocity of money is a function of GDP, equated as P=MV, where V is the velocity of money, P is the nominal price of GDP, and M is the quantity of money.

This means that the Fed can print as much money as it likes, but if the money doesn't circulate, we won't experience inflation. For example, if I have $10 to spend and buy $10 worth of red widgets from you, and in turn, you use that $10 to buy a blue widget from me, we have created $20 worth of gross domestic product from a total money supply of $10. If this transaction happens every month, we will create $240 of total GDP over the course of a year. Therefore, the money supply is $10, and the velocity of money is 24.

If the frequency (velocity) of money in the economy falls to 22, GDP would fall to $220. In step, the Federal Reserve, as an attempt to restore GDP, increases the money supply by $1. With a money supply at $11 and velocity at 22, the GDP theoretically should be back around $242. But, as velocity continues to fall and the Fed continues to increase the money supply, the original $10 widget now costs $11, and if the supply of money is increased too much, you have too many dollars chasing too few goods, and inflation sets in – particularly if the velocity of money should accelerate. (The actual current money supply is $9.64 trillion and GDP is $15.294 trillion, resulting in a velocity of 1.59.)

A fall in velocity occurs when economic participants remove excess leverage and debt from balance sheets, a phenomenon consistent with this current solvency crisis. As a result, the Federal Reserve has begun purchasing large quantities of assets, particularly mortgage-backed securities and U.S. Treasuries through a mechanism called quantitative easing, effectively financing deficit spending by printing money (exchanging government debt for cash). This keeps interest rates artificially low in order to lower the cost of deficit-financed government spending; a process referred to as monetizing the debt, but also promotes consumer indebtedness in order to spur demand.

The Fed's expansion of money into the system and willingness to subsidize government deficits creates a dangerous environment for high inflation. Peter Bernholz, historian of monetary systems and inflation, points out that of all the hyperinflation events in history, every episode except for one has occurred in the 20th century, and is attributable to paper currency. In addition, nearly half of those hyperinflation periods have been connected with huge public deficits. In Bernholz's book, Monetary Regimes and Inflation, he states, "[W]e draw the conclusion that the creation of money to finance a public budget deficit has been the reason for hyperinflations."[18] Most important, Bernholz comes to the conclusion that high inflationary periods are not caused by central banks alone. High inflationary periods are caused by both irresponsible and proliferate legislatures that spend beyond their means by accommodative central banks all too willing to lend a helping hand.[19]

High inflation can wreak havoc on a society as it destroys the purchasing power of the currency and both private and public savings. Inflation forces a society into excessive consumption and hoarding to acquire assets before the prices rise further, and discourages investors from engaging in economic activities. It also leads to mass unemployment and high capital outflows to foreign countries as individuals look for a safe-haven for savings.

Inflation also leads to a poorer general population; as the value of wages and real income begin to drop, disposable income has less purchasing power, and the standard-of-living begins to deteriorate. High inflation would be particularly detrimental to the baby-boomer population nearing retirement, as they plan to live on a fixed amount of monthly income from pensions and savings.

In addition, high inflation will impact the government's finances. Nearly half of all federal programs and entitlements are tied to inflation. As spending increases to match the inflation rate, the government accumulates higher deficits. Social Security, which is officially linked to the CPI, accounted for 21 percent of government expenditures in fiscal year 2012, and Medicare and Medicaid are also unofficially linked.[20] If inflation were to increase by just one percent relative to the Congressional Budget Office's estimation, government spending would increase by $2.5 trillion (see Appendix Figure 1)[21].

Change in Direction: A Platform to Revitalize America

Financial crises are long and protracted affairs that include a number of similar characteristics, as outlined by Reinhart and Rogoff[22]:

- Asset market collapses are deep and prolonged. On average, real housing prices decline 35 percent over six years, although Japan has been experiencing housing declines for seventeen consecutive years. Equity prices on the other hand drop 56 percent on average, but typically over a period of three and a half years.
- The aftermath of financial crises are accompanied by declines in output and employment. On average, the unemployment level remains elevated for nearly five years and output typically starts to increase after two years.
- Government debt tends to explode. Debt increases are associated with bailouts, increased government spending via automatic stabilizers and government support programs triggered during an economic contraction, and the significant loss of revenue resulting from slowed output in the economy.

This budget will identify and respond to each of the three characteristics addressed above, and not only attempt to provide options that would reverse the current policies that have weakened our economy and sacrificed long-term prosperity, but will create a more competitive economy with less debt, a smaller government, and incentives to promote greater economic growth.

It is important to understand the basic concepts of the economy, which will be discussed in the following pages. Gross domestic product (GDP) is the sum of four different components in the economy, which include personal consumption of goods and services by households (C), gross domestic investment (I), government spending (G), and net exports (exports less imports). The equation is often seen as GDP = C+I+G+net exports. Each of the GDP components will be addressed in order to highlight the strategic austerity measures, necessary entitlement reforms,

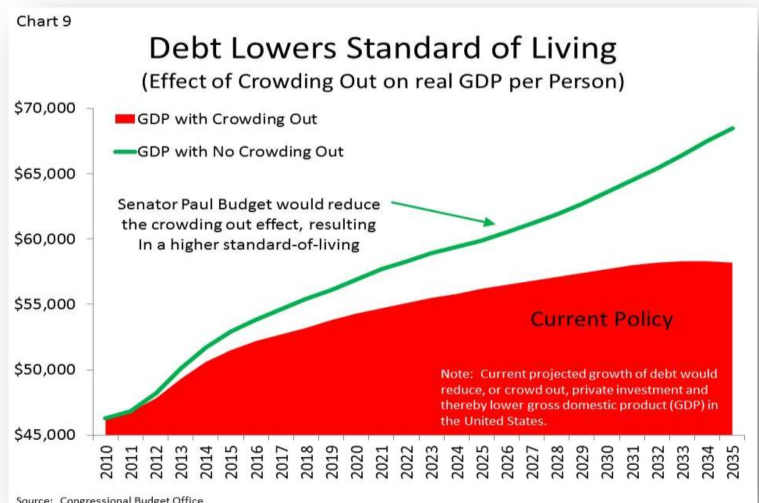
and pave a path to one of the most competitive business and workforce environments in the world – all with the anticipation that it will reduce the fragility of the nation, and increase economic growth and employment.

(Reducing) Government Spending

"If something cannot go on forever, it will stop."

-Herbert Stein, Economist

Seen simply in the GDP equation, reducing government spending in the short-term could lower economic output, holding all else constant. However, by failing to reduce deficit-financed spending now, we face the short-term threats above and impede the long-term personal consumption and investment components of the equation. In fact, CBO estimates that unless we get government spending under control, the crowding out effect will lead to an economy that is 15 percent smaller in 20 years than if we adopt serious austerity measures today. This budget proposes policies that would sufficiently offset the impact of cutting government spending in the short-term by reducing debt, eliminating regulations, and promoting a globally competitive tax code that will increase consumption, savings and investments.



This budget proposal significantly reduces spending relative to both the President's budget and the Congressional Budget Office (CBO) baseline. It also brings spending below the historical average of 19.6 percent of GDP in the first year, eventually reaching levels not seen since the 1950s. Based on current CBO baseline, the budget would spend $8 trillion less over the next ten years.

A Platform to Revitalize America considers no programs sacrosanct. We reduce future spending by reforming government's largest social programs such as Medicare and Social Security; we return many entitlements, such as Medicaid, Children's Health Insurance Program, Food Stamps, and Child Nutrition Programs, to the states via block grants, allowing states to customize and innovate based on their needs. These measures reduce the dependency on the federal government by both the population and the states, reducing mandatory spending from over 13 percent of GDP in 2012 to 10 percent of GDP by 2022. The budget preserves and strengthens old-age and disability programs, and it continues to provide for those most in need, but the budget will begin to lessen the overall dependency on government. Currently, more than 70 percent of federal spending goes to dependency programs, providing money to 91 million Americans.

The budget eliminates four federal departments, including the Department of Commerce, the Department of Education, the Department of Energy, the Department of Housing and Development, and privatizes the Transportation Security Administration (TSA). Although the budget does replenish the Defense sequester passed into law in the Budget Control Act in FY2013, it significantly slows the rates of growth for overall defense spending and ends current wars. Most of the remaining non-defense discretionary spending is returned back to pre-financial crisis levels of 2008.

The budget quickly gets spending under control, running a surplus in five years (by 2017). Over 10 years, nearly $2 trillion in surplus is applied toward paying down our debt, decreasing the debt held by the public to 42 percent of GDP, the lowest level since 2007. With this budget, we will officially begin to deleverage America, paving the path for a stronger, more resilient nation for future generations

Investment and Consumption

This budget provides a number of incentives to increase investment. During a solvency crisis, the economy is more engaged in deleveraging than investment opportunities. However, by proposing a flat tax – a reform that will only tax consumption and not savings (e.g. eliminates capital gains taxes, dividend, and net interest savings) – this budget will increase the elasticity of individuals and businesses and incentivize them to once again invest in the economy with less risk or downside. This budget provides individuals with less tax liability via a lower overall rate, less costly compliance, and immediate write-offs of investments; it also lessens the indirect taxation that results from burdensome regulation. By allowing Americans and businesses to keep more of their money, we will quicken the pace of deleveraging, allowing the economy to find its equilibrium, facilitating growth and employment. Consumption and consumer purchases will increase under this budget by increasing the disposable incomes of individuals and businesses.

In addition, the budget will weaken the link between diminished U.S. investments and savings and our social safety net. By supporting welfare reform and reducing spending for social welfare programs, savings and investments will increase as Americans have to rely more on themselves and less on their government. The U.S. savings rate was once similar to that of China's today, when the U.S. had a much smaller social welfare system. As that system has been increased, consumption has skyrocketed and savings have plummeted (in fact, it has been in negative territory since 2005). China, with a small welfare system, has a savings rate that has been fueling massive investment, leading to continued growth. On average, 48 percent of China's GDP is saved or invested versus an average of 12 percent in the United States.[23]

Exports

Although the President urged Congress to pass free trade laws in order to elevate exports, which can be applauded, overall the President's efforts have been misguided in creating the business atmosphere necessary to make competitive products in a global economy. The President and the central bank have largely attempted to increase exports through the promotion of cheaper U.S. products abroad by destroying the value of the dollar here at home. This budget promotes less costly goods and services by promoting incentives for investment, technology, and innovation.

Aside from a weak dollar policy, the President's agenda of increasing taxes is the antithesis of a policy to increase exports. The fiscal year 2013 budget proposed by the President includes nearly $2 trillion in tax increases, 74 percent of which are the result of increasing the tax rates on individuals, which include small businesses. Tax experts Alan Vaird and Kevin Hassett have shown, using data provided by the IRS, that 48 percent of net income from sole proprietorships, S-corporations, and partnerships went to households with incomes above $200,000.[24]

One of the fundamental keys to export growth is investment.[25] The correlation between tax rates, investment and export can be seen in the example of the tremendous export opportunities and growth of East Asia. Harvard economist Dani Rodrik explains that, "…in South Korea and Taiwan, the export booms were accompanied by investment booms that are equally impressive. Indeed, this investment performance is the proximate determinant of this economic growth." And former chief economist to the IMF, Raghuram Rajan, highlighted a similar fact in this book, Fault Lines, "…the more a country finances its investment through its own domestic savings, the faster it grows. …We found that the more a country invests, the more it grows, which is natural: by investing, it increases roads and machines, all of which go to make its workers more productive…"[26] Tax rates affect the investment decisions of firms and individuals by altering the cash flow of investment opportunities, and decrease the return on investment, resulting in reduced investment.

Conclusion

If we don't make the difficult choices today, we will be faced with even more difficult choices down the road, and people will have to endure even greater pain. While we do not broach the topic of government default directly, this budget considers it a very real possibility should the debt scenario digress more rapidly than expected. According to Rogoff and Reinhart, even situations such as high inflation, debt restructuring or changing the terms on the debt can lead to a partial default.

One of the foremost experts on risk engineering, Dr. Nassim Taleb, author of The Black Swan, has explained why large government debts, deficits, and corporate bailouts threaten our way of living, capitalism, and the soundness of our economic system. Dr. Taleb categorizes risk into three types: 1) "fragility," which is impacted by shocks,

disorder, volatility and variability, 2) "robust," which is unbreakable, can resist shock and volatility, and 3) "antifragility," which Dr. Taleb explains is the absolute opposite of fragile - rather than being weakened by constant shocks and variability, antifragile systems actually benefit from a certain amount of chaos, becoming stronger in the face of uncertainty, volatility and disorder.[27] These concepts explain how this budget leads to a more robust government and an antifragile economy, resulting in greater freedoms and a stronger society.

As our government runs persistently high deficits and accumulates large sums of debt, it becomes more fragile. With unsustainable levels of deficits and debt, the government is unlikely to withstand or absorb another shock, from either a natural catastrophe, unintended global and political volatility such as war, or a serious economic crisis. Any one of these events would exacerbate our fragile state, leading to a breaking point with serious consequences. This budget not only lessens that fragility, but returns government to a state of robustness, by reducing its size and debt, and providing it with the ability to absorb and sufficiently respond to future volatilities.

Over the past few years, taxpayers have sent billions of taxpayer dollars to large businesses, particularly those associated with the automotive and financial sectors. They were bailed out despite their histories of irresponsible leverage and unsustainable levels of employee compensation. Protecting a failing entity only increases its size, reinforces irresponsible practices, and leaves the American taxpayers with greater vulnerability in the future – requiring greater levels of taxpayer funds to bail them out *when* they fail again.

A capitalist society allows for success and failure. As Dr. Taleb says, "When you remove failure from the economy, you eliminate capitalism."[28] A fluctuating economy that experiences and allows failure eliminates weaknesses and irresponsible behaviors, making the system stronger. This is Taleb's idea of antifragility. Therefore, when a government must take money from the average taxpayer to bailout the "too-big-to-fail" corporate giants, the government is eliminating failure from the free market and weakening our system. Taleb writes:

> ...governments typically favor a certain class of firms that are large enough to be needed to save in order to avoid contagion to other business; by doing so, they do the opposite operation of transferring fragility from the collective to the unfit, and suck up forces from the weak whose failure does not threaten the system. People have difficulty realizing that the solution is building a system in which nobody's fall can drag others.[29]

This budget allows wealthy corporate titans to face the consequences of reckless compensation and excessive debt. It provides a less burdened federal government, suited to respond to and absorb future catastrophes with adequate resources. It promotes free markets and capitalism by allowing weak entities to fail, leaving behind a strong economy. The budget ultimately encourages a robust government and an antifragile economy.

Major Budget Policy Options

Legislative Branch

Policy Proposal: *Reduce funding to FY2008 levels and limit growth to rate of inflation.*

The spending increase in the Legislative Branch epitomizes the growth of government over the past 10 years; since 2000, the budget of Congress and its support agencies has increased by more than 100 percent. This aggrandized spending has outpaced what is achievable through taxation. Historically, the country has collected revenue equal to roughly 18 percent of gross domestic product, regardless of the tax rate. For example, during the mid-1950s and early 1960s, the top marginal tax rate was above 90 percent, yet revenue as a percent of GDP averaged only 17 percent.

According to CBO, this is the fourth year that will have deficits greater than $1 trillion. This fiscal year, the federal budget will be approximately $1.1 trillion, with unemployment rates remaining above 8 percent for both this and next year. This out-of-control spending has done nothing to ease our fiscal crisis. Economic growth remains stagnant, unemployment rates are at levels not witnessed since the Great Depression, debt and deficits have been accumulating at an unprecedented pace, the Federal Reserve has pumped up the monetary base beyond sustainable levels, and increasing taxes has become the status quo.

The solution to our problems begins by returning the government to the people, once again empowering the states, and decreasing the size and scope of the federal government. There is no other area of the government more appropriate to begin addressing our fiscal crisis than the Legislative Branch.

Policy Proposal: *Eliminate the Government Printing Office (GPO)*

Advancements in technology have led to the electronic age, an era that eliminates the need for the government to print exorbitant numbers of documents, many of which can be accessed and read on the Internet. Currently, approximately 97 percent of all government documents originate in digital form and are distributed electronically. Every government office and agency should budget for their own printing costs.

Table 1

Estimated Prepress and Printing Costs per Page of Selected Congressional Publications, FY2011

Category	GPO Estimate	Prepress	Printing
Congressional Record, Daily Edition	**$782**	$532	$250
Congressional Record Index	**$376**	$256	$120
Miscellaneous Publications	**$197**	$134	$63
Document Envelopes and Franks	**$152**	$103	$49
Calendars	**$143**	$97	$46
Bills, Resolutions and Amendments	**$41**	$28	$13
Committee Reports	**$81**	$55	26
Documents	**$32**	$22	$10
Hearings	**$72**	$49	$23
Committee Prints	**$86**	$59	$27

Source: Congressional Research Service

The waste at GPO is incessant. In 2010 alone, GPO spent nearly $30 million in taxpayer dollars to provide Congressional offices with the rarely read Congressional Record, and in September 2010

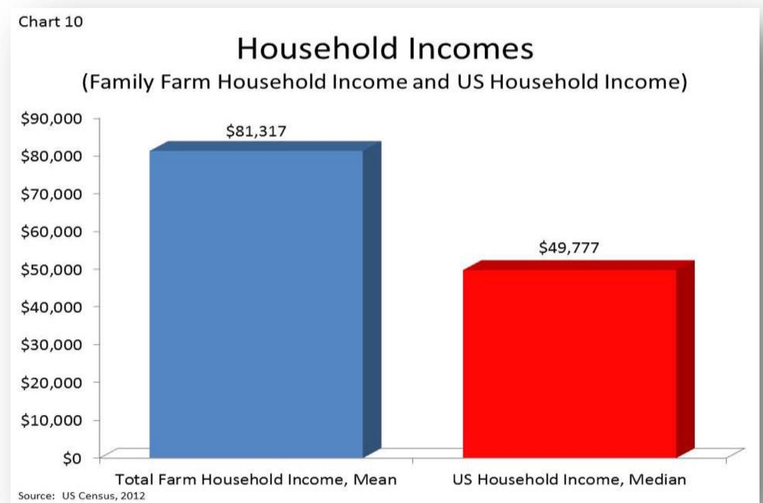
they released their first-ever comic book, “Squeaks Discovers Type,” to teach children why printing is important. For fiscal year 2011, the GPO estimated the cost of producing one page of the seldom read Congressional Record was $782 per page.

Department of Agriculture

The Department of Agriculture (USDA) is one of the largest agencies of the federal government. With two million farms in the United States, the USDA has over 110,000 employees, or roughly one federal employee for every twenty farms. The Department of Agriculture currently provides anywhere from $10 billion to $25 billion in subsidies each year to farm and crop support programs, not including government subsidies for crop insurance and marketing support. In addition to the support provided to farmers, USDA also administers food and supplemental nutrition programs that account for more than half of all agriculture spending.

Policy Proposal: *Means test commodity payments*

Currently, crop subsidies are extended to nearly 1 million farmers; however, the payments are heavily directed toward the largest producers. The proposal adopted in the budget would limit payments to wealthy farmers, restricting subsidies to growers with farm income of less than $500,000, or non-farm income of less than $250,000.



Policy Proposal: *Eliminate the Agriculture Research Service*

Chris Edwards of the CATO Institute writes in his article "Agricultural Subsidies," that: "Most American industries fund their own research and development programs. The agriculture industry is a notable exception. The USDA spends about $3 billion annually on agricultural research, statistical information services, and economic studies." Agriculture, like all other industries, can perform its own research and development without the use of federal subsidies.

Policy Proposal: *Eliminate the National Institute of Food and Agriculture*

The National Institute of Food and Agriculture (NIFA) is the parent agency to the Agriculture Research Service (ARS). NIFA is essentially the communications arm that disseminates ARS information to the public. The agency is also responsible for research and development within the agricultural industry, providing subsidies to increase productivity and help with environmental sustainability. However, many of these functions are already being funded at public research institutions such as colleges and universities. In addition, states that have large agricultural communities should provide their own funding for such activities.

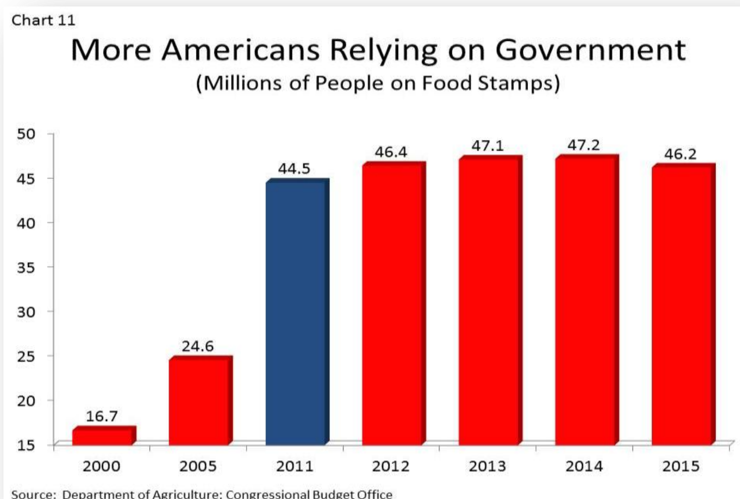
Policy Proposal: *Eliminate the Foreign Agriculture Service*

Originally this agency was created to manage our agricultural trade agreements and the daily/weekly prices of agriculture commodities across the globe. In a world of constant, real-time information, we do not need this program publishing daily reports regarding the fluctuations of commodity prices.

Policy Proposal: *Block Grant Food Stamps and Child Nutrition Program*

The food stamp program was originally created as a temporary program to last from 1939 to 1943, but became permanent in 1964 under President Lyndon Johnson. After the program swelled to more than 15 million recipients in 1974 and continued to increase in scope with the expanded benefits provided by Congress in 1993, Congress and the President finally decided to address the food stamp program through welfare reform in 1996. Food stamps were ultimately turned into a block grant program, which decreased the number of food stamp recipients and helped lower costs. It wasn't until 2002, under the direction of both a Republican President and Congress, that the food stamp program was once again expanded. Under the Obama Administration, the program has added 15 million more people in three years, nearly 15 percent of the U.S. population, which is twice the average over the past 40 years when 7.9 percent of Americans received food stamps.

In 2001, the food stamp program cost taxpayers $18 billion, but has since increased by more than 289 percent (FY2011 cost of $72 billion), and the Congressional Budget Office estimates that this entitlement program will cost nearly $700 billion over the next 10 years. Unfortunately, food stamp officials cannot even guarantee that all the funds will be distributed efficiently to low-income families in need of assistance. The Government Accountability Office (GAO) claims that the program's rate of erroneous and fraudulent benefit overpayments is about 5 percent, costing taxpayers $1 billion annually.



This proposal returns the funding for the food stamp program and the child nutrition program to FY2008 levels, and provides a block grant to the states, allowing them to efficiently administer nutritional welfare programs to their constituencies.

Department of Commerce

"[Department of Commerce is] nothing more than a hall closet where you throw in everything that you don't know what to do with."

-- Robert Mosbacher, Former Secretary of Commerce

Policy Proposal: *Eliminate the Department of Commerce; transfer the Bureau of the Census, the Patent and Trademark Office, the National Oceanic and Atmospheric Administration, and the International Trade Administration to other appropriate agencies.*

Former Secretary of Commerce Robert Mosbacher (quoted above) accurately depicted the Department of Commerce as a catchall for miscellaneous agencies and programs. Although the department does contain agencies based on its original mandate to foster economic growth, it has also taken on agencies that have nothing to do with economic assistance, including those involved in scientific research and monitoring the conditions of the oceans and atmosphere. Some agencies of the Department of Commerce are necessary based on their fiduciary responsibilities, such as the Patent Office, and others are necessary to comply with the U.S. Constitution, such as the Bureau of the Census. However, the overall bureaucracy and inefficient allocation of resources that result from maintaining the Department of Commerce makes its existence unjustifiable. President Obama even asked Congress for the authority to close the department in early January.

