Republican Study Committee

Cut, Cap, and Balance

*A Budget for **Fiscal Year 2013***

March 2012

rsc.jordan.house.gov

Page Intentionally Left Blank

TABLE OF CONTENTS

CHAPTER 1 THE NEED FOR REAL CHANGE **5**

CHAPTER 2 SPENDING **14**

CHAPTER 3 JOBS THROUGH GROWTH **27**

CHAPTER 4 BUDGET PROCESS REFORM **31**

APPENDIX CONSTITUTIONAL AUTHORITY STATEMENT **34**

ADDITIONAL RESOURCES **35**

SUMMARY TABLES **39**

Page Intentionally Left Blank

CHAPTER 1 | THE NEED FOR REAL CHANGE

AN OPEN LETTER FROM THE REPUBLICAN STUDY COMMITTEE (RSC)

For the past three years, our nation has lumbered under the stranglehold of excessive debt, record levels of federal spending, and job-killing government regulation. There is no doubt about it: at best, President Obama and the Democratic majority in the United States Senate have been dangerously asleep at the wheel of the American economy. In February, the President submitted a budget to Congress with more of the same tax and spend policies. And with more than 1000 days since the Senate last passed a budget, it's clear that the Senate Democrats have taken a pass at leadership—and as a result—the tough choices that leadership requires.

As a result of this leadership void, American families and businesses have been forced to navigate a winding, rocky, and uncertain road. Whether it is balancing the family budget to make ends meet or making payroll at the end of the week, American families and businesses are cutting back and being more productive. The federal government should be doing the same. While the House of Representatives has worked over the course of the past year to put the brakes on our uncontrolled debt, spending, and regulation, the President and the Democratic majority in the Senate have continued to do everything in their power to punish job creators and double down on their own failed policies.

The evidence suggests that the cost of these failed policies has been substantial. Under President Obama, this nation has seen the one-two punch of higher food and energy prices pinching our pocketbooks every time we fill up the shopping cart or the gas tank. The jobs picture is not much better. According to the most recent statistics, more than 45 percent of the unemployed have been jobless for more than six months. And across the country, hundreds of thousands of discouraged workers, frustrated by fruitless attempts to find jobs, have simply dropped out of the labor force.

Our nation has reached a critical decision point, and it will take strong and effective leadership to guide the nation from its economic slumber and to fulfill the promise of our country's vast potential. The RSC believes that the policies contained within this budget—*Cut, Cap, and Balance*—will set the course for economic growth and job creation and will give our nation the opportunity to fulfill its potential.

While our economy is complex, the recipe to jumpstart our job creation is straightforward. To thrive, America's families and businesses need policies that lessen the size and reach of the federal government, reduce the tax burden, and provide some basis for long-term economic certainty.

At a more fundamental level, the RSC believes that a budget should be anchored in the two foundational principles of individual liberty and a free-enterprise market system. This budget proposal reflects these beliefs.

Specifically, *Cut, Cap, and Balance* lays out a plan to balance the federal budget in five years by cutting spending, getting government out of the way so America's businesses have the ability to grow and create jobs, reforming the tax code to make our nation more competitive, and providing for real improvements to Medicare, Medicaid, and Social Security in the long-term.

The path this budget lays out would make every American better off by creating economic opportunity through a time-tested recipe for transforming economic stagnation into economic strength. As the old proverb goes, there is no time like the present. It is time to make a change—real change—and confront our nation's challenges and set a true course to prosperity.

Jim Jordan
Chairman, Republican Study Committee

Scott Garrett
Chairman, Republican Study Committee Budget and Spending Task Force

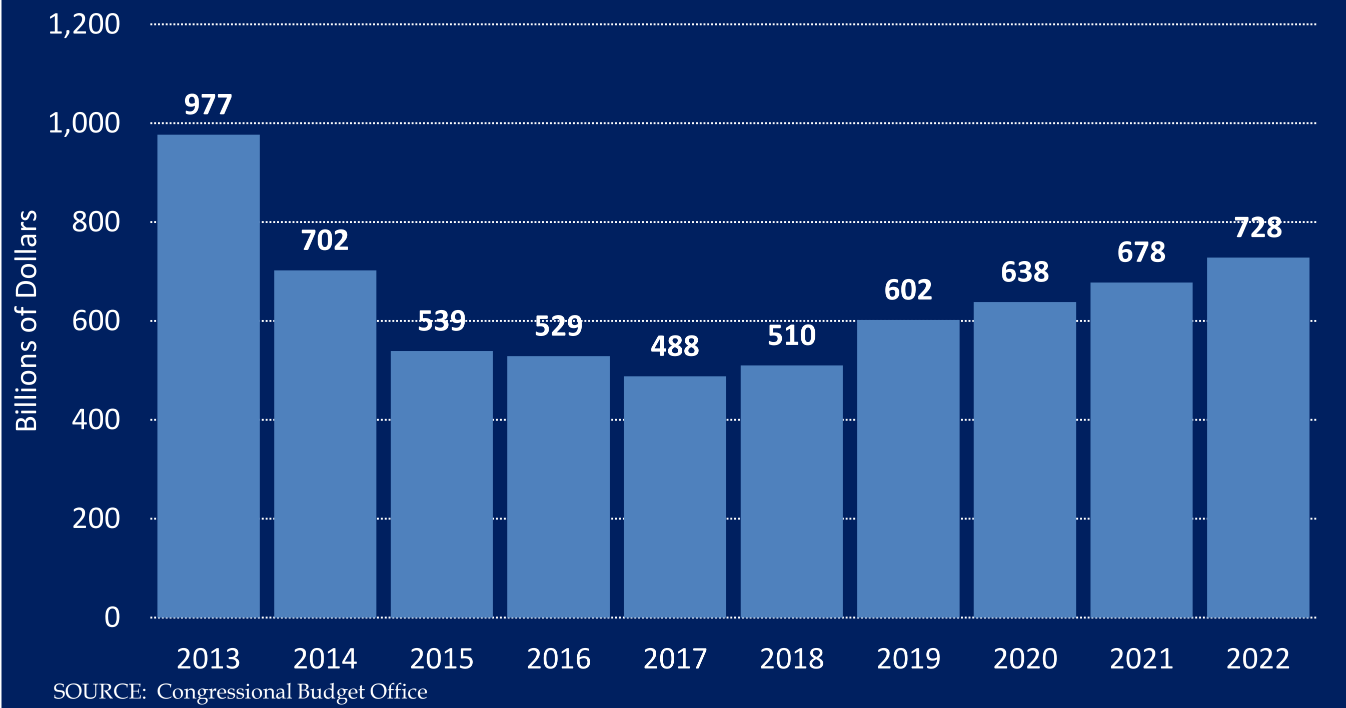
ROBBING FROM OUR CHILDREN'S FUTURE. In February, President Obama released his Fiscal Year (FY) 2013 budget. ***Under the policies proposed by the President's FY 2013 budget, the federal budget will never balance again.*** This policy of endless debt would effectively rob our children of the bright future they deserve. The non-partisan Congressional Budget Office (CBO) recently evaluated the effect that President Obama's budget would have on our nation's fiscal situation.

Figure 1 shows that there is no end to the tide of red ink under the President's budget. The CBO estimates that the budget deficit for FY 2013 will total $977 billion. This is a result of record levels of government spending that have become the norm since President Obama took office in January 2009. If we continue on this path, by FY 2022, our deficit will remain at $728 billion. The net effect of continuing to postpone tough decisions means that between FY 2013 and FY 2022, the President's policies will total $6.4 trillion in deficit spending.

It's important to remember that these catastrophic levels of spending are not the norm. As of September 30, 2012, the five largest deficits in U.S. history will have occurred in the last five years. In the past four years, the national debt has grown as follows:

- 2008: Debt passes $10 trillion mark;
- 2009: Debt passes $11 trillion and $12 trillion marks;
- 2010: Debt passes $13 trillion mark;
- 2011: Debt passes $14 trillion and $15 trillion marks.

Unfortunately, the debt is expected to continue to grow rapidly into the future. The President's most recent budget proposed that the national debt increase to nearly $26 trillion by 2022, even with substantial tax increases on American small businesses and families.

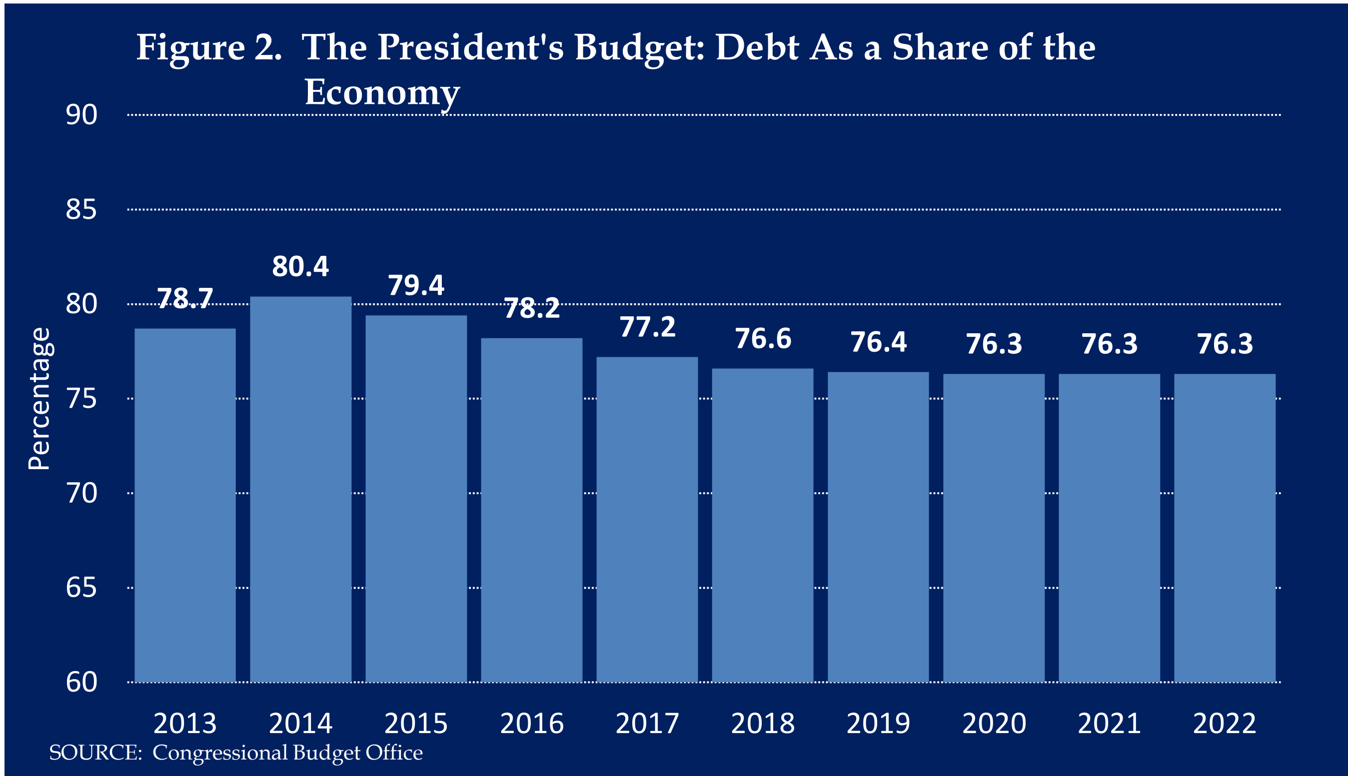


DEBT AND MORE DEBT. Much like when an individual or family overspends, when the federal government spends more than it collects in tax revenues, it goes into debt. Year-after-year, as the U.S. continues to overspend—and borrow money to cover its overspending—we add to our national debt.

