<u>50 Recommendations to Cut Federal Spending</u>

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I. Introduction

A. "Historical Concepts to Life, Liberty and the Pursuit of Happiness"

We as a nation are at a critical crossroads in our history with a great country that at times appears confused as to its moral underpinnings.

Many individuals including union bosses and corporate executives who are invested in greed, lack a focus on the proper role of government in America. "Our founders understood that history could be their guide to the future." [1]

"Many politicians and constitutional historians recognize that "the federalist papers are perhaps the most complete attempt ever made at outlining specifically how a government should operate to ensure maximum freedom without anarchy."[2]

"John Jay, who wrote Federalist 2 through 5, made clear we were "one nation under God, and the principles were not separate."[3]

"John Jay stated, "this Country and its people seem to have been made for each other, and it appears as if it was the design of Providence, that an inheritance so proper and convenient for a band of Brethoren, united to each other by the strongest ties should never be split into a number of unsocial, jealous and alien sovereignties."[4]

The founders understood that "prosperity and national security depended on each other."[5]

The Federalist Papers trumpet the belief in "American Exceptionalism," that is, "the idea that America is not merely different from other nations and governments on earth – but exceptional among them…that the hand of Providence brought together peoples of all colors and creeds to share values such as the rule of law, natural rights and equality of opportunity, to create a nation unlike any other in human history."[6]

The modern day discussion on "American Exceptionalism" has taken on huge philosophical implications, in a conservative-liberal debate that is truly unnecessary. Many conservatives believe the concept is fundamental to our Democratic Republic form of government, as supported by the Federalist Papers. Many liberals, bent on reducing America's influence and prominence and leaning to socialism and a 1915 style liberal European model to follow, so "we can all get along and no nation is superior, dominant

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[1] G. Beck, "The Original Argument, The Federalists Case for the Constitution", pg. xxxi, (2011); See generally, Coffman, M., "Rescuing a Broken America," (2011) (discusses the war on the Constitution and the Rule of Law)
[2] Id.
[3] Id. @ 6-7
[4] Id. @ 7
[5] Id.; see also, Kesler & Rossiter, The Federalist Papers, 1999
[6] Beck, Supra, pg. 10

or a democracy beacon, begs the question of how all of this topsy-turvy thinking has negatively impacted the United States...[7]

It has been suggested that by 'restoring American Exceptionlism and American prosperity by restoring the work ethic,' many of our nations ills will evaporate.

Mr. Gingrich has written that "A government dedicated to encouraging and rewarding work will empower individuals to determine their own future and their family's future, to pursue success at the risk of failure, and to provide for their own will-being stymied by bureaucratic regulations."[7]

He goes on to remind us that our nations "economic engine" was built on self-reliance, and that the "big government welfare state has wreaked havoc on our economy and is increasingly undermining the foundation of American liberty itself."[8]

Speaker Gingrich then suggests several policy changes to correct the problem, including "a simple low tax system," "an American energy plan to lower prices," "welfare reform," and "offering personal retirement savings accounts."[9]

All of the discussions on how to best correct the course of our ship of State to one more in line with the Constitution and our founders, requires a brief message on the inherent power of ideas and fundamental rights, that runs deep in our nation's fabric.

We must remember that the Constitution "created a republic, a representative form of democracy modeled after the Lockean tradition of limited government."[10]

You probably remember that John Locke was an influential political philosopher read by our founders. "His writings, including The Second Treatise of Civil Government (1689), profoundly influenced American political leaders."[11]

Locke wrote on natural rights, including life, liberty and property. "Locke argued that government must be built on the consent of the government...it should be a limited government."[12]

"Locke was firm on "the preservation of property was the end (goal) of government."[13]

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[7] N. Gingrich, "A nation like no other, why American exceptionalism matters," pgs.196-201, (2011)
[8] Id., pg. 197
[9] Id., pg. 197
[10] Id., pg 197-201
[11] Edwards, WattenBerg and Lineberry, "Government in America, people, politics and policy," pg. 59, (9th ed., 2008)
Id., pg. 31
[12] Id.
[13] Id.

Jefferson altered Lock's writings to "life, liberty and the pursuit of happiness."[14] James Madison would ensure that Locke's view on preservation of property was protected in the Declaration of Independence and the Constitution.[15]

Make no mistake; our founders were willing to take on British rule to achieve independence, that gave way that Locke pronounced. Once of our nation's greatest heroes, Samuel Adams, was one of the most influential colonial American writers and leaders, to guide our nation to independence, including the notion of no taxation without representation, to the principles noted in the Declaration of Independence.[16]

Our founders understood the fundamental rights and obligations all citizens were enmeshed within our Country. They also recognized that if government became too big, too powerful, too over bearing, confiscatory and socialist, the people would revolt. One writer has gone so far as to delineate our nation's present-day struggles. The examples include, out of control spending gone wild, the federal reserves monitory mayhem, America becoming a debt slave, President Obama's pending tax hikes as paralyzing the economy, and the deficit.[17]

Many believe we have met the "Black Swan" of unintended consequences after 75 years of liberal taxing and spending policies.[18]

So, it is important to understand where we are headed at this critical crossroad in time and how to correct the ship of State.

James Madison told us to remember that the origins of our rights, liberties and freedoms stem from the constitution. "Do not separate text from historical background. If you do, you will have perverted and subverted the Constitution, which can only end in a distorted form of illegimate government."[19] The foundations of our government could not be more clear.

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[14] Id.

[15] Id., pg. 31-33

[16] Mark Puls, "Samuel Adams father of the American Revolution, (2006)

[17] Morris & McGann, "Revolt! How to defeat Obama and repeal his socialist programs, a patriots guide," (2011)

[18] Nassim Nicholas Taler, "The Black Swan, The Impact of the Highly Improbable," (2010)

[19] Beck, Supra, pg. 372, citing James Madison

I. Introduction

B. Consider the Philosophical Foundations of American Politics

1. Alexis de Tocqueville Exploring Democracy in America

"I confess that in America I saw more than America; I sought the image of democracy itself, with its inclinations, its character, its prejudices, and its passions, in order to learn what we have to fear or hope from its progress." *Alexis de Tocqueville* [1]

2. Constituents

"The electors see their representative not only as a legislator for the state but also as the natural protector of local interests in the legislature; indeed, they almost seem to think that he has a power of attorney to represent each constituent, and they trust him to be as eager in their private interests as in those of the country."[2]

3. The Federalist Papers

"The Federalist Papers were written and published during the years 1787 and 1788 in several New York State newspapers to persuade New York voters to ratify the proposed constitution.

In total, the Federalist Papers consist of 85 essays outlining how this new government would operate and why this type of government was the best choice for the United States of America. All of the essays were signed **"Publius"** and the actual authors of some are under dispute, but the general consensus is that Alexander Hamilton wrote 52, James Madison wrote 28, and John Jay contributed the remaining five.

The Federalist papers remain today as an excellent reference for anyone who wants to understand the U.S. Constitution."[3]

Thomas Jefferson called the papers, "the best commentary of the principles of government.......ever written"[3A] British philosopher, John Stuart Mills stated "the Federalists Papers are the most instructive treatise we posses in federal government."[3B]

Alex de Tocqueville called the papers, "an excellent book which ought to be familiar to the statesmen of all countries."[3C]

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[1] In Search of Tocqueville's Democracy In America, http://www.tocqueville.org/
[2] In Search of Tocqueville's Democracy in America, Democracy in America http://www.tocqueville.org/chap5.htm
[3] Knautz, Rob, Federalist Papers, Founding Fathers.info, http://www.foundingfathers.info/federalistpapers/
[3A] G. Beck, The Original Argument, The Federalists Case for the Constitution, P. XXV (2011)
[3B] *Id* @ XXV
[3C] *Id* @ XXV

Federal Appeals Court Judge and Presidential Medal of Freedom recipient, Lawrence Silberman, stated that the federalists papers were "perhaps even more important as an interpretive aid than the records from the Constitutional Convention."[3D]

Faith in God was a foundational concept for the founders, "as Alexander Hamilton put it, the sacred rights of mankind are not to be rummaged from among old parchments or musty records. They are written, as with a sunbeam, in the whole volume of human nature by the hand of Divinity itself, and can never be erased or obscured by mortal power."[3E]

4. Jefferson, Madison, and the Philosophical Foundations of America

"Calvin Coolidge once explained that 'Great Ideas do not burst upon the work unannounced.' Dr. Garrett Sheldon has discussed how the revolutionary ideas expressed in the Declaration of Independence and Constitution of the United States did not appear out of thin air, but rather grew out of three distinct traditions: classical republicanism, British liberalism, and Christianity. Dr. Sheldon explained how Thomas Jefferson and James Madison blended ideas from these three traditions to draft our founding documents. From classical republicanism, they derived the importance of civic virtue and political involvement; from British liberalism, they drew the concepts of natural rights and individual freedom; and from Christianity, they developed an appreciation of human limits and overruling divine Providence."[4]

5. Federalist Papers And The Constitution

"The **Federalist Papers** are a series of 85 articles or essays advocating the ratification of the United States Constitution. Seventy-seven of the essays were published serially in *The Independent Journal* and *The New York Packet* between October 1787 and August 1788...

The Federalist remains a primary source for interpretation of the U.S. Constitution, as the essays outline a lucid and compelling version of the philosophy and motivation of the proposed system of government. The authors of The Federalist wanted both to influence the vote in favor of ratification and to shape future interpretations of the Constitution. According to historian Richard B. Morris, they are an "incomparable exposition of the Constitution, a classic in political science unsurpassed in both breadth and depth by the produce of any later American writer...

There are many highlights among the essays comprising *The Federalist*. Federalist No. 10, in which Madison discusses the means of preventing rule by majority faction and advocates an extended republic, is generally regarded as the most important of the 85 articles from a philosophical perspective; it is complemented by Federalist No. 14, in which Madison makes the measure of the United States, declares it appropriate for an extended republic, and concludes with a memorable defense of the constitutional and political creativity of the Federal Convention. In Federalist No. 84, Hamilton makes the case that there is no need to amend the Constitution by adding a Bill of Rights, insisting that the various provisions in the proposed Constitution

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[3D] Id @ XXVI

[3E] Id @ XXIX

[4] Sheldon, Ph.D., Garrett Ward (Dec 07) The Heritage Foundation http://www.heritage .ord/Events/2010/12/Garrett-Sheldon

protecting liberty amount to a bill of rights. Federalist No. 78, also written by Hamilton, lays the groundwork for the doctrine of judicial review by federal courts of federal legislation or executive acts. Federalist No. 70 presents Hamilton's case for a one-man chief executive. In Federalist No. 39, Madison presents the clearest exposition of what has come to be called "Federalism". In Federalist No. 51, Madison distills arguments for checks and balances in a memorable essay often quoted for its justification of government as "the greatest of all reflections on human nature."

"In Federalist No. 1, which served as the introduction to the series, Hamilton listed six topics to be covered in the subsequent articles:

1. "The utility of the UNION to your political prosperity" – covered in No. 2 through No. 14
2. "The insufficiency of the present Confederation to preserve that Union" – covered in No. 15 through No. 22
3. "The necessity of a government at least equally energetic with the one proposed to the attainment of this object" – covered in No. 23 through No. 36
4. "The conformity of the proposed constitution to the true principals of republication government" – covered in No. 37 through No. 84
5. "Its analogy to your own state constitution" – covered in No. 85
6. "The additional security which its adoption will afford to the preservation of that species of government, to liberty and to prosperity" – covered in No. 85."[5]

Further, in Federalist Paper No. 1 Hamilton recites that "America is special because our rights come from God, to be preserved by our government; America is exceptional and multiculturism (no country is superior to the other and America is morally flawed), is contrary to the founder's beliefs. No 1 recites "the importance of a strong Union to our safety and protection."[5A]

In Federalist Paper No.39 (Madison) the writer reminded us that "the government created by the Constitution is a Republic, not a Democracy, and the Government derives it's power directly from the people, not merely the elite."[5B]

"This means that the Federal bureaucracy "czars" the advisory boards like the Independent Payment Advisory Board (health care) and other power shifts without Congressional oversight, are contrary to our nation's foundations."[5C]

Federalist Paper No. 56 (Madison) recited that "the federal government must focus on three main areas: commerce, the militia, and taxation."[5D] Congress must focus on the original intent and not overstep its bounds, eg. national healthcare reform.

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[5] Federalist Papers – Wikipedia, the free encyclopedia http://en.wikipedia.org/wiki/Federalist_Papers

[5A] G. Beck, The Original Argument, The Federalists Case for the Constitution, P. 12-13 (2011); See also, Kessler and Rossiter, The Federalist Papers (1999)

[5B] Beck, Supra @ 172

[5C] *Id*

Federalist Paper No 28 (Hamilton) told us that "the people are to hold the power of the federal government in check to help prevent it from abusing power."[5E] We should remember that "the founders believed that the Union of States would have more power than the central government."[5F] (See eg. the state's case against Obamacare)

Federalist Paper No. 45 (Madison) told us that "the federal government will not be able to infringe on the rights maintained by the states because the central government has only very specific powers. Local government should be most directly involved in the lives of the people than should the federal government."[5G]

Federalist Paper No. 46 (Madison) states that "the power of the state governments is greater than that of the federal government, which is supposed to be a distant and largely insignificant force in our daily lives."[5H] And Federalist Paper No. 17 (Hamilton), clarified that "a new, stronger Union is necessary, but the states will still have more power than the federal government and will certainly have the loyalty of the people on their side."[5I]

Federalist Paper No. 12 (Hamilton), told us that "prosperity comes from the energies of the people, not from the government."[5J] The more economy, the more taxes.

Federalist Paper No. 32 (Hamilton), reminded us that "while all levels of government must have the power of taxation, the states and the people must be on guard to ensure that it is used justly."[5K]

Federalist Paper No. 36 (Hamilton), stated " our tax system benefits from being closest to the people because it will spur competition between the states and make taxes lower and more efficiently collected."[5L]

6. **The High Road**

"Bipartisanship for its own sake is a waste of time. There are fundamental differences in the philosophies of the two parties. But those clashes that are legitimately philosophical are less frequent than some would have us believe. Practical trust-building steps between the parties can be taken; all it takes is leadership. For their part, voters should notice when, for example, the Maine delegation works together effectively. Pats on the back may encourage more such behavior."[6]

5D Beck, Supra @ 184
5E Beck, Supra @ p. 242
5F Id
5G Beck, Supra @ 250
5H Beck, Supra @ 258
5I Beck, Supra @ 282
5J Id @ 344

5K Beck, Supra @ 352
5L Id @ 360
6 Bangor Daily News editorial (2010, September 7) The High Road

7. **Constitutionalism / Partnership / Lunacy**

"Today, the issue is the Constitution. It's a healthier debate because flags are pure symbolism and therefore more likely to evoke pure emotion and ad hominem argument. The Constitution, on the other hand, is a document that speaks. It defines concretely the nature of our social contract. Nothing in our public life is more substantive.

Americans are in the midst of a great national debate over the power, scope and reach of the government established by that document. The debate was sparked by that document. The debate was sparked by the current administration's bold push for government expansion – a massive fiscal stimulus, Obamacare, financial regulation and various attempts at controlling the energy economy. This engendered a popular reaction, identified with the Tea Party but in reality for more widespread, calling for a more restrictive vision of government more consistent with the Founders' intent...

The most galvanizing example of this expansive shift was, of course, the Democrats' health-care reform, which will revolutionize one-sixth of the economy and impose an individual mandate that levies a fine on anyone who does *not* enter into a private contract with a health insurance company. Whatever its merits as policy, there is no doubting its seriousness as constitutional precedent: If Congress can impose such a mandate, is there anything that Congress may not impose upon the individual?

The new Republican House will henceforth require, in writing, constitutional grounding for every bill submitted. A fine idea, although I suspect 90 percent of them will simply make a ritual appeal to the "general welfare" clause. Nonetheless, anything that reminds members of Congress that they are not untethered free agents is salutary.

Constitutionalism as a guiding political tendency will require careful and thoughtful development, as did jurisprudential originalism. But its wide appeal and philosophical depth make it a promising first step to a conservative future."[7]

8. **New Congress meets, vows openness – Speaker Boehner hails GOP control, Senate debates filibuster rules**

"Newly elected Speaker John Boehner hailed the Republication Party's return to control of the House on Wednesday, vowing a more open legislative process but acknowledging that "a great deal of scar tissue has built up on both sides of the aisle."[8]

9. **The Arizona shootings: End the political rhetoric**

"The horrific shooting of Rep. Gabrielle Giffords (D-Ariz.), the death of six (including a 9-year-old girl and a federal judge) and the injuring of a total of 14 revealed the best and the worst in American politics.

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[7] Krauthammer, Charles of *The Washington Post* (2011, January 7) Constitutionalism

[8] Kellman, Laurie of *The Associated Press (2011 January 6)* New Congress meets, vows openness, printed in Bangor Daily News p.A1 and p.A2.

First, let's look at the best. President Barack Obama issued an eloquent statement, as did House Speaker John Boehner and Majority Leader Eric Cantor. Obama, having learned something about emergencies, quickly dispatched the FBI chief and appeared on top of the crisis. Congress appropriately put off its business for the week. Sen. John McCain (R-Ariz) paid tribute to the slain federal court judge. They all conducted themselves in a calm and dignified fashion.

Then there are those who conducted themselves with far less dignity, namely partisan leftists and a segment of the blogosphere. This is the doing of Sarah Palin, they tweeted. (We are to believe the man who scrawled about currency conspiracies saw a year-old campaign map of Panin's?) This is all about immigration politics, others surmised...

It is as noxious to associate Saturday's shooting with conservative campaign rhetoric, even that which is over the top, as it would be to claim that violence is the doing of those who labeled tea parties un-American (as Democratic leaders did during the health-care debate) or of those who accuse senators of being unpatriotic (as a liberal newspaper columnist recently did).

If a lunatic attacks a businessman, are we to blame Obama for vilifying the Chamber of Commerce? Was the attack on an Arkansas recruiting station the fault of antiwar liberal Democrats? Of course not. The impulse to blame political opponents for tragedy and to convert human misery into a political weapon – both of which were played out on Twitter and the Internet by liberals as diverse as Paul Krugman, Jane Fonda and the Daily Kos crowd – is deeply regrettable. But it has unfortunately become par for the course...Shame on them."[9]

10. **Introduction – <u>Florida v. U.S. Dept. HHS (Judge Roger Vinson)</u>**

"This litigation – one of many filed through the country – raises a facial Constitutional challenge to the federal healthcare reform law, Patient Protection and Affordable Care Act, Pub. L. No. 111-148, 124 Stat. 119 (2010), amended by Health Care and Education Reconciliation Act of 2010, Pub. L. No. 111-152, 124 Stat. 1029 (2010) (the "Act"). It has been filed by sixteen state Attorneys General and [**5] four state Governors (the "state plaintiffs"); ...

Under the *Commerce Clause,* Congress may regulate: (1) the channels of interstate commerce; (2) the instrumentalities of interstate commerce; and (3) activities "affecting" interstate commerce...

At this state in the litigation, this is not even a close call. I have read and am familiar with all the pertinent *Commerce Clause* cases...

This case law is instructive, but ultimately inconclusive because the *Commerce Clause* and Necessary and Proper Clause have never been applied in such a manner before. The power that the individual mandate seeks to harness is simply without prior precedent. The congressional Research Service (a nonpartisan legal "think tank" that works exclusively for

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[9] Rubin, Jennifer (2011 January 10) The Arizona shootings: End the political rhetoric, is available at http://www.printthis.clickability.com/pt/cpt?expire=&title=The+Arizona+shootings%3A+End+the+politics

Congress and provides analysis on the constitutionality of pending legislation) advised Congress on July 24, 2009, long before the Act was passed into law, that "it is unclear whether the [*Commerce Clause*] would provide a solid constitutional foundation for legislation containing a requirement to have health insurance." The analysis goes on to state that the individual mandate presents "the most challenging question . . . as it is a novel issue whether Congress may use this clause to require an individual to purchase a good or service."...

The Supreme Court has said:

[*1165] Some truths are so basic that, like the air around us, they are easily [**120] overlooked. Much of the Constitution is concerned with setting forth the form of our government, and the courts have traditionally invalidated measures deviating from that form. The result may appear "formalistic" in a given case to partisans of the measure at issue, because such measures are typically the product of the era's perceived necessity. But the Constitution protects us from our own best intentions: It divides power among sovereigns and among branches of government precisely so that we may resist the temptation to concentrate power in one location as an expedient solution to the crisis of the day.

As noted at the outset of this order, there is a widely recognized need to improve our healthcare system. How to accomplish that is quite controversial. For many people, including many members of Congress, it is one of the most pressing national problems of the day and justifies extraordinary measures to deal with it. However, "a judiciary that licensed extraconstitutional government with each issue of comparable gravity would, in the long run, be far worse...

I am only saying that (with respect to two of the particular causes of action discussed above) the plaintiffs have at least stated a plausible claim that the line has been crossed."[10]

11. **Memorandum Opinion – <u>Com of Va v. Sebilius, Sec. of DHHS, (Judge Henry Hudson)</u>**

"This is a narrowly-tailored facial challenge to the constitutionality of Section 1501 of the Patient Protection and Affordable Care Act, Pub. L. No. 111-148, 124 Stat. 119 (2010). This provision, in essence, requires individuals to either obtain a minimum level of health insurance coverage or pay a penalty for failing to do so. According to the Complaint, which seeks declaratory and injunctive relief, the enactment of Section 1501 not only exceeds the power of Congress under directly at tension with *Virginia Code Section 38.2-3430.1:1* (2010), commonly referred to as the Virginia Health Care Freedom Act...

In 1945, Congress passed the McCarran-Ferguson Act, *15 U.S.C. § 1011, et seq.*, in reaction to the U.S. Supreme Court's decision to *United States v. South-Eastern Underwriters*

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[10] Vinson, Roger (2010 October 14) *State of Florida, by and through Bill McCollum, et al.; Plaintiffs, v. United States Department of Health and Human Services, et al., Defendants.*, Case No.: 3:10-cv-91-RV/EMT, *716 F. Supp. 2d 1120; 2010 U.S. Dist., LEXIS 111775; 106 A.F.T.R.2d (RIA) 661; 22 Fla. L. Weekly Fed. D 395*

Ass'n. 322 regulation and taxation of the business of insurance, and all who engage in it, should be subject to the laws of the several states unless Congress specifically states the contrary...

The Secretary argues that the language of Section 1501 is sufficient to imply an intent on the part of Congress to in effect preempt any state regulation to the contrary. The Commonwealth appears to disagree. (Tr. 48-49, July 1, 2010.) The demarcation between state and federal responsibility in this area will require further development in future proceedings in order to adequately address the Commonwealth's *Tenth Amendment* argument...

This provision, the Commonwealth maintains, requires a person to perform an involuntary act and as a result, submit to *Commerce Clause* regulation. The Commonwealth continues that neither the U.S. Supreme Court nor any circuit court of appeals has upheld the extension of *Commerce Clause* power to encompass economic inactivity.

n7" [A] tax is a pecuniary burden laid upon individuals or property for the purpose of supporting the Government."...

On the other hand, a penalty imports the notion of a punishment for an unlawful act or omission. *Id.* "The two words [tax v. penalty] are not interchangeable . . . and if an exaction [is] clearly a penalty it cannot be converted into a tax by the simple expedient of calling it such...

The centerpiece of the Complaint at issue is its contention that Congress lacks the authority to regulate economic inactivity. Lacking such power to regulate a person's decision not to participate in interstate commerce, logically, the Commonwealth argues, Congress would not have the power to tax or impose a penalty for such inactivity. This, of course, is the core issue in this case...

While this case raises a host of complex constitutional issues, all seem to distill to the single question whether or not Congress has the power to regulate--and tax--a citizen's decision not to participate in interstate commerce. Neither the U.S. Supreme Court nor any circuit court of appeals has squarely addressed this issue. No reported case from any federal appellate court has extended the *Commerce Clause* or Tax Clause to include the regulation of a person's decision not to purchase a product, notwithstanding its effect on interstate commerce."[11]

12. Puncture complacency in US education

"Since 1995 the average mathematics score for fourth-graders jumped 11 points. At this rate we catch up with Singapore in a little over 80 years, assuming they don't improve.

--Norman R. Augustine, Retired CEO of Lockheed Martin

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[11] Hudson, Henry E. (2010 August 2) *Commonwealth of Virginia Ex Rel. Kenneth T. Cuccinelli, II, in his official capacity as Attorney General of Virginia, Plaintiff, v. Kathleen Sebelius, Secretary of the Department of Health and Human Services, in her official capacity, Defendant*, Civil action No. 3:10CV188-HEH, United States District Court for the Eastern District of Virginia, Richmond Division, *702 F. Supp. 2d 598; 2010 U.S. Dist. LEXIS 77678; 106 A.F.T.R. 2d (RIA) 5724*

Too many American parents, Duncan says, have "cognitive dissonance" concerning primary and secondary schools: they think their children's schools are fine, and that schools that are not fine are irredeemable. This, Duncan says, is a recipe for "stasis" and "insidious paralysis." He attempts to impart motion by puncturing complacency and picturing the payoff from excellence.