During the past few years, the Department of Commerce has spent billions of dollars, nearly half of which is spent on 96 subsidy programs. The efficacy of these programs does not justify that level of spending. Multiple Government Accountability Office (GAO) studies have highlighted the ineffective and often counterproductive nature of the many bureaus under the department. For example, the Economic Development Administration (EDA) is charged with providing grants to economically distressed localities, but the GAO found the impact of one EDA program, the Trade Adjustment Assistance, to be "inconclusive." While 39 percent of its budget actually funded technical assistance, the other 61 percent was spent on regional administrative costs. EDA is also duplicative; currently, there are some 342 federal programs and 10 agencies also commissioned with fostering economic development.

The few who do benefit from the corporate welfare provided by the department do so at the detriment of citizens and businesses, large and small, which pay the taxes to support these programs. The classical liberal theorist, Frederic Bastiat highlights the impact of such misallocation of resources through "the broken window fallacy." In short, while we may be able to visually witness the impact of the spending provided by the Department of Commerce, we fail to acknowledge that these resources are depleted, by way of taxes, from other businesses, preventing economic development and/or expansion. This can also be said for the consumer who now has less money to spend at any number of businesses which may or may not be subsidized.

The following are examples of waste, fraud, and abuse:

- A North Carolina county received $1.5 million to honor a local bluegrass singer; and
- Between 1990 and 1994, the Department of Commerce provided $280 million in “corporate welfare” research grants to seven of the largest companies in America (Amoco, AT&T, DuPont, GE, GM, IBM, and Motorola)

Department of Defense

"We will bankrupt ourselves in the vain search of absolute security."

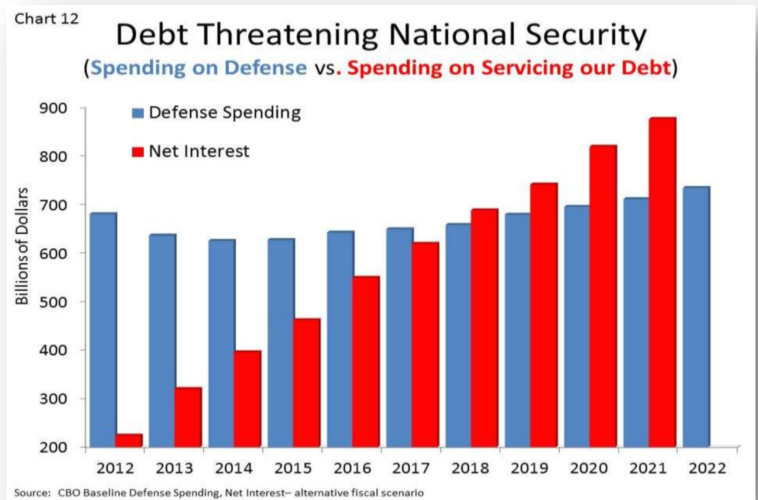
--General Dwight D. Eisenhower

"Our national debt is our biggest national security threat."

--Admiral Mike Mullen, Former Chairman of the Joint Chiefs of Staff

As stated in the U.S. Constitution, our national defense is one of the primary roles of the federal government. Therefore, it is our Constitutional obligation to provide the U.S. military with the resources and tools to protect our homeland, our liberties, and our way of life from all foreign enemies.

The resources and funding we provide to our national defense are unprecedented, however. Military funding has often outpaced not only our most likely enemies, but has also often outpaced the entire world's military spending. In 2010, the U.S. spent about 45 percent of the entire world's $1.6 trillion military spending. U.S. military spending was more than the next 14 highest spenders combined and almost six times that of China. Most of the next14 big spenders are American allies. Outpacing our closest allies at this rate and level has done nothing to strengthen them; indeed it has only relieved them from the burden of paying for and providing their own defenses. Since the end of the Cold War, the United States has spent more than $8.2 trillion to fund our military, and the Congressional Budget Office predicts we will spend more than $6.6 trillion on defense over the next 11 years, not including war spending.

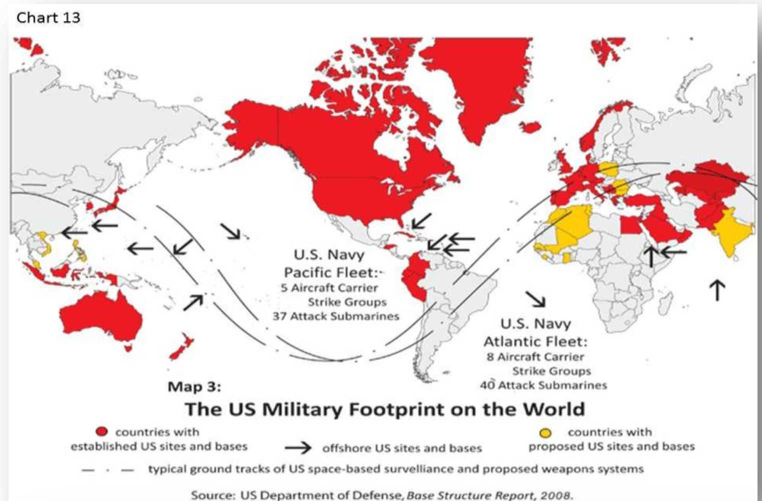


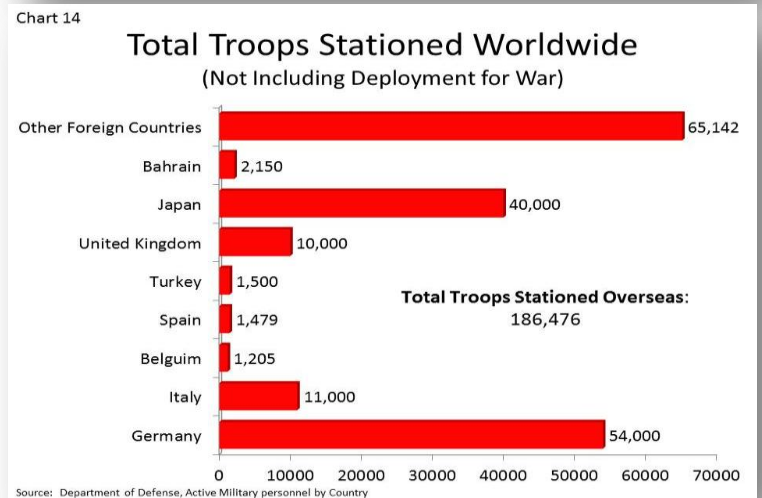
In fiscal year 2012 the military will spent around $700 billion, the equivalent of $5,812 for every U.S. household. This is more than the entire per capita GDP of 112 different countries around the world[30]. Unfortunately, our ability to continue to spend at this rate and level is limited, and therefore the ability to preserve our military strength can only continue if we begin to strengthen our fiscal standing. Over the next decade, without massive cuts in other areas of the budget, nearly all military spending will be borrowed funds from countries such as China, Japan, the United Kingdom and countries in the Middle East, some of our current largest creditors.

The structure of the U.S. military continues to reflect the buildup during the Cold War; a vestigial structure that was necessary to deter or fight a nuclear war. Since the early 1990s and the end of the Cold War, the global landscape has changed dramatically, and technology and military innovation have given a futuristic face to the modern idea of military combat.

Policy Proposal: *Modernize military force size*

Although the end of the Cold War did bring about a reduction in the large size of the military complex, much of the outdated structure was kept in place. This budget proposal does not simply reduce military spending, but provides directives to realign the military for the 21st Century. It also proposes to utilize modern innovation and technology in a way that would provide the capability to begin replacing and reducing our 1.4 million person military to a size more consistent with the needs of our defense. Each year the military experiences roughly 5 to 7 percent turnover through natural attrition. The military should use this natural process to begin reducing our force levels.





Policy Proposal: *Reduce overseas presence*

The ability to utilize our immense air and sea power, to be anywhere in the world in a relatively short amount of time, no longer justifies our expanded presence on the ground throughout the world. This budget would require the Department of Defense to begin realigning the over 750 confirmed military installations around the world. The department occupies a reported 300,658 buildings valued at over $575 billion and 187,000 structures valued at over $168 billion worldwide.

This budget would also require the countries that we assist to begin providing more funding to their own defense. European, Asian, and Middle Eastern countries have little incentive to increase their own military budgets, or take control of regional security, when the U.S. has consistently subsidized their protection.

Policy Proposal: *Transition security forces to Afghanistan governments*

With the official conclusion of the war in Iraq, it is time to greatly reduce our presence in Afghanistan. At the peak of U.S. presence in Afghanistan, U.S. forces totaled 101,000. U.S. troop commitments are far outnumbered by Afghan security forces. The Afghani government currently employs 171,600 soldiers and 134,000 police officers and is scheduled to increase these numbers until 2014. After nearly 10 years, the time has come to return Afghani sovereignty and responsibility for defending, rebuilding and running their country.

Policy Proposal: *Reduce waste, fraud, and abuse*

As one of the largest government agencies, it may not be surprising that waste, fraud and abuse would be plentiful at the Department of Defense (DoD). However, even the DoD should not be treated as sacrosanct with regard to the treatment of taxpayer dollars. The following are just a few examples of recent waste, fraud and abuse at the Pentagon:

- The Pentagon can't account for $9 billion that was meant to be provided to the Iraqi government;
- The Department of Defense paid over $285 billion to contractors engaged in fraudulent behavior over a three-year period; and
- Nearly $200 million was transferred to the Army's personnel fund after funds were lost and overspent.
- With a budget larger than that of most countries, and a facility (the Pentagon) ranked as the largest office building in the world, the Pentagon claims that due to its enormous size, accurate financial reporting is complicated:

> The DOD obligates an average of $2 billion to $3 billion every business day and handles hundreds of thousands of payment transactions, which take place in thousands of worldwide locations, including war zones. This lack of accountability on paper puts the department at high risk of major losses in cash and inefficiencies, and just like any other federal bureaucracy, the DOD should be held accountable and forced to comply with regular audits. Currently, the DOD has been provided six years to organize and prepare for the scheduled audit in 2017.

Department of Education

"The very magnitude of the power over men's minds that a highly centralized and government-dominated system of education places in the hands of the authorities ought to make one hesitate before accepting it too readily."

--F.A. Hayek, Nobel Prize Economist

"I believe a case can be made that the decline in the quality of public school education began when federal aid to education became federal interference in education."

--Ronald Reagan

Policy Proposal: *Eliminate the Department of Education; preserve the Pell Grant program at FY2008 levels*

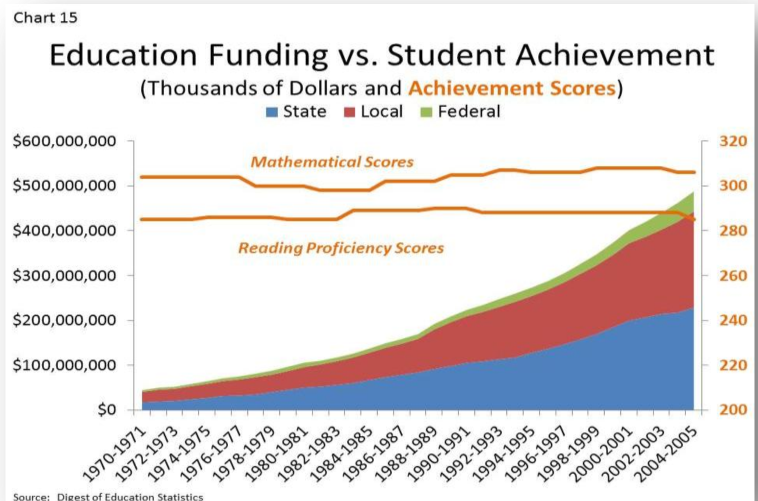
The Department of Education has created a one-size-fits-all curriculum and has gotten away from tailoring education to the needs and requirement of communities and states. Nobel Prize winning economist Friedrich Hayek questioned central government control of community schools in his book, The Constitution of Liberty:

> Even if education were a science which provided us with the best methods of achieving certain goals, we could hardly wish the latest methods to be applied universally and to the complete exclusion of others —still less that the aims should be uniform. Very few of the problems of education, however, are scientific questions in the sense that they can be decided by any objective tests. They are mostly either outright questions of value, or at least the kind of questions concerning which the only ground for trusting the judgment of some people rather than that of others is that the former have shown more good sense in other respects.
>
> Indeed, the very possibility that, with a system of government education, all elementary education may come to be dominated by the theories of a particular group who genuinely believe that they have the scientific answers to those problems should be sufficient to warn us of the risks involved in subjecting the whole education system to central direction.

Prior to the 1930s, the federal government provided less than 1 percent of total revenue to public schools. It wasn't until the late 1950s that the federal government began to impede upon the states' powers and decisions in the arena of public schooling. The 1958 National Defense Education Act (NDEA) was the first substantial federal overreach, and ushered in a torrent of new legislation continuing the trend, including the 2002 authorization of The No Child Left Behind Act (NCLB). The Department of Education's mission is to "promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access." However, the ability of the department to achieve this end has proven impossible. President Obama's Secretary of Education, Arne Duncan, has stated the inadequacy of NCLB saying, "The law – No Child Left Behind – as it currently stands is four years overdue for being rewritten. It is far too punitive, it is far too prescriptive, leads to a dummying down of standards, and leads to a narrowing of the curriculum. We can't afford to have the law of the land be one that has so many perverse incentives or disincentives to the kind of progress that we want to see."

The White House announced in February 2012 that it would issue NCLB waivers to ten states, including Kentucky, and has indicated that it is open to issuing additional waivers. A different approach is needed. Federal involvement in public education has significantly increased per pupil spending, led to more bureaucracy, and pushed programs and ideals that are inconsistent with many of the state and local needs.

The growth in education spending at the federal level has gone from nearly $35.5 billion in 2001 to an estimated $70.2 billion in FY2012 – nearly a 100 percent increase. Today, the Federal government spends an average of $10,000 per pupil every year - more than double what we spent in 1970 - yet, the results have been disappointing at best. Reading and Math scores from 1971 – 2008 did not trend proportionally with the large spending increases, and overall achievement had declined in science scores.



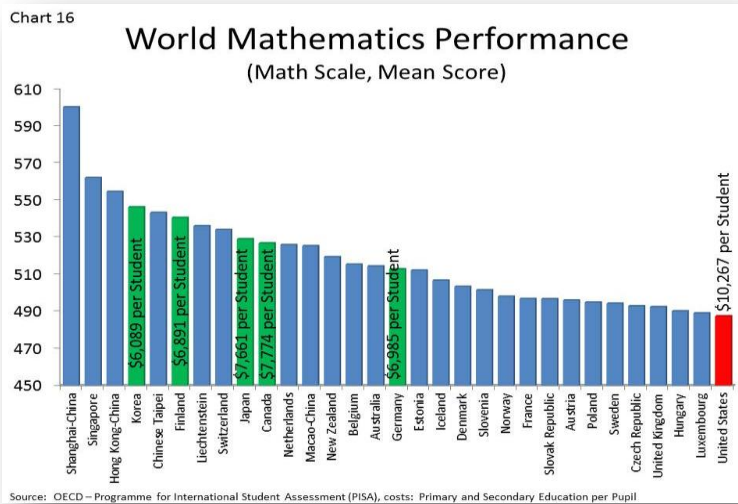
During the first half of the past century, America ranked among the most educated populations in the world. Since that time, the role of the federal government in education has expanded significantly, accounting for as much as 10 percent of all government spending in FY2009. As the role of the federal government in education has increased, conversely, the U.S. rankings have been falling below other economically developed countries. In December 2010, the OECD reported that the U.S. continues to fall relative to world educational levels (see charts 16, 17, and 18).

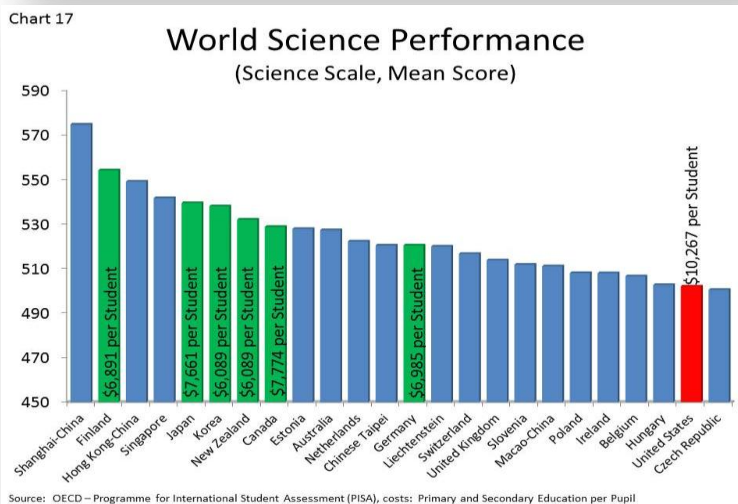
Heavily influenced by the Protestant Reformation, the founders understood the importance of literacy to a free and virtuous society, but they purposefully did not include such federal charge over educating the citizenry. Though an educated population is important to preserve our liberties and to increase our standard of living, we would do well to heed the founders' wisdom and follow the Constitution. Nobel laureate economist Milton Friedman wrote to the importance of education in our democracy in his book, Capitalism and Freedom:

> A stable and democratic society is impossible without a minimum degree of literacy and knowledge on the part of most citizens and without widespread acceptance of some common set of values. Education can contribute to both. In consequence, the gain from the education of a child accrues not only to the child or to his parents but also to the other members of the society. The education of my child contributes to your welfare by promoting a stable and democratic society.

The ideas provided in this budget are meant to embolden states and communities to develop an educational system that is most effective for their constituents.

As Chart 15 shows, education funding in the U.S. has increased dramatically over the past 40 years, yet it has failed to have any impact on educational achievement. By eliminating the costly Department of Education, local communities are liberated from federal mandates and restrictions, allowing them to create better schools and choose how best to educate their children. Ensuring the global competitiveness of the next generation of Americans through excellence in education must be a priority. The past four decades has confirmed that federal programs do not foster educational thriving. As the charts show, costs per pupil are increasing, while education performance lags behind the rest of the world.





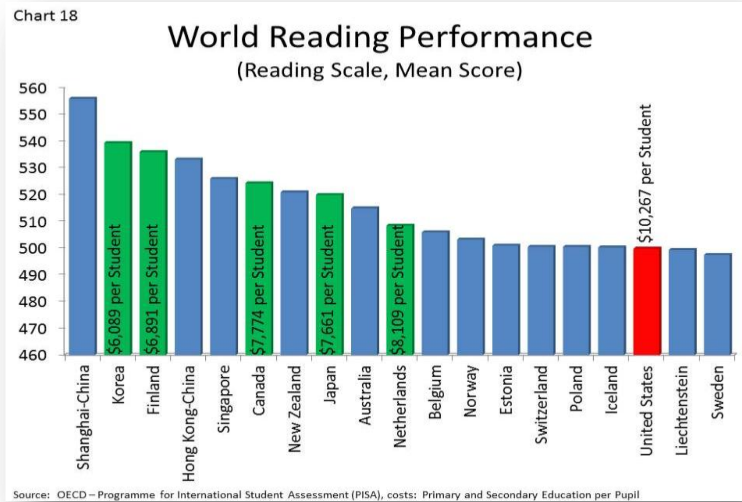


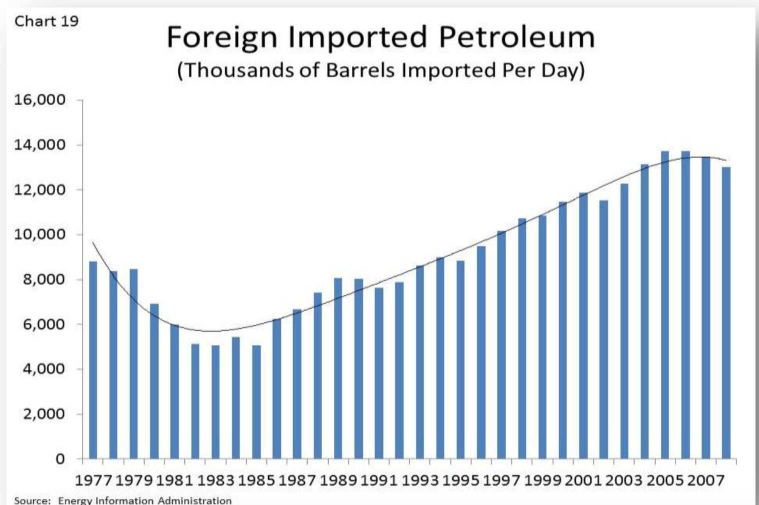
Chart 18
World Reading Performance
(Reading Scale, Mean Score)
560
550
540
530
520
510
500
490
480
470
460
$6,089 per Student
$6,891 per Student
$7,774 per Student
$7,661 per Student
$8,109 per Student
$10,267 per Student
Shanghai-China
Korea
Finland
Hong Kong-China
Singapore
Canada
New Zealand
Japan
Australia
Netherlands
Belgium
Norway
Estonia
Switzerland
Poland
Iceland
United States
Liechtenstein
Sweden
Source: OECD – Programme for International Student Assessment (PISA), costs: Primary and Secondary Education per Pupil

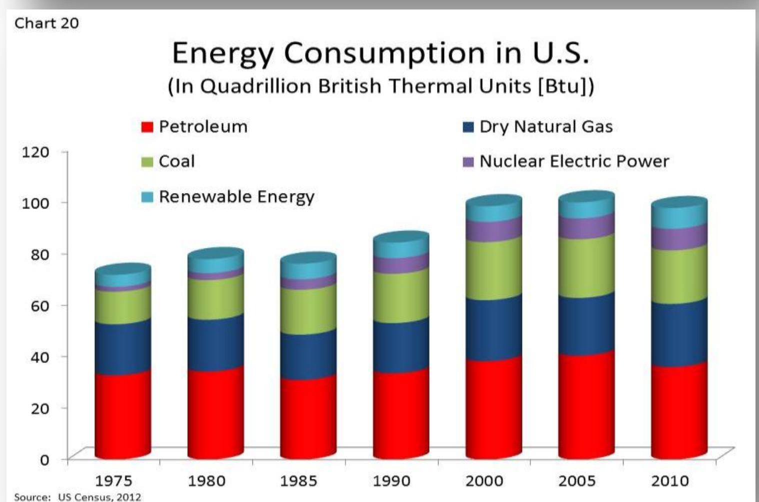
Department of Energy

Policy Proposal: *Eliminate the Department of Energy; transfer the Atomic Energy Agency and all nuclear research laboratories to re-established Atomic Energy Commission*

In 1977, shortly after the U.S. experienced the effects of the oil embargo by the Organization of Petroleum Exporting Countries (OPEC), President Jimmy Carter created the Department of Energy (DOE). The overall purpose and intent of the Department was to regulate oil prices at the time, but was also given the mandate to eliminate our dependence on foreign oil and produce alternative energy.

However, since the creation of the department, U.S. dependence on foreign oil has consistently been trending upward. In 1977, the U.S. imported 45 percent of the total petroleum it consumed; today, the U.S. imports nearly 70 percent of the 7 billion barrels of oil consumed by Americans each year. Total spending at DOE since 1977 has exceeded half-trillion dollars, and yet there is little to show with regard to the advancement of alternative and renewable energy. As you can see from Chart 19, renewable energy consumption in the U.S. has remained nearly the same for the past 35 years.





In addition to their original mandate, the DOE has provided research grants and subsidies to energy companies for the development of other forms of energy. All forms of energy development are subsidized by the federal government; from oil to nuclear, wind, solar, and bio-fuels. However these subsidies and research are often centered on forms of energy that can survive without subsidies. In a country that has 250 million operational vehicles that run on petroleum, even government advancements in renewable energy or hand-outs to big energy corporations won't have much of an impact on the overall dependence of foreign oil.

The market has always provided new forms of energy development without governmental interference. As Chart 20 shows, U.S. energy consumption, especially with renewable energy, has been nearly the same over the past 35 years since the inception of the department. It is time to let the market place work and develop solutions consumers actually want.

The following are examples of waste, fraud, and abuse:

- $10,000 in federal grants to design footwear from renewable resources; and
- $96.2 billion for Yucca Mountain, a nuclear waste repository in Nevada that will likely go unused;
- $535 million in loans to the now bankrupt Solyndra Corporation; and
- A $2.1 billion loan guarantee to German developer to help finance a 1,000 megawatt solar thermal power plant in southern California.