Figure 2 shows how the President's budget fails to address our nation's debt. Beginning in FY 2013, debt held by the public totals 78.7 percent of the economy. By FY 2022, this share remains at an historically high level of 76.3 percent.

It is helpful to think of the national debt in terms of a credit card. Let's start with an example closer to home: When a family uses a credit card and carries a balance each month, interest accumulates. As the family continues to make purchases, and the balance increases, the family must make interest payments to the credit card company. These interest payments take up an increasingly large share of the family's monthly income. At a certain point, the outstanding debt will reach a level at which the family becomes a greater financial risk to the credit card company than before the family started spending recklessly. To adjust for this increased risk, the credit card company increases the interest rate on the credit card.

Much like the example above, our nation's borrowing gets charged to what amounts to a national credit card. In reality, this credit card is really just the sum of the national debt. We pay interest on our national credit card—or our national debt. As the national credit card balance increases from years of continued deficit spending, the interest we must pay on that balance necessarily increases. The interest adds up, and our children will be left with the tab—and with fewer opportunities as a result.



INTEREST PAYMENTS AND THE DEBT DOWNGRADE. When the U.S. makes large interest payments on its debt, there is less to spend on other priorities such as national security, scientific research, and health care. Figure 3 shows just how much interest we are paying on our national debt.

Under the President's budget, in FY 2013, our nation will collectively owe $237 billion in interest on our national credit card. To put this amount in perspective, this equals nearly all of the spending by the Departments of Agriculture, Education, Homeland Security, Housing and Urban Development, Justice, and State, combined. Under President Obama's budget, by 2022, our nation will owe nearly $743 billion in interest on our national credit card.

The truth is that uncontrolled spending has very real consequences. On August 5, 2011, for the first time in our nation's history, our nation's long-term credit rating was downgraded from the gold-standard AAA rating. The rating agency, Standard & Poor's, justified the downgrade based on the fact that the US had not taken credible steps to address our nation's overspending. Much like a family, as our nation continues to accumulate debt and run up the balance on our national credit card, our credit rating will be in danger of another downgrade. This could lead to a financial catastrophe that would impact every single American.

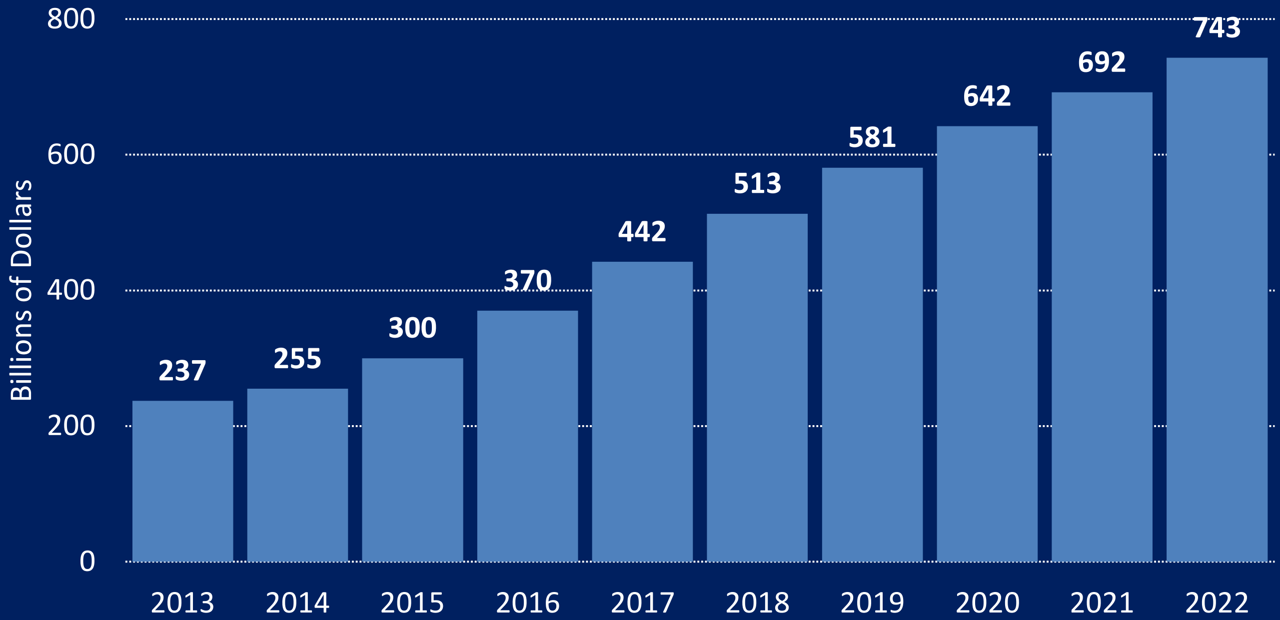


Figure 3. The President's Budget: Net Interest Payments
Billions of Dollars
800
600
400
200
0
237
255
300
370
442
513
581
642
692
743
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022
SOURCE: Congressional Budget Office

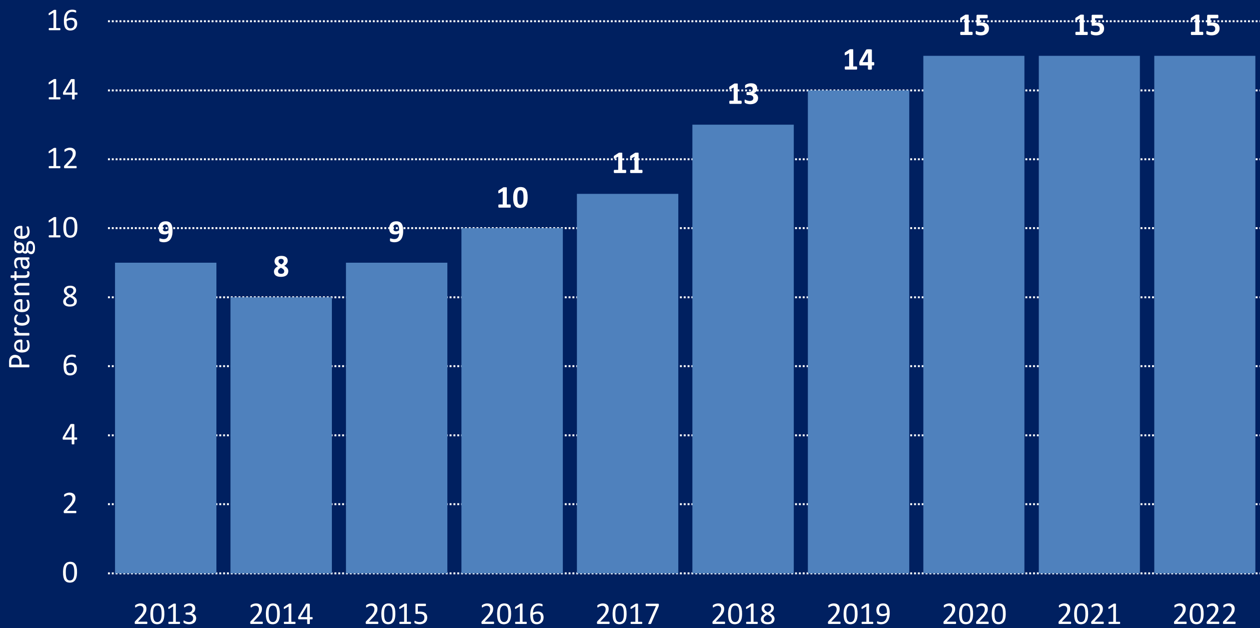


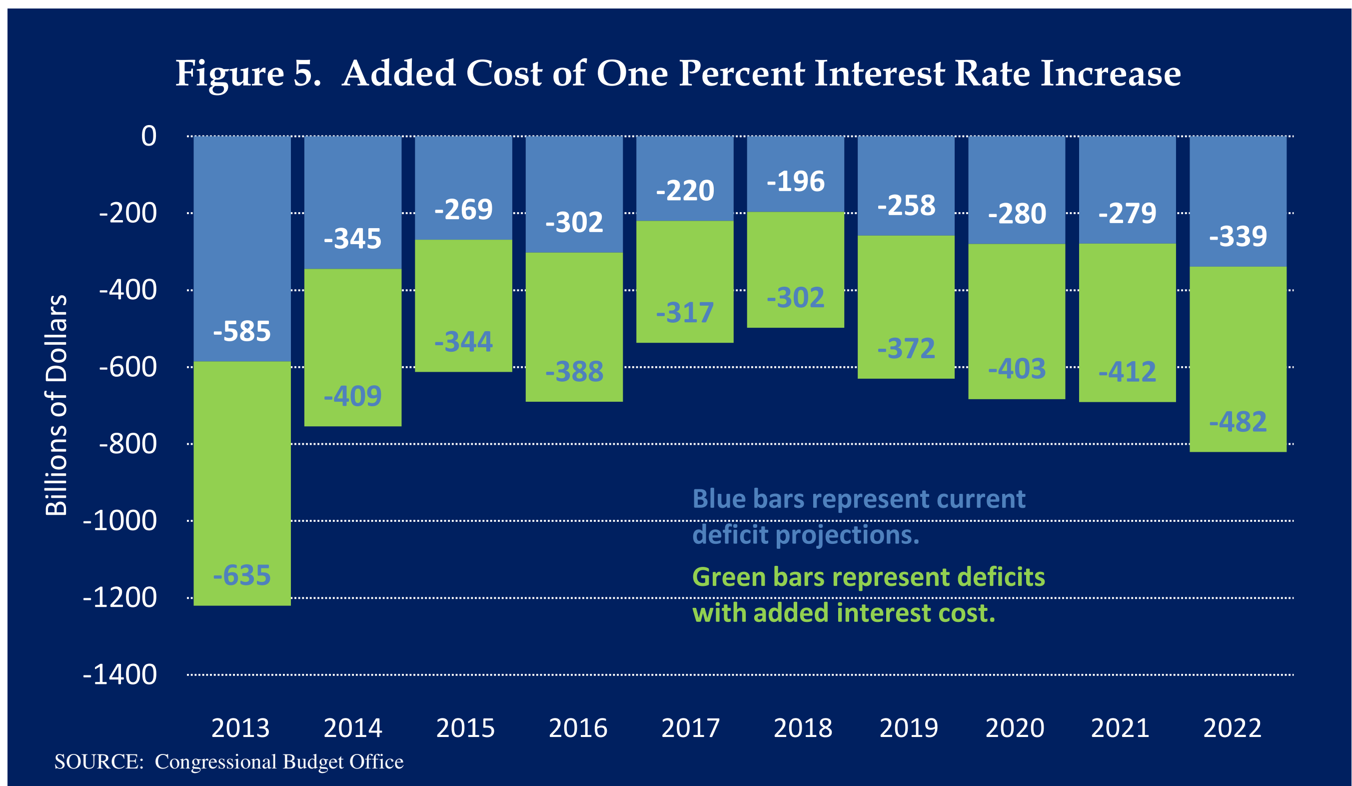
Figure 4. The President's Budget: Interest Payments as a Share of Tax Revenues
Percentage
16
14
12
10
8
6
4
2
0
9
8
9
10
11
13
14
15
15
15
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022
SOURCE: Congressional Budget Office

The danger we face lies in our excessive spending and the growing interest payments that result. As the interest payments on our national credit card take up an increasingly large share of our nation's income (tax revenues), our already damaged credit rating becomes at risk of another downgrade.