He notes that 75 percent of young Americans would be unable to enlist in the military for reasons physical (usually obesity), moral (criminal records) or academic (no high school diploma). A quarter of all ninth-graders will not graduate in four years. Among the 34 Organization for Economic Cooperation and Development nations, only four (Mexico, Spain, Turkey, New Zealand) have dropout rates higher than America's, whose 15-year-olds ranked 23rd in math and 25th in science in 2006. Canadians that age were more than a school year ahead of their American counterparts; Koreans and Finns were up to two years ahead. Within America, the achievement gaps separating white students from blacks and Hispanics portend (according to a McKinsey & Co. study) "the economic equivalent of a permanent national recession."

Another study suggests that a modest improvement (from a current average of around 500 to 525) over 20 years in an international student assessment of 15-year-olds in the OECD nations – improvement in reading, math and science literacy – would mean a $115 trillion increase in these nations' aggregate GDP. Of that, $41 trillion would accrue to America. McKinsey calculated that if American students matched those in Finland, America's economy would have been 9 percent to 16 percent larger in 2008 – between $1.3 trillion and $2.3 trillion.

Familiar recipes for improvement are dubious. "Many high-performing education systems, especially in Asia, "Duncan says, "have substantially larger classes than the United States." In South Korea, secondary school classes average about 36 students, in Japan 33, in America 25.

Allowing states to define academic proficiencies, while federal policy gives financial rewards for achieving those proficiencies, produces perverse incentives.

Conclusion? The state defined proficiency down: Solution? Penalize that. Regarding kindergarten through grade 12 federal education policy – if such there must be – should permit, indeed encourage, 50 laboratories of education experimentation. Federal policy should be confined to providing financial rewards contingent on improvements confirmed by national metrics – Duncan's single goal post.

The Education Department sits at the foot of Capitol Hill, where many new legislators consider "federal education policy" a constitutional oxymoron. They have a point. They might, however, decide that the changes Duncan proposes – on balance, greater state flexibility in meeting national goals – make him the Obama administration's redeeming feature."[12]

13. **A Time for Healing**

[12] Will, George of *Washington Post Writers Group* (2011 January 27) Puncture complacency in US education printed in *Bangor Daily News*.

"In words eloquently delivered in a thoughtful, almost conversational, manner last Wednesday, President Barack Obama asked that Americans everywhere talk to each other "in a way that heals, not in a way that wounds." Speaking at a memorial service in Tucson, Ariz., in the wake of a shooting that took the lives of six people and wounded 13 others, including U.S. Rep. Gabrielle Giffords, the President may have been more eloquent than at any time since he assumed office. "It is hard to imagine how his remarks could have been improved," wrote editor Seth Lipsky in the online *New York Sun.*

Obama did not attempt – as so many wrongly have done – to link the actions of the clearly deranged gunman to the fiery and often inappropriate political rhetoric that has been heard across the nation, especially in recent months. "None of us can know exactly what triggered this vicious attack," he said. "None of us can know with any certainty what might have stopped those shots from being fired, or what thoughts lurked in the inner recesses of a violent man's mind."...

Those among us who resort to inappropriate and offensive language, who demonize those with whom they disagree, who will seemingly go to almost any lengths for political gain know in their hearts that they are doing wrong."[13]

Note: President Obama has done little to chastise the left wing for their SLANDER against Sarah Palin and other conservatives – Talk is cheap.

14. **JFK's own dirty trick on Richard Nixon**

"Fifty years ago next week, Richard Nixon stood uncomfortably on the Capitol's inaugural platform and watched his rival John F. Kennedy being sworn in as president. "We won" the election, Nixon fumed, "but they stole it from us."

Indeed, the dirty tricks that helped defeat Nixon were more devious than merely the ballot-stuffing of political lore. In one of the least-known chapters of 20th-century political history, Kennedy operatives secretly paid off an informant and set in motion a Watergate-like burglary that sabotaged Nixon's campaign on the eve of the election.

It began in the fall of 1960, when the Kennedy campaign spread word that Vice President Nixon had secretly pocketed money from billionaire Howard Hughes, whose far-flung business empire was heavily dependent on government contracts and connections. Reporters for the St. Louis Post-Dispatch and Time magazine corroborated the allegations, but their editors feared publishing such explosive information in the last days of the tightly fought campaign.

So the Kennedys turned to two crusading liberal columnist, Drew Pearson and Jack Anderson, who had been attacking Nixon for the past decade. It was "a journalistic atrocity" to conspire with "the Kennedy hawkshaws to help us get the goods on their opponent," Anderson admitted, but scoring a scope to destroy Nixon was simply too tempting to pass up.

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[13] *The Ellsworth American* editorial (2011, January 20) A Time for Healing section 3, Page 1.

Nixon always believed he was the true winner of the 1960 campaign. He called the Kennedys "the most ruthless group of political operators ever mobilized" and said they "approached campaign dirty tricks with a roguish relish" that "overcame the critical faculties of many reporters."

The mysterious break-in to recover Nixon's incriminating financial documents convinced him that such burglaries were standard practice in national politics. Nixon vowed that he would never be caught unprepared again, and he ultimately established his own corps of hard-nosed operatives to carry out espionage and sabotage, which culminated in the botched break-in a dozen years later at the Watergate office of the Democratic Party.

A half century afterward, Washington still lives with the residue of the Kennedys' little-known dirty trick, which helped unleash our modern scandal culture and continues to influence politics and media today."[14]

15. Maine congressional delegation cool to repeal amendment

"Maine's congressional delegation is decidedly cool to a proposed constitutional amendment that would allow two-thirds of the states to overturn any act of Congress, a measure that has support of leaders of the new GOP majority in the House of Representatives.

The proposal was first made by noted law professor Randy Barnett at Georgetown University. He believes state legislatures will embrace the amendment as a way to curb the authority of Congress to force the states to implement programs they do not want or cannot afford.

U.S. Sen. Olympia Snowe, R-Maine, said that while she has read about the proposal, she has not spent the time researching it or its implications. She said she doubted it would be approved because of the process needed to adopt an amendment to the Constitution. Both the House and Senate must approve a proposed amendment and then 38 of the 50 state legislatures would have to pass the amendment for it to be added to the Constitution.

"As one who has pushed adoption of the amendment to require a balanced budget, I know how difficult it is to get it passed, "she said. "I happen to think that amendment has to be foremost. We need to have that amendment to bring our fiscal house in order."

Snowe said she will continue to push for passage of the balanced budget amendment that would put the federal budget on the same basis as nearly all the states, requiring that spending be paid for and a ban on budget deficits.

U.S. Sen. Susan Collins, R-Maine, agreed that Congress should be cautious before proposing any amendment to the Constitution.

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[14] Feldstein, Mark (2011, January) JFK's own dirty trick on Richard Nixon PressDemocrat.com http://www.pressdemocrat.com/apps/pbcs.dll/article?AID=/20110115/OPINION

Collins said she supports repealing the law and replacing it with better legislation that addresses the need to reform without the mandates and bureaucracy in the current law.

"My concern is that there would be unintended consequences from a constitutional amendment, "she said. "Such an amendment might upset the checks and balances that are in the Constitution."[15]

16. **Tea Party's Love for Constitution May Kill It: Michael Waldman**

"These days, conservatives proudly proclaim their love for the Constitution. Yet many seem unsure whether to revere it or repeal it, plank by plank.

Such constitutional nihilism extends well beyond the drive to strike down the U.S. health-care law, a jarring move by those long opposed to judicial activism. It reflects a deep discomfort with the country's growth toward a thriving, coast-to-coast democracy.

To be sure, these activists insist they only want to show they revere our founding document. Earlier in the year, 80 groups issued the "Mount Vernon Statement."

"The Federal government today ignores the limits of the Constitution, which is increasingly dismissed as obsolete and irrelevant," it said.

Some advocates want to rewrite the 14th Amendment, a landmark of the Constitution – indeed, of human freedom. The amendment guaranteed equal protection of the law and due process to former slaves. Under its provisions, if you were born in the U.S. you had the rights of a citizen. The amendment was enacted by the Radical Republicans, which meant something very different back in 1868.

Now Senators John Kyl and Lindsey Graham have suggested rewriting this core part of the national charter. Children born here are not in fact citizens, they argue, if their parents crossed the U.S. border illegally.

Other conservatives decry the 16th Amendment, which authorized the income tax. Until Glenn Beck floated the idea of its repeal last year, it was known mostly to high school students studying for SAT subject test.

It is genuinely heartening that people care about the Constitution. The rhetoric, at least, denotes a craving for a meaningful national identity, a yearning for core values that we should all applaud. But may I suggest to our overheated fellow Americans: Don't stop at reading the Constitution. The Declaration of Independence too: "All men are created equal."[16]

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[15] Leary, Mal of *Capitol News Service* (2011, January 16) Maine congressional delegation cool to repeal amendment printed in Bangor Daily News,

[16] Waldman, Michael of *Bloomberg* (2010 Dec. 15) Tea Party's Love for Constitution May Kill It: Michael Waldman Bloomberg Opinion, http://www.bloomberg.com/news/print/2010/12/16/tea-party-love-of-consitution-may-kill-it-commentary

17. **Fla. judge rules against health care overhaul**

"A federal judge declared the Obama administration's health care overhaul unconstitutional Monday, siding with 26 states, including Maine, that argued people cannot be required to buy health insurance.

Senior U.S. District Judge Roger Vinson agreed with the statues that the new law violates people's rights by forcing them to buy health insurance by 2014 or face penalties. He went a step further than a previous ruling against the law, declaring the entire law unconstitutional if the insurance requirement does not hold up...

At issue was whether the government is reaching beyond its constitutional power to regulate interstate commerce by requiring citizens to purchase health insurance or face tax penalties.

"Or, as discussed during oral argument, Congress could require that people buy and consume broccoli at regular intervals," he wrote, "not only because the required purchases will positively impact interstate commerce, but also because people who eat healthier tend to be healthier, and are thus more productive and put less of a strain on the health care system."...

"I appreciate the difficult situation in which the states find themselves," he wrote. "It is a matter of historical fact that at the time the Constitution was drafted and ratified, the Founders did not expect that the federal government would be able to provide sizable funding to the states and, consequently, be able to exert power over the state to the extent that it currently does."...

"In making his ruling, the judge has confirmed what many of us knew from the start; ObamaCare is an unprecedented and unconstitutional infringement on the liberty of the American people," Florida GOP Gov. Rick Scott said in a statement."[17]

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[17] Anderson, Curt of *The Associated Press* (2011 January 31) Fla. judge rules against health care overhaul http://www.new.bangordailynews.com/2011/01/31/health/fla-judge-rules-against-health-care-overhaul

I. Introduction

C. Present Day Politics and the Task Ahead

The present state of politics in Washington D.C., now spilling over throughout America, has caused most of us to wonder what they are doing. With any divided government, conflicts will occur. However, when diametrically opposed groups are in control, dialogue, and cooperation can be difficult to achieve. The political atmosphere can become polluted with name-calling, misrepresentations and innuendo. The American people either take sides or shake their collective heads in disbelief. But overall, the people lose faith in their government officials and their ability to govern.
Famed talk show host Greta Van Sustern recently summarized the dilemma by proclaiming, "The public wants controls on Congress." [1]

While I am a conservative-moderate with hopefully an independent bent, I have always maintained a practical view in any negotiation, whether legal, political or personal (however my wife and kids usually prevail.) Having said that, I do believe that the words of Thomas Jefferson need to be recalled from time to time; he said "the whole of government consists in the art of being honest." [2] Our government leaders in Congress and the President, must be **honest** above all else. Stop spinning the truth, swaying the facts, using scare tactics and avoid class warfare.

The radical left wing, mostly democrats and progressives, believe that redistribution of wealth, i.e., socialism, is the proper goal of government. I strongly disagree with this liberal philosophy and believe it to be contrary to our founders thinking, the Constitution and the American way. The Federalist Papers are replete with expressions of self-reliance, minimal government and support for ones own entrepreneurial rewards from hard work and dedicated effort. In his first Inaugural Address, Jefferson stated "A wise and frugal government, which shall restrain men from injuring one another, which shall leave them otherwise free to regulate their own pursuits of industry and improvement, and shall not take from the mouth of labor the bread it has earned." [3]

So you see, redistributing income and wealth is really anti-American, and is socialism. Herbert Spencer, the 19th Century philosopher said "All socialism involves slavery." [4] My firm conclusion is to allow no class warfare, no socialism, only capitalism with minor tweaks here and there as a basic philosophy for policy making. The tweakings come from the social welfare and transfer programs and policies that our country has come to accept as helping the poor, needy, disabled, elderly and children. However, as President Clinton and Speaker Gingrich agreed in August of 1996 with the enactment of the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA), that welfare

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[1] Greta Van Sustern, Fox News, July 28, 2011

[2] Thomas Jefferson, Virginia Act for Religious Freedom, 1786, listed in "The Great Quotations, by George Seldes, p. 445.

[3] Thomas Jefferson, First Inaugural Address, 1801, reprinted in "The Great Quotations," by George Seldes, p 445, paragraph 80.

[4] Herbert Spencer, Man Verses the State. The Coming Slavery (1884), *Id.* p 881

reform would require that (1). Each state would receive a fixed amount of money to run its own welfare programs, (2) people on welfare would have to find work within two years or lose all their benefits, and (3) a lifetime maximum of five (5) years on welfare was set. [5]

Last year I made a number of suggestions on the Reconstructing of Government for the State of Maine. As a former member of the State Restructuring Commission and a practicing lawyer for 35 years, I had observed the lack of coordinated effort with retraining education programs for those out of work who needed a job. A top goal of government should be to foster and encourage jobs in the private sector. Persons who are disabled, unemployed, including the work injured, need aggressive programs to assist them in reentering the workforce. In Maine, there exist several agencies that offer voc-rehab assistance none of which is particularly successful. A major policy shift should require all States and the Federal Government to combine existing voc-rehab programs under their Department of Labor umbrellas, mandating participation, except for those so disabled that participation is not possible, as a condition of receiving unemployment, workers compensation or disability benefits. Education grants should be included with vocational training. Businesses should be encouraged to hire the unemployed with reasonable incentives.

The dilemma America faces today has taken 75 years to develop, although the last 3 years have served as a monument to overspending by the left wing. Sean Hannity recently said that "Obama has created a keynesian, socialistic, utopian mess." [6] While it is true that the Washington elites, including the media, want Republicans, conservatives and "Tea Party" activists to be silenced, the American public overwhelmingly said in the last election, stop the spending. Writer Michelle Malkin recently stated that "the Washington elites have always tried to have conservatives sit down and shut up- no more, we are fighting back." [7]

After reviewing a compilation of studies, reports, essays, speeches and articles, I tried to develop a series of Federal Budget Recommendations that made sense in the true spirit of our Constitution, laws and American traditions. My hope is that the reader will be inspired to consider the paper in the manner it is offered and that others will consider additional suggestions to correct our nation's financial state. After all, dialectics in a free democratic republic, such as the U.S., was the very method used by the founders to create our nation.

A few final comments are in order regarding the 2011 debt ceiling vote and the credit rating downgrade by Standard and Poor's from AAA to AA plus.

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[5] Edwards, Wattenberg and Lineberry, Government in America People, Politics and Policies, pg 533 (5th ed. 2008)
[6] Sean Hannitly, "The Great Debate" Fox News July 27, 2011
[7] Id., Michelle Malkin, July 27, 2011

Remember, the day before the downgrade, the Dow fell 512 points, the steepest decline since the 2008 crisis.[8] The S and P downgrade was reported as a response "because the deficit reduction plan passed by Congress did not go far enough to stabilize the country's debt situation."[9] To listen to the partisan pundits, you would have thought that conservatives caused the downgrade, when in fact they saved the day. It was conservatives that had the stamina to force some spending cuts; it was the liberals who fought the cuts, and caused the S & P downgrade. Mr. Obama is the first President in history to have a credit rating downgrade on his report card. A recent report from the U.S. Bureau of Labor Statistics attempts to mislead the public with monthly jobless numbers reports; the January 2012 report for December 2011 suggested an 8.5% unemployment number, down from 8.7% in November.[10] What the study did not reveal is that in December 2008 (Bush) the rate was 7.6%; the real unemployment is actually still at about 15%![11] The Democrats should be ashamed and they owe the American public an apology for misrepresenting the truth and blaming others for their wrongdoing. The point is we need further budget cuts to stimulate our economy and reduce the debt to proper GDP ratios. We are now at about 90% of debt/GDP, very dangerous indeed. We should never be above 18%. In my opinion, anyone who blames conservatives over liberals for the debt crisis is either a non-credible partisan, misinformed sycophant, or a fraud. In any case, the truth is clear and Mr. Obama and the Democrats are holding the downgrade black bag on this one. So let's get on with the spending cuts. Remember, "Transformational change requires Innovative Suggestions and thinking from everyone."[12]

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[8] See Bangor Daily News, Bryan Davids, David Randall, (.A.P.), "Dow Falls 512 points in steepest decline since '08 crisis" August 4, 2011

[9] Bangor Daily News, Martin Crutsinger (AP)" For First time, US credit rating cut from AAA, economists in Maine react" (August 15, 2011)

[10] Kevin Hall, McClotchey Newspapers, Bangor Daily News , 1/9/12

[11] Id.

[12] Directive/Innova Fairfax Hospital, Fairfax VA , 4/28/11

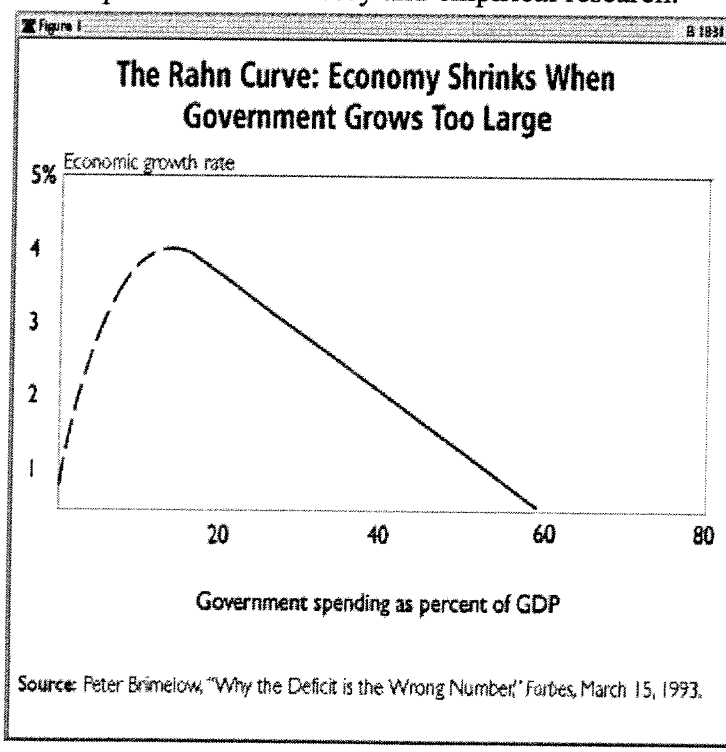
II. The Impact of Government Spending and Unintended Consequence

A. The Impact of Government Spending on Economic Growth

"Policymakers are divided as to whether government expansion helps or hinders economic growth. Advocates of bigger government argue that government programs provide valuable "public goods" such as education and infrastructure. They also claim that increases in government spending can bolster economic growth by putting money into people's pockets.

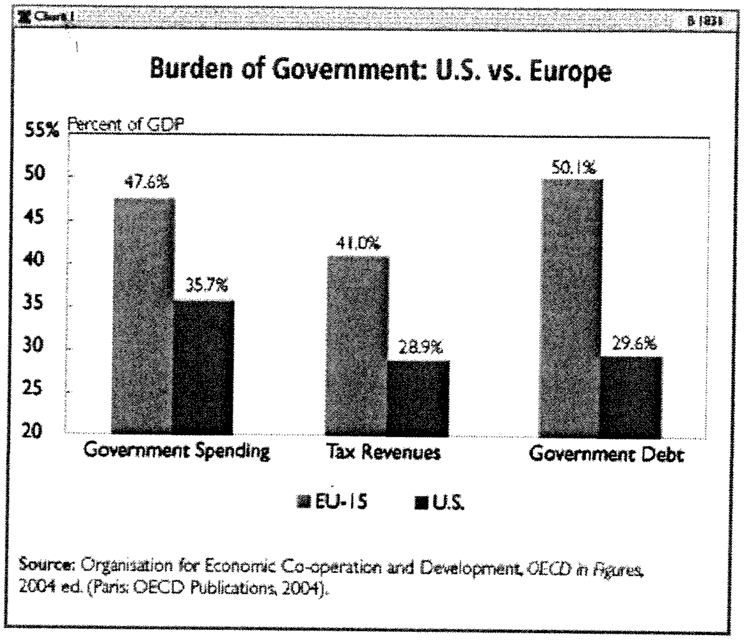
Proponents of smaller government have the opposite view. They explain that government is too big and that higher spending undermines economic growth by transferring additional resources from the productive sector of the economy to government, which uses them less efficiently. They also warn that an expanding public sector complicates efforts to implement pro-growth policies-such as fundamental tax reform and personal retirement accounts-because critics can use the existence of budget deficits as a reason to oppose policies that would strengthen the economy…

This writer concludes that a large and growing government is not conducive to better economic performance. Indeed, reducing the size of government would lead to higher incomes and improve America's competitiveness. There are also philosophical reasons to support smaller government, but this paper does not address that aspect of the debate. Instead, it reports on-and relies upon-economic theory and empirical research.



The Rahn Curve: Economy Shrinks When Government Grows Too Large

Source: Peter Brimelow, "Why the Deficit is the Wrong Number," Forbes, March 15, 1993.



As Chart 1 illustrates, government spending consumes almost half of Europe's economic output-a full one-third higher than the burden of government in the U.S. Not surprisingly, a large government sector is associated with a higher tax burden and more government debt. Bigger government is also associated with sub-par economic performance. Among the more startling comparisons:

- Per capita economic output in the U.S. in 2003 was $37,600-more than 40 percent higher than the $26,600 average for EU-15 nations.
- Real economic growth in the U.S. over the past 10 years (3.2 percent average annual growth) has been more than 50 percent faster than EU-15 growth during the same period (2.1 percent).
- The U.S. unemployment rate is significantly lower than the EU-15 unemployment rate, and there is a stunning gap in the percentage of unemployed who have been without a job for more than 12 months-11.8 percent in the U.S. versus 41.9 percent in EU-15 nations.
- Living standards in the EU are equivalent to living standards in the poorest American states-roughly equal to Arkansas and Montana and only slightly ahead of West Virginia and Mississippi, the two poorest states.

Blaming excessive spending for all of Europe's economic problems would be wrong. Many other policy variables affect economic performance. For instance, over-regulated labor markets probably contribute to the high unemployment rates in Europe. Anemic growth rates may be a consequence of high tax rates rather than government spending. Yet, even with these caveats, there is a correlation between bigger government and diminished economic performance.

Other Economic Policy Choices Matter

The size of government has a major impact on economic performance, but it is just one of many important variables. *The Index of Economic Freedom*, published annually by The Heritage Foundation and *The Wall Street Journal*, thoroughly examines the factors that are correlated with prosperity, finding that the following policy choices also have important effects independent of the level of government spending:

- **Tax Policy.** The tax system has a pronounced impact on economic performance. For instance, the federal tax burden in the U.S. is about 17 percent of GDP, which is less than the aggregate tax burden in Hong Kong. Yet, since Hong Kong has a low-rate flat tax that generally does not penalize saving and investment, it raises revenue in a much less destructive manner. Similarly, the current U.S. tax system raises about the same level of revenue as it did 25 years ago, but the associated economic costs are lower because marginal tax rates have been reduced on work, saving, investment, and entrepreneurship.
- **Monetary Policy.** The monetary regime will help or hinder a nation's economy. Inflation can quickly destroy economic confidence and cripple investment. By contrast, a stable monetary system provides an environment that is conducive to economic activity.
- **Trade Policy.** A nation's openness to trade exerts a powerful impact on economic prosperity. Governments that restrict trade with protectionist policies saddle their nations with high costs and economic inefficiencies. Conversely, free trade improves economic efficiency and boosts living standards.
- **Regulatory Policy.** Bureaucracy and red tape have a considerable effect on a country's economy. Deregulated markets encourage the efficient allocation of resources since decisions are based on economic factors. Excessive regulation, by contrast, can result in needlessly high costs and inefficient behavior.
- **Private Property.** Independent of the level of government spending, the presence of private property rights plays a crucial role in an economy's performance. If government owns or controls resources, political forces are likely to dominate economic forces in determining how those resources are allocated. Likewise, if private property is not secured by both tradition and law, owners will be less likely to utilize resources efficiently. In other words, for any particular level of government spending, the security of private property rights will have a strong effect on economic performance.