Department of Health and Human Services

The Department of Health and Human Services (HHS) is the largest department in the federal government, with a nearly trillion dollar budget; if it were a country, its budget would be the 15th largest in the world. The department includes programs such as Medicare and Medicaid, as well as other entitlement programs. HHS and its programs are some of the government's largest challenges, and are among the leading contributors to our fiscal crisis. Medicare alone has a $38.4 trillion unfunded liability and will continue to grow until it eventually consumes all government outlays.

The sheer number of those who rely on our social welfare systems presents a challenge to the feasibility of reform. The government's willingness to provide support for those in need is altruistic in nature, yet eventually leads to a distortion in the market as people become content with a government-provided safety net, and the populace's incentive to plan and provide for themselves diminishes.

Medicaid provided benefits to an average of 20 million individuals throughout most of the 1970's and 1980's. However, since the early 2000's, the growth in the number of people reliant on Medicaid has increased to nearly 50 million people.

Policy Proposal: *Block grant Medicaid and State Children's Health Insurance Program* (SCHIP)

Medicaid and the State Children's Health Insurance program are both programs that provide health care subsidies to the poor. Each program is connected to the other, with states matching the federal contributions. Medicaid spending is growing rapidly, almost quadrupling between 1990 and 2004, and continuing the program as it is currently designed is unsustainable. In 2000, Medicaid spent $118 billion on medical subsidies, however, that figure will have tripled in less than two decades – by 2015. The way Medicaid and SCHIP are currently structured is flawed; these programs are the main method by which states can get federal money to support low-income health care. At minimum, 50 percent of states' Medicaid spending (and more than 75 percent for some) is federally subsidized. Every state gets at least one federal dollar for every dollar it spends, and some get more than $3. Likewise, if a state cuts its Medicaid program, it will lose one federal dollar for every dollar spent. States therefore have every incentive to increase the number of beneficiaries of their Medicaid programs.

Providing block grant funding to each state allows for flexibility in creating innovative health care programs for those who need it most without the federal bureaucracy, and it will significantly lower costs and reduce the burden on the federal government.

Policy Proposal: *Eliminate the Low-Income Home Energy Assistance Program*

The Low-Income Home Energy Assistance Program (LIHEAP) was originally created in the early 1980's as a temporary support program to ease skyrocketing energy prices. Like most programs created by the federal government, LIHEAP has become more permanent. The government's convoluted funding formulas and lack of oversight makes the program a ready source of fraud and abuse. In 2009, 18 Pennsylvania Department of Public Welfare employees were charged with stealing $500,000 in LIHEAP money. The budget proposes to eliminate this federal subsidy and return the responsibilities back to local communities.

Policy Proposal: *Reduce Food and Drug Administration 20 percent from FY2008 levels*

The Food and Drug Administration (FDA) is another example of an agency that continues to expand every year in power and funding. New FDA powers granted by the recent Food Safety Modernization Act grant the government further intrusion into the nation's food supply.

Policy Proposal: *Reduce Health Resources and Services Administration 20 percent from FY2008 levels*

One way to combat illegal immigration is to remove the benefits our country provides to non-citizens. The Health Resources and Services Administration provides funding for 1,645 free health clinics for migrant workers all over the United States, providing incentives for illegal immigrants to take advantage of our country and its taxpayers. These clinics are an unnecessary burden, and do not serve the interests of Americans.

Policy Proposal: *Reduce Indian Health Services 20 percent from FY2008 levels*

The federal government's Indian Health Services Agency is notoriously wrought with fraud. A June 2009 Government Accountability Office (GAO) report highlights that, "millions of dollars in property and equipment continue to be lost or stolen." In particular, GAO claims that over 5,000 property items were lost or stolen from the IHS between 2004 and 2007, amounting to more than $15.8 million. The report also highlighted a substantial amount of wasted spending, including the funding of 10 vacant properties as well as abandoned equipment that had a value of more than $700,000.

Policy Proposal: *Reduce Centers for Disease Control and Prevention by 20 percent from FY2008 levels*

The annual budget for the Centers for Disease Control (CDC) continues to increase annually, despite "cost-saving efforts" by the department in the way of travel expenses and contract reductions to the tune of $100 million. The center is often mentioned in media reports highlighting their lavish accommodations. For example, in 2005, the CDC built a $106 million conference center, replete with large-screen plasma TV's. They also spent tens of millions of

dollars on state-of-the-art anti-gravity seating for employees, as well as luxury furniture. Taxpayers can no longer afford the luxurious working atmosphere of the CDC.

Policy Proposal: *Reduce National Institute of Health to FY2008 levels*

The National Institute of Health's (NIH) budget has nearly doubled since 2000. NIH is responsible for basic and applied research on a variety of medical issues. However, the private sector also invests in research and development, spending nearly $40 billion annually without taxpayer funding. In addition, much of the research and development undertaken by the NIH provides direct subsidies to the pharmaceutical industry, which consistently ranks among the most profitable industries in the United States.

Department of Housing and Urban Development

Public housing has failed to provide a one-time stop for families on their way out of poverty and has become a haven of crime and dysfunction, driving away the very business investment and homeowners that would revitalize a city block. Economist Friedrich Hayek wrote in his book, The Constitution of Liberty:

> It should also be realized that the endeavor to make housing a public service has already in many instances the chief obstacle to the general improvement of housing conditions…
>
> Public housing (and subsidized housing) can thus, at best, be an instrument of assisting the poor, with the inevitable consequences that it will make those who take advantage of it dependent on authority to a degree that would be politically very serious if they constituted a large part of the population. Like any assistance to an unfortunate minority, such a measure is not irreconcilable with the general system of freedom. But it raises very grave problems that should be squarely faced if it is not to produce dangerous consequences.

Policy Proposal: *Eliminate the Department of Housing and Urban Development* (HUD)

The Low Income Housing Tax Credit, which subsidizes construction or rehabilitation of low-income housing, is a perfect example of market manipulation that does nothing to further the mission of public housing:

- The structure of the credit encourages projects that focus on particularly low-income areas, exacerbating the concentration of poverty within cities.
- The tax credit is also allocated to areas where few housing affordability problems exist.
- The program does nothing to facilitate its goal of lower rents. Developers pocket $4 billion dollars in annual tax credits, while the rents in the buildings constructed under the program are generally no lower than they would have been in the absence of the program.

Replacing public housing with Section 8 vouchers has not improved upon delivery of services. In a landmark story by Atlantic Monthly on the rise of community crime rates associated with Section 8 vouchers, Urban Institute expert Susan Popkin said the voucher program, "has not lived up to its promise. It has not lifted people out of poverty, it has not made them self-sufficient, and it has left a lot of people behind." Dr. Geetha Suresh, a criminologist from the University of Louisville, concluded after an 18-year (1989-2007) study examining the impact of revitalization of low-income, public housing properties on homicide patterns in Louisville, KY, that Section 8 housing properties provide an environment conducive to homicides. The study shows that violent crime "skyrocketed" in neighborhoods where Section 8 resettled.

Section 8 vouchers are an open-ended benefit that recipients can receive indefinitely. There are no mandatory time limits and no work requirements; families or individuals can stay as long as they want. And since the Section 8

voucher is linked to income, recipients have little incentive to seek personal advancement. The value of a New York City Housing Authority voucher for a two-bedroom apartment in 2010 was $1,543 a month. This subsidy is low for rent costs in New York City, and as a result, tenants remain tied to low-income areas, preventing the community from enjoying natural changes and upgrading over time, stymieing the opportunity of improving and advancing their lives.

State Responsibility

Federal housing subsidies are often incongruous to state reforms. In Delaware, for example, the state housing authority has adopted a mandatory three-year time limit for all its non-elderly residents, and many other states are trying to set up similar programs that limit reliance on welfare and provide incentives to improve social standing. Currently, HUD prohibits any federal housing authority to ever consider mandatory time limits.

Private Sector Equivalent

As we witnessed from the devastation of Hurricane Katrina, there are plenty of organizations that provide low-cost or free housing to low-income individuals and families, such as Habitat for Humanity, Rebuilding Together, and CATCH Neighborhood Housing.

Habitat for Humanity is an organization that operates on individual and corporate contributions. These private donations have allowed Habitat for Humanity to grow to a $160 million-a-year enterprise. Habitat for Humanity currently has chapters in more than 1,100 American cities, up from 350 in 1991. The organization has built more than 125,000 houses to date and more than 4,700 a year, ranking it as the 14th largest U.S. builder.

Rebuilding Together works to preserve affordable homeownership as well as provide rehabilitation and critical repairs to the homes of low-income Americans. With approximately 2.5 million volunteers across the U.S., this organization has built more than 100,000 homes and delivered over $1 billion in market value since its founding.

Catch Neighborhood Housing is one of many examples of an organization that strengthens their local community. CATCH serves Merrimack County, New Hampshire by first, providing high quality, affordable rental apartments and secondly, offering home buyer education, financial fitness training, foreclosure and reverse mortgage counseling.

Contributions to the Housing Crisis

Policies perpetuated by HUD and related agencies played a key role in fostering subprime lending that brought the financial system to its knees in 2008. By implementing policies that expanded risky mortgages to under-qualified borrowers, HUD is directly implicated in the loss of over 1 million homes in 2008. Three of HUD's policies had a direct impact on the housing crisis that still plague many parts of the country today:

1) Loosening down-payment standards on mortgages guaranteed by the Federal Housing Administration (FHA)

The Federal Housing Administration (FHA) was originally founded to provide liquidity in the mortgage market by insuring mortgage loans made by private firms to qualified borrowers. Their standards for qualification continued to relax. In its rush to meet affordable housing goals, FHA was putting unqualified borrowers into mortgages they couldn't afford. HUD officials knew as early as 2000 that borrowers were accepting high priced mortgages due to low initial interest rates, and even informally indicated that they would no longer credit Fannie Mae and Freddie Mac for mortgages made without regard to the borrower's ability to pay. Yet policy was never made to stop that from happening. By 2004, the required down payment on the FHA's most popular mortgage program had fallen to only 3 percent.

HUD, the federal regulator of Fannie Mae and Freddie Mac, did not have the power to require them to maintain minimal capital levels or limit their debt obligations. As a result, by the end of 2007, the debt obligations of Fannie and Freddie were almost equal to the total publicly held debt of the U.S. federal government -- $5 trillion.

In September, 2010, a report by the HUD Inspector General revealed that in FY 2009, serious flaws in the FHA's automated underwriting process resulted in more than $6.1 billion in loans winning automatic approval for FHA insurance, even though these borrowers had too much debt and posed a greater risk of default.

2) Strengthening the Community Reinvestment Act

The Community Reinvestment Act requires commercial banks to report the extent to which they lend funds back into the neighborhoods where they gather deposits. In 1995, regulators were allowed to deny a bank the ability to merge with another bank if their CRA ratings were low. This implicit pressure to lend resulted in some banks distributing mortgages to low-income borrowers previously considered non credit-worthy.

3) HUD's Pressure to Lend

Congress exerted pressure on HUD to put more low-income families into their own homes. As a result, HUD required that the two government-chartered mortgage finance firms, Fannie Mae and Freddie Mac, purchase far more "affordable" loans made to these borrowers.

HUD required, particularly in 1996, that 42 percent of Fannie and Freddie's mortgage financing had to go to borrowers with income below the median in their area. The target increased to 50 percent in 2000 and 52 percent in 2005. However, the agency neglected to examine whether borrowers could make the payments on the loans that Fannie and Freddie classified as affordable. From 2004 to 2006, the two government sponsored entities purchased $434 billion in securities backed by subprime loans, creating a market for more lending of the same type.

The following are examples of waste, fraud, and abuse:

- $1.5 million spent in city of Shreveport, La., on mold remediation for a public housing complex prior to being demolished;
- $1 billion spent to subsidize utility costs on public housing deemed to be structurally inadequate, poorly insulated, and energy inefficient;
- The Department of Housing and Urban Development paid more than $15 million to subsidize nearly 4,000 deceased individuals;
- $16 million in federal housing funds used to increase guaranteed pension benefits for county workers in Santa Clara, California; and
- New Orleans, La., executive embezzled $900,000 in housing money.

Department of Homeland Security

The Department of Homeland Security (DHS) was created after the terrorist attacks of Sept. 11, 2001, and since then has been plagued by waste, fraud, and extensive bureaucracy. Since 2001, DHS has spent $636 billion, and one IBM Center for the Business of Government study found the overall budget increases on “homeland security activities” to be 2,589 percent. However, the agency has struggled to achieve many of the goals the Department was mandated to accomplish. For example, the Transportation Security Administration (TSA) consistently has a high failure rate with regard to screening for weapons, bombs, and other deadly devices—some estimates range as high as 80 percent. In addition, the department has struggled to adequately secure our nation’s borders, and sufficiently respond to natural disasters.

Policy Proposal: *Privatize the Transportation Security Administration*

Following the 9/11 attacks, the Transportation Safety Administration (TSA) has provided the majority of airport security screeners across the country. A number of airports however, (16 in a recent count) have replaced TSA screeners with private contractors. Kansas City International Airport was the first airport to use private screeners as opposed to the TSA. Kansas City Airport director Mark VanLoh said in an NPR article, “contract employees – are not federal employees; they’re not guaranteed a job for life. If they don’t meet performance goals, or maybe they’re consistently rude, or maybe they miss objects that go through the machine, they are terminated.”

Concerning the use of private screeners, GAO has stated, “The private screening under federal supervision works and performs statistically significantly better, so our main purpose here is in getting better screening and better performance, not to mention that we can get better cost for the taxpayer.” A House Transportation Committee report found that private screeners were 65 percent more productive compared with their TSA counterparts, and that the government might save as much as $1 billion over five years in using private screeners in the country’s 35 largest airports.

In addition, there are consistent reports of American citizens being abused by TSA agents. In April 2011 an 8-year-old boy was traveling with his family to Disneyland and was subjected to a full-body, invasive pat-down at a Portland, OR airport. Selena and Todd Drexel, from Kentucky were traveling with their three children, when the youngest, Anna was selected for a full body pat-down. Mrs. Drexel, Anna’s mother, requested that Anna be allowed to go back through the scanner and the agent refused to allow it. In the fall of 2011, two women in their 80s were traveling through New York’s Kennedy Airport and both were made to show screeners medical devices beneath their clothing; each were effectively strip-searched. The Constitutional rights of citizens are routinely violated and TSA remains unaccountable. Privatizing TSA begins the process to end these abuses.

Policy Proposal: *Eliminate Homeland Security grants to states and local communities*

DHS has an array of different grant programs, including funding for emergency management, transit protection, and terrorism prevention equipment. Unfortunately, the system for allocating these grants is inefficient, often described by GAO as "high risk," and the incidents of waste, fraud and abuse are prevalent. The federal government should discontinue this wasteful program, and return the responsibility of local policing and protection to the states and local communities.

The following are examples of waste, fraud and abuse:

- $230,000 in DHS grants spent on a state-of-the-art patrol boat for a recreational harbor in Connecticut;
- $67,000 spent on protective gear in Marin County, Calif., which was never used;
- A rural Wyoming county with 11,500 people received $546,000 in Homeland Security grants;
- A $30,000 grant was provided for a specially outfitted SUV in North Dakota
- A $15 million earmark for an upgrade to the Whitetail, Montana border checkpoint (population 71).
- $15 million for a checkpoint in Westhope, North Dakota that serves 73 people a day.
- TSA lost control of over $300 million spent by contractors to hire airport screeners after 9/11;
- $526.95 was spent on one phone call from a Hyatt Regency in Chicago to Iowa City;
- Spent $1,180 for 20 gallons of Starbucks coffee at a Santa Clara Marriott in California;
- $1,540 to rent 14 extension cords for three weeks at Wyndham Peaks Resort;
- $8,100 for elevator operators at the Marriot Marquis in Manhattan; and
- *The Washington Post* reported in 2006 on $34 billion in DHS contracts with significant levels of waste, fraud and abuse.

Department of the Interior

The Department of the Interior (DOI) is responsible for managing 500 million acres of land, forests, and parks, as well as building dams. The department has consistently received poor management ratings by the White House's Office of Management and Budget, and provides many functions that could be reduced or privatized. Many of the department's programs should be reduced to FY2008 funding levels, and given additional cuts or eliminated altogether (i.e. the Land and Mineral Management, Bureau of Reclamation, U.S. Geological Survey, the National Park Service, and Bureau of Indian Affairs).

Policy Proposal: *Reduce offices of land management 50 percent from FY2008 levels*

The Bureau of Land Management (BLM) manages 248 million acres and is responsible for 700 million acres of subsurface mineral resources, more than any other federal agency. BLM lands are heavily concentrated (99.8 percent) in 11 western states. The management of these public lands and resources is best left up to the states or the private sector. It is a complex task to juggle all the competing uses of our nation's timberlands, rangelands, minerals, and wildlife, etc. The Department of Interior estimates that the BLM maintenance backlog, maintenance that is not done when scheduled or planned, is approximately $500 million. States and/or private industries would be able to manage these lands more efficiently and effectively. States have better knowledge about the best use of their lands for energy, recreation, and preservation.

Policy Proposal: *Eliminate the Bureau of Reclamation*

Established in 1902, the Bureau of Reclamation has held a majority of the dams, hydroelectric power plants, and canals in the western-most 17 states. The Bureau is the largest wholesaler of water in the country and provides water for farmers in many states. Owning a majority block of energy and water resources is not the business of the federal government. Water rights should be controlled by the states, and agreements can be made between the states to ensure water supply to all.

Policy Proposal: *Reduce the U.S. Geological Survey 20 percent from FY2008 levels*

The U.S. Geological Survey is the largest water, earth, and biological science civilian mapping agency in the United States. Though these are important activities, they can be given to state researchers at our colleges and universities, without having large numbers of regional executives and multiple offices.

Policy Proposal: *Reduce the National Park Service 30 percent from FY2008 levels*

The National Park Service (NPS) manages nearly 80 million acres of federal lands in 49 states. Every year appropriations increase to the NPS ($2.2 billion in FY2011), yet the Department of Interior has estimated that the maintenance backlog for the NPS for FY2010 was between $8.8 billion and $12.9 billion.

In 2009, repairs performed on the Vietnam Memorial were done without the use of taxpayer funds. The Vietnam Veterans Memorial Fund took over the duty of preserving the memorial because the National Park Service (NPS) did not have the resources.

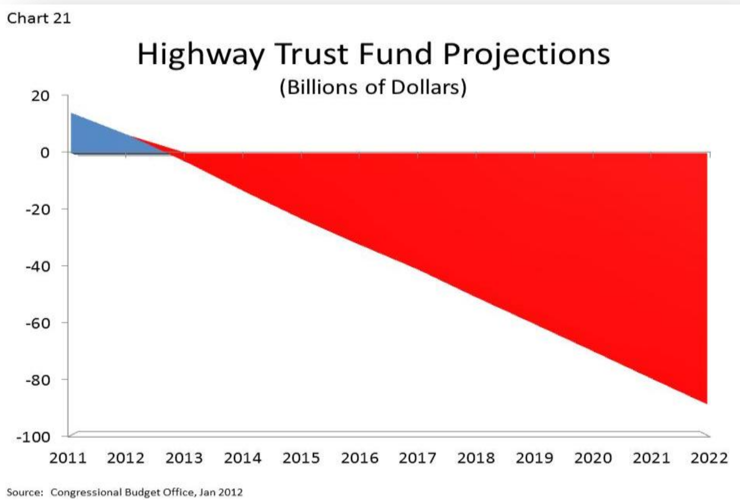
National Parks have seen a decrease in visitors and campers each year due to trash, lack of facilities, or even safety. Returning these public lands back to the states and or the private sector would allow an increase in quality, safety and a reduction in government spending each year.

Department of Transportation

The Department of Transportation (DOT) extracts tax dollars from the states and then returns those dollars back to the states to fund highways, airports and other transportation systems and programs. The department is notorious for providing Members of Congress an avenue to direct funding and earmarks to their states, which is frequently highlighted by the press as wasteful and inefficient. Many states complain that funding is provided for projects that are not needed and the associated red tape increases overall costs. For example, due to many provisions included in transportation funding, such as Davis-Bacon wage rules and the Buy-America clause, it is estimated that federally funded projects cost nearly twice as much as the amount a state would pay for the same project.

Policy Proposal: Fund Federal Highway Administration and Federal Transit Administration at gas tax levels

When the U.S. Highway Trust fund was established in 1956, excise taxes off the sale of gasoline could be used to fund three major programs: highways, mass transit, and repairs to leaking underground storage tanks. Currently, the American consumer pays 18.4 cents per gallon in taxes toward this trust fund, but the fund no longer has to be used for such enumerated causes. It can now be used to support any form of transportation, such as bike lanes and paths, and those that use little or no fuel.



As chart 21 shows, the misallocation of funding from the highway trust fund has exhausted resources meant for highway and road construction. Beginning in 2013, the trust fund will permanently begin running negative cash balances.

Policy Proposal: *Eliminate Amtrak Subsidies*

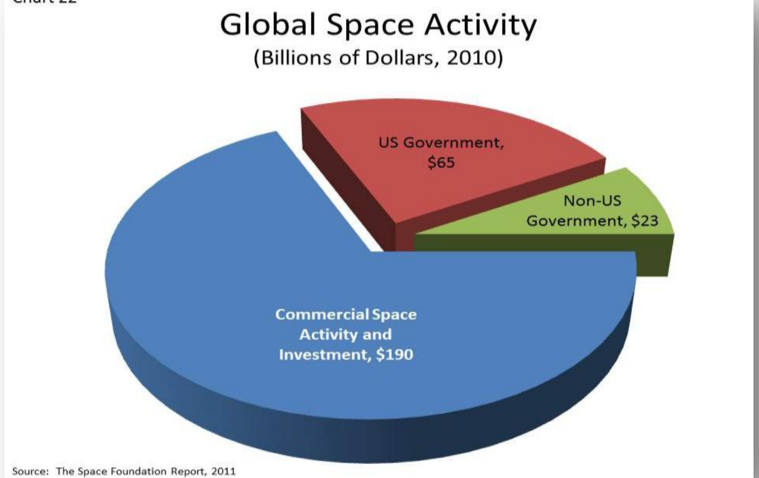
Since 1970 when Amtrak was created by an act of Congress to provide passenger rail service, it has never returned a yearly profit. During the 2000s, Amtrak averaged annual losses in excess of $1 billion. During its first 35 years, federal assistance amounted to approximately $30 billion. Yet from FY2007 to FY2010 alone, subsidies amounted to $7 billion. Of the 21,000 miles of train track in its system, only 625 miles are actually owned by Amtrak. Congress has actually forced private freight rail companies to allow Amtrak to use the lines their companies own and maintain.

We need to allow the states to have greater oversight of train service between their cities. To provide better service, Amtrak must develop a sound business model, which will push them toward becoming profitable, instead of being a drain on government funds.

National Aeronautics and Space Administration

Policy Proposal: *Reduce National Aeronautics and Space Administration 25 percent from FY2008 levels*

The National Aeronautics and Space Administration's (NASA) establishment in 1958 was directly related to the pressures of national defense during the Cold War. The Soviet Union's launch of the first artificial satellite, Sputnik, sparked an American awareness of a technological gap between the two countries. As a result, there became new incentive for increased spending on the program and a new federal agency to manage air and space research and develop and establish U.S. superiority in outer space. However, since the end of the Cold War NASA's mission has been redirected. A program that once focused on U.S. national defense, foreign policy and exploration has now shifted to research, scientific observation and technological development. Since the Cold War, there has been an emergence of government space programs as well as commercial industries around the world. With global space activity, government policies should encourage greater reliance on commercial providers. It is time for NASA to look at ways to reduce spending. Today's technology has allowed the presence of private industries (SpaceX, XCOR Aerospace, Bigelow Aerospace, etc.) to expand. Chart 22 shows that approximately 70 percent of the global space economy was comprised of the commercial sector. The commercial sector is seizing aerospace opportunities from communications satellites, TV, radio, and GPS, to space exploration and tourism. The proposed funding levels in this budget will allow NASA to continue to work with private sector industries to develop commercial space transportation services while also focusing on technological development that would link the NASA programs to the needs of business and industry.