Figure 4 shows just how much of a burden interest payments are on the federal budget. In 2013, interest will take up nine percent of our tax revenues. The credit rating agencies base our credit rating on a number of factors, including how much the country spends on interest payments on our national credit card. The so-called "danger zone" for downgrade generally occurs at a 14 percent interest-to-revenue share. According to the non-partisan CBO's latest analysis of the President's budget, the U.S. will cross that threshold in 2019.

Families facing outsized credit card balances see their interest rates rise, and as a result, interest payments increase. Our national credit card is no different. If we see higher interest rates because of a credit downgrade, economic pressures such as inflation, or some unforeseen event, our national credit card tab could skyrocket.

Figure 5 shows how significantly higher interest rates on our debt could impact our overall budget picture. The blue bars represent CBO's deficit projections over the next ten years assuming no changes to current law. The green bars represent our deficits assuming an increase in interest rates. According to the CBO, deficits will total nearly $3 trillion between 2013 and 2022. If our nation's borrowing costs—or the interest rates on government notes, bills, and bonds—increase by just one-percentage point for the next ten years, our nation will be nearly $1 trillion deeper in debt over the 2013-through-2022 period.



CUT, CAP, AND BALANCE: THE PRINCIPLES. The Republican Study Committee's budget is based upon the following common-sense principles:

- The budget should balance within ten years without raising any taxes.
  - ✓ Our proposal balances the federal budget in 2017.

- The budget should strengthen Medicare, Medicaid, and Social Security to ensure their long-term sustainability.
  - ✓ Our proposal makes common-sense reforms to strengthen Medicare and Medicaid by offering increased choices and improved services, and saves Social Security by strengthening the program's bank account. <u>There are no changes for seniors currently 55 years and older.</u>

- The budget should reduce spending and trim down the size of the federal government to make it more effective and efficient.
  - ✓ Our proposal cuts agency spending below 2008 levels and gets government out of the way so America's businesses have the ability to grow and create jobs.

- The budget should terminate federal programs that are unconstitutional, duplicative, or harmful.
  - ✓ Our proposal does what American families across the country have been required to do in these tough economic times.

- The budget should prohibit earmarks.
  - ✓ Our proposal prohibits earmarks and eliminates pork-barrel spending.

- The budget should embrace reforms that make it is easier to reduce spending than it is to increase it.
  - ✓ Our proposal puts fair rules in place to prevent out-of-control Washington spending that stifles private-sector job creation.

- The budget should keep taxes low and include pro-jobs tax reform.
  - ✓ Our proposal prevents tax increases, repeals ObamaCare tax hikes, keeps the tax burden at its historic average, and makes the tax code simpler, flatter, and fairer.

Specifically, this proposal sets the following common-sense policies.

REDUCE SPENDING.

- Repeal ObamaCare to eliminate $636 billion in additional spending over ten years.
- Set discretionary spending at $931 billion in FY 2013 (the level proposed in last year's House-passed budget resolution minus the sequestration under the Budget Control Act).
- Ensure our nation's security funding defense at the same level as the House Republican budget, growing from $554 billion in FY 2013 to $699 billion in FY 2022.
- Reduce non-defense discretionary spending from $377 billion in 2013 to $329 billion in 2022.
- Reduce unnecessary mandatory spending—other than Medicare, Medicaid, and Social Security—by $1.3 trillion between 2013 and 2022.

SAVE MEDICARE.

- Put Medicare on the path to long-term solvency. The RSC believes, that over the long term, Medicare should transition to a solvent, "premium-support" system as proposed by the House Republican budget, which provides Medicare enrollees a greater menu of choices, harnesses the power of competition among private insurance plans, and improves the quality of care. This policy would not affect individuals currently age 55 and older.
- Strengthen Medicare's long-term finances. This budget would slowly phase in an increase in the Medicare eligibility age for those born in 1958 and after. This policy makes no changes to individuals currently age 55 and older.

REFORM MEDICAID.

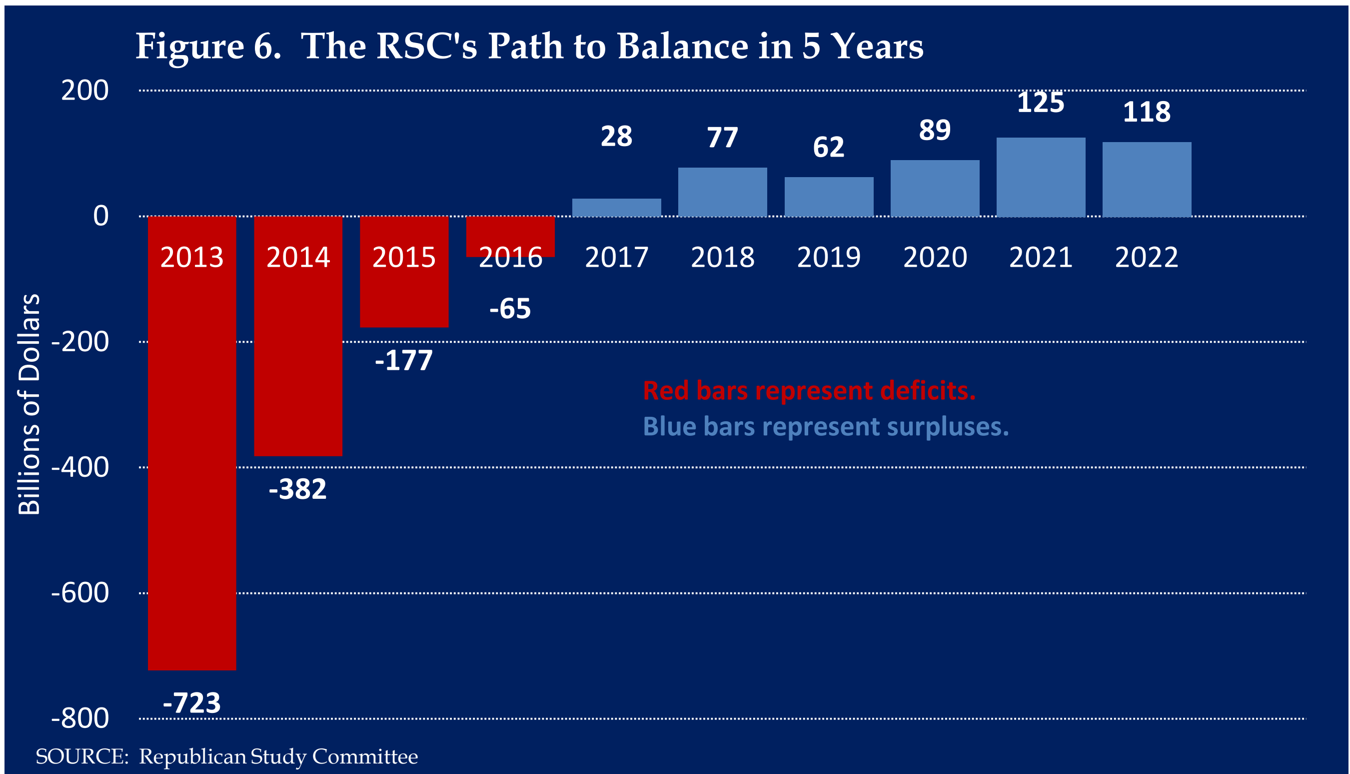
- Block-grant Medicaid and remove Washington D.C.'s burdensome red tape. This budget would empower the states with maximum flexibility to determine Medicaid eligibility and benefits, thereby improving the quality of care and access to vital services for the neediest and most vulnerable Americans. Based on the model set by the successful welfare reforms of 1996, federal funding for Medicaid and the Children's Health Insurance Program (CHIP) will be set at current levels for the next ten years. This proposal follows the RSC's State Health Flexibility Act (H.R. 4160).

SAFEGUARD SOCIAL SECURITY.

- Strengthen Social Security's long-term finances. This budget would slowly phase in an increase in the Social Security full-retirement age for individuals born in 1958 and after to an eventual full-retirement age of 70. This policy makes no changes to individuals currently age 55 and older.

ENACT PRO-GROWTH TAX REFORM.

- Prevent any new tax increases on the American people. This budget proposes a smarter tax code that is simpler, flatter, and fairer in line with the RSC's Jobs Through Growth Act (H.R. 3400).



THE LAUNCHING OFF POINT. There is no doubt that the road to a balanced budget will mean that tough choices lie ahead**.** While not easy, the proposals contained in this budget will be a guarantee that our country will be on the right path. What can Americans expect if this budget were put into place? Figure 6 shows that our budget deficits would decrease from $723 billion in FY 2013 and reach balance in FY 2017. This means that we will not be irresponsibly charging our national credit card and pushing our interest payments to trillion-dollar levels. Instead, our nation will be able to start paying off our national credit card debt while improving federal programs such as Medicare, Medicaid, and Social Security, upon which so many Americans rely. Most importantly, every American can expect a brighter future for his children and grandchildren.

CHAPTER 2 | SPENDING

The American people know what the political class is unwilling or unable to acknowledge: Washington D.C.'s spending problem is threatening our nation's prosperity. A recent Pew Research Center study found that 7 in 10 Americans believe that reining in our nation's deficits should be a "top priority" for Congress. This represents a 30 percent increase from 2007. For the first time, Americans said taming deficits is just as important to our nation's future as defending against terrorist threats—echoing former Chairman of the Joint Chiefs of Staff Admiral Mullen's famous line that "the single, biggest threat to our national security is our debt." This recognition, and mounting concern, led voters to pull the emergency brake on runaway spending in the 2010 election. While the new House Republican majority has fought to stem the tide, we must do more.

FREEZE DISCRETIONARY SPENDING. In FY 2013, the RSC budget proposes that discretionary spending be at the level proposed in last year's House-passed budget resolution minus the sequestration under the Budget Control Act. This provides a spending level of $931 billion in FY 2013. This is nearly identical to the amount of spending enacted in the last appropriations process prior to the Obama Administration ($933 billion in FY 2008). The RSC budget would fully fund the President's $97 billion war appropriations request.

Until the budget is balanced, the RSC budget assumes that total discretionary spending is frozen at this $931 billion amount. After the budget is balanced, from FY 2018-22, total discretionary spending is allowed to grow with inflation. Within the discretionary spending total, the RSC budget funds defense at the same level as the House Republican budget, growing from $554 billion in FY 2013 to $699 billion in FY 2022.

In order to meet the RSC budget's discretionary spending cap, it will be necessary to eliminate programs that are wasteful, duplicative, or constitutionally questionable. The common-sense reforms put forward to this end by the RSC Sunset Caucus, the RSC Repeal Task Force, or the RSC's Spending Reduction Act include a number of options:

ELIMINATE THE CORPORATION FOR PUBLIC BROADCASTING. A free society, by definition, should not have government-supported media outlets, especially ones that so often convey political news and opinion. Furthermore, the Corporation's mission of ensuring universal access has been fulfilled by telecommunication advances, and government-funded broadcasting is therefore completely unnecessary.

ELIMINATE THE ECONOMIC DEVELOPMENT ADMINISTRATION (EDA). The EDA is an improper function of the federal government, essentially redistributing wealth in the name of "economic development."

ELIMINATE THE LEGAL SERVICES CORPORATION. This entity has not merely continued to offer services duplicative of those offered by states, localities, bar associations, and private organizations, but also has engaged in lobbying, advocacy of leftist causes, and litigation against the federal government.

ELIMINATE THE NATIONAL ENDOWMENT FOR THE ARTS. Funding the arts is an inappropriate function of the federal government and is nowhere justified in the Constitution. Support for the arts can easily and more properly be supported by private funds—and local government funds.

