A Clear Vision to Revitalize America

By Senator Rand Paul

Fiscal Year 2014 Budget of the United States Government

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Budget Accomplishments

➢ Balanced Budget Amendment Framework:

- Balances the budget in five years, without relying on revenue increases;
- Eliminates four departments: Departments of Commerce, Housing and Urban Development, Education, and Energy;
- Returns discretionary spending to FY2008 levels;
- Block grants welfare programs, e.g. Medicaid, SCHIP, food stamps, and child nutrition; and
- Prioritizes additional funding to national defense

➢ Repeals Obama Care and Dodd-Frank

➢ Tax Reform:

- A low flat tax for individuals and corporations;
- Pro-growth territorial tax system; and
- Eliminates capital gains, dividends, estates, gift and other savings taxes

➢ Entitlement Reform:

- Social Security reform, including increasing the age for beneficiaries, means testing benefits, private accounts, and opt-out; and
- Medicare reform, including Congressional Health Care for Seniors – a plan identical to that provided to Members of Congress

➢ Comprehensive Regulatory Reform

➢ Energy Independence

Analysis

The global economy has not experienced the growth that many were hoping to see this year. In fact, economists around the world have expressed new concerns with the continued deterioration of markets internationally. This year's budget will reflect the challenges that our economy continues to face, both domestically and abroad.

The United States has just completed its fourth year of trillion dollar deficits. In fact, every deficit during President Obama's term has been greater than 1 trillion dollars. This year, estimates aren't much better. Even after accounting for $125 billion in new taxes this year, the Congressional Budget Office (CBO) assumes a deficit for 2013 that is just shy of a trillion dollars. As our economy struggles to recover, policies that spend at this level will only exacerbate sluggish growth and high unemployment.

Across the Atlantic, Europe's consistently low growth has sent it spiraling back into recession. In Asia, an economic fault line has been created as China's markets and politics spread volatility throughout the region and the world. Japan, has continued to struggle since the earthquake in 2011. Its economy isn't expected to return to pre-crisis levels for the foreseeable future. Finally, the Middle East continues to roil in the volatility that has accompanied the Arab Spring, which has disrupted economies across the region and threatened the livelihood of the oil export industry.

Our global economies are inextricably linked. The economic affairs of one nation directly impact the economic affairs of its neighbors, and ripple throughout the world. The United States has the ability to impact and be impacted by global economic events. The strength of our economy many times reflects the strength of the world. That is why, when our economy spun into financial crisis in 2008, it sent economic shockwaves through the international market place. Global markets, as well as our own, have yet to fully recover.

If there is one nation in the world – one singular government – that should lead by example to reduce the pressures and fragility of massive debts, to initiate structural and pro-market governmental reforms, and to ensure the integrity of a free market system, that country should be the United States.

This budget is A Clear Vision to Revitalize America.

The State of the Economy

The financial crisis of 2007-2009 remains a burden on the lives of everyday Americans. After five years, the policies adopted by the federal government have done little to heal the economy. Massive bailouts, loose monetary policy, enhanced welfare programs, debt-financed "stimulus" programs, and new tax increases have weakened our markets and monetary system. Indeed, rather than renewing and repairing the pillars of our financial system, these policies have enforced a culture of moral hazard, where asset prices have been re-inflated, and government dependence is urged . As a result, our financial system rests on weak foundations, and our federal policies are cultivating an environment that is ripe for a collapse far worse than what we experienced in 2007-2009.

Our financial and economic problems are far less complex than Washington would have you believe. What we continue to face today is a solvency crisis – a scenario in which an entity's debts are greater than its asset values (e.g. a house that is worth less than its mortgage). In such a scenario, the right solution seems easy: If the economy wants to rebalance, it should deleverage and reduce its debt, take fewer risks and impart fiscally responsible policies. *But instead the government fix has been to shift private debt to the public, bail out firms, and encourage excessive risk taking, pumping the economy with fresh new dollars – and spending at astronomical levels.*

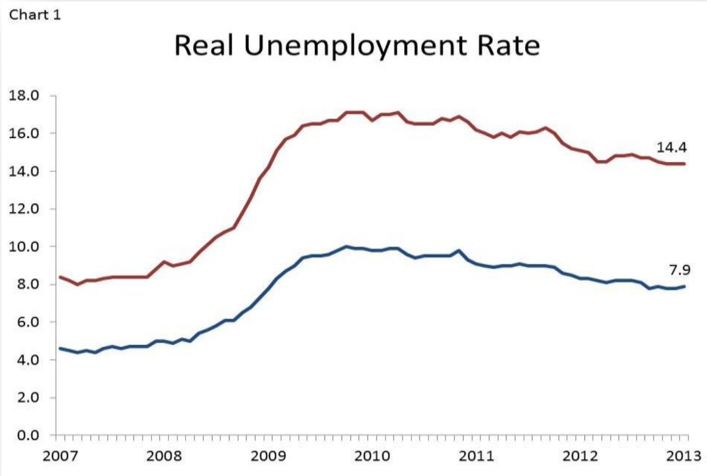
Statistician and author, Nassim Taleb, once remarked, "When you remove failure from the economy, you eliminate capitalism." That is precisely what the government did in October of 2008 as it pushed through the Trouble Asset Relief Program (TARP), providing a $700 billion blank check to save – or, more accurately, bailout big business. This program extracted money from those on Main Street, many of whom ran sound businesses or lived fiscally responsibly, and redirected it to those who took too big a gamble. Not only is this idea antithetical to free-markets, it is fundamentally unfair.

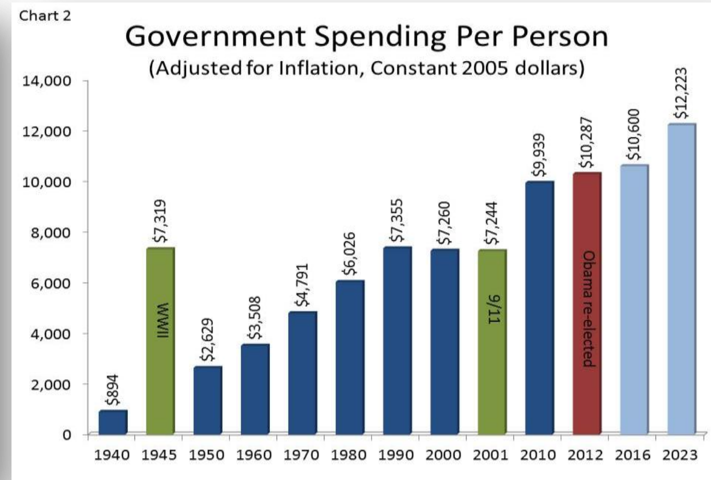
The experts were nearly unanimous in reflecting this fact. In 2011, a Congressional Oversight Panel hosted notable economists from different political spectrums, including Simon Johnson, Allan Meltzer, Joe Stigiltz, and Luigi Zingales. A rare occasion unfolded as they all sang a similar tune. As reported by Stanford economist John B. Taylor, "…Stiglitz, Meltzer, Johnson, and Zingales were unanimous in their view that the TARP actions have created an incentive for financial institutions and their creditors to take high risks due to the expectations of being bailed out, favoring big players and leaving the economy vulnerable to financial crisis."

What TARP has essentially done is to transfer the problems of Wall Street's distressed balance sheet to the American taxpayer. As John Mauldin and Jonathan Tepper explain 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…

…Government 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."

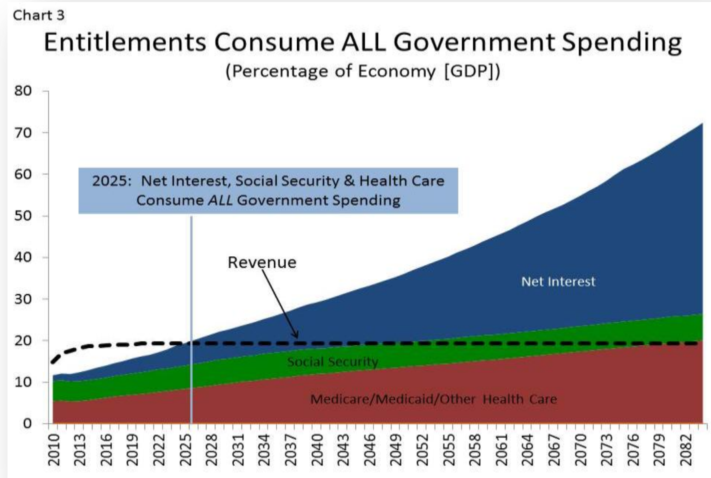
But bailing out Wall Street did not end there. Next on Washington's agenda was the President's "stimulus" package, which included hundreds of billions of dollars in new government spending. When factoring in net interest spending, this legislation cost the American taxpayer more than 1 trillion dollars. The White House promised the nation that this plan would reduce unemployment to a pre-crisis low of five percent. As we all know, this has not been the case. Unemployment hovers near 8 percent today. The "underutilized" rate, referring to those who have abandoned the job search all together, has climbed to nearly 14 percent.

Bailouts, unaffordable stimulus packages, and the propensity to spend have reached levels not seen since the nation was embroiled in World War II. At this current rate, federal government spending is on track to consume the entire economy in less than a century. Unfortunately, apathy for a constitutionally limited, fiscally responsible federal government is pervasive in Washington,

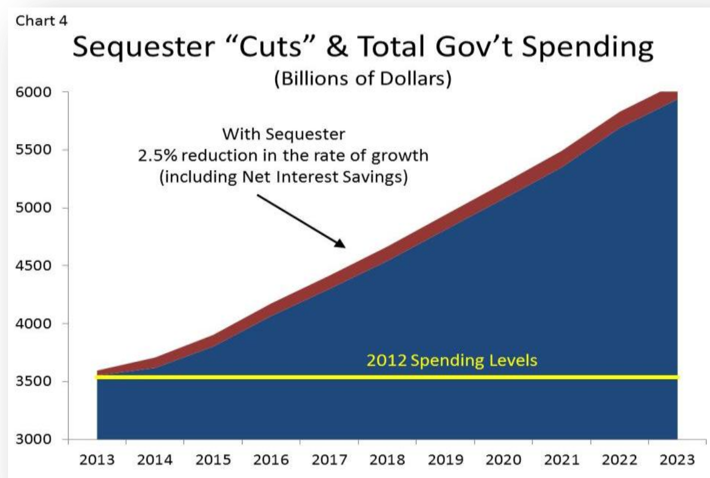
According to the CBO, the government will spend $15 billion more than last year. This is not necessarily considered a large increase when the vernacular of Washington budget talk is in "trillions," but it is nevertheless substantial. And there is plenty of trouble lurking among these numbers. Relative to President Clinton's final year in office, fiscal year 2013 is nearly a 100 percent increase in spending – or more than $1.76 trillion; and relative to the pre-crisis spending levels of 2008, it amounts to a $570 billion increase.

As we can see from Chart 2 a good barometer for the growth in government is per capita spending. Factoring spending into constant (2005) dollars, the government spent less than $900 per person roughly 70 years ago. Today we spend nearly $10,287 per person – or $3,000 more than we did in 2001. Over the next decade, per capita spending is estimated to grow by 20 percent.

Our entitlement programs, both mandatory spending and net interest, are growing far faster than is economically sustainable. Between 2013 and 2023, mandatory spending will grow by an average of 5.5 percent a year. But of greater concern, the spending on the interest to service our aggrandized debts will grow by an average of more than 13 percent a year. In a decade, net interest spending is projected to increase by $633 billion (or a total of $857 billion) – more than a 283 percent increase between now and 2023.



Let's take a moment to fit this into the contours of a government-spending panorama. In 2013, the amount the government will spend to pay the interest on our debt is equivalent to the combined spending on the Departments of Education, Energy, Transportation, Homeland Security, and the National Aeronautics and Space Administration (NASA). But the picture worsens: By 2023, net interest spending will be equivalent to 10 major departments, and two large-scale agencies.



CBO estimates that spending will remain elevated for the foreseeable future. Over the ten-year horizon, spending never drops below 22 percent of GDP and comes nowhere near the historical average of 19.8 percent in any one of those years.

The growth in spending, particularly entitlements, is of serious concern. The three largest drivers of this spending, (excluding net interest), are Medicare, Social Security, and Medicaid. Medicare and Medicaid alone have grown to such levels that after adjusting for inflation, the amount spent, in real dollars, on these two programs this year is more than *all* government spending in 1960. Taking that one step further, Medicare today is larger than the entire federal government in 1951, after adjusting for inflation.

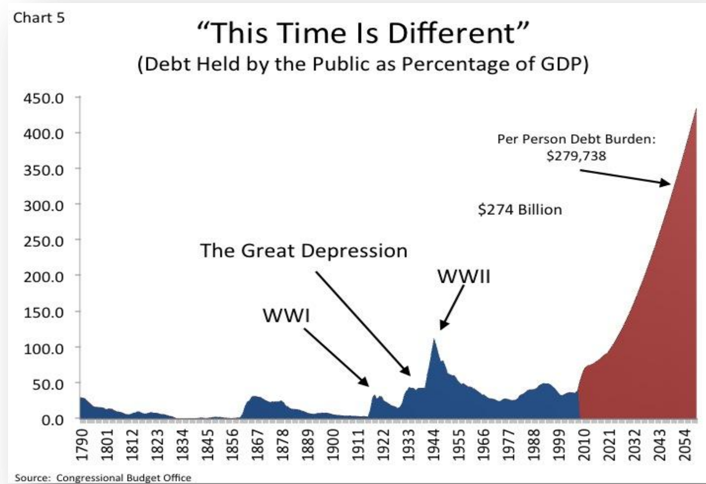
Now, let's depart from the past and look at the future. While these few programs might have been larger in scope than the entire governments of the past, in the not too distant future they really will consume the entire government. By 2025 net interest, Social

Security and health care costs will use up every dollar in revenue coming into the federal government.[i]

Unfortunately, there is no enthusiasm in Washington to address the spending problem, despite the perilously high stakes. The only attempt so far – the Budget Control Act (BCA) and the sequester – have had little significant impact. And even then, the devil is in the details. First, more than 50 percent of the "spending cuts" were to take place in future Congresses, after 2018. Secondly, those cuts largely exempted a majority of the government and the largest drivers of our spending, which are entitlements. Finally, the BCA didn't actually cut aggregate spending; it simply slowed the rates of growth. As you can see from Chart 4, at no point does this grand compromise actually cut government spending. The government continues to spend more and grow larger.

Debt Cliff

In 2007 the federal deficit was $161 billion, about 1.2 percent of GDP. In 2009, the first year of President Obama's presidency, the deficit grew to over one trillion dollars with similarly large deficits in every year of his first presidential term. While this year's projected deficit will be under a trillion dollars, it still a staggering $845 billion. If we removed President Obama's first-term when evaluating the historical context of this $845 billion deficit, it would be the largest deficit in American history. 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, meaning that



even if the economy were to improve or return to pre-crisis growth, we would continue to see large government deficits.[ii] Last year CBO assumed that if the economy were operating at full capacity, the U.S. would have still run a $703 billion deficit last year and a $403 billion deficit this year (see Appendix figure 2).

Today, the debt held by the public stands at $11.82 trillion – or nearly $37,531 for every man, woman and child alive (a $2,424 increase relative to last year's budget). Every child that is born today will see their share of the debt increase to nearly $280,000 by the time they are older adults. In the coming years, the levels of debt accumulated by the United States will create tremendous vulnerabilities in the U.S. economy and to our standard of living.

In the not too distant future, the debt held by the public will approach 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 U.S. 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;[iii]
- 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 and there is 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. [iv]

By studying the long history of debt, Carmen Reinhart and Kenneth 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."[v]

The current debt held by the public for this year is predicted to reach $12.2 trillion; within the next decade, it is estimated to grow by 89 percent, exceeding $23 trillion by 2023. Even more concerning than the continued buildup of debt is the milestone this debt reaches by 2023. In that year, debt held by the public will reach 89 percent of GDP, which historical precedence tells us will lead to serious deterioration in the economy. 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.[vi] As shown in the Appendix Figure 1, economic growth that is as little as a tenth of a percentage point lower than the Congressional Budget Office's estimated baseline will add more than $300 billion to the deficits over the next ten years. A reduction in economic output by 1 percent would worsen the fiscal situation by $3 trillion.

Crowding Out Economic Growth

As these deficits and debts continue to increase, America's ability to finance both a growing debt and private investments will 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 incomes over the long-run than if the debt was reduced. For example, the corporate sector holds $11.5 trillion in loans that will mature in the next five years. These firms increasingly compete with the government for a limited amount of capital and investors that are willing to lend to the world. The increased competition with the U.S. government will lead investors to demand a higher risk premium, resulting in both higher borrowing costs and lower growth for businesses.[vii]

In addition, this growing debt will increasingly become financed by capital inflows from other countries (foreigners own nearly 47 percent of total debt held by the public, see Appendix Figure 4). The debt service will require more U.S. capital to flow to countries such as China, Japan, oil exporting OPEC countries, among other foreign nations. As the capital flows out of the U.S., there will be less available to invest in new factories, fund research and innovation, and create jobs here in America.

Investing In America

In their book, This Time Is Different, Reinhart and Rogoff point out that one of the most important features impacting the fragility of the system is 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."[viii]

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 76.3 percent of GDP.

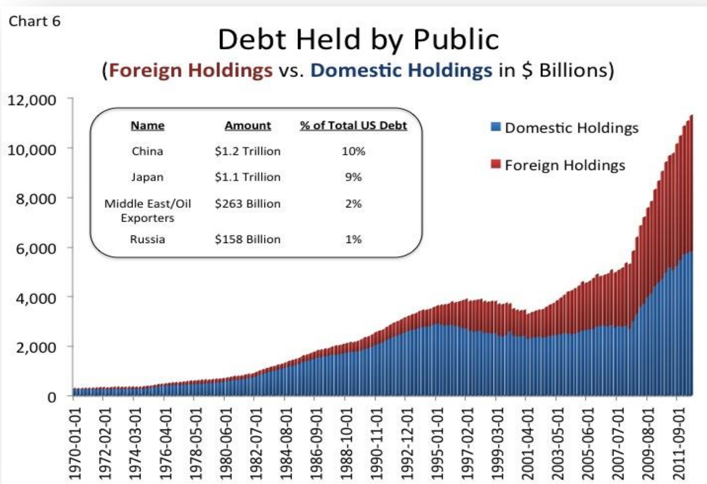
As CBO points out, "[D]ebt held by the public – which represents the amount that the government is borrowing in the financial markets (by issuing Treasury securities) to pay for federal operations and activities – must eventually grow no faster than the economy. If debt continued to rise rapidly relative to GDP, investors at some point would begin to doubt the government's willingness to pay interest on it..." This is precisely what CBO expects to happen. Over the next 10 years, the debt is expected to accumulate at an average rate of 5.5 percent per year, yet the predicted real GDP growth is only 2.7 percent.

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 higher interest rates for holding treasuries.

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. Many consumer and mortgage interest rates are linked to the 10-year Treasury note and 30 – year bond (long-term securities), thus when Treasury yields rise so do interest rates. Nearly 91 percent of all household debt is in the form of mortgages and credit cards, both of which react to rising interest rates.

For example, homebuyers and sellers who are considering a 30-year mortgage might be greatly burdened if they were in a scenario similar to that of late 1981, when mortgage rates peaked at 18.2

percent. Such a situation is the difference between a $1,523 and $556 monthly payment (then vs. now) on a $100,000 mortgage loan. In addition, Christopher Mayers, finance and economics professor at Columbia University, explains that each 1 percentage point increase in rates adds as much as 19 percent to the total cost of a home.[ix]



The increased borrowing costs hit all sectors; especially 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. However, if rates should increase to the average rates of those during the 1980's, net interests costs will increase by more than $5 trillion.[x]

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 47 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.[xi]

Providing a safe haven for the world's savings has afforded the U.S. a better standard of living and has reduced overall capital costs. But not since the WWII era and the effects of assisting in the rebuilding of Europe via the Marshall Plan has debt as a percent of our economy been as high as it is today. In fact, the last time public debt exceeded 76 percent was in 1950; from 1951 to 2008, the average public debt as a percentage of the economy was 39 percent. Therefore, we not only need to prove to domestic investors that we have a handle on our nation's finances, but we also need to convince the world.

Lower levels of outstanding debt give policymakers the ability to borrow to address important and unexpected events such as a natural disaster or war. In contrast, a large amount of debt leaves the government without the flexibility for action, which can ultimately be costly for Americans. As CBO phrases it, "…[I]f the amount of federal debt stayed at its current levels or increases further, the government would find it more difficult to undertake similar policies in the future. As a result, future recessions and financial crises could have a larger negative effect on the economy and people's well-being."[xii]

CBO further concludes, "A rising level of government debt would have another significant consequence: combined with an unfavorable long-term budget outlook, it would increase the probability of a fiscal crisis for the United States."[xiii]

Monetizing U.S. Debt

The Federal Reserve was created in 1913 with a prime mandate to protect the purchasing power of the dollar. They have had little success in fulfilling this mission. 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."[xiv]

The deterioration of the dollar through inflation results in 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, a key player, began to inject large amounts of liquidity into the system.[xv]

Since 2007, the Fed's balance sheet has skyrocketed from $840 billion to nearly $3 trillion, which includes more than $1 trillion in new purchases of government debt and $1.025 trillion in mortgages-backed securities. With prices falling as a result of a credit freeze, deleveraging, bankruptcies and high unemployment, the Fed's policies have primarily focused on the threat of deflation. This singular focus is completely contradictory to what history has taught us about financial crisis and the resulting threat of high inflation. Throughout this fiscal crisis, the Federal Reserve has taken unprecedented steps by injecting large amounts of dollars into the system, known as quantitative easing (QE), hoping to artificially reverse the pains of natural market realignment.

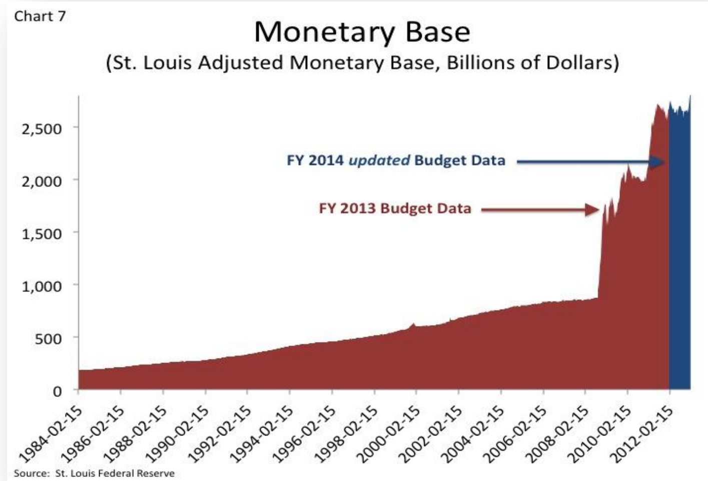
Philip Coggan, author of Paper Promises: Debt, Money, and the New World Order writes, "Quantitative easing could be seen as the ultimate triumph of debtors' over creditors' interests. Governments are creating money to allow borrowers to settle their debts. However, QE has also come under attack from a different direction, on the grounds that it is an unproven tactic that is unlikely to work. In Japan, QE was used on and off in the early years of the twenty-first century. Japanese bond yields were already low, so there was little benefit to be gained from this factor. And the money supply expanded, but it did not lead to a borrowing spree; the money created was simply hoarded as cash deposits."