Congress must also recognize that the U.S. is no longer alone in government space exploration. There are now many countries (France, Italy, Japan, India, the United Kingdom, etc.) that have space budgets and government programs. But, we continue to out-spend these countries as if we were in another space race. In FY2010 the U.S. space budget accounted for 74 percent of all worldwide governmental space spending. Rather than the U.S. acting as if we are solely responsible for funding all space activity, we should emphasize cooperation with foreign countries that are seeking to explore space.

Finally, since President Obama has determined to realign the goals of NASA away from human space exploration to science and “global warming” research, there is also a need to realign the agency’s funding. Current funding levels are inconsistent with the goals of the past and provide the opportunity to support deficit reduction.

International Assistance Programs

Policy Proposal: *Freeze Foreign Aid Funding at $5 billion*

The philanthropic nature of the American people is unmatched in comparison to any other country in the world. In fact, a recent study by the Hudson Institute suggests that private donations by Americans amount to an astounding $37 billion per year. In 2007, U.S. private philanthropy, remittances, and private capital outflows to developing countries numbered in the hundreds of billions of dollars ($213 billion).

What makes these statistics important is the evidence that Americans are generous when left to their own devices without government intervention. More importantly, most of this philanthropy is not directed to corrupt leaders to fund arms races throughout the world, or lost through government waste, fraud and abuse. For example, since the mid-1990s Ethiopia has consistently ranked in the top tier of total U.S. economic assistance. Beginning in 2003, the average annual assistance was $681 million, but the results have been troubling. According to a 2010 study by Human Rights Watch, "the Ethiopian government uses donor-supported resources and aid as a tool to consolidate power of the ruling Ethiopian People's Revolutionary Democratic Front (EPRDF)." The EPDRF won 99.6 percent of the seats in the most recent (May 2010) parliamentary elections. The report also found that U.S. aid resources have been routinely used to indoctrinate, intimidate, and purge Ethiopian society of dissent.

Dambisa Moyo, born in Zambia, and academically trained at both Oxford University and Harvard wrote a compelling book, Dead Aid: Why Aid Is Not Working and How There Is a Better Way for Africa. The book highlights a continent that has received more than $1 trillion in aid since 1940 – the precise reason it remains the poorest region in the world, the most corrupt, and the most vulnerable to civil war and political chaos. Moyo writes:

> "This is the vicious cycle of aid. The cycle that chokes off desperately needed investment, instills a culture of dependency, and facilitates rampant and systematic corruption, all with deleterious consequences for growth. The cycle that, in fact, perpetuates underdevelopment, and guarantees economic failure in the poorest aid-dependent countries."

The U.S. currently provides 150 different countries around the world with some sort of foreign assistance, including many adversaries of the United States, such as North Korea, Cuba, Venezuela, and Zimbabwe. In addition, the United States has consistently provided foreign assistance to those the media routinely considers the "world's worst dictators." For example, according to Transparency International, Mobutu is estimated to have looted Zaire to the tune of US$5 billion; roughly the same amount was stolen from Nigeria by President Sani Abacha and placed in private Swiss banks[31].

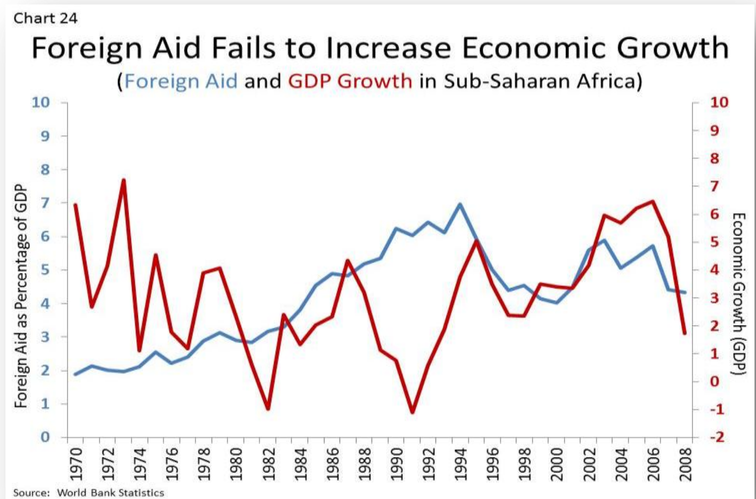
Though a portion of aid is provided for foreign military assistance, the majority of it remains for humanitarian assistance. While the intention to lift poor nations out of poverty is benevolent, often the assistance is counterproductive to increasing economic prosperity, as well as liberty and freedom. For example, between 1970 and 2000, Africa received more than $715 billion in aid from countries around the world, yet economic growth has consistently declined and totalitarian rule has been the norm[32].

Stolen or Squandered Funds

Although it is difficult to find precise statistics on the amount of stolen or squandered foreign aid, there are plenty of examples of the United States providing foreign assistance to wealthy foreign leaders known to squander monies from their countries' pocketbooks. Notable examples of such leaders pillaging their government finances, amassing a fortune and also receiving U.S. aid are listed in the Table 2.

Although the facts are vague, it has been widely perceived that many corrupt world leaders have become rich from international assistance. Furthermore, when it's not the leader stealing the foreign aid, it is often syphoned off to various officials and bureaucrats.

As Chart 24 displays, economic and humanitarian aid to one of the poorest regions in the world, sub-Saharan Africa, has done very little to increase economic growth or the standard of living.



Dambisa Moyo writes, "Between 1981 and 2002, the number of people in the continent living in poverty nearly doubled, leaving the average African poorer today than just two decades ago. And looking ahead, the 2007 United Nations Human Development Report forecasts that sub-Saharan Africa will account for almost one third of world poverty in 2015, up from one fifth in 1990."

Assimilating the work done by others intellects, such as David Landes, Niall Ferguson, Dani Rodrik, and Hernando De Soto, Moyo suggests that aid will never help the poorest of counties without those countries taking the absolute necessary steps to secure fundamental political institutions such as personal liberties, private property, contractual law, and law enforcement. In fact, it is believed that foreign aid actually stymies those achievements.

In addition, as is often cited by international organizations such as the World Bank, the (International Monetary Fund (IMF), and think tanks such as the American Enterprise Institute, foreign aid is consistently and continually provided without determining its effectiveness or tracking distribution of funds. It is often argued that this lack of oversight has enabled corruption and ultimately propped up failing governments.

According to statistics provided by the World Bank's International Corruption Perception Ratings of 47 Sub-Saharan African countries, 21 received a "very bad" score, 15 received a "bad" score and only two were rated as "average." When those same 47 countries were tested for governance ratings, all but two countries scored well below "average."

Table 2
US Foreign Aid Given to Dictators

Country	Leaders	Dictator Net Worth (est)	US Aid (Thousands)
Thailand	King Bhumibol Adulyadej	$30 billion	$49,000
Pakistan	Asif Ali Zardari	$1.7 Billion	$2,854,000
Oman	Sultan Qaboos	$650 Million	$14,500
Swaziland	King Mswati	$100 Million	$47,500
Cuba	Raul/Fidel Castro	$900 million	$14,900
Egypt	Hosni Mubarak *	$70 Billion	$1,717,000
Zimbabwe	Robert Mugabe	$10 Million	$218,900
Ethiopia	Meles Zenawi	$1.2 Billion	$981,900
Uganda	Yoweri Museveni	$15 Million	$487,400
Libya	Muammar Gaddafi*	$32 Billion (or more)	$24,300
Lebanon	Saad Hariri	$2 Billion	$158,900
Morocco	Mohammed VI	$2.5 Billion	$67,700
Yemen	Ali Abdullah Saleh	$25 Billion	$138,700
Sudan	Omar Hassan Al-bashir	$9 Billion	$975,900

* Recently Removed From Power

Table 3
Total Amount of Foreign Assistance-Related, Provided By United States*
FY 2010 [Millions of Dollars]

Country	Total	Amount Paid Per Taxpayer
Afghanistan	$15,564	$113
Egypt	$1,669	$12
Iraq	$2,088	$15
Pakistan	$2,854	$21
Sudan	$976	$7
Russia	$507	$4
Mexico	$623	$5
Jordan	$768	$6
All Other	$18,951	$138
Total	$44,000	$321

* Doesn't Include War Spending
Source: US Census

Miscellaneous Policy Changes

Policy Proposal: *Collect delinquent taxes from federal employees*

Every year, the Internal Revenue Service (IRS) publishes the Federal Employee/Retiree Delinquency Initiative (FERDI). This summary report shows the amount of civilian, military, and retired federal employees who are delinquent in their federal income taxes. In 2008, the FERDI showed $3.04 billion in back taxes owed. The amount grew to $3.31 billion in 2009. More recently, the FY2010 FERDI annual report shows the amount of back taxes grew to $3.41 billion.

Policy Proposal: *Reduce the amount of travel by federal employees*

Since the implementation of the requirement that all federal employees use travel charge cards to pay for the expenses of official government travel, travel card transactions have increased from $4.39 billion in FY1999 to $8.93 billion in FY2009. According to the General Services Administration (GSA), statistics for FY2010, travel card spending increase from $8.93 billion in FY 2009 to $9.6 billion in FY 2010. Audits have found significant weaknesses in internal controls over travel card use, which will cost the government millions this year alone.

Examples of card misuse by federal employees include unauthorized trips; premium seating, reimbursements for airline tickets never purchased, and even laser eye surgery. Auditors have also determined that some federal agencies have not collected reimbursements for millions of dollars worth of unused airline tickets.

Policy Proposal: *Repeal the Davis-Bacon Prevailing Wage Law*

The Davis-Bacon Act requires employers to pay workers at least the locally prevailing wage and fringe benefits on federal construction projects of more than $2,000. The Department of Labor publishes Davis-Bacon prevailing wages in four types of construction: residential, building, highway, and heavy construction. In 2008, the Davis-Bacon prevailing wage rates for projects in metropolitan areas were 62.4 percent higher than the average hourly wages reported by the Occupational Employment Statistics (OES).

Davis-Bacon forces government contractors to pay wages that are higher than they normally would be. These wages increase the cost of the federal construction projects, without increasing the labor productivity, quality, or timeliness in completing the project.

Policy Proposal: *Sell all vacant or unused federal property or assets*

Currently, the government owns or leases 3.87 billion square feet of property. In addition to the property, the federal government owns or leases 55.7 million acres of land. For every 40 acres of land in the United States, 1 acre is

owned by the government. Citizens Against Government Waste estimates these holdings to be worth $1.2 trillion. In this category, some of the property owned by the federal government is codified as excess, meaning that it is no longer needed by the agency or department that had been previously using it. After a review process, these properties can be deemed surplus, and then sold or disposed of in other ways. According to the White House statistics for Federal Excess Properties in FY2010, existing excess properties owned by the Federal Government number 9,234 properties, an increase of 1,506 properties from the previous year.

Of that property, the Office of Management and Budget (OMB) claims more than 21,800 federal properties are abandoned assets, which could be sold for approximately $19 billion. According to the GSA, government agencies reported more than 429,000 federal building assets covering over 3.34 billion square feet, which represents an increase of 23,000 building assets covering 71 million square feet.

Policy Proposal: *Reduce the purchase and maintenance budget allocated for federal vehicles*

The federal government owns approximately 662,154 cars and trucks in their fleet of vehicles, an increase of over 10,000 vehicles from the prior year. General maintenance on these vehicles is an annual expense of $4 billion. Since 2006, the amount of vehicles owned by the government has increased by 31,414, while operating costs have increased by 5.4 percent.

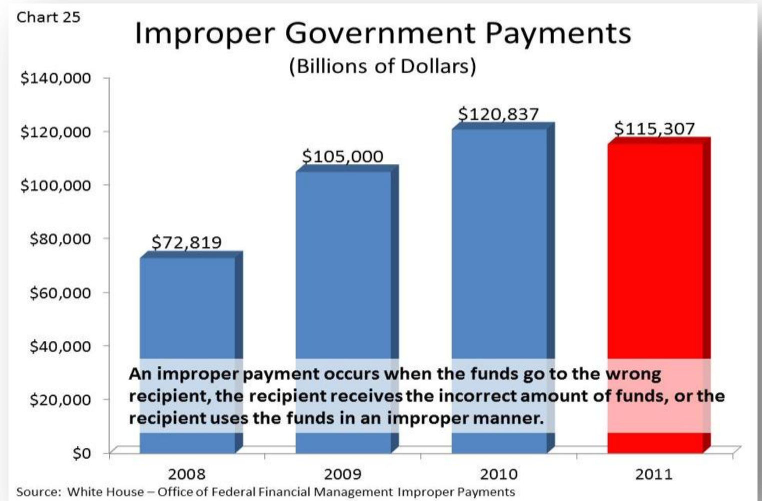
It is not unreasonable to ask all agencies to slow down acquiring new vehicles and decrease the number of miles driven to help drive down the cost of general maintenance.

Policy Proposal: *Sell federal lands*

According to nationalatlas.gov, the federal government owns nearly 650 million acres of land – almost 30 percent of the land in the United States. The U.S. government currently owns more than 83 million acres of land within the national park system. This figure includes 51 million acres of national parks and 24 million acres of national preserves. The resources and funds necessary to provide for the upkeep and protection of these national treasures will be preserved. However, the federal government also possesses nearly 383 million acres of national forests; 146 million acres of which is timber land. On one hand, the federal government has struggled to protect and keep viable much of the national forest land. On the other hand, the federal government continues to consume more and more of these lands—particularly national forests—to the detriment of the public due to loss of access to a majority of these valuable and needed natural resources.

Policy Proposal: *Reform the implementation and oversight of government payments; reduce Improper Payments*

According to the White House's Office of Federal Financial Management Improper Payments, the government's total improper payments amounted to more than $115 billion in FY2011 alone. The rising improper payments can be attributed to the increasing number of welfare recipients due to the economic recession, especially from programs like Medicaid, Medicare, and food stamps, but also to countless errors. President Obama's stimulus plan sent nearly 89,000 checks written for $250 each to dead or incarcerated individuals.



Policy Proposal: *Open Arctic National Wildlife Refuge for Oil and Gas Exploration*

The Arctic National Wildlife Refuge (ANWR) in Alaska is ranked among the most viable reserves of oil and gas in North America, holding as many as 10 billion barrels of oil or more. Leasing these lands is overwhelmingly supported by Alaskan residents and Native Americans in the region. By opening up these lands, the government would have the opportunity to pay down deficits and the debt with revenues received through royalties.

Policy proposal: *Permit the Keystone pipeline*

The TransCanada Corporation is currently seeking to build a 1,700 mile pipeline called the Keystone XL to carry oil from Canada's massive oil sand reserves to the U.S. Construction of this pipeline will spur thousands of jobs, stimulate economic activity and strengthen energy security – all with no new government spending. In January, President Obama rejected approval of the Keystone XL, putting thousands of jobs on hold and limiting U.S. capacity to utilize our vast North American resources at a time when gas prices are critically high. The Institute for Energy Research has estimated that his decisions will cause American consumers to spend nearly $5 billion more on overseas oil.

Tax Reform – Flat Tax

The largest source of revenue for the federal government is the personal income tax, which raised $1.091 trillion in 2011. The federal corporate income tax raised $181 billion, the lowest amount of revenue since 2003. Since World War II, the federal government has raised tax revenue equating on average to 17.8 percent of gross domestic product, but since the recession, the government's annual receipts have not been more than 14.9 percent of the economy.

Federal taxes consuming such a large component of the federal government is a recent phenomenon in the life of our country. In 1900, federal taxes amounted to 2.8 percent of GDP – and thirty years later, in 1930, that number had risen only slightly to 4.2 percent. It was ultimately the Great Depression and the start of WWII that expanded the role of federal taxes. Before WWII, the federal government taxed the economy a little less than 4 percent on average, and since the Second World War, just under 18 percent.

From the Beginning

The nation first adopted a personal income tax in order to help finance the Civil War from 1861 to 1871. Although the income tax ended after the war, populist sentiment against tariffs, excise taxes, and property taxes mounted and people began to favor a progressive income tax that mostly applied to the wealthy.

In 1894, Congress acquiesced to populist concerns and enacted an income tax, but less than a year later the Supreme Court declared it unconstitutional Article I, Section 9, "No capitation, or other direct tax shall be laid, unless in proportion to the census or enumeration herein before directed to be taken." Congress, appeasing their constituents, overturned the Supreme Court's decision by adopting the Sixteenth Amendment in 1913 as adopted, "The Congress shall have power to lay and collect taxes on income, from whatever source derived, without apportionment among the several states, and without regard to any census or enumeration."

Perhaps the greatest difference between the income tax adopted in the early 1900s and todays is the overall tax burden. In fact, the system then had such generous tax deductions and exemptions that virtually no one paid taxes but the very wealthy. In 1914, the total number of personal tax returns filed amounted to less than half a percent of the total population and never exceeded 7 percent of the total population between 1913 and 1939.[33]

The history of the corporate tax begins very much like the personal income tax. The tax was adopted during the Civil War and allowed to lapse soon after. It was formally adopted into U.S. policy in 1909 as a result of populist sentiments to tax the wealthy. The major historical difference between the personal income tax and the corporate income tax was the manner in which it was classified by the Supreme Court. Unlike the personal income tax, the corporate tax was deemed as an "excise" tax and escaped constitutional issues.

Complexity

The idea of taxing an individual or entity to provide protection and support of government facilities and services is a concept thousands of years old. The concept seems rather simple, but unfortunately, the US tax code has become incredibly complex and costly. Quite literally, billions of man hours and dollars are spent trying to comply with the tax code.

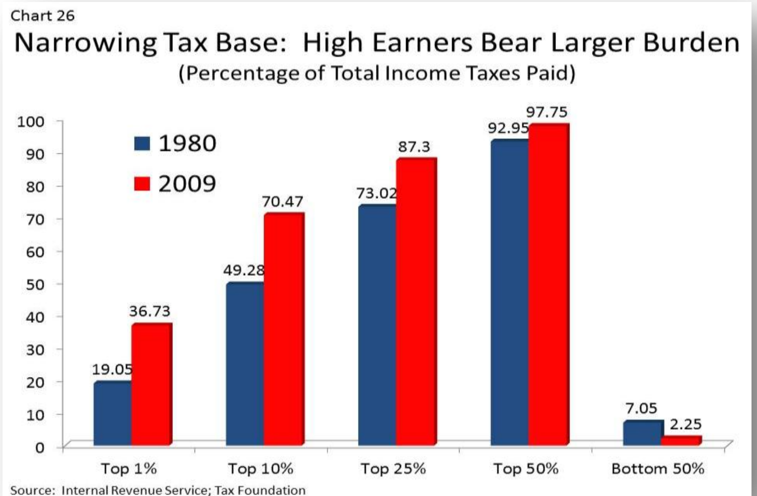
Individual taxpayers spend as many as three billion hours on their tax returns, which amounts to nearly 27 hours per taxpayer. Time consumption can be attributed to recordkeeping, analyzing deductions and credits, determining personal and business affairs and complying with instructions. The IRS has in service roughly 480 forms, and an additional 280 forms of explanation. These forms are shipped to taxpayers, sending nearly eight billion pages and instructions a year to more than 100 million taxpayers – accounting for nearly 300,000 trees a year.

Aside from hours of wasted human productivity, the complexity of the tax code is also costly. Individuals must pay for software, accountants, lawyers or other advisers. Businesses face similarly large compliance costs, with the typical Fortune 500 Company spending an average of $4.6 million per year on tax matters[34]. In aggregate, a study published by former President Reagan's economist Art Laffer estimates that the total costs of compliance are $431 billion annually.[35] To put this into perspective, the total spending included in President Obama's recovery stimulus bill for 2010 was $228 billion – nearly half of the annual spending needed to comply with the burdensome tax code.

Not only does the complexity of the tax code impose a great cost to society, it also costs a great deal of revenue to the government. According to an IRS analysis, tax evasion as a result of not understanding the tax code or purposely using the complexity to commit illegal activities costs the federal government nearly $365 billion each year.

Fairness

Another impetus for tax reform is making the system more efficient and fair by broadening the tax base, letting everyone contribute to their government instead of a minority of people contributing for everyone. In 1980, the top 10 percent of all income earners in the country paid 49 percent of all federal income taxes; today, the top 10 percent pays nearly 71 percent of all income taxes. While the top earners are lifting a greater burden of supporting the government, the lower income earners are contributing less. Starting in



1980, the bottom 50 percent of all income earners were contributing 7 percent of all federal income taxes. Today, the bottom 50 percent contributes 2.25 percent and many in this category have a negative tax liability, meaning that they not only have zero tax liability, but they receive more in cash refunds than they contribute.

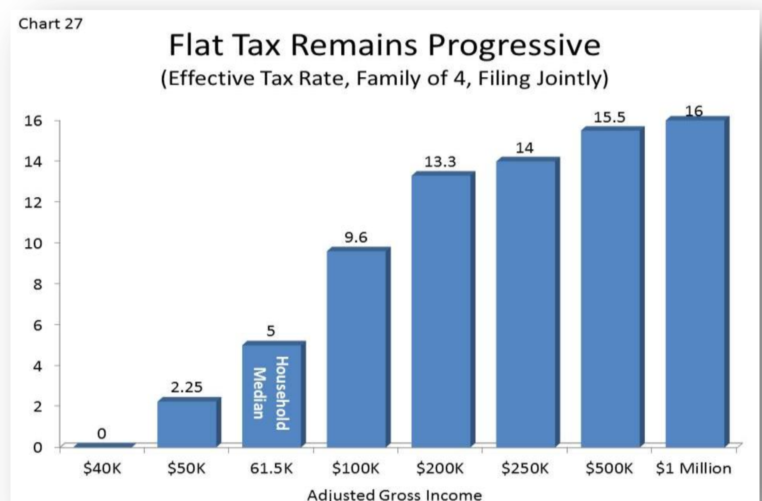
By broadening the tax base, everyone has "skin-in-the-game," and with a greater number of people and businesses contributing, the opportunity exists to lower overall tax rates for everyone.

A Simple, Fair, and Efficient System: The Flat Tax

A simple, fair, and efficient tax system - one that remains progressive, eliminates adverse economic decisions, taxes only consumption, and will maximize economic growth - exists. This is not an attempt to pit one consumption tax against another, or the flat tax against the national sales tax, also known as the "FairTax;" both tax reform ideas achieve similar benefits and would be great alternatives to the current system. As long as the U.S. Congress has the power to tax peoples income, granted by the Sixteenth Amendment to the Constitution, the threat of Congress to impose both a federal income and sales tax exists under the FairTax proposal. Therefore, this budget proposes a flat tax.

The flat tax was first proposed in the early 1980's by economists Alvin Rabushka and Robert Hall and has since been on the platforms of many politicians and academics in both the Republican and Democratic parties. For example, current California Gov. Jerry Brown (D) ran on a flat tax during his run for President in the early 1990's and former House Majority Leader Dick Armey (R) championed the flat tax proposal during his time in the House of Representatives.

The tax system is consistent with the progressive ideology implemented today: it refrains from taxing the poor, and those who do pay taxes pay a larger amount as their incomes rise. The flat tax idea is very simple: income should be taxed as close to the source as possible and only once.



The flat tax doesn't need a graduated system, as the one employed today, in order to be a progressive system. By providing a generous standard deduction and personal exemptions, we increasingly remove the tax liability of the poor. The flat tax also promotes a progressive system by increasing the effective tax rate for higher incomes. For example, under the flat tax, a median income family of four with two children will

pay five cents for every dollar earned in income taxes, whereas a family of four making $250,000 a year will pay fourteen cents for every dollar earned (see the effective tax rates in Chart 27).

The flat tax also corrects a great flaw in the current tax system that has been a persistent problem for many years; it finally eliminates the alternative minimum tax (AMT). The AMT was originally designed to ensure a few very wealthy individuals were paying more or at least some tax. The law was never designed to adjust for inflation however, and over the years, the AMT applied to an increasing number of people, including those in the middle class. Therefore, taxpayers have had to consistently rely on Congress to implement temporary "patches," which allows the middle class to escape the AMT. In 2011, even after Congress intervened, 4.2 million taxpayers were affected by the flawed legislation. If nothing is done in 2012, 30.5 million people will be punished by the increased burden of the AMT. Under a flat tax, the alternative minimum tax is forever gone, and the ability for the wealthy to avoid taxation is nearly impossible.