These five factors are certainly not an exhaustive list. Other factors that determine a nation's economic performance include the level of corruption, openness of capital markets, competitiveness of financial system, and flexibility of prices. The *2005 Index of Economic Freedom* contains a thorough analysis of the role of all these factors in promoting economic growth.

Conclusion

Government spending should be significantly reduced. It has grown far too quickly in recent years, and most of the new spending is for purposes other than homeland security and national defense. Combined with rising entitlement costs associated with the looming retirement of the baby-boom generation, America is heading in the wrong direction. To avoid becoming an uncompetitive European-style welfare state like France or Germany, the United States must adopt a responsible fiscal policy based on smaller government."[1]

2. Obama Tax Hikes: The Economic and Fiscal Effects

"Since 1996, Congress after Congress has voted to lighten the tax burden on Americans. The current Congress will decide this fall whether to continue this policy or to significantly raise personal income taxes. President Obama has advanced a plan that reverses the long-standing successful policy: The President and his supporters are calling for tax increases, primarily on upper-income taxpayers and businesses—including small businesses, the primary job creators in the country. Those who will be most burdened if this plan becomes law are the millions of Americans just starting their economic lives and the millions more trying to find work after the worst recession in 60 years. The rest, whose lives are affected by the investments and business decisions of those taxpayers in the high-income classes, will share the burden. No income earner will be unscathed. Instead of extracting more income from the private economy. Congress should immediately reduce its spending and enact fundamental entitlement reform that supports strong economic growth. Employment and the economy cannot be made to grow through higher taxes—it is crucial for Congress to recognize this fact."[2]

3. Obama's Tax Hikes on High-Income Earners Will Hurt the Poor—and Everyone Else

"Those who think they are safe from the looming Obama tax hikes because they are not "rich" are in for a rude awakening if the Obama tax plan goes into effect. Economic growth affects everyone—whether directly or indirectly. All people's microeconomic decisions contribute to the macroeconomic picture. When business owners hire fewer employees, the economy, as a whole suffers, not only those who otherwise would have had jobs. Senior citizens are hurt the most by the imminent tax increases because retired people rely disproportionately on dividend payments for their income...

This analysis shows that the economic harm of raising taxes on investment, small businesses, and upper-income filers affects households of all types. An economy with fewer employment opportunities results in lower wages and lost consumption and savings. Households across the income spectrum are left with lower disposable income. The attempt to raise additional revenues by raising taxes on the productive sectors of the economy, particularly during a period of recovery, harms the very citizens the revenue would be used to aid with social welfare programs."

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[1] Daniel Mitchell, Ph.D. (2005 March 15) The Impact of Government Spending on Economic Growth The Heritage Foundation, http://www.heritage.org/Research/Reports/2005/03/The-Impact-of-Government-Spending...

[2] Beach, William, Rea Hederman, Jr., John Ligon, Guinevere Nell and Karen Campbell, Ph.D. (2010 September 20) The Heritage Foundation Obama Tax Hikes: The Economic and Fiscal Effects http://www.heritage.org/Research/Reports/2010/09/Obama-Tax-Hikes-The-Economic-and...

Selected Points

1 President Obama argues that the wealthiest Americans should pay higher taxes, promising that the tax increases would not affect those earning below $250,000 per year ($200,000 for single filers). But in a complex, interdependent economy, this isolated effect on one group is not possible.
2 All people's microeconomic decisions contribute to the macroeconomic picture. When business owners purchase fewer machines or hire fewer workers, the overall economy—and, thus, everyone in it—suffers.
3 While all Americans will be affected, some will be hurt more than others. Seniors, no matter their income, will be hurt the worst, in part due to their reliance on capital gains and dividend income in their pensions.
4 The attempt to raise additional revenues by raising taxes on the productive sectors of the economy, particularly during a period of recovery, harms the very citizens the government claims to be helping by raising taxes on the 'rich'."[3]

4. 'Millionaire tax' could hit more Mainers this year

"When the alternative minimum tax first was passed in 1969, it was called the "millionaire tax" and was aimed at preventing the very rich from escaping federal income tax through the use of a host of tax loopholes.

But now the alternative minimum hits many in the middle income brackets, and without congressional action this year, it could hit Mainers with incomes as low as $30,000.

"It could certainly affect a minimum of 35,000 taxpayers here in Maine this year," said Sen. Olympia Snowe, R-Maine. "It's penalizing and captures more than 30 million people [nationally], and when it started out, it was affecting less than a thousand,"

Snowe, a member of the Senate Finance Committee, said Congress has never addressed a long-term solution to the alternative minimum tax, which has meant "fixes" nearly every year. The amount of income exempt from the tax was $46,700 for single filers in 2009 and for married couples filing joint returns, it was $70,950.

"We have to fix this. There is no question that we have to do it," she said. But, she said, the battle is over how long a fix and how to pay for it."[4]

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[3] Nell, Guinevere and Karen Campbell, Ph.D. (2010 November 15) The Heritage Foundation Obama's Tax Hikes on High-Income Earners Will Hurt the Poor—and Everyone Else http://www.heritage.org/Research/Reports/2010/11/Obamas-Tax-Hikes-on-High-Income-Earners
[4] Leary, Mal of *Capitol News Service* (2010 September 12) 'Millionaire's tax' could hit more Mainers this year http://www.bangordailynews.com/story/Politics/Millionaires-tax-could-hit-more-Mainers-this-year

5. **The Economic Impact of a 25 Percent Corporate Income Tax Rate**

"One way to spur private sector investment in the U.S. and get it into the hands of entrepreneurs would be to reduce the federal statutory corporate income tax rate, which is currently 35 percent.

The Heritage Foundation's Center for Data Analysis (CDA) conducted a dynamic simulation of a reduction of the corporate income tax rate to 25 percent, comparing it to a baseline forecast of the economy with the current policy of a 35 percent corporate rate. The results of this simulation show the U.S. economy growing faster than the baseline in the 2011-2020 forecast horizon.

Why the Corporate Tax Rate Matters

The federal corporate rate matters for U.S. economic growth because all corporations' investment decisions are influenced by the tax rate's effect on a project's rate of return. If the after-tax of return does not meet the required rate of return for investment, the project will be foregone. Additionally, it influences where multinational businesses decide to invest in new productive capital.

Greater investment in the U.S. increases the overall capital stock and the level of technology available to businesses. This increases the productivity of U.S. workers, which increases their real wages. The higher income give individuals that ability not only to consume more but also to put more into savings. These savings get channeled back into corporations and new ventures, continuing the positive growth cycle.

The CDA analysis of a reduction in the corporate income tax rate to 25 percent shows impressive growth for the U.S. economy. For example:

- The number of jobs in the U.S. would grow on average by 581,000 annually from 2011 to 2020, with 531,000 on average being created in the private sector each year;
- U.S. real gross domestic product would rise on average by $132 billion per year;
- A typical family of four's after-tax income would rise on average by $2,484 per year;
- U.S. capital stock would grow by an average of $240 billion more per year; and
- Gross private domestic investment would increase by $57.2 billion per year."[5]

6. **Debt-cutting plans mean more taxes for all – Bowles / Simpson's National Commission**

"Just in time to dash holiday cheer, recently unveiled debt-reduction plans underscore how huge the fiscal challenges facing the U.S. are. They also make clear how tough the tradeoffs must be to tame federal budget deficits and the national debt.

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[5] Campbell, Ph.D., Karen and John Ligon (2010 December 2) The Heritage Foundation The Economic Impact of a 25 Percent Corporate Income Tax Rate

Major overhauls of the entire U.S. tax code are at the heart of all these plans.

They'd eliminate popular deductions and radically change taxation across the board.

None of this will happen unless Congress and President Obama enact these proposals into law. However, the gravity of the nation's debt problem and the stature of these commissions add political urgency to grappling with these proposals.

The most influential panel is the National Commission on Fiscal Responsibility and Reform. Earlier this month, the panel's co-chairmen—Democrat Erskine Bowles and Republican Alan Simpson—released their preliminary report on how to bring down deficits and debt. It sent shock waves rumbling nationwide.

"We can't grow ourselves out of this problem. We can't tax our way out of it, Bowles told PBS' Charlie Rose on Tuesday. "People who want to do just taxes, you'd have to raise the maximum marginal rates to 80 percent. You'd have to raise the corporate rate to 70 percent. You'd have to raise the capital gains rate to 50 percent if you're just going to do taxes.

"We can't cut our way out of it. People say, 'Oh well, let's just cut the budget.' It you just rely on deficit reduction through cutting, and you want to exclude Social Security, Medicare and defense and of course interest, then you'd have to cut everything else by about 60 to 65 percent. You can't do that, either," Bowles said.

"What we've got to do is some combination. Alan and I have come out with a plan that's balanced that takes $4 trillion out of the deficit over the next 10 years. I think that's the kind of thing we have to do. And if we don't, the markets are going to force us to."

"Driving all the plans is this cruel reality: The federal deficit is projected at $1.3 trillion this year, almost as much as last year – a scale not seen since the end of World War II. Left untamed, experts insist, this monstrous debt threatens the nation's future prosperity and security. Simply paying interest on the nearly $14 trillion national debt will cost more than $1 trillion in 2020 – 17 percent of all federal spending—unless big changes are made.

The biggest change that all three plans emphasize: Overhauling the U.S. tax code. All three plans would restructure income tax brackets. Current tax brackets – set to sunset this year—are 10 percent, 15 percent, 25 percent, 28 percent, 33 percent and 35 percent. The corporate rate is 35 percent.

All three plans would broaden the tax base subject to the lower rates to ensure that sufficient revenue comes to the Treasury. They'd do that by eliminating or limiting popular tax deductions, such as those for interest paid on mortgages and for charitable donations."[6]

7. **Obama, Republicans confront new political reality**

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[6] Hall, Kevin G. (2010 November 21) Debt-cutting plans mean more taxes for all *The Providence Sunday Journal*, p. B7

"A chastened President Barack Obama signaled a new willingness to yield to Republican demands on tax cuts and jettisoned a key energy priority Wednesday, less than 24 hours after he and fellow Democrats absorbed election losses so severe he called them a shellacking.

But he bluntly swept aside any talk of health care law – right after the House Speaker-in-waiting, Rep. John Boehner of Ohio, vowed Republicans would do everything they could to wipe the legislation off the books.

Boehner, a 60-year-old veteran of two decades in Congress, spoke at what amounted to his national debut as head of an incoming conservative majority that will include long-experienced lawmakers and tax party-backed political newcomers along. He declared, "Our new majority will be the voice of the American people as they expressed it so clearly yesterday."

Separately, the Federal Reserve announced new steps designed to further lower interest rates on loans and lead to more job creation, using powers denied mere politicans.

Taken together, the fast-paced series of events confirmed the primacy of the economy as an issue in a country with 9.6 percent unemployment, record home foreclosures and disappointingly slow growth."[7]

8. **Tax deal offers enticements at all income levels**

"There's something for virtually everyone.

Political discussion about Monday's tax-cut compromise has focused on how much money the wealthy might save. Yet if the deal is approved by both issues of Congress you're bound to see more money in your wallet, whatever your income.

That's because the package provides a bonus, in addition to the widely anticipated extension of the Bush-era tax cuts. The surprise perk is a one-year reduction in Social Security payroll taxes.

Nearly every worker should take home more money starting in January. The deal also includes an extension of unemployment benefits through the end of 2011.

"If this package does indeed pass, it's going to make a significant difference over the coming year for middle-class taxpayers," said Melissa Labant, a tax manager for the American Institute of Certified Public Accountants.

Economists expect the combination of maintaining current tax rates, reducing payroll taxes and boosting other tax benefits will induce consumers to spend more and investors to turn more bullish.

Here's a look at key elements of the compromise package.

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[7] Espo, David of *The Associated Press* (2010 November 4) Obama, Republicans confront new political reality printed in *Bangor Daily News*, p. A1

PAYROLL TAX

The government takes 6.2 percent out of your payment, up to $106,800, for Social Security. That would drop to 4.2 percent in 2011, resulting in an immediate increase in take-home pay...

ESTATE TAX

For the past 12 months, you didn't pay any taxes if a family member died. In 2011, the estate tax was supposed to be 55 percent of the value of an estate after the first $1 million. Now it will be 35 percent of an estate's value after the first $5 million...

TUITION TAX CREDIT

Families with kids in college can benefit from a tax credit for tuition and fees. A maximum of $2,500 will remain in place for two years. A credit reduces taxes owed, versus a deduction which reduces taxable income.

Parents familiar with 529 college savings plans may question what to prioritize. A 529 account encourages savings by enabling account holders to make tax-free withdrawals for eligible college expenses...

CHILD TAX CREDIT

There's more good news if you're a parent: The $1,000 child tax credit is being extended for two years. Taxpayers with income of less than $75,000—or $110,000 for married couples filing jointly—qualify for the full amount.

ALTERNATIVE MINIMUM TAX

More than 21 million taxpayers will win a reprieve from the Alternative Minimum Tax for both 2010 and 2011.

The AMT was enacted in 1969 to make sure wealthy people couldn't avoid taxes altogether, but it wasn't indexed for inflation. This means Congress has to raise the amount of income exempt from the AMT each year to spare millions from tax increases averaging about $3,900.

Had no adjustment been made, taxes would have gone up for individuals making as little as $33,750, and married couples making $45,500...

CAPITAL GAINS AND DIVIDENDS

Current tax rates on long-term capital gains will remain in place for two years. The tax applies to profits from the sale of an asset, such as stock, held more than a year. The highest rate of 15 percent was expected to rise to 20 percent next year.

Investors will also benefit from an extension of the historically low tax rates on dividend income, which top out at 15 percent. Had no action been taken, dividend payments would be taxed as regular income. This would raise the tax rate to as much as 39.6 percent for top earners. The extension means a savings of nearly a quarter on every dollar of dividend income for this group.

Individuals with dividends paid to taxable accounts can collectively expect to save nearly $75 billion over two years, according to an analysis by Standard & Poor's analyst Howard Silverblatt...

UNEMPLOYMENT BENEFITS

Millions of job seekers will benefit from an extension of their benefits at current levels through the end of 2011. The extension applies to workers laid off for more than six months, and less than 99 weeks. Seven million Americans would have lost their benefits through next year without the 13-month extension. Obama's Council of Economic Advisers estimates the provision will create 600,000 jobs next year.

That's because the unemployed live on the edge, and tend to spend every dollar they get, rather than save. That spending flows to businesses, putting them in better position to hire.

The average weekly payment for the roughly 8.5 million people receiving unemployment benefits is $302.90. But it varies widely by state, from as little as $119 in Puerto Rico to nearly $420 in Hawaii. Each state sets the amount through a formula meant to replace a portion of an unemployed person's old income."[8]

9. **WH warns tax defeat could trigger new recession**

"Raising the direst alarm yet, the Obama administration warned fellow Democrats on Wednesday that if they defeat the big tax-cut compromise detested by many liberals they could jolt the entire nation back into recession.

President Barack Obama appealed anew for Congress to "get this done" and insisted that more congressional Democrats would climb aboard as they studied details of the $900 billion year-end measure. Several did announce support on Wednesday, but at least one said there still was "a mood to resist."

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[8] *The Associated Press* (2010) Tax deal offers enticements at all income levels http://www.google.com/hostednews/ap/article/AleqM5hQutr8dYYpye_imtliPPTOdLN-6A?docID=216 ...

One Democratic opponent, Rep. Barney Frank of Massachusetts, forecast a result that would abruptly reverse Congress' voting pattern of the first two years of Obama's term: "It will be passed by virtually all the Republicans and a minority of Democrats."

Larry Summers, Obama's chief economic adviser, told reporters that if the measure isn't passed soon, it will "materially increase the risk the economy would stall out and we would have a double-dip" recession. That put the White House in the unusual position of warning its own party's lawmakers they could be to blame for calamitous consequences if they go against the president.

With many House and Senate Republicans signaling their approval of the tax cut plan, the White House's comments were aimed mainly at House Democrats who feel Obama went too far in yielding to Republicans' demands for continued income tax cuts and lower estate taxes for the wealthy."[9]

10. Jobs report shows bleak news for Democrats

"The economic die is cast, and it's grim news for Democrats. There's nothing now that Congress or President Barack Obama can do to before the November elections to jolt the nation's listless recovery.

Friday's unemployment report -- the last major economic news before the midterms -- showed the nation continued to lose jobs last month, reinforcing the bleak reality that it probably will be not months but years before the jobless rate returns to pre-recession levels below 6 percent.

With nearly 15 million Americans still without work, that tightens the pressure on Democrats ahead of the Nov. 2 elections. And it also casts a dark shadow well into the 2012 election season and beyond.

'We won't see under 6 percent for five years," David Wyss, chief economist at Standard & Poor's in New York, said Friday after the Labor Department reported that 95,000 more jobs were lost in September and the unemployment rate held at 9.6 percent. "It's going to be a slow recovery.'

Economists say at least 100,000 new jobs must be created each month just to tread water and keep pace with growth in the labor market.

Republicans insist just as strongly that Obama's policies are moving the nationin the wrong direction.

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[9] Babington, Charles of *Associated Press* (2010, December 8) WH warns tax defeat could trigger new recession http://news.yahoo.com/s/ap/20101208/ap_on_bi_ge/us_tax_cuts/print

House Minority Leader John Boehner, speaking Friday in his southwest Ohio home district, called the Nov. 2 elections a referendum on job losses on Obama's watch.

Unemployment has now topped 9.5 percent for 14 months in a row, the longest stretch since the Great Depression of the 1930's.

The jobless level remains high even though Washington has hurled trillions of dollars at the problem. The efforts include an $814 billion stimulus package and the $700 billion financial institution bailout.

Economist Heidi Shierholz of the Economic Policy Institute, a labor-oriented think tank, estimated 300,000 new jobs would have to be created every month between now and September 2012."[10]

11. **What will the big new tax law mean for you?**

"It's the most significant new tax law in decade, but what does it mean for you? Big savings for millions of taxpayers, more if you have young children or attend college, a lot more if you're wealthy.

The package, signed Friday by President Barack Obama, will save taxpayers, on average, about $3,000 next year.

But many families will be able to save much more by taking advantage of tax breaks for being married, having children, paying for child care, going to college or investing in securities. There are even tax breaks for paying local sales taxes and using mass transit, and a new Social Security tax cut for nearly every worker who earns a wage.

Most of the tax cuts have been around since early in the decade. The new law will prevent them from expiring Jan. 1. Others are new, such as the decrease in the Social Security payroll tax. Altogether, they provide a thick menu of opportunities for families at every income level.

"I am absolutely convinced that this tax cut plan, while not perfect, will help grow our economy create jobs in the private sector," Obama has said. "It will help lift up middle-class families, who will no longer need to worry about a New Year's Day tax hike. ...It includes tax cuts to make college more affordable, help parents provide for their children, and help businesses, large and small, expand and hire."[11]

12. **Holiday tax bill becomes law – for rich and poor**

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[10] Raum, Tom of *The Associated Press* (2010, October 9-10) Jobs report shows bleak news for Democrats printed in *Bangor Daily News*, p.A8.

[11] Ohlemacher, Stephen of *Associated Press* (2010, December 17) What will the big new tax law mean for you?
http://news.yahoo.com/s/ap/20101217/ap_on_bi_ge/us_tax_cuts_your_share/print

"President Barack Obama signed into law a huge holiday-season tax bill extending cuts for all Americans on Friday, saluting a new spirit of political compromise as Republicans applauded and liberals seethed. The benefits range from tax cuts for millionaires and the middle class to longer-term help for the jobless.

The package retains Bush-era tax rates for all taxpayers, including the wealthiest Americans, a provision Obama and congressional liberals opposed. It also offers 13 months of extended benefits to the unemployed and attempts to stimulate the economy with a Social security payroll tax cut for all workers.

The extended tax cuts in the negotiated package include rates lower than those that would have gone into effect Jan. l, a $1,000-per-child tax credit, tax breaks for college students and lower taxes on capital gains and dividends. The bill also extends through 2011, a series of business tax breaks designed to encourage investment that expired at the end of 2009.

Social Security taxes would be cut nearly a third, from 6.2 percent to 4.2 percent, for this coming year. A worker making $50,000 would save $1,000; one making $100,000 would save $2,000.

But the payroll tax cut also means that workers will face an increase in 2012 if the full 6.2 percent rate is restored. And by scheduling President George W. Bush's 2001 and 2003 tax rates to expire in two years, the law ensures that taxes will be a top issue in the 2012 presidential election...

Liberals, unable to alter the plan, were left bristling. They agreed Obama should have bargained harder, and they especially objected to the new estate tax, which will allow the first $10 million of a couple's estate to pass to heirs without taxation. The balance would be subject to a 35 percent tax rate.

Rep. Mike Michaud, D-Maine, said he voted against the bill.

"This debate has become more about politics than policy," said Michaud. "We have to get real and understand what we are actually doing here. I support providing tax relief. That's why I voted for a bill that would provide a tax cut extension to all American taxpayers. But this package adds nearly $1 trillion to our national debt, provides massive tax breaks to millionaires and billionaires, puts the future of the Social Security system in jeopardy, and shortchanges Maine's public employees."

Rep. Chellie Pingree, D-Maine, also said she voted against the bill.

"I've voted for a tax break for the first $250,000 of income for all Americans, for an extension of unemployment benefits to provide a real boost to the economy and for tax breaks that help our small businesses grow," Pingree said. "But I can't support tax breaks for the rich that add nearly $1 trillion to the deficit."

Obama signed the bill less than half an hour after meeting with a dozen labor leaders, some of whom were vocal critics of the agreement. A day before the session, AFL-CIO president Richard Trumka praised the union-sought jobless benefits but said passage of the legislation came "at a terrible price."

Rep. Anthony Weiner, D-N.Y., another critic of the bill, said Obama and lawmakers will face enormous election-year pressure in 2012 to extend the cuts again or make them permanent. Weiner said the Republicans turned out to be "better poker players" than Obama.

Obama conceded that the prospect of tax increases on all taxpayers helped prod an agreement that otherwise would have been difficult, if not impossible to achieve.

What's more, Obama's praise for Republicans, and his heralding of an overdue bipartisan moment in Washington, came after he himself spent the better part of 2010 bashing the GOP leadership as an obstructionist party of no."[12]

13. **Maine delegation split on tax cut extension – How They Voted: Maine's Congressional Delegation, Dec. 10-16, 2010**

"House Votes

Vote 1: Repealing Dont's Ask, Don't Tell, The House has agreed to the Senate amendment to the Small Business Act (HR 2965).
Yeas: Michaud, Pingree

Vote 3: Estate Tax Rates: The House has rejected an amendment... The amendment would have set a 45 percent maximum rate for the estate tax...

...The vote on Dec. 16, was 194 yeas to 233 nays.
Yeas: Michaud, Pingree

Vote 4: Extending Tax Cuts: The House has agreed to the Senate amendment to the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act (HR 4853),...

...The vote, on Dec. 16, was 277 yeas to 148 nays.
Nays: Michaud, Pingree

Vote 3: Extending Tax Cuts: The Senate has approved an amendment sponsored by Sens. Harry Reid, D-Nev., and Mitch...

...The vote, on Dec. 15, was 81 yeas to 19 nays.
Yeas: Collins, Snowe"[13]

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[12] Feller, Ben of *Associated Press* (2010, December 20) Holiday tax bill becomes law – for rich and poor http://new.bangordailynews.com/2010/12/17/politics/holiday-tax-bill-becomes-law-%e2%80%94-for-rich-and-poor/trackback

[13] *Bangor Daily News* (2010, December 18-19) Maine delegation split on tax cut extension at p.1 A5

14. AEI on the Economic Crisis and the Stimulus – In this Economy, We Do Not Have Liftoff

"Following a July 30 announcement that the U.S. economy grew at a modest 2.4 percent rate in the second quarter, AEI visiting scholar John H. Makin detailed in his ***Economic Outlook*** the government's inability to foster sustainable growth through a combination of fiscal stimulus and low interest rates.

Makin pointed out that most of the second quarter growth was the result of temporary government programs such as the homebuyer tax credit, and that, despite steady cuts in the fed funds rate, there is a persistent risk of deflation.