"The Japanese example may instead show that government policy has little impact once debt ratios get too high. The private sector simply doesn't want to borrow, even at zero interest rates."[xvi] The Fed is doing exactly that with quantitative easing, which is not only monetizing aggrandized government debts, but also trying to encourage borrowing by purchasing long-term bonds in an effort to temporarily drive down interest rates.

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 pegging their currency to the dollar (such as China), the U.S. running large current account deficits, and capital chasing better investment opportunities overseas, a great deal of this newly printed money has gone abroad.[xvii] However, 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 deteriorated.

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 nearly half of those hyperinflation periods have been connected with huge public deficits. In Bernholz's book, Monetary Regimes and Inflation, he states, "…we draw the conclusion that the creation of money to finance a public budget deficit has been the reason for hyperinflations."[xviii] Most importantly, 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 as well as by accommodative central banks all too willing to lend a helping hand.[xix]

High inflation can wreak havoc on a society as it destroys the purchasing power of both private and public savings and forces a society into excessive consumption and hoarding in order to acquire assets before prices rise further. This also discourages investors from engaging in economic activities, leading 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 detrimental to the baby-boomer population nearing retirement, as they plan to live on a fixed amount of monthly income from pensions and savings.

Inflation also causes serious problems for low-income households. Nearly 25 percent of those households are "unbanked" or in other words, not affiliated with a bank or financial institution. These individuals operate only in cash and are much more impacted by the reduced purchasing power from inflation.

In addition, high inflation will impact the government's finances. Nearly half of all federal programs and entitlements are tied to inflation. As spending to increases to match the inflation rate, the government accumulates higher deficits. Social Security, which is officially linked to the Consumer Price Index (CPI), accounted for 21 percent of government expenditures in fiscal year 2012. Medicare and Medicaid are also unofficially linked.[xx] 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.[xxi]

Solving the Growth Equation

"Pure mathematics is, in its way, a poetry of logical ideas" – Albert Einstein

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

- 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 17 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 these three characteristics above. We will attempt to provide options that would reverse the current policies that have weakened our economy. We will also promote policies that will create a more competitive economy with less debt, a smaller government, and incentives to promote greater economic growth.

Let's start with an anecdotal bit of optimism. Many Americans might remember the temporary budget surpluses of the late 1990s as an anomaly. Historically, budget surpluses were not that unusual. Since the Department of the Treasury was created in 1789, there have been 222 federal budgets. There were times when the government ran a deficit – 115 years, to be exact. But, since 1789, the government has also been able to balance the budget 107 times. Balancing the budget was actually more common than running a deficit; from 1789 until the Great Depression. During that timeframe, the government recorded 46 deficits and 94 surpluses. However, the dramatic expansion of domestic programs during the Great Depression resulted in increased government spending, and a dramatic reduction in budget surpluses. Since the Great Depression, 63 deficits have been recorded, but only 12 surpluses. More recently, since 1950, only nine surpluses have been recorded– the last in 2001.[xxiii]

While this may show a long history of fiscal imprudence, it also shows that balancing the budget isn't as impossible as many think. The dynamics are different, the budgets are larger and the welfare state is a greater fixture of many American lives. But the resolve of the American people is greater than any of those variables.

We can balance the budget by reducing the size of government and encouraging economic growth. It is important to understand the basic concepts of the economy (see Chart 8), and how this budget will interact with powers of a free market economy. Here we go.

(G) Reduced Government Spending

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

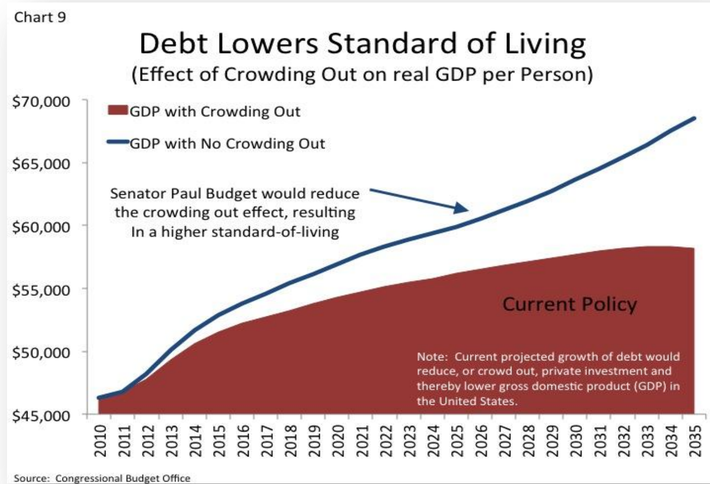
-Herbert Stein, Economist

Seen in the GDP equation chalkboard above, 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 not only face short-term threats, but we impede the long-term personal consumption and investment components of the equation. In fact, CBO estimates that, unless we adopt serious austerity measures today, the crowding out effect will lead to an economy that is 15 percent smaller in 20 years. 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. Based on the current CBO baseline, the budget would spend $9.5 trillion less over the next ten years.

A Clear Vision 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 dependency on the federal government by both the population and the states, reducing mandatory spending from over 13.2 percent of GDP in 2013 to 10 percent of GDP by 2022. The budget preserves and strengthens old-age and disability programs, thereby continuing to provide for those most in need.

The budget eliminates four federal departments - 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). The budget adds back more than $126 billion to defense, above the sequester amount, but it continues to keep the large military complex of yesterday in check. 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 2018). Over 10 years, nearly $2 trillion in surplus is applied toward paying down our debt, decreasing the debt held by the public to 46.4 percent of GDP, the lowest level since 2007. With this budget, we will officially begin to deleverage America, paving the way for a stronger, more resilient nation for future generations

(I + C) Investment and Consumption

This budget provides a number of incentives to increase investment. During a solvency crisis, the economy is more engaged in reducing its debt than focusing on 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 ability of individuals and businesses to 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 price equilibrium, facilitating growth and employment. Personal 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, savings and our social safety net. By supporting welfare reform and reducing spending for social welfare programs, savings and investments will increase as Americans rely more on themselves and less on their government. Under the current policies, total net savings of U.S. households, businesses, and governments remain extremely low by historical standards. In the third quarter of 2012, net savings as a percentage of the economy was close to zero. This trend is attributed to our growing and unsustainable federal deficits. As concluded in the Federal Reserve Monetary Policy Report, "…National savings will likely remain low this year, in light of the still-large federal budget deficit. A portion of the decline in federal savings relative to pre-recession levels is cyclical and would be expected to reverse as the economy recovers. If low levels of national savings persist over the longer run, they will likely be associated with both low rates of capital formation and heavy borrowing from abroad, limiting the rise in the standard of living for U.S. residents over time." [xxiv]

When the U.S. had a much smaller social welfare program, the U.S. savings rate was once as strong as China's is today. As the social welfare 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.[xxv]

(E) Exports

Over the past several years, the President has taken the laudable step of urging Congress to pass free trade laws in order to elevate exports. However, apart from the effort to encourage free trade, the President's efforts to create an environment conducive to competing in a global economy have been largely misguided. The President and the central bank have attempted to increase exports by destroying the value of the dollar here at home. This budget reverses this policy by promoting less costly goods and services through investment, technology, and innovation.

The President's agenda of increasing taxes on top of a weak dollar policy is inhibiting the country's ability of to compete overseas. Increasing the tax burden on American entrepreneurs does nothing but increase their cost of doing business – which translates to more expensive goods, which fewer people will purchase. The Democratic tax increases are substantial and burdensome. This year alone, the expiration of the payroll tax holiday, the application of taxes from Obamacare and the recent fiscal cliff deal, are all projected to increase taxes by $149.7 billion. Finally, 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.[xxvi]

One of the fundamental keys to export growth is investment.[xxvii] The correlation between tax rates, investment and export is demonstrated by 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…"[xxviii] 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 overall reduced investment.

Conclusion

If we don't make the difficult choices today, we will be faced with even more difficult and painful choices down the road. While we do not broach the topic of government default directly, history shows it's a very real possibility should the debt scenario unravel 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.

As our government runs persistently high deficits and accumulates large sums of debt, our society becomes more fractured, and more fragile. With unsustainable levels of deficits and debt, the government is unlikely to withstand or absorb another shock, including a natural catastrophe, fiscal crisis or war. 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, Americans saw Main Street businesses fail and their neighbors lose their jobs as

Washington politicians 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. The opportunity to bail out large, politically connected firms simply screams of cronyism. As University of Chicago economist Luigi Zingales highlights, "… When a business obtains both market and political power, escape becomes impossible. Under these circumstances, the system starts to resemble a socialist economy instead of a free market. In a socialist economy, the political system controls business; in a crony capitalist system of this kind, business controls the political process. The difference is slim: Either way, competition is absent and freedom shrinks. Without competition, economic life becomes unfair, favoring the connected insider."[xxix]

The budget does not protect a pro-business agenda. It simply protects the free-market, which one could argue is ultimately the most pro-business plan society and economies have ever benefitted from. Again, from Zingales, "The distinction between a pro-market agenda and a pro-business one has not escaped the attention of a majority of Americans. While the two agendas sometimes coincide – as in the case of protection property rights – they're often at odds. A pro-business agenda aims at maximizing the profits of existing firms; a pro-market agenda, by contrast, aims at encouraging the best business conditions for everyone." [xxx]

A capitalist society allows for success and failure. As Dr. Taleb said, "When you remove failure from the economy, you eliminate capitalism."[xxxi] A fluctuating economy that experiences and allows failure eliminates weaknesses and irresponsible behaviors, making the system stronger, a philosophical idea Taleb calls 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.[xxxii]

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

Empowering the States

"The powers delegated by the proposed Constitution to the federal government are few and defined. Those which are to remain in the State government are numerous and indefinite. … The powers reserved to the several States will extend to all the objects which, in the ordinary course of affairs, concern the lives, liberties, and properties of the people, and the internal order, improvement, and prosperity of the States." -James Madison

The authors of the Bill of Rights included the Tenth Amendment as a means to define the relationship between the national and state governments. The framers were wary of a centralized government; therefore, the Constitution embraced a system of providing both state and federal sovereignty. The objective of applying a 'one-size-fits-all' agenda made little sense to the thirteen original states that signed the Constitution. It makes even less sense with a much larger union. Each state has a unique set of challenges, population, traditions, and values, and we should be empowering the states to define their priorities and implement the policies best suited to their constituency.

Every person should have a voice into the needs of their communities. Issues like education, housing, caring for the homeless and local business concerns are those issues that should be coordinated and fostered by parents, community organizations, local school boards, and city councils. The more these issues are transferred to Washington, the less individual inputs and individual voices are heard. Particularly from what is increasingly becoming the norm, where unelected federal regulators and bureaucrats are making important decisions that impact the life and livelihoods of individual citizens without listening – or being held accountable to – the voice of any citizen.

We need to return many of these important issues back to the local communities. Your state representative might attend your church; your city councilperson and school board members are your neighbors. Your voice matters – and the ability for your community to take a larger role in your child's education, or to provide assistance to a local family in need, or to promote and help your neighbor's small business is better served by those you know and trust.

Department of Education

"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

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 infringe upon the states' powers and decisions in the arena of public schooling. The 1958 National Defense Education Act (NDEA) was the first substantial federal encroachment, and ushered in a torrent of new legislation continuing the trend, including the 2001 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, and the unfortunate consequence of their attempt has been to hamstring the responsibility and competitive opportunities of local communities and parents.

Most Americans are aware that we are falling quickly behind the rest of the world in educational capabilities. Nearly two dozen other countries, nearly all of which spend less per pupil on education, are far surpassing us in math and science. Little more than two decades ago, the United States was the most powerful collective mind in the world, and among the world's top in educational scores. The correlation between the expansion of the federal government's role in education and our deteriorating standards cannot go unnoticed. In fact, since the large federal intrusion of No Child Left Behind passed in 2001, the OECD has provided information showing the U.S. falling further behind, and scores in reading have actually dropped 4 points from 2000 to 2009. As the OECD's Program for International Student Assessment (PISA) points out, the U.S. remains far behind in educational levels, particularly math and science (see charts 11 and 12).

Do we really need a federal Department of Education? The facts seem to speak for themselves. The Department has only been in existence since the 1980, and since that time, it has few positive achievements to highlight. Many of the 20th century's greatest achievements, such as landing a man on the moon, and inventing the computer, have been accomplished by individuals whose intellectual power was nurtured in a school system far less stymied by the federal government.

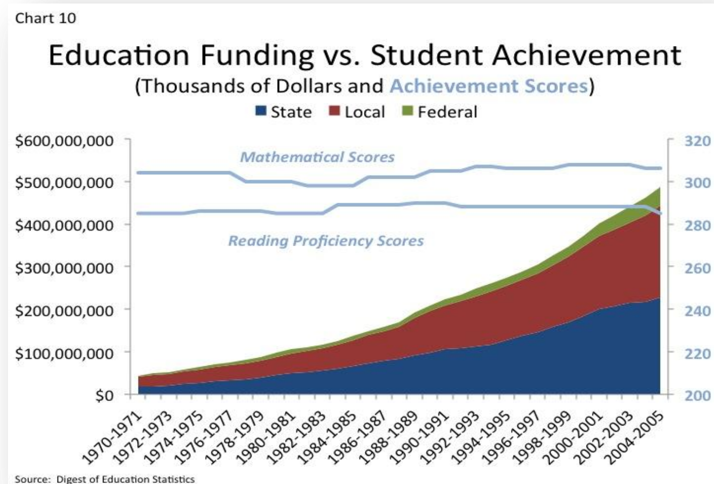
To truly assess the effectiveness of the Department of Education, we need to assess the effectiveness of federally mandated achievement levels. We need to analyze if these Washington-determined mandates and goals are really making our society better off.

Physicist and Medical doctor Peter Diamandis examines these questions in his bestselling book, Abundance,:

"Harvard's Tony Wagner isn't so sure [about Washington mandates]: "So called advanced math is perhaps the clearest example of the mismatch between what is being taught and tested in high school versus what's needed for college and in life. It turns out that knowledge of algebra is required to pass tests… If you're not a math major, you usually don't have to take any advanced math in college, and most of what you need for other courses is knowledge of statistics, probability, and basic computational skills. ... Graduates from the Massachusetts Institute of Technology (MIT) were recently surveyed regarding the math that this very technically trained group used more frequently in their work. The assumption was that if any adults use higher-level math, it would be MIT grads. And while a few did, the overwhelming majority reported using nothing more than arithmetic, statistics, and probability."

Diamandis continues, "[W]e're teaching the wrong stuff, but just as alarming is the fact that the stuff we're teaching isn't sticking. Two-fifths of all high school students need remedial courses upon entering college. In the state of Michigan alone, the Mackinac Center for Public policy estimates that remediation costs college and businesses about $600 million a year. … a few years back, the National Governors Association interviewed 300 college professors about their freshman classes. The results: 70 percent said students couldn't understand complex reading materials; 66 percent said students couldn't think analytically; 62 percent said students wrote poorly…"

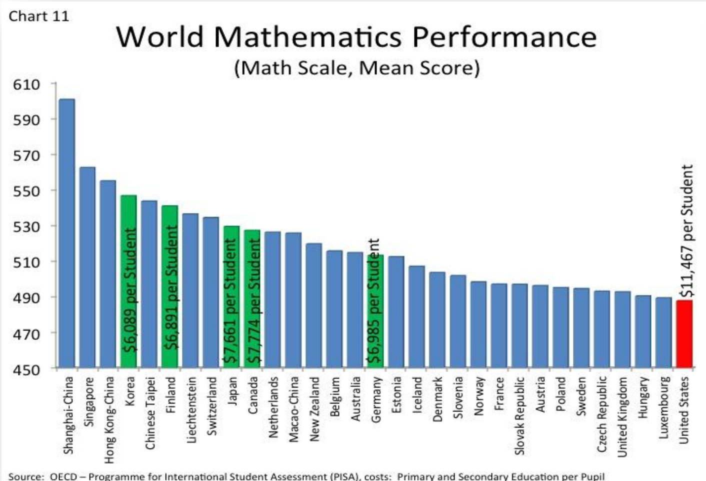
This is important anecdotal information. By including it here, we are not suggesting that elementary and secondary schools are teaching the wrong subject. We are simply asking the reader to consider the implications of this information. Do centralized federal goals and curriculums bind opportunities for a new thinking in education, particularly if districts that innovate will be portrayed as falling behind on Washington-based metrics? It should be of concern to all of us that these tests, requirements, and centralized guidelines may very well stifle the opportunity for competition, new ideas and a willingness to adopt innovative educational systems.

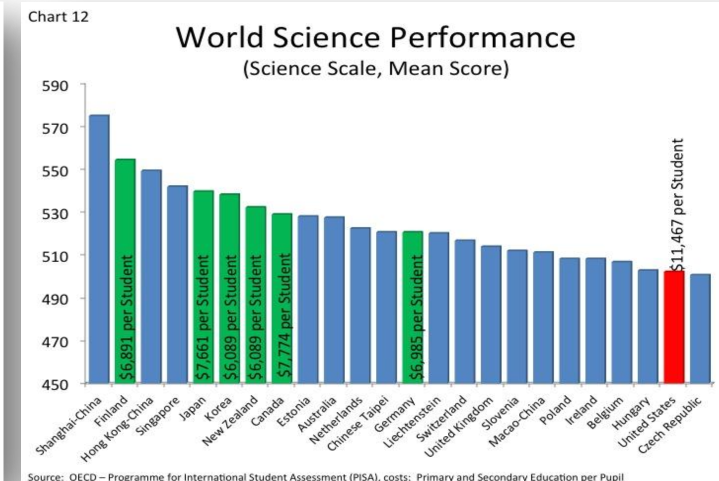


More Federal Intervention, but Fewer Results

The great paradox of American education is found in the delta between spending and scores. While our academic scores are shamefully low in the world, the United States stands among the top via spending. Last year, the United States spent about $11,467 per pupil. That total includes roughly $820 provided (not equally distributed) by the federal government.

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. The $11,467 spent per pupil every year is more than double what we spent in 1970 - yet, the results have been disappointing at best. Reading and math scores from 1971 to 2008 did not trend proportionally with the large spending increases, and overall achievement had declined in science scores as well.





Federal money also ties the hands of states. The roughly seven cents of every education dollar offered by the federal government comes with federal regulations and counterproductive red-tape. In fact, in 2006, the White House's Office of Management and Budget found that the burden imposed by No Child Left Behind required the states to perform an additional 7 million hours in paperwork at a cost of $141 million. The list of federal compliance requirements doesn't stop there. The Office of the Inspector General for the Department of Education has estimated that Title I of No Child Left Behind alone contains more than 588 discrete compliance costs, and probably many more when state and federal laws interact. In addition, school districts which accept more than $500,000 in federal funds a year are required to conduct an annual audit of their internal systems, including procurement, payroll, inventory and financial management.

The American Enterprise Institute (AEI) has articulated the crux of the mandate problem:

"The most fundamental of these facts is that Washington does not run schools. All Congress can do is enact laws that tell federal bureaucrats to write rules for states, which in turn writes rules for school districts, which in turn set the particular policies for schools. At each of these points, there is a great potential for distortion; often, the grand visions of Washington lawmakers ends up bearing little resemblance to how their policies actually play out in the nation's classrooms. In short, while Washington can force states and districts to do things, it cannot make them do those things well" and "In other words, it is when Washington tried to direct improvement efforts or to exercise control over education that things go awry. This is how we get the unworkable mandates of No Child Left Behind and the infeasible promises of [President Obama's] Race to the Top. A better approach would be to limit Washington's involvement to tasks for which it is uniquely suited and that respect and embrace the basic tenets of federalism and our constitutional design."

This budget is not about eliminating or reducing educational opportunities, particularly in public education. We simply feel that our current, federally run education system prioritizes bureaucracy over the needs of local schools and students. The current system requires tax dollars to be sent to Washington to fund a huge bureaucracy. The money is then returned to the state capitols, further diluting these tax proceeds with administrative costs. What's left is finally sent to local schools, only to then be squandered on compliance costs and paperwork. It is our belief that America can and should be better than what our bureaucracy currently allows. Our goal is to allow school districts the opportunity to compete with schools in neighboring communities – or those in China – by emboldening school districts and parents to explore new and more innovative ways to propel America back to its place at as the best educated in the world.

As Noble prizing winning economist Milton Friedman said 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.

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 for 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, 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.

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. For example, 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, and stymieing the opportunity of individuals to improve and advance their lives.

Empowering the states

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.

Communities and private organizations are working better

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, CATCH Neighborhood Housing and Enterprise Community Partners

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 the 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 three percent.

HUD, the federal regulator of Fannie Mae and Freddie Mac, did not have the power to require these organizations to maintain minimum 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) 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.

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

Free markets, not big business

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. Certain agencies of the Department of Commerce are indeed necessary, based on their fiduciary responsibilities, such as the Patent Office, or the need 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 2012.

During the past few years, the Department of Commerce has spent billions of dollars on 96 subsidy programs. The effectiveness 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 within the government also commissioned with fostering economic development.

The few who do benefit from the corporate welfare provided by the department do so to 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. The same is true for the consumer, who now has less money to spend at any number of businesses, which may or may not be subsidized.

Chapter Policy Assumptions

Empowering the States

Program	Budgetary Change
Department of Education	Department Eliminated
Pell Grants	Preseved at FY2008 Levels- Grow at CPI
Department of HUD	Department Eliminated
Department of Commerce	Department Eliminated
NOAA	Transfer NOAA to NSF
Patent and Trademark Office	Transfer to Dept. of Justice
International Trade Admin	Transfer to USTR

Reducing the Nation's Reliance on Washington

The welfare state in America continues to grow – and the larger it becomes, the more it becomes embedded in the fabric of our society. What replaced the successful experiment of capitalism and free-markets is the reliance on Washington to subsidize our livelihoods.

The growing dependency on Washington not only threatens our standard-of-living, but is becoming financially unsustainable. In roughly 50 years, the U.S. government went from spending 28.3 percent of the budget (1962) on dependency programs to roughly 70 percent of the budget (2010). The programs are the largest drivers of our debt, and a scenario that may soon leave us bankrupt.