A Single System

The current tax code is fractured, which adds to the complexity of it. The manner in which a business entity forms, e.g. a sole proprietorship, corporation, s-corporation, etc. is based on the liabilities and provisions of the different tax codes. In a flat tax however, the tax code for individuals and businesses is very integrated. By treating individuals and businesses in tandem, we are provided the benefit of only taxing consumption, since society does one of two things – it either consumes or saves (measured as consumption with income minus investment). To provide an example, think of a business that pays taxes on the income it receives minus the income it pays its workers; the workers then pay the taxes on their wages. Therefore, the system remains integrated, and everything is taxed only once.

Eliminating Double Taxation

"We (the United State) tax everything that moves and doesn't move."

--Hillary Clinton, Secretary of State

We tax everything in this country, but what the Secretary of State Hillary Clinton didn't mention was the frequency with which we tax everything-not once, but twice. The most common forms of double taxation in the United States are the capital gains, dividend, estate, gift, and interest tax. The flat tax would eliminate every form of unfair double taxation.

A corporation is created by law as an association of individual people. When a corporation has income, it pays taxes; that rate of taxation is as much as 35 percent. After taxes are paid on the income received [first tax], it is once again taxed through the distribution of dividend payments. The combined taxation for individuals who own businesses

could be as much as 56 percent, since the top corporate rate is 35 percent and the top dividend tax rate is 15 percent for qualified dividends, but as high as 35 percent for non-qualified dividends.

Under the flat tax, capital gains would still be subject to taxation, but it wouldn't be taxed twice as it is under the current system. The flat tax would tax gains on rental property, plants and equipment, and other assets, based on the consumption principle of this tax reform. The purchase price would be deducted at the time of purchase, and the sale price would be taxed at the time of the sale.[36] Capital gains taxes on owner-occupied houses are not taxed under the flat tax. However, the tax reform plan doesn't assume that homes escape taxation because most states derive income from property tax. With a consumption–based tax, a stock, bond, or other financial instrument that has been purchased with already-taxed income would no longer be subject to further taxation.

Picture 1

Source: Michael Ramirez, Investor's Business Daily

Finally, the flat tax would completely eliminate the estate and gift tax. Because the flat tax is an airtight system that taxes only consumption and not savings and investment, there is no reason to continue double taxation of the current estate and gift tax. Just as with capital gains and dividend taxation, estates and gifts are the result of the accumulation of assets, purchase with after-taxed income. In 2006, the Tax Foundation wrote a paper on the Federal Estate tax, *Death and Taxes: The Economics of the Federal Estate Tax,* where they highlight the detrimental impact taxing estates has on wealth accumulation (particularly with small businesses, including farms):

> In a 2000 study, economists Joel Slemrod and Wojciech Kopczuk measured the incentive effect of the estate tax on wealth accumulation. Examining nearly a century of estate tax returns between 1916 and 1996 they found a strong negative relationship between estate tax rates and the size of taxable estates, suggesting that estate taxes discourage wealth accumulation. Based on Slemrod and Kopczuk's estimates, Princeton University economist Harvey Rosen calculates that the overall wealth accumulation in the U.S. economy would rise by 1.5 percent if the estate tax were fully eliminated.

Based on current estate tax law, a report by the American Family Business Institute finds that up to 67 percent of estates subject to the estate tax in 2011 own small business assets, affecting more than 22,000 farms, 29,000 private corporations, and 14,000 real estate partnerships.

The flat tax will finally put an end to the current system's distortion of the allocation of resources and capital by eliminating all forms of double taxation.

Individual Tax

The individual portion of the flat tax only taxes the actual payments of wages, salaries and pensions. Employer pension contributions and any fringe benefits remain untaxed. Instead, the pension income is taxed when the employee retires and begins receiving that income, and the fringe benefits taxes are dealt with at the business level.

The individual tax remains progressive as a result of the standard deduction and personal allowances. For example, a family filing jointly would receive $32,320 for a standard deduction and $6,530 for each dependent. These deductions and allowances have a similar effect as our current graduated system, as was evident from Chart 27.

Under the flat tax, the majority of taxpayers (those who aren't running a business) are subject only to the individual wage tax. Most of the deductions and credits from the current system are eliminated, but they are offset by a much larger standard deduction and personal exemptions. Other income like interest income, capital gains or dividends will no longer be taxed, making the filing process more simplistic. A tax form under the flat tax system could even be small enough to fit on a post card (see chart 28).[37]

Table 4

Current Law		
(Married Filing Jointly)		
Marginal Tax Rate	Tax Bracket Over	Tax Bracket But Not Over
10%	$0	$17,000
15%	$17,000	$69,000
25%	$69,000	$139,350
28%	$139,350	$212,300
33%	$212,300	$379,150
35%	$379,150	****
Flat Tax		
(Married Filing Jointly)		
Marginal Tax Rate	Tax Bracket Over	Tax Bracket But Not Over
17%	None	None
[Effectively 0 percent tax on income under $30,320. 17% on every dollar over]		
Married Filing Jointly		
Standard Deduction:		
Current law	$11,700	
Flat Tax	$30,320	
Personal Exemption		
Current Law	$3,700	
Flat Tax	$6,530	

Chart 28

Individual Wage – Flat Tax

First Name, Last Name (If Joint, Include Spouse)	Social Security Number
Home Address	
City, Town, State, and ZIP code	Occupation Occupation of Spouse

Line	No.	Amount
1. Wages and Salary	1	
2. Pension and Retirement Benefits	2	
3. Total Compensation (line 1 plus line 2)	3	
4. Personal Allowance		
a. ___ $30,320 for Married Filing Jointly	4a	
b. ___ $15,160 for Single	4b	
c. ___ $19,350 for Head of Household	4c	
5. Number of Dependents, Not Including Spouse	5	
6. Personal Allowances for Dependents (line 5 multiplied by $6,530)	6	
7. Total Personal Allowances (line 4 plus line 6)	7	
8. Total Interest Paid on Mortgage	8	
9. Taxable Compensation (line 3 less [line 7 plus line 8], if positive, otherwise zero	9	
10. Tax (17% of line 9)	10	
11. Tax Withheld by Employer	11	
12. Tax Due (line 10 less line 11, if positive)	12	
13. Refund Due (line 11 less line 10, if positive)	13	

Note: Certain components of this post card should be attributed to: The Flat Tax by Robert Hall and Alvin Rabushka

Business Tax

Economists and tax accountants will agree that businesses don't pay taxes, people pay taxes. When the government taxes businesses, they are really taxing the income of the business owners. Therefore, much like the individual side, the business portion of the flat tax seeks to tax as close to the source of the income as possible. The business tax taxes each bit of income only once. Income spent on wages, salaries and other investment inputs/expenses are not taxable. In total, a business would be taxed on the sale of its products and services less inputs. As Alvin Rabushka and Robert Hall outline in their original flat tax proposal, the base of the business tax is the following[38]:

Total revenue from sales of goods and services

Less

Purchases of inputs from other firms

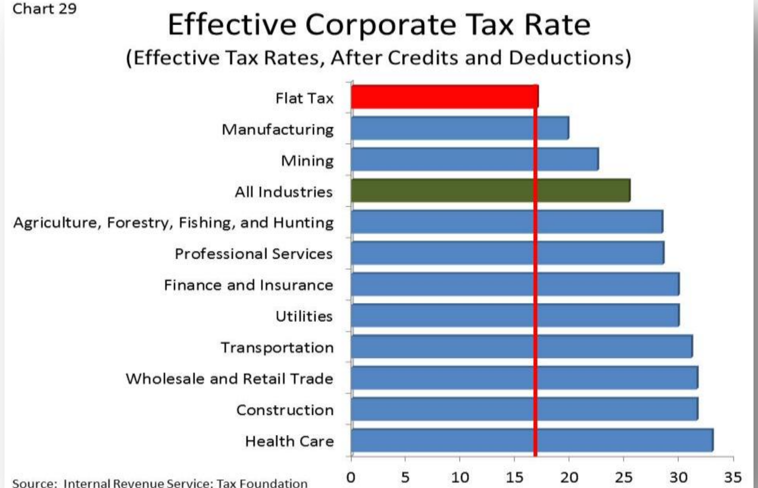
Less

Wages, salaries, and pensions paid to workers

Less

Purchase of plant and equipment

Nearly all of the business deductions and tax credits currently provided will vanish, including those provided for interest and fringe benefits, but are exceedingly offset by an even more generous tax code. Eliminating all these complex deductions and credits will simplify accounting procedures, thereby reducing costs. In addition to eliminating these credits and deductions, the tax rate will be substantially lowered; significantly less than the current effective tax rate for every industry (see Chart 29). Finally, the business tax also provides businesses the ability to immediately deduct all other expenses.



Economic Growth

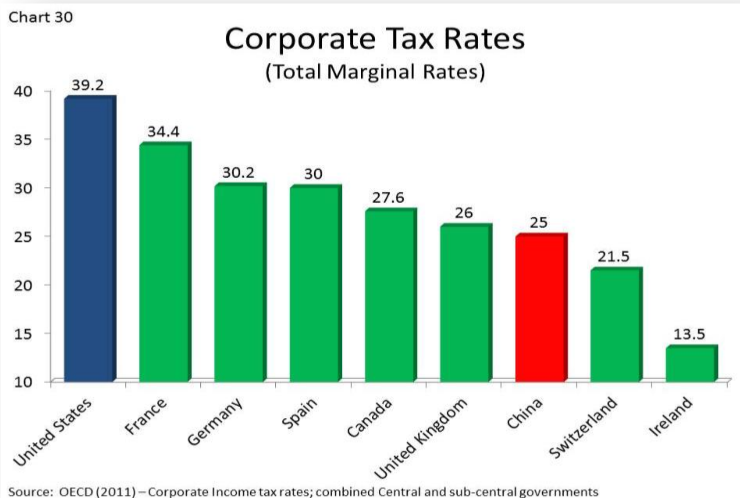
There are a number of economic benefits derived from a flat tax. It will eliminate much of the complexity and regulation surrounding the current tax code, and will provide a much more business friendly environment and will help facilitate capital formations. The flat tax only taxes everything once; there is no longer double taxation of capital, of dividend payments, capital gains,

or interest payments. Furthermore, this tax system would allow businesses to treat all capital purchases and buildings as investments, giving them the ability to eliminate tax on such transactions. By eliminating these capital distorting taxes, there is incentive to create new businesses. In particular, industries that have been the economically hardest hit such as energy, natural resources, and manufacturing - also the most capital intensive - will benefit enormously.

The flat tax would also impact the lending market by influencing lower interest rates. Interest payments to service debt will no longer be available for deduction, except for the mortgage interest deduction. But, this means that those receiving interest payments, particularly banks and credit card companies, will no longer be taxed on the interest earned. As a result, it will make financing cheaper, leading to lower interest rates especially on business debt, credit card debt, student loans, and car loans.

For example, if a business wished to finance the construction of a new plant, they would no longer be able to deduct the interest paid on that financing. However, that would be more than offset under a flat tax system because the financing of that plant would be cheaper as interest rates would be lower. Second, the entire cost of the inputs and expenses with regard to building the plant would be fully deductible and expensed immediately. Finally once operations are up and running, that business would be subject to tax rates of 17 percent, as opposed to the 35 percent liability today. It should be evident that under such a tax system, businesses operate in a much more efficient system, and are provided incentives to expand and increase operations.

The flat tax would also provide a major stimulus to the economy by only taxing consumption in the United States, effectively making it a territorial tax. Currently, U.S. corporations with foreign subsidiaries are taxed at the level in the country in which they are operating with no further taxation until that U.S. multinational returns that income back to America. With one of the highest tax rates in the developed world, there is little incentive to bring any income back to the U.S. for reinvestment. By going to a territorial tax system, such as the flat tax, multinationals would pay taxes on the income derived in that specific country, but would be able to bring that capital back to the United States for reinvestment without further taxation. With approximately $2 trillion of multinational capital sitting overseas, it is



expected that hundreds of billions of dollars would begin flowing back to the United States.

In 2008, the Organization of Economic Corporation and Development (OECD) provided an analysis on the relationship between tax rates and economic growth. Their conclusion suggested that of all the taxes around the world, the corporate income tax is the most detrimental to long-term growth, closely followed by the personal income tax. The report also indicates that lowering the corporate or business tax rate "can lead to particularly large productivity gains in firms that are dynamic and profitable; those that can make the largest contributions to GDP growth."[39]

Along with the previous analysis, R. Alison Felix, with the Kansas City Federal Reserve Bank, provides a study showing the relationship between business tax rates and that of wages and the standard-of-living: "Estimates suggest that a one percentage point increase in the average corporate tax rate, decreases annual gross wages by 0.9 percent." In other words, if the corporate tax rate were to increase by one percent, resulting in $10 billion in additional revenue, total aggregate U.S. wages would drop by $42 billion.[40]

Budget Process Reform

"I wish it were possible to obtain a single amendment to our Constitution. I would be willing to depend on that alone for the reduction of the administration of our government to the genuine principles of its constitution; I mean an article taking from the Federal government the power of borrowing."

--Thomas Jefferson

Policy Proposal: *Adopt an amendment to the Constitution to balance the budget*

The U.S. Constitution provides a mechanism to reflect changes in the nation—the amendment process. Over the years, it has been modified 27 times, and in some instances the changes have been designed to reverse prior modifications.

The intent of the U.S. Constitution was to create a government of limited powers, secure the rights of the people, and protect them from the very government it created. Among all the protections provided to us in the Constitution, they all fail to address the ability of our government to bankrupt itself, destroying the people's standard-of-living and material net worth.

The budget would require a proposal to be submitted before the House of Representatives and the Senate to amend to the Constitution to protect the American people against the fiscal abuses committed on behalf of their government through a mandatory balanced budget.

Policy Proposal: *Rescind unspent and unobligated discretionary balances after 36 months*

When a program or agency is provided money in any particular year, those funds are usually not spent all in that fiscal year. Often, the aggregate sum of these funds takes more than a year to obligate, and even longer to actually be spent out of the individual government account. While it is necessary for contracting and project development to spend budgetary resources over time, this budget would automatically rescind any funds that are not obligated or spent after 36 months.

Policy Proposal: *Presidential Rescission Authority*

In these times of budget constraints and deadlocked Congress, Senator John McCain and Representative Paul Ryan have proposed to renew a presidential rescission authority. They argue that it would help end wasteful pork barrel spending. The line item veto power granted to President Clinton by the Gingrich Congress was found unconstitutional by the Supreme Court in Clinton v. City of New York, 524 U.S. 417 (1998). However, the Ryan/McCain proposal is different in that it limits the President to only proposing certain items for rescission, Congress must then perform an expedited up-or-down vote on the revised spending package and then the president would sign the new bill if passed.

Social Security Reform

According to the 2011 Annual Report of the Board of Trustees of the Social Security Trust Fund, Social Security has a current unfunded liability of $6.5 trillion in present value (over 75 years) – or nearly $60,747 per household. A year ago in 2010, the Annual report then projected a short-fall of $5.4 trillion – meaning that waiting just one year to address this large entitlement increased the long-term unfunded liability by $1.1 trillion. This paints a financially dangerous picture of the portentous threat the Social Security System faces each year we fail to enact or address reform.

Based on the trustees' report, Social Security payments have run a cash deficit since 2010 and will continue on that trend for the remainder of the long-range period. The Social Security Trust Fund is expected to be completely exhausted, and thus unable to pay scheduled benefits in full on a timely basis in 2036. At this point, without any significant changes, beneficiaries will experience an immediate 23 percent cut in benefits. As quoted by the 2011 Social Security Trustees' Report:

> The projected trust fund shortfalls should be addressed in a timely way so that necessary changes can be phased in gradually and workers and beneficiaries can be given time to adjust to them. Implementing changes sooner would allow the needed revenue increases or benefit reductions to be spread over more generations. Social Security will play a critical role in the lives of 56 million beneficiaries and 158 million covered workers and their families in 2011. With informed discussion, creative thinking and timely legislative action, Social Security can continue to protect future generations.

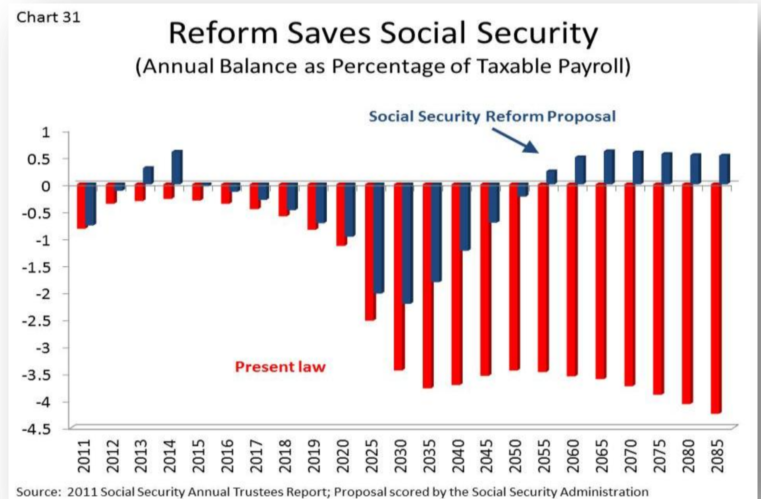
The $6.5 trillion present value short-fall in the Social Security trust fund includes the $2.7 trillion in special govenrment treasuries currently held by the Social Security Administration. By law, surpluses from the Social Security trust fund are required to be invested in such securities. Therefore, the government gets access to additional monies each year as those surpluses and the income on the net interest is sent back to the U.S. Treasury in exchange for an IOU. By 2029, as a result of net interest on current treasuries, the Social Security trust fund will peak at a value of $3.7 trillion, and then decline.

The bonds in the trust fund represent the governments commitment to reimburse the trust fund for the securities purchased as soon as the trust fund needs money. During the next 10 years, the government will need to borrow nearly $11 trillion to fund other government programs. Where will the government find the additional capital to replenish the Social Security Trust Fund?

The proposal in this budget will permanently leave the Social Security Trust Fund solvent, completely eliminating the $6.5 trillion unfunded liability. The reform proposal includes two main provisions: a gradual increase in the retirement age and progressive indexing.[41]

Increase in Retirement Age

The normal Retirement Age (NRA) will increase three months each year starting with individuals reaching age 62 in 2017 and stop when the NRA reaches age 70 for individuals reaching age 62 in 2032. Thereafter, the NRA will be indexed to maintain a constant ratio of expected retirement years to potential work years, about one month every two years. The Earliest Eligibility Age (EEA) will be increased by three months per year starting with the individuals reaching age 62 in 2021 and will stop when the EEA reaches age 64 for individuals reaching age 62 in 2028 and later.



Progressive Indexing

The Primary Insurance Amount (PIA) formula will be modified between 2018 and 2055 to gradually reduce benefits on a progressive basis for workers with career-average earnings above the 40th percentile of new retired workers. The reduction for a steady maximum earner will be equivalent to that of replacing the current wage indexed PIA formula from one generation to the next, with a CPI-indexed formula across generations (after 2018, all new retirees coming into the system will have benefits based on the first $43,000 of their average lifetime yearly earnings calculated based on wage growth. Above $43,000, benefits will be calculated based on price growth). A progressive indexing will allow the benefits for low-income workers to grow faster than those who have higher incomes and have the means to save more for retirement. In fact, this reform will provide higher benefits to low-income workers over the course of their lifetimes than would current law. Due to the fact that the current system will automatically reduce benefits to higher income workers in approximately 2036, disabled workers, children of deceased workers, and surviving spouses with a child in care will see no changes in their current benefits formula.

Medicare Reform

The Congressional Health Care for Seniors Act (CHCSA) allows for all seniors to be enrolled into the same health care plan as their Members of Congress and other federal employees. By all accounts, elected officials and federal employees receive the finest health insurance in the country. It is time for every senior to get the best health care in America.

Not only is the Congressional health care plan better, it's less expensive. Taxpayers will save more than $1 trillion over the first 10 years and reduce Medicare's 75-year unfunded obligation by $16 trillion. Individual seniors will save thousands of dollars from their personal health care budgets each year while receiving more generous health benefits.

The Federal Employee Health Benefits Plan (FEHBP) includes an array of insurance options available to 4 million federal employees and their dependents—roughly 10 million people in total. The government pays approximately three-quarters of the cost of health insurance plans chosen by individual participants based on their needs and preferences.

In 2010, federal employees could choose from among the 250 plans participating in FEHBP, including 20 nationwide plans. The Office of Personnel and Management (OPM) enforces reasonable minimal standards for plans, ensures the health plans are fiscally solvent, and enforces rules for consumer protection. There are no price controls, standardized benefits, or detailed guidelines for doctors or hospitals. Plans must accept any enrollee and cannot deny coverage to an individual for any reason. All individuals within a plan pay the same premium regardless of their health status or pre-existing conditions

Under the CHCSA, not only will OPM continue to ensure protections for seniors, but the proposal also prevents the agency from placing onerous new mandates on health insurance plans. Further, the CHCSA makes it easier for new insurance plans to enter the market to compete for seniors' business – even allowing employers to continue covering seniors through retirement.

In order to maintain low premiums and prevent plans from cherry-picking patients, the CHCSA creates a new "high-risk pool" for the highest-cost patients within the FEHBP. The federal government will directly reimburse health care plans for enrolling the costliest 5 percent of patients. This arrangement keeps premiums low while allowing high-risk patients to get the same high-quality health care as every other enrollee – federal employees and seniors alike.

The CHCSA ensures that every senior can afford the high-quality insurance FEHBP offers. In addition to subsidizing three-quarters of the cost of the average plan, seniors who cannot afford to pay the remaining premium will receive

additional premium assistance and cost-sharing through the Medicaid program. The following are some the key provisions:

- Beginning in 2014, all Medicare-eligible patients will be able to enroll in the FEHBP as if they were federal employees.
- New plans with equivalent or superior benefits to an existing plan can enter the market freely without new requirements or mandates.
- Willing employers can give eligible patients the option of staying on their current plan and still receive the government's contribution.
- Insurers will be rewarded for enrolling high-cost patients (referred to as a "high-risk pool"). The program assumes 90 percent of the total costs for the 5 percent of patients with the highest medical expenses.
- Medicaid will continue to provide assistance to help low-income seniors afford their care.
- The initial eligibility age for seniors is gradually increased from age 65 to age 70 over a period of 20 years by three months per year.
- Wealthy seniors will be asked to pay a greater percentage of their health costs than low-income seniors, using the same income thresholds as the Medicare Part B and D programs.
- The existing Medicare program will sunset with transition rules to ensure continuity.

Better Health Care for Seniors

The most important aspect of any Medicare reform proposal is that it must improve upon the lackluster care seniors currently receive under Medicare. The CHCSA improves seniors' health care by providing richer benefits, higher quality health care, and better access to doctors and providers. Perhaps most importantly, because Members of Congress will be enrolled in the same plans, seniors can expect the program to continue as the best health insurance in the country.

FEHBP provides richer benefits than Medicare. Medicare, on average, is worth 90 percent of the overwhelmingly most popular plan in the FEHBP, the Blue Cross Blue Shield Standard Option. In fact, Medicare's coverage of preventive services is poor and it fails to provide dental care. Medicare also fails to cover overseas health care costs – leaving seniors in a bind if they travel abroad and need to access health care. Medicare coverage is so insufficient that over 90 percent of beneficiaries have some other form of coverage to fill in gaps in Medicare coverage.[42]

FEHBP offers generous health care coverage options precluding the need for supplemental coverage. All plans cover basic hospital, surgical, physician, and emergency care. FEHBP plans follow the guidelines on preventive care for children recommended by the American Academy of Pediatrics and base preventive care requirements on accepted

medical practice. All plans cover prescription drugs and mental health care with parity to general medical care coverage.