Highlights from the ***Outlook*** include:

- The patient--the U.S. economy--has received massive doses of stimulus medicine, and as that medicine is being withdrawn, it appears that the patient has not yet recovered.
- Since April [the final month of the homebuyer tax credit], sales of new and existing homes have collapsed, with more volatile new home sales falling by 32.7 percent during May from April's artificially elevated levels.
- The growth trajectory into the third and fourth quarters looks very weak as fiscal stimulus turns to fiscal drag while private-sector spending, which should have been lifting off, is actually slowing rapidly.

Makin concludes the ***Outlook*** with the prediction that, "We have not achieved liftoff and may be heading for a sharp reversal of the modest growth achieved so far. With lower growth will come a higher risk of deflation and a global slowdown."

Read the full ***Outlook***, "We Do Not Have Liftoff."[14]

15. Health care repeal try causes split: GOP effort to kill law may come next week

"With Republicans in Congress calling for a largely symbolic vote to repeal the Affordable Care Act, members of the Maine congressional delegation on Tuesday showed themselves as divided on the issue as they were when the law was enacted.

U.S. Rep. Mike Michaud of East Millinocket was not immediately available to comment Tuesday. Michaud joined fellow House Democrats in voting for the Affordable Care Act in December 2009, after expressing concerns about the reform's effect on small businesses and its inadequate focus on reducing costs in the health care delivery system. On Tuesday, a spokesman noted that Michaud had supported efforts last November to repeal a single provision of the law that requires small businesses to file a special tax form for services or purchases over $600.

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[14] Research Areas (2010, December 28) AEI on the Economic Crisis and the Stimulus http://www.aei.org/ra/100079

"Small businesses are the job creators in our country, and we can't afford to have them unnecessarily burdened," Michaud said in a November statement supporting repeal of the tax provision. "The health insurance reform bill takes many important steps to improve access to quality, affordable health care for small-business owners throughout the country. But it's important that we not allow those improvements to be undercut by burdensome reporting requirements. We must act now to repeal this provision so that small businesses do not face a red tape headache in the coming years."

U.S. Sen. Susan Collins, who lives in Bangor, joined her fellow Republicans in voting unanimously against the Affordable Care Act. On Tuesday, she issued a statement demonstrating her ongoing opposition to certain provisions of the reform, including its impact on small businesses.

"The new law will discourage small businesses from hiring new employees and paying them more," Collins said. "It could also lead to onerous financial penalties on some small businesses that are already struggling to provide health insurance for their employees."

Although the Affordable Care Act provides tax credits for small businesses that help cover employees health insurance costs, Collins faulted the credits for being temporary and "poorly structured."

Noting that the law contains "numerous ... areas of bipartisan agreement" — including broad insurance industry reforms, a focus on improving the quality of health care, tax credits for the self-employed, the implementation of electronic medical records, a crackdown on hospital-acquired infections, a call for greater financial transparency in the health care system, incentives for workforce development and payment reform — Collins nonetheless decried the "bitter rhetoric and partisan gridlock" that characterized the drafting of the health reform legislation.

In her statement on Tuesday, Snowe said one reason she was unable to support the bill was because it was unclear whether it would successfully achieve the goal of providing affordable health plans for individuals and small businesses. Snowe said she supports "unfettered competition" among health insurers to drive down costs and promote new coverage options.

Absent the possibility of outright repeal, Snowe said, certain provisions of the health reform must be eliminated. These include individual and employer mandates, an increased Medicare tax, and a long-term care program that many analysts have determined is unsustainable."[15]

16. Generous tax breaks make tax reform difficult

"Nine in 10 Americans will find the maze of credits, deductions and exemptions on their tax forms so confusing and difficult that they'll hire someone or turn to special computer

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[15] Haskell, Meg of *The News Staff* (2011, January 5) Health care repeal try causes split: GOP effort to kill law may come next week *Bangor Daily News*

software to fill out their returns. Even the commissioner of the Internal Revenue Service says he pays someone to do his taxes.

There is a lot of political support on Capitol Hill for simplifying the tax code. But in the new era of divided government, it is unclear whether Obama has the ability, or the political will, to steer such a massive piece of legislation through a Republican-controlled House and a deeply divided Senate.

The tax code is 3.8 million words long and growing. In the past decade, there have been 4,428 changes — an average of more than one a day, according to a recent report by Nina E. Olson, the National Taxpayer Advocate, an independent watchdog within the Internal Revenue Service.

"In my view, the tax code today is a mess," Olson told the Ways and Means Committee hearing. "Since the last major reform 25 years ago, the tax code has become an ever-expanding patchwork of discrete provisions, often with little logical connection, and it has become unreasonably difficult for taxpayers to understand."

Camp has his own description: "The tax code is 10 times the size of the Bible, with none of the good news."

The tax code has long been a vehicle for social policy. Lawmakers use it to reward people for having children, buying a home and making donations to charities. There are even tax breaks for paying taxes. Businesses are rewarded for investing in new equipment and buildings, spending on research and development, and producing alternative forms of energy.

In all, the tax code is filled with a total of $1.1 trillion in credits, deductions and exemptions, an average of about $8,000 per taxpayer, according to Olson's analysis of data provided by the nonpartisan Joint Committee on Taxation, Congress' official scorekeeper on revenue issues.

For perspective, the federal budget deficit was $1.3 trillion last year, which raises another thorny issue: Should tax reform be used to increase overall tax revenues to reduce the deficit? Many politicians, both Democrats and Republicans, say trying to use tax reform to raise taxes would only make it harder to build support for an overhaul. About 41 million households reduced their federal income taxes by deducting state and local income and sales taxes from their taxable income.

"The dirty little secret is that the largest special interests are us — the vast majority of U.S. taxpayers," Olson said. "Virtually all of us benefit from certain exclusions from income, deductions from income, or tax credits.""[16]

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[16] Ohlemacher, Stephen of *Associated Press* (2011, January 20) Generous tax breaks make tax reform difficult
http://hosted2.ap.org/APDEFAULT/89ae8247abe8493fae2440554639a1aa/Article_2011-01-20-tax%20R...

17. Slow-Growth US Now Ripe for Consumption Tax

"The prospect of meaningful tax reform has become the hot topic in the hearing rooms and, just as important, the back rooms of Washington.

House Ways and Means Committee Chairman David Camp, Republican of Michigan, devoted his first hearing to the topic, and President Barack Obama's team is talking up the subject in private and in public.

"We're examining whether we can find the political support for a comprehensive tax reform," U.S. Treasury Secretary Timothy Geithner said on Jan. 12. Two days later, he met with financial officers from major companies, including Microsoft and Cisco Systems, to discuss the corporate tax rate.

The last overhaul of the tax code was in 1986, when President Ronald Reagan and congressional Democrats including Representative Dan Rostenkowski and Senator Bill Bradley crafted legislation that should be in the Tax Policy Hall of Fame, if there was one. In pairing lower marginal rates with an assault on exemptions and other loopholes, the Tax Reform Act of 1986 proved the benefit of broadening the tax base.

Now it's time to take that one step further.

In 1651, the English philosopher Thomas Hobbes became the patron saint of tax geeks when he called for government to switch to a consumption tax--one based on the money people spend, not what they earn. Such a tax, he argued in his book, "Leviathan," was morally preferable:

"For what reason is there that he which laboureth much and, sparing the fruits of his labour, consumeth little should be more charged than he that living idly, getteth little and spendeth all he gets; seeing the one hath no more protection from the Commonwealth than the other?"

Passing Favors

Like Hobbes, those who today decry the irrationality of the tax code and advocate fundamental reform are ignored by elected officials. Rather than a simple-to-understand code, politicians prefer the current mess, a tangle of exceptions that makes it easy to pass out favors without being noticed.

Just figuring out what you owe is so complicated that few Americans dare do their own taxes. Talk about busywork: In her annual report, the Internal Revenue Service's national taxpayer advocate, Nina Olson, estimated that American taxpayers and their hired preparers spend 6.1 billion hours annually complying with the law. That's equivalent to the hours of 3 million full-time workers.

...Moving toward a consumption tax would encourage investment in capital, potentially increasing future growth.

Lawrence Summers, writing in 1981--more than 25 years before he would serve as Obama's chief economic adviser--estimated that "a complete shift to consumption taxation might raise steady-state output by as much as 18 percent."

Our glaring need for economic growth is why, after so many years of talk, there seems to be a growing consensus behind real improvement to our tax code.

The groundwork for this consensus was established by President Obama's National Commission on Fiscal Responsibility and Reform, which recommended reducing individual tax rates to three tiers of 8 percent, 14 percent and 23 percent, and reducing corporate taxation to a single rate between 23 percent and 29 percent, down from today's top rate of 35 percent.

Political realities also argue for progress. House Republicans need to give their animated base a win, of course, and Obama needs a big reform as he approaches his 2012 reelection bid.

It's been 360 years since Hobbes first called for the elimination of income taxation and wholesale adoption of a consumption tax. Its time may finally have come.[17]

18. **Bankruptcy should extend to states**

"During the 2008 financial crisis, the federal government reacted in a frantic, ad hoc fashion, tapping taxpayers for bailouts galore, running roughshod over the rights of bondholders and catching the American people unaware and unprepared. In contrast, we still have time to prepare for the looming crisis threatening to engulf California, Illinois, New York and other state governments.

The new Congress has the opportunity to prepare a fair, orderly, predictable and lawful approach to help struggling state governments address their financial challenges without resorting to wasteful bailouts. This approach begins with a new chapter in the federal Bankruptcy Code that provides for voluntary bankruptcy by states, a proven option already available to all cities and towns across America.

The figures for next year's budgets are staggering. California, which faces a \$25.4-billion budget shortfall, will pay \$100,000+ pensions to more than 12,000 state and municipal retirees this year. A Stanford study puts the state's unfunded pension obligations at more than half a trillion dollars. Illinois has a \$15-billion budget deficit, prompting its governor and lame-duck Legislature to hike its personal income tax rate by 66%. New York, where 73% of the government workforce is unionized, is staring at a \$10-billion deficit.

There has been an organized federal bankruptcy process for municipalities since the 1930s, and a handful of cities, towns and counties — most notably California's Orange County in

[17] Hassett, Kevin A. of *Bloomberg.com* (2011, January 24) Slow-Growth US Now Ripe for Consumption Tax http://www.aei.org/article/103047

1994 — have gone through municipal bankruptcy and gotten their fiscal houses back in working order. A bankruptcy option for the states would look very similar to Chapter 9 municipal bankruptcy, with some necessary modifications."[18]

19. Obama starts drive for medical malpractice reforms

"Putting his own stamp on a long-standing Republican priority, President Barack Obama is launching a drive to overhaul state medical malpractice laws and cut down on wasteful tests doctors perform because they fear lawsuits.

Obama's budget calls for $250 million in Justice Department grants to help states rewrite their malpractice laws in line with recommendations that his bipartisan debt reduction commission issued last year.

Specific reforms the money could be used for exclude caps on jury awards that the American Medical Association and GOP lawmakers have pursued for years without success. But they do include measures unacceptable to trial lawyers, an interest group that contributes heavily to Democratic candidates.

Topping the list of ideas in an Obama administration summary of the proposal are health courts. Specially trained judges — not juries — would decide malpractice cases, awarding compensation from a set schedule. Plaintiffs' lawyers say that would undermine the constitutional right to trial by jury. But proponents say it would bring predictability, resulting in lower malpractice insurance rates for doctors.

The cost of defensive medicine is difficult to estimate, but conservative estimates start at around $50 billion a year. Obama's debt commission estimated its recommendations could save government programs $17 billion through 2020, calling for an aggressive effort to rewrite malpractice laws. Obama's budget, however, does not claim any savings from the new proposal.

Other malpractice reforms that could be funded under Obama's grant proposal include:

— Creating a legal defense for doctors, hospitals and other providers who follow guidelines for best clinical practices and use electronic medical records. So-called "safe harbor" laws establish the presumption that by adhering to high standards, doctors are not behaving in a negligent manner.

— Programs that require hospitals and doctors to disclose mistakes early, offer an apology and compensation, and also agree to make changes to protect other patients from being harmed in the same way. If the patient's family still wants to go to court, the provider's apology could not be used as evidence of liability. Such programs have been shown to reduce litigation.

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[18] Bush, Jeb and Newt Gingrich (2011 February 10) Bankruptcy should extend to states printed in *Bangor Daily News*

— Changing legal rules that result in higher malpractice awards. For example, instead of holding all the providers involved in a case to be equally liable, a "fair share" rule would allocate malpractice payments in proportion to responsibility for the damages."[19]

20. **Imaging tests often done to protect physicians**

"Defensive medicine is not unique to orthopedics. A 2005 study of 824 doctors in the Journal of the American Medical Association found that almost 93 percent said they practiced defensive medicine."[20]

B. The Debt Reduction Task Force

21. **The National Commission on Fiscal Responsibility and Reform**

"President Obama's Deficit Commission issued its final report, ***The Moment of Truth***, on December 1, 2010. The report lays out a broad plan to reduce the federal deficit by cutting spending and raising taxes. The plan includes various options that would impose different changes on the tax side of the fiscal equation. The principal focus is on an illustrative plan to reform and restructure both individual and corporate income taxes. That plan would, among other things, pare away most tax expenditures, devote $80 billion annually to reduce the deficit, and use remaining revenue gains to cut tax rates. On the corporate tax side, it would also shift the U.S. to a territorial tax system.

The Tax Policy Center has analyzed the distributional effects of the illustrative plan as well as earlier proposals from the Commission's chairs.

Tables showing the distributional effects of the final report's illustrative plan and of earlier proposals are available HERE.

Details of the Illustrative Tax Reform Plan:

The "illustrative tax reform plan" in the Commission's final report would:

Replace the current six-bracket individual tax rate schedule with a three-bracket schedule with rates of 12, 22, and 28 percent

Eliminate the alternative minimum tax (AMT)

Eliminate the phaseout of personal exemptions and the limitation of itemized deductions

Eliminate itemized deductions but retain standard deduction and personal exemptions

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[19] Alonso-Zaldivar, Ricardo of *Associated Press* (2011, February 15) Obama starts drive for medical malpractice reforms http://www.kansascity.com/2011/02/15/v-print/2656670/obama-pushes-drive-for-medical.html

[20] Roan, Shari of *Los Angeles Times* (2011, February 16) Imaging tests often done to protect physicians http://www.post-gazette.com/pg/11047/1125651-114.stm

Tax capital gains and dividends as ordinary income

Eliminate tax expenditures for income taxes with the following exceptions:

child credit and earned income tax credit (EITC)—maintain, including expanded benefits in 2009 stimulus law

mortgage interest deduction—replace with 12 percent non-refundable credit for all taxpayers for mortgages on principal residence only; mortgage capped at $500,000

exclusion of employer-sponsored health insurance—cap exclusion at 75th percentile of premiums in 2014 (frozen through 2018, phased out by 2038); reduce excise tax on high cost health plans from 40 percent to 12 percent

charitable giving deduction—replace with 12 percent non-refundable credit for contributions in excess of 2 percent of adjusted gross income (AGI)

exclusion of interest on state and municipal bonds—tax interest only on newly-issued bonds

retirement savings—maintain basic preferences, but consolidate retirement accounts and cap annual tax-preferred contributions at lower of $20,000 or 20 percent of income; expand savers' credit

defined benefit pensions

Eliminate corporate tax expenditures and reduce the corporate tax rate to 28 percent

Move to territorial tax system for active foreign-source income (maintain current law for passive foreign-source income)

Social Security—increase taxable wage base gradually so that it includes 90 percent of wages by 2050; decouple from cost-of-living increases in benefits

Increase the federal excise tax on gasoline by 15 cents per gallon gradually between 2013 and 2015

Use the chained Consumer Price Index (CPI) to adjust all indexed tax parameters"[21]

22. **Restoring America's Future – Executive Summary**

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[21] Tax Policy Center – Tax Topics, The National Commission on Fiscal Responsibility and Reform http://www.taxpolicycenter.org/taxtopics/Fiscal_Commission_Final_Report.cfm

"America is the strongest, most prosperous, and most resilient nation in history. However, America's leadership and greatness, our strength and prosperity, are not guaranteed. We face two huge challenges simultaneously. First, we must recover from the deep recession that has thrown millions out of work, slashed home values, and closed businesses across the country. Second, we must take immediate steps to reduce the unsustainable debt that will be driven by the aging of the population, the rapid growth of health care costs, exploding interest costs, and the failure of policymakers to limit and prioritize spending.

These two challenges must be addressed at the same time, not sequentially. We need immediate action to sustain the recovery and create jobs, but we cannot delay putting in place measures that will restrain the buildup of debt. If we do not control the debt, the recovery will not be sustainable.

With current policies in place, even when we recover from the recession, the debt will grow far larger than the economy itself, forcing the nation to borrow enormous and unprecedented sums of money, increasing our dependence on China and other foreign lenders, diminishing our living standards, raising risks of an economic crisis, and reducing America to a second-rate power.

At stake are both our economic security and our national security. Federal Reserve Chairman Ben Bernanke warns that threats to our economy are "real and growing" and that our path is "unsustainable" because, at some point, our creditors will refuse to lend to us. Joint Chiefs of Staff Chairman Mike Mullen calls the debt "the single biggest threat to our national security."

That's why we face a fundamental choice:

We can close our eyes, keep avoiding the problem, and generate more debt that will threaten our economy, mortgage our children's future, and diminish our leadership around the world.

Or, we can choose a new course – one that can revive our economy, create new and better jobs, restore our financial independence, and ensure that America remains the world's preeminent economic, military, and political power."[22]

23. Ten Flash Points In the Fiscal Commission Chairmen's Proposal

"The two deficit-hawk extremists President Obama put in charge of his fiscal commission released their personal suggestions for cutting the federal budget deficit on Wednesday. And while it's quite possible that not a one of them will make it into the commission's official recommendations, which require the approval of 14 of the 18 commissioners (not just two), the document will inevitably be welcomed as a "serious" contribution to the debate - at least by Republicans and conservative Democrats.

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[22] Senator Pete Domenici and Dr. Alice Rivlin, Co-Chairs of *The Debt Reduction Task Force, Bipartisan Policy Center* (2010, November) Restoring America's Future – Executive Summary http://www.bipartisanpolicy.org/sites/default ...

But taken as a whole, the plan authored by Erskine Bowles and Alan Simpson would have devastating effects on the government and its ability to help the most vulnerable in our society, and it would put the squeeze on the middle class, veterans, the elderly and the sick - all in the name of an abstract goal that ultimately only a bond-trader could love."[23]

24. Real Time Economics – Deficit Commission's $200 Billion in Proposed Spending Cuts

"The co-chairs of a deficit commission established by the White House released a draft plan for reducing the federal debt that included $200 billion in spending cuts by 2015.

The following is an itemization provided by the committee. See a full explanation here.

Proposed Domestic Cuts and Savings, in billions

Reduce Congressional & White House budgets by 15%	0.8
Freeze federal salaries, bonuses, and other compensation at non-Defense agencies for three years	15.1
Cut the federal workforce by 10% (2-for-3 replacement rate)	13.2
Eliminate 250,000 non-defense service and staff augmenteecontractors	18.4
Reduce unnecessary printing costs	0.4
Create a Cut-and-Invest Committee charged with trimming waste and targeting investment	11
Terminate low-priority Corps construction projects	1
Slow the growth of foreign aid	4.6
Eliminate a number of programs administered by the Rural Utility Service (formerlyREA)	0.5
Eliminate all earmarks	16
Eliminate funding for commercial spaceflight	1.2
Sell excess federal property	1
26 other options of $2 billion or less	17

Proposed Defense Cuts and Savings, in billions

Apply the overhead savings Secretary Gates has promised to deficit reduction	28
Freeze federal salaries, bonuses, and other compensation at the Department of Defense for three years	5.3
Freeze noncombat military pay at 2011 levels for 3 years	9.2
Double Secretary Gates' cuts to defense contracting	5.4
Reduce procurement by 15 percent	20
Reduce overseas bases by one-third	8.5
Modernize Tricare, Defense health	6
Replace military personnel performing commercial activities with civilians	5.4
Reduce spending on Research, Development, Test & Evaluation by 10 percent	7
Reduce spending on base support	2
Reduce spending on facilities maintenance	1.4
Consolidate the Department of Defense's retail activities	0.8

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[23] Froomkin, Dan of *Huntington Post* (2010, November 10) Ten Flash Points In the Fiscal Commission Chairman's Proposal http://www.huffingtonpost.com/2010/11/10/deficit-commission-proposal_n_781905.html

Integrate children of military personnel into local schools in the United States	1.1

C. Federal Budget Issues – The Fiscal Commission

25. Around the Halls: The Fiscal Commission Vote

"...The members of the president's fiscal commission voted 11 to 7 in favor of the report to cut the deficit by $3.8 trillion over the next decade through a combination of spending cuts and tax increases. The media are focusing on the fact that the commission fell short of the 14 votes needed to send the recommendations to Congress. But that's the wrong spin in my view. The glass is more than half full for several reasons. First, the majority in favor was a bipartisan group, including such usually-far-apart heavyweights as Senators Dick Durbin (D-Ill.) and Tom Coburn (R-Oklahoma).

Two cheers for the president's deficit commission. No one could have predicted that the commission would come up with such a balanced and comprehensive plan that requires virtually every major demographic group in the nation to take a hit. "Spread the pain" was their operating philosophy. Most important, the plan includes cuts in Medicare and Social Security as well as tax increases, arguably the most important example of balance in the plan—and reforms that are usually thought to be political suicide. Nor would anyone have predicted that such a plan would be publicly supported by six prominent elected officials from both parties. For the first time the biggest barrier to a serious solution to the nation's apocalyptic deficit problem has been scaled—people who were elected by voters, and who must be re-elected if they want to continue in office, have voted in favor of a tough deficit plan that is stuffed with pain. The nation owes a huge debt to these brave representatives and senators.

But we have to withhold one cheer because too many commission members voted against the plan.

It is a pity that the commission did not have the good sense to embrace fully, rather than merely flirt with, the idea advanced by the Rivlin-Domenici commission for a one-year payroll tax holiday to stimulate economic recovery. It is also a pity that the commission did not recognize, as the Rivlin-Domenici commission did, that a new source of revenue will be necessary in the years ahead to provide adequate levels of public services as the population ages."[24]

26. The Foundry – The Fiscal Commission's Moment of Truth

"The report of the President's Fiscal Commission is due today. As a stalemate appears increasingly likely, what appears to be an updated "chairman's mark" to guide the commission's

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[24] Galston, William A., Jonathan Rauch, et al. of *The Brookings Institution* (2010, December 03) Around the Halls: The Fiscal Commission Vote
http://www.brookings.edu/opinions/2010/1203_halls_fiscal_commission.aspx

discussions over the next several days was released. Like its predecessor, the report, puzzlingly titled "The Moment of Truth" (as if this will somehow garner enough votes), has some strong elements, both positive and negative.

Overall, this proposal does much the same as the previous report, though it would cut spending deeper and faster, bringing discretionary spending to 2008 levels (adjusted for inflation) and balancing the budget two years earlier by 2035. Rather than wait to phase in cuts, it would reduce spending by $50 billion immediately, by starting "at home" with congressional and federal workforce pay and other common-sense ways to reduce federal spending.

Yet, as if taxes and spending are somehow equal bookkeeping maneuvers, the tax hike is bigger and faster than the earlier version. The commissioners appear to have wasted their opportunity to be truly transformational, such as in health care, by resorting to "pilot" trials of the Rivlin–Ryan Medicare premium support proposal. And notably, again, they leave Obamacare in place.

Enhance incentives to generate income, form capital, and increase global competitiveness.

... Scott Boise ID on December 2nd, 2010 at 11:29am said:
For those of us who have had to balance budgets and operate in the real world, this is a sick joke. Balance the budget with phased spending reductions by 2035? That is simply code for, "let's not really do this". Get real-it will never get done. This "proposal" is gutless, and continues to make Government the #1 priority of the nation – first in line above all takers. It should be at the end of the line. The kind of fiscal change we really need can only be done by taking a chainsaw to Washington – substantive cuts; massive entitlement reform; closure or partial closure of any number of Federal bureaus that are not necessary, and not Constitutionally mandated. This commission was a waste of time. But I could have told you that months ago.

Rick, Sierra Vista Arizona on December 2nd, 2010 at 12:56pm said:
Everyone in the country has a different idea of the best way to reduce the deficit. The reality is that the politicians have painted this country into a fiscal corner. The time for a thoughtful and structured approach will be completely gone in the next few years when China and other countries say they will no longer buy up our debt. What happens then will be much much worse than anyone wants to imagine.

Stephen C. Eldridge on December 3rd, 2010 at 4:58pm said:
Heritage notes, with apparent approval, that SS benefits will be means-tested.
I am greatly disappointed that Heritage apparently believes that it is acceptable to retroactively punish those who have previously paid for SS benefits (and would receive a very poor return on their money) on a very Progressive (i.e., Socialist, Unconstitutional wealth redistribution) basis, but now eliminating their benefits just because they saved other funds (i.e., they preserve the welfare state).