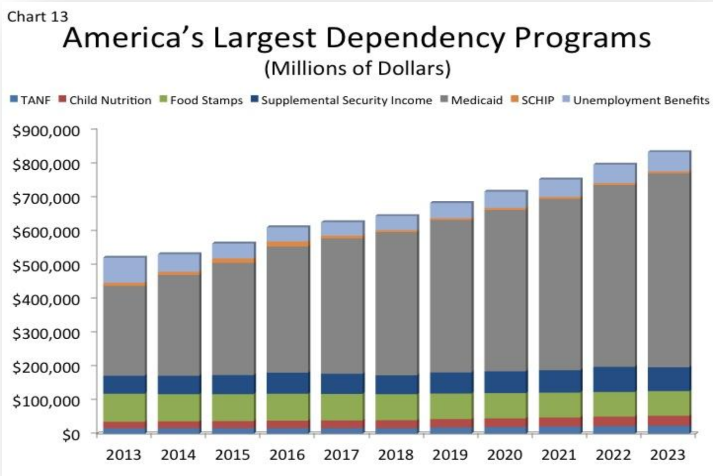
The Heritage Foundation's research has found that since 1962, the number of those reliant on Washington has tripled. In 2013 alone, welfare dependency (not including Medicare or Social Security) programs will spend roughly $688 billion. However, in less than 10 years, spending on those same programs as projected by CBO will increase to $2.7 trillion – an increase of more than 286 percent.

As stated in the Heritage Foundation Special Report, the 2012 Index of Dependence on Government, "Under the Obama Administration, welfare spending has increased dramatically. For example, between FY2008 (the last fiscal year under the Bush Administration) and FY 2011, the average per capita benefit for the Supplemental Nutrition Assistance Program (SNAP), formerly the food stamp program nearly doubled from $39.3 billion to $75.3 billion (in constant FY2011 dollars).

Chart 13 provides the total spending for the seven larger dependency programs: Temporary Assistance for Needy Families (TANF), Child Nutrition, Supplemental Nutrition Assistance Program (SNAP – otherwise known as "food stamps"), Supplemental Security Income, Medicaid, States Children Health Insurance program, and Unemployment benefits. These programs grow at a combined average of rate 5 percent annually, far faster than the projected rate of inflation or economic growth. Over the ten-year horizon, these programs will increase by 60 percent.

In 2010, the U.S. per capita income was roughly $32,446, while federal government spending per recipient of government provided health care, welfare, college, education, housing, retirement, and agricultural spending was $32,748. The divergence between the two is concerning, and requires the U.S. to both rebalance the way we care for the poor and determine if we are providing help beyond what is necessary.

The definition of the "poverty line" for a single individual in the United States is $11,490. This certainly isn't very much to live on, but according to the Senate Budget Committee, this individual may qualify for up to $25,000 in various forms of federal welfare. In addition to the salary, welfare benefits would put this individual at more than 300 percent above the poverty line.



From the book, Abundance, "[I]n 2008 the World Bank revised its international poverty line – an absolute poverty metric – from the longstanding "those living on less than $1 a day" to " those living on less than $1.25 a day." By that figure, someone who works six days a week for fifty-two weeks earns $390 for their year. But that same year (2008), the U.S. government stipulated that $10,400 was also absolute poverty. …Today most poverty-stricken Americans have a television, telephone, electricity, running water, and indoor plumbing."

But as is also noted, the standard-of-living continues to diverge between poverty in American and that of the rest of the world, notably a continent like Africa, "…Today Americans living below the poverty line are not just light-years ahead of most Africans; they're light-years ahead of the wealthiest Americans from just a century ago. Today 99 percent of Americans living below the poverty line have electricity, water, flushing toilets, and a refrigerator; 95 percent have a television; 88 percent have a telephone; 71 percent have a car; and 70 percent have air-conditioning. This may not seem like much, but one hundred years ago men like Henry Ford and Cornelius Vanderbilt were among the richest on the planet, but they enjoyed few of these luxuries."

Education, housing, and local commerce, among many other welfare programs for citizens should be the responsibility and role of the states and communities. This budget will provide assistance to the states to perform functions like supplemental nutrition, low-income health care and other assistance needs. Not only does this significantly lower the cost to the federal government, but also it achieves the goal of bending the cost curve for these programs down.

Through reform ideas like block granting, we can provide federally assisted funds to local communities to help them facilitate and tend to those in need of such essentials such as food or health care. Such proposals would return the responsibility back to the states and promote the opportunity for states to innovate and plan based on the needs of their constituency. Most importantly, it would encourage states to take a more direct look at who is in poverty, who is receiving unnecessary aid, and to facilitate a lessened dependency on government.

Block Grant Medicaid and the State Children's Health Insurance program

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, however, the program will spend $265 billion this year – and by 2023 will spend $572 billion. Payments today are two times as the cost in 2000, and will reach five times the cost in 2023; this is reflective in the unsustainable 8 percent annual growth rate.

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.

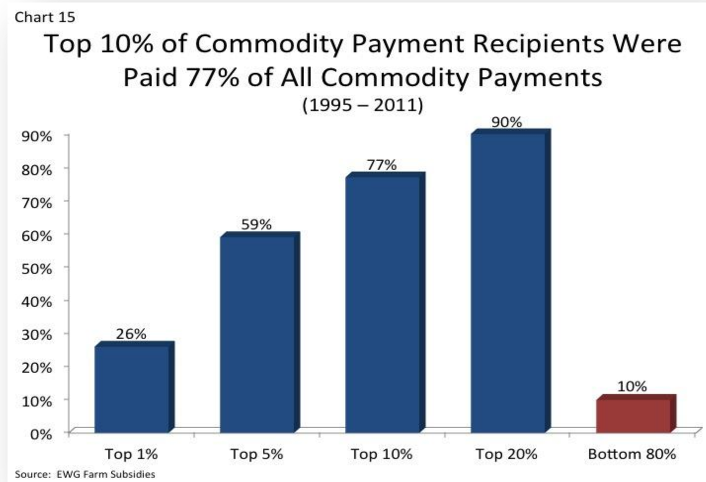
Providing block grant funding to each state allows for flexibility in creating innovative health care programs for those who need it most without the federal bureaucracy, and it will significantly lower costs and reduce the burden on the federal government.

Combining the Medicaid and SCHIP allows for a reduction in overhead expenses and additional layers of administration. Block granting these programs to the states allows to keep down the rate of growth, taking the combined growth rate of Medicaid and SCHIP from 8 percent down to 2.6 percent, yet continuing to keep up with inflation and population growth.

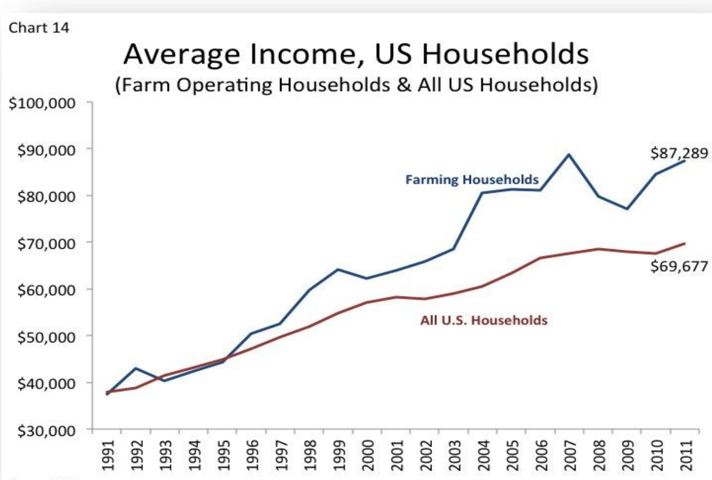
Reduce Payments to Farmers

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.

Since the 1940's America's farmers have become increasingly dependent upon the federal government and the subsidies provided have little to do with actual "support" programs as they were originally intended. In 2009, the average farmer had a net worth of $915,019 (159 percent of the national average of household wealth); in 2012, a farmer's average annual income was $81,317. Currently, crop subsidies are extended to nearly 1 million farmers; however, the majority of subsides are directed at commercial farms with average incomes of $200,000 and a net worth of nearly $2 million. The bottom 80 percent of farmers receive just one-fifth of the subsidies provided. As an anecdote, the Heritage Foundation has pointed out, if farm subsidies were designed to help alleviate the poverty of farmers, then lawmakers could guarantee every full-time farmer an income of 150 percent of the poverty level (family of four: $35,325) for just over $4 billion annually – roughly one sixth the size of total agriculture subsidy spending.



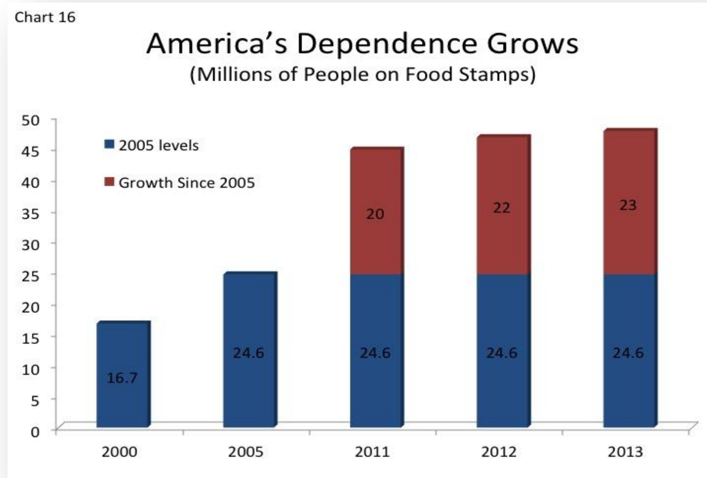
The federal crop insurance program is another entitlement area in need of reform. First created in 1938, the crop insurance program was designed to help farmers get back on their feet after severe flooding or drought – and also to reduce the frequency and cost of emergency aid bills coming out of Congress. However, through changes made by Congress and the USDA, the program has now become tantamount to a profit insurance for a select group of agricultural businesses. Crop insurance has outgrown its original mandate to create a safety net for producers. Crops are experiencing record high prices. In fact, according to the USDA, farmers are expected to reap a record-setting $128.2 billion in 2013 – the highest income threshold since 1973. Yet, in spite of this, taxpayers continue to guarantee up to 90% of an agricultural producer's anticipated income – and most of that is through revenue guarantees, not Protecting against crops lost to natural disasters. Without income limits, reporting requirements, or limits on the amount of subsidy a single business can receive, crop insurance is expected to cost $95 billion over the next decade. This area of agricultural policy needs thoughtful reform to ensure our policy continues to stimulate a private market for crop insurance, and is sensibly limited among operations that are large enough to better manage their risk.



The USDA also engages in needless advertising programs for commodities as varied as beef, honey, avocados, mushrooms, sorghum and flowers. These so-called "check-off" programs require farmers to fork over taxes to support USDA's Agricultural Marketing Service, which then transfers the money to an "official" marketing group. This happens whether or not the individual farmer approves of the marketing the program then funds. In fact, federal law has given USDA the authority to enforce collection of more than $600 million annually in mandatory assessments, approve the advertising and marketing, and to defend the check-off communication in court as the government's own message. It is certainly questionable whether or not USDA can effectively regulate the industries under its purview, while at the same time trying to boost their sales. Accordingly, the programs have generated numerous lawsuits, alleging illegal transfers of check-off money to political lobbying associations. The USDA has also spent this money on dubious initiatives – such as helping to actively develop and promote the McDonald's McRib sandwich. Three years ago, the New York Times ran a "cheese checkoff" expose, which highlighted the USDA's efforts to get Americans to eat more cheese, to the point of funding Domino's Pizza product development. It should be noted that this was at the same time that the agency was spending millions trying to *reduce* American's consumption of high-fat foods, such as pizza. These check-off programs have out-lived their usefulness. Agricultural industries have grown in sophistication and capacity, and are more than able to provide for their own domestic marketing needs. American famers – and American taxpayers – do not need to pay for the federal government to do this for them.This budget intends to preserve the safety net for America's small farms, but means-tests the program so that payments are not going to big agri-business, restricting these payments to farmers with incomes of less than $500,000.

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 decided to address the food stamp program through welfare reform in 1996. Food stamps were ultimately urned 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 361 percent (FY2013 cost of $83 billion), and the Congressional Budget Office estimates that this entitlement program will cost nearly $842 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 $4billion annually.

For example, in 2012 a Senate investigation found 2,000 deceased individuals in New York and Massachusetts still receiving food stamps. That same investigation revealed 7,236 people in these same states who were receiving duplicate benefits; another 286 of where were on a list specifically designating them as "excluded." The one small investigation amounted to finding $1.4 million in unnecessary food stamp payments each month.

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.

Food Stamps to Millionaires? Maybe.

Categorical Eligibility: Federal law stipulates that households in which all members are either eligible for or receive benefits from the Temporary Assistance to Needy Families program (TANF), Supplemental Security Income (SSI), or state-financed General Assistance (GA) programs are automatically eligible for food stamps.

TANF Recipients: Many States Confer Categorical Eligibility Using No Asset Limit and Income Limits Above Regular Food Stamp Rules.

Categorically eligible households do not need to meet regular food stamp eligibility requirements such as the food stamp asset or gross income test because their general need has been established by the TANF program. In States that confer categorical eligibility for all TANF services, there is no limit on the amount of assets a household may have to be eligible for food stamp benefits.

In addition, gross income limits of the TANF program set by these states ranged from 130 to 200 percent of the poverty level. As a result, households with substantial assets but low income could be deemed eligible for food stamp benefits under these policies. Even though households may be deemed categorically eligible for food stamps, the amount of assistance households are eligible to receive is based on the same formula used for other food stamp recipients.

Finally, households can be categorically eligible for food stamps without even receiving actual TANF funded service other than a toll-free telephone number or informational brochure that provides information about TANF, food stamps, or other welfare programs.

Chapter Policy Assumptions

Reducing America's Reliance on Washington

Program	Budgetary Change
Department of 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
LIHEAP	Eliminate
Supplemental Security Income	Cap funding growth at inflation
Department of 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
Child Nutrition Program	Block Grant

Providing for the Common Defense

The United States retains one of the most powerful militaries in the world, a luxury afforded to us by the powers and success of our free markets, a free people, and capitalism – and a Constitutional necessity that ensures those freedoms. It was a free people and dominant capitalist economy that ultimately helped America win both great wars, and become the ultimate victor in the standoff with the former Soviet Union. One of the greatest distinctions over time between the triumphs of the United States and those nations that have suffered defeat is an emphasis on a free people, with rights and liberties, protected by our Constitution.

That Constitution not only provides such important protections such as the First, Second, and Fourth amendments, among others, but also outlines the role of the federal government in establishing and maintaining a military capable of defending these very freedoms.

As history has proven, these delicate powers can become unbridled and the notion of "defense" can become undefined. In recent history, the deployment of military forces with opaque justification regarding the national security of the United States has become habitual. The expansion of military operations throughout the world, with unmanned drones or a physical troop presence, are permitted almost without hesitation by the President, and almost always without any Congressional admonition.

George Kennan was one of the nation's prominent foreign policy analysts, advising Presidents from FDR to Reagan. The central notion of Kennan's foreign policy was predicated around the idea that non-interference in the internal affairs of another country was a long standing principle of American diplomacy, and should only be given exception when 1) "a sufficiently powerful national interest," is at stake and 2) when "we have the means to conduct such intervention successfully and can afford the costs." He skillfully supported and articulated a long-term, patient but firm and vigilant containment; that is, the application of counter-force at a series of constantly shifting geographical and political points, corresponding to the shifts and maneuvers of the adversary's policy. As he explained, this didn't necessarily mean a military response – but the notion of containment was not solely attained through diplomacy, either.

In the latter half of Kennan's life, he would see a sad shift in U.S. foreign intervention while witnessing American engagement in the affairs of Somalia in 1992. In his private diary he would write, "The dispatch of American armed forces to a seat of operations in a place far from our own shores, and this for what is actually a major police action in another country and in a situation where no defensible American interest is involved – this, obviously, is something that the Founding Fathers of this country never envisaged or would ever have approved. If this is the American tradition, then it is a very recent tradition."

This is America's new tradition, and the benevolence of the United States has been used to manipulate the narrative to one which assumes the American responsibility is to play the role of global police. But, Kennan only had a few years remaining in his life to witness the transformation of America's homeland since 9/11. In the name of national security, the fundamental rights and protections of the American legal system have been eroded; bureaucrats have assumed the power to label, at their discretion, individuals as "terrorist," and deny these individuals due process. The government has further expanded their ability to secretly wiretap Americans and store the email of virtually every web user in the country without a court-ordered warrant. Intrusive new bureaucracies, like the Transportation Security Administration (TSA), have become a staple of our life. Where the pinnacle of a democracy was once the freedom of travel, it has now become an arena which consistently violates our protections against search and seizure, as well as a forum where citizens are harassed, abused, and mistreated.

America's national security mandate shouldn't be one that reflects isolationism, but instead one that is not rash or reckless, a foreign policy that is reluctant, restrained by Constitutional checks and balances but does not appease; this balance should heed the advice of America's sixth president, John Quincy Adams, who advised, "America goes not abroad in search of monsters to destroy. She is the well-wisher to freedom and independence of all. She is the champion and vindicator only of her own."

The awareness of our security policy must not stop there. Americans also must demand a respectable domestic security policy as well. It was Benjamin Franklin who once said, "those who sacrifice liberty for security deserve neither." We must demand that government afford us the most basic protections granted by the Constitution; we must put a stop to the government's relentless invasion of privacies without just-cause or a warrant. And finally, we need to put an end to the physical abuses, and mistreatment by our government at the hands of entities like the Transportation Security Administration.

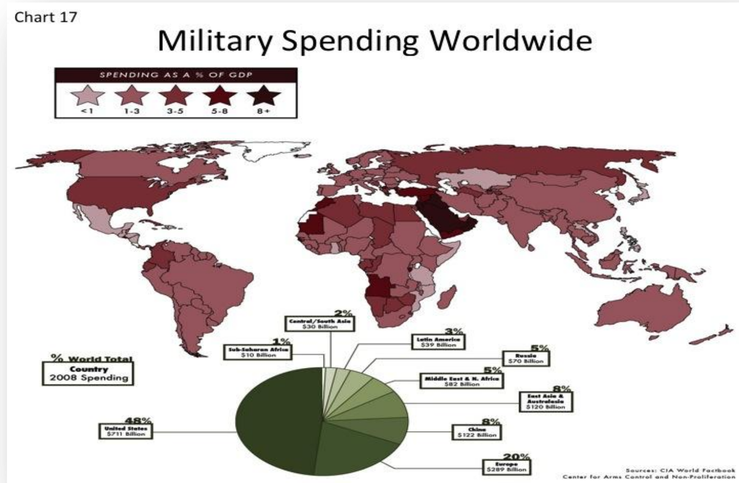
"Department of Defense

"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



Historically, the nation's pattern following an armed conflict was demobilization. By the end of World War I, the United States was spending as little as $70 per capita, and on the eve of World War II, military spending was only 1.7 percent of gross domestic product. Today, the per capita spending on national defense is greater than $2,000.

Of all worldwide money expended on militaries and national defense, the United States spends roughly 43 percent of the $1.7 trillion spent in aggregate. This U.S. spending amounts to nearly 9 times what is spent in the entire Middle East; 6 times that of China; and 12 times what is spent in Russia. When you factor in the wars in Iraq and Afghanistan, as graph 17 does, the spending is even higher. This large amount of military spending is more than the next 14 top military spenders in the world, most of which are U.S. allies. Outpacing our closest allies at this level has done nothing to strengthen them; it has only subsidized their own defenses. Today, the Department of Defense has a budget that spends nearly $100 billion dollars more, after adjusting for inflation, than the Cold War budgets under President Reagan

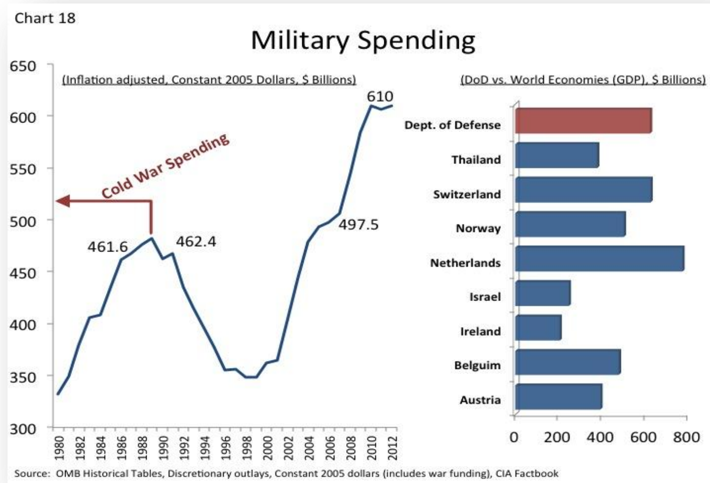
In fiscal year 2013, the Department of Defense will spend roughly $600 billion. Our ability to continue to spend at this rate and level is limited, and therefore the ability to preserve our military strength can only continue if we begin to strengthen our fiscal standing. The amount of debt we have not only jeopardizes the ability to continue basic services, but will seriously restrict the option of providing funding that is unmatched by any other country. By 2019, the interest on our debt will surpass the amount we spend on national defense; only two years later the net interest will be $250 billion more than all the funding projected to be allocated to security spending.

The structure of the U.S. military continues to reflect the buildup during the Cold War; a structure that was necessary to deter or fight an impending 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.

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.

The budget provides an outline to achieve to the following:

1. It seeks to reduce the size and scope of the military complex, including its global footprint to one that is more in line with a policy of containment. Reducing our global footprint will lessen our need to engage on foreign lands where a strong national interest is not at stake, and our involvement may not be Constitutionally justified or strategically wise.
2. This budget also intends to highlight national priorities. Unlike the Budget Control Act, and the subsequent across the board sequester cuts, this budget more precisely cuts and reduces areas of government that are beyond the scope of that intended by our Constitution. It also demonstrates that when the size of government is reduced through reform and devolution to the states, resources can be more efficiently prioritized. In other words, reducing the overall weight of government allows more resources to be available during times of crisis, such as war or natural disasters. This budget seeks to replace part of the sequester, replenishing more than $120 billion back into defense over 10 years, all while balancing the budget and drawing down the debt.
3. Realign and adjust the mandate of the Marine Security Guards to not only secure sensitive materials, but also to protect and defend diplomatic staff.



4. This budget would also require the countries that we assist to begin providing more funding in 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.

Keeping Our Embassies Safe. The U.S. maintains about 285 diplomatic facilities worldwide, and is responsible for the safety and protection of thousands of diplomatic officials. Attacks on personnel in Benghazi, Libya, but also at embassies in Egypt, Sudan, Tunisia and Yemen have raised the question as to the whether we are striking the right balance between security and outreach. Frequently, our diplomatic goals have placed U.S. personnel in extremely high-risk areas akin to war zones, where threats of mob violence are frequent and persistent. In fact, there have been 39 documented attacks against U.S. embassies, consulates and official U.S. personnel overseas between 1998 and 2008, excluding regular attacks against the U.S. Embassy in Baghdad.