Unlike Medicare, there are limits on an enrollee's total out-of-pocket costs for a year. Once an enrollee's covered out-of-pocket expenditures reach the catastrophic limit – which differs based on the chosen health care plan – the plan pays 100 percent of covered medical expenses for the remainder of the year. Walton Francis, a health care economist, writes "FEHBP has outperformed original Medicare in every dimension of its performance. It has better benefits, better service, catastrophic limits on what enrollees must pay, and far better premium cost control."

Greater Access

FEHBP is superior to Medicare in providing access to physicians, health plans, and rural health coverage. Almost every doctor – 99 percent of physicians – accepts national FEHBP plans, while only 73 percent of doctors are taking new Medicare patients. The American Medical Association reports that nearly one-third (31 percent) of primary care doctors refuse to see Medicare patients. In addition to paperwork and bureaucratic concerns, Medicare pays just 78 percent of what private insurers pay, such as those in FEHBP.[43]

More Choice

FEHBP enrollees have, on average, a choice of between 12 and 20 plans.[44] Offering more choice will allow seniors to choose plans that specialize in providing the particular benefits they need most. Some seniors will gravitate toward plans known for their success in managing particular diseases or conditions. Still others will choose plans based on superior customer service. Many seniors will make their choices based on consumer satisfaction rates. Whether it's the product, price, quality or other measure, seniors will be in the driver's seat instead of politicians and bureaucrats.

Higher Quality

One way to measure quality is to compare private plans contracting under Medicare with traditional Medicare benefits. These "Medicare Advantage (MA)" plans are achieving fewer admissions, re-admissions, and hospital days than conventional Medicare.[45] Data from the Journal of the American Medical Association (JAMA) and the National Committee for Quality Assurance (NCQA) demonstrate Medicare Advantage plans outperform traditional Medicare in numerous quality measures.[46] Consumer satisfaction with FEHBP is consistently higher than traditional Medicare.[47] Unsurprisingly, patients are happier with a plan they choose and can hire and fire at will. If a plan isn't meeting their needs, they can hold it accountable by choosing one of the plan's competitors. This kind of consumer accountability currently doesn't exist in traditional Medicare today, which loses at least $60 billion to fraud, waste, and abuse each year.[48]

Improved Health Care Marketplace.

Thomson Reuters estimates that as much as $700 billion per year is wasted on unnecessary care in our health care system.[49] Medicare is largely to blame, by creating economic incentivizes for patients and providers to unnecessarily increase the consumption of health care.

The Soviet Union, at the height of its centrally planned economy, could never efficiently or accurately determine the price of goods and services. Similarly in America, government bureaucrats and politicians are trying to figure out the price of a bone density "DEXA" scan. One of the most important aspects of the CHCSA is to get the federal government out of the price-setting business and move toward real price competition. There will never again be the need to pass a "doc-fix" or convince federal bureaucrats of the worthiness of individual procedures. Seniors will demand the care they need and deserve, and supply and demand will determine costs.

Transforming Preventative Health and Chronic Disease Management.

Seniors enrolling in a FEHBP plan at age 65 are given the option of staying with that plan indefinitely. As plans compete with other plans based on price and quality, their ability to hold costs down for their existing patients is central to their business model. The result? A renewed emphasis on preventive care and chronic disease management that saves lives.

Even more broadly, however, is the potential for this plan to drive a paradigm shift in health care for those under 65. Many of the private insurers within FEHBP will be covering patients both before and after they become eligible. The CHCSA allows employers to participate in the plan so that their employees have the option to keep their health care. At the same time, many of the major insurance companies in the broader health insurance industry participate in FEHBP and will be competing for their own patients' business, which gives them special incentive to keep and attract their patients.

Less Bureaucracy

Medicare is governed by a dizzying array of rules and regulations detailed in thousands of pages of statutory and regulatory requirements. The program takes over 4,000 federal bureaucrats to administer. FEHBP, in comparison, is run by fewer than 200 people; dramatically increasing the number of patients in FEHBP will not require a significant expansion in administrative costs or new bureaucracy because of the limited associated regulation.[50]

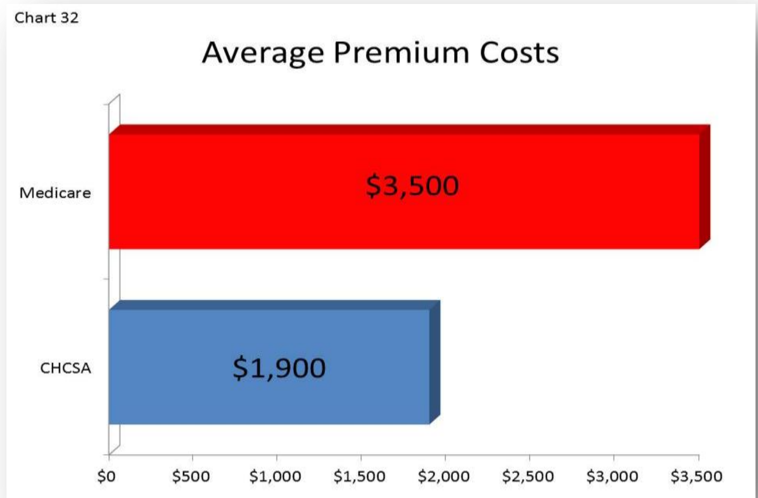
Doctors or hospital administrators spend inordinate amounts of time on paperwork and administrative tasks. Up to $150 billion is estimated to be wasted every year due to redundant paperwork.[51] By putting individual patients rather than faceless bureaucrats in Washington, D.C. in charge, we can redirect health care providers' accountability to the

patients they serve.[52] We will no longer need Medicare's thousands of pages of rules, regulations, and reporting requirements.

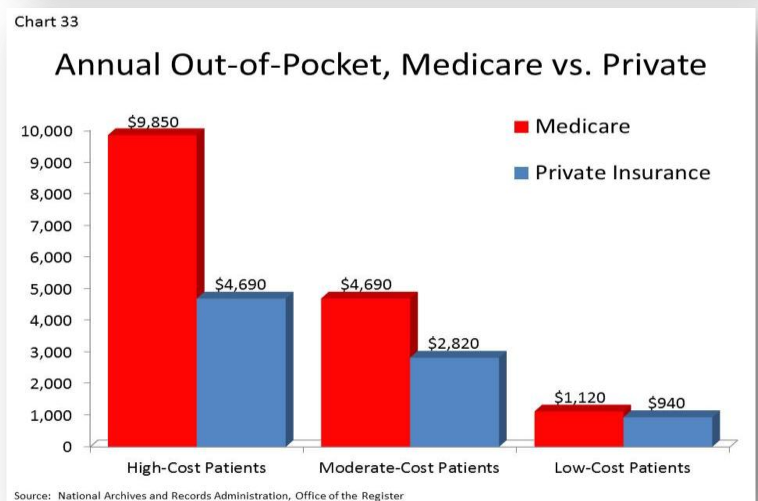
Lower Personal Health Care Costs for Seniors

Under the Congressional Health Care for Seniors Act, many seniors can expect to pay less on average each year for their health care. An individual senior budgets for his or her health care costs based on the total premiums he or she pays coupled with any additional out-of-pocket costs. Under the CHCSA, seniors will have real insurance that caps their total costs each year. Additionally, the CHCSA will provide seniors with huge savings on their premium costs.

The average premium for a senior under the CHCSA will be an estimated $1,900 per year.[53] This premium is significantly less than Medicare's premium structure when the cost of supplemental policies is considered. Currently, seniors pay upwards of $1,200 per year in Part B premiums and roughly $425 for Part D premiums.[54] The average supplemental insurance plan – of which over 90 percent of seniors have – is roughly $1,750-$2,000.[55] Thus, a senior's premiums are approximately $3,500 annually on average under Medicare.



Not only will premiums be significantly less and out of pocket exposures capped at reasonable amounts, average out of pocket exposure will be roughly equal. A report by the Kaiser Family Foundation found that in 2007, costs paid by individuals were 26 percent of Medicare's overall costs compared to just 17 percent for the FEHBP standard option.[56]



An analysis of the 2007 Medical Expenditure Panel Survey shows that even with seniors' extreme aversion to risk and overly generous supplemental insurance policies, they continue to pay large sums on top of their premiums out of pocket. Chart 33 shows the difference in out-of-pocket costs between Medicare beneficiaries and those on

private health insurance.[57] The moderate and high-cost patients pay more under Medicare.

This data tracks with independent estimates of personal health care costs. The Kaiser Family Foundation estimates that total personal costs were $4,241 on average per person in 2010.[58] The majority of this spending was for premiums (39 percent) and non-covered Medicare costs including the cost of supplemental insurance premiums (25 percent).

AARP reported annual median out-of-pocket Medicare spending as $3,103 in 2006, based on data from the most recent Medicare Current Beneficiary Survey.[59] These out-of-pocket costs include all personal costs, including premiums and cost-sharing under Medicare Part B and premiums for supplementary policies carried by more than 90 percent of beneficiaries. The report also indicated that 10 percent of Medicare beneficiaries — over 4 million seniors – spent more than $8,300 of their own money on health care per year.

The CHCSA limits out-of-pocket exposure through a "catastrophic cap" and allows seniors to choose better cost-sharing arrangements to meet their individual needs. No longer will there be a need to buy a supplemental insurance policy to cover what Medicare fails to provide, even for high cost patients. For example, the popular Blue Cross Blue Shield Standard Option pays a higher percentage of costs than Medicare for high-cost patients: 86 percent compared to 81 percent.[60] These patients have an out of pocket cost of $9,850 under Medicare compared to just $7,430 per year in the Blue Cross Standard Option.[61] Exact annual spending costs for individual seniors under the CHCSA are difficult to predict, but a reasonable estimate based on this data (equal or only marginally higher out of pocket costs and significantly cheaper premiums) would be an average annual savings of $1,500 – roughly one-third lower than their current spending.

Lower Costs for Taxpayers

Solving Medicare's problems is the only way to preserve the program for future generations. The Congressional Health Care for Seniors Act saves the Medicare program $1 trillion over 10 years and reduces unfunded obligation by $16 trillion over the next 75 years.

To put that number in perspective, the Medicare Board of Trustees recently reported that Medicare currently has unfunded liabilities of $36.8 trillion over the 75-year horizon. This plan solves almost half of the problem without resorting to the budget gimmicks and massive payment cuts to doctors and providers assumed by the Medicare Trustees.

Asking Members of Congress and Federal Employees to Share the Burden

Federal employees may be opposed to the Congressional Health Care Plan for Seniors because incorporating the elderly into their plan will cause their premiums to increase. However, it is important to understand the actual impact on federal employees once these reforms are implemented.

Placing seniors into FEHBP – coupled with a separate risk pool for the top 5 percent of patients in costs – will increase premiums by roughly 24 percent.[62] The average premium for a federal employee is currently $5,250 and would increase to about $6,800 in year. An individual federal employee would be liable for $400 more per year of their own health care costs.

But the federal workforce already receives generous benefits and compensation. The typical federal worker receives hourly wages 22 percent higher than comparable private-sector workers. In non-cash benefits – such as health care – the federal government provides over triple the compensation of the average private sector worker - $32,115 vs. $9,882 respectively.[63] Federal employees get more paid leave and receive other perks such as student loan repayments and on-site child care. The overall compensation of the average federal worker is between 30-40 percent higher than a similar private sector worker.[64]

Moreover, federal employees experience unprecedented job security while their private-sector counterparts face the constant risks and challenges of a reeling economy. Federal agencies rarely lay off employees for poor performance. As our economy has lost millions of jobs over the past few years, the federal government has hired hundreds of thousands of new employees.[65]

Asking federal employees to pay $400 more per year amounts to just a fraction of the difference in non-cash compensation received each year. Yet combining the Medicare population with federal employees provides for a stable, well-functioning health care market to welcome the senior population and reduced total costs to the U.S. taxpayer.

The federal government has made a commitment to provide for the health care needs of two separate populations. Politicians and their staff are receiving excellent health care. The other group, the elderly and disabled, have received substandard care in a broken health care program. The solution is for federal employees to pay more for their health care and to share it with seniors in need of better coverage.

The Unsustainability of the Status Quo

The Congressional Health Care for Seniors Act would be a better option for our nation's seniors and future retirees no matter what the fiscal climate. There is urgency, however, to adopt this plan. Medicare is an already bankrupt program that will not be able to pay its bills as early as 2016 and definitely no later than 2024.

Medicare is facing demographic challenges as the baby boomer generation retires. But the real problem is exploding health care costs, growing at twice the rate as the rest of the economy. The Medicare Trustees indicate that the unfunded obligation for the program over the next 75 years is $24.4 trillion.[66] The Trustees and Medicare's top actuary agree that this estimate is based on overly optimistic assumptions, calling the projections unrealistic and explaining they would lead to severe access issues for seniors and put many doctors and hospitals out of business. As stated previously, a more realistic figure put out by the Trustees indicates Medicare is in the hole $36.8 trillion over the next 75 years.[67] In order to balance Medicare's books, the federal government would need to come up with $36.8 trillion immediately or $335,350 per family.

Medicare's Hospital Insurance (HI) Trust Fund is already bleeding red, borrowing $32 billion this year and projecting deficits indefinitely. On top of these deficits, the program is relying on selling Treasury bonds held in the Medicare Trust Fund which has no funds and increases the federal deficit.

Another way to illustrate Medicare's financial problems is to take a snapshot of the year 2035. That year, under the status quo, 63 percent of the costs of the program are unaccounted for – 38 percent is slated to be paid for out of general revenues and 25 percent of the program is supposed to come from the insolvent Trust Fund. The overall costs of Medicare will be $1.7 trillion, 6.7 percent of GDP, and $1.1 trillion will need to be found through benefit cuts, higher taxes, or massive borrowing. Compare Medicare's year 2035 with the Congressional Health Care for Seniors Ac, under which total expenditures will be just $1.2 trillion – 4.7 percent of GDP and there will be no holes in the program's financing.

Conclusion: What's Good for the Goose is Good for the Gander

Medicare plans previously put forward by elected officials have been demagogued, with opponents even resorting to television advertisements showing an elderly woman being pushed off of a cliff. Those wanting to make Medicare better are not insensitive to the needs of seniors and the promises the country has made to them. On the contrary, Congressional Health Care for Seniors Act is an improvement in the health care services we offer to seniors. Members of Congress receive the best health care in the world. Why not share it with seniors?

In short, what's good for the goose is good for the gander. The Congressional Health Care for Seniors Act is a common-sense, limited-government, affordable alternative to the top-down, command-and-control Medicare system we have today. It provides seniors with the best health care in the world at a lower personal cost. In doing so, this plan saves the Medicare program from fiscal disaster and puts our country on better financial footing.

Regulatory Reform

A robust economy is the hallmark of the American system. However, in recent years, our economic growth has been slowed by excessive and burdensome regulatory mandates. While our society has accepted a certain amount of regulation, it must also be acknowledged that regulations distort the economy and, in excess, hamper economic growth – resulting in rising costs, lowered income, and fewer jobs.

Regulations have a critical impact on the ability of businesses to create and sustain job growth. When businesses are forced to spend money to comply with excessive and complicated mandates, they have fewer resources to direct toward more productive ends, such as growing their payrolls and adding new lines of business. Unfortunately, there is a pervasive – and erroneous – belief among many in the regulatory state that forcing businesses to spend money to comply with regulations actually creates jobs.

President Obama and his allies tout the millions of "green jobs" they say will be created by requiring businesses to comply with expensive new mandates. However this ignores the difficult tradeoffs that must be made between costs and benefits: the money that industry spends on compliance might have been better spent on creating long-term employment opportunities elsewhere.

As previously mentioned in this budget, this way of thinking is a classic economic fallacy, identified in the 1850s by the French economist Frederic Bastiat,. Is it a good or a bad thing, Bastiat asked, if someone breaks a shopkeeper's window? Superficially, it's a good thing – the glassmakers and window repair men are kept busy and paid. But it comes at the expense of other goods and services that the shopkeeper would have purchased if he didn't have to pay to repair the window. While those other goods and services would have actually improved the lot of the shopkeeper and his customers, breaking and replacing the window enhanced nothing.

Regulation also hinders economic growth by creating a climate of uncertainty – businesses cannot plan effectively for the future when they are left to guess about the size and scope of forthcoming regulatory mandates. The inability to plan reduces the ability of businesses to expand, invest and hire. In turn, the economy retracts. Richard Fisher of the Federal Reserve Bank of Dallas put it this way:

> Operating a business under conditions of excessive uncertainty is like playing a game where you don't know the rules. Without rules, it is impossible to develop a strategy or a playbook. Businesses are forced to call a time-out: They remove their players from the field and anxiously wait on the sidelines until they have a better idea of how to play the game. Too much uncertainty can create economic stasis as more and more decisions get delayed, retarding commitments to expansion of payrolls and capital expenditures and slowing the entire economy.[68]

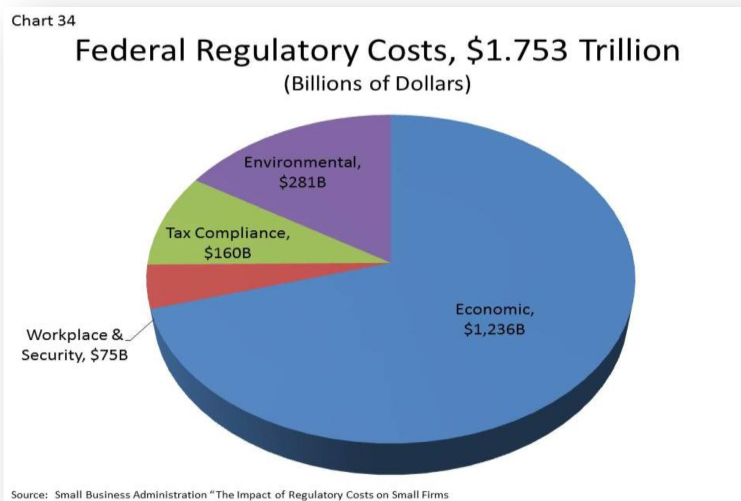
This concept was recently illustrated in a very real way in the behavior of California's manufacturing sector. Between 2003 and 2007, California lost 79,000 jobs while other states in the U.S. gained 62,000 manufacturing jobs over the same period.[69] According to a study that examined the phenomenon, a significant part of the problem was that "regulations change so often in California that it's difficult for companies to plan. The state enacted an average of 15 changes in labor law each year from 1992 to 2002, four times more than state legislatures averaged nationwide."[70]

Uncertainty and complexity in the regulatory sector continues to be a real and paramount issue for industries throughout the United States as more and more mandates are handed down by the government. Consider the Dodd-Frank law of 2010. The *Economist* recently pointed out that, at 848 pages, the law is 23 times longer than Glass-Steagall, the reform that followed the Wall Street crash of 1929.[71] The bill is rife with areas left to be "filled in" by regulators – a section on the "Volcker rule," intended to curb risky proprietary trading by banks, includes 383 questions that break down into 1,420 sub questions.[72] This has left the industry struggling to make sense of a rule that is "partly unintelligible and partly unknowable" – of the 400 rules mandated, only 93 have been finalized.[73]

Regulations have serious consequences for economic growth. Excessive regulatory mandates require companies to constantly shift resources toward consideration of and compliance with excessive and unpredictable mandates. In doing so, companies have fewer resources left over to create well-paying jobs, expand their enterprise, or invest in resource development. The slow-down in economic growth ultimately reduces wealth creation, and makes everyone poorer.

Cost of Regulation

The costs of federal regulations are enormous. One study, commissioned by President Obama's Small Business Administration, recently estimated the annual cost of regulations to be $1.75 trillion, annually. To put that number in context, $1.75 trillion is nearly twice the amount of all individual income taxes collected in 2010.[74] From a global perspective, U.S. regulatory costs of $1.75 trillion now exceed the entire 2008 gross incomes of both Canada and Mexico. Combining regulatory costs with FY 2010 outlays, the federal government's share of GDP now reaches an astonishing 35.5 percent.[75]



On an individual level, the costs of regulations are an expensive and burdensome hidden tax. Businesses with 500 employees or more now pay $7,775 per year, on average, to comply with federal regulations.[76] For businesses with fewer than 20 employees, that number jumps to $10,585 per employee.[77] Each household pays, on average, $15,586 to comply with the regulatory burden.[78] It is worth noting that these assessments were done without taking into consideration the approximately 450 new regulations that will result from the recent health care and financial reform laws.[79]

Concern over regulatory mandates continues to rise among businesses. In a recent survey by the National Federation of Independent Businesses (NFIB), "unreasonable government regulations" rose three spots in the rankings of top business concerns, with 21 percent of owners rating the problem as critical. NFIB estimates that compliance with regulations costs business owners over $100 million per rule.[80] State and county laws that sometimes duplicate federal laws further raise the cost and frustration level.

Table 5

Per-Employee Regulatory Costs Higher for Small Firms (2008)

Category	Regulatory Cost per Employee
Large > 500 employees	$7,755
Medium 20-499 employees	$7,454
Small < 20 employees	$10,585

While the tangible, monetary burden of regulations is immense, what is notable about the true costs of regulation is that they are largely "off budget." Almost all of the costs of regulation are realized in the private sector. Despite the fact that these mandates are incurred at the behest of the government, they are subject to none of the oversight and discipline that applies to direct government spending, such as authorization, appropriation, budgeting and taxing. The true costs of regulation are hidden. As Christopher DeMuth of the American Enterprise Institute put it, the cost of regulations are "relatively stealthy: they take the form not of taxes or scary headlines about public spending, but rather of higher prices for private goods and services and foregone employment and other opportunities."[81] These costs are usually invisible to the individuals who ultimately pay for them in higher prices, lower wages, and lost opportunities. Higher prices are not as overt as they would be if applied by taxes, and lost opportunities are difficult to notice – plants that were never built in the first place, or that slowly decline as production moves to other countries with less stringent regulations, attract little political attention.[82] To echo Bastiat, the true costs of regulation are not evident in what is seen, but what is unseen.

Policy Recommendations

The regulatory state has effectively become an unchecked and unconstrained Fourth Branch of government. Without reform, it will continue to drag us down a path of unfettered taxing and spending while stifling vibrant industries and threatening our economic growth. We need to repeal the onerous regulations on industry and free up businesses to

innovate and invest as they see fit. But repeal in and of itself is not enough. Onerous regulations did not spring up independently. Rather, burdensome regulations are a symptom of a much larger, institutional crisis that lies within our regulatory structure. To truly reform the regulatory burden, we must first reform the regulatory process. Institutional incentives and processes must reflect an honest and transparent approach to regulating – one that is goal-oriented, rigorously analyzed, and truly reflective of economic realities.

Policy Proposal: *Apply Regulatory Analysis Requirements to Independent Agencies*

Independent agencies, such as the Federal Communications Commission (FCC), the Securities and Exchange Commission (SEC), and the new Consumer Financial Protection Bureau (CFPB), among others, have never been subject to the same regulatory analysis requirements that apply to other agencies. Yet, these agencies have issued close to 100 rules in the last ten years.[83] And as a result of the *Dodd-Frank Wall Street Reform and Consumer Protection Act*, the CFPB, the SEC and the CFTC are becoming more active in the regulatory sector.

Incorporating these independent agencies into the regulatory analysis requirements – to which executive branch agencies are already subject – is a straightforward and long overdue first step toward comprehensive regulatory reform. As a matter of policy, this proposal should be noncontroversial – independent agencies qualify as such not because of what they do, but because Congress has chosen to limit the power of the President to remove their top officials. If the goal is to ensure more rationality in regulation, the independent agencies deserve inclusion no less than others.

Policy Proposal: *Pass the Regulations from the Executive in Need of Scrutiny (REINS) Act*

The REINS Act seeks to address one of the distinctive features of American regulatory policy – the large-scale delegation of lawmaking authority from Congress to the Executive Branch. Over the last century, there has been an unprecedented amount of authority delegated to agencies by Congress, at the expense of their ability to review how that authority is exercised.

The REINS Act seeks to correct that imbalance by requiring all major regulations – that is, regulations with an economic impact of over $100 million – to be approved by an up-or-down Congressional vote before they can take effect. In requiring this, REINS allows Congress to re-assert its lawmaking authority over regulatory agencies to ensure that the agency has produced a rule that reflects what Congress intended.