Roger Conklin on December 3rd, 2010 at 7:10pm said:

The report recommends: "A territorial tax system should be adopted to help put the U.S. system in line with other countries, leveling the playing field." In the context of the prior sentences this recommendation would appear to refer only to corporate taxes; but it does not specifically state this. This is a very sound recommendation, not only for corporate but, most importantly, also for personal taxes since currently the US is the only industrialized nation that taxes the income of its citizens who do not live within its territory and who are bona-fide residents of a foreign country to which they are already subject and have been taxed on that same worldwide income by that country. This current double taxation makes US citizens non-competitive for jobs outside of the US. For 95 out of the 100 years prior to 1976 the US recorded trade surpluses but the Tax reform in 1976 subjected US citizens abroad to such a horrendous tax increase that many could not survive. Hundreds of thousands lost their overseas jobs and came home because their employers could not afford the massive compensation increases so they could survive. This destroyed the US export sales force abroad. Starting in 1976 the US has never since recorded a single trade surplus and our cumulative trade deficit since 1976 is $7.7 trillion. Many industrialized trade competitors are setting new trade surplus records and have the lowest pre-crisis unemployment rates in several years. Exports must be sold and that requires feet on the ground which, because of this double taxation, the US does not have but our competitors do. US trade deficits destroy American jobs. Trade surpluses create jobs.

Thelma Wright Dallas, GA 30157 on December 4th, 2010 at 12:15am said:
The one thing I like best of all is the requirement for tax reform. I say pass the FAIRTAX bills HR25 & S296. These bills will repeal the 16th Amendment of the Constitution which required the income tax in 1913. The FairTax will eliminate all federal income taxes including the SS & Medicare tax; FairTax eliminates all corporate taxes. No corporate taxes would be passed down to the consumer. There will be no deduction/credits because there will be No filing to declare how much money you have made for the year. No one needs to know how much money you or a corporation make. I believe corporations will bring a lot of their money back to the USA, therefore more jobs.

Thelma, Dallas, GA 30157 on December 4th, 2010 at 12:35am said:
Social Security, Medicare, Medicaid all need to be reduced, but before that happens the government needs to start "at home" with congressional and federal workforce pay and benefits. The number of federal employees need to be reduced back to 2006 level and all pay back to 2008 levels. All departments and agencies need to be cut back or cut out completely. HHS, FDA, EPA, FCC, IRS and the Education Dept. (to name a few) are encroaching on states rights and are being unnecessarily intrusive in our personal lives. Many people are being hired as we speak to cover the new rules and regulations. Reduce all benefits for these departments and the reduction for the main 3 entitlements will go down a lot better.

Thelma, Dallas, GA 30157 on December 4th, 2010 at 12:45am said:

REPEAL Obamacare!! This is the most intrusive entitlement ever, will cost more than anyone ever plans, and will add many more employees to maintain which adds much more than $700 Billion to the cost."[25]

27. **Fiscal Commission Report: Too Much Taxes, Not Enough Spending Cuts**

"The National Commission on Fiscal Responsibility and Reform deserves credit for taking on the large structural deficits that risk eventual economic calamity. Over the next decade, runaway spending is set to double the national debt, which would risk higher interest rates, slower growth, and steeply higher tax rates. Unfortunately, however, the commission's report involves a tax-heavy solution to a spending problem.

Spending Is the Problem

Expanding spending—not declining revenues—drives America's long-term deficits. Even if all tax cuts are extended, revenues will soon slightly exceed their historical average of 18 percent of the economy. Federal spending—rising from its historical average of 20 percent of the economy to a projected 26 percent by the end of the decade—is the moving variable.

Nearly all of this new spending will come from Social Security, Medicare, Medicaid, and net interest on the debt, the combined nominal cost of which will rise from $1.6 trillion to $3.6 trillion over this decade. Over the long term, the Congressional Budget Office (CBO) projects that nearly all new debt will result from these four spending categories.

The Highest Tax Burden in American History

Because spending is driving long-term deficits, a reasonable solution would focus overwhelmingly on this growing spending. One aim would be to limit government spending to the amount Washington has historically taxed—18 percent of GDP. A compromise could balance the budget at 19 percent of GDP, the midpoint between historical tax revenues (18 percent) and spending (20 percent). Instead, the commission aims to eventually balance the budget at 21 percent of GDP, which would represent the highest tax level in American history. And it would take until 2035 to balance the budget."[26]

28. **Action, not talk: Deficit panel pushes Democrats, Republicans**

"The leaders of the deficit commission are baldly calling out the budget myths of both political parties, challenging lawmakers to engage in the "adult conversation" they say they want.

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[25] Dubay, Curtis, Mackenzie Eaglen, David John, Bob Moffit (2010, December 1) The Foundry – The Fiscal Commissioner's Moment of Truth http://blog.heritage.org/2010/12/01/the-fiscal-commission%E2%80%99s-moment-of-truth/

[26] Riedl, Brian (2010, December 3) The Heritage Foundation – Fiscal Commission Report: Too Much Taxes, Not Enough Spending Cuts http://www.**heritage**.org/research/**reports**/2010/12/**fiscal-commission-report-too-much**-taxes-not- enough-spending-cuts

Their plan – mixing painful cuts to Social Security and Medicare with big tax increases – has no chance of enactment as written, certainly not as a whole. But the commission's high profile will make it harder for Republicans and Democrats to simply keep reciting their tax and spending talking points without acknowledging the real sacrifices that progress against government deficits would demand.

It's time for both conservatives and liberals to "put up or shut up," says Jon Cowan, head of the centrist-Democratic group Third Way, which praised the bold new proposals and urged politicians to show courage. Republicans failed to produce their often-promised deficit reductions when they controlled the government, Cowan said, and Democrats refuse to acknowledge that entitlement programs such as Social Security and Medicare must be trimmed.

Already, some top elected officials – House Speaker Nancy Pelosi, for one – have declared Wednesday's proposals by President Barack Obama's bipartisan commission unacceptable. Others still say deficits can be reduced in relatively easy ways, a notion that few mainstream economists accept.

There's no need to trim Social Security, Sen. Jim DeMint, R-S.C., a tea party favorite, said Sunday on NBC's "Meet The Press." "If we can just cut the administrative waste," he said, "we can cut hundreds of billions of dollars a year at the federal level."[27]

29. **Deficit-cutting plan draws more support**

"In a likely symbolic victory for the leaders of President Barack Obama's deficit commission, a controversial deficit-cutting proposal that would raise the retirement age and scale back tax deductions appears on track to win support from a majority of the panel—but fall short of the votes needed to adopt it.

"The time for action is now," Coburn and Crapo said in a statement. "This plan will not just avert a disaster, but help drive the kind of economic recovery we need to create jobs and spur growth."

Bowles and Simpson released plan Wednesday. To control spending, it calls for politically difficult moves such as increasing the Social Security retirement age and reducing future increases to benefits. It would eliminate or scale back tax breaks—including the child tax credit, mortgage interest deduction and deduction claimed by employers who provide health insurance – in exchange for rate cuts on corporate and income taxes. It would raise the gas tax 15 cents a gallon to fund transportation programs.

The plan opened to catcalls from advocates on the left – over cuts to Social Security and other programs—and the right, who oppose its estimated $1 trillion or so in higher tax revenues over the coming decade."[28]

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[27] The Herald-Mail (2010, November 11) Action, not talk: Deficit panel pushes Democrats, Republicans http://www.herald-mail.com/?cmd=displaystory&story_id=256562&format=print

30. **Framing the Deficit Debate**

"In the months leading up to the rent national elections, the need to curb federal spending and reverse the explosive upward spiral in the national debt was a topic of great concern, especially among conservative voters who aligned themselves with the Tea Party movement. Even many on the political left have been alarmed at the prospect of an impending fiscal crisis.

The reactions to the proposals of Bowles and Simpson – proposals that haven't even passed muster with the full 18-member deficit commission – show a continuing reluctance by political ideologues to come to terms with the enormity of the problem.

But despite the cries of outrage that are emanating from partisans on the left and right, Bowles and Simpson are right when they emphasize that both sharp reductions in spending and major increases in revenue will be required to rebalance the federal budget and begin to bring down the debt.

Their plan, unpopular as it is, would cut nearly $4 trillion from deficits over the next decade. But as *Washington Post* writer Lori Montgomery observed last week, they would "slay a herd of sacred cows" in the process.

Among the components of the Bowles-Simpson plan; as identified in *Washington Post* and Associated Press records:

- A gradual increase in the retirement age—to 69 by 2075—for full Social Security benefits, along with reductions in annual increases for current recipients.
- An increase in the amount of income subject to Social Security payroll taxes from the current $106,800 to about $190,000.
- Elimination of the tax deduction for home mortgage interest.
- A 15-cents-a-gallon tax increase on gasoline.
- A three-year freeze in the pay of most federal employees and a 10 percent reduction in the federal work force.
- Elimination of congressional spending "earmarks," those pet spending projects by which members curry favor with the voters back home.
- A reduction of more than $200 billion a year in spending for the Pentagon and other federal agencies beginning in 2015.
- Changes in the federal tax code in eliminate a host of deductions known as tax expenditures, end special rates for capital gains and dividends and restore the inheritance tax for estates worth more than $3.5 million. At the same time, personal and corporate ta rates would be lowered and the alternative minimum tax would be eliminated.
- Strengthening the cost-cutting mechanisms of the new federal health case law.

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[28] Taylor, Andrew of *The Associated Press* (2010, December) Deficit-cutting plan draws more support as printed in *Bangor Daily News*

- Cutting farm subsidies by $3 billion a year, lowering benefits for government retirees, both civil service and military."[29]

D. Federal Budget Suggestions & Comparisons

"As record levels of federal spending bring us ever closer to a tipping point, the Obama administration blissfully continues business as usual. We have seen no real plan, no strong leadership, no apparent willingness to confront the growing danger of the horizon.

I fear we are on course to repeat history.

Just days ago, former Federal Reserve chairman Alan Greenspan ominously warned that U.S. debt may lead to a bond market crisis in two to three years. A debt crisis continues to spread through Europe that could reach our markets any moment.

Now is the time to act. Yet the president continues to resist any meaningful steps to secure our financial future.

To begin turning the corner, I propose that any effort to raise the debt ceiling be tired to no less than a sustained 10 percent reduction of current discretionary spending. Though this is only a first step, it would finally be a step in the right direction – one the country can easily absorb.

As we enter the annual budge season, Washington will need to consider the kind of change this country has not accomplished since 1997 – when a strong Republican Congress passed a budget that converted soaring deficits into surpluses.

We need a budge with a bold vision – such as those unveiled in Britain and New Jersey; one that reduces both the size of the deficit and the size of the government. We need a budget that does not require tax increases as the price for spending cuts – because while the spending cuts may disappear, the economic drain of higher taxes will not. And we need a budget that turns us back from the cliff so we can head down a new road – toward leaner government, responsible spending and a thriving private sector.

The goal is not an era of austerity but an era of prosperity. Good policy will get us there."[30]

"The U.S. economy is steadily adding jobs, but still just barely enough to keep up with the growth of the work force. The weakness underscores the nation's struggle to get back to something resembling normal employment.

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[29] *The Ellsworth American* editorial (2010, November 18) Framing the Deficit Debate at Section III, p.1

[30] Sessions, Jeff (January 27, 2011), US spending a growing danger, as printed in Bangor Daily News

The economy added 103,000 jobs in December, a figure that fell short of what most economists were hoping for. The unemployment rate did come down, to 9.4 percent from 9.8, but that was partly because people gave up looking for work.

'The labor market ended last year with a bit of a thud,' Ryan Sweet, an economist at Moody's Analytics, said after the Labor Department released its monthly jobs report Friday. He said the drop in unemployment wasn't likely to be sustained.

Over the past three months, the economy has added an average of 128,000 jobs a month. That's just enough to keep up with population growth. Nearly twice as many are generally needed to significantly reduce the unemployment rate.

All told, employers added 1.1 million jobs in 2010, or about 94,000 a month. The nation still has 7.2 million fewer jobs today than it did in December 2007, when the recession began.

The report provided scant encouragement for the long-term unemployed. The number of people without jobs for six months or more rose for the third straight month, to 6.4 milllion The postwar record is 6.7 million, set in May.

Nearly half of the unemployed – 44 percent – have been that way for at least half a year. Many are becoming discouraged and giving up on their job searches. That was a key reason the unemployment rate fell so far in December.

People out of work are not counted as unemployed unless they're looking for a job. More than a quarter-million people dropped out of the work force in December, accounting for about half the decline in the unemployment rate.

And more people are settling for less work. Nearly 9 million are working part time when they would prefer full-time jobs. The so-called underemployment rate, which counts those workers and the people who have recently given up looking, was 16.7 percent in December, down from 17 percent the month before."[31]

"Currently there's a surfeit of unemployed and discouraged workers – those who have stopped looking for work, are no longer part of the labor force and are not counted as unemployed – who can be redeployed before employers start bidding up wages to attract labor. That's only one reason why the too-hot-to-handle scenario of a tighter labor market driving up wages is off the mark.

There is no such thing as "wage inflation." Wages are a price: the price of labor. Like other prices, they respond to changes in supply and demand.

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[31] TriValleyCentral.com (January 8, 2011), Slow job growth creates challenge, http://www.trivalleycentral.com/articles/2011/01/08/casa_grande_dispatch/top_stories/doc4d289ab6b469

Rising wages don't cause inflation any more than rising oil prices do. The central bank is the culprit when it prints more money than the public wants to hold. Both wages and prices are manifestations of the inflation impulse.

Like the labor market, U.S. industry is operating well below its version of full employment, or capacity. The capacity utilization rate for manufacturing stood at 73.2 percent in November, up from an all-time low of 65.2 percent in 2009 but well below the four-decade average of 79 percent. Factories can bring idled production facilities back on line, even add extra shifts, before they're supply constrained.

As for too-hot growth driving up interest rates and putting a damper on growth, all I can say is, consider the alternatives. Falling long-term interest rates are symptomatic of weak economies, especially when the central bank has been dragging its feet in lowering short-term rates. Remember those 30-year mortgage rates at multigeneration lows of close to 4 percent? It didn't trigger booming demand because it was a result of slack demand, not a cause of stronger demand in the future.

Maybe one day economists will figure out a way for credit demand to increase without pushing up the price. Until then, we should hope it happens sooner rather than later."[32]

"Americans for Tax Reform (ATR) opposes all tax increases as a matter of principle.

We believe in a system in which taxes are simpler, flatter, more visible, and lower than they are today. The government's power to control one's life derives from its power to tax. We believe that power should be minimized.

ATR was founded in 1985 by Grover Norquist at the request of President Reagan.

The flagship project of Americans for Tax Reform is the Taxpayer Protection Pledge, a written promise by legislators ad candidate for office that commits them to oppose any increase income taxes on individuals and businesses. Since ATR first sponsored the Pledge in 1986, hundreds of U.S. Representatives, more than fifty U.S. Senators and every successful Republican Presidential candidate have all signed the Pledge. In the 111th Congress, 172 U.S. Representatives ad 34 U.S. Senators have taken the Pledge never to raise income taxes.

Americanns for Tax Reform began promoting the Taxpayer Protection Pledge on the state-level in the early 1990s.

ATR works with state taxpayer coalitions in all 50 states to ask candidates for state legislature and constitutional office to sign the State Taxpayer Protection Pledge, which reads: "I __________ pledge to the taxpayers of the __________ district, of the state of ____________, and to all the people of this state, that I will oppose and vote against any and all efforts to increase taxes."

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32 Baum, Caroline (January 5, 2011), U.S. Economy Overheating? We Should Be So Lucky, Bloomberg Businessweek http://www.businessweek.com/news/2011-01-05/u-s-economy-overheating-we-should-be-so-lucky-caroline

Additionally, Americans for Tax Reform works with state-based center-right groups to help replicate ATR's national Wednesday Meeting in the states. Currently, there are over 50 meetings in 45 states. These meetings bring together a broad cross section of the center-right community-taxpayer groups, social conservative groups, business groups, legislators, etc., to promote limited government ideals.

Realizing that Americans not only need to be protected from higher taxes, but from higher spending, Americans for Tax Reform created the Center for Fiscal Accountability (CFA) in 2008. CFA focuses on all central issues related to fiscal responsibility and accountability, especially spending restraint and the promotion of a more transparent and accountable government on the local, state, and federal level through easily searchable online spending and contract databases.

Americas for Tax Reform and Americans for Tax Reform Foundation also sponsor the annual calculation of Cost of Government Day (COGD), the day on which Americans stop working to pay the costs of taxation, deficit spending, and regulations by federal and state governments."[33]

"The U.S is steadily losing its global economic and financial predominance. To be sure, we offer the largest amount of government debt on the market, but investors have plenty of choices around the world, both in terms of debt and other assets. The idea that our Treasury market will be buoyed by captive investors, whether the Chinese central bank or anyone else, is quaint and at odds with today's reality.

Remember that we run a large current account deficit, so we need to take in a new foreign capital every day just to maintain our lifestyle. So this isn't about foreigners refusing to understand the American debt dream.

It's true that the euro zone has had a rocky ride in recent months and we shouldn't expect those countries to sort out their problem soon. Another round of serious euro sovereign debt issues is likely as we head into the spring.

But the euroleadership will sort itself out; there is too much on the line. A stronger and more Germanic core of the euro zone will establish its fiscal credibility and its resilience.

The key to debt sustainability isn't how much revenue the government can raise relative to gross domestic product or some other economic characteristic. It's whether a country has the political will to raise taxes or cut spending when under pressure from the financial markets.

When this kind of fiscal pressure builds, we typically see three developments.

First, there is a fuller accounting of the off-balance-sheet and contingent liabilities. We will hear a great deal about what the U.S government really owes over the next 10 or 20 years in terms of its support for everything from public pensions to banks that are too big to fail.

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[33] About Americans for Tax Reform http://www.atr.org/index.php?content=about

Second, a state or other entity will get into serious trouble and threaten to default, creating a potential Lehman-type moment. The question is, just how much is the federal government on the hook?

Third, expectations become self-fulfilling. As interest rates rise, fiscal policy makers flounder. Unlike weaker European countries, the U.S. can't use an outside fiscal authority to break this kind of spiral. Even China, holding perhaps around $2.6 trillion dollars, doesn't have enough financial firepower to make a difference – and remember that most of its assets are in the very U.S Treasury securities that will be under pressure."[34]

"There is a distinct pattern throughout American history: When tax rates are reduced, the economy's growth rate improves and living standards increase. Good tax policy has a number of interesting side effects. For instance, history tells us that tax revenues grow and "rich" taxpayers pay more tax when marginal tax rates are slashed. This means lower income citizens bear a lower share of the tax burden – a consequence that should lead class-warfare politicians to support lower tax rates."[35]

"The United States should move quickly to reform its tax system. In a competitive global economy, jobs and capital flow to jurisdictions with better tax law. Traditionally, this process of "tax competition" has benefited the United States, but there is growing evidence that America is falling behind. Nations around the world are lowering tax rates and reforming their tax systems. Indeed, nine countries that were part of the former Soviet Bloc have adopted versions of the flat tax. [3] These pro-growth reforms are yielding impressive results and are a road map for U.S. policymakers."[36]

"Drawing on more than fifteen years of work on Social Security policy, first in the U.S. Senate and later in the White House, Charles Blahous argues that our national Social Security debate is more polarized than it needs to be, even given the depth of legitimate differences over the program's appropriate future direction. Unless we identify and understand our respective initial assumptions, he explains, we will not be able to fathom the conflicting policy initiatives that they drive. In *Social Security: The Unfinished Work* he presents some often misunderstood, basic factual background about Social Security. He discusses how it affects program participants and explains the true demographic, economic, and political factors that threaten its future efficacy."[37]

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[34] Johnson, Simon (Dec. 22, 2010), Tax Cutters Set Up Tomorrow's Fiscal Crisis, Bloomberg http://www.bloomberg.com/news/print/2010-12-23/tax-cutters-set-up-tomorrow-s-fiscal-crisis-comment

[35] Mitchell, Daniel Ph.D. (August 13, 2003), The Historical Lessons o Lower Tax Rates http://www.heritage.org/Research/Reports/2003/08/The-Historical-Lessons-of-Lower/Tax/Rates

[36] Mitchell, Daniel Ph.D. (July 7, 2005), A Brief Guide to the Flat Tax, http://www.heritage.org/Research/Reports/2005/07/A-Brief-Guide-to-the-Flat-Tax

[37] SOCIAL SECURITY: The Unfinished Work, The Heritage Foundation, http://www.heritage.org/Events/2010/12/Social-Security

"Sharply divided along partisan lines, the Senate on Thursday assed by 61-38 the Obama administration's plan to provide the nation's ailing small businesses with tax breaks and easier access to capital.

Susan Eckerly, the federation's senior vice president, called it "just the first step towards helping our nation's small business owners during these difficult economic times.

While the bill passed today will help some small businesses that either qualify for the specified tax breaks or qualify for new loans, it falls short of addressing the most significant problems facing all small business owners – lack of sales and uncertainty."[38]

"The government's giant bank bailout may well have averted a second Great Depression, economists say, but a lot of voters aren't buying it. Support for the program is turning into a kiss of death for man in Congress.

Longtime Republican lawmakers – tarred by their votes for the emergency aid to banks, insurance and auto companies – have been set packing in primaries. Fresh political attack ads are lambasting candidates from both parties for supporting the $700 billion package that Republican President George W. Bush pushed through Congress at the height of the financial crisis in October 2008.

The actual cost to taxpayers will be far less than the original price tag, perhaps totaling $50 billion or less. But it's been difficult for lawmakers to make the case that they saved the nation from possible financial ruin – as some economists suggest. It's far easier for opponents, especially in political sound bites, to portray the issue as Wall Street fat cats against ordiary Main Street folks in the final-weeks cacophony of the campaign.

President Barack Obama and congressional Democrats, now in charge, have taken heat for a program that many voters see as proof that the rich guys were bailed out while the public wasn't. Indeed, both parties are on the attack.

For many voters, the bailout program is a symbol of government meddling and waste at time when unemployment is at 9.6 percent and budget deficits are soaring. It was approved shortly after the failure of Lehman Brothers, one of the nation's largest investment banks, as credit markets were freezing up in fear.

"It was clear that when Lehman went down, we were within hours of no ATM machines working any more," said GOP strategist Rich Galen. The bailout "was unfortunately necessary," Galen said, and then it was followed by disclosures of big bonuses, executives' golden parachutes, golf outings and parties while Wall Street banks took government money.

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[38] Lightman, David (September 17, 2010), Senate OKs $30B tax aid to small businesses as printed McClatchy Newspapers

Said Galen: "It quickly became seen as a bailout for people who were in danger of losing their summer house in the Hamptons as opposed to the guy with the hardware store on Main Street who was left dangling."

The Government Accountability Office, a congressional watchdog, said Monday that the Treasury bailed out dozens of banks with known financial problems. It called for better monitoring of banks seeking to tap a new $30 billion lending fund proposed by the administration and passed by Congress last month to spur lending to credit-starved small businesses.

The administration's plans to use $41 billion in TARP money to help people refinance mortgages to avoid foreclosure has been a bust so far. Less than $1 billion has been spent on the program."[39]

"A study by Americans for Tax Reform compared states gaining and losing Congressional seats in the decennial reapportionment process and found that states gaining seats had significantly lower taxes, less government spending, and were more likely to have "Right to Work" laws in place. Because reapportionment is based on population migration, this is further proof that fiscally conservative public policy spurs economic growth, creates jobs, and attracts population growth.

There are eight states projected to gain at least one Congressional seat. Texas will gain four seats and Florida will gain two Arizona, Georgia, Nevada, South Carolina, Utah and Washington are poised to gain one seat each. The biggest losers will be New York ad Ohio – both projected to lose two seats – while Illinois, Iowa, Louisiana, Massachusetts, Michigan, Missouri, New Jersey, and Pennsylvania are on track to lose one seat each.

The average top personal income tax rate among gainers is 116 percent lower than among losers. The total state and local tax burden is nearly one-third lower, as is per capita government spending. In eight of ten losers, workers can be forced to join a union as a condition of employment. In 7 of the 8 gainers, workers are given a choice whether to join or contribute financially to a union."[40]

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[39] Raum, Tom, Associated Press Writer (October 5, 2010), Bank bailout supporters struggling for re-election, http://license.icopyright.net/user/viewFreeUse.act?fuid=MTAyzU0MDk%3D

[40] Kartch, John, Americans for Tax Reform, (November 16, 2010), ATR Finds Lower Taxes, Less Government in States Gaining Congressional Seats, www.atr.org

III. ISSUES AND BUDGET PROPOSALS

1. China – Trademarks

Chinas violation of law and shipping counterfeit goods into the U.S.