While international convention requires that the host nation provide adequate security to visiting embassies, it is often the case that unstable countries cannot meet these requirements. This budget recognizes that the safety of U.S. citizens overseas is paramount – particularly those in high-threat areas. In addition to providing an increased security posture at the State Department, this budget also instructs the Department of Defense to grow the Marine Security Guard Program in order to increase detachments at U.S. diplomatic facilities. To be truly effective, however, the principal role of Marine Security Guards should no longer be to simply secure classified information; Marines Security Guards should also engage in active protection of our diplomats and facilities overseas. As the dangers of our missions evolve, so should our security priorities.

However, simply increasing funding will not necessarily make our embassies safer. We must promote a more judicious policy when it comes to sending our diplomats abroad. In this global climate, it is conceivable that the risks of high-threat posts might outweigh the benefits of completing a diplomatic mission on-site. The State Department should be constantly reevaluating the safety of our diplomats, and should not hesitate to identify countries where it is more sensible – and safer – to complete the mission from afar.

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.

Following the 9/11 attacks, the Transportation Safety Administration (TSA) has provided the majority of airport security screeners across the country. However, a number of airports (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 my hometown of Bowling Green, 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 was effectively strip-searched. The Constitutional rights of citizens are routinely violated and TSA remains unaccountable. Privatizing TSA begins the process to end these abuses.

Chapter Policy Assumptions

Providing for the Common Defense

Program	Budgetary Change
Department of Defense	
Security Spending, Function 050	Add back $126 billion above Sequestered levels
	Provide additional funding for Marine Security Guards
	Reduce Global footprint; Constitutional requirements to military engagement
Department of State, Diplomatic and Embassies	Provide 50% Increase from FY2013 levels for Embassy Security
Department of Homeland Security	
TSA	Privatized
Homeland Security Grants	Eliminate

Attacks in Benghazi, Libya

Numerous reports have documented the security failures that resulted in the tragic deaths of four Americans at the consulate in Benghazi. Both the Administrative Review Board and the report of the Senate Homeland Security Committee found that inexcusable failures of judgment led State Department decision makers to ignore the rising threat levels in Benghazi and the repeated requests for enhanced security at the site. Marine Security Guards were not on site to protect our consulate in one of the most dangerous and unstable regions in the world. The failures of management that led to these decisions are reprehensible; the lapses in judgment indefensible. It is beyond my comprehension why the individuals whose poor decision making directly resulted in the deaths of four Americans remain employed by the State Department, and compensated by the U.S. taxpayers.

One of the most troubling aspects of the Benghazi attack is the complete disregard that State Department leadership gave to the repeated requests for enhanced security from Ambassador Christopher Stevens. Should funding have been an issue, the State Department always has the option available to come to Congress for approval to transfer funds within accounts. However, in the days and weeks leading up to the attacks in Benghazi, no requests for reprogramming were made by the State Department. In fact, at a hearing in the House Oversight and Government Reform Committee, Deputy Assistant Secretary Charlene Lamb testified that budgetary considerations played no role in the State Department's refusal to send additional security personnel to Benghazi.

In addition to increasing diplomatic security accounts in this budget, I have supported legislation to provide the State Department transfer authority to prioritize diplomatic security at our embassies around the world. However, it is worth noting that this money will only be effective if it is responsibly managed by officials at the State Department.

Putting America First: A New Direction for Foreign Assistance

The philanthropic character of the American people is unmatched in comparison to any other country in the world. In the book, Abundance, Diamandis and Kotler write, "By 2004, charitable giving in America had increased to $248.5 billion, the highest yearly total ever. Two years later, the number was $295 billion. By 2007, CNBC had taken to calling our era " a new golden age of philanthropy" and Foundation Giving reported a record setting 77 percent increase in new foundations established in the past decade, an addition of more than 30,000 organizations. Certainly those numbers dipped during the recession: 2 percent in 2008, 3.6 percent in 2009. The ten-year low was in 2010, but that was also the year Bill Gates put $10 billion toward vaccines…"

But, it's not just the money that is significant in private philanthropy. Combined with private innovation, these private financial donations are doing what $2.3 trillion in foreign aid never could accomplish: providing an abundance of food, energy, water, communication capabilities, and education – at a small fraction of the cost.

Take for example Dean Kamen, a self-taught physicist and multimillionaire entrepreneur. After exploring many opportunities with medical devices, particularly filtering and sterilizing water, he eventually created a device that was capable of self-generating enough energy to sterilize small amounts of water used for dialysis. His experiments soon turned into working a product, called the Slingshot, which can sterilize 250 gallons of water at a time, using the same amount of energy that it takes to power a hair dryer. Crucially, the power source is designed to run on almost anything. Over a six-month trial in Bangladesh, the engine ran only on cow dung, and in addition to providing power to purify water, provided the village with enough electricity to charge their cellphones and power their lights. Kamen has recently entered into a pilot program with Coca Cola, which has agreed to utilize their massive production and infrastructure capabilities to build, distribute, and help maintain the Slingshot. Thanks to Dean Kamen's innovation and CocaCola's corporate citizenship, millions of Africans now have access to clean water and electricity.

Stories like Kamen's demonstrate the fact that American's are smart, innovative, and generous – even when left to their own devices. More importantly, the hands-on nature of individual philanthropy means it can more easily avoid the problems that face traditional foreign assistance. Individualized philanthropy is generally not directed to corrupt leaders to fund arms races throughout the world, or lost through government waste, fraud and abuse.

The ineffectiveness and abuse of foreign aid is well documented. For example, since the mid-1990s

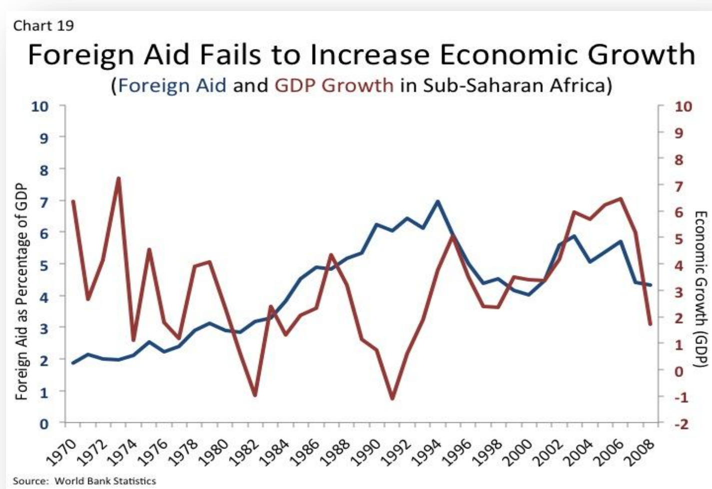
Ethiopia has consistently ranked in the top tier of total U.S. economic assistance, receiving close to $700 million annually for the past 10 years. However, rather than seeing significant improvements in the country, the results have been troubling. According to a 2010 study by Human Rights Watch, "the 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.

These problems are not limited to Ethiopia. Dambisa Moyo, born in Zambia, and academically trained at both Oxford University and Harvard University 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 – and highlights that aid as the precise reason that Africa 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."

This "vicious cycle of aid" has done very little to increase economic growth or the standard of living in Africa. Dambisa Moyo continues, "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."

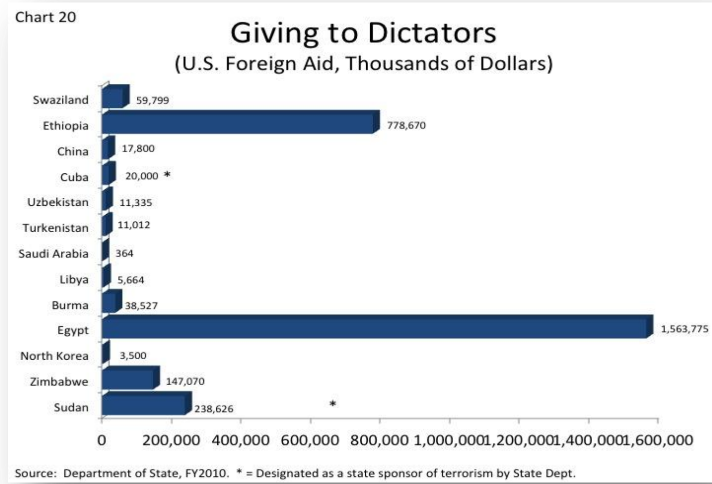
Assimilating the work done by others intellects, such as David Landes, Niall Ferguson, Dani Rodrik, and Hernando De Soto, Moyo suggests that aid will never help the poorest of counties without those countries taking the absolute necessary steps to secure fundamental political institutions such as personal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



The failures of foreign aid are not limited to Africa. Harvard economists Daron Acemoglu and James Robinson in their book, Why Nations Fail: The Origins of Power, Prosperity, and Poverty write, in regard to the U.S.-led toppling of the Taliban in Afghanistan, "The international community thought that all that Afghanistan needed now was a large infusion of foreign aid…What ensued should not have been a surprise, especially given the failure of foreign aid to poor countries and failed states over the past five decades. Surprise or not, the usual ritual was repeated. Scores of aid workers and their entourages arrived in town with their own private jets, NGOs of all sorts poured in to pursue their own agenda… But little of it was used for building infrastructure, schools, or other public services essential for the development of inclusive institutions or even for restoring law and order. While much of the infrastructure remained in tatters, the first tranche of the money was used to commission an airline to shuttle around UN and other international offices…"

The authors go on to explain how the aid was further diluted in Afghanistan. "Many studies estimate that only about 10 or at most 20 percent of aid ever reaches its target. There are dozens of ongoing fraud investigations into charges of UN and local officials siphoning off aid money. But most of the waste resulting from foreign aid is not fraud, just incompetence or even worse: simply business as usual for aid organizations."

This research and evidence should be of great concern to a country like the U.S., which is running massive deficits, while sending tens of billions of dollars in aid overseas each year. However, Acemoglu and Robinson are not blind to the politics of foreign aid



"…Despite this unflattering track record of "development" aid, foreign aid is one of the most popular policies that Western governments, international organizations such as the United Nations, and Non-Governmental Organizations of different ilk recommend as a way of combating poverty around the world. And of course, the cycle of the failure of foreign aid repeats itself over and over again. The idea that rich Western countries should provide large amounts of "developmental aid" in order to solve the problem in sub-Saharan Africa, the Caribbean, Central America, and South Asia is based on an incorrect understanding of what causes poverty. Countries such as Afghanistan are poor because of their extractive institutions – which result in lack of property rights, law and order, or well-functioning legal system and the stifling dominance of national and, more often, local elites over political and economic life. The same institutional problems mean that foreign aid will be ineffective, as it will be plundered and is unlikely to be delivered where it is supposed to go. In the worst-case scenario, it will prop up the regimes that are at the very root of the problems of these societies."

The U.S. currently provides 150 different countries around the world with some sort of foreign assistance, including many that harbor resentment toward the United States, such as Egypt, North Korea, Cuba, Venezuela, and Pakistan. In addition, the United States has consistently provided foreign assistance to countries whose leaders the media routinely considers to be the "world's worst dictators." For example, according to Transparency International, Mobutu Sese Seko, the former President of Zaire,is estimated to have looted that country's assets to the tune of US$5 billion; roughly the same amount was stolen from Nigeria by President Sani Abacha and placed under his name into private Swiss banks[xxxiii].

Though a portion of aid is provided for foreign military assistance, a large amount is used for humanitarian assistance. While the intention to lift poor nations out of poverty is noble, often the assistance is counterproductive to increasing economic prosperity, as well as liberty and freedom.

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 amassing a small fortune from pillaging government finances and hijacking U.S. aid are listed in the Table 2. What this table does not show are the many officials and bureaucrats who also siphon off aid and government assets to the benefit of their bank accounts.

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.

Chapter Policy Assumptions

Putting America First: A New Direction for Foreign Assistance

Program	Budgetary Change
International Aid	Freeze spending at $5 Billion

The Ineffectiveness of Foreign Aid: HAITI

After a devastating earthquake hit Haiti in 2010, governments and foundations from around the world pledged more than $9 billion in assistance. But only a fraction of that money ever made it to Haiti. And, as Haiti's President Michel Martelly says, the funds aren't "showing results." Martelly describes the relief effort as uncoordinated, and has recently expressed frustration that well-intentioned projects are executed in a way that undermines his government. In recent comments about the international relief system, Martelly says it needs to be fixed. "We don't just want the money to come to Haiti. Stop sending money," he said.

Where did the $9 billion go? Jonathan Katz is the former Haiti Bureau chief for the Associated Press, and has written a book about the squandering of Haiti's aid. According to Katz, about $2.5 billion in humanitarian aid went to Haiti immediately following the quake. 93 percent of that money either went to United Nations agencies or international nongovernmental agencies, which then spent that money on short-term, immediate relief, rather than durable goods and reconstruction. In some cases, that money went to pay for the services provided by donor countries, instead of providing direct relief to Haiti. For example, in the case of the foreign assistance pledged by the U.S., some of that money went to the Pentagon after they wrote a bill to the State Department to get reimbursed with foreign assistance funds for having sent troops down to respond to the disaster. In other cases, donor countries pledged "debt relief" to Haiti, meaning that those countries forgave debt Haiti may have owed them, but actual money never left the donor country.

Three years after the earthquake and $9 billion in aid later, 350,000 people are still living in camps. Many others have simply moved back to the same shoddily built structures that were so deadly during the disaster. Despite $9 billion in aid, there has been no substantive reconstruction of the island. The lack of accountability and coordination between countries – despite the presence of the United Nations, the organization presumably supposed to head up the coordination – resulted in $9 billion in aid being deemed ineffective. Disaster specialist Dr. Tom Kirsh from Johns Hopkins School of Medicine put it this way, "Clearly we put people in tents. Clearly we did all kinds of stuff. But at the same time the level of chaos and the overall ability to reach needy people, we don't know how well we did."

Perhaps the situation in Haiti is best surmised, though, by Jonathan Katz: "People were just running around doing what they thought was best or what they thought was best for them [the Haitians]. And it really created a mess."

American Innovation

"If you always do what you always did, you will always get what you always got." – Albert Einstein

Innovation and ingenuity are vital American virtues. From Benjamin Franklin to Henry Ford, American inventors have fundamentally transformed the way we live, work, play and communicate. Franklin harnessed the power of electricity with his kite – giving us the iconic image of American progress. Alexander Graham Bell ushered in a new era of information sharing with the telephone, while Henry Ford revolutionized the dynamics of business and manufacturing with his assembly lines. The Wright Brothers sent commerce – and people – soaring. Bill Gates and Steve Jobs forever altered the way businesses communicate and integrate, and the way individuals socialize and interact.

Few countries can match the pace of invention and investment in the United States. Our markets-based system has given American citizens the ability to innovate without constraint. This scrappy creativity is the hallmark of our economic progress, and it is a critical element in continuing to expand our intellectual and physical boundaries.

In the transportation sector, particularly, innovation is sorely needed. Our expanding infrastructure is crumbling under bureaucratic morass, regulatory overreach and resource allocation that does not reflect our true need, or plan appropriately for future needs. By reducing the heavy hand of government, we can allow the private sector to generate new and creative ways to solve old and evolving problems. States can respond more quickly to their infrastructure repairs, and common-sense reforms can replenish the Highway Trust Fund for a future that may look very different from our gasoline-powered present. The enterprising American spirit is also conquering the final frontier. By relying on the ingenuity of citizen entrepreneurs, we may also begin to plan for a future where private space exploration takes us to the moon, Mars, and beyond.

Department of Transportation

The transportation sector is one of the most heavily regulated and inefficient sectors in America, subject to a thicket of infrastructure laws, environmental regulations, as well as fuel and mileage standards. It is also an area where the unseen impact of the regulatory burden can be made tangible.

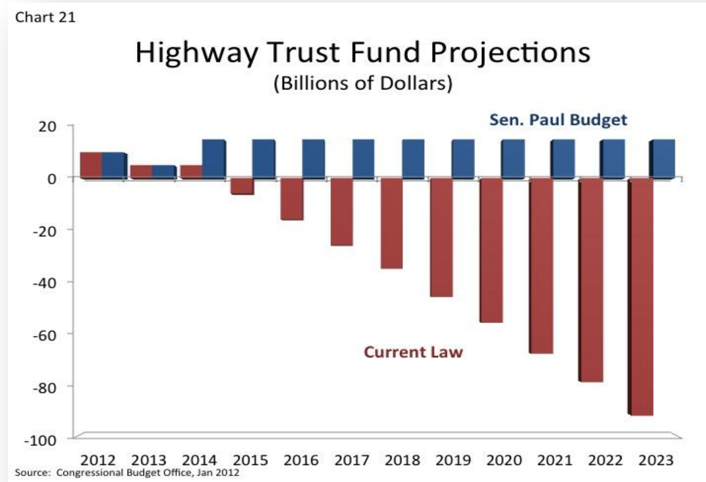
The Department of Transportation extracts tax dollars from the states and then returns those dollars to the states to fund highways, airports and other transportation systems and programs. However, the DOT money has long been infamous for funneling dollars earmarked for use by lawmakers to construct unnecessary projects, such as the infamous "bridge to nowhere" in Alaska.

Misallocation of Resources

The DOT distorts the transportation marketplace by under-prioritizing its mission. For example, the central focus of transportation policy is the Federal Highway Trust Fund. Each consumer pays an 18.4 cent tax per gallon of fuel toward this Trust Fund, which is then supposed to be used to fund highways, mass transit, and repairs to leaking underground storage tanks. However, through the general mission creep associated with regulatory agencies, as well as through the influence of numerous special interests, the Fund money now goes to support *any* forms of transportation that use little or no fuel – bike paths, passenger trains, and federalized land-use planning. GAO has identified $2 billion in "transportation enhancement" projects that were funded by the taxpayers recently, including scenic beautification, historic preservation, transportation museums, and rehabilitation of historic transportation buildings, among others. This is not the core mission of the Highway Trust Fund. As a result of this misallocation, the trust fund will permanently begin running negative cash balances this year.

For the previous 10 years, annual increases in driving, along with a related increase in fuel use, were sufficient to keep the Trust Fund up and running. However, in a classic bureaucratic tangle of priorities, the DOT consistently issues fuel economy standards which are expected to suppress motor fuel consumption in the years ahead, *even if* there continue to be annual increases in vehicle mileage.

In other words, the DOT needs gas tax revenue to pay for an ever-increasing array of projects. But it continues to promulgate regulations that actually diminish its ability to collect these taxes. The results of these contradictory policies will serve to bankrupt the Trust Fund even earlier than expected.



Transportation and the Highway Trust Fund in particular require the fundamentals of solvency and innovation. The policy of this budget is to limit transportation spending to what is brought in each year via the gas tax. As Chart 21 shows, reducing spending to incoming funds results in a solvent Trust Fund.

It should also be considered that the user tax (i.e.: gas tax) of today might become obsolete in the years ahead, particularly as cars begin to run on less gasoline, and non-taxed alternative fuel sources become more common. Already in the U.S. nearly 140,000 vehicles run on propane, 60,000 are electric vehicles, and 118,000 run on natural gas.

Adapting to – and encouraging – ingenuity in the transportation sector is critical to appropriately providing for future infrastructure needs.. It is critical that we learn how to provide resources to the Trust Fund in an age with less – or without – gasoline. We also need to create new materials, new designs and more efficient transportation routes in order to expand the resources that are available to us now and in the future.

Regulatory Constraint

The power of innovation cannot be controlled and dictated by Washington. There is, indeed, a place for federal resources to assist in funding public services within transportation, such as interstate travel. However, the overreach of regulations and mandates has become burdensome, implicitly increasing costs on both the state and federal governments.

A thicket of federal rules and regulations also directly hampers the ability of states to repair their own infrastructure. Under current federal law, if states wants to construct or repair a road, highway or bridge using any federal money, they are subject to a complex variety of federal regulations that govern environmental reviews, approvals, licensing, and permit requirements. These requirements can delay a project by years. For example, a Section 404 permit is required for any project that moves dredged or "fill" material (essentially, soil) near a water body. Obtaining these permits can delay a project by as much as five years. Similarly, the National Environmental Policy Act (NEPA) requires projects funded in whole or in part by federal money to undergo a review, known as a NEPA review. There is no timeline for study decisions under the Act, and planners have no sense of when the process is going to be completed. In some cases, NEPA reviews can drag out as long as six years or more.

States should have the flexibility to repair their own infrastructure without having to wait on the federal government. By applying these onerous requirements to states, we limit the innovation we need by hamstringing state planning, and forcing states to direct valuable resources to fulfilling permitting requirements rather than finding better solutions to infrastructure failures.

National Aeronautics and Space Administration

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, such as companies like SpaceX, XCOR Aerospace, Bigelow Aerospace, etc. Some of the Individuals within the private space sector have expressed concern with the new of agenda of NASA. The book Abundance quotes space pioneer Burt Rutan, "Rutan also developed a serious frustration with NASA's inability to truly open the space frontier. In his mind, the problem was one of volume. "The Wright Brothers lifted off in 1903," he says, "but in 1908, only ten pilots had ever flown. Then they traveled to Europe to demonstrate their aircraft and inspired everyone. The aviation world changed overnight. Inventors began to realize, 'Hey, I can do that!' Between 1909 and 1912, thousands of pilots and hundreds of aircraft types were created in thirty-one countries. Entrepreneurs, not governments, drove this development, and a $50 million aviation industry was created. Now contrast this with human spaceflight. Since cosmonaut Yuri Gagarin in 1961, only one space plane and a handful of rockets have carried humans into space: X-15, Redstone, Atlas, Titan, Saturn, shuttle, Vostok, Voskhod, and Soyuz. All government owned and operated. As of April 2010, forty-nine years since spaceflight became possible, about three hundred manned flights have taken a total just over five hundred people into space…"

The distinction between the achievements of the private sector, and that by the government – private aviation advances versus public space exploration – should be noted. Let's finish the distinction from Abundance, "His [Burt Rutan] human-carrying spaceplane, imaginatively called SpaceShipOne (SS1), outperformed the government's X-15 in every measure. Rather than costing billions and requiring a workforce of thousands, in 2004 SS1 took flight with only $26 million and a team of thirty engineers. Instead of just one astronaut, SS1 boasted three seats."

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.

In addition, 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 our friends overseas 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.

Chapter Policy Assumptions

Innovation for a Renewed America

Program	Budgetary Change
Department of Transportation	
Fund @ Gas Tax Levels:	
Federal Highway Admin	Fund at Gas Tax Levels
Federal Transit Admin	Fund At Gas Tax Levels
Amtrak subsidies	Eliminated
National Aeronautics and Space Administration (NASA)	Reduce 20% from FY2008 levels

Reducing America's Taxing Burden

Nearly all taxpayers are aware of the amount of their income that is redirected to the U.S. government each year. But the tangible burden of taxation is only the beginning. Most taxpayers however, never factor in the costs associated with the complexity and inefficiency of our broken tax code. The burden created by the tax code cannot be justified, particularly when it could be simple.