The need for this type of review mechanism is obvious. Agencies frequently overstep their statutory mandates and regulate in a way that is inconsistent with what Congress intended. For example, the following are examples of

agency regulations or guidance documents put forward in the last two years that are in direct violation of Congressional intent:

- ***Greenhouse Gas Regulations***; This set of rules will regulate carbon emissions from multiple sources, including cars, factories, hospitals, schools, churches, farms, and businesses. Together, they could constitute the most costly and intrusive set of rules in U.S. history. Congressman John Dingell, one of the authors of the *Clean Air Act*, stated that "the *Clean Air Act* was not designed to regulate greenhouse gases, as the then-Chairman of the House Energy and Commerce Committee, I know what was intended when I wrote the legislation. I have said from the beginning that such regulation will result in a glorious mess and regulation of greenhouse gas emissions should be left to Congress."[84]
- ***The Grain Inspection, Packers & Stockyards Administration (GIPSA) Rule***; This rule will fundamentally alter the market rules for the sale of poultry and livestock in this country. Over 120 Members of Congress have signed letters to the Department affirmatively stating that this rule represents a drastic overstep of what Congress directed the agency to develop in the 2008 Farm Bill.[85]
- ***EPA Jurisdictional Guidance for the Implementation of the Clean Water Act***; This guidance will expand federal government jurisdiction over water and land that is currently regulated by the states. The text of the guidance is almost exactly the same as the *Clean Water Restoration Act,* which was introduced in the 111th Congress, and which Congress refused to pass. The EPA decided to regulate anyway.[86]
- ***Network Neutrality***; In perhaps the most blatant subversion of Congressional intent to date, the FCC has promulgated this regulation despite the fact that Congress has failed to pass this as legislation upon three separate introductions, and one vote in which the concept was rejected in the House by a vote of 269 to 152.[87] Even more appalling is the fact that the FCC promulgated this rule in the face of an appeals court ruling in which the court unanimously and authoritatively stated that the FCC did not have the right to engage in Internet regulation.[88] Despite these stinging rebukes from the courts and Congress, FCC Chairman Julius Genachowski stated he would find a way to regulate anyway.[89]

Congress currently has limited means to combat agencies like the FCC, which are bent on regulating in the face of all opposition. The REINS Act will correct this imbalance by giving Congress the final authority over regulations, rather than unelected bureaucrats.

Ultimately, the REINS Act will restore two elements that are very much absent from the current regulatory scheme – transparency and accountability. Members of Congress are known as lawmakers precisely because it is their job to make the law. And while all statutes are still generated by Congress, the actual substance of the law is now routinely made by regulatory agencies. This has allowed Congress to game the system. On one hand, Congress can pass a measure like Dodd-Frank and take "credit" for protecting Americans from the excesses of the financial system, while

on the other chastise the agencies for writing and implementing the burdensome regulatory directives that Congress itself ordered created. The regulatory process has become a handy shield for legislators to pat themselves on the back while pushing off unpopular policy decisions to regulatory agencies. John Quarles, EPA's first general counsel, noted this distinction, remarking that the regulatory system Congress has designed for itself provides "a handy set of mirrors – so useful in Washington – by which a politician can appear to kiss both sides of the apple."[90]

The REINS Act is not anti-regulatory; it is not about regulation bashing or about haranguing individual agency actions. At its crux, REINS simply represents good government – where elected representatives vote openly and transparently for major regulatory initiatives, and take accountability for decisions impacting our economic future. It is a critical component to meaningful regulatory reform.

Policy Proposal: *Sunset on Regulations*

The lack of meaningful, substantive review of existing regulations is a serious problem in the regulatory sphere.

Without a mandate for retrospective analysis of effectiveness, cost or continued utility, regulations pile on year after year, falling into what Milton Friedman called the "tyranny of the status quo" – that is, once in place, regulations are incredibly difficult to eliminate. As a result, the size and scope of our regulatory mandates has become so large that one scholar refers to the American regulatory state as one of "ten thousand commandments."[91]

In 2011, President Obama asked agencies to review their existing rules and eliminate those that are unnecessary. However well intentioned, this request has resulted in the retraction of only one rule – the completely nonsensical requirement that farmers treat milk spills as if they were as environmentally hazardous as oil spills.[92] Plans for periodic review, such as those proposed by the President, will fall short if there are no consequences when an agency fails to scrutinize the regulations it has imposed. To ensure that meaningful substantive review actually takes place, regulations should automatically expire after two years if they are not explicitly reauthorized by Congress. Universal sunsets will force Congress and the President to justify the status quo and give reformers an opening to re-examine tradeoffs and shifting public priorities.

Policy Proposal: *Process Reform*

The process of regulating is complicated and opaque. For regulatory reform to truly incorporate the principles of transparency, flexibility and fairness, the process itself must be amended.

Codify the requirements for regulatory impact analysis

Currently, the only analysis requirements that agencies are subject to are found in non-binding Executive Orders issued by Presidential administrations. In theory, these Executive Orders are intended to guide agencies through the initial steps of regulating – the cost benefit analysis, reason for the regulation, the alternatives to regulating, and so on. However, the requirements laid out in Executive Orders are not overtly enforced by the Administration or judicially reviewable, and therefore have little sway over agency behavior. In fact, as Roger Hahn and Cass Sunstein[93] pointed out in a working paper, "there is some evidence that the existing orders have had little impact on what agencies actually do."[94] Their analysis – which has been replicated in depth by the Mercatus Center – suggests that the regulatory impact analysis (RIAs) performed by agencies are often "badly incomplete," missing some of the most basic information about both benefits and cost.[95] They go on to describe analysis with troubling deficiencies such as "inadequate treatment of alternatives, poor treatment of uncertainty, incomplete estimation of benefits and costs, as well as various methodological errors."[96] They conclude that agencies only "superficially comply with requirements" laid out in the Executive Orders, and that the "commitment to cost-benefit analysis is as much symbolic as real."[97]

It is clear that the RIA process needs reformation. We propose the following steps be taken to ensure that RIAs are taken seriously, are objective, and are sufficiently incorporated into the regulatory decision making process:

- **Statutorily require regulatory impact analysis for all agencies**. As discussed, executive branch agencies are currently only subject to non-binding RIA requirements laid out in Presidential Executive Orders. The result has been that agencies do not give these requirements much regard. Codifying these requirements in statute and making them subject to judicial review will ensure that RIAs are taken seriously by all regulating agencies.
- **Require the publication of RIAs (and the underlying data) before the regulation is actually written.** The goal of regulatory analysis is to provide knowledge about reality that can inform decisions. RIAs are intended to examine the consequences of different options that decision makers face – including the option of not regulating. However, research by the Mercatus Center suggests that regulatory impact analysis is often produced *after* key decisions have already been made.[98] To ensure that RIAs are objectively performed, agencies should be required to conduct and publish RIAs (along with underlying studies and

data) for public comment before the regulation is written. Such a step would not only force the agencies to conduct objective analysis that truly examine all regulatory alternatives, but it would allow the public to comment, replicate and improve upon the agency's analysis before a decision is made.[99]

- **Ensure that RIAs are not only conducted, but applied.** A major failing of the RIA process is that the analysis is neither thorough nor used. In fact, an analysis done by the Mercatus Center found that for 2008 and 2009, agency RIAs appeared to have influenced only about one-fifth of the proposed regulations.[100] Both of these problems can be mitigated by a third and final step which would require agencies to justify *why* a regulation is necessary. As Paul Joscow, a professor of economics at the Massachusetts Institute of Technology, notes:

> The case for government regulatory interventions must start, but not stop, with the identification and quantification of one or more market imperfections. It is impossible to regulate intelligently even under the best of circumstances, without a clear articulation of the nature of the market imperfections whose costs we are trying to ameliorate.[101]

RIAs must push agencies to consider the root cause of the systemic problem that the regulation seeks to solve (i.e.: the market failure), the alternative approaches to solving the problem, including the alternative of not regulating, as well as a full cost, benefit analysis of each alternative.[102] Requiring agencies to submit this data as a component of regulatory impact analysis will ensure that agencies consider all aspects and potential consequences of a regulation when making decisions.

Policy Proposal: *Incorporation of Formal Rulemaking for Major Rules*

The last step toward making the regulatory state transparent and reflective of economic realities is to require that major rules (those with an economic impact of $100 million or more) be subject to the formal rulemaking process.

The Administrative Procedures Act, which governs the federal rulemaking process, categorizes rulemaking as either formal or informal. Both have important consequences for the openness and rigor of the agency rulemaking. Today, nearly all the regulations put forward by agencies are subject to the informal rulemaking process. The requirements of informal rulemaking are scant – agencies are simply required to give notice of their intent to regulate, receive comments in writing from interested parties, and issue a statement of the rule's basis and purpose. Informal rulemaking sets a very low threshold for federal intervention and limits the ability of the public to understand or participate in the regulatory process. The informal rulemaking process is increasingly seen as arbitrary and abusive. As Dr. Robert Moffit of the Heritage Foundation has noted, the "informal process of mere 'notice and comment' is a recipe for backroom deals and special interest lobbying."[103]

In the interest of transparency, Congress can end secretive regulation by restoring the formal rulemaking process that was the norm until the 1970s. Formal rulemaking is conducted similarly to the civil procedures of a courtroom – evidence is publicly gathered and presented in an oral hearing presided over by an administrative law judge. The proceedings limit communications with the judge or other federal officials designated to preside over the hearing, making it much harder for special interests or politics to influence the final rule. Contending parties are given the opportunity to present opposing cases, and allowed to cross examine one another. Most importantly, it is the record of the proceedings – which requires "a full and true disclosure of facts" – that becomes the basis of the regulatory decision.[104]

Summary Tables

Reconciliation Note

The authorizing committees with jurisdiction over the programs mentioned in these functions would make final determinations about the program changes needed to meet the spending levels indicated, instructed through the reconciliation process.

Discretionary Function Totals

Fiscal Year (Millions of Dollars)	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	(2013-2022)
National Defense (050)												
BA	542,640	546,353	554,351	562,351	571,350	582,350	593,349	604,349	616,349	628,348	641,671	5,900,821
OT	552,934	579,046	579,727	565,854	571,650	574,288	578,787	594,219	605,702	617,424	635,448	5,902,145
International Asst. (150)												
BA	55,525	13,187	13,424	13,666	13,912	14,162	14,417	14,677	14,941	15,210	15,484	143,081
OT	52,668	22,313	16,356	12,447	12,671	12,899	13,131	13,368	13,608	13,853	14,103	144,750
Gen. Science, Space, Tech (250)												
BA	29,721	19,486	19,837	20,194	20,557	20,927	21,304	21,687	22,078	22,475	22,880	211,426
OT	31,053	18,791	19,094	18,393	18,724	19,061	19,404	19,753	20,109	20,471	20,839	194,638
Energy (270)												
BA	4,700	701	714	726	740	753	766	780	794	809	823	7,606
OT	13,976	1,660	1,039	662	674	686	698	711	723	736	750	8,338
Nat. Resources/Environ (300)												
BA	34,718	20,863	21,239	21,621	22,010	22,406	22,809	23,220	23,638	24,064	24,497	226,366
OT	40,032	20,904	20,724	19,693	20,047	20,408	20,775	21,149	21,530	21,918	22,312	209,458
Agriculture (350)												
BA	6,872	4,733	4,818	4,905	4,993	5,083	5,175	5,268	5,363	5,459	5,557	51,354
OT	6,855	4,194	4,505	4,467	4,548	4,630	4,713	4,798	4,885	4,972	5,062	46,773
Commerce/Housing (370) (on-budget)												
BA	1,463	2,901	2,953	3,006	3,060	3,116	3,172	3,229	3,287	3,346	3,406	31,476
OT	1,211	1,995	2,555	2,738	2,788	2,838	2,889	2,941	2,994	3,048	3,102	27,887
Transportation (400)												
BA	33,685	25,031	25,569	26,133	26,747	27,391	28,110	28,852	29,613	30,383	31,191	279,019
OT	88,818	77,635	77,589	79,173	80,651	81,681	80,490	82,177	83,113	84,207	85,580	812,295
Comm/Regional Devel. (450)												
BA	18,474	11,799	12,011	12,228	12,448	12,672	12,900	13,132	13,368	13,609	13,854	128,021
OT	23,487	11,508	11,608	11,137	11,337	11,542	11,749	11,961	12,176	12,395	12,618	118,031
Education/Training Employ (500)												
BA	92,374	37,750	38,430	39,121	39,825	40,542	41,272	42,015	42,771	43,541	44,325	409,592
OT	100,656	45,834	40,365	35,632	36,273	36,926	37,591	38,268	38,956	39,658	40,371	389,874
Health (550)												
BA	56,184	47,239	48,089	48,955	49,836	50,733	51,646	52,576	53,522	54,486	55,466	512,549
OT	60,679	41,255	44,749	44,589	45,391	46,208	47,040	47,887	48,749	49,626	50,519	466,012
Medicare (570)												
BA	6,323	6,645	0	0	0	0	0	0	0	0	0	6,645
OT	6,222	6,553	0	0	0	0	0	0	0	0	0	6,553
Income Security (600)												
BA	60,811	21,564	21,896	21,879	21,943	22,148	22,658	23,202	23,814	24,446	24,949	228,499
OT	66,181	21,722	21,729	21,796	21,830	22,009	22,465	22,993	23,588	24,213	24,731	227,076
Social Security (650) (on-budget)												
BA	100	0	0	0	0	0	0	0	0	0	0	0
OT	100	175	150	125	0	0	0	0	0	0	0	450
(off-budget)												
BA	5,722	5,868	6,043	6,223	6,418	6,616	6,838	7,071	7,304	7,543	7,796	67,720
OT	5,693	5,933	6,119	6,261	6,379	6,575	6,794	7,024	7,257	7,494	7,745	67,581
Veterans' Benefits (700)												
BA	58,684	60,792	62,452	64,174	66,040	67,946	70,077	72,319	74,568	76,874	79,293	694,535
OT	58,824	61,656	62,998	64,261	65,615	67,366	69,442	71,643	73,885	76,160	78,560	691,586
Justice (750)												
BA	50,556	39,187	39,892	40,610	41,341	42,086	42,843	43,614	44,399	45,199	46,012	425,184
OT	52,573	35,293	37,504	36,988	37,654	38,332	39,022	39,724	40,439	41,167	41,908	388,032
General Govt (800)												
BA	16,767	16,880	17,008	17,186	17,325	17,645	17,912	18,232	18,596	18,952	19,215	178,951
OT	20,006	13,845	15,572	15,716	15,853	16,085	16,332	16,612	16,925	17,251	17,527	161,717
Net Interest (900)												
BA	0	0	0	0	0	0	0	0	0	0	0	0
OT	0	0	0	0	0	0	0	0	0	0	0	0
Allowances (920)												
BA	0	0	0	0	0	0	0	0	0	0	0	0
OT	0	0	0	0	0	0	0	0	0	0	0	0
Offsetting Receipts (950)												
BA	0	0	0	0	0	0	0	0	0	0	0	0
OT	0	0	0	0	0	0	0	0	0	0	0	0
Global War on Terrorism (970)												
BA	126,544	50,000	0	0	0	0	0	0	0	0	0	50,000
OT	126,544	50,000	0	0	0	0	0	0	0	0	0	50,000
Congressional Health Insurance for Seniors (990)												
BA	0	3,125	3,135	3,210	3,278	3,342	3,406	3,470	3,534	3,598	3,662	33,757
OT	0	3,125	3,135	3,210	3,278	3,342	3,406	3,470	3,534	3,598	3,662	33,757
Discretionary Total												
BA	1,201,863	934,104	891,861	906,188	921,824	939,918	958,654	977,693	997,939	1,018,340	1,040,081	9,586,602
OT	1,308,512	1,023,435	965,519	943,141	955,362	964,874	974,728	998,696	1,018,172	1,038,189	1,064,838	9,946,953

Mandatory Function Totals

Fiscal Year (Millions of Dollars)	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	(2013-2022)
National Defense (050)												
BA	6,757	8,138	8,111	8,292	8,447	8,708	8,961	9,201	9,436	9,722	10,047	89,063
OT	6,692	8,003	8,080	8,354	8,531	8,789	9,038	9,275	9,506	9,790	10,110	89,476
International Asst. (150)												
BA	2,159	837	-622	-2,000	-2,960	-1,416	-396	-359	-322	-289	-267	-7,794
OT	-2,167	-1,633	-1,287	-1,024	-324	460	340	-1,241	-2,273	-2,312	-2,361	-11,655
Gen. Science, Space, Tech (250)												
BA	115	119	125	125	125	125	125	125	125	125	125	1,244
OT	122	123	128	125	125	125	125	125	125	125	125	1,251
Energy (270)												
BA	5,186	222	262	277	117	133	148	164	179	194	198	1,894
OT	4,366	1,222	1,310	987	127	143	158	174	189	204	205	4,719
Nat. Resources/Environ (300)												
BA	2,391	3,343	2,966	2,820	2,902	2,995	3,583	3,525	3,998	3,494	3,407	33,033
OT	2,210	2,960	3,204	3,171	3,131	3,163	3,655	3,598	3,911	3,643	3,475	33,911
Agriculture (350)												
BA	15,814	15,410	15,782	15,640	15,574	15,435	15,636	15,742	15,913	16,101	16,074	157,307
OT	12,791	18,061	15,418	15,075	15,080	14,919	15,051	15,191	15,382	15,542	15,521	155,240
Commerce/Housing (370)												
BA	40,825	9,485	9,984	9,326	8,937	12,083	12,692	13,139	13,643	14,102	14,414	117,805
OT	41,474	10,001	-3,107	-3,978	-6,990	-7,093	-8,654	-112	-820	-1,765	-2,872	-25,390
Transportation (400)												
BA	54,640	52,468	51,075	51,107	51,470	51,678	50,904	51,817	51,653	51,400	51,444	515,016
OT	2,353	2,565	2,560	2,696	2,752	2,758	2,780	2,792	2,827	2,871	2,915	27,516
Comm/Regional Devel. (450)												
BA	309	199	25	28	30	29	32	31	33	36	36	479
OT	1,141	1,931	1,728	1,624	1,388	312	-128	-126	-103	-70	29	6,585
Education/Training Employ (500)												
BA	-3,796	-3,852	-7,562	-6,253	-6,388	2,118	5,065	7,298	7,088	6,581	6,229	10,324
OT	4,828	-3,542	-7,432	-6,142	-6,403	96	5,513	7,692	8,429	8,071	7,549	13,831
Health (550)												
BA	301,637	290,920	300,308	310,665	315,321	324,210	334,248	344,439	364,187	365,100	376,446	3,325,845
OT	298,058	292,908	294,186	312,434	318,703	327,100	334,686	344,963	354,534	365,460	376,934	3,321,909
Medicare (570)												
BA	481,439	503,331	0	0	0	0	0	0	0	0	0	503,331
OT	481,439	503,659	0	0	0	0	0	0	0	0	0	503,659
Income Security (600)												
BA	473,296	333,561	340,820	340,284	347,373	346,106	348,429	362,636	372,901	383,773	397,906	3,573,789
OT	466,994	326,244	334,237	335,367	347,865	342,808	340,988	360,750	371,592	382,921	402,445	3,545,217
Social Security (650) (on-budget)												
BA	74,322	29,589	31,892	35,135	38,953	43,140	47,590	52,429	57,425	62,604	68,079	466,836
OT	74,322	29,589	31,892	35,135	38,953	43,140	47,590	52,429	57,425	62,604	68,079	466,836
(off-budget)												
BA	699,653	787,560	828,966	870,745	915,547	965,979	1,021,131	1,081,090	1,145,888	1,213,006	1,284,285	10,114,197
OT	696,098	783,980	825,156	866,570	911,047	961,079	1,015,731	1,075,290	1,139,888	1,206,706	1,277,185	10,062,632
Veterans' Benefits (700)												
BA	67,579	72,132	72,580	74,195	81,161	78,229	74,927	82,366	84,592	86,827	94,509	801,518
OT	67,438	72,004	72,473	74,106	81,083	78,160	74,861	82,300	84,524	86,754	94,435	800,700
Justice (750)												
BA	1,144	11,811	1,874	1,686	3,687	1,836	1,684	1,602	1,516	1,588	5,294	32,578
OT	1,898	2,820	3,422	3,227	5,158	3,427	3,272	2,139	1,512	1,551	5,243	31,771
General Govt (800)												
BA	7,396	4,382	4,406	4,400	4,437	4,469	4,558	4,661	4,631	4,670	4,718	45,330
OT	10,027	4,510	4,376	4,433	4,520	4,446	4,504	4,640	4,690	4,653	4,690	45,462
Net Interest (900)												
BA	224,064	183,281	184,653	211,497	283,109	361,394	440,040	501,224	536,534	565,473	588,933	3,856,138
OT	224,064	183,281	184,653	211,497	283,109	361,394	440,040	501,224	536,534	565,473	588,933	3,856,138
Allowances (920)												
BA	-45,400	-57,358	-71,118	-79,148	-92,742	-91,236	-86,010	-56,114	-58,063	-58,990	-55,589	-706,369
OT	-45,400	-57,358	-71,118	-79,148	-92,742	-91,236	-86,010	-56,114	-58,063	-58,990	-55,589	-706,369
Offsetting Receipts (950)												
BA	-91,535	-95,678	-96,030	-101,010	-104,680	-117,921	-123,045	-133,352	-138,451	-144,197	-150,911	-1,205,275
OT	-91,535	-95,678	-96,030	-101,010	-104,680	-117,921	-123,045	-133,352	-138,451	-144,197	-150,911	-1,205,275
Global War on Terrorism (970)												
BA	0	0	0	0	0	0	0	0	0	0	0	0
OT	0	0	0	0	0	0	0	0	0	0	0	0
Congressional Health Insurance for Seniors (990)												
BA	0	0	536,300	463,000	491,000	510,000	541,000	574,000	620,000	663,000	709,000	5,107,300
OT	0	0	529,000	465,600	491,000	508,000	539,000	572,000	618,000	661,000	707,000	5,090,600
Mandatory Total												
BA	2,317,995	2,149,900	2,214,797	2,210,811	2,361,419	2,518,093	2,701,302	2,915,664	3,092,906	3,244,320	3,424,377	26,833,590
OT	2,257,213	2,085,650	2,132,849	2,149,099	2,301,433	2,444,068	2,619,495	2,843,637	3,009,358	3,170,035	3,353,140	26,108,765