ELIMINATE THE NATIONAL LABOR RELATIONS BOARD. The Department of Justice already oversees a wide variety of civil, criminal, and administrative issues, including anti-trust, voting rights, and major mergers and acquisitions and can surely handle claims of unfair labor practices. The department could do so without the pro-big-labor bias and partisanship endemic to the NLRB.

ENTITLEMENT PROGRAMS

REPEAL OBAMACARE. The RSC budget repeals Obamacare and provides $0 for it over the next ten years. This reduces mandatory spending by $636 billion over ten years (on top of savings from repealing the Medicaid expansion), while reinforcing the principle that Congress shall prevent the implementation of an unconstitutional federal government takeover of the nation's health care system.

MAKE MEDICAID MORE EFFECTIVE, ACCOUNTABLE, AND AFFORDABLE. Medicaid is a "voluntary" federal-state partnership program that subsidizes healthcare services for the most vulnerable Americans, including the poor, chronically ill and disabled, children, the elderly, and pregnant women. Medicaid is the largest federal means-tested welfare program, and it accounts for 40 percent of all federal transfer payments to states. Besides often failing to provide quality care or even access to care, it grows more unaffordable each year while hampering states with more Washington red tape.

State and federal Medicaid spending surpassed $400 billion in FY 2010, and estimates predict annual increases of 10 percent over the next ten years. Medicaid's open-ended entitlement structure encourages states to spend more in exchange for receiving between 50 and 74 percent of federal matching funds. With Obamacare's planned enrollment of millions of new beneficiaries, spending will bankrupt state budgets. Even now, states are spending more on Medicaid than anything else.

Separately, the Children's Health Insurance Program (CHIP) provides aid to children in families above Medicaid's income-eligibility level. In both of these programs, instead of focusing on the specific needs of their citizens, states must maneuver through a bureaucratic maze of one-size-fits-all rules and mandates. States may petition the federal government for exemptions, yet it can take years to get a decision.

The RSC proposes combining Medicaid and CHIP funding into a single, streamlined block grant at FY 2012 levels and giving states maximum flexibility to address the unique health care needs of their vulnerable citizens. The RSC recently introduced

H.R. 4160, the State Health Flexibility Act. This legislation would create a Medicaid and CHIP block grant that answers governors' calls for more independence to use federal funding in a way that works for their state. Freezing spending at the FY 2012 level saves $2 trillion over ten years compared to the projected increases under current law.

This legislation would also encourage states to better control waste, fraud, and abuse, while providing state policymakers certainty of the amount of federal assistance they can rely upon. Continuing these welfare programs without such reforms is immoral and leaves states' most vulnerable citizens with empty promises.

STRENGTHEN MEDICARE. The RSC budget adopts the Republican House budget's plan to save Medicare from bankruptcy and makes no changes to Medicare for those currently 55 years and older. However, the RSC also recognizes that the U.S. is facing unprecedented demographic challenges. Medicare currently covers more than 47 million seniors, and 10,000 baby boomers reach retirement age every day. Clearly, we live in an aging nation, and the roughly 40 million Baby Boomers will double the demands on the Medicare program by 2023.

Unfortunately, Medicare's financial resources will be unable to meet the additional demands placed on the system. For FY 2012, general revenues will account for more than 50 percent of all Medicare expenditures, and the trust fund will spend $25.7 billion more than it takes in. According to the Congressional Budget Office, over the next decade the trust fund will move $162 billion closer to exhaustion, and the Medicare trustees predict it will be completely exhausted by 2024, making Medicare bankrupt.

Saving the unsustainable Medicare program presents policymakers, healthcare professionals, and all Americans with a daunting challenge. Medicare will go broke if we do not improve the program sooner rather than later. Unless we take common-sense steps to strengthen Medicare's financial footing and improve the program's quality of care, Medicare will not be in a position to help current, let alone future, beneficiaries.

To address these challenges, beginning in 2023, our budget proposes gradually transforming Medicare into a health insurance program similar both to the system that Members of Congress and their staffs enjoy, and to the current Medicare Part D program, both of which allow seniors to choose among plans provided on a regulated exchange. These changes would not affect any individual currently 55 years of age or older.

By introducing the powerful forces of consumer choice and competition in Medicare, health care plans and providers will be incentivized to deliver value for taxpayer and beneficiary dollars. The similar approaches used by Federal Employee Health Benefits Program (FEHB) and the Medicare Part D program have demonstrated success in controlling the growth of healthcare costs while increasing patient satisfaction and quality of care.

Beginning in 2023, enrollees in the newly created private insurance market would receive "premium subsidies" to help offset the cost of their health insurance policies. Seniors can direct this premium support payment to the plan of their choice offered on a regulated exchange. This includes private plans as well as a traditional fee for service option. To guarantee that health insurance remains accessible and affordable, the premium subsidies would be adjusted for an individual's current health, the cost of medical care in the area where they live, and the individual's wealth and income. In addition, under this plan, Medicare beneficiaries would receive several cost protections, including those from catastrophic healthcare costs.

Under the RSC's proposal, wealthier seniors would be required to pay slightly more in annual premiums than those with fewer financial resources, and conversely, poorer seniors would receive higher health insurance subsidies. Even today, in the current Medicare program, wealthier seniors pay higher premiums in the Medicare Part B fee-for-service program. This reasonable proposal would help put the Medicare program as a whole on more sound financial footing.

Experts on both sides of the political aisle agree that providing Medicare enrollees a greater menu of choices, harnessing the power of competition among private insurance plans, and improving the quality of care would substantially improve Medicare's long-term fiscal outlook.

ADJUST THE MEDICARE ELIGIBILITY AGE TO REFLECT LIFE EXPECTANCY. Since Medicare's creation in 1965, independent advances in science and medical technology have increased average life expectancy. As a result, the average length of time individuals are covered by the program has increased as well. According to the U.S. Centers for Disease Control and Prevention, the average life expectancy in the U.S. was 78.7 years in 2010. In 1965, it was 70.2 years. We have every reason to believe this trend will continue.

Not only are Americans living longer, but they are also living better. To address the increased demands on Medicare, this budget proposes raising the age of Medicare eligibility by two months every year beginning with those born in 1958 until the eligibility age reaches 67 for those born in 1968. This proposal would not affect individuals currently 55 years old and older.

REDUCE MEDICARE WASTE, FRAUD, AND ABUSE. Medicare fraud impacts all of us. Waste, fraud, and abuse take critical resources out of our health care system and contribute to the rising costs of health care. The independent Government Accountability Office estimates that each year, Medicare makes about $17 billion in improper payments, defined as fraudulent or erroneous overpayments to healthcare providers. Malcom Sparrow of Harvard University, a top specialist in health-care fraud, argues that estimates by federal auditors do not accurately measure all types of improper payments. Sparrow believes improper payments account for as much as 20 percent of federal health spending, or nearly $120 billion.

A separate analysis from the Cato Institute estimates that cutting the Medicare error-payment rate by 50 percent would result in $29 billion in savings for next year alone. While this budget does not assume explicit savings from reductions in Medicare waste, fraud, and abuse, the RSC believes waste, fraud, and abuse must be addressed.

STRENGTHEN SOCIAL SECURITY. The RSC budget makes no changes to Social Security for those currently 55 years and older. This budget would slowly phase in an increase in the Social Security full-retirement age for individuals born in 1958 and after.

Social Security is the nation's largest single program and an essential part of retirement for millions of Americans. In 2010, for the first time in the program's history, Social Security began operating at a cash deficit and spending more on benefits than it collects in payroll taxes. Over time, this growing cash deficit will drain the Social Security trust fund, and by 2036, Social Security will be bankrupt. Under current law, this will lead to a dramatic and immediate cut to benefits in order to bring spending in line with revenues.

According to the independent Social Security Board of Trustees, the program's long-term unfunded liability currently stands at $17.9 trillion. Unfortunately, with every year that

reforms are delayed, the deficit grows less manageable. Fortunately, there is a better path. The RSC proposal would begin phasing in reforms that protect seniors and preserve Social Security for future generations. This proposal would not affect those currently 55 years old and older.

Specifically, we propose slowly increasing full-retirement age to 70 years. This would be accomplished by increasing the full-retirement age in two-month-per-year increments for workers currently under 55 years old. Specifically, this proposal would increase the full-retirement age to 66 years and 2 months starting with those born in 1958. Then, the full-retirement age would increase in two-month increments per year, reaching 67 for those born in 1963 or later. For those born in 1978 or later, the full-retirement age would remain at 70 years old.

This adjustment in the retirement age would realign the Social Security normal retirement age to account for dramatic increases in life expectancy since the program's creation. As noted by the Social Security Administration, since the program first began paying monthly Social Security benefits in 1940, the average life expectancy for men reaching age 65 has increased nearly four years to age 81. For women reaching age 65, the average life expectancy has increased nearly six years to age 84.

This common-sense, incremental approach protects individuals near retirement and makes changes for younger workers commensurate with the time they have remaining in the work force. For example, a 54-year-old worker would be eligible to retire two months later than under current law. A 53-year-old would be eligible four months later, and so on. According to the non-partisan CBO, this proposal would close more than half the Social Security funding gap over the next 75 years.

OTHER SAVINGS OPTIONS

Balancing our budget is not possible if Congress does not address mandatory spending. Once Congress creates them, mandatory programs automatically spend taxpayer dollars each year. They account for almost two-thirds of our nation's $3.6 trillion budget.

While Social Security, Medicare, and Medicaid are among the most well-known mandatory programs, the federal budget contains many other mandatory programs that redistribute taxpayer dollars for other purposes.
For example, other mandatory spending includes providing benefits for welfare recipients, federal employees, farmers, and students, to name a few. In fact, these programs spend almost 20 percent of our nation's taxpayer dollars.

Unfortunately, these programs do not receive regular oversight through Congress' annual spending process. As a result, poorly performing programs can continue wasting money indefinitely. The Government Accountability Office (GAO) released two annual reviews in 2011 and 2012 that list as duplicative or overlapping more than 1,500 programs. Indeed, Congress has not eliminated one significant program in more than a decade! While these reports covered the entire federal government, they illustrate the scope of the challenge confronting Congress to fulfill its responsibility that your taxpayer dollars be used wisely. The savings options outlined below constitute a necessary step towards ensuring the federal government does not spend more than it takes in.

INCOME SECURITY

BUDGET FOR MEANS-TESTED WELFARE PROGRAMS. In 1996, a Republican Congress passed, and Bill Clinton signed, the Personal Responsibility and Work Opportunity Reconciliation Act. This law turned the Aid to Families with Dependent Children (AFDC) program into a reformed Temporary Assistance for Needy Families (TANF) program. However, 16 years later, there are still approximately 70 means-tested welfare spending programs. Since President Lyndon Johnson declared a "War on Poverty" in 1964, Americans have spent $16 trillion on means-tested welfare. All levels of government will spend another $10 trillion over the next decade based on recent projections.

A means-tested welfare program provides benefits to individuals based on income. This is in contrast to Social Security, Medicare, and other such entitlement programs that provide benefits linked to contributions made by the individual. In order to confine benefits to intended beneficiaries, means-tested programs phase out as income increases. These phase outs, along with the tax code, result in extremely high implicit marginal tax rates for many individuals. These rates can exceed 100 percent. In other words, some individuals are made financially worse off by getting off government assistance and earning more money than by staying on government assistance. The RSC proposes capping total spending for these benefits, limiting the growth of means-tested government benefits, which will cause the return from work to increase faster than the value of government benefits.

Jeff Liebman, an economic advisor to President Obama, tells the story of a lady who went from earning $25,000 a year to $35,000 a year, and could not make ends meet anymore as a result. He estimated that the government imposed a 130 percent implicit marginal tax rate on her. *Spend 'Til the End*, authored by Laurence Kotlikoff and Scott Burns, argues that some people are better off quitting their jobs and living off the government than being self-reliant and earning a low-wage. According to the book, a married couple, each earning $17,500, will have more spending power if one quits his or her job.