According to the Internal Revenue Service (IRS) individuals and businesses spend more than 1.6 billion hours a year complying with the filing requirements. This figure is just for filing; it doesn't include the millions of additional hours required to respond to filings or audits. In fact, if tax compliance were its own industry, it would be among the largest in the country. The time spent complying with the tax laws is equivalent to the work put in by 3 million full-time workers, or in other words, 14 times the entire size of the Fed Ex corporation.

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 – destroying 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[xxxiv]. In aggregate, a study published by former President Reagan's economist Art Laffer estimates that the total costs of compliance are $431 billion annually.[xxxv] 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 underpayments 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.

The intangible tax burden reaches beyond the actual tax code, into other areas of federal policy – the regulatory sector, in particular. In 2010, economists Nicole V. Crain and W. Mark Crain undertook an assessment of the entire regulatory enterprise for the Small Business Administration.[i] For 2008 alone, the Crains estimated the regulatory costs to be $1.75 trillion – a staggering sum that doesn't even include the high cost of administering the regulatory state, which, for FY2010, stood at an estimated $55.4 billion. As Clyde Wayne Crews, Jr. pointed out in his annual review of the regulatory state, regulatory costs now comfortably exceed the cost of individual income taxes, which, in 2010, are estimated to be $963 billion.[ii] Corporate income taxes, estimated at $157 billion, are similarly dwarfed by regulatory costs. From a global perspective, U.S. regulatory costs of $1.75 trillion now exceed the entire 2008 gross incomes of both Canada and Mexico – $1.454 trillion and $1.062 trillion respectively. Combining regulatory costs with FY 2010 outlays, the federal government's share of GDP now reaches 35.5 percent.[iii]

What do these costs mean for the individual? Plenty. To begin, the increased regulatory burden means you are most certainly facing a hidden tax, many times imposed without the request or approval of your elected Congressional representatives. Particularly in a time of fiscal austerity, regulations have become a Trojan horse for advancing government initiatives without using tax dollars. Rather than pay directly and book expenses for new programs, the government can simply require the private sector, state and local governments to accommodate the expense through compliance cost. Mr. Crews provides a helpful anecdote: Suppose a new government job training program would require increasing government spending on one hand, or imposing a new job training regulations on the other. Because regulatory costs remain largely hidden from the public, politicians have an increased incentive to impose new programs through regulatory initiatives, thereby avoiding unpopular taxing and spending. When imposed under the guise of regulation, hidden taxes seep unnoticed into the lives of individual Americans.

Individuals are also subject to the direct cost of compliance. If you are a business with 500 employees or more, it means your regulatory cost per employee now stands at $7,775 per employee. For small businesses with fewer than 20 employees, those costs increase by more than a third to $10,585 per employee. Compliance also means following the letter of each individual regulation as it is promulgated. As is discussed in later sections of this report, this compliance burden is the slow poison of the regulatory state, impacting every sector of our economy, putting millions of jobs at risk and threatening the very existence of industries throughout the country.

It is clear that the regulatory state has become an unchecked and unconstrained Fourth Branch of government. Without reform, it will continue to hurl us down a path of unfettered taxing and spending while stifling vibrant industries and threatening our economic growth. What we need to do is liberate to stimulate – 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.

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 economy 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 then, just fewer than 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, citing Article I, Section 9 of the Constitution, which states, "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 the16th Amendment in 1913. As adopted, it read, "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 the income tax of today 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.[xxxvi]

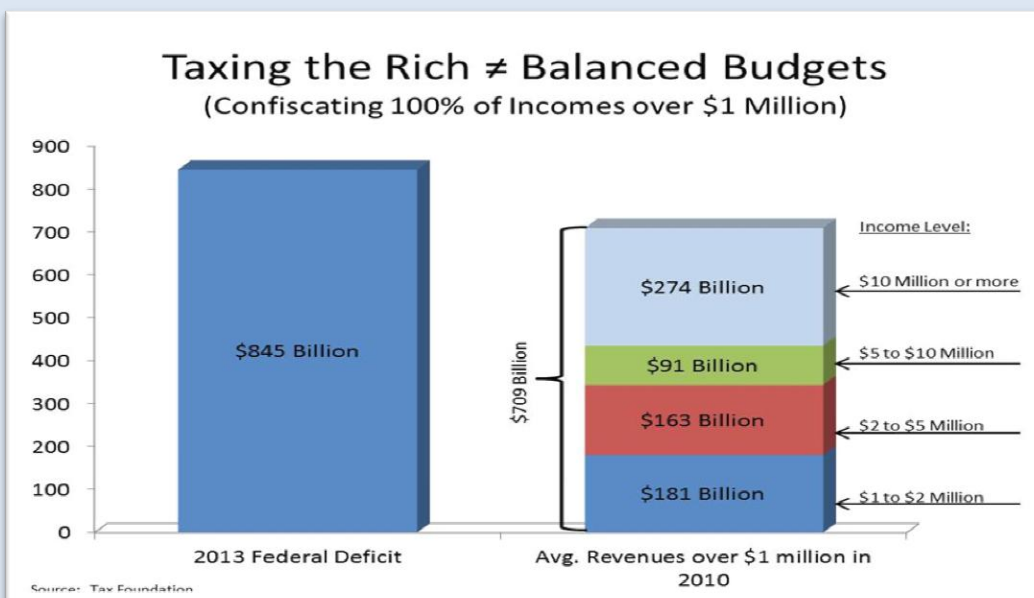
The history of the corporate tax begins very much like the personal income tax. The tax was adopted during the Civil War and allowed to lapse soon after. It was formally adopted into U.S. policy in 1909 as a result of populist sentiments to tax the wealthy. The major historical difference between the personal income tax and the corporate income tax was the manner in

Taxing the Rich, a Losing Proposition

advocates suggest there is a populist sentiment toward increasing taxes on the rich to pay for government spending. Aside from the disincentives it creates in a free-market, as well as instigating a detrimental class-warfare, the question needs to be asked: Could such a solution even work?

A tax policy think tank, the Tax Policy Center, has analyzed the data to answer this question. Their analysis concluded that there was not a scenario in which the budget could be balanced, even if taxes are significantly raised on the "rich." In Leonard Burman and Joel Slemrod's book, Taxes In America, the authors claim, "… The Tax Policy Center estimated what top tax rates would need to be to get the deficit down to two percent of GDP by 2019, assuming no change in spending patterns. If only the top two tax brackets (applying to married couples with income above $250,000) are adjusted, the top rate would have to increase to almost 91 percent, if we ignore the likely behavioral responses to such rates. Considering that there would be an enormous amount of avoidance at such high rates, it's clearly not feasible to tame the deficit by simply raising top tax rates. It's probably not even feasible if the top three rates are adjusted (see table)."

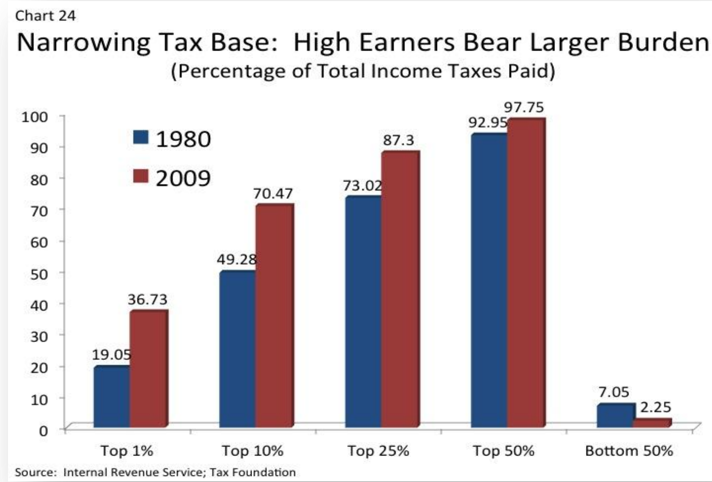
Current Tax Rates	Raise All Rates	Raise Top Three Rates	Raise Top Two Rates
10	14	10	10
15	22.3	15	15
25	37.2	25	25
28	41.7	60.8	28
33	49.1	71.7	85.7
35	52.1	76.1	90.9

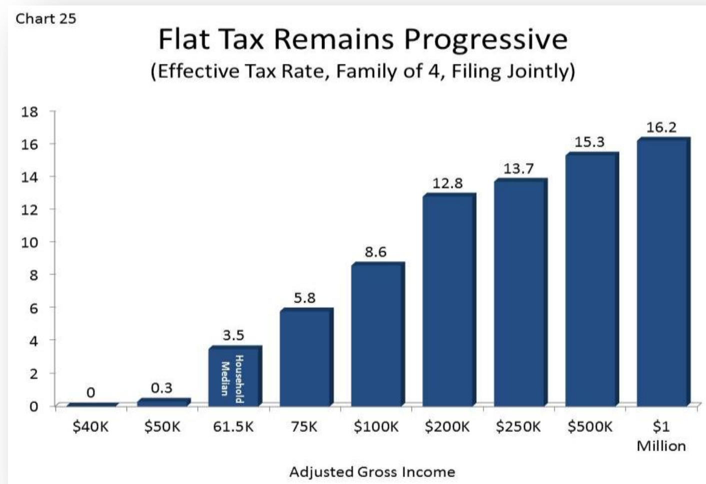


which the Supreme Court classified it. Unlike the personal income tax, the corporate tax was deemed as an "excise" tax and escaped constitutional issues.

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 few 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. 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 income 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 – does exist. 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 people's income, the threat of Congress imposing both a federal income and sales tax still 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 flat tax system is consistent with the progressive ideology implemented today: It refrains from taxing the poor, and those who 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, such as the one employed today, in order to be a progressive system. By providing a generous standard deduction and personal exemptions, the flat tax increasingly removes 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, based on the numbers used in this example, a median income family of four with two children will pay *less* than five cents for every dollar earned in income taxes, whereas a family of four making $250,000 a year will pay nearly14 cents for every dollar earned (see the effective tax rates in Chart 25).

The flat tax also corrects a 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.

The Antithesis of the 16th Amendment:

Many people believe the 16th Amendment should not be in the Constitution; others would like to restrain the use of it. That debate shall continue, but as worded, the 16th Amendment it makes it quite clear that its intent is to allow the federal government to collect taxes to fund operations and services provided by the federal government. The amendment does *not* suggest, however, that the government shall collect taxes, distribute welfare, redistribute wealth, and distort the allocation of resources – yet this is exactly what our tax code does. We provide nearly $11 billion a year in tax-credit incentives to allocate money toward energy projects; nearly $24 billion a year for the child tax credit; and nearly $60 billion a year for the earned income tax credit [EITC] – just to name a few ways that the tax code prioritizes federal money in the direction of some uses, and not of others.

The government also distorts resource allocation by relying on a minority of taxpayers to fund the activities of the federal government. Nearly half of all taxpayers in the U.S. don't pay any income tax. This means that we're relying more on fewer individuals to support our system. A large fraction of Americans are able to escape federal income taxes because of the "hidden" social safety net that is intertwined with the income tax. For example, the child tax credit and earned income tax credit, in aggregate, are larger than any other cash assistance program for low-income earners.

A Single System

The current tax code is fractured, which adds to its complexity. 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, former Secretary of State

We tax everything in this country, but what the former 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, it wouldn't be taxed twice as it is under the current system. The flat tax would tax gains on rental property, plants, 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.[xxxvii] 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–

Picture 1

Source: Michael Ramirez, Investor's Business Daily 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.

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, purchased 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.

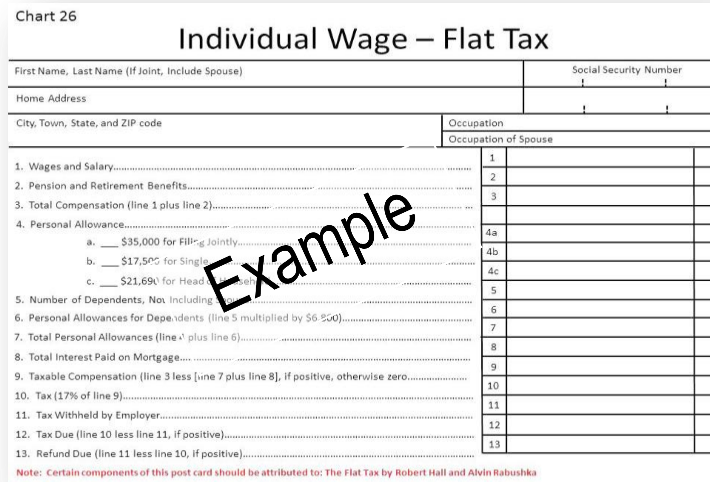


Chart 26

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

1. Wages and Salary 1
2. Pension and Retirement Benefits 2
3. Total Compensation (line 1 plus line 2) 3
4. Personal Allowance ....
   a. ___ $35,000 for Filing Jointly 4a
   b. ___ $17,500 for Single 4b
   c. ___ $21,690 for Head of Household 4c
5. Number of Dependents, Not Including Spouse 5
6. Personal Allowances for Dependents (line 5 multiplied by $6,800) 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

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

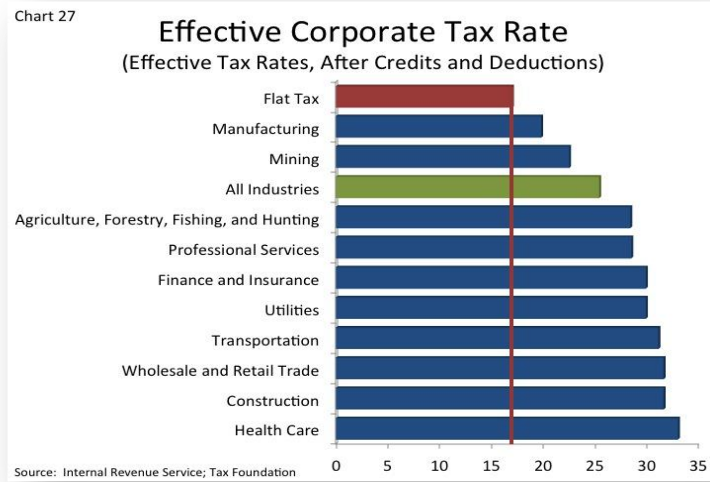
The individual portion of the flat tax only taxes the actual payments of wages, salaries and pensions. Employer pension contributions and any fringe benefits remain untaxed. Instead, the pension income is taxed when the employee retires and begins receiving that income, and the fringe benefits taxes 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 might receive $35,000 for a standard deduction and $6,800 for each dependent. These deductions and allowances have a similar effect as our current graduated system, as was evident from Chart 25.

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 such as 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 26).[xxxviii]

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[xxxix]:

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.

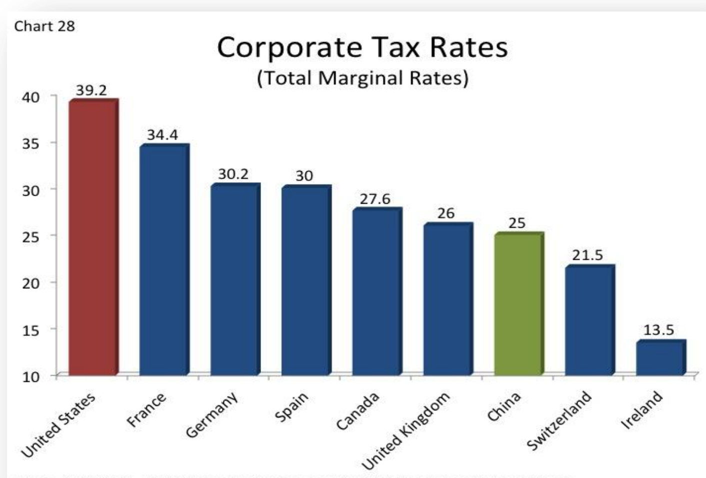
Economic Growth

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.

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 interest 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 one low rate, as opposed to the 35 percent liability today. It should be evident that under such a tax system with fewer burdens, 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 suggests 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."[xl]

Along with the previous analysis, R. Alison Felix, with the Kansas City Federal Reserve Bank, provide 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.[xli]

President Ronald Reagan modeled his 1986 tax reform on the contours of the flat tax modeled. Those reforms significantly reduced credits and deductions, broadened the base and lowered tax rates (for example, the top rate dropped from 50 percent to 28 percent). In the three years after the 1986 tax reform was adopted, the economy grew by over 8.3 million jobs – one of the highest employment gains in recent history. We believe that a flat tax could accomplish the same, and likely even more.

Regulatory Reform

There is only one difference between a bad economist and a good one: the bad economist confines himself to the visible effect; the good economist takes into account both the effect that can be seen and those effects that must be foreseen.

-Frederic Bastiat

Senator Paul's FY2013 budget discussed the impact of regulations on our economic growth and prosperity. In that budget, we proposed several priorities for reform, including substantial process reforms, among them to incorporate the independent agencies into the regulatory analysis requirements incumbent upon other agencies. We also urged passage of the REINS Act (S.15) as well as a two-year sunset on existing regulations. We still stand by and support all of these proposals.

This year, however, we wanted to emphasize the unseen impacts of the regulatory burden. Lately, there seems to be a feeling that regulators are omniscient. We are told, for instance, that the recession would have been prevented if better regulations had been in place. That explanation conveniently avoids what else we know, but many refuse to acknowledge – that it was a lot of wrong regulations that got us into this mess, not simply the absence of the right ones.

On the House and Senate floor and in the countless committee hearings that have followed, Senators, Congressman and other experts have bidden the regulators to “get ahead of the innovators” – a clearly impractical and flat out impossible notion. However, this is the thinking that prevails in Washington: we need to constrain and control the creative forces that, once unleashed, propel capitalism forward. This paradigm fails to acknowledge that these same uncontrolled, creative forces have fostered the greatest discoveries of our time. There is, after all, a reason why the Wright Brother’s flight at Kitty Hawk well preceded the establishment of the Federal Aviation Administration.

Regulations have consequences. As economist Robert Bradley has observed, “[Government] intervention that impinges on complex market forces can produce both unpredicted and unpredictable results.”

Last year, we surveyed the visible, tangible, and quantifiable impact of our regulatory burden. This year we seek out the unseen, invisible locus of regulatory influence on our economic development.

Invisible Trade Offs

This recession has impacted the decision making of homes and businesses alike. When the economy shrinks, spending is re-prioritized. The same thing also happens when regulations are implemented – except that, under regulatory laws, re-prioritization is compulsory, and lack of compliance comes with civil and criminal fines. In this way, 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” 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.

French economist Frederic Bastiat identified this economic fallacy hundreds of years ago. 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.

Our economy can only grow when it is based upon a regulatory policy that involves more than just sweeping up broken glass.

Pervasive Uncertainty

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.[xlii]

The health of our businesses should be a concern for all of us, particularly in this difficult economic climate. Regulations are a part of the reason we are stuck between 8-9 percent unemployment. The Congress and agencies continue to churn out regulations, which have a disproportionate impact on the uncertainty that stifles capital investment, and therefore hiring. It's a vicious circle: government tries to "fix" the problem by implementing more regulations; businesses react by waiting to invest before they see the impact of more regulations. Nothing is solved.

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.[xliii] 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."[xliv]

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.

Unseen Costs

The cost of federal regulations is nothing short of a massive, hidden tax on the economy. 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.[xlv] 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.[xlvi]

This aggregate tax trickles down to the individual. Businesses with 500 employees or more now pay $7,775 per year, on average, to comply with federal regulations.[xlvii] For businesses with fewer than 20 employees, that number jumps to $10,585 per employee.[xlviii] Each household pays, on average, $15,586 to comply with the regulatory burden.[xlix] 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.[l]

While the tangible, monetary burden of regulations is immense, the true cost of regulation is largely unseen, or, "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."[li] 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.[lii]

Unseen Influence

Industries exert enormous influence over the government agencies created to regulate them. This concept is known as "regulatory capture," and occurs when an agency advances the commercial concerns of the industry they are intended to regulate, ahead of the public good.

Industry sway over government agencies is a natural result of the way the regulatory process is structured. No one has more incentive to lobby the regulatory agencies than do the companies they regulate – and the self-interest of the regulators gives them a powerful incentive to listen. The "revolving door" phenomenon, in which personnel leave the industry for jobs with government agencies (and vice versa), is often pointed to as proof of corruption. But this process is a natural outgrowth of the regulatory construct. When an agency is created to oversee an industry, one of its first needs are employees with knowledge of that business. Where can it go for such people but to the industry itself? The revolving door *does* create an insular, chummy climate that can foster corruption. But this is not in spite of the existing regulatory construct – it is often because of it.

Regulatory capture can lead to industry failure in glaring and dangerous ways. The Deepwater Horizon oil spill in 2010 is a widely cited example of just how damaging regulatory capture can be. The Minerals Management Service, which has regulatory authority over offshore drilling, allowed companies drilling in the gulf to evade permitting requirements, safety inspections, and other necessary checks that led directly to the rig explosion and subsequent oil spill. This tragedy did not demonstrate a paucity of regulations in the offshore drilling arena – it was clearly an example of an agency "captured" by its regulated industry, and the agency's subsequent refusal to enforce existing regulations. Unfortunately, one cannot legislate or regulate away this risk. Regulatory capture is an inherent, systematic problem whose threat rises proportionally to the complexity of system itself.

Tyranny of the Status Quo

Perhaps the most significant unquantifiable impact of regulations is their eternal life span. Once a regulation is in place, it becomes incredibly difficult to eliminate, no matter how bad its unintended consequences might prove to be. For example, the ethanol subsidy has proven to be detrimental to the environment, has displaced millions of acres of corn, and has contributed to the high price of food. And yet, this regulation has never been repealed.

No matter how detrimental a regulation proves to be, or how outdated it becomes; there is usually someone who benefits by it. These beneficiaries have a stronger interest in keeping the regulation in place than anyone else has in getting rid of it – and these interest groups are willing to spend time, money and effort to lobby for their cause.

The case of the wind production tax credit (PTC) is a perfect example. Though not technically a regulation, the lobbying effort behind the wind PTC represents what happens when a small, but determined and well-funded, coalition of special interests fight to keep alive a wind PTC that benefits no one but themselves. The wind PTC was created in 1992 to get the wind industry off the ground. In fact, the government was so committed to funding this potential resource that it subsidized wind to the tune of $22 per megawatt hour of electricity generated. Yet 20 years (and seven extensions of the tax credit) later, there is little to show for it. Wind is still a noncompetitive energy source, heavily subsidized by the federal government. It often provides less than 30 percent of its rated capacity, and that production is, at best, variable. Furthermore, wind interests claim that wind power has produced approximately 7,000 jobs in Iowa (the state with the most wind related jobs), but independent experts have only been able to identify around 2,000.[liii] Furthermore, those jobs are not sustainable, market-created, need-based positions; they are dependent upon an energy experiment that is itself highly dependent upon variable federal money.

And then there is the fact that renewing the PTC would cost the taxpayers over $12 billion.