Function Totals

Fiscal Year (Millions of Dollars)	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	(2013-2022)
National Defense (050)												
BA	549,397	554,491	562,462	570,643	579,797	591,058	602,310	613,550	625,785	638,070	651,718	5,989,884
OT	559,626	587,049	587,807	574,208	580,181	583,077	587,825	603,494	615,208	627,214	645,558	5,991,621
International Asst. (150)												
BA	57,684	14,024	12,802	11,666	10,952	12,746	14,021	14,318	14,619	14,921	15,217	135,287
OT	50,501	20,680	15,069	11,423	12,347	13,359	13,471	12,127	11,335	11,541	11,742	133,095
Gen. Science, Space, Tech (250)												
BA	29,836	19,605	19,962	20,319	20,682	21,052	21,429	21,812	22,203	22,600	23,005	212,670
OT	31,175	18,914	19,222	18,518	18,849	19,186	19,529	19,878	20,234	20,596	20,964	195,889
Energy (270)												
BA	9,886	923	976	1,003	857	886	914	944	973	1,003	1,021	9,500
OT	18,342	2,882	2,349	1,649	801	829	856	885	912	940	955	13,057
Nat. Resources/Environ (300)												
BA	37,109	24,206	24,205	24,441	24,912	25,401	26,392	26,745	27,636	27,558	27,904	259,399
OT	42,242	23,864	23,928	22,864	23,178	23,571	24,430	24,747	25,441	25,561	25,787	243,369
Agriculture (350)												
BA	22,686	20,143	20,600	20,545	20,567	20,518	20,811	21,010	21,275	21,560	21,631	208,661
OT	19,646	22,255	19,923	19,542	19,628	19,549	19,765	19,990	20,266	20,514	20,583	202,013
Commerce/Housing (370)												
BA	42,288	12,386	12,937	12,332	11,997	15,199	15,864	16,368	16,930	17,448	17,820	149,281
OT	42,685	11,996	-552	-1,240	-4,202	-4,255	-5,765	2,829	2,174	1,283	230	2,497
Transportation (400)												
BA	88,325	77,499	76,644	77,240	78,217	79,069	79,014	80,669	81,266	81,783	82,635	794,035
OT	91,171	80,200	80,149	81,869	83,403	84,439	83,270	84,969	85,940	87,078	88,495	839,811
Comm/Regional Devel. (450)												
BA	18,783	11,998	12,036	12,256	12,478	12,701	12,932	13,163	13,401	13,645	13,890	128,500
OT	24,628	13,439	13,336	12,761	12,725	11,854	11,621	11,835	12,073	12,325	12,647	124,616
Education/Training Employ (500)												
BA	88,578	33,898	30,868	32,868	33,437	42,660	46,337	49,313	49,859	50,122	50,554	419,916
OT	105,484	42,292	32,933	29,490	29,870	37,022	43,104	45,960	47,385	47,729	47,920	403,705
Health (550)												
BA	357,821	338,159	348,397	359,620	365,157	374,943	385,894	397,015	417,710	419,586	431,913	3,838,394
OT	358,737	334,163	338,935	357,023	364,094	373,308	381,726	392,850	403,283	415,086	427,453	3,787,921
Medicare (570)												
BA	487,762	509,976	0	0	0	0	0	0	0	0	0	509,976
OT	487,661	510,212	0	0	0	0	0	0	0	0	0	510,212
Income Security (600)												
BA	534,107	355,125	362,716	362,163	369,316	368,254	371,087	385,838	396,715	408,219	422,855	3,802,288
OT	533,175	347,966	355,966	357,163	369,695	364,817	363,453	383,743	395,180	407,134	427,176	3,772,293
Social Security (650) (on-budget)												
BA	74,422	29,589	31,892	35,135	38,953	43,140	47,590	52,429	57,425	62,604	68,079	466,836
OT	74,422	29,764	32,042	35,260	38,953	43,140	47,590	52,429	57,425	62,604	68,079	467,286
(off-budget)												
BA	705,375	793,428	835,009	876,968	921,965	972,595	1,027,969	1,088,161	1,153,192	1,220,549	1,292,081	10,181,917
OT	701,791	789,913	831,275	872,831	917,426	967,654	1,022,525	1,082,314	1,147,145	1,214,200	1,284,930	10,130,213
Veterans' Benefits (700)												
BA	126,263	132,924	135,032	138,369	147,201	146,175	145,004	154,685	159,160	163,701	173,802	1,496,053
OT	126,262	133,660	135,471	138,367	146,698	145,526	144,303	153,943	158,409	162,914	172,995	1,492,286
Justice (750)												
BA	51,700	50,998	41,766	42,296	45,028	43,922	44,527	45,216	45,915	46,787	51,306	457,762
OT	54,471	38,113	40,926	40,215	42,812	41,759	42,294	41,863	41,951	42,718	47,151	419,803
General Govt (800)												
BA	24,163	21,262	21,414	21,586	21,762	22,114	22,470	22,893	23,227	23,622	23,933	224,281
OT	30,033	18,354	19,949	20,149	20,373	20,531	20,836	21,252	21,614	21,904	22,217	207,179
Net Interest (900)												
BA	224,064	183,281	184,653	211,497	283,109	361,394	440,040	501,224	536,534	565,473	588,933	3,856,138
OT	224,064	183,281	184,653	211,497	283,109	361,394	440,040	501,224	536,534	565,473	588,933	3,856,138
Allowances (920)												
BA	-45,400	-57,358	-71,118	-79,148	-92,742	-91,236	-86,010	-56,114	-58,063	-58,990	-55,589	-706,369
OT	-45,400	-57,358	-71,118	-79,148	-92,742	-91,236	-86,010	-56,114	-58,063	-58,990	-55,589	-706,369
Offsetting Receipts (950)												
BA	-91,535	-95,678	-96,030	-101,010	-104,680	-117,921	-123,045	-133,352	-138,451	-144,197	-150,911	-1,205,275
OT	-91,535	-95,678	-96,030	-101,010	-104,680	-117,921	-123,045	-133,352	-138,451	-144,197	-150,911	-1,205,275
Global War on Terrorism (970)												
BA	126,544	50,000	0	0	0	0	0	0	0	0	0	50,000
OT	126,544	50,000	0	0	0	0	0	0	0	0	0	50,000
Congressional Health Insurance for Seniors (990)												
BA	0	3,125	539,435	466,210	494,278	513,342	544,406	577,470	623,534	666,598	712,662	5,141,057
OT	0	3,125	532,135	468,810	494,278	511,342	542,406	575,470	621,534	664,598	710,662	5,124,357
Total												
BA	3,519,858	3,084,004	3,106,658	3,117,000	3,283,243	3,458,011	3,659,956	3,893,357	4,090,845	4,262,660	4,464,458	36,420,192
OT	3,565,725	3,109,085	3,098,368	3,092,240	3,256,795	3,408,942	3,594,222	3,842,333	4,027,530	4,208,224	4,417,978	36,055,717

Budget Totals

Fiscal Year		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	(2013-2022)
							(Billions of Dollars)						
Outlays													
	Mandatory	2,033	1,902	1,948	1,938	2,018	2,082	2,179	2,342	2,473	2,605	2,764	22,251
	Discretionary	1,309	1,023	966	943	955	965	975	999	1,018	1,038	1,065	9,947
	Net Interest*	224	183	185	212	283	361	440	501	537	565	588	3,855
	Total Outlays	3,566	3,108	3,099	3,093	3,256	3,408	3,594	3,842	4,028	4,208	4,417	36,053
Revenue													
	17% Flat Tax	2,523	2,313	2,468	3,031	3,225	3,519	3,879	4,144	4,423	4,712	4,918	36,632
Deficit (-) / Surplus		-1,043	-795	-631	-62	-31	111	285	302	395	504	501	579
Debt Held by the Public		11,242	12,089	12,812	12,966	13,076	13,017	12,784	12,534	12,191	11,739	11,290	na
							(Percentage of Gross Domestic Product)						
Outlays													
	Mandatory	13.1%	11.9%	11.6%	10.7%	10.5%	10.3%	10.2%	10.3%	10.3%	10.3%	10.3%	10.1%
	Discretionary	8.4%	6.4%	5.8%	5.2%	5.0%	4.8%	4.5%	4.4%	4.3%	4.1%	4.0%	4.6%
	Net Interest*	1.4%	1.1%	1.1%	1.2%	1.5%	1.8%	2.1%	2.2%	2.2%	2.2%	2.2%	1.7%
	Total Outlays	23.0%	19.4%	18.5%	17.1%	17.0%	16.8%	16.8%	17.0%	16.8%	16.6%	16.5%	16.4%
Revenue													
	17% Flat Tax	16.3%	14.5%	14.7%	16.8%	16.8%	17.3%	18.1%	18.3%	18.5%	18.6%	18.4%	16.4%
Deficit (-) / Surplus		-6.7%	-5.0%	-3.8%	-0.3%	-0.2%	0.5%	1.3%	1.3%	1.7%	2.0%	1.9%	0.0%
Debt Held by the Public		72.5%	75.5%	76.3%	71.7%	68.1%	64.1%	59.6%	55.4%	51.0%	46.4%	42.2%	na
Memorandum:													
Gross Domestic Product (A)		15,508	16,002	16,792	18,084	19,201	20,300	21,432	22,634	23,918	25,282	26,767	na

* - Assumes higher interest rates (1990's average) than those estimated in Jan 2012 CBO baseline

** Numbers may not add due to rounding

(A) See Appendix Figure 7

Budget Comparisons

Fiscal Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	(2013-2022)
					(Billions of Dollars)						
President's FY2013 Budget											
Revenues	2,902	3,215	3,450	3,680	3,919	4,153	4,379	4,604	4,857	5,115	40,274
Outlays	3,803	3,883	4,060	4,329	4,532	4,728	5,004	5,262	5,537	5,820	46,958
Deficit (-) / Surplus	-901	-668	-610	-649	-613	-575	-625	-658	-680	-705	-6,684
CBO Baseline											
Revenues	2,988	3,313	3,568	3,784	4,039	4,243	4,456	4,680	4,926	5,181	41,178
Outlays	3,573	3,658	3,836	4,086	4,259	4,439	4,714	4,960	5,205	5,520	44,250
Deficit (-) / Surplus	-585	-345	-268	-302	-220	-196	-258	-280	-279	-339	-3,072
CBO Fiscal Alternative Scenario(1)											
Revenues	2,680	2,904	3,126	3,324	3,556	3,732	3,915	4,100	4,305	4,513	36,155
Outlays	3,661	3,820	4,024	4,305	4,516	4,738	5,059	5,353	5,649	6,008	47,133
Deficit (-) / Surplus	-981	-916	-898	-981	-960	-1,006	-1,144	-1,253	-1,344	-1,495	-10,978
A Platform to Revitalize America by Senator Rand Paul											
Revenue	2,313	2,468	3,031	3,225	3,519	3,879	4,144	4,423	4,712	4,918	36,632
Outlays	3,108	3,099	3,093	3,256	3,408	3,594	3,842	4,028	4,208	4,417	36,053
Deficit (-) / Surplus	-795	-631	-62	-31	111	285	302	395	504	501	579
					Difference Between Alternative Budget Baselines and Senator Paul's Budget						
Senator Paul Budget vs. President's FY2013											
Revenues	-589	-747	-419	-455	-400	-274	-235	-181	-145	-197	-3,642
Outlays	-695	-784	-967	-1,073	-1,124	-1,134	-1,162	-1,234	-1,329	-1,403	-10,905
Deficit (-) / Surplus	-106	-37	-548	-618	-724	-860	-927	-1,053	-1,184	-1,206	-7,263
Senator Paul Budget vs. CBO Baseline											
Revenues	-675	-845	-537	-559	-520	-364	-312	-257	-214	-263	-4,546
Outlays	-465	-559	-743	-830	-851	-845	-872	-932	-997	-1,103	-8,197
Deficit (-) / Surplus	210	286	-206	-271	-331	-481	-560	-675	-783	-840	-3,651
Senator Paul Budget vs. Fiscal Alternative Scenario											
Revenues	-367	-436	-95	-99	-37	147	229	323	407	405	477
Outlays	-553	-721	-931	-1,049	-1,108	-1,144	-1,217	-1,325	-1,441	-1,591	-11,080
Deficit (-) / Surplus	-186	-285	-836	-950	-1,071	-1,291	-1,446	-1,648	-1,848	-1,996	-11,557

(1) The Alternative Fiscal Scenario assumes all '01 and '03 tax relief is extended, including the alternative minimum tax is indexed for inflation; the Doc Fix is held constant at current levels; and automatic sequestration in the Budget Control Act do not take effect.

Major Categories

Fiscal Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	(2013-2022)
Major Policy, Budget Authority						(Billions of Dollars)						
Mandatory Programs, BA												
Congressional Health Care for Seniors*	0	0	536	463	491	510	541	574	620	663	709	5,107
Medicare	481	503	0	0	0	0	0	0	0	0	0	503
Medicaid/SCHIP	277	265	272	280	287	295	303	311	319	328	337	2,997
Social Security	774	817	861	906	955	1,009	1,069	1,134	1,203	1,276	1,352	10,582
Food Stamps	45	45	45	45	45	45	45	45	45	45	45	450
Other Spending	654	490	483	486	497	506	513	540	562	566	599	5,242
Allowances/Off-setting Receipts	-137	-153	-167	-180	-197	-209	-209	-190	-197	-203	-207	-1,912
Total Budget Authority	2,094	1,967	2,030	2,000	2,078	2,156	2,262	2,414	2,552	2,675	2,835	22,969

* Includes premium payment off-set (preliminary score based on CBO methodology)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	(2013-2022)
Discretionary Programs, BA												
Defense	543	546	554	562	571	582	593	604	616	628	642	5,898
OCO/War Funding	127	50	0	0	0	0	0	0	0	0	0	50
Pell Grants	23	17	17	18	18	18	19	19	19	20	20	185
Other Spending	508	321	321	326	333	340	347	355	363	370	378	3,454
Total Budget Authority	1,201	934	892	906	922	940	959	978	998	1,018	1,040	9,587
Net Interest	224	183	185	212	283	361	440	501	537	565	588	3,855
Total Budget Authority (BA)	3,519	3,084	3,107	3,118	3,283	3,457	3,661	3,893	4,087	4,258	4,463	36,411

** Numbers may not add due to rounding

Brief Policy Explanation

Program	Budgetary or Policy Change
Legislative Branch	Reduced to FY2008 Levels (Discretionary Only)
Government Printing Office	Eliminated
Judicial Branch	Reduced to FY2008 Levels (Discretionary Only)
Agriculture	Reduced to FY2008 Levels (Discretionary Only)
Agriculture Research Service	Elminated
National Inst.of Food and Agric.	Eliminated
Natural Resources Conservation Service	Eliminated
Foreign Agricultural Service	Eliminated
Forest Service	Reduce 20% from FY2008 levels
Commodity Payments to Wealth Farmers	Means Tested
Food Stamps	Block Grant @ FY2008 levels - Grow at CPI/Pop.
Child Nutrition Program	Block Grant @ FY2008 levels - Grow at CPI/Pop.
Commerce	Department Eliminated
NOAA	Transfer NOAA to NSF
Patent and Trademark Office	Transfer to Dept. of Justice
International Trade Admin	Transfer to USTR
Defense	
Budget Control Act Sequester	Removes Sequester in FY2013, slows the rate of growth between FY2014-2022.
Education	Department Eliminated
Pell Grants	Preseved at FY2008 Levels- Grow at CPI
Energy	Department Eliminated
Atomic Energy Programs	Transferred to re-established Atomic Energy Commission
Health and Human Services	
Food and Drug	Reduce 20% from FY2008 levels
Health Resources and Services Administration	Reduce 20% from FY2008 levels
Indian Health Service	Reduce 20% from FY2008 levels
CDC	Reduce 20% from FY2008 levels
National Institute Of Health	Reduced to FY2008 levels
Substance Abuse and Mental Health	Reduce 20% from FY2008 levels
Block Grant SCHIP and Medicaid	Block Grant @ FY2008 levels - Grow at CPI and Population
LIHEAP	Eliminate
Welfare Reform Model	Jim DeMint (R-SC) Welfare Reform Act of 2011
Homeland Security	Reduced to FY2008 Levels (Discretionary Only)
TSA	Privatized
Homeland Security Grants	Eliminate

Housing and Urban Development	Department Eliminated
Interior	Reduced to FY2008 Levels (Discretionary Only)
Land and Mineral Management	Reduce 50% from FY2008 levels
Bureau of Reclamation	Eliminate
U.S. Geological Survey	Reduce 20% from FY2008 levels
National Park Service	Reduce 30% from FY2008 levels
Justice	Reduced to FY2008 Levels (Discretionary Only)
Office of Justice Programs	Eliminated
Labor	Reduced to FY2008 Levels (Discretionary Only)
Unemployment Compensation	Preserved at FY2013 law
Workers Programs	Preserved
State	
International Organizations and Conf	Eliminated
International Commissions	Eliminated
Other State Programs	Eliminated
Transportation	
Fund @ Gas Tax Levels:	
Federal Highway Admin	Fund at Gas Tax Levels
Federal Transit Admin	Fund At Gas Tax Levels
Amtrak subsidies	Eliminated
Treasury	
Payment where earned income credit exceeds tax liability	Eliminated
Payment where child tax credit exceeds tax liability	Eliminated
Misc tax credits	Offset with flat tax reform
Dodd-Frank Related	Repealed
Veterans' Affairs	Preserved at Baseline
Medicare	
Medicare Reform	Replace with Congressional Health Care for Seniors Act
Obama Care	Repealed
EPA	Reduced 50% from FY2008 Levels (Discretionary Only)
International Aid	Freeze spending at $5 Billion
NASA	Reduce 25% from FY2008 levels
Social Security Admin	Preserved FY2012 - 2022
Reform	Achieve Solvency over 75 years; reform for those 55 and younger

Other Independent Agencies	
Affordable Housing Program	Eliminated
Commission on Fine Art	Eliminated
Consumer Product Safety Commission	Eliminated
Corp. of Public Broadcasting	Eliminated
NEA	Eliminated
NEH	Eliminated
Privatize Smithsonian	Eliminated
State Justice Institute	Eliminated
National Labor Relations Board	Eliminated
Bureau of Consumer Financial Protection	Eliminated
Misc	
Reduce Federal Travel	
Repeal Davis Bacon	
Ban Union Labor Project Agreements	
Sell Unused Federal Assets	
Reduce Federal Vehicle Budget	
Sell Excess Federal Lands	
Sell Equity Stake in GM, Chrysler, & AIG	
Rescind all unspent Budget Authority after 36 months	
Line Item Veto	
Net Interest Savings	
Proposed Budget	Interest modeled using 1990's avg. interest rates
Offsetting Receipts:	
Open ANWR and other Coastal Areas to Drilling	(Royalties)
Collect Delinquent Taxes from Fed Employes	

* All discretionary programs not listed returned back to FY2008 funding levels

Appendix

APPENDIX FIGURE 1
Alternative Deficit Scenarios

[Billions of Dollars]	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2013-2022
Senario 1		*Interest Rates Similar to Rates that Occurred Between 1991 and 2000*										
Effect on the Deficit	-2	-20	-29	-36	-63	-93	-118	-140	-162	-185	-208	-1,056
Scenario 2		*Interest Rates Similar to Rates that Occurred Between 1981 and 1990*										
Effect on Deficit	-2	-31	-76	-149	-259	-399	-548	-684	-825	-977	-1,130	-5,078
Scenario 3		*Interest Rates are 1 Percentage Point Higher per Year*										
Change in Revenue	-9	-8	-5	-3	-1	2	5	9	11	12	13	35
Change in Outlays	13	42	59	72	85	99	111	123	134	145	156	1,026
Effect on Deficit	-22	-50	-64	-75	-86	-97	-106	-114	-123	-133	-143	-991
Scenario 4		*Growth Rate of Real GDP is 0.1 Percentage Point Lower per Year*										
Change in Revenue	-1	-4	-8	-13	-18	-23	-29	-35	-42	-49	-57	-278
Change in Outlays	*	*	*	*	1	2	3	4	6	9	11	36
Effect on Deficit	-1	-4	-8	-13	-19	-25	-32	-39	-48	-58	-68	-314
Scenario 5		*Inflation is 1 Percentage Point Higher per Year*										
Change in Revenue	5	37	75	119	169	225	286	351	422	497	577	2,758
Change in Outlays	20	67	109	147	187	227	265	308	352	398	452	2,512
Effect on Deficit	-15	-30	-34	-28	-18	-2	21	43	70	99	125	246

APPENDIX FIGURE 2
Deficit Amounts Attributed to the Economy (via Automatic Stabilizers)1

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2013-2022
Automatic Stabilizer Impact ($ Billions)	-368	-462	-464	-294	-121	-31	-3	*	*	*	*	*
Aggregate Deficit ($ Billions)	-1079	-585	-345	-269	-302	-220	-196	*	*	*	*	*
Difference ($ Billions)	-711	-123	119	25	-181	-189	-193					

1. Automatic Stabilizers result from legislation that is impacted by cyclical economic conditions or recessions. When the economy changes, the Automatic Stabilizers are triggered, such as unemployment benefits food stamps, and other welfare benefits. In addition, these figures assume the lost revenue resulting from economic downturn.

APPENDIX FIGURE 3
Deficits - Alternative Fiscal Scenario, Congressional Budget Office

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2013-2022
Nominal Deficit ($ Billions)	1,111	981	917	899	981	960	1,005	1,144	1,253	1,344	1,495	10,979
As Percentage of GDP	7.2	6.2	5.5	5.1	5.2	4.9	4.9	5.3	5.5	5.7	6.1	5.44

APPENDIX FIGURE 4
Major Foreign Holders of Treasury Securities - U.S. Dept. of the Treasury

	Nominal ($ Billions of Dollars)	As Percent of Total Foreign Owned U.S. Public Debt	As Percentage of Total U.S. Public Debt
China			
Mainland	1,101	23.3%	10.3%
Hong Kong	112	2.4%	1.1%
Japan	1,043	22.0%	9.8%
United Kingdom	415	8.8%	3.9%
Oil Exporters*	234	4.9%	2.2%
Brazil	207	4.4%	1.9%
Carib Banking Centers**	175	3.7%	1.6%
Taiwan	150	3.2%	1.4%
Switzerland	116	2.5%	1.1%
Canada	97	2.0%	0.9%
Russia	89	1.9%	0.8%
All others	993	21.0%	9.3%
Total U.S. Public Debt Held by Foreigners	4,732	na	44.4%
Total U.S. Public Debt	10,656	na	na

* Oil exporters include Ecuador, Venezuela, Indonesia, Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, the United ArabEmirates, Algeria, Gabon, Libya, and Nigeria
** Caribbean Banking Centers include Bahamas, Bermuda, Cayman Islands, Netherlands Antilles, British Virgin Islands and Panama

APPENDIX FIGURE 5
Long-term trends, Congressional Budget Office

[As a Percentage of GDP]	2025	2030	2035	2040	2045	2050	2055	2060	2065	2070	2075
Social Security	5.7	6	6.1	6	5.9	5.9	6	6	6.1	6.2	6.3
Medicare, Medicaid, SCHIP, and other Health	8	9.2	10.3	11.4	12.2	13	13.9	14.8	15.7	16.6	17.6
Net Interest	5.7	7.2	8.9	11.1	13.2	15.8	18.7	22	25.3	29.2	33.3
Other Non-Interest Spending	8.9	8.7	8.5	8.4	8.2	8.1	8	7.8	7.8	7.5	7.4
Total Spending	28.3	31.1	33.9	36.8	39.6	42.8	46.6	50.7	54.8	59.6	64.6
Debt Held by Public	111.5	142.9	180.6	223.2	270.4	321.3	375.5	433.4	495.6	564.2	636.1

Congressional Budget Office - Long-term Scenarios

APPENDIX FIGURE 6
Liablities per Household, Individual, & Taxpayer
FY2012

	Per U.S. Household	Per Individual U.S. Citizen	Per U.S. Taxpayer
Debt			
Gross National Debt (current)	$131,923	$49,790	$111,848
Debt Held by the Public (current)	$91,239	$34,435	$77,355
Total U.S. Unfunded Liabilities (over 75 yrs)	$849,573	$320,645	$720,289
Spending			
Social Security	$6,581	$2,484	$5,580
Medicare	$4,786	$1,806	$4,058
Medicaid	$2,239	$845	$1,899
Defense	$5,812	$2,194	$4,928
Net Interest	$1,915	$723	$1,623
Total Government FY2012 Spending	$30,778	$11,616	$26,094

Notes:
Number of Individual Americans: 310 million (U.S. Census)
Number of Households: 117million (U.S. Census)
Number of Taxpayers: 138 million (IRS)
Gross Debt: $15.435 trillion (US Treasury, 2/25/2012)
Debt Held by Public: $10.675 trillion (US Treasury, 2/25/2012)
Total Unfunded Liability of US: $99.4 trillion (GAO: The Federal Government's Long-Term Fiscal Outlook, Jan 2011)
Spending categories: Based on Jan 2012 CBO baseline

APPENDIX FIGURE 7
Economic Growth (GDP) - Year to Year Percentage Change

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2013-2022
A Platform to Revitalize America (A)	3.2	4.9	7.6	6.2	5.7	5.6	5.6	5.7	5.7	5.9	5.61
CBO Baseline Jan 2012	2.6	4.2	6.3	6.2	5.4	4.8	4.6	4.6	4.5	4.4	4.76
President's FY 2013 Budget	4.7	5	6	6	5.8	5.3	4.6	4.4	4.3	4.3	5.04

(A) Growth rate is based on Heritage Foundation analysis of the flat tax. This calculation also models, among other factors, the elasticity of labor supply, human capital impact, and the externality of capital accumulation with regard to debt reduction, regulatory relief, and long-term unfunded liability reform

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