U.S. should ban goods and prohibit U.S. companies from importing or using counterfeit products.

SUMMARY: The United States is losing jobs and revenue. This is International Economic Piracy.

2. Washington, April 5, 2011

"Idaho Congressman Mike Simpson, a senior Member of the House of Budget Committee, joined Chairman Paul Ryan and other members in releasing a robust budget for fiscal year 2012. This budget, named *Path to Prosperity,* is the first and only proposal offered that lays out a path to a balanced budget and ultimately eliminates the national debt by fundamentally reforming entitlement programs.

The House Budget Committee's proposal reduces taxes and simplifies the tax code. It addresses entitlement spending, and it spurs economic growth.

Specifically the House Budget:

- Cuts spending by $6.2 trillion over the next decade compared to Obama's budget request;
- Cuts $179 billion next year below Obama's requested level;
- Reduces non-security discretionary spending to below 2008 levels;
- Balances the federal budget over the long term and puts the government on track to pay off the national debt;
- Eliminates the $800 billion tax increase in Obama's health care law and rejects the President's $1.5 trillion tax increase proposed in his FY12 Budget request;
- Simplifies the tax code for individuals, families and businesses by capping rates and incentivizing growth, savings and investment;
- Spurs economic growth which will create 1 million new private-sector jobs next year;
- Reforms and repairs our broken Medicare and Medicaid systems by providing flexibility to states and giving individuals the opportunity to choose the plan they want while not effecting the current benefits of anyone over age 55;
- Repeals Obama's Health Care law and reforms and privatizes Fannie Mae and Freddie Mac.[1]"

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[1] Simpson Applauds FY 2012 House Budget, http://simpson.house.gov/News/print.aspx?DocumentID=234027

3. Statement of Constitutional and Legal Authority

"Article I of the U.S. Constitution grants Congress the power to appropriate funds from the Treasury, pay the obligations of and raise revenue for the federal government, and publish statements and accounts of all financial transactions.

By law, Congress is also obligated to write a budget representing its plan to carry out these transactions in the forthcoming fiscal years, while the President is required to propose his administration's budget requests for Congress's consideration. Congress alone is responsible for writing the laws that raise revenues, appropriate funds, and prioritize taxpayer dollars within an overall federal budget."

The budget resolution is the only legislative vehicle that views government comprehensively. It provides the framework for the consideration of other legislation.

Ultimately, a budget is much more than a series of numbers. It also serves as an expression of Congress's principles, vision and philosophy of governing.[2]"

4. Summary of the Fiscal Year 2012 Budget Resolution

"Key Facts

SPENDING

- Cuts $6.2 trillion in government spending over the next decade.
- Eliminates hundreds of duplicative programs, reflects the ban on earmarks, and curbs corporate welfare bringing non-security discretionary spending to below 2008 levels.
- Brings government spending to below 20 percent of the economy.

DEBT AND DEFICITS

- Reduces deficits by $4.4 trillion.
- Reaches primary balance in 2015.
- Puts the budget on the path to balance and pays off the debt.

TAXES

- Keeps taxes low so the economy can grow. Eliminates roughly $800 billion in tax increases imposed by the President's health care law. Prevents the $1.5 trillion tax increase called for in the President's budget.
- Calls for a simpler, less burdensome tax code for households and small businesses. Lowers tax rates for individuals, businesses and families. Sets top rates for individuals and businesses at 25 percent. Improves incentives for growth, savings, and investment.

GROWTH AND JOBS

- Creates nearly 1 million new private-sector jobs next year and results in 2.5 million additional private sector jobs in the last year of the decade.
- Spurs economic growth, increasing real GDP by $1.5 trillion over the decade.

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[2] The Path to Prosperity Restoring America's Promise, Fiscal Year 2012 Budget Resolution, House Committee on the Budget, Chairman Paul Ryan of Wisconsin

- Unleashes prosperity and economic security, yielding $1.1 trillion in higher wages and an average $1,000 per year in higher income for each family.

Key Components
Efficient, Effective and Responsible Government

- Prioritizing National Security: Reflects $178 billion in savings identified by Defense Secretary Robert Gates.
- Streamlining Other Government Agencies:
  - Returns non-security discretionary spending to below 2008 levels.
  - Repeals the new health care law and moves toward patient-centered reform.
- Ending Corporate Welfare: Ends the taxpayer bailouts of failed financial institutions, reforms Fannie Mae and Freddie Mac.
- Boosting American Energy Resources: Removes barriers to safe, responsible energy exploration in the United States.
- Changing Washington's Culture of Spending: Locks in savings with enforceable spending caps and budget-process reforms.

Strengthening the Social Safety Net

- Repairing a Broken Medicaid System: Ends a onerous, one-size-fits-all approach by converting the federal share of Medicaid spending into a block grant that gives states the flexibility to tailor their Medicaid programs to the specific needs of their residents.
- Preparing the Workforce for 21st Century Economy: Consolidate the complex maze of dozens of overlapping job-training programs.

Fulfilling the Mission of Health and Retirement Security

- Saving Medicare: Protects those in and near retirement from any disruption. Advance Social Security Solutions: Forces action by the President and both chambers of Congress to ensure the solvency of this critical program.

Promoting Economic Growth and Job Creation

- Individual Tax Reform: Simplifies the broken tax code, lowering rates and clearing out the burdensome tangle of loopholes that distort economic activity; brings the top rate from 35 to 25 percent to promote growth and job creation.
- Corporate Tax Reform: Lowering the corporate tax rate from 35 percent, which is the highest in the industrialized world, to a more competitive 25 percent.

In his State of the Union Address on January 4, 1935, President Franklin Roosevelt – in words later repeated by President Ronald Reagan – warned of the threat to America's national character from permanent dependency on government:
The lessons of history, confirmed by the evidence immediately before me, show conclusively that continued dependence upon relief induces a spiritual and moral disintegration fundamentally destructive to the national fiber. To dole out relief in

this way is to administer a narcotic, a subtle destroyer of the human spirit... It is in violation of the traditions of America.[3]"

5. **Efficient, Effective and Responsible Government**

"Providing for the Common Defense
Major proposals

- Provide $692.5 billion for national defense spending in Fiscal Year 2012;
- Reduce inefficient spending by $178 billion, following guidance from Defense Secretary Robert Gates.

Streamlining Other Government Agencies
Major proposals

- Build on continued efforts to pare back spending on non-security government bureaucracies to below 2008 levels.
- Take action to eliminate wasteful Washington spending, building upon the suggestions of the President's Fiscal Commission.
- Boost private-sector employment by slowing the explosive growth of the public sector, achieving a 10 percent reduction over the next three years in the federal workforce.

Eliminate wasteful spending

Anti-Fraud Accounts: The federal government wastes billions of American taxpayers' dollars each year by making improper payments to individuals, organizations, and contractors. In 2010 alone, the federal government made an estimated $125 billion in improper payments. The enactment of legislation that together with the anti-fraud spending increases would save a total of $26 billion over the next ten years.

Earmark ban:

Fiscal Commission recommendations: The President's Fiscal Commission recommended several ways to achieve discretionary savings. This budget adopts many of their proposals, such as reducing the federal auto fleet by 20 percent, excluding them in the Department of Defense and the U.S. Postal Service. In 2010, the federal government reported a worldwide inventory of over 662,000 vehicles and spent $4.6 billion on its fleet. In addition, the 2009 stimulus bill provided $300 million to "green the federal fleet" by purchasing 17,205 vehicles a back-door bailout for the already bailed-out automakers.
The Fiscal Commission highlighted another area where the mismanagement of taxpayer-owned assets and the sheer amount of waste are staggering; federal real estate and other property.

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[3] The Path to Prosperity Restoring America's Promise, Fiscal Year 2012 Budget Resolution, House Committee on the Budget, Chairman Paul Ryan of Wisconsin

The federal government owns, leases or manages about one million properties nationwide. Of those, non-defense buildings accounted for at least 400,000 of the total. And yet, the government's track record for real estate asset sales has been very poor.[4] "
"Government Accountability Office (GAO) recommendations: This year, in their inaugural report, GAO identified dozens of examples of waste and over $100 billion in savings. This budget draws inspiration from the GAO's recommendations in many areas, one of which is the Highway Trust Fund.

Slowing the bureaucracy's explosive growth

The federal government has added 155,000 new workers since the President took office.
Ending Corporate Welfare
Major proposals

- Revisit the financial-reform regulation enacted hastily last year and eliminate provisions that make future bailouts more likely.
- Privatize the business of government-owned housing giants, Fannie Mae and Freddie Mac, so that they are no longer exposing taxpayers to trillions of dollars' worth of risk.
- Restore competition and exploration as the key to a vibrant energy sector, and gets the government out of the business of picking winners and losers.
- Reflect the economic reality of record-high farm income by restructuring farm programs, saving taxpayers money and increasing farmer independence.

Ending the bailouts

This budget proposes to end the cycle of future bailouts perpetuated by the financial-regulation law authored last year by Senator Chris Dodd and Representative Barney Frank (Dodd-Frank).
Their financial overhaul is not reform. Its fundamental architecture expands and centralizes power in Washington, doubling down on the root causes of the 2008 crisis. It contains layer-upon-layer of new bureaucracy sewn together by complex regulations, yet it fails to address key problems, such as Fannie Mae and Freddie Mac, that led to the worst financial meltdown in recent history. Although the bill is dubbed "Wall Street Reform," it actually intensifies the problem of too-big-to-fail by giving large, interconnected financial institutions advantages that small firms will not enjoy.

Reforming Fannie Mae and Freddie Mac

Since the government creation of their duopoly, government-sponsored enterprises (GSEs) Fannie Mae and Freddie Mac have dramatically altered mortgage markets in the United States, ultimately contributing to their precipitous collapse in 2008.
So far, Treasury has bailed out Fannie and Freddie to the tune of $150 billion. Fannie Mae, Freddie Mac, and another government housing agency, Ginnie Mae, now own or insure 95 percent of the entire U.S. housing market.

[4] The Path to Prosperity Restoring America's Promise, Fiscal Year 2012 Budget Resolution, House Committee on the Budget, Chairman Paul Ryan of Wisconsin

It proposes eventual elimination of Fannie Mae and Freddie Mac, winding down their government guarantee and ending taxpayer subsidies. It will put in place measures to discourage shifting of taxpayer risk to the Federal Housing Administration.
The housing-finance system of the future will allow private-market secondary lenders to fairly, freely and transparently compete, with the knowledge that they will ultimately bear appropriate risk for the loans they guarantee.

Eliminating welfare for energy companies

Regulations have extracted some $1.75 trillion per year from the economy, according to a recent report from the Small Business Administration, including $281 billion for environmental regulations that disproportionately hit both onshore and offshore, destroying jobs and idling American energy sources. The stimulus alone allocated $80 billion of taxpayers' dollars specifically for politically favored renewable-energy interest. And it encourages the development of American-made renewable and alternative energy sources, including nuclear, wind, solar and more, affirming the position that environmental stewardship and economic growth are not mutually exclusive goals.

Aligning agricultural programs with economic reality

But it also calls for a re-examination of federal agricultural programs that spend billions each year, to ensure that taxpayers aren't funding support for a sector that is more than capable of thriving on its own.
Changing Washington's Culture of Spending
Major proposals

- Establish a cap on discretionary spending for fiscal year 2012.
- Establish a binding cap on total spending as a percentage of the economy at levels projected to result from this budget resolution.
- Require any increase in debt levels to be accompanied by spending reductions to levels set this budget resolution.
- Create a budget point of order against legislation that would increase net mandatory spending beyond the ten-year window of the budget resolution.
- Close the loophole that allows discretionary limits to be circumvented through advance appropriations.
- Take mandatory spending off of autopilot by requiring regular congressional review of mandatory spending programs.[5]"

6. Strengthening the Social Safety Net

"Repairing a Broken Medicaid System
Major proposals

- Secure the Medicaid benefit by converting the federal share of Medicaid spending into a block grant tailored to meet each state's needs, indexed for inflation and population growth.

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[5] The Path to Prosperity Restoring America's Promise, Fiscal Year 2012 Budget Resolution, House Committee on the Budget, Chairman Paul Ryan of Wisconsin

- Improve the health-care safety net for low-income Americans by giving states the ability to offer their Medicaid populations more options and better access to care.
- Save $750 billion over ten years, contributing to the long-term stabilization of the federal government's fiscal path.

Protecting Assistance for Those in Need
Major proposals

- Convert the Supplemental Nutrition Assistance Program (SNAP) into a block grant tailored for each state's low-income population, indexed for inflation and eligibility beginning in 2015-after employment has recovered. Make aid contingent on work or job training.
- Encourage recipients of federal housing aid to lead lives of increased self-sufficiency by decreasing disparities between assisted and unassisted renters and by making aid contingent on work or job training.

Preparing the Workforce for a 21st Century Economy
Major proposals

- Return Pell grants to their pre-stimulus levels.
- Consolidate dozens of overlapping job-training programs into more accountable career scholarships to improve access to career development assistance.
- Restore funding for the D.C. Opportunity Scholarship Program.[6]"

7. Fulfilling the Mission of Health and Retirement Security for All Americans

"Saving Medicare
Major proposals

- Save Medicare for current and future generations while making no changes for those in and near retirement. For younger workers, when they reach eligibility, Medicare will provide a Medicare payment and a list of guaranteed coverage options from which recipients can choose a plan that best suits their needs.
- Stop the raid on the Medicare trust fund that was going to be used to pay for the new health care law.
- Fix the Medicare physician payment formula for the next ten years so that Medicare beneficiaries continue to have access to health care.

Advancing Social Security Reforms
Major proposals

- Force policymakers to come to the table and enact common-sense reforms to keep the program solvent for current beneficiaries and make it stronger for future generations. Social Security must be reformed to prevent severe cuts in future benefits.

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[6] The Path to Prosperity Restoring America's Promise, Fiscal Year 2012 Budget Resolution, House Committee on the Budget, Chairman Paul Ryan of Wisconsin

- Set in motion the process of reforming Social Security by establishing a requirement that in the event that the Social Security program is not sustainable, the President, in conjunction with the Board of Trustees, must submit a plan for restoring balance to the fund. The budget then requires congressional leaders in both the U.S. House of Representatives and U.S. Senate to put forward their best ideas as well.
- Move the conversation to solutions that save Social Security.

Beginning in 2011, the Social Security started paying out more in benefits than it collected in taxes – a trend that will skyrocket as the baby boomers continue to retire. In order to pay full benefits, the government must pay back the money it owes Social Security.

President Roosevelt himself viewed Social Security as an evolving program. As he wrote in a 1939 message to Congress, "We shall make the most orderly progress if we look upon Social Security as a development toward a goal rather than a finished product. We shall make the most lasting progress if we recognize that Social Security can furnish only a base upon which each one of our citizens may build his individual security through his own individual efforts."

The President's Fiscal Commission recently made a positive first step by advancing solutions to ensure the solvency of Social Security.

The Commission suggested a more progressive benefit structure, with benefits for higher-income workers growing more slowly than those of workers with lower incomes who are more vulnerable to economic shocks in retirement. It also recommended reforms that take account of increases in longevity, to arrest the demographic problems that are undermining Social Security's finances.[7]"

8. Pro-Growth Tax Reform

"Simplifying the Tax Code for Individuals
Major proposals

- Reject the President's call to raise taxes. Instead, keep overall revenue as a share of the economy at historical averages between 18 and 19 percent, a level compatible with growth, and – if the spending restraints in this budget are enacted – sufficient to fund government operations over time.
- Reform the tax code by consolidating the current six brackets and cutting the top individual rate from 35 percent to 25 percent.

Making the Corporate Code More Competitive
Major proposals

- Encourage economic growth and job creation by lowering the corporate tax rate from 35 percent, which is the highest in the developed world, to a much more competitive 25 percent.

[7] The Path to Prosperity Restoring America's Promise, Fiscal Year 2012 Budget Resolution, House Committee on the Budget, Chairman Paul Ryan of Wisconsin

- Remove distortions from the code by eliminating or modifying deductions, credits and special carve-outs that leave many companies paying no tax at all.[8]"

9. Lifting the Crushing Burden of Debt

"Government Spending

Under the President's budget, the federal government will spend $46 trillion over the next decade. Government spending runs at record post-World War II levels, never falling below 23 percent of the economy in this decade.
With responsible spending cuts now and structural reforms of government spending programs going forward, this budget ensures government spending remains on a sustainable path. Government spending will fall below 20 percent of the economy by 2015.

Deficits

According to the CBO, the President's budget will result in a record fourth-straight deficit in excess of $1 trillion, and climb above trillion dollars for the last three years of the ten-year budget window.
Over the next decade, this budget results in $4.4 trillion of deficit reduction compared to President Obama's budget.
According to the Congressional Budget Office, this budget charts a path to complete balance. By 2040, the CBO estimates that this budget will produce annual surpluses and begin paying down the national debt. By contrast, under the status quo, the annual deficit would grow to consume nearly-fifth of the entire U.S. economy.

Debt

By continuing Washington's spending spree, the President's budget adds $13 trillion dollars to the debt over the next decade. Under his budget, debt would double by 2016 compared with the President's first year in office, and triple by the end of the budget window.
The CBO estimates that under the President's budget, debt held by the public will near 90 percent of the entire economy by the end of the decade. The CBO projects debt as a share of the economy to grow to 146 percent in 2030, 233 percent in 2040, and unfathomable 344 percent in 2050.
The CBO has warned that "persistent deficits and continually mounting debt would have several negative economic consequences for the United States… a growing level of federal debt would also increase the probability of a sudden fiscal crisis.[9]"

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[8] The Path to Prosperity Restoring America's Promise, Fiscal Year 2012 Budget Resolution, House Committee on the Budget, Chairman Paul Ryan of Wisconsin

[9] The Path to Prosperity Restoring America's Promise, Fiscal Year 2012 Budget Resolution, House Committee on the Budget, Chairman Paul Ryan of Wisconsin

10. Removing the Hurdles to Economic Growth

"According to The Heritage Foundation, this budget "would significantly strengthen economic performance throughout the economy and dramatically improve federal fiscal results."

According the analysis, this budget would produce the following results;

- Foster economic growth; $1.5 trillion in additional real gross domestic product over the decade.
- More jobs: Nearly one million new private sector jobs next year and 2.5 million new private sector jobs in the last year of the decade.
- Higher wages: $1.1 trillion in higher wages, salary and income.
- More prosperity: $9.35 trillion in higher real household income, translating into an average of $1,000 per year in higher income for each family.

By achieving sustainable levels of spending, deficits and debt – along with growth-oriented reforms to the tax code, this budget sets the nation on a path to prosperity. [10]"

See Appendix Charts following:[11]

11. "Economic Analysis of the House Budget Resolution by the Center for Data Analysis at The Heritage Foundation

Economic and Fiscal Results

The tax and program changes behind the Budget Resolution produce much stronger economic performance when compared to the rate and level of economic activity in the baseline. Lower taxes stimulate greater investment, which expands the size of business activity. This expansion fuels a demand for more labor, which enters a labor market that contains workers who themselves face lower taxes. Consequently, significantly higher employment ensues.

This obvious strengthening in the tax base and in federal receipts is accompanied by substantially improved fiscal results on the outlay side. Total outlays fall by a total of $9.3 trillion over the ten-year period, 2012 to 2021. This significant decrease leads to a sharp reduction in the total amount of federal debt; By 2021, publicly held debt is $9.9 trillion lower than in the baseline, which forecasts an economic and fiscal scenario without the policy changes of the Budget Resolution.

Nevertheless, this model-based analysis of the House Budget Resolution and the policy changes underneath it clearly show that a solid step toward a stronger economic and fiscal future can be taken with every confidence of success. [12]"

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[10] The Path to Prosperity Restoring America's Promise, Fiscal Year 2012 Budget Resolution, House Committee on the Budget, Chairman Paul Ryan of Wisconsin

[11] The Path to Prosperity Restoring America's Promise, Fiscal Year 2012 Budget Resolution, House Committee on the Budget, Chairman Paul Ryan of Wisconsin, Appendix I, Summary Tables.

[12] The Path to Prosperity Restoring America's Promise, Fiscal Year 2012 Budget Resolution, House Committee on the Budget, Chairman Paul Ryan of Wisconsin, Appendix II A Pro-Growth Budget

12. **"WASHINGTON** – In a post-election reversal, House Republicans are supporting nearly $450 billion in Medicare cuts that they criticized vigorously last fall after Democrats and President Barack Obama passed them as part of their controversial health care law.

Ryan's spokesman, Conor Sweeney, said the cuts are virtually the only part of "Obamacare" – the term that Republicans use derisively to describe the health care law enacted last year – that the Wisconsin Republican preserved when he drafted his budget.

"Chairman Ryan has put forward a budget that stops the raid on Medicare and ensures that all current law savings and future reforms are devotes to saving Medicare."

"The fact is that Democrats robbed Medicare in order to pay for their massive government health care takeover," said Paul Lindsay a spokesman for the NRCC.

"Which is a huge contrast to the House Republican plan to take that savings and use it to strengthen that program for today's seniors.[13]"

SUMMARY: The Ryan plan reduces spending by $6.2 trillion over 10 years. Reduces corporate and independent tax rates to 25%; cuts $178 billion in defense per Sec. Gates; Returns to 2008 non security spending levels; Reduces corporate welfare, bailouts and loopholes.

J. TAX REVIEW

1. "Issues: Fundamental Tax Reform

"Our federal tax system is, in short, utterly impossible, utterly unjust and completely counterproductive...(it) reeks with injustice and is fundamentally un-American...it has earned a rebellion and it's time we rebelled."

- Ronald Reagan, May 1983

"Our Income Tax system is a disgrace to the human race."

- Jimmy Carter, 1976

"I believe that the current tax code is an abomination that cries out for vast simplification and reform."
-Treasury Sec. Paul O'Neill, 2002[14]"

2. The poorest and the richest Americans pay no taxes.

"Americans are overtaxed.
Higher taxes could eliminate the federal deficit.
Most people's tax returns are way too complicated.[15]"

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[13] Bangor Daily News, Thursday, April 14, 2011, By David Espo, The Associated Press
[14] http://www.freedomworks.org/issues/fundamental-tax-reform 03/15/11
[15] http://www.taxpolicycenter.org/publications/url.cfm?ID=901335 12/28/10

3. Overview of the BPC Proposal

"The BPC plan would be a radical overhaul of the current tax system. On the individual side, the plan would implement a two-rate structure: 15 percent on taxable income up to about $100,000 for married couples ($50,000 for singles); and 27 percent on income above those thresholds, which would be indexed for inflation after 2012, and eliminate the individual alternative minimum tax. To help pay for these tax rate cuts, the proposal would eliminate numerous individual tax expenditures, including credits and deductions for education expenses, the credit for child and dependent care, the exclusion from income of benefits under Section 125 cafeteria plans and the foreign earned income exclusion. Long-term capital gains and qualified dividends would be taxed as ordinary income, but the first $1,000 of net long-term gains for married couples ($500 for others and indexed for inflation) would be excluded from income. The proposal would cap, and then phase out over ten years, the exclusion from income of employer-sponsored health benefits beginning in 2018. It would also limit combined employer and employee contributions to tax-deferred retirement accounts to the minimum of 20 percent of earning or $20,000, indexed for inflation.

The proposal would eliminate the itemized deductions from state and local income, sales and property taxes and replace charitable deductions and the home mortgage interest deductions with 15 percent refundable credits. The credit for mortgage interest would be allowed only on primary residences up to an un-indexed $25,000 limit. Deductions would be retained for medical expenses in excess of 10 percent of adjusted gross income (AGI) and miscellaneous expenses in excess of 5 percent of AGI, both subject to a $4,600 floor for married couples ($2,300 for others), indexed inflation after 2012.

Proposals that set a tax-exempt threshold and provide benefits to low income families and families with children would be substantially restructured and simplified. The standard deduction, personal exemptions, head of household filing status, the child tax credit, and the earned income tax credit would be eliminated. Instead, the BPC proposal would provide a 21.3 percent of the first $20,300 of earnings, indexed for inflation after 2012. The earnings credit would be on a per-worker basis and would be available to all eligible individuals under age 65 who could not be claimed as a dependent on someone else's tax return.

Taxation of Social Security beneficiaries would also be altered significantly. The proposal would include 100 percent of Social Security benefits in taxable income and eliminate the elderly credit. In place, the proposal would provide a non-refundable credit equal to 7.5 percent of Social Security benefits and a non-refundable credit for individuals age 65 or older equal to 15 percent of the current standard deduction, including the additional standard deduction for the elderly.