At the end of 2012, the chance for renewal of the PTC seemed slim. A tax-extender package that included the wind PTC had been reported out of the Senate Finance Committee in August, but never scheduled for a vote. The House did not address the issue at all. The wind industry went to work to save their $12 billion subsidy. At the last minute, the wind industry successfully lobbied the White House to demand their tax credit's inclusion into the bill to avert the fiscal cliff, which was finally passed just before 2am on New Year's Day. The 20-year old PTC received a $12 billion extension with no debate, or opportunity for amendment.

Exactly like a regulation that benefits a few but is paid for by the many, a determined special interest wields significant power in ensuring continued government support for a quantifiably bad policy. The tyranny of the status quo prevails. And the taxpayers continue to pay.

As Henry Hazlitt put it, "economics is haunted by more fallacies than any other study known to man.

This is no accident. The inherent difficulties of the subject would be great enough in any case, but they are multiplied a thousand fold by a factor that is insignificant in, say, physics, mathematics or medicine – the selfish pleading of selfish interests.

Chapter Policy Assumptions

Reducing a Taxing Burden

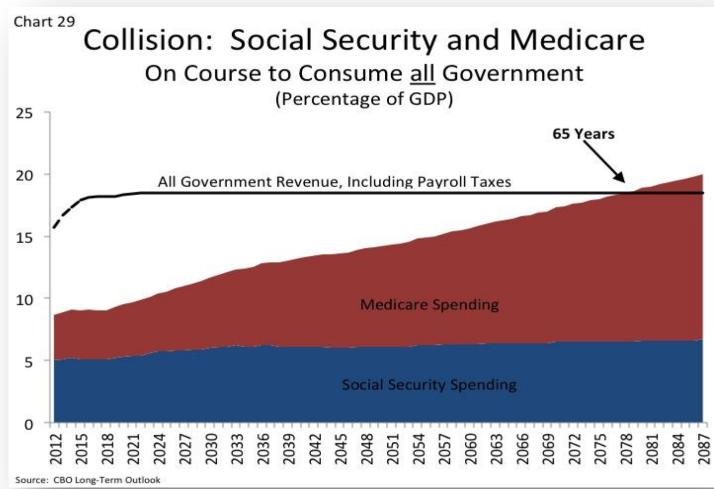
Program	Budgetary Change
Federal Tax Code	Single flat tax rate on individuals and businesses. No double taxation on savings and investment
Regulatory Reform	Passes the Regulatoin in the Executive Need of Scrutiny (REINS) act
	Apply regulatory analysis requirements to independent agencies
	Sunset on regulations
	Process reforms
	incorporation of formal rulemaking for major rules

Fixing America's Broken Promises

Social Security and Medicare are programs that millions of people rely on. Yet, the structure of those programs today will change. That change will occur one of two ways 1). by acknowledging the financial deterioration of these programs and making the hard choices of reforming and fixing them for tomorrows generation, or 2). allowing them to go bankrupt. But one thing should remain clear: the U.S. government promised current and near retirement individuals this safety net, manipulating the elasticity of such decisions to save, plan, and prepare for retirement. It is only fair and responsible that we do all we can to fulfill those promises. But the longer we wait, the greater the problem becomes, and the ability to fix these programs for today's children becomes an insurmountable challenge.

There are two fundamental problems with the structure of Medicare and Social Security – the aging of the population and the rapid growth of health care inflation. The retirement of the large baby-boom generation born between 1946 and 1964 foreshadows the long-lasting shift in the age demographics of the population. This shift in demographics will substantially alter the dynamics between working-age (contributors) and the retirement-age (beneficiaries), particularly with respect to the financial sustainability of funding these programs.

Over the next decade, the number of individuals over the age of 65 is projected to rise by more than one-third. Currently, people aged 65 years or older make up about 13 percent of the population, and are



expected to climb to 20 percent by 2037. On the other hand, those age 20-64 who currently account for 60 percent of the nation, will drop to 55 percent by 2037.

Why does this matter? It matters because while both of these programs have "trust funds," they are ultimately set up to operate under a pay-as-you-go scheme. Author Nicholas Eberstadt writes in his book, A Nation of Takers: America's Entitlement Epidemic: "…Although Social Security and Medicare beneficiaries formally draw their payments from officially established trust funds, as a practical matter these outlays are not meant to be paid for through set-asides from the recipient cohorts themselves (though Medicare has been in operation for over forty-five years, and Social Security over seventy-five years). Instead they are designed to rely upon the resources of subsequent cohorts of income earners".

The shifting and disparity in demographics is of primary concern to the sustainability of both Social Security and Medicare. However, Medicare has another component that is equally as vexxing – the rate at which medical costs are increasing. The consequence of these variables means the government has a present value unfunded liability of $63 trillion. Yes, that is trillion – and amounts to nearly four times the size of the entire U.S. economy. What does this mean for beneficiaries who rely on these programs? What this unfunded liability suggests is that in order to provide timely and current benefit amounts in the future, the U.S. government needs $63 trillion in the bank, today. This is more than $456,521 per household.

As chart 29 shows, if important reforms aren't addressed, children born today will witness a government that it entirely consumed by these two programs or bankrupt by the time they are nearing retirement.

These programs are already problematic. A summary of the 2012 Social Security Trustees report notes that at the end of 2011, the Social Security program was providing benefits to about 55 million people: 38 million retired workers and dependents of retired workers, 6 million survivors of deceased workers, and 11 million disabled workers and dependents of disabled workers. In 2011, total expenditures were $736 billion, but the government only brought in $691 billion in related revenues – a deficit of $148 billion. This deficit isn't an anomaly; in fact, Social Security is projected to spend more than comes in through revenues indefinitely.

Medicare's finances are even worse than Social Security. The program covered 48.7 million people in 2011, 40.4 million retirees and 8.3 million disabled. The total expenditures for 2013 will be nearly $600 billion, and will grow throughout the decade at rate of more than 6 percent annually. While the Social Security trust fund is expected to be completely depleted of government "IOUs" in a little less than two decades, the Medicare trust fund has less than a decade before it suffers the same fate.

The budget outlines reform proposals for both Social Security and Medicare. Under Social Security, reforms are implemented and would take effect for anyone 56 years and younger, with a slow transition designed to have minimal impact for individuals who are under 56, but close in age. Such reforms will include, means testing – shifting benefits to a price index for high income earners, while preserving the wage index for middle-and low- income earners. It will also index for longevity, implementing a retirement age that is only a few months older each year starting in 2017. But it will also urge the idea of personal accounts, and for much younger generations, the opportunity to fully direct one's retirement planners.

The Medicare reform is quite simple. It provides seniors currently on Medicare with the same health care system as their Congressional representatives. This change allows the government to save more than $1 trillion over 10 years.

Social Security Reform

According to the 2012 Annual Report of the Board of Trustees of the Social Security Trust Fund, Social Security has a current unfunded liability of $20.5 trillion in present value– or nearly $148,550 per household. 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 2033 – a full three years earlier than reported last year. At this point, without any significant changes, beneficiaries will experience an immediate 25 percent cut in benefits.

The $20.5 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 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 $4 trillion to fund government programs other than Social Security, leaving many to wonder where the government plans to find the additional capital to replenish the Trust Fund.

The proposal in this budget will completely eliminate the $6.5 trillion unfunded liability, leaving the Social Security Trust Fund permanently solvent. The reform proposal includes two main provisions gradual longevity indexing and means testing.

Longevity Indexing

The original intent of the Social Security program was to provide benefits to only a small percentage of people, for very few years (at most). However, not only are the number of seniors relative to the rest of the population growing, but they are living much longer. In 1935, the life expectancy of a U.S. citizen was 62 years of age. Today, the average age of a senior is nearly 78 years old – 16 years longer than what it was when Social Security was first created. This budget calls for us to adjust for the increasing age of the population by adopting longevity indexing for future generations.

Progressive Indexing

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. Progressive indexing does this by allowing low-income workers' past earnings to continue to be indexed by average wage increase, whereas high income workers earnings would be indexed to inflation (or price level changes).

In fact, this reform will provide higher benefits to low-income workers over the course of their lifetimes than would current law by indexing higher incomes to inflation, and lower incomes to wages. 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.

Personal Account Ownership

One solution is to reform Social Security to allow individuals to invest their portion of the Social Security tax into personal accounts. Under the current system, retirees have no ownership, no choice, and little control over their financial futures. Individual accounts offer full ownership and property rights that give retirees' control over their retirement. A degree of risk is inherent to planning for one's future. To do nothing, leaving the program as is, will mean higher costs and lower returns for today's workers. Alternatively, Congress can act now and allow American's to have ownership over their retirement; the risk and volatility in the stock and capital markets, while no doubt real, does not require that younger workers would be worse off given Social Security's future. With Social Security, the average rate-of-return for middle-income earners was just 2.2 percent in 2012. Since 1928, the average annual return on US stocks has been 6.09 percent. Ultimately, on every measure personalization of social security is the right thing to do. It frees individuals to make their own financial decisions, provides economic security, and builds community by reducing generational antagonisms.

Individual Choice

Younger generations should have the opportunity to allocate their savings without government taxing their wages and doing it for them. Social Security has run into financial trouble more than once – and the next generation is becoming increasingly skeptical that the program will be available to them when they need it. In looking at reforms, we should provide the ability for the next generation to exercise individual choicet, partially or entirely, so they can allocate their money in their best interests.

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.

Democrats Play Politics with America's Trillions in Unfunded Liabilities

In 2011, we proposed a Social Security reform that included such bi-partisan proposals such as longevity indexing and means testing the benefits for upper-income individuals.

In that proposal, the full benefit retirement age would have slowly increased by three months every calendar year until the full age of retirement hits age 70. This would only impact individuals who are born after 1970. In addition, the early retirement age would slowly increase from 62 to 64. This approach in particular was recently criticized by Nobel laureate Peter Diamond as unfair to those who work in industries that might encourage early retirement. But, that argument ignores the fact that life expectancy has been increasing in all industries. Over the next 15 years, life expectancy is expected to grow faster than the rate of age growth provided in this reform proposal.

The early retirement benefits provided in this proposal, even after increasing the age to 64, are actually better than what was provided at the program's inception in 1935. In that year the earliest benefits could be received was 65 years of age –keep in mind, the life expectancy for an adult in 1935 was 62 years of age. As should be obvious, the original intent of the program was to provide benefits to only a small percentage of people, for very few years (at most). By 2028, the time this proposal's early retirement age is in full effect, the life expectancy for an American adult will be over 80 years old. Instead of providing early retirement benefits for just a few years, this plan continues to provide benefits to early retirees for more than 16 years.

Asking people to work longer in a longer-living society shouldn't be politicize.. Without reform in the next two decades, the Social Security Trust Fund will become exhausted. This scenario will result in an immediate 25 percent cut to *all beneficiaries* by 2033. Proposals such as the one we introduced in 2011 would stave off such drastic cuts. By 2030, our plan would preserve current benefits for low-wage workers, reduce the middle-income wage-earners benefits by less than 5 percent, and reduce benefits for wealthier individuals by 11 percent.

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 2015, 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.[liv]

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.[lv]

More Choice

FEHBP enrollees have, on average, a choice of between 12 and 20 plans.[lvi] 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.[lvii]

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.[lviii] Consumer satisfaction with FEHBP is consistently higher than traditional Medicare.[lix] 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.[lx]

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.[lxi] 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.[lxii]

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.[lxiii] 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.[lxiv] 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.

Chart 32

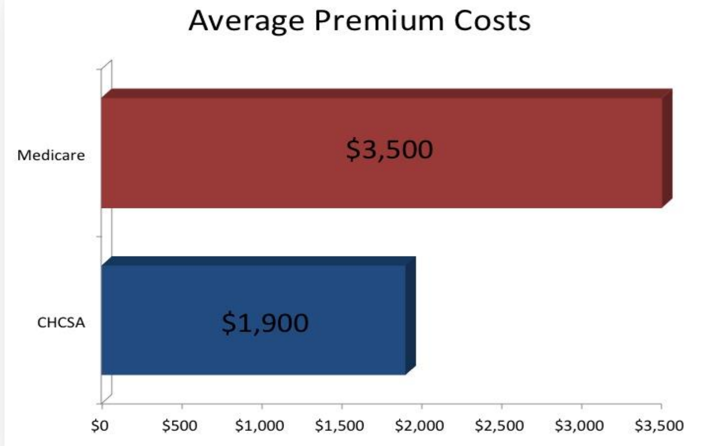
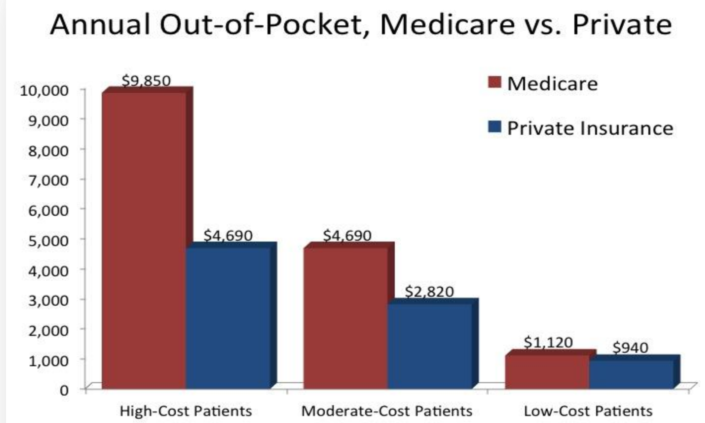


Chart 31



Source: National Archives and Records Administration, Office of the Register

The average premium for a senior under the CHCSA will be an estimated $1,900 per year.[lxv] 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.[lxvi] The average supplemental insurance plan – of which over 90 percent of seniors have – is roughly $1,750-$2,000.[lxvii] 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.[lxviii]

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.[lxix] 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.[lxx] 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.[lxxi] 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.[lxxii] 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.[lxxiii] 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.[lxxiv] 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.[lxxv] 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.[lxxvi]

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.[lxxvii]

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.

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.

Chapter Policy Assumptions

Fixing America's Broken Promises

Program	Budgetary Change
Medicare	
Medicare Reform	Replace with Congressional Health Care for Seniors Act
Obama Care	Repealed
Social Security Administration	Preserve Current Benefits FY2013-2023
Reform	Achieve Solvency over 75 years; reform for those 55 and younger:
	1. Longevity Indexing
	2. Progressive Indexing (means testing)
	3. Private Accounts
	4. Opt-out

Free Minds, Free Markets: Energy Independence

Strong economies run on energy. In the United States, 82 percent of the energy we need for growing jobs comes from fossil fuels, and will likely continue to do so for generations to come.[lxxviii] The oil and natural gas industry employs 9.2 million people and adds $1 trillion to our GDP every year.[lxxix] Coal production adds another 133,000 jobs, and that is expected to grow to 500,000 in the next decade.[lxxx]

Creativity, ingenuity and competition continue to drive the energy sector forward. As more oil, gas and coal have been produced, more has been found. New energy substitutes within the carbon based family have emerged. So-called depleting resources have been replenished, and then some. Instead of facing a climate of resource scarcity, Americans are living in a country with abundant resources – and the increasing ability to access them.

This seeming paradox of plenty – increased consumption, and increased supply – has been consistently established throughout history, in the face of coal panics, alleged oil shortages, and the general neo-Malthusian malaise that the human race is too rapidly depleting its resources. Again and again, free minds and free markets demonstrate that ingenuity and a competitive economy, coupled with the abundant resources within our borders, have continued to grow and sustain the American way of life. New discoveries lead to enhanced technology to access and harness our natural resources. Human resourcefulness has made once unreachable resources available, abundant and efficient sources of energy.

As we shall see, it is *access* to these resources – as well as the continued ability to innovate in a free market – that will determine our resource selection and supply over the next century. Our resource economy is plentiful, but institutional factors, such as politics, culture, technology and science can dictate whether Americans live in a mindset of scarcity or abundance. It is the policy of this budget that, to paraphrase one resource economics text, "no society can escape the general limits of its resources … [but] no innovative society need accept Malthusian diminishing returns."[lxxxi]

The Doctrine of Depletion

If we face the facts courageously, we shall see that a large area has been left open for the exercise of our initiative.

-Frederic Bastiat

For about as long as we have been harnessing the power of fossil fuels, there have existed fears that we are running on short supply. In 1855, four years *before* the first U.S. oil well was drilled, an advertisement for "Kier's Rock Oil" indicated "…Hurry, before this wonderful product is depleted from Nature's laboratory!" In 1865, William Stanley Jevons published an essay called *The Coal Question* that set off a widespread "coal panic" in Britain, focusing on the depletion of the resource. And in 1919, David White, the Chief Geologist of the United States Geologic Survey stated "…the peak of [U.S. oil] production will soon be passed – possibly within three years."[lxxxii]

It is true that our resource base is exhaustible. However, a quick survey of American resource history demonstrates that there is more to the energy supply than a pure fixity of resources. Ultimately, we must view the resource base in totality – which means taking into account the ability of advancing knowledge to counter the law of diminishing returns. Public policy, ingenuity, and institutions all play a role in resource access and development. Entrepreneurship can be applied to resources, increasing both access and therefore supply. The institutional framework in which natural resources exist informs their development. Technology improves, capital is reinvested, businesses compete, resources are substituted – and governments intervene. All of these factors impact the way we access and interface with our resources.

This point was clearly made in the first U.S. energy crisis. In 1908, President Theodore Roosevelt created the National Conservation Commission (NCC) to create an inventory of natural resources. Among its findings, the Commission predicted that the country's known natural gas fields were expected to run out within 25 years, and the oil fields by mid-century. Coal, however, was found to be plentiful and sufficient until the middle of the twenty-first century.

However, just a decade later, in 1922, the coal industry was in crisis. What happened to the robust supply of coal? As Robert L. Bradley, Jr. puts it in _Capitalism at Work_:

The roots of the problem came during the period of coal surpluses and price wars, when the industry, after failing to cartelize itself to improve profitability, went hat in hand to the government to tame competition. Spiraling government involvement, coming on top of labor union problems, turned resource plenty into want and decline. World War I's Fuel Control Act of 1917 (Lever Act) made coal, along with banking, one of the most regulated industries in the American economy. Federal action setting prices, allocating supply, licensing operators, and forcibly taking from (requisitioning) firms not acting in the "public interest" created the nation's first bona fide energy crisis – "lightless nights," "heatless Mondays," shutdowns of "non-essential" industry, fuel riots, even deaths.[lxxxiii]

The first U.S. energy crisis *did not* arise from physical depletion. Man-made, institutional factors were responsible for turning an abundant resource into a scarce commodity. Put another way, institutions and public policy distort our energy supply, and our energy debate.

Our energy supply can and will diminish. However, as F.A. Hayek pointed out, "the government [is] unlikely to have the knowledge of future conditions of price and scarcity that [will] enable it to impose an efficient solution."[lxxxiv]

The Economics of Abundance

Energy is the master resource … The future supply of energy is limited only by the human imagination. Human ingenuity is the key resource!"

-Julian Simon

"All Americans are involved in making energy policy. When individual choices are made with a maximum of personal understanding and a minimum of government restraints, the result is the most appropriate energy policy."

-Reagan administration energy plan, 1981

The neo-Malthusian influence in our public policy debates has resulted in a mindset of energy scarcity. However, the world's mineral energy resource base is expanding – not depleting. The U.S. has led this resource boom, with private firms exploring and producing from private land.

The U.S. is vastly endowed with organic fossil energy. According to the Energy Information Administration, the U.S. holds 220.2 billion barrels of technically recoverable oil (undiscovered resources that are recoverable with existing drilling and production technologies.)[lxxxv] That amount of oil can satisfy U.S. oil demand for more than a century at current usage rates, or it can fuel every passenger car in the United States for over 400 years.[lxxxvi]

The technically recoverable natural gas resources in the United States total 40 percent of the world's natural gas reserves. At 2,543 trillion cubic feet, these reserves can fuel natural gas demand in the United States for 175 years at current usage rates, or selectively, can satisfy that nation's residential demand for 857 years or the nation's electricity demand for 575 years.[lxxxvii]

The technically recoverable coal resources in the United States are unsurpassed and total 50 percent of the world's coal reserves. At 486 billion short tons, it can supply our country's electricity demand for coal for almost 500 years at current usage rates.[lxxxviii]

Technically recoverable resources are a critical part of the argument for energy sustainability – because, when discovered, they become reserves. The transition between technically recoverable resources and reserves is made at the juncture where human ingenuity interfaces with our resource base – and where the economics of depletion become the economics of abundance. Recoverable resources become reserves when technology is developed to allow the mineral base to be accessed efficiently and economically. The transition also takes place when more resource-rich land and water becomes available to industry to develop.

The historical record contains many examples of how the supply of resources expands when technically recoverable resources become reserves. In 1944, the U.S. oil reserve contained 20 billion barrels. And yet, between 1945 and 2010, the oil and gas industry produced 167 billion barrels – eight times the amount of reserves available in 1944 – and the amount of U.S. oil reserves in 2010 still totaled 20.7 barrels. There was no resource depletion; there was resource discovery.[lxxxix]

Natural gas tells the same story. In 1944, the U.S. had 147 trillion cubic feet of natural gas reserves, but produced 1,041 trillion cubic feet between 1954 and 2010 – seven times the amount of reserves available in 1944. Through new technology and innovation, the oil and gas industry was also able to double the 1944 natural gas reserve level to 318 trillion cubic feet in reserves in 2010.[xc]

Our resource supply is robust, and expands at a rate that is directly proportional to our ability to innovate. However, this is not the whole story. Institutional forces continue to determine the availability and changing nature of our resources.

Intervention Decreases Supply

Federal government policies are prohibiting Americans from accessing the resources that are rightfully theirs. As we have seen, the U.S. is blessed with a robust supply of natural resources. *Supply* in and of itself is not an issue. It is *access* to these resources – and the ability to innovate new sources of supply – that is impacted by public policy, technology, law makers, and other institutional factors. To paraphrase economist Erich Zimmerman, the interaction between people and their environment is central. Below we shall see some ways in which government policy impacts access and development of the natural resources, and therefore, impacts supply.