The RSC's Welfare Reform Act of 2011, H.R. 1167, would limit overall federal spending on means-tested welfare programs to the level of 2007 plus inflation growth. This limit would begin when the unemployment rate falls below 6.5 percent. This is an overall cap, which means it does not require cuts to any specific program. Instead, choices would be made through the budget process. Consistent with this policy, the RSC budget would cap mandatory means-tested welfare programs at the 2007 level plus inflation. This saves $260 billion over ten years.

FEDERAL RETIREMENT

EQUALIZE CONTRIBUTIONS TO FEDERAL EMPLOYEES' PENSION PLANS. A recent CBO report found that, on average, federal civilian employees receive 48 percent more in benefits than the average private-sector employee with similar characteristics. Part of this excessive benefit structure is the retirement benefit system. Federal employees hired since 1984 are entitled to a hybrid pension, which includes a 401(k)-style plan that the government matches up to five percent and a defined-benefit payment.

Private workers typically only get a 401(k) with a three percent match. The defined-benefit portion of the federal employee plan allows workers to retire at 62 and draw an annual income equal to 1.1 percent of the average of their three highest-salary years times the

number of years they worked. For the average federal worker who earns $80,000 and retires after 30 years, this works out to $26,400 a year.

Considering that federal workers contribute only 0.8 percent of their pay to the Federal Employees Retirement System, this is a recipe for a shortfall. Taxpayers now chip in 11.7 percent of employees' salaries to keep the system solvent. The Middle Class Tax Relief and Job Creation Act of 2012 requires new federal employees to contribute more towards their retirement annuity. However, no changes were made for current federal employees. The RSC budget would require all federal employees to pay more towards their retirement. This saves $110 billion over ten years.

ADOPT ACCURATE INFLATION MEASUREMENT. Federal retirees currently receive inflation protection for their federal pensions based on the CPI-W (the consumer price index for urban wage earners and clerical workers) instead of the CPI-U (the consumer price index for urban consumers). The CPI-W, according to most analysts, overstates the actual level of inflation in the economy, at a higher cost to taxpayers. The RSC budget would more accurately measure inflation for federal retirees by basing it on the Chained CPI-U, resulting in a savings of $26 billion over ten years.

REFORM THE PENSION BENEFIT GUARANTY CORPORATION. The Pension Benefit Guarantee Corporation (PBGC) is a self-supporting federal agency created to insure participants and beneficiaries covered by private-sector pension plans. PBGC is financed mainly through premiums assessed on employers offering pension plans and the assumed pension fund investments of failed companies. According to the PBGC's 2010 Annual Report, premiums are lower than what a private financial institution would charge for insuring comparable risk because, unlike private insurers, the PBGC is unable to adjust levels to account adequately for risk.

Congress alone has the authority to set pension premiums and has failed adequately to adjust premium levels. The inability of Congress to properly manage pension premiums has led, in part, to the chronic and severe underfunding of the agency. At the end of FY 2010, the PBGC's estimated liabilities exceeded its assets by $23 billion. This budget recognizes the need to reform the PBGC to ensure that a future taxpayer-funded bailout does not occur. Savings could potentially be $10 billion over ten years.

ADOPT A DEFINED CONTRIBUTION PLAN AND SLOW THE GROWTH OF FEDERAL CONTRIBUTIONS FOR THE FEDERAL EMPLOYEES HEALTH BENEFITS PROGRAM. The Federal Employees Health Benefits Program (FEHB) provides health insurance coverage to approximately eight million people, including federal workers, Members of Congress, and their dependents. This is a consumer-driven program of competing private health plans. The federal government can pay up to 75 percent of the premiums, and participants pay, on average, 30 percent of the premium payment.

This level of premium support is comparable to what private sector companies currently provide. This budget would offer a premium support for the FEHB program that would cover the first $5,000 of an individual premium or the first $11,000 of a family premium beginning January 1, 2014. Since employees who select plans that cost more than the federal contribution would pay the additional cost in full, this policy would incentivize consumers to choose lower-priced plans. As a result, price competition among healthcare plans would be strengthened. This plan provides $27.6 billion in mandatory savings over ten years.

AGRICULTURE SUBSIDIES

The federal government distributes between $10 billion and $30 billion in cash payments to farmers and farmland owners each year. Most of this money flows to producers of five crops: wheat, cotton, corn, soybeans, and rice. Some believe agriculture cannot function without government subsidies, but fruit, vegetable, livestock, and poultry operations, which constitute nearly two-thirds of the farm economy, receive relatively little assistance. Congress directs most agriculture dollars to large commercial farmers with average annual incomes of approximately $200,000. Government-wide spending reforms are necessary to balance the budget, and taxpayer-funded support for agriculture programs should not be exempt.

SUPPORT MARKET-BASED PROGRAMS BY ELIMINATING THE DIRECT PAYMENT (DP) PROGRAM. The DP program provides cash subsidies, capped at $40,000 annually, to commodity producers. The payments are based on a historical measure of a farm's production acreage, and they do not vary based on actual production or commodity prices. Direct payments were originally established in 1996 as a transitional program. However, the subsidies have not been reduced over time. The *Washington Post* estimated that between 2000 and 2006, the federal government made $1.3 billion in direct payments to people who do not even farm. Recently, the Iowa Farm Bureau proposed eliminating the DP program. Like the President's FY 2013 budget, the RSC budget would eliminate the Direct Payment program entirely. The savings would amount to $28.7 billion over ten years. Although this non-market based program would be terminated, growers could still receive support payments from other support programs such as the Average Crop Revenue Election (ACRE) and Marketing Loan Assistance programs.

PROHIBIT NEW ENROLLMENTS IN THE CONSERVATION STEWARDSHIP PROGRAM. The Conservation Stewardship Program (CSP) provides annual payments to producers for five years in exchange for undertaking various land improvements. However, payments under the program can be made to producers who have already undertaken conservation measures.

Beginning in FY 2013, new enrollees would be prohibited from entering into the program. This policy would result in approximately $10.5 billion in savings over ten years. The CBO stated that the "criteria used to determine improvements in existing conservation practices are not readily apparent, and the absence of objective measurements could result in higher payments than necessary." The RSC's proposed option is based on the National Commission on Fiscal Responsibility and Reform's recommendation to put limits on this program.

REDUCE THE PREMIUM SUBSIDY IN THE CROP INSURANCE PROGRAM. Farmers use the Federal Crop Insurance Program to protect their crops from perils by purchasing policies that are sold and serviced by private vendors. The federal government subsidizes about 60 percent of the premiums paid for this program. Beginning in FY 2013, the federal government's subsidy would be reduced to 50 percent of the crop insurance premium. This would result in a savings of $12.8 billion over ten years. Reductions of this magnitude in the subsidy rate are unlikely to substantially affect the level of program participation.

ELIMINATE THE FOREIGN MARKET DEVELOPMENT PROGRAM (FMDP). The FMDP is used by agricultural trade associations and commodity groups to help promote exports and provide nutritional and technical assistance to other countries. This program would be terminated beginning in FY 2013, resulting in savings of $350 million over ten

years. The private sector should be responsible for promoting its own products as it receives the profits from the sales of these products.

ELIMINATE THE MARKET ACCESS PROGRAM (MAP). The MAP is intended to promote overseas marketing of U.S. agricultural products. MAP funds consumer promotions, market research, trade shows, advertising campaigns, and other programs designed to subsidize the sale of brand-name products in foreign markets by private cooperatives, trade associations, and businesses. Among other egregious funding, the MAP program has provided funding to the USA Poultry and Egg Export Council (which includes such profitable companies as Butterball, Tyson, Wampler, and Perdue) and the U.S. Grains Council (which includes Monsanto).

Taxpayers should not be forced to pick up the tab for this kind of corporate welfare. The National Commission on Fiscal Responsibility and Reform targeted this program as one in need of change. This program would be terminated in FY 2013, resulting in $2 billion in savings over ten years. According to the CBO, some analysts believe MAP "does not warrant additional funding because the extent to which it has developed markets or replaced private expenditures with public funds is not known."

ELIMINATE WOOL AND MOHAIR SUBSIDIES. The federal government first enacted price support for wool and mohair in 1947, and the National Wool Act of 1954 established direct payments for wool and mohair producers for the purpose of encouraging production of wool as an essential and strategic commodity. This support was last re-authorized in 2008 despite a complete lack of a compelling need for government support of mohair.

Beginning in FY 2013, wool and mohair subsidies would be eliminated, saving taxpayers about $46 million over ten years. This budget would return control over supply, demand, and price of wool and mohair to the free market.

HOUSING AND FINANCE

PRIVATIZE FANNIE MAE AND FREDDIE MAC. More than nine out of every ten loans issued today are purchased by Fannie Mae or Freddie Mac and guaranteed by the American taxpayer. This guarantee is in addition to the nearly $170 billion tab the taxpayers have already been charged to bail out these entities. In October 2011, the maximum size of mortgages the Government Sponsored Entities (GSEs) are permitted to buy was automatically lowered from $729,750 to $625,500 (according to the National Association of Realtors, the September average sale price for existing homes was $212,700).

This was a crucial first step to attracting more private capital to the housing finance market, since gradually reducing the conforming loan limits will slowly expose a larger portion of the housing finance market to private sector securitization. However, this change was undermined by the raising of limits for Federal Housing Administration (FHA) eligible loans. This merely rearranged taxpayer exposure to the credit risk of these mortgages by moving it from the GSEs to the FHA. To have any measurable amount of private mortgage market activity, the government must gradually remove itself from being the dominant market participant.

Reducing the conforming loan limits was a move supported by housing scholars and the *Wall Street Journal* editorial board as an essential step towards getting the government out of the housing market. Even the Obama Administration's housing reform white paper, published earlier this year, explicitly supported such a move as a means "to further scale back

the enterprises' share of the mortgage market." The practice of corporate subsidies and taxpayer bailouts in housing finance needs to stop. It is estimated that the U.S. taxpayer will invest $400 billion in Fannie Mae and Freddie Mac before they are removed from government ownership.

This budget recommends privatizing Fannie Mae and Freddie Mac, winding down their government guarantee, and ending taxpayer subsidies. It also calls for measures that would bring transparency and accountability to these two GSEs. The savings would amount to at least $43 billion over ten years. There is also significant concern that the FHA will need a taxpayer bailout this year. Its reserves are at a record low, and delinquencies and defaults in its insurance book continue to mount. Even the President's FY 2013 budget indicates that the FHA is expected to be short more than $600 million. Both the GSEs and FHA require significant reform, and they should be fundamentally restructured to better protect taxpayers going forward.

PROHIBIT FURTHER OBLIGATIONS FROM THE TROUBLED ASSET RELIEF PROGRAM. The Troubled Asset Relief Program (TARP) was created by the Emergency Economic Stabilization Act of 2008 to allow the administration to purchase troubled assets. While authority to make new commitments under the program expired in 2010, the CBO projects program expenditures will average $2 billion annually over the next four years. This budget prohibits further obligations from TARP, saving $7 billion over ten years.

ELIMINATE THE CONSUMER FINANCIAL PROTECTION BUREAU. The Dodd-Frank Act created the Consumer Financial Protection Bureau (CFPB), which is both part of and funded by the Federal Reserve. The structure of the CFPB effectively eliminates any opportunity for Congress to conduct any oversight whatsoever of the CFPB and its actions. This new bureaucracy will increase costs to consumers through the creation of new burdensome regulations. Its authority to write far-reaching rules on financial products is likely to restrict credit for the very customers it seeks to protect. The RSC budget proposes eliminating the CFPB, saving taxpayers approximately $5.4 billion over ten years.