The BPC would enact a 6.5 percent (3 percent for 2012) broad-based consumption tax which they refer to as a "Debt Reduction Sales Tax". It would also impose an excise tax in 2012 of 1 cent per ounce, indexed to inflation after 2018, on the manufacture and importation of sugar-sweetened beverages and raise the federal excise tax on alcoholic beverages to 25 cents per ounce. The new child credit and earnings credit would help offset the burden of these new taxes for low-income families. The BPC plan would retain 2009 estate tax law but would tax unrealized capital gains at death. On the corporate side, the proposal would reduce the corporate tax rate from 35 percent to 27 percent and would eliminate many tax expenditures including the domestic production deduction, the research and experimentation tax credit, and accelerated depreciation for rental housing. The proposal would leave the basic structure of international tax rules, including deferral and subpart F, untouched.

BPC would also provide a one-year payroll tax holiday in 2011 to help stimulate economic recovery. The effects of this proposal are not included in TPC's distribution tables, which analyze tax policy as it would be in 2022.[16]"

SUMMARY: The Bi-Partisan Commission (Bowles-Simpson) recommends an individual tax structure of 15% to $100,000 and 27% above $100,000. All social security income would be taxable with a 7.5% credit; BPC would enact a 6.5% consumption tax. This writer does not support the BPC Plan.

4. Tax Hikes on the Rich Won't Work

By Julie Borowski on Sept. 27, 2010

"House Speaker Nancy Pelosi (D-CA) and Senate Majority Leader Harry Reid (D-NV) have made it clear that they will strive to raise taxes on all families making over $250,000 annually on January 1st. According to Nancy Pelosi, "I see no justification for giving a tax break…for the wealthiest people in America…the tax cuts at the high end have increased the deficit enormously."

To the contrary, the key culprit behind rising federal deficits is runaway government spending that has plagued Washington. The current federal $1.4 trillion budget deficit was not created because government taxed too little. As a result of the Bush-era tax cuts which lowered tax rates for all Americans, total tax revenue increased by 40 percent within four years. Between 2002 and 2004, tax payments by individuals who made more than $200,000 increased by 19.4 percent-more than double those taxpayers in lower brackets.

While the vast majority of Americans make less than $250,000 annually, raising taxes on the wealthy will have disastrous effects on the entire economy. Ultimately, hiking taxes for the rich will likely worsen the deficit while destroying countless jobs. As history repeatedly proves, higher tax rates produce lower tax revenue.

Raising federal taxes on the rich will also have similar unintended consequences – successful US companies will be more inclined to move to a country with a lower tax burden.

Under the Obama administration's plan, the federal top two income tax brackets will rise to 36 and 39.6 percent. As President Obama once said, "I don think at a certain point you've made enough money." If the federal government confiscates nearly 40 cents out of every dollar made, businesses are discouraged from expanding their operation and would be entrepreneurs are deterred from starting new enterprises.

Instead, Congress must lower taxes for all Americans across the board to lower the deficit and boost job creation. President Kennedy favored "an across-the-board, top-to-bottom cut in personal in corporate income taxes." In the eight years that Kennedy's tax cuts were in effect, tax revenue actually doubled. Hiking taxes on the rich is simply a lose-lose situation by stifling economic growth while increasing the budget deficit.[17]"

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[16] http://www.taxpolicycenter.org/taxtopics/Distribution-Estimates -for-BPC-Proposal.cfm 12/28/10

[17] http://www.freedomworks.org/blog/jborowski/tax-hikes-on-the-rich-wont-work 03/15/11

SUMMARY: Julie Borowski reminds us of the inverse relationship between increased taxes and lower tax revenues. The "Soak the Rich" mentality will create economic problems, lower tax revenues and fewer jobs.

5. Issues: Death Tax

"111th Congress: It's Time to Finally Repeal the Death Tax
Congress is moving forward on legislation to permanently repeal the unfair Death Tax. Congress-especially the Senate – must understand that Americans want to see complete, permanent repeal of the Death Tax.
FreedomWorks strongly believes that the death tax should be completely and permanently repealed in order to make the tax code fairer and simpler, and to eliminate the harmful drag this tax has on the economy.
The Death Tax punishes the American values of saving and investment by penalizing individuals for saving, investing, and building successful farms and businesses.

The Death Tax is a Tax on American Values.

It Punishes:

*Savings
*Families
*Investment in capital

The Death Tax is Anti-Job.

*The Death Tax is a leading cause of dissolution for most small businesses.

The Death Tax is unfair.

*Americans overwhelmingly agree it is wrong to tax property and earnings that have already been taxed.
*A McLaughlin & Associates poll released on March 9, 2001 revealed that 90 percent of seniors feel it is wrong to tax earnings both when they are earned and again upon death.[18]"

6. Issues: Flat Tax

"Today, Americans are paying the highest taxes in the nation's history. The current complex tax system includes several inequities. It penalizes married couples by making them pay higher taxes than single individuals. And many Americans face a death tax that claims a significant portion of their estate after they die.

The FreedomWorks position

We want to scrap our confusing, unfair tax code and replace it with a simple flat tax of one low rate with no deductions or special interest loopholes. We also want lower taxes

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[18] http://www.freedomworks.org/issues/death-tax 03/15/11

at the federal, state, and local levels. We want to keep the Internet free from taxes as well.[19]"

7. Tax Proposals in the 2010 Budget

"The Tax Policy Center has examined the key tax proposals in President Obama's 2010 budget. Separate discussions below describe each of the proposals including current law, proposed changes, and, when appropriate, the distributional effects. The budget as presented by the president lacks complete details on many of the tax proposals. Some provisions had virtually no detail and our discussion of them is necessarily limited.
The budget assumes a baseline in which the 2001-2003 tax cuts are permanent and the exemption in the alternative minimum tax (AMT) is permanently indexed for inflation from 2009 levels. Those provisions would reduce revenues by $3.3 trillion over the 2009-2019 period. TPC's analysis measures the impact of the tax proposals not against the administration baseline but rather against a current baseline that assumes the 2001-2003 tax cuts expire as scheduled in 2011 and that the AMT exemption is not indexed. Against that baseline, the administration's tax proposals would cause much greater revenue losses than official budget estimates show.
The distributional effects of the tax proposals would change over time because most of them are not indexed for inflation. As a result, some of the proposed tax cuts would benefit fewer taxpayers in future years and the value of some of the cuts would shrink.[20]"

8. Make Permanent the "Making Work Pay" Credit

"The economic stimulus act ("American Recovery and Reinvestment Act of 2009," or ARRA) created the "Making Work Pay" (MWP) tax credit, an Obama campaign proposal to offset part of the Social Security taxes paid by low- and middle-income workers. The president proposes to make the credit permanent, index the maximum credit annually for inflation, and lower the phaseout rate from ARRA's 2 percent to 1.6 percent.
MWP provides a refundable tax credit equal to 6.2 percent of earnings (the employee share of the Social Security payroll tax), up to a maximum credit of $400 for individuals ($800 for couples). Neither nonresident aliens nor taxpayers claimed as dependents by other taxpayers are eligible for the credit. Couples may claim the full $800 credit, even if only one spouse works.
Under ARRA, the credit phases out at a rate of 2 percent of income over $150,000 for married couples filing joint tax returns and $75,000 for others. Therefore, couples with income above $190,000 and others with income above $95,000 are not eligible to receive the credit. The president proposes to reduce the phaseout rate to 1.6 percent and to index the phaseout threshold annually to take account for inflation. The lower phaseout rate would widen by 25 percent the income range over which the credit phases out.

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[19] http://www.freedomworks.org/issues/flat-tax 03/15/11

[20] Tax Policy Center, Urban Institute and Brookings Institution, Rosanne Alshuler, Howard Gleckman, Roberton Williams, Leonard Burman, Dan Halperin, pg. 1 & 3

The credit would offset the regressivity of payroll taxes and encourage low-income people to work. Because workers in the phaseout range would face higher marginal tax rates, however, it could give those workers an incentive to work less.
MWP would reduce income taxes for three-fourths of all tax units in 2012 by an average of $385, raising average after-tax income by 0.7 percent. The credit is highly progressive: after-tax income would rise by 2.3 percent for the poorest 20 percent (quintile) of households, compared with 1 percent for the middle quintile and 0.2 percent for the top quintile.
Because the maximum credit would not be indexed, it would decline in real value over time. As a result, the credit would provide a diminishing percentage increase in after-tax income in future years, even though indexing phaseout thresholds would maintain the real income range over which taxpayers could claim the credit. [21]"

9. Tax reform seen as huge business boost

"Gov. Paul LePage's proposals to cut taxes in the next two years will "jump start" job creation more than regulatory reform, say business leaders.
"Regulatory reform goes to a few companies," said Chris Hall, vice president of the Portland Regional Chamber of Commerce. "Tax reductions go to every company, so I think tax reductions are more important."
He said cutting taxes overall by $203 million will mean many businesses will have more cash to invest in job creation.
"While everybody will benefit from lower income taxes," Hall said, "small businesses pay state income taxes through their personal returns, so anything that reduces those costs goes to the small business (owner) who then can reinvest in their company."
He said in addition to the tax-rate reduction, changes in depreciating or expensing new equipment will also help spur investment and expansion.
"This is just hugely important for Maine businesses and even more so for small business," said David Clough, Maine director of the National Federation of Independent Businesses. "Lowering the tax rate is very important when so many small businesses are taxed by the tax on their owners."[22]"

K. BUREAUARCY, REGULATIONS, "RED TAPE" AND REDUCTIONS

1. Red Tape, Hidden Taxes, & Regulation

"The Issue

Complying with the thousands of regulations federal bureaucrats are scheduled to approve this year could cost American individuals and businesses over $700 billion. This figure doesn't even take into account the indirect costs imposed by these regulations including loss of productivity and limits on innovation and growth. According to the

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[21] Tax Policy Center, Urban Institute and Brookings Institution, Rosanne Alshuler, Howard Gleckman, Roberton Williams, Leonard Burman, Dan Halperin, pg. 1 & 3
[22] Capital Update, Making Connections, Mainebiz, February 21, 2011

Center for the Study of American Business at Washington University, $1.3 trillion in total U.S. economic activity is lost each year due to federal regulations.

The FreedomWorks Position

We want to end burdensome government regulation and rely on the marketplace as an efficient regulator of business activity.[23]"

2. "Rolling Back Red Tape: 20 Regulations to Eliminate

As the new Congress assembles, many legislators are considering how to lessen the regulatory burden on Americans. President Obama, too, now says that he wants to root out unnecessary government rules. With regulatory costs at record levels, relief is sorely needed. But it is not enough to talk about fewer regulations. Policymakers must critically review specific rules and identify those that should be abolished. This paper details 20 unnecessary and harmful regulations that should be eliminated now.

In total, regulations now extract some $1.75 trillion a year from the economy, according to a recent report from the federal government's own Small Business Administration. Little different from taxes, regulations raise the price of almost every product and service, while also inhibiting the capital investment and job creation needed to keep the nation's economy strong.

The Individual Health Insurance Mandate

The Employer Health Insurance Mandate

Insurer Coverage Mandates

Consumer Financial Protection Bureau Regulations

Debit Card Interchange Fees ("Durbin Amendment")

Proxy Access Rules

Credit Card Regulations

Phase-Out of Incandescent Light Bulbs

Appliance Energy Standards

Corporate Average Fuel Economy (CAFÉ) Standards

The EPA Endangerment Finding
The "Tailpipe Rule"

The Renewable Fuel Standard

The Community Reinvestment Mandates

Section 404 Financial Reporting Requirements (Sarbanes-Oxley)

[23] http://www.freedomworks.org/issues/red-tape-and-regulation 3/15/11

Network Neutrality

FCC Media Ownership Rules

FCC Merger Review Authority

Dairy Price Controls

Sugar Protectionism.[24]"

SUMMARY: With federal regulations accounting for $175 trillion per year in costs to businesses, a reduction in red tape is overdue. The article provides 20 references to eliminate.

3. Tweaking Health Care

"As with any sweeping course change in public policy, improving, not repealing the landmark Patient Protection and Affordable Care Act of last year is the task for Congress.

The bill, like any that regulates a large and growing sector of the economy, is likely to be riddled with provisions that create unintended consequences or with assumptions about cost reductions that do not come to fruition. A diligent Congress must listen to those affected- large and small businesses, health care providers and consumers – and take a scalpel to parts of the law, and perform transfusions on other parts.

One case in point is the law's requirement for companies to report to the IRS any business-to-business transaction of more than $600 each year. Though not related to health care, the provision was included in the bill to bring the federal government more tax revenue. It is seen by business as an unnecessary and burdensome requirement. [25]"

L. OTHER CONSIDERATIONS

1. "Five Steps to Meeting the Crisis in Egypt and the Middle East

While all eyes are on the political violence in Egypt, the Obama Administration has labored in crisis mode, struggling to stay ahead of the rapidly moving events.

Washington's problem is that publicly the White House appears to be floundering, focusing myopically on events on Tahrir Square rather than exercising real presidential leadership and proactively working to safeguard America's long-term vital interests in the region.

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[24] http://www.heritage.org/research/reports/2011/01/rolling-back-red-tape-20-regulations-to… 3/16/11 by Diane Katz

[25] http://www.bangordailynews.com/story/Opinion/Tweaking-Health-Care,164460?print=1 1/21/11

2. **Don't Lose Focus on Iran**

Remain Firmly Committed to Preserving a Stable and Free Iraq

Reassert the Need for Close Strategic Cooperation with Israel

Stay Engaged in Lebanon

Support and Encourage Egypt's Army to Safeguard a Transition to Freedom

Shifting Focus

This is an agenda that the White House could embark upon today that would make a big difference in the Middle East. It would demonstrate that the U.S. is:

- A faithful, responsible, and enduring ally,
- A champion of supporting the cause of liberty and economic freedom, and
- A strong, resilient, and confident nation prepared to defend itself, its allies, and its interests. [26]"

M. PUBLIC AND EMPLOYEE BENEFITS V. PRIVATE SECTOR CORPORATIONS AND CONFLICTS OF INTEREST

1. **"The accumulation of trillions of dollars in unfunded liabilities in:**

Employment Benefit (OPEB) plans significantly contributes to the financial crises many states face today. States are required to significantly increase the Annual Required Contribution (ARC) into their retiree health plans in order to meet the requirements of the Governmental Accounting Board (GASB). With revenue shortfalls resulting from the recession, states are finding it increasingly difficult to meet these obligations.

As the unfunded liabilities accumulate, the increase in taxes required to fund generous retiree health benefits will become unfeasible. The loss in tax base will exacerbate the fiscal crises in these states. As states exhaust the assets accumulated in their pension and OPEB plans, they will turn to the federal government to bail out these plans. This phenomenon is already underway in California.

States can constrain the cost and reduce unfunded liabilities in their retiree health plans; and some have already enacted these reforms. Our survey reveals that, with few exceptions, states with defined-contribution retiree health plans have the lowest levels of unfunded liabilities per capita in their plans. Defined-benefit retiree health plans tend to have higher costs and accumulate higher levels of unfunded liabilities per capita.

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[26] http://www.heritage.org/research/reports/2011/02/five-steps-to-meeting-the-crisis-in-egypt... 3/16/11 by James Phillips and James Carafano,Ph.D. WebMemo #3136

In defined-benefit plans, the state assumes most of the cost of health insurance, and in some cases pays for all of the cost. When the state assumes most of the cost, employees opt for more expensive health insurance plans.

In short, all the incentives are wrong in defined-benefit retiree health plans. Rather than address the problem of growing unfunded liabilities in OPEB plans, the incentive is to defer the problem to future generations. [27]"

2. "Today, states face structural deficits created by overspending. Most of the legislative "fixes" over the past few years for state budget gaps have merely postponed or obscured the problems rather than address them directly.

   A contributing factor to state budget gaps is the expiration of the federal stimulus funds provided by the American Recovery and Reinvestment Act (ARRA). Although these federal funds temporarily supported state budgets, the money will not last forever.

   Additionally, as ALEC's Rich States, Poor States publication so aptly points out, tax increases come at a very high cost: the erosion of state economic competitiveness. In the words of President John F. Kennedy: "An economy constrained by high tax rates will never produce enough revenue to balance the budget, just as it will never create enough jobs."[28]

"Problem: The Current Budget System

Solution: Priority-Based Budgeting

Table 1.

Conventional Budget System: Input-Focused	Priority-Based Budget System: Output-Focused
Baseline + Inflation + Caseloads + Initiative Requirements + Additional Policy Changes = Business-as-Usual Budget	Core Functions of Government + Performance Measurement + Prioritized Spending Adjustments = Priority-Based Budget

[27] Public Employee "Other Post Employment Benefit" Plans, A Case for Shifting to a Defined-Contribution Approach, by Barry W. Poulson & Arthur P. Hall, pg. 27

[28] State Budget Reform Tool Kit, American Legislative Exchange Council, by Josh Culling, Leonard Gilroy, Amber Gunn, Jason Mercier, Matthew Michell, Ph.D., Barry Poulson, Ph.D., Bob Williams, Jonathan Williams, pgs. vi, vii, 8-15, 18, 23, 37

Define Core Governing Principles

Require Non-Partisan Revenue Forecasts and Independent Certification of Budgets

Pass a Strong, Balanced Budget Requirement

Adopt an Effective State Spending Limit

Require Preparation of Agency Mission Statements

Adopt Performance Assessment and Management

Budgeting for Outcomes

The Item-Reduction Veto

Adopt a State Hiring Freeze

Achieve Savings through Employee Incentive Programs[29]"

N. THE DEBT CEILING

1. Everything You Need To Know About The Debt Ceiling

"The debt ceiling is a legal cap on the amount of money the U.S. Treasury can borrow to fund existing government functions. It essentially authorizes the Treasury to borrow the money necessary to pay the bills incurred by the federal government...

Before 1917, Congress authorized the Treasury to issue bonds for specific purposes. But that meant approving every bond separately. To fund World War I, Congress decided to give the Treasury more latitude by instituting caps on how much it could borrow through each type of bond, rather than forcing it to get every new bond approved separately. In 1939, this was changed so that most bonds were bound by the same limit, effectively creating the general debt ceiling we have today...

Currently, the debt limit is set at $14.3 trillion. Around Aug. 2, (2011), the Treasury will exhaust that borrowing authority. Because spending currently exceeds revenues by almost 45 percent, if that happens, we will either have to default on our debt or stop funding a substantial portion of the government.

Do we need a debt ceiling?: Strictly speaking, no. The debt ceiling is unique to America. In other countries, when the legislature passes a law, the Treasury is given automatic authority to carry it out. A number of former Treasury secretaries have said it should be abolished, including Larry Summers, who said, "I think that given that Congress has to approve all spending and all tax changes, there is not much logic to the debt ceiling"...

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[29] State Budget Reform Tool Kit, American Legislative Exchange Council, by Josh Culling, Leonard Gilroy, Amber Gunn, Jason Mercier, Matthew Michell, Ph.D., Barry Poulson, Ph.D., Bob Williams, Jonathan Williams, pgs. vi, vii, 8-15, 18, 23, 37

Is the debt ceiling unconstitutional?: A number of commentators have suggested that the 14th Amendment, which states that "the validity of the public debt of the United States…shall not be questioned," renders the debt ceiling unconstitutional. Others have disagreed, including Lawrence Tribe, a professor of constitutional law at Harvard, who notes that the Constitution gives Congress the sole power "to borrow money on the credit of the United States." Ultimately, this point is probably moot, at least for the time being, as Treasury has stated that it agrees with Tribe's interpretation."[30]

SUMMARY: The debt ceiling is now at $14.6 trillion (8/25/11). It has been suggested that the Budget spending cuts were too low to impact the deficit in a manner to gain the confidence of Wall Street and Standard and Poors resulting in the U.S. Bond downgrade. The U.S. needs greater spending cuts, to reduce the deficit. The debt ceiling should become a moot issue.

2. **Playing Political Games with the debt ceiling**

"You'd think that a behemoth $14 trillion national debt is enough. Apparently it's not for most of our U.S. senators and representatives. They're trying to gather enough votes among themselves to authorize borrowing another $2 trillion by selling more U.S. government bonds. They want to "raise the debt ceiling" in part to feed their reckless spending addiction.

We taxpayers spend roughly $200 billion per year on the interest payments for the $14 trillion monster national debt. That's approximately 9 percent of total federal tax revenues. If our spendthrift politicians find the common sense to cut spending in other areas by this amount, we'll have enough money to make the debt payments. Don't be fooled by the proclamation that not raising the legal borrowing limit will cause by itself a financial meltdown.

However, the maddening other part of the story is that the 2011 federal budget deficit is another $1.4 trillion. Not paying bondholders the interest and principal they are owed would send shock waves through the global financial system. Our sovereign debt would be downgraded. Interest rates paid by taxpayers on future borrowing would soar. Confidence in the U.S. economy would further erode, driving away business investment and jobs.

I'm convinced that the only way to ensure fiscal sanity in Washington is to amend our nation's Constitution to mandate a balanced federal budget each year (except, of course, funding for national emergencies such as war). Forty-nine states embrace such a discipline. [31]"

3. **The Conundrum of Reckless Behavior in Congress**

"Will Congress work out a plan to address the deficit and raise the U.S. debt ceiling by August 2, 2011? In the alternative, will negotiations fail? If time runs out, then what happens?" The last is the multi-trillion dollar question…

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[30] The Washington Post, by Ezra Klein and Dylan Matthews, Printed in the Bangor Daily News, 7/22/11
[31] Special to the Bangor Daily News, by Bruce Poliquin, 7/18/11

The crisis has to be solved. If Congress doesn't do it, we believe the President will raise the debt ceiling by invoking an obscure clause in the 14^{th} Amendment of the Constitution which includes a public debt clause that insists the obligations of the government "shall not be questioned." According to *The New York Times*, former President Clinton observed he would "invoke the clause without hesitation and force the courts to stop me." President Obama has not stated that he will use this power and, in fact, has stated that he has consulted with his attorneys, and "they are not persuaded that this is a winning argument." Certainly, at a minimum, nasty legal battles would ensue, embroiling us in more needless distractions, as we drift away from true solutions. Clearly, a Congressional solution is best, but we believe the President will step into the breach should the need arise."[32]

4. **GOP Leaders Warn Members of Consequences if Debt-Limit Compromise is Not Reached**

"Republican leaders in the House have begun to prepare their troops for politically painful votes to raise the nation's debt limit, offering warnings and concessions to move the hard-line majority toward a compromise that would avert a federal default…

They agreed to give the House an opportunity to vote on two top conservative priorities – a so-called cut-cap-and-balance bill, which would order $111 billion in cuts in federal programs for 2012 and impose a cap on future spending, and a constitutional amendment that would require a balanced federal budget…

As the congressional leaders struggled to find votes, Obama held a nearly hourlong news conference in which he emphasized once again that he was willing to accept difficult cuts in Medicare and other entitlement programs if Republicans would accept some increase in federal revenues – a deal that has eluded negotiators for weeks.

In his second news conference of the week, the president offered his most specific comments about possible cuts in major entitlement programs. He said that if Republicans were willing to move off their opposition to any new tax revenues, he would be willing to consider raising the retirement age in several years for beneficiaries of Medicare or requiring upper-income senior citizens to pay more for the program."[33]

5. **Markets Banking On Deal Over Debt**

"Wall Street firms may be on the edge of a financial calamity and most don't know it, say analysts tracking the debt-ceiling faceoff in Washington.

Many market players expect the White House and Congress to come to a deal to boost the debt limit beyond its current $14.3 trillion cap.

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[32] Deighan Associates, The Conundrum of Reckless Behavior in Congress, 7/25/11

[33] GOP Leaders Warn Members of Consequences if Debt-Limit Compromise is Not Reached, Bangor Daily News, by Lisa Mascaro and Kathleen Hennessey, 7/15/11

Others in Washington, say chances are high that an agreement won't be reached before the Aug. 2 deadline, when the Treasury Department predicts it won't have enough cash to pay all of its bills.

If the deadline passes with no deal, stocks and other assets could take a pounding, much as they did after Congress' initial rejection of a massive bailout in September 2008.

The Dow Jones industrial average plunges 778 points on the vote, its largest one-day point drop ever.

Elected officials may need to be shocked into action. While some members of Congress, including Rep. Michele Bachmann, R-Minn., say they don't expect the market to unravel if the debt ceiling isn't raised, a market selloff could spark a deal.

Indeed, that's the same scenario that played out on Sept. 29, 2008, when the House defeated a $700 billion bailout of the financial system. After the stock market tanked, the House passed the bailout.

"I'm a little bit surprised that financial markets aren't sending a stronger message," he says. "If they were, perhaps an agreement would have been reached quicker."[34]"

6. 'A Very Bad Deal'

"After months of secret discussions, a group of senators known as the Gang of Six finally released their plan for the debt crisis this week. Some consider it generous to call it a "plan" when, in truth, the document is little more than a set of talking points. Still, a close look at the details reveals a very bad deal in the works. In short, it asks American to shoulder a $2 trillion tax increase now in exchange for a promise by Congress to cut spending later.