Alaska National Wildlife Reserve

The Alaska National Wildlife Reserve (ANWR) comprises an area of about 19 million acres in Alaska's North Slope region. In 1980, President Jimmy Carter ordered 1.5 million acres of ANWR to be studied for potential energy development. This 1.5 million acre set aside is known as the "1002 Area." It is not designated as wilderness – there are no trees, deep-water lakes or mountain peaks. In fact, the area is without sunlight for 56 days of the year, dropping temperatures to as low as -30 degrees Fahrenheit. Potential oil and gas production in the 1002 Area would be limited to 2,000 acres, which constitutes 0.01% of ANWR's total area.[xci]

The U.S. Geological Survey (USGS) estimates that the 1002 Area could produce about one million barrels of oil per day, which is about 20% of our domestic production. This would make ANWR the single largest oil field in North America.[xcii] In an additional boon to the economy, up to 736,000 jobs could be created in the U.S. by opening this tiny area of ANWR up to exploration.[xciii] The Congressional Budget Office estimates that under current policies, revenues from royalties, rents and bonuses from oil and gas leases on public lands would generate about $150 billion over the next ten years. CBO further estimates that if certain resources currently off limits were immediately opened to oil and gas leasing, another $7 billion would be realized over the same period.[xciv]

ANWR represents resource supply in abundance. But this supply remains untapped due to federal restrictions limiting oil development on federal land. In the case of ANWR, the government has chosen to keep restrictions in place because oil and gas development might potentially harm caribou herds that migrate to Alaska each year. This in spite of the fact that the most recent model developed by USGS shows a 95% degree of certainty that development in ANWR would have a negligible impact on herd survival.[xcv] Indeed, according to the U.S. Fish and Wildlife Service, the caribou continue to increase in numbers.

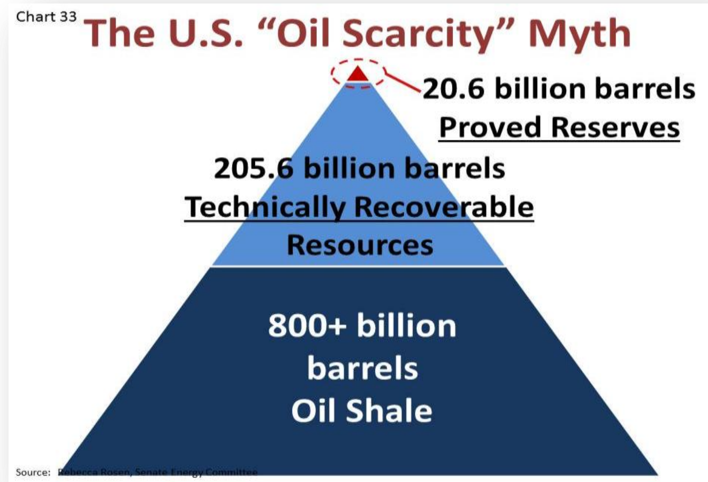
Even where exploratory drilling is allowed, subject to a permit, the government continues to bar access. Shell has paid the government over $2.5 billion and spent over $4 billion to explore for oil off the coast of Alaska, but it has yet to receive a permit to drill for oil and gas.[xcvi]

The technical term for the status of this abundant and easily accessibly oil in ANWR is “indefinitely unavailable by law.” There is no shortage of oil in Alaska or off of its coast; the problem is that federal policies are *precluding* access to this valuable supply, making a key resource base, by law, “indefinitely unavailable.”

The policy of the federal government is currently to prioritize calving caribou over the energy needs of the population. It is time for federal policy to strike a more realistic balance between environmental and energy concerns. Area 1002 should be opened for exploration.

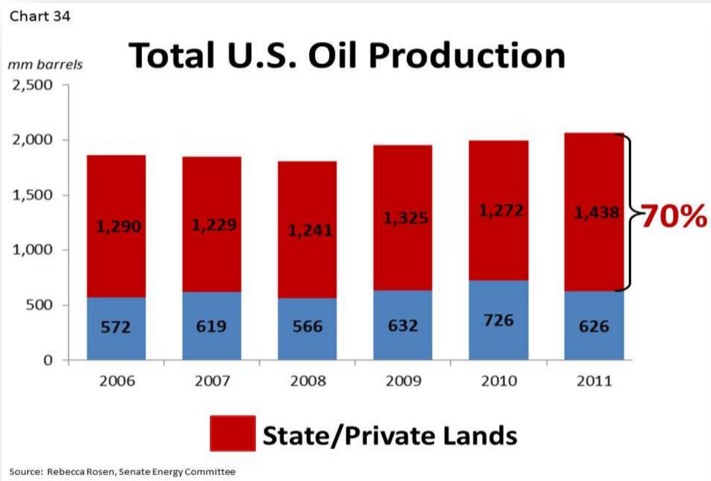
Public Lands

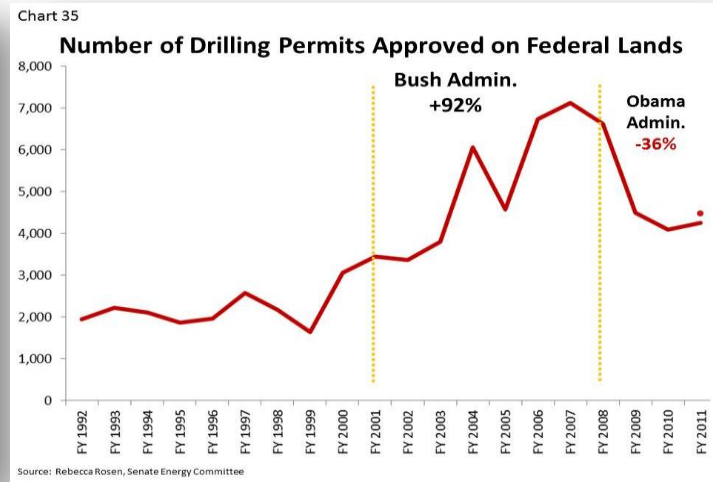
The federal government owns 28 percent of the land in the United States, a majority of it in energy rich western states. The federal government also controls oil and gas leasing in the Outer Continental Shelf –



the submerged area between land and deep ocean. Developing oil and gas production on federal lands has grown increasing difficult and more time consuming. As a result, oil and gas production are decreasing on federally-controlled, taxpayer-owned, lands. Compounding the problem is that the federal government continues to offer very little of its land for energy production. According to the Western Energy Alliance, from FY2008-11, the Bureau of Land Management offered 81 percent less acreage, while drill permit approvals declined by 39 percent. [xcvii] Overall, the federal government has leased less than 2.2 percent of federal offshore areas and less than six percent of federal onshore lands for oil and gas production.[xcviii]

It should be understood that the United States (and her taxpayers) owns roughly 700 million acres of subsurface mineral estate in lands throughout the nation. This is in addition to the 1.76 billion acres of offshore mineral lands. If the mineral rights owned by the U.S. were a country, they would be third in the world in size of land mass – second only to Russia





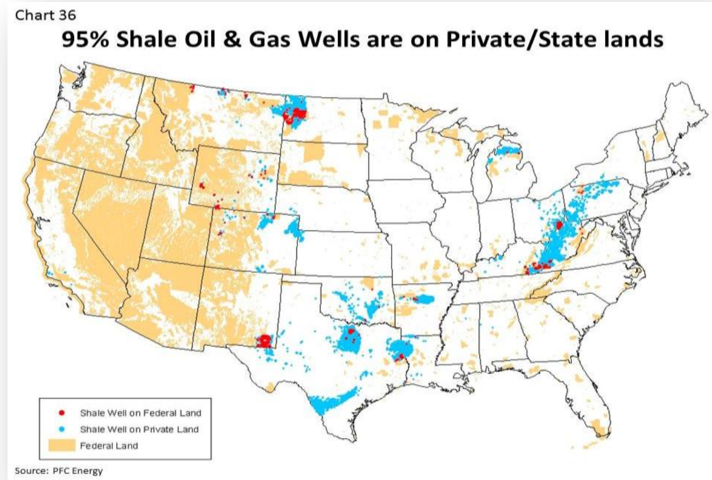
and Canada. This is an extensive mineral estate, whose capacity for energy wealth and job growth has been only minimally explored. Again, access to domestic supply has been hindered due to federal policies.

Government leases for development on federal lands have been slowly decreasing with every Administration since the 1980s. In 1982, Congress banned the development of oil and natural gas resources on most of the Outer Continental Shelf. Of the 1.76 billion acres of taxpayer owned land in the OCS, over 97 percent of it remains off limits – despite the fact that the Department of the Interior estimates that the OCS contains 86 billion barrels of technically recoverable oil, and 420 trillion cubic feet of technically recoverable natural gas.[xcix] For reference, that's about 12 years of oil supply, and 18 years of gas resources, all deliberately out of reach. When President George H.W. Bush issued a presidential moratorium on offshore development in 1990, it made the U.S. the only developed country in the world that comprehensively banned access to its own offshore energy resources.

The presidential and congressional moratoria eventually expired, before being reinstituted by the Obama Administration after the Deepwater Horizon accident in the Gulf of Mexico. Though the Obama Administration claimed to have relaxed the moratorium, it remains in place, de facto. The Administration has granted only a handful of the necessary permits needed to drill on offshore land, and have issued a leasing plan that is, by most accounts, considered anemic.

Production from federal lands continues to decline. Offshore development has fallen off from 1.55 million barrels of oil a day to 1.27 million barrels in 2012.[c] In 2011, onshore oil production represented a mere 5.5 percent of the total barrels produced in the U.S.[ci] Likewise; natural gas production on federal lands has decreased each year since 2003, when the information began being tracked.[cii]

Even as the federal government has sought to restrict access to energy production, it has increased on private and state lands, where state governments have pursued the economic benefits of their mineral rights. 96 percent of the increase in oil production between FY2007-2012 came from the private and state lands.[ciii] The reason for this is simple: institutional factors have not prevented producers from interfacing directly with available resources. Less red tape and fewer permitting costs make it easier for producers to develop resources, and to reap the economic rewards of this almost immediately. For example – it currently takes over 300 days to process a permit to drill on federal lands, onshore. It takes less than a month – in some cases, less than two weeks – to process a permit to drill on private and state lands. When time is money, this is no small discrepancy.



States have found a way to balance environmental protection with economic growth, and that is the same balance that must be found at the federal level. For two generations, it has been the policy of the United States government to deny its citizens access to the energy resources they own. Either that land needs to be sold off to the states to manage, or the government should unlock its massive mineral wealth by fostering a process of efficient, safe and effective energy development.

Hydraulic Fracturing

No recent development has demonstrated the revolutionary power of technological innovation more than hydraulic fracturing. In his studies, economist Erich Zimmerman observed the ability of human potential to unlock a nation's resource base, noting that "each invention gives rise to numerous others." In the case of hydraulic fracturing, his insight proved prophetic.

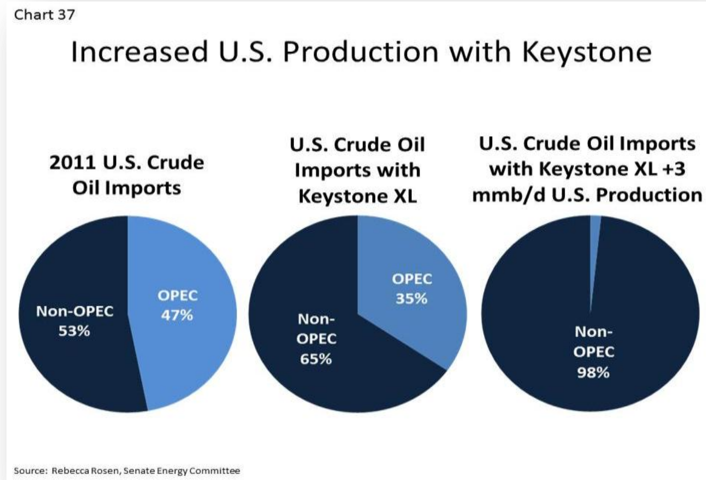
Hydraulic fracturing has been in use since the 1940s. As originally conceived the process uses water, sand and trace amounts of chemicals to break apart the shale rock to access gas and oil. However, when combined with horizontal drilling – which allows oil to be produced from the shale formations – the result has been to revolutionize the process of oil and gas extraction. As one example, consider that in 1995, the USGS estimated that the Bakken formation held 151 million barrels of technically recoverable oil. But in 2008, after taking into account the impact of hydraulic fracturing and horizontal drilling, the USGS revised their assessment by a factor of 25.[civ] In California, the New York Times recently reported that technological innovation is on the brink of making the once-inaccessible Monterey Shale available to developers. The untapped oil reserves of the Monterey Shale are estimated at 15.4 billion barrels – more than four times the reserves of the Bakken Shale in North Dakota.[cv]

As one energy analyst put it, "the oil was always there, but it was human ingenuity, free enterprise, and the application of technology … that combined to free these energy riches."[cvi]

Technological innovations have made the United States the largest natural gas producer in the world, and significantly improved our domestic output of oil. And our proven reserves only continue to increase. Unfortunately, the increase in production due to hydraulic fracturing has galvanized the environmental community against the practice – in spite of hydraulic fracturing's excellent track record and rigorous oversight at the state level. Hydraulic fracturing has been used for over 60 years in over one million wells, and the EPA has yet to conclusively confirm one case of groundwater contamination.[cvii] However, despite the fact that the practice is extensively regulated at the state level, EPA has stated its intent to regulate hydraulic fracturing at the federal level. Should their regulations make hydraulic fracturing practically impossible through delays and cost overruns, the federal government will once again be responsible for intentionally placing a barrier between a nation and its energy reserves; between citizens and their energy wealth.

Keystone XL Pipeline

Institutional factors inhibit not just access – but availability. Our northern neighbor, Canada, boasts the third largest oil reserves in the world due mainly to its oil sand deposits. It is also the largest supplier of oil and petroleum products to the U.S., supplying us with almost 3 million barrels per day. In 2010, these



large oil reserves prompted TransCanada to propose an addition to its Keystone pipeline system, the Keystone XL, which would move oil from Canada to the U.S. Gulf Coast refineries. The Keystone XL would not only move Canadian oil, but also oil from areas in the U.S. that are landlocked – shale oil production in North Dakota, and crude oil stored in Cushing, Oklahoma, specifically.

Because the pipeline would cross country lines, it requires a permit from the State Department approving it as in the "national interest." It *should* be in the national interest to facilitate resource transaction and development. However, the Obama Administration has delayed, denied and delayed some more its approval, due to environmental concerns regarding the proposed route of the pipeline, which crosses an environmentally sensitive area in Nebraska. TransCanada has submitted a revised route – which has been approved by the state of Nebraska. But, predictably, this approval is still "under study" by the federal government.

In the meantime, citizens are losing out on the benefits of more efficient and available energy transport. Railroads are now moving oil instead, which is a far more costly and less safe mode of transportation. This Administration claims that they want to reduce dependence on foreign oil imports, but the intentional delay of the Keystone XL is just one more example of the heavy hand of government deliberately creating a false narrative of energy scarcity.

Department of Energy: A backwards mission

For many, the answer to our perceived supply problems has been to heavily regulate the industry at the federal level. In fact, the Department of Energy was created in 1977 by President Jimmy Carter, to respond to the effects of the oil embargo by the Organization of Petroleum Exporting Countries. The nascent Department was given a mandate to eliminate our dependence on foreign oil – by producing sustainable sources of renewable energy.

An analysis of the last thirty years suggests that DOE has been less than successful at accomplishing their stated mission. But it's not for lack of creating the bureaucratic structure to try. In 2012, the Department spent $39 billion, or about $330 for every U.S. household. It employs 17,000 workers directly, and oversees 100,000 contract workers at 21 national laboratories across the nation.

Despite these thousands of workers, DOE's core mission has not been accomplished. In fact, since the creation of the Department, U.S. dependence on foreign oil has consistently been trending upward. On the other side of the coin, research into alternative energy sources has yielded little fruit. Ethanol, one of our signature biofuels promoted by DOE, has been troubling. The fuel has caused considerable environmental damage and displaced millions of acres of crops, which has helped to drive up the price of food. The Department has also incentivized wind energy, which is an intermittent source of electricity that must be backfilled with fossil-fuels to balance its wide variations in production. Furthermore, these incentives have done nothing to make wind power more affordable. According to one study, wind power costs as much as 15 cents per kilowatt-hour. That is triple the current cost of natural gas generation, and nearly 40 to 50 percent more than the estimates for new nuclear and coal.[cviii]

The DOE's foray into funding solar power has been a well-documented disaster. Despite promising millions in returns to the taxpayer, many of the loan guarantees made by the DOE did just the opposite. Two of the highest profile bankruptcies surrounding the solar loan guarantee program were Solyndra and Beacon Power Corporation. Solyndra received a $535 million loan from DOE in 2010. The company, which was touted by President Obama as "leading the way toward a brighter and more prosperous future" filed for Chapter 11 bankruptcy in 2011, laying off 1,100 workers and leaving the taxpayers on the hook for nearly the entire cost of the loan. The company is now under criminal and congressional investigation into how it secured the loan guarantee.

Beacon Power Corporation received $43 million from the government to build an energy storage plant. The company went belly-up in 2011, putting 65 jobs at risk, and jilting the taxpayers out of $39 million in unpaid debts. Worse still, Beacon Power's poor credit capacity was not uncovered by anyone at DOE. In addition to receiving the $43 million loan guarantee, the company had also been the recipient of a $24 million stimulus grant in 2009, and another $2.8 million loan guarantee in 2010.

Even more concerning is the evidence of political cronyism and corruption inherent in the loan programs managed by DOE. According to research by Cause of Action, a government accountability non-profit, corporations who have received a loan guarantee of any amount are more likely to have made campaign contributions. In fact, 95 percent of DOE loan recipients with less than $1 billion in annual revenues documented campaign contributions, either by the senior staff, or by the organization itself. Comparatively, only 31 percent of similar sized organizations that did not receive loans made political contributions.[cix]

The private sector has far outpaced the federal government in innovating new sources of energy. For instance, oil companies like ExxonMobil and Chevron are partnering with renewable energy companies to develop biofuels from algae, which can produce thirty times more energy per acre than conventional biofuels. Not only can algae be a boon to the renewable fuel industry, it can also act as a carbon dioxide absorber for power plants. The private sector is also moving forward on energy storage solutions that, if achieved, will make renewable energy scalable and ready for widespread adoption. One company, Primus Power, is building a rechargeable "flow" battery, in which electrolytes flow through an electrochemical cell that converts chemical energy directly into electricity. The system is already in use in Modesto, California. Aquion Energy is building a similar battery that relies on sodium and water, rather than the chemical lithium, to accomplish the same goal. This market for grid-level storage is beginning to attract venture capital investment. Once up and running, this kind of storage could make renewable energy accessible and reliable enough to evolve coal-fired power plants into a backup – rather than a primary – source of our nation's power.[cx]

Again, free minds and free markets are proving themselves the answer to our nation's divergent energy needs. The DOE has not been a critical part of this story. Instead, it has failed to meet its core mission, and continues to distort the energy market by handing out taxpayer-backed loan guarantees to companies that cannot meet their obligations. It is time to close the Department of Energy, and let the market place do what the bureaucracy cannot – develop efficient, effective and scalable energy solutions.

Conclusion

The American energy story is one of energy abundance. Our technically recoverable resource base of coal, oil and natural gas is one of the largest in the world, and we only continue to find new and safer ways of accessing it. Human ingenuity and creativity continue to reverse the narrative that the resource base is permanently fixed into a position of decline. This resource base expansion persists in spite of federal policies designed to stifle production. It is the government – not the declining resource base – that keeps our nation in a mindset of energy scarcity. The U.S. has more available domestic energy sources than most other nations, yet we are repeatedly told we are on the brink of a supply contraction, held hostage to foreign oil cartels and ineffective, inefficient renewable energy policies.

If the federal government were to remove itself as an impediment to energy development – not incentivize or give tax breaks, or otherwise encourage production, but just *get out of the way* – our domestic energy production would soar, and our reliance on foreign sources would drastically decrease.

We are not energy poor, we are energy rich. It is time for the government to start letting their citizens access our energy abundance.

Chapter Policy Assumptions

Free Minds, Free Markets: Energy Independence

Program	Budgetary Change
Energy Policies	Open the Alaska National Wildlife Reserve (ANWR)
(Includes Offsetting receipts)	Expedite approvals & permitting for drilling on public lands
	Open the outer continental shelf for drilling
	keep regulation of hydraulic fracturing at the state level
	approve the Keystone XL Pipeline
Department of Energy	Department Eliminated
Atomic Energy Programs	Transferred to re-established Atomic Energy Commission
Department of 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

Summary Tables

Discretionary Function Totals

Fiscal Year (Millions of Dollars)	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	(2014-2023)
National Defense (050)											
BA	520,966	521,678	533,055	546,511	559,035	572,580	587,144	601,698	617,708	634,141	5,694,516
OT	526,737	514,917	527,625	533,738	539,705	558,108	571,973	586,153	607,276	617,421	5,583,653
International Asst. (150)											
BA	21,098	21,499	21,907	22,324	22,748	23,180	23,620	24,069	24,526	24,992	229,964
OT	26,450	22,870	19,944	20,323	20,709	21,102	21,503	21,912	22,328	22,752	219,891
Gen. Science, Space, Tech (250)											
BA	20,721	21,115	21,516	21,925	22,341	22,766	23,198	23,639	24,088	24,546	225,855
OT	19,291	20,068	19,587	19,959	20,339	20,725	21,119	21,520	21,929	22,346	206,883
Energy (270)											
BA	950	968	986	1,005	1,024	1,044	1,064	1,084	1,104	1,125	10,355
OT	1,861	1,270	898	915	932	950	968	987	1,005	1,024	10,812
Nat. Resources/Environ (300)											
BA	21,280	21,684	22,096	22,516	22,944	23,380	23,824	24,277	24,738	25,208	231,948
OT	22,833	21,691	20,116	20,498	20,887	21,284	21,689	22,101	22,521	22,948	216,567
Agriculture (350)											
BA	4,881	4,974	5,068	5,165	5,263	5,363	5,465	5,568	5,674	5,782	53,202
OT	4,284	4,634	4,614	4,702	4,791	4,882	4,975	5,069	5,166	5,264	48,379
Commerce/Housing (370)											
BA	3,011	3,068	3,127	3,186	3,246	3,308	3,371	3,435	3,500	3,567	32,819
OT	-1,112	1,515	2,846	2,900	2,955	3,012	3,069	3,127	3,187	3,247	24,746
Transportation (400)											
BA	32,602	25,506	26,206	27,826	29,279	29,966	31,292	31,495	32,032	32,370	298,573
OT	76,158	75,531	76,833	79,441	80,916	82,712	85,197	86,694	87,999	89,196	820,676
Comm/Regional Devel. (450)											
BA	30,695	12,023	12,252	12,484	12,722	12,963	13,210	13,461	13,716	13,977	147,503
OT	28,560	14,335	11,153	11,365	11,581	11,801	12,026	12,254	12,487	12,724	138,287
Education/Training Employ (500)											
BA	37,750	38,467	39,198	39,943	40,702	41,475	42,263	43,066	43,884	44,718	411,467
OT	45,845	40,390	35,685	36,363	37,053	37,757	38,475	39,206	39,951	40,710	391,434
Health (550)											
BA	46,239	47,118	48,013	48,925	49,855	50,802	51,767	52,751	53,753	54,774	503,996
OT	40,730	43,952	43,709	44,540	45,386	46,248	47,127	48,022	48,935	49,864	458,513
Medicare (570)											
BA	6,658	7,068	0	0	0	0	0	0	0	0	13,726
OT	6,633	7,012	0	0	0	0	0	0	0	0	13,645
Income Security (600)											
BA	22,560	23,090	23,652	24,138	24,974	25,814	26,615	27,298	27,951	28,535	254,627
OT	29,299	24,874	21,478	21,949	22,596	23,333	24,083	24,758	25,380	25,945	243,696
Social Security (650) (on-budget)											
BA	0	0	0	0	0	0	0	0	0	0	0
OT	80	110	75	38	0	0	0	0	0	0	303
(off-budget)											
BA	5,784	5,968	6,176	6,392	6,619	6,846	7,073	7,304	7,544	7,792	67,498
OT	5,803	5,943	6,146	6,360	6,586	6,812	7,039	7,269	7,508	7,754	67,220
Veterans' Benefits (700)											
BA	62,646	64,547	66,695	68,923	71,272	73,588	75,939	78,315	80,779	83,329	726,033
OT	62,637	64,091	66,152	68,157	70,479	72,763	75,122	77,457	79,915	82,363	719,136
Justice (750)											
BA	35,187	35,932	36,690	37,463	38,251	39,054	39,872	40,706	41,555	42,420	387,130
OT	31,482	33,594	33,043	33,747	34,464	35,195	35,939	36,698	37,472	38,260	349,893
General Govt (800)											
BA	16,483	17,096	17,786	18,517	19,283	20,037	20,802	21,577	22,379	23,225	197,185
OT	16,982	17,173	17,517	18,214	18,922	19,435	20,194	20,985	21,797	22,630	193,849
Net Interest (900)											
BA	0	0	0	0	0	0	0	0	0	0	0
OT	0	0	0	0	0	0	0	0	0	0	0
Allowances (920)											
BA	0	0	-1,792	-3,875	-3,737	-4,392	-3,907	-3,735	-3,777	-3,817	-29,032
OT	0	0	-269	-1,029	-1,977	-2,831	-3,468	-3,866	-3,890	-3,882	-21,212
Offsetting Receipts (950)											
BA	0	0	0	0	0	0	0	0	0	0	0
OT	0	0	0	0	0	0	0	0	0	0	0
Global War on Terrorism (970)											
BA	50,000	25,000	0	0	0	0	0	0	0	0	75,000
OT	50,000	25,000	0	0	0	0	0	0	0	0	75,000
Congressional Health Insurance for Seniors (990)											
BA	3,125	3,135	3,210	3,278	3,342	3,406	3,470	3,534	3,598	3,662	33,757
OT	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	942,636	899,935	885,842	906,645	929,163	951,179	976,080	999,540	1,024,753	1,050,347	9,566,121
OT	997,677	942,103	910,362	925,457	939,667	966,694	990,498	1,013,879	1,044,562	1,064,229	9,795,127