END TOO BIG TO FAIL. While the authors of Dodd-Frank went to great lengths to denounce bailouts, this law only sustains them. It gives the Federal Deposit Insurance Corporation (FDIC) the authority to access taxpayer dollars in order to bail out the creditors of large, "systemically significant" financial institutions. The CBO projects the cost for this new authority at $32.3 billion, although CBO Director Douglas Elmendorf has testified that "the cost of the program will depend on future economic and financial events that are inherently unpredictable." In other words, another large-scale financial crisis where creditors are guaranteed government bailouts could cost much more.

Instead of rewarding corporate failure with taxpayer dollars, this budget calls for an alternative to the FDIC's too-big-to-fail bailout authority by supporting a policy that places the responsibility of large, failing firms in the hands of the shareholders who own them, the managers who run them, and the creditors who finance them. This would save $32.3 billion over ten years.

HIGHER EDUCATION

RESTORE ACCOUNTABILITY TO THE PELL GRANT PROGRAM.
The Federal Pell Grant program was authorized by the Higher Education Act of 1965 to provide federal support to postsecondary education students. Pell Grants are the largest source of federal grant aid for students. They are

estimated to have provided more than $33 billion to about 8.5 million undergraduate students in FY 2010. While the program is funded primarily through annual appropriations, a smaller part of the program is funded through mandatory spending.

Recent laws like the stimulus bill have provided mandatory funding for the Pell Grant program to increase the maximum, discretionary grant award. This mandatory add-on is a permanent funding item, and the amount of money provided for it each year is unspecified. Higher-education analyst Art Hauptman has stated, "We should worry… that increases in Pell Grants may lead institutions to reduce the amount of discounts they would otherwise have provided to the recipients, who are from poor families, and move the aid these students would have received to others." This budget eliminates the mandatory add-on for Pell Grants, which helps curb concerns that increases in Pell Grants lead to higher tuition and less opportunity for those most in need. This saves $104 billion over ten years.

END IN-SCHOOL SUBSIDIES FOR UNDERGRADUATE STUDENTS. Federal student aid costs continue to skyrocket despite evidence that the provision of federal student aid has contributed to the increasing costs of college. In general, when financial aid programs make more money available to schools, these policies result in higher education costs. This has negative implications for access and affordability. In fact, a recent study found undergraduate education to be a highly profitable business for nonprofit colleges and that profits are being spent, not on holding down costs for students, but on some combination of research, graduate education, low-demand majors, low faculty teaching loads, and excess compensation.

To truly improve postsecondary education, curb college costs, and relieve pressure on the federal budget, the government can reduce federal student aid resources without harming those aspiring to attend, or already attending, a four-year college. President Obama's Deficit Reduction Commission noted student loan subsidies are based on family income prior to the student's enrollment in college, rather than on the student's ability to pay after completion.

According to a recent paper by The College Board, the most important consideration in enrollment decisions is how much the student will owe at the completion of studies, and there is no evidence that eliminating in-school interest is critical to that amount or to individual matriculation. The Budget Control Act of 2011 ended in-school subsidies for graduate students, and the RSC budget proposes a policy that would end in-school subsidies for undergraduate students. This would save $46.5 billion over ten years.

ENERGY

APPROVE THE KEYSTONE PIPELINE AND OPEN FEDERAL LANDS TO ENERGY PRODUCTION. Gas prices have nearly doubled since President Obama's inauguration, and energy analysts predict that more Americans than ever before will pay $5.00 per gallon this year. With increasing unrest in the Middle East, the United States can no longer afford to ignore the policy risks associated with dependence on foreign oil.

The entire Keystone Pipeline has already been held up for more than three years, despite being deemed environmentally sound. Pushing this decision past the next election may appease President Obama's ultra-liberal base, but it won't help Americans struggling to find jobs and deal with the high cost of gas.

Furthermore, federal law currently prohibits any production activity from taking place in many domestic areas holding reserves of oil and natural gas. The Arctic National Wildlife

Refuge (ANWR), Outer Continental Shelf (OCS), Gulf of Mexico, and Rocky Mountains represent several areas in the United States that have resources that would help reduce our reliance on the Middle East, lower gas prices, create jobs, and boost our national security by increasing domestic production.

This budget calls for a policy that green-lights the Keystone Pipeline and opens federal lands to oil and natural gas production, generating taxpayers at least $4.3 billion in auction proceeds over ten years.

TRANSFER THE TENNESSEE VALLEY AUTHORITY'S (TVA) ELECTRIC UTILITY FUNCTIONS. The TVA currently exists as a federal corporation operating as one of the largest electric utilities in the country in competition with private electric providers. Continued operation of TVA's electric utility functions will require substantial capital investments in the future. The cost of electricity sold by TVA includes federal subsidies, which operate as a hidden tax on all citizens and encourage over-utilization contrary to conservation policies. This budget would sell TVA's electric utility functions and associated assets and liabilities to a non-federal owner and operator. TVA would retain its hydropower assets and liabilities because they serve other functions, such as flood control and recreation. This would result in a savings of $3.1 billion over ten years.

REPEAL THE WESTERN AREA POWER ADMINISTRATION (WAPA) BORROWING AUTHORITY. The $3.25 billion borrowing authority in WAPA's Transmission Infrastructure Program provides loans to develop new transmission systems aimed solely at integrating renewable energy. For example, WAPA announced one project under the borrowing authority: a wind transmission project owned by a foreign company. This authority was inserted into the stimulus bill without the opportunity for debate. Of most concern, the authority includes a bailout provision that would require American taxpayers to pay outstanding balances on projects that private developers fail to repay. This budget repeals WAPA's borrowing authority, saving $2.9 billion over ten years.

ELIMINATE THE PRESIDENTIAL ELECTION CAMPAIGN FUND. The Presidential Election Campaign Fund provides matching funds to candidates during the presidential primaries, funds for political conventions, and funds for third-party candidates who qualify. Individual taxpayers are allowed to designate $3, or $6 for a couple, of their federal income tax to the fund. In short, the fund provides taxpayer subsidies to political candidates. The program was created in 1971 to reduce the influence of money in campaigns and to reduce the time required of candidates to raise money. Critics of the program argue it has failed to meet these goals. This budget eliminates the Presidential Election Campaign Fund, saving taxpayers $371 million over ten years.

MISCELLANEOUS

ELIMINATE TRADE ADJUSTMENT ASSISTANCE PROGRAMS (TAA). TAA programs provide additional unemployment benefits and training assistance to workers who lose their jobs as a result of foreign competition. These programs, which single out trade-displaced workers for additional benefits compared to other displaced workers, were either created or greatly expanded by the 2009 stimulus bill.

Under TAA programs, the government picks winners and losers because TAA favorably discriminates toward workers who lost their jobs due to trade. As James Sherk with the Heritage Foundation notes, "The worker who

loses his job to a foreign competitor should receive the same treatment as the Blockbuster employee who lost his job to Netflix." There is little data that shows that TAA programs positively impact the earnings of participants. In fact, a Government Accountability Office report concluded that TAA beneficiaries are more likely to earn less in their next job. Beginning in FY 2013, this budget would eliminate TAA programs, saving taxpayers $7.4 billion over ten years.

SELL FIVE PERCENT OF FEDERAL LANDS AND ASSETS. The federal government owns $2.8 trillion in federal land, mineral rights, buildings and equipment, and inventory. In a 1997 report submitted to Congress by President Bill Clinton's Department of the Interior, the Department identified approximately 3.3 million acres of federal land as suitable for disposal. Unfortunately, nearly 14 years later, these lands remain in federal control. Federal land agencies are wasting valuable resources by managing lands that a Democratic administration determined held no "compelling federal need." It is important for the federal government to prudently manage its assets deserving of federal protection. However, it is also important for the federal government to eliminate surplus assets from its control. This budget calls for the sale of five percent of the federal assets currently held by the federal government, with total ten-year savings of at least $140 billion.

DIRECT COMMITTEES TO ELIMINATE WASTE, FRAUD, AND ABUSE. The RSC budget requires each congressional committee to find savings, equal to one percent of total mandatory spending under its jurisdiction, from activities that are determined to be wasteful, unnecessary, or lower-priority. Congress knows that plenty of waste, fraud, and abuse exist. The GAO released two annual reviews in 2011 and 2012 that list as duplicative or overlapping more than 1,500 programs. This represents the potential for $400 billion in savings every single year. This proposal would save taxpayers $270 billion over ten years.

ELIMINATE SPENDING FOR THE UNIVERSAL SERVICE FUND. The RSC budget zeroes out spending for the Universal Service Fund. This program subsidizes access to the telecommunications network and internet services. More recently, the program has also been used to provide free cell phones on an income-eligibility basis. The RSC budget would eliminate spending for this program, saving $102 billion over ten years.

CHAPTER 3 | JOBS THROUGH GROWTH

The RSC believes that the number one issue facing this nation is job creation. To that end, the RSC has advanced a comprehensive proposal—the Jobs Through Growth Act—to jumpstart job creation. This robust jobs proposal is the exact opposite of President Obama's so-called jobs plan, which is nothing more than the same failed stimulus policies of the past. Rather than wasting even more of the American taxpayers' money on another round of stimulus spending, our plan would jumpstart our economy without spending a dime of taxpayer dollars.

The Jobs Through Growth Act has three components: (1) simplifying the tax code, (2) increasing energy production, and (3) cutting government red tape. These policies, taken together, would do much more to help spur economic recovery than President Obama's plan to take even more money out of the pockets of American taxpayers to spend on failed stimulus projects.

SIMPLIFY THE TAX CODE

In his 1981 Inaugural Address, Ronald Reagan stated, "Our Government has no power except that granted it by the people. It is time to check and reverse the growth of government which shows signs of having grown beyond the consent of the governed."

The President's FY 2013 budget proposes to spend $50.8 trillion and tax $42.7 trillion over 11 years. The federal government has a spending problem, not a lack of revenue problem. The American people cannot afford, and will not consent to, the kind of tax increases that would be necessary to pay for the spending increases proposed in the President's budget.

The RSC will balance the budget by lowering spending to meet revenue, instead of continually hiking taxes to satiate Washington's voracious spending appetite. That is why the RSC budget uses the same revenue baseline as the House Republican budget, which prevents tax increases scheduled under current law. The RSC budget provides revenue-neutral tax reform based on the Jobs Through Growth Act (H.R. 3400) to fix our broken tax code, which holds back dynamic growth and prevents much-needed job creation.

Under this plan, people can stay with the current income tax code or scrap it and switch to a system with just two rates, generous deductions for families, and no marriage penalty. To keep jobs from moving overseas, the plan cuts the corporate tax rate to 25 percent, targets loopholes for elimination, and encourages companies to bring money made overseas back into the U.S. economy. It helps small businesses, family farms, investors, and other job creators by eliminating the Death Tax, the AMT, and the investment tax on inflation.

Details of the RSC's pro-growth, pro-family tax reform plan are outlined below:

ENACT TAXPAYER CHOICE ACT. Modeled on the RSC's Taxpayer Choice Act of 2007 (H.R. 3818 in the 110th Congress), the legislation gives taxpayers the choice of staying with the current tax code or switching to a simple, flatter, and fairer system. The new optional tax system would have:

- just two rates—15 percent (first $50,000 taxable income for single filers, $100,000 for joint filers) and 25 percent (taxable income above these amounts);
- a standard deduction of $12,500 for single filers and $25,000 for joint filers;
- an additional deduction of $12,500 for each dependent; and
- no other individual deductions or credits or exclusions.

By providing dependent deductions of $12,500 (compared to $3,700 in current law), and by eliminating the marriage penalty, this new tax code is more pro-family than current law. Regardless of whether a taxpayer opts into the new system, the AMT is eliminated and the top tax rate on investment income is set at 15 percent for all taxpayers.

CUT THE CORPORATE RATE TO 25 PERCENT AND MOVE TO A TERRITORIAL- BASED SYSTEM. This budget calls for reducing America's top corporate tax rate from 35 percent to 25 percent. This budget directs the House Ways and Means Committee to identify tax deductions and credits that could be eliminated and to report legislation transitioning the U.S. to a territorial tax system.

INDEX THE CAPITAL GAINS TAX FOR INFLATION. This budget would eliminate the capital gains tax on inflation.

ENCOURAGE REPATRIATION. To encourage businesses to bring the estimated $1.2 trillion of capital stranded overseas back into the U.S. economy, the legislation lowers the tax on foreign-earned profits repatriated by U.S. corporations to 5.25 percent for one year.

REPEAL THE DEATH TAX. This budget calls for the elimination of the death tax, which imposes heavy compliance costs and threatens the survival of small businesses and family farms.

INCREASE ENERGY PRODUCTION

The RSC budget recognizes the massive amounts of attainable energy resources that are off-limits because of interference by the federal government. The RSC budget removes unnecessary delays in the Gulf of Mexico Outer Continental Shelf (OCS) permitting process and opens up Arctic National Wildlife Refuge (ANWR), the OCS, and waters in the Eastern Gulf of Mexico for energy exploration and development.

The budget also green lights the Keystone XL Pipeline, allowing for instant job creation and reducing our dependency on unstable regimes in the Middle East. The plan repeals the administration's "Wild Lands Policy" that restricts hundreds of thousands of acres from energy development, repeals the Environmental Protection Agency (EPA) greenhouse gas regulation, and prevents the EPA from imposing regulations in the name of climate change.

President Obama's failed energy policy is hitting Americans where it hurts the most: in their pocketbooks. Steven Chu, before becoming the Secretary of Energy under President Obama, candidly stated in 2008 that "somehow we have to figure out how to boost the price of gasoline to the levels in Europe."

Given Secretary Chu's comments and this administration's lack of a workable and comprehensive energy policy, it's no surprise that gas prices have been increasing over the past few years. The administration believes that our nation should be powered on "green energy" and at every turn has taken steps to block domestic production of oil, coal, and natural gas.

While renewable sources of energy are an important part of the nation's total energy mix, renewable energy by itself cannot power the country now or even in the near future. With 120 million barrels of decreased energy production in the Gulf of Mexico between 2009 and 2012, 830,000 barrels of blocked daily capacity through the Keystone XL Pipeline, an 11 percent decrease in oil production on federal lands in 2011, and failures by the Obama Administration to approve drilling plans, it is no wonder that gas prices are skyrocketing.

EXTEND OCS LEASES. This plan provides a one-year extension on OCS leases that were directly impacted and delayed by the administration's failure to move forward in the offshore drilling permitting process.

CUT RED TAPE

America's entrepreneurial spirit has always driven the economic growth of our nation and resulted in unrivaled prosperity. And yet, as the unemployment rate remains high and Washington seeks to spur job creation, small businesses throughout the United States are constrained by the growth of federal regulations.

The Small Business Administration has determined that government regulations cost the American economy $1.75 trillion annually. For small businesses, this amounts to a cost of over $10,000 per employee. And the cost of regulation is rising. From the beginning of the Obama Administration to mid 2011, regulators have imposed $38 billion in new costs on the American people, more than any comparable period on record.

Burdensome and onerous government regulations stand in the way of the resurgence of the American economy. The staggering cost of regulations, in both dollars and hours, often prevents the creation of new businesses and the expansion of existing ones. Perhaps most concerning, unnecessary regulation can result in the closing of businesses that are already struggling in the midst of our uncertain economic times.

The RSC believes that America can no longer afford a regulatory system that puts jobs, family businesses, and the life's work of entrepreneurs at risk. Only by promoting an environment of freedom that allows small businesses to thrive and create jobs without government interference will our economy and quality of life reach new heights.

The RSC budget proposes several common-sense solutions that will unleash the vast potential of job creators and the American entrepreneurial spirit.

- Call a timeout on all new regulations that create significant costs for job creators until unemployment falls to 7.7 percent or less.
- Expand small business exemptions to companies with up to 200 employees.
- Require congressional approval for regulatory rules that are projected to have an annual economic impact of $100 million or more.

- Require federal agencies to give greater consideration to the impact of proposed regulations on small businesses by publishing a regulatory flexibility analysis.
- Allow small businesses to opt out of federal regulations imposed since the end of 2007 (coinciding with the start of the recession) if businesses follow certain public and consumer notification requirements.

CHAPTER 4 | BUDGET PROCESS REFORM

In February of 2012, the House of Representatives took the first steps toward fixing our broken budget process and passed three key pieces of legislation to reform the budget process. These bills will bring increased transparency and accountability to the budget process. The first of these pieces of legislation—the Budget and Accounting Transparency Act—would bring government-sponsored enterprises (GSEs) Fannie Mae and Freddie Mac on-budget and require fair value accounting for federal credit programs. The second bill—the Baseline Reform Act—would undo the requirement that the CBO automatically increase discretionary spending at the rate of inflation in its budget projections. The third bill—the Pro-Growth Budgeting Act—would require that, for major legislation, the CBO prepare an analysis of the effect that legislation would have on the broader U.S. economy.

While these three bills represent progress, the RSC believes that additional reforms are necessary to make reducing spending easier than increasing it. Our proposal puts fair rules in place to prevent out-of-control Washington spending that stifles private sector job creation. Specifically, this RSC budget adopts several provisions, both to reform the congressional budget process and to enforce the commitment to a balanced budget made by the adoption of this budget.

LIMIT USE OF ADVANCE APPROPRIATIONS. The use of advance appropriations is a budget gimmick designed to avoid spending controls and tie the budgetary hands of future congresses by appropriating spending authority to a program one or more years beyond the year for which an appropriations act is passed. The RSC budget would cap advance appropriations at $24 billion in FY 2013.

DEFINE "EMERGENCY SPENDING." Congress has clearly abused its ability to designate spending as "emergency spending" in order to exceed spending limits set by previous budget resolutions. According to the CBO, net supplemental spending totaled $99 billion in the 1980s and $86 billion in the 1990s. In contrast, from 2000 to 2009, supplemental appropriations often exceeded $100 billion in a single year, and the cumulative total over these years was over $907 billion.

In the House during the 111th Congress, these abuses continued as the stimulus bill, a bill that appropriated $5 billion to FEMA to refill a trust fund, and a bill to appropriate $600 million to fund summer jobs were designated as "emergency" spending.

This budget would adopt in the House rules a clear, six-part definition for an emergency and provide for a point of order against consideration of a bill including "emergency spending" if a statement from the Chairman of the House Budget Committee were not previously printed in the Congressional Record explicitly explaining why such spending meets each of the six criteria. This policy was included in H.R. 3964 (from the 111th Congress), the Spending, Deficit, and Debt Control Act.

CONTINUE EARMARK BAN. Until House Republicans' recent adoption of an earmark moratorium, the number of earmarks included in appropriations and authorization bills had soared over the past decade. The requests often diverted taxpayer resources to satisfy special interests, greased the wheels of Washington's spending ride, and set a poor example of fiscal responsibility. This budget would amend the House rules to make it out of order in the House to consider any legislation which includes an earmark. It would also prevent the Rules Committee from reporting a rule or order that would waive such rule.

IMPLEMENT CUT RESOLUTION. The RSC budget would require the Majority Leader to bring a quarterly rescissions bill before the House under an open rule. Any rescissions approved by the House would be dedicated to deficit reduction via a reduction to the 302(a) allocation for that fiscal year. This is modeled on the Cut Resolution (H.Res. 323 in the last Congress).

STRENGTHEN SPENDING REDUCTION ACCOUNTS. When House Republicans adopted the House rules for the 112th Congress, they required that new Spending Reduction Accounts be included in appropriations bills on the floor. This allows Members to lock-in any savings from amendments to an appropriations bill they propose and prevents other Members from using those savings to increase funding for another account in the bill. While an improvement on the previous situation, spending cuts protected in Spending Reduction Accounts are not applied against the Appropriations Committee's overall 302(a) allocation, and this allows those savings to be redirected by the Committee to spending in subsequent appropriations bills. This budget would change House rules to establish that any funds cut from an appropriations bill and allocated to a Spending Reduction Account would also be cut from the Appropriations Committee's 302(a) allocation, protecting the cuts from being spent later in the appropriations process.

IMPROVE ENFORCEMENT OF BUDGET RULES. The Budget Act's enforcement provisions currently require only a majority vote to waive, and this allows the majority party in Congress to ignore its provisions at will. This budget adopts a requirement for a two-thirds majority to waive points of order authorized by the Budget Act and makes it out of order to consider a rule or suspension of the rules waiving such points of order.

REQUIRE ACCOUNTABILITY FOR SPENDING AUTHORIZATIONS. In the past, the House has allowed bills authorizing millions of dollars in spending over one-year, five-year, and longer periods to pass by voice vote. This budget adopts a rule requiring a roll call vote for any legislation that increases the spending authority of the federal government by more than $50 million over five years.

STRENGTHEN CUT-AS-YOU-GO (CUTGO). Similar to the current CUTGO provisions in the House rules approved by House Republicans, this modified CUTGO mechanism would not permit spending increases to be offset by tax increases or user fees and would apply only to new direct spending.

MAKE IT EASIER TO AMEND APPROPRIATIONS BILLS. This budget would amend the rules prohibiting authorizing amendments on appropriations bills on the floor so that funding for a program included in the underlying text can be conditioned or modified by amendment.

ESTABLISH POINT OF ORDER AGAINST UNAUTHORIZED SPENDING. The RSC budget would prohibit the Rules Committee from reporting out a rule that waives the House Rule against unauthorized spending in an appropriations bill. If a program is important enough to receive taxpayer funding, it should be important enough to be reauthorized on a regular basis.

DISCLOSE WELFARE SPENDING IN PRESIDENT'S BUDGET. The RSC directs the President's annual budget submission to include a figure on proposed aggregate federal welfare expenditures over the next ten years, as well as estimated state and local welfare expenditures over this period. This will give taxpayers information on how much the federal government, and all levels of government, are spending on means-tested welfare programs.

CONCLUSION

There are countless voices in America—and around the world—that have already decided the United States has permanently lost its status as the premier world power and the beacon of liberty. Sadly, there is plenty of evidence to support this claim—from tax rates to government growth to foreign policy retreats.

But as Members of the Republican Study Committee, we do not share this pessimistic view of America. We do not regard America as a lost cause. And we certainly do not believe we have to passively watch the downfall of the greatest nation on the face of the earth.
As RSC Members, we know in our hearts that the American decline is not inevitable and not unstoppable. Bold steps to advance liberty can allow Americans to flourish, to create and therefore earn their own success, and to fully restore the God-given right to pursue happiness. Such bold steps are embodied in this budget, a budget that cuts, caps, and balances—and restores the promise of American renewal.