Mandatory Function Totals

Fiscal Year (Millions of Dollars)	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	(2014-2023)
National Defense (050)											
BA	8,225	8,359	8,556	8,822	9,125	9,445	9,780	10,096	10,437	10,717	93,562
OT	8,225	8,447	8,643	8,900	9,198	9,514	9,852	10,170	10,509	10,783	94,241
International Asst. (150)											
BA	1,703	-150	-89	-36	-20	27	71	-374	-80	-62	990
OT	-1,012	-1,072	-1,381	-1,856	-2,110	-2,105	-2,126	-2,138	-1,908	-1,958	-17,666
Gen. Science, Space, Tech (250)											
BA	100	100	100	100	100	100	100	100	100	100	1,000
OT	105	100	100	100	100	100	100	100	100	100	1,005
Energy (270)											
BA	-278	122	110	103	-15	-30	-146	-150	-147	-140	-571
OT	376	711	593	481	291	187	20	-87	-139	-170	2,263
Nat. Resources/Environ (300)											
BA	3,623	2,635	2,621	2,863	3,330	2,840	3,148	2,429	2,215	2,270	27,974
OT	1,837	1,627	2,292	3,002	3,662	3,648	3,730	3,102	2,570	2,535	28,005
Agriculture (350)											
BA	13,756	13,684	14,173	13,629	13,524	13,711	13,794	13,913	13,937	14,059	138,179
OT	12,430	13,474	13,830	13,229	13,077	13,177	13,371	13,520	13,545	13,686	133,338
Commerce/Housing (370)											
BA	9,517	7,020	8,328	8,926	8,388	8,027	8,050	7,946	7,820	7,673	81,695
OT	-2,535	-6,468	-6,811	-8,058	-8,803	-14,285	-14,054	-8,969	-10,225	-11,701	-91,909
Transportation (400)											
BA	46,466	44,620	44,756	45,842	46,944	47,003	48,097	48,208	48,330	48,447	468,713
OT	2,610	2,698	2,828	2,909	3,003	3,067	3,153	3,260	3,379	3,493	30,400
Comm/Regional Devel. (450)											
BA	1,047	1,028	998	971	450	11	10	11	12	11	4,549
OT	1,859	1,558	1,231	1,037	408	-117	-105	-95	-22	5	5,759
Education/Training Employ (500)											
BA	-24,185	-16,519	-7,201	2,568	5,810	5,622	4,596	4,130	4,008	3,927	-17,244
OT	-16,272	-14,831	-7,812	191	5,418	6,260	5,840	5,293	4,851	4,757	-6,305
Health (550)											
BA	297,826	306,676	310,721	322,815	333,025	343,237	363,184	364,075	375,913	387,544	3,405,017
OT	298,939	306,584	314,343	325,794	334,494	343,974	353,737	364,637	376,142	387,867	3,406,512
Medicare (570)											
BA	509,386	0	0	0	0	0	0	0	0	0	509,386
OT	509,180	0	0	0	0	0	0	0	0	0	509,180
Income Security (600)											
BA	316,250	313,367	317,101	321,580	329,680	338,724	349,064	360,233	369,766	380,081	3,395,845
OT	311,910	308,455	316,170	316,935	321,003	335,036	345,669	356,910	371,349	376,795	3,360,231
Social Security (650) (on-budget)											
BA	27,506	30,233	33,369	36,691	40,005	43,421	46,954	50,474	54,235	58,441	421,329
OT	27,506	30,233	33,369	36,691	40,005	43,421	46,954	50,474	54,235	58,441	421,329
(off-budget)											
BA	830,374	875,772	924,067	976,058	1,031,955	1,092,553	1,157,619	1,225,420	1,296,701	1,371,239	10,781,758
OT	826,374	871,472	919,467	971,158	1,026,655	1,086,853	1,151,719	1,219,220	1,290,201	1,364,339	10,727,458
Veterans' Benefits (700)											
BA	82,433	85,245	95,356	92,024	88,151	97,444	99,735	101,270	110,515	104,616	956,789
OT	82,314	85,146	95,273	91,953	88,085	97,380	99,669	101,198	110,429	104,519	955,966
Justice (750)											
BA	13,914	2,267	3,837	1,866	1,592	1,484	1,370	1,424	5,261	5,701	38,716
OT	2,098	3,332	6,469	7,061	3,583	2,138	1,411	1,396	5,218	5,651	38,357
General Govt (800)											
BA	5,140	5,172	5,224	5,144	5,240	5,371	5,444	5,553	5,664	5,728	53,680
OT	5,550	5,377	5,114	5,054	5,143	5,320	5,362	5,493	5,603	5,727	53,743
Net Interest (900)											
BA	243,510	272,228	316,018	396,594	486,283	525,018	552,799	563,992	571,671	574,720	4,502,833
OT	243,510	272,228	316,018	396,594	486,283	525,018	552,799	563,992	571,671	574,720	4,502,833
Allowances (920)											
BA	0	0	0	0	0	0	0	0	0	0	0
OT	0	0	0	0	0	0	0	0	0	0	0
Offsetting Receipts (950)											
BA	-105,771	-115,837	-132,189	-149,862	-173,256	-183,572	-189,156	-176,586	-165,794	-173,855	-1,565,878
OT	-105,771	-115,837	-132,189	-149,862	-173,256	-183,572	-189,156	-176,586	-165,794	-173,855	-1,565,878
Global War on Terrorism (970)											
BA	0	0	0	0	0	0	0	0	0	0	0
OT	0	0	0	0	0	0	0	0	0	0	0
Congressional Health Insurance for Seniors (990)											
BA	0	492,309	525,098	524,366	528,414	564,304	584,763	602,185	677,534	702,830	5,201,803
OT	0	492,271	525,206	524,499	528,580	564,583	585,009	602,764	669,337	702,489	5,194,738
Mandatory Total											
BA	2,280,541	2,328,330	2,470,954	2,611,064	2,758,724	2,914,741	3,059,275	3,184,350	3,388,098	3,504,048	28,500,125
OT	2,209,232	2,265,504	2,412,753	2,545,812	2,684,818	2,839,598	2,972,953	3,113,655	3,311,051	3,428,224	27,783,600

Function Totals

Fiscal Year (Millions of Dollars)	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	(2014-2023)
National Defense (050)											
BA	529,191	530,037	541,611	555,333	568,160	582,025	596,924	611,794	628,145	644,858	5,788,078
OT	534,962	523,364	536,268	542,638	548,903	567,622	581,825	596,323	617,785	628,204	5,677,894
International Asst. (150)											
BA	22,801	21,349	21,818	22,288	22,728	23,207	23,691	23,695	24,446	24,930	230,954
OT	25,438	21,798	18,563	18,467	18,599	18,997	19,377	19,774	20,420	20,794	202,225
Gen. Science, Space, Tech (250)											
BA	20,821	21,215	21,616	22,025	22,441	22,866	23,298	23,739	24,188	24,646	226,855
OT	19,396	20,168	19,687	20,059	20,439	20,825	21,219	21,620	22,029	22,446	207,888
Energy (270)											
BA	672	1,090	1,096	1,108	1,009	1,014	918	934	957	985	9,784
OT	2,237	1,981	1,491	1,396	1,223	1,137	988	900	866	854	13,075
Nat. Resources/Environ (300)											
BA	24,903	24,319	24,717	25,379	26,274	26,220	26,972	26,706	26,953	27,478	259,922
OT	24,670	23,318	22,408	23,500	24,549	24,932	25,419	25,203	25,091	25,483	244,572
Agriculture (350)											
BA	18,637	18,657	19,241	18,794	18,786	19,074	19,258	19,482	19,611	19,841	191,381
OT	16,714	18,107	18,444	17,931	17,867	18,059	18,345	18,589	18,711	18,949	181,717
Commerce/Housing (370)											
BA	12,528	10,088	11,455	12,112	11,634	11,335	11,421	11,381	11,320	11,240	114,514
OT	-3,647	-4,953	-3,965	-5,158	-5,848	-11,273	-10,985	-5,842	-7,038	-8,454	-67,163
Transportation (400)											
BA	79,068	70,126	70,962	73,668	76,223	76,969	79,389	79,703	80,362	80,817	767,286
OT	78,768	78,229	79,661	82,350	83,919	85,779	88,350	89,954	91,378	92,689	851,076
Comm/Regional Devel. (450)											
BA	31,742	13,051	13,250	13,455	13,172	12,974	13,220	13,472	13,728	13,988	152,052
OT	30,419	15,893	12,384	12,402	11,989	11,684	11,921	12,159	12,465	12,729	144,046
Education/Training Employ (500)											
BA	13,565	21,948	31,997	42,511	46,512	47,097	46,859	47,196	47,892	48,645	394,223
OT	29,573	25,559	27,873	36,554	42,471	44,017	44,315	44,499	44,802	45,467	385,129
Health (550)											
BA	344,065	353,794	358,733	371,740	382,880	394,039	414,951	416,826	429,666	442,319	3,909,012
OT	339,669	350,536	358,052	370,334	379,880	390,222	400,863	412,660	425,077	437,732	3,865,024
Medicare (570)											
BA	516,044	7,068	0	0	0	0	0	0	0	0	523,112
OT	515,813	7,012	0	0	0	0	0	0	0	0	522,825
Income Security (600)											
BA	338,810	336,457	340,753	345,718	354,654	364,538	375,679	387,531	397,717	408,616	3,650,472
OT	341,208	333,329	337,648	338,884	343,599	358,369	369,752	381,668	396,729	402,741	3,603,927
Social Security (650) (on-budget)											
BA	27,506	30,233	33,369	36,691	40,005	43,421	46,954	50,474	54,235	58,441	421,329
OT	27,586	30,343	33,444	36,729	40,005	43,421	46,954	50,474	54,235	58,441	421,632
(off-budget)											
BA	836,158	881,740	930,243	982,450	1,038,574	1,099,399	1,164,692	1,232,724	1,304,245	1,379,031	10,849,256
OT	832,177	877,415	925,613	977,518	1,033,241	1,093,665	1,158,758	1,226,489	1,297,709	1,372,093	10,794,678
Veterans' Benefits (700)											
BA	145,079	149,792	162,051	160,947	159,423	171,032	175,674	179,585	191,294	187,945	1,682,822
OT	144,951	149,237	161,425	160,110	158,564	170,143	174,791	178,655	190,344	186,882	1,675,102
Justice (750)											
BA	49,101	38,199	40,527	39,329	39,843	40,538	41,242	42,130	46,816	48,121	425,846
OT	33,580	36,926	39,512	40,808	38,047	37,333	37,350	38,094	42,690	43,911	388,250
General Govt (800)											
BA	21,623	22,268	23,010	23,661	24,523	25,408	26,246	27,130	28,043	28,953	250,865
OT	22,532	22,550	22,631	23,268	24,065	24,755	25,556	26,478	27,400	28,357	247,592
Net Interest (900)											
BA	243,510	272,228	316,018	396,594	486,283	525,018	552,799	563,992	571,671	574,720	4,502,833
OT	243,510	272,228	316,018	396,594	486,283	525,018	552,799	563,992	571,671	574,720	4,502,833
Allowances (920)											
BA	0	0	-1,792	-3,875	-3,737	-4,392	-3,907	-3,735	-3,777	-3,817	-29,032
OT	0	0	-269	-1,029	-1,977	-2,831	-3,468	-3,866	-3,890	-3,882	-21,212
Offsetting Receipts (950)											
BA	-105,771	-115,837	-132,189	-149,862	-173,256	-183,572	-189,156	-176,586	-165,794	-173,855	-1,565,878
OT	-105,771	-115,837	-132,189	-149,862	-173,256	-183,572	-189,156	-176,586	-165,794	-173,855	-1,565,878
Global War on Terrorism (970)											
BA	50,000	25,000	0	0	0	0	0	0	0	0	75,000
OT	50,000	25,000	0	0	0	0	0	0	0	0	75,000
Congressional Health Insurance for Seniors (990)											
BA	3,125	495,444	528,308	527,644	531,755	567,710	588,233	605,718	681,132	706,491	5,235,560
OT	3,125	495,406	528,416	527,777	531,921	567,989	588,479	606,297	672,935	706,150	5,228,495
Total											
BA	3,223,177	3,228,265	3,356,796	3,517,709	3,687,887	3,865,920	4,035,356	4,183,890	4,412,851	4,554,395	38,066,246
OT	3,206,909	3,207,607	3,323,115	3,471,269	3,624,485	3,806,293	3,963,451	4,127,533	4,355,613	4,492,452	37,578,727

Budget Totals

Fiscal Year		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	(2014-2023)
						(Billions of Dollars)						
Outlays												
	Mandatory	1,966	1,993	2,097	2,149	2,199	2,315	2,420	2,550	2,739	2,854	23,281
	Discretionary	998	942	910	925	940	967	990	1,014	1,045	1,064	9,795
	Net Interest*	244	272	316	397	486	525	553	564	572	575	4,503
	Total Outlays	3,207	3,208	3,323	3,471	3,624	3,806	3,963	4,128	4,356	4,492	37,579
Revenue												
	17% Flat Tax*	2,455	2,800	3,130	3,329	3,642	3,990	4,318	4,540	4,754	4,946	37,905
Deficit (-) / Surplus		-751	-408	-193	-142	17	184	355	412	399	454	327
Debt Held by the Public		13,073	13,576	13,862	14,095	14,156	14,049	13,772	13,437	13,119	12,740	na
						(Percentage of Gross Domestic Product)						
Outlays												
	Mandatory	11.7%	11.2%	11.0%	10.6%	10.3%	10.3%	10.2%	10.2%	10.4%	10.4%	10.1%
	Discretionary	5.9%	5.3%	4.8%	4.6%	4.4%	4.3%	4.2%	4.1%	4.0%	3.9%	4.6%
	Net Interest*	1.5%	1.5%	1.7%	2.0%	2.3%	2.3%	2.3%	2.3%	2.2%	2.1%	1.7%
	Total Outlays	19.1%	18.0%	17.4%	17.1%	16.9%	16.9%	16.7%	16.5%	16.6%	16.4%	16.4%
Revenue												
	17% Flat Tax	14.6%	15.7%	16.4%	16.4%	17.0%	17.7%	18.2%	18.2%	18.1%	18.1%	16.4%
Deficit (-) / Surplus		-4.5%	-2.3%	-1.0%	-0.7%	0.1%	0.8%	1.5%	1.7%	1.5%	1.7%	0.0%
Debt Held by the Public		77.9%	76.1%	72.6%	69.4%	66.1%	62.3%	58.0%	53.9%	49.9%	46.6%	na
Memorandum:												
Gross Domestic Product (A)		16,792	17,834	19,085	20,300	21,423	22,545	23,727	24,943	26,266	27,328	na

* Includes repeal of ObamaCare taxes and recent fiscal cliff tax hikes

** Numbers may not add due to rounding

(A) See Appendix Figure 7

Budget Comparisons

Fiscal Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	(2014-2023)
					(Billions of Dollars)						
CBO Baseline											
Revenues	3,003	3,373	3,591	3,765	3,937	4,101	4,279	4,496	4,734	4,961	40,240
Outlays	3,618	3,803	4,067	4,300	4,542	4,811	5,078	5,350	5,691	5,939	47,199
Deficit (-) / Surplus	-615	-430	-476	-535	-605	-710	-799	-854	-957	-978	-6,959
A Project to Revitalize America 2.0											
Revenue	2,455	2,800	3,130	3,329	3,642	3,990	4,318	4,540	4,754	4,946	37,905
Outlays	3,207	3,208	3,323	3,471	3,624	3,806	3,963	4,128	4,356	4,492	37,579
Deficit (-) / Surplus	-751	-408	-193	-142	17	184	355	412	399	454	327
					Difference Between Alternative Budget Baselines and Senator Paul's Budget						
Senator Paul Budget vs. CBO Baseline											
Revenues	-548	-573	-461	-436	-295	-111	39	44	20	-15	-2,335
Outlays	-411	-595	-744	-829	-918	-1,005	-1,115	-1,222	-1,335	-1,447	-9,620
Deficit (-) / Surplus	136	-22	-283	-393	-622	-894	-1,154	-1,266	-1,356	-1,432	-7,286

Major Categories

Fiscal Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	(2014-2023)
Major Policy, Budget Authority					(Billions of Dollars)						
Mandatory Programs, BA											
Congressional Health Care for Seniors*	0	492	525	524	528	564	585	602	678	703	5,202
Medicare	509	0	0	0	0	0	0	0	0	0	509
Medicaid/SCHIP	270	277	284	292	299	307	315	323	332	340	3,039
Social Security	858	906	957	1,013	1,072	1,136	1,205	1,276	1,351	1,430	11,203
Food Stamps	50	51	53	54	55	57	58	60	61	63	563
Other Spending	463	456	468	469	457	473	493	514	549	552	4,893
Allowances/Off-setting Receipts	-113	-126	-133	-137	-139	-147	-149	-155	-154	-159	-1,412
Total Budget Authority	**2,037**	**2,056**	**2,155**	**2,214**	**2,272**	**2,390**	**2,506**	**2,620**	**2,816**	**2,929**	**23,997**
* Includes premium payment off-set (preliminary score based on CBO methodology)											
Discretionary Programs, BA											
Security	521	522	533	547	559	573	587	602	618	634	5,695
OCO/War Funding	50	25	0	0	0	0	0	0	0	0	75
Non-Security	372	353	353	360	370	379	389	398	407	416	3,797
Total Budget Authority	**943**	**900**	**886**	**907**	**929**	**951**	**976**	**1,000**	**1,025**	**1,050**	**9,566**
Net Interest	**244**	**272**	**316**	**397**	**486**	**525**	**553**	**564**	**572**	**575**	**4,503**
Total Budget Authority (BA)	**3,223**	**3,228**	**3,357**	**3,518**	**3,688**	**3,866**	**4,035**	**4,184**	**4,413**	**4,554**	**38,066**

** Numbers may not add due to rounding

Honest Budgeting

Budget Process Reforms (included)

1. Balanced Budget Amendment to the Constitution
2. Rescind Unspent and Unobligated discretionary balances after 36 months
3. Presidential Rescission Authority (McCain/Ryan Proposals)
4. Prevent Appropriations Bills from being enacted without a Budget Resolution
5. Zero-baseline Budgeting in Congressional Budget Office scoring

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)	-386	-422	-444	-352	-186	-43	-2	*	*	*	*	*
Aggregate Deficit ($ Billions)	-1089	-845	-616	-430	-476	-535	-605	*	*	*	*	*
Difference ($ Billions)	-703	-423	-172	-78	-290	-492	-603					

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 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	1,203	21.7%	10.2%
Hong Kong	142	2.6%	1.2%
Japan	1,120	20.2%	9.5%
United Kingdom	142	2.6%	1.2%
Oil Exporters*	263	4.7%	2.2%
Brazil	252	4.5%	2.1%
Carib Banking Centers**	250	4.5%	2.1%
Taiwan	199	3.6%	1.7%
Switzerland	194	3.5%	1.6%
Canada	68	1.2%	0.6%
Russia	158	2.8%	1.3%
All others	1,564	28.2%	13.2%
Total U.S. Public Debt Held by Foreigners	5,555	na	47.0%
Total U.S. Public Debt	11,823	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

Per Capita Spending, Adjusted for Inflation (2005 Constant Dollar)

FY2012

	1960	1980	2000	2013	2023
Spending					
Social Security	$464	$1,123	$1,605	$2,159	$2,928
Medicare	$0	$295	$762	$1,594	$2,222
Medicaid	$3	$295	$466	$714	$1,176
Defense	$2,179	$1,463	$1,288	$2,022	$1,470
Net Interest	$201	$493	$893	$603	$1,764
Total Government Spending	$3,508	$6,026	$7,260	$9,565	$12,223
Notes:					
Population totals (millions)	179	227	281	315	347*
(2023 estimate, based on Census and CBO)					

APPENDIX FIGURE 7

Economic Growth (GDP) - Year to Year Percentage Change

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2013-2022
A Clear Vision to Revitalize America (A)	5.1%	5.8%	7.0%	6.4%	5.5%	5.2%	5.2%	5.1%	5.3%	5.6%
CBO Baseline Jan 2013	3.8%	5.9%	6.6%	6.2%	4.9%	4.5%	4.4%	4.3%	4.3%	5.0%

(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 v regard to debt reduction, regulatory relief, and long-term unfunded liability reform

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