APPENDIX | CONSTITUTIONAL AUTHORITY STATEMENT, ADDITIONAL RESOURCES, AND SUMMARY TABLES

CONSTITUTIONAL AUTHORITY STATEMENT

The constitutional authority on which this resolution rests is the power of Congress to lay and collect taxes, pay the debts, and provide for the common defense and general welfare of the United States as enumerated in Article I, Section 8, Clause 1 of the United States Constitution. Additionally, Article I, Section 9, Clause 7 of the Constitution provides Congress with the power of the purse and assigns Congress the role of the guardian of the public treasury by requiring that an account of the "Receipts and Expenditures of all public Money…be published from time to time."

The Congressional Budget Act of 1974 provides for the annual adoption of a concurrent resolution on the budget. The budget resolution serves as the guide created by and for Congress for all subsequent fiscal actions taken by the legislative branch during each congressional session.

As ordained by the Constitution and required by law, the legislative branch is the sole authority entrusted with the adoption of a comprehensive budget resolution for the federal government.

This budget resolution recognizes the threats to individual liberty posed by the inability of the federal government to live within its means. Failing to address the debt crisis now would doom American families and future generations to a crushing tax burden, smother the ability of small businesses to create jobs, result in ever-increasing interest rates, and set the nation on course for economic collapse.

This budget resolution also take steps toward restoring a more proper balance between the states and the federal government as defined in 10th Amendment of the United States Constitution.

By restoring fiscal responsibility and constructing a path to a balanced budget, this resolution dissolves the chains of government debt and fulfills the promise of the Declaration of Independence—that all Americans have the unalienable right to life, liberty, and the pursuit of happiness.

In accordance with our constitutional duty, adherence to the law of the land, and the intention to preserve the American way of life for this and future generations, this budget resolution is submitted for the consideration of the 112th Congress.

ADDITIONAL RESOURCES

DEBT REDUCTION RESOURCES. In January 2012, the United States debt surpassed 100 percent of its gross domestic product (GDP), which means our debt is higher than the value of all goods and services produced in our nation in one year. A debt level this high destroys jobs. For example, a landmark study by economists Kenneth S. Rogoff and Carmen M. Reinhart examined the relationship between debt and GDP growth from 44 countries, spanning roughly 200 years. They found when gross public debt exceeds 90 percent of GDP, economic growth (e.g., job creation) declines.

Despite this stark reality, the Democrat-led U.S. Senate has failed to produce a credible debt reduction and jobs opportunity plan. In fact, it has not produced a budget in almost three years. Senate Majority Leader Harry Reid (D-NV) has said the Budget Control Act serves as the Congressional budget resolution. This law exchanged a $2.1 trillion debt increase over two years for a $2.1 trillion cut in federal spending over ten years. That is a plan to preserve the status quo of more spending, record deficits, record debt, and high unemployment.

Since January 2011, the RSC, several U.S. Senators, and some outside groups have produced at least seven different plans to balance our budget and promote economic opportunity. These plans demonstrate that Washington does not lack solutions; it simply lacks the will to promote job opportunity by paying down our debt.

Republican Study Committee
- RSC Budget for FY2012: Honest Solutions (April 2011)

U.S. Senator Rand Paul (R-KY)
- A Platform to Revitalize America: Budget of the U.S. Government, Fiscal Year 2013 (March 2012)
- Budget of the U.S. Government, Fiscal Year 2012 (May 2011)

U.S. Senator Pat Toomey (R-PA)
- Restoring Balance: A Budget Proposal for Fiscal Year 2012 that Balances the Budget and Encourages Economic Growth (May 2011)

U.S. Senator Tom Coburn, M.D. (R-OK)
- Back in Black: A Deficit Reduction Plan (July 2011)

The Heritage Foundation
- Saving the American Dream: The Heritage Plan to Fix the Debt, Cut Spending, and Restore Prosperity (May 2011)

FreedomWorks

- The Tea Party Budget: A Comprehensive Ten-Year Plan to Stop the Debt, Shrink the Government, and Save Our Country (November 2011)

U.S. House of Representatives

- The Path to Prosperity: A Blueprint for American Renewal (March 2012)

BUDGET CONTROL ACT PRIMER. The Budget Control Act (BCA, P.L. 112-25) allowed for $2.1 trillion in new debt to be issued over two years in exchange for an equivalent spending cut over ten years, 2012-21. The spending cuts are structured in the form of caps on discretionary spending and sequestration. According to the CBO, the BCA would reduce the deficit by $2.1 trillion over ten years. The law requires the House and Senate to adhere to the following discretionary spending levels:

DISCRETIONARY SPENDING CAPS

(Billions of dollars, budget authority)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
BCA Discretionary Levels	1,043	1,047	1,066	1,086	1,107	1,131	1,156	1,182	1,208	1,234

Spending above these cap levels is allowed only for specific exceptions, including (1) emergency spending, (2) war funding, and (3) program spending to eliminate waste, fraud, and abuse. Since FY 2001, appropriations for these items have ranged from $48 billion to $385 billion (averaging about $145 billion). The BCA would also implement a sequestration totaling $1.2 trillion over nine years, or $110 billion in cuts each year, 2013-2021. Defense spending would be reduced by $55 billion and non-defense spending would be reduced by $55 billion.

Unlike the discretionary spending caps, the sequestration cuts are applied to total spending, including mandatory accounts. However, the BCA fully or partially exempts certain mandatory programs from sequestration, including Social Security, Medicaid, veterans programs, military personnel (upon the president's request), welfare programs, federal highway funds, federal retirement and disability, railroad retirement, and GSE preferred stock agreements. Medicare spending is eligible for sequestration cuts only up to two percent of the program's non-exempt payments (primarily to Medicare providers). Prescription-drug coverage for low-income beneficiaries, catastrophic assistance, and qualified individual premiums are fully exempt from sequestration.

When considered within the context of other laws governing sequestration, the $110 billion cut required in each year by the Budget Control Act would be approximately allocated as follows:

SEQUESTRATION: ALLOCATION OF THE $110 BILLION ANNUAL CUT

(Billions of dollars, budget authority)

		2013	2014	2015	2016	2017	2018	2019	2020	2021
DEFENSE										
Discretionary		-55	-55	-55	-55	-55	-55	-55	-55	-55
NON-DEFENSE										
Discretionary		-43	-38	-37	-37	-36	-36	-35	-33	-33
Mandatory	Medicare	-6	-11	-12	-13	-13	-14	-15	-16	-17
	Other non-exempt	-4	-3	-4	-3	-3	-3	-3	-4	-3
	Additional (a)	-2	-2	-2	-2	-2	-2	-2	-2	-2
	Sub Total	**-55**	**-55**	**-55**	**-55**	**-55**	**-55**	**-55**	**-55**	**-55**

NOTE: (a) This is the amount of sequestration applied to other programs because the Medicare sequestration is limited to no more than 2 percent.
SOURCE: Congressional Budget Office

Specifically, the $110 billion in reductions would be implemented in three parts:

(1) **Discretionary Spending in FY 2013.** If Congress appropriates up to the $1,047 billion discretionary spending cap, then OMB will reduce discretionary accounts by $97 billion ($55 billion defense and $42 billion non-defense) on January 2, 2013;

(2) **Discretionary Spending for FY 2014-FY 2021.** The discretionary spending caps will be revised further downward by the estimated cuts outlined in the below table; and

(3) **Mandatory Spending.** The Office of Management and Budget (OMB) will apply the required cuts to eligible accounts in each year from FY 2013 through FY 2021.

Similar to the spending caps, the law does not allow the $110 billion annual spending cut to be shifted between years. Unless the law changes, discretionary spending levels will be as follows:

DISCRETIONARY SPENDING FY 2012-2021

(Billions of dollars, budget authority)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
BCA Discretionary Level	1,043	1,047	1,066	1,086	1,107	1,131	1,156	1,182	1,208	1,234
BCA Sequestration Cut	0	97	93	92	91	91	90	89	88	88
Post Sequester Level	**1,043**	**950**	**973**	**994**	**1,016**	**1,040**	**1,066**	**1,093**	**1,120**	**1,146**

The intent of the BCA was to exchange a $2.1 trillion increase to the debt limit in the short-term for a $2.1 trillion decrease over the long-term. The bulk of this savings was originally planned to be achieved through a Joint Committee process that would have altered laws governing taxes, spending programs, or both. The law also puts into place a fail-safe option—sequestration—to achieve the necessary $1.2 trillion savings if the Joint Committee process failed to pass the needed savings. This "fail safe" was presumably included to incentivize action by the Joint Committee. However, since the Joint Committee did not achieve any savings, sequestration is now the law of the land. Without it, or some other change in law that achieves at least $110 billion of additional savings each year, Congress will not be on a path to reach equivalency with respect to the recent $2.1 trillion debt limit increase.

RSC's Cut, Cap, and Balance Outlays

(Nominal Dollars in Billions)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total 2013-2022
Revenues	2,734	2,980	3,232	3,449	3,642	3,811	3,986	4,184	4,388	4,601	37,007
Discretionary Spending	1,183	1,072	1,024	1,012	997	996	1,016	1,034	1,053	1,079	10,466
Medicaid and CHIP	267	267	267	267	267	267	267	267	267	267	2,670
Medicare	503	525	547	593	606	625	683	727	774	855	6,438
President's Health Care Law	0	0	0	0	0	0	0	0	0	0	0
Social Security	813	856	900	948	1,002	1,061	1,125	1,194	1,265	1,340	10,504
Other Mandatory	457	393	384	354	351	350	362	374	390	414	3,829
Net Interest	234	249	287	340	391	435	471	499	514	528	3,948
Total Outlays	**3,457**	**3,362**	**3,409**	**3,514**	**3,614**	**3,734**	**3,924**	**4,095**	**4,263**	**4,483**	**37,855**
DEFICIT/SURPLUS	-723	-382	-177	-65	28	77	62	89	125	118	-848

RSC's Cut, Cap, and Balance Discretionary Spending

(Nominal Dollars in Billions)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total 2013-2022
Non-defense	377	320	307	293	321	324	325	326	328	329	3,250
Defense	554	567	580	594	610	626	644	662	680	699	6,216
Overseas Contingency Operations	97	44	44	44	0	0	0	0	0	0	229
Total Budget Authority	**1,028**	**931**	**931**	**931**	**931**	**950**	**969**	**988**	**1,008**	**1,028**	**9,695**
Total Outlays	1,183	1,072	1,024	1,012	997	996	1,016	1,034	1,053	1,079	10,466

RSC's Cut, Cap, and Balance v. President's Budget

(Nominal Dollars in Billions)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total 2013-2022
Outlays	-260	-445	-543	-672	-742	-819	-905	-988	-1,076	-1,130	-7,580
Revenues	-7	-125	-181	-208	-226	-232	-241	-261	-273	-284	-2,038
Deficit	**-254**	**-320**	**-362**	**-464**	**-516**	**-587**	**-664**	**-727**	**-803**	**-846**	**-5,543**

RSC's Cut, Cap, and Balance Outlays and GDP

(Nominal Dollars in Billions)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total 2013-2022
Outlays	3,457	3,362	3,409	3,514	3,614	3,734	3,924	4,095	4,263	4,483	37,855
Revenues	2,734	2,980	3,232	3,449	3,642	3,811	3,986	4,184	4,388	4,601	37,007
Deficit	-723	-382	-177	-65	28	77	62	89	125	118	-848

As Share of GDP	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Average 2013-2022
Outlays	21.7%	20.3%	19.3%	18.8%	18.3%	18.1%	18.2%	18.1%	18.1%	18.2%	18.9%
Revenues	17.2%	18.0%	18.3%	18.4%	18.5%	18.4%	18.4%	18.5%	18.6%	18.7%	18.3%
Deficit	-4.5%	-2.3%	-1.0%	-0.3%	0.1%	0.4%	0.3%	0.4%	0.5%	0.5%	-0.6%

RSC
TM