If this bad deal sounds familiar, it should. In 1982, Congress and the president agreed to cut $3 of spending for every $1 of tax increases. The tax hikes were real, but the promises to cut spending vanished into thin air. The same thing happened again in the 1990 deal, and there is no reason to expect anything different this time.

Thankfully, we actually have a real plan already on the table. This week, a bipartisan "Gang of 234" in the House of Representatives passed the only plan that can fundamentally solve our debt problems. Known as Cut, Cap and Balance, it begins with real spending cuts this year and continues with enforceable spending caps in the future. Of course, history proves that cuts today often disappear tomorrow. That's why our solution allows a debt ceiling increase only after Congress passes – and sends to the states for ratification – a constitutional balanced budget amendment to force the federal government to finally live within its means.[35]"

SUMMARY: Beware of promises to raise the debt ceiling now and receive spending cuts later. History does not support the Democrats keeping their promises. Cut, cap and balance is a good plan.

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[34] Markets Banking On Deal Over Debt, by Scott Patterson, USA TODAY, pg. 1, 7/21/11
[35] A Very Bad Deal, by Jim Jordan, USA TODAY, pg. 8A, 7/21/11

7. **Ride Tide Rising – Money Managers Grow Wary As Debt-Ceiling Impasse Drags On**

"While plans such as the so-called Gang of Six deal to slash the deficit by an estimated $3.7 trillion in 10 years briefly sparked hopes that a deal was on the table, optimism quickly faded amid fierce partisan bickering over the details, Wednesday, President Obama signaled that he's prepared to accept a short-term agreement to boost the ceiling under certain conditions, a move he'd long opposed.
The problem in a nutshell: On Aug. 2, the federal government will no longer legally be able to increase its debt to fund spending, according to the Treasury Department. Without an agreement to raise the ceiling, the government will have to fund programs with incoming revenues such as taxes. Trouble is, a lot more cash is flowing out than is flowing in – which is at the heart of the crisis.
Roughly 40% to 45% of federal government bills will go unpaid almost immediately because of the gap between revenues and expenses. The government will favor payments on Treasuries to stave off a default.[36]"

8. **A Rock-Solid Conservative Who's Willing to Bend**

"Senator Tom Coburn of Oklahoma was a Tea Partier long before the movement even had a name, the family physician who came to Washington to hammer on Democrats and Republicans alike. His years of bill blocking earned him the nickname Dr. No.

"Raising the debt limit without addressing the cause of our debt – out-of-control spending, especially in entitlements – will be as damaging as a default," he said.

Last week, Mr. Coburn presented his own plan to cut $9 trillion from the federal government over the next decade – far more than others have proposed – in a manner that would radically reduce government services but also produce $1 trillion in new tax revenues.

Yet he almost always strikes a deal eventually, as was the case recently with his plan to end ethanol subsidies.

"I'm contrarian," he said. "I'm not much of a partisan. I go after Republicans as much as Democrats."

"I think I would characterize him as conservative who is solutions oriented," said Representative James Lankford, a freshman from Oklahoma who sought Mr. Coburn's advice before he ran and seeks his counsel now and then. "That has made him an independent voice but conservative voice who actually solves the problem."[37]"

SUMMARY: Sen. Coburn's "Back to Black" Budget proposal contains many worthwhile proposals. However, his tax increases may be a deal stopper and are unnecessary to consider until <u>after</u> spending cuts are <u>really</u> enacted.

[36] Red Tide Rising, Money Managers Grow Wary As Debt-Ceiling Impasse Drags On, by Scott Patterson, USA TODAY, pg. 1, 7/21/11

[37] A Rock-Solid Conservative Who's Willing to Bend, by Jennifer Steinhauer, The New York Times, pg 15, 7/24/11

O. CUT, CAP AND BALANCE AND OTHER PROPOSALS

1. "House Republicans voted to "Cut, Cap & Balance" federal spending and reduce the budget deficit. Our plan provides a clear path to cut spending, cap the federal budget in the future, and require a Balanced Budget Amendment, which is the surest protection we can put in place to guarantee taxpayers that the federal government will not spend the nation into bankruptcy.

   House Republicans want to rein in the federal government's spending and debt to jumpstart the economy. Democrats want to borrow more money to keep government spending rising beyond our means.

   President Obama claims we need to get serious about our problems. Yet – even before the debate on our proposal occurred – he threatened to veto it.

   Even in the face of their failures, Democrats continue to insist we should increase the size and scope of the federal government. They believe a larger federal government is the way out of lackluster growth in the economy. To Democrats, their $830 billion stimulus package wasn't enough. The $1 trillion takeover of the health care system by ObamaCare was only a start. Their over-regulation of free enterprise by the Obama administration is the Democrat "business climate" of the future. [38]"

2. **"Other Facts"**

   "After getting fooled nearly three years ago by the hollow promises of "Hope and Change," Americans are paying the price for President Obama's failed economic policies that are bankrupting our country and stifling job creation.

   While Obama jokes at the expense of the unemployed about his $830 billion "stimulus" boondoggle that, "Shovel ready was not as shovel ready as we expected."

   *1.9 million *fewer* people are employed today since Obama signed the "stimulus" into law and $3.7 trillion has been *added* to the national debt;

   *And unemployment is at 9.1% after Obama and Democrats promised it would not rise above 8% under their extreme left-wing policies; and,

   As the quoted article notes, the only jobs President Obama has created are the nearly 200 government jobs he's doled out to his biggest donors and liberal benefactors – and he's raising a **BILLION** dollars from his Wall Street pals and the Hollywood elites to keep his job in 2012."[39]

3. **"Obama Jokes at Jobs Council: 'Shovel-Ready Was Not as Shovel-Ready as We Expected"**

   "President Obama's Council on Jobs and Competitiveness met in Durham, NC at Cree Inc., a company that manufactures energy-efficient LED lighting. One of the

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[38] Pete Sessions, NRCC Chairman, Pete@nrccmail.org

[39] Reince Priebus, Republican National Committee, *Facts Letter*, 7/15/11

Council's recommendations to President Obama was to streamline the federal permit process for construction and infrastructure projects. It was explained to Obama that the permitting process can delay projects for "months to years... and in many cases even cause projects to be abandoned...I'm sure that when your implemented the Recovery Act your staff briefed you on many of these challenges." At this point, Obama smiled and interjected, "Shovel-ready was not as...uh.. shovel-ready as we expected." The Council, led by GE's Jeffrey Immelt, erupted in laughter."

The Obama administration promised the Recovery Act ("the stimulus") would prevent the jobless rate from going over 8%. It now stand at 9.1%.[40]"

4. "1.9 Million Fewer Americans Have Jobs Today Than When Obama Signed Stimulus

Twenty-eight months after congress passed President Obama's signature economic stimulus law, and nealy one year after he declared the summer of 2010 to be "Recovery Summer," 1.9 million fewer people were employed.

In February 2009, the Bureau of Labor Statistics (BLS) reported that 141.7 million people were employed. By the end of May 2011 – the last month for which data are available – that number had fallen to 139.8 million, a difference of 1.9 million.

While the number of people with jobs has increased slightly from its low point during the recession – 137.9 million in December 2009 – those 1.9 million jobs have been lost despite $800 billion in stimulus spending." [41]

"More than two years after Obama took office vowing to banish "special interests" from his administration, nearly 200 of his biggest donors have landed plum government jobs and advisory posts, won federal contracts worth million of dollars for their business interests or attended numerous elite White House meetings and social events, an investigation by iWatch News has found.

*Overall, 184 of 556, or about one-third of Obama Bundlers or their spouses joined the administration in some role. But the percentages are much higher for the big-dollar bundlers. Nearly 80 percent of those who collected more than $500,000 for Obama took ""key administration posts," as defined by the White House. More than half the 24 ambassador nominees who were bundlers raised $500,000.

*The big bundlers had broad access to the White House for meetings with top administration officials and glitzy social events. In all, campaign bundlers and their family members account for more than 3,000 White House meetings and visits. Half of them raised $200,000 or more.

*Some Obama bundlers have ties to companies that stand to gain financially from the president's policy agenda, particularly in clean energy and telecommunication, and some already have done so. Level 3 Communications, for instance, snared $13.8 million in stimulus money."[42]

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[40] Id., Fox Nation, 6/13/11

[41] Id., CNNNews.com, by Matt Cover, 6/14/11

[42] Id., by Schulte, Aloysius and Borden – iWatch News, POLITICO, CNNMoney, 6/15/11

5. **Misery Index Hits New High**

See chart following: [43]

6. **Hope and/or Change Misrepresentations and Mistakes**

"When Obama took office in January of 2009, the average price of gasoline in the United States was $1.84. Now, more than two years into his presidency, that average has nearly surpassed four dollars per gallon – a more than 200% increase.

His first major piece of legislation in the White House, the so-called "Stimulus," spent over $800 billion of your tax dollars to, as he claimed, keep unemployment from rising above 8%. That didn't work out so well – America's monthly unemployment rate average has been over 8% ever since then.

What's more, the "Stimulus" amounted to nothing more than another Obama Democrat wealth transfer to their most ardent supporters. The taxpayer funds spent to maintain 450,000 public sector jobs came at the cost of forestalling 1,000,000 jobs in the private sector…

It only got worse with the Democrats' socialist "ObamaCare" takeover of individual health care freedom and a raft of other spending as part of Obama's attempt to "fundamentally transform" America.

Obama and his leftist Democrat allies in Congress have added over $3.7 trillion to America's national debt during that same period.

Our national debt, after Barack Obama's record-busting spending binge, stands at over $14.3 trillion!"[44]

SUMMARY: Since Mr. Obama took office in 2009, gas prices have increased from $1.84 to $3.84 per gallon; unemployment has risen from 7% to over 9%; he added $3.7 trillion to the defecit now at $14.6 trillion.

7. **Obamanomics – Hope Isn't Hiring**

"After two years of nearly double-digit unemployment and exploding deficits, one wonders how President Obama defines "economic recovery"…

Not only did the national unemployment rate tick up to 9.1% in June marking 28 straight months with unemployment exceeding 8.0%, hiring by small businesses has also screeched to a halt and a recent Politico Battleground Poll found that 74% of Americans believe that the next generation will be worse off than the current generation.

Even Americans who have a job are feeling the squeeze of Obamanomics. The nation's underemployment rate, which is a measure of those working part-time jobs or reduced hours for economic reasons is at a staggering 15.8%. Also, since he became President, national gas prices doubled from $1.84 a gallon to nearly $4.00 today.

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[43] Id., by Schulte, Aloysius and Borden – iWatch News, POLITICO, CNNMoney, 6/15/11
[44] Reince Priebus, Grassroots Quarterly, pgs. 1-2, Summer 2011

With a national debt exceeding 14 trillion dollars – infused largely by reckless and out-of-control Washington spending – it is clear that Obama cannot spend his way to economic recovery. And, recent employment figures show that he has failed to create an economic environment in which business owners are able to hire our way to economic recovery.

The dim economic reality is clear. No matter how you slice it, the President's policies are causing our economy to from bad to worse. The facts themselves mount not a partisan political case against this president; but rather a pure economic indictment of Obama's failed economic policies…

The Big Union Bosses – integral to Obama's one billion dollar re-election campaign – are upset. And Obama dares not disappoint them. How long can a president who claims that jobs are his top priority remain silent while good-paying American jobs fall victim to the whims of Big Labor Bosses?

Meaningful job creation and economic growth in this country require us to help – not hinder – companies that seek to expand and hire more American workers. This election is about JOBS; not where Obama wants them, but where America needs them."[45]

SUMMARY: Note that while the unemployment rate is now over 9%, the real "unemployment rate" which includes those who have stopped looking for work is at 15.8%.

8. Current Medicare Law Fails Seniors

"The worst plan to protect Medicare beneficiaries is the existing law of the land.

It cuts $500 billion from Medicare and uses that money to pay for new entitlement programs. It establishes an unelected commission, assigned to slash Medicare costs, and it's founded on the unrealistic assumption that doctors will continue providing the same services to patients with a 30 percent pay cut.

This is likely to lead to Medicare's insolvency by the end of the decade. All other proposals should be considered with this reality in mind…

The current law affects every Medicare beneficiary across the country by cutting a half trillion dollars from the program and using that money to start a new entitlement. An alternative plan uses Medicare savings to protect the benefits for every American over age 55.

The current law allows 15 people in Washington to make on-size-fits-all decisions for every Medicare beneficiary across America. This Independent Payment Advisory Board can't change the law, can't print money to increase revenue and can't force doctors to provide underfunded care.

The alternative plan provides seniors with funds to select from a broad menu of options and decide what works best for them. It increases the amount seniors receive each year to account for inflation…

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[45] Id., pgs. 4-6

Again, this is not a hypotherical. This isn't a proposed plan – it's the law of the land, right now.

The alternative plan I've been referencing is the one offered by House Budget Committee Chairman Paul Ryan (R-Wis), which has been so lambasted up to the votes in the Senate.

The inescapable bottom line is that Medicare is flat broke – the program already pays out more than it collects in payroll taxes. The only thing keeping it afloat is redeeming IOUs from the federal Treasury – money the Treasury doesn't have – directly adding to our national debt.

Even these IOUs run out in 2020, according to the Congressional Budget Office. Complete insolvency in nine years: That's our current plan...

We have two options from here on out. Either we can continue to hold fast to an unsustainable status quo and castigate those who courageously step forward with ideas to fix Medicare. Or we can, from the foundation of those hones ideas, build the solution together."[46]

SUMMARY: Cong. Ryan's plan will save social security and medicare; changes need to be made including increasing the age for eligilbity and means testing.

9. "Numbers Game

- 71% Investors who agree that the exploding deficit causes "a lot of hurt" for our economy
- 89% Percentage of Americans who say new graduates will have a tough time finding work
- 48% Percentage of workers granted waivers who belong to unions
- 77,000 Number of federal employees who make more than U.S. state governors
- 71 Number of times Barack Obama has played golf since entering White House
- 163 Billion Barrels of recoverable oil Barack Obama won't allow us to drill for
- 37% Barack Obama's approval rating among U.S. military personnel
- $61.6 trillion Total amount of the U.S. government's unfunded promised obligations - $527,000 Each American household's share of that $61.1 trillion debt
- 1,400 Number of waivers from ObamaCare granted by Dept. of Health
- 53% Survey respondents who view the U.S. government as more of a threat to their rights than a protector[47]"

10. Balanced Budget Amendment

"As the August 2nd deadline for raising the federal debt ceiling nears, Barack Obama and the leftist Democrats in Washington are becoming desperate for a deal that will allow their Big Government spending spree to continue.

[46] Id. Current Medicare Law Fails Seniors, by Senator Mike Johanns, pg. 8-9
[47] Id., pg. 11

Make no mistake - it is too much spending that has gotten us where we are, not too little revenue. Barack Obama has burned through \$3.7 trillion of taxpayers' money, bringing the debt to an astonishing \$14.3 trillion - \$46,000 for every man, woman, and child in America.

The Obama Democrats' irresponsible call for massive tax increases on the already overburdened American people is a non-starter. It's time for serious reform. It's time for a Balanced Budget Amendment.

Speaker John Boehner and House Majority Leader Eric Cantor are leading the charge to pass a Balanced Budget Amendment this week. Talk is cheap – if Democrats want more spending, they must commit to ending the ceaseless cycle of spending and debt for good now – not in 2013 or some mythical date in the future.

If \$14.3 trillion isn't enough spending for Barack Obama and his profligate Democrat allies, no amount will be. You and I must live within our means – and it's high time Washington learned to do the same.

We have to show we mean business, by word and deed."[48]

SUMMARY: A balanced budget amendment would prevent a future Congress from enacting wasteful spending; Most States are required to balance their budgets.

11. LePage Pushes for Medicaid Eligibility Changes

"Gov. Paul LePage says he will push for a significant change in Maine's version of the Medicaid program, MaineCare, by reducing eligibility to the level in place in most states, a move that opponents say will throw about 30,000 Mainers off the program.

"This is what the level is in 47 other states," LePage said in an interview, "We should not be more generous than these other states, but we are and we have been and it needs to stop."

He said he is worried that if the state continues to offer "richer" benefits than other states, there will be the risk that people will move to Maine to get those better benefits. He also said reducing the eligibility level for childless adults will not have the effect on seniors that opponents have charged, but an administration study found the effect will be more on young Mainers.

"The average age of people, childless adults in the State of Maine, the average age is 34, predominately male and working," he said. "That's my problem, that's what we want to fix."

LePage acknowledged he had tried to make the change in the two-year state budget, but it was rejected by the Appropriations Committee. He said he would again make the proposal because he believes the state cannot provide better benefits than other states…

[48] Balanced Budget Amendment, by Reince Priebus, RNC Chairman, RNC Letter, 7/18/11

LePage said the new state health insurance law has provisions to make health insurance more affordable and he believes many of those that are between the current 200 percent of poverty level and the 133 percent can help pay for their own insurance coverage…

Gov. LePage has joined with the other GOP governors in supporting repeal of that law. He has also joined in court cases seeking to strike down the law…

LePage said Maine cannot continue to offer "richer" benefits than other states and every dollar saved in Medicaid is a dollar that can be used for other priorities."[49]

12. Break This Spending Cycle

"As governors of states whose residents, like all Americans, are desperate for the restoration of fiscal responsibility in Washington, we are proud to have signed the "Cut, Cap and Balance Pledge" amid the debate over once again raising the federal debt ceiling.

We oppose an increase in the federal debt limit unless three common-sense conditions are met: substantial cuts in spending; enforceable spending caps to put the country on a path to a balanced budget; and congressional passage of a balanced-budget amendment to U.S. Constitution. That amendment should include a requirement for a congressional supermajority to approve any increases in taxes.

Washington's ability to continuously vote itself more fiscal breathing room may help Congress – at least in the short term – avoid making the kinds of tough decisions made by states, businesses and families. but ignoring economic realities will lead to even more painful choices down the road and increase the potential for a financial collapse that could permanently cost America its role as the world's leading economic power.

The more money Washington prints and borrows to pay for pet projects and wasteful programs, the further our federal government gets from fulfilling its core missions: the missions that keep America safe, productive and employed.

Americans must continue to stand up for the principles that served as the foundation for our nation's unparalleled successes. The principles of limited federal government and responsible fiscal leadership have sustained us during tough times, and they can lead us out of this period of sluggish economic growth."[50]

13. Five Truths About the Deficit and the Debt

"In the American political conversation, the national debt has become something almost mythical.

It's an accounting concept. The debate over deficits and debt is frequently clouded with sloppy language and sloppy thinking. Here, as something of a primer, are some

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[49] LePage Pushes for Medicaid Eligibility Changes, by Mal Leary, Capitol News Service, Bangor Daily News, 7/17/11

[50] Break This Spending Cycle, by Rick Perry and Nikki Haley, Bangor Daily News, 07/16/11

basic concepts every American – and every member of Congress- should understand about the U.S. fiscal situation.

Deficits are the gap between revenue and spending

The U.S. government took in about $7,000 in revenue for every man, woman and child in America last year. It spent more than $11,000. The gap between those numbers, about $4,000, is the deficit and it was covered by borrowing money.

The debt is the accumulation of deficits over time.

Looming over Sixth Avenue in Midtown Manhattan is a clock ticking ever upward, showing the accumulated national debt. Let's change that 14 trillion plus figure into a more manageable number: The national debt works out to about $46,000 per American. That level of debt has been accumulated over two centuries, rising rapidly in times of war and depression, rising slowly most of the time, and occasionally falling in times of prosperity and fiscal restraint.

But even if Congress and the Obama administration agreed to a budget for next year with zero deficit, the national debt would still be with us. It would take massive budget surpluses year after year to actually eliminate it. No one in public office offered a plausible plan that would do that.

The good news is that there's really no need to eliminate the debt entirely. Indeed, having no debt could be problematic: Government debt, in the form of U.S. Treasury bonds, plays a crucial role in the inner workings of the financial system, offering a place for investors to put their money that is considered safe.

There's good debt and bad debt.

There's no doubt that debt can be dangerous.

If the government borrows money to pay for things that have a long-term payoff, such as a highway between two major cities or education for its citizens, deficit financing can make a lot more sense. When the government borrows money just to pay its year-in, year-out expenses, it's really just a tax increase by another name.

Economic growth matters.

Not only would a stronger economy make the deficit lower- it would enlarge the nation's capacity to handle a large debt.

Interest rates matter.

Here's a phrase that most Americans have never heard but will be really, really important over the coming decade: debt dynamics.

That's the concept that deficits and debt have a built-in feedback loop. So when debt levels rise too high, interest rates can rise, making the debt problem all the more onerous. Debt dynamics are the reason that, even though interest rates are very low now, it is worth worrying about current U.S. debt levels.

A debt level that is manageable when interest rates are 3 percent can become onerous when rates are 6 percent. Every rise in interest rates by a single percentage point increases the annual cost to service that debt by about $140 billion, or $450 for every American.

What that means is that with debt levels high relative to the size of the economy, a country loses control of its own destiny in terms of public finances. If global lenders lose faith that the U.S. government is the safest entity on earth to lend money to, suddenly the fiscal situation would go from being a long-term challenge to a near-term crisis."[51]

SUMMARY: The federal debt is a drag on economic growth, and job creation. Reducing the deficit is a necessary goal.

14. Pension Reform Saves Maine Taxpayers $1.7 Billion

> "One of the big victories for Maine taxpayers were the pension reforms included in the recently passed state budget. The changes limit the growth of retirement benefits for 75,000 teachers and state employees. This reduces the stifling $4.1 billion pension debt to $2.4 billion, a stunning 41%.
>
> This huge $1.7 billion debt reduction achieves two things:
>
> 1. The retirement plan is now more fiscally sustainable because it's more affordable for state government. Our teachers and state employees should have more confidence that the pension checks will be there when needed.
> 2. Maine taxpayers will now spend $150 – 275 million PER YEAR less over the next 17 years until the debt must be paid off.

These huge annual savings are being used to create a business-friendly climate in Maine to attract capital investment and jobs. The resulting increased economic activity will generate more tax revenues so we can better fund state government services, and pay our bills on time.

This is the largest tax cut in Maine history. Reducing our pension debt by $1.7 billion. It all adds up. It's all part of the overall strategy to reduce the cost and complexity of living and doing business in Maine. The new leadership team in Augusta, is steadily putting the pieces in place to turn this battleship in a different and healthier direction."[52]

15. LePage Dramatically Reduces Payments Needed for Pension, At a Cost

> "But a new law – LD 1043, the biennial budget bill – has created a new picture, one that promises to be better for the state's fiscal health, better for funding state services – but worse for the 75,000 teachers and state employees who depend on the state pension system as their primary source of income in their retirement.
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> Former Republican state Sen. Peter Mills, who made pension costs one of his priorities in his 16 years in the Legislature, said the pension change, "helps every single state budget in perpetuity… it's an extraordinary thing."

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[51] Five Truths About the Deficit and the Debt, by Neil Irwin, The Washington Post, Bangor Daily News, 7/15/11

[52] Pension Reform Saves Maine Taxpayers $1.7 Billion, By Bruce Poliquin, State Treasurer, statetreasurer@subscriptions.maine.gov , 7/14/11

That bill – passed by two-thirds majority vote in the Legislature and signed by Gov. Paul LePage – reduces future benefits to retirees. The reduction means that instead of the state paying $9.63 billion in pension costs between now and 2028, the cost will be $6.19 billion – a 35.6 percent smaller bill.

Looking at 2020 again, instead of a pension bill of $760 million, the bill is projected to be $480 million. And instead of representing 20 percent of the state budget (based on an annual growth rate of 3 percent), the pension costs would be 14.4 percent of the budget.

The savings come almost entirely by cutting cost of living adjustments (COLA) for state retirees, according to the budget.

Previously, retirees could get up to a 4 percent COLA each year on their entire pension benefit, depending on inflation. Now, they will not get a COLA at all for the next three years, unless there is a budget surplus. After that, they could get up to a 3 percent COLA, but only on the first $20,000 of annual retirement income, which is about the average.

One nonpartisan voice in the debate has been the 2010 report on reinventing state government by Envision Maine, a think tank based in Freeport. The report called Maine's pension debt "a mess" and made cleaning it up it No. 1 recommendation for enabling the state to invest for "a new prosperity."

Co-author Alan Caron said while his report did not recommend "charging current retirees, which effectively what they did," he said the governor and the Legislature "overall did some good work…it's a pretty good first step. They turned it in the right direction."

The reduction of the pension's unfunded actuarial liability (UAL) from $4.1 billion to $2.4 billion "is a big positive."

Two state officials in charge of the budget and debt said recent meetings with the bond rating agencies were encouraging because some of the negatives on the state balance sheet have since improved, including the pension debt.

Poliquin, the new state treasurer, called the pension changes "very, very exciting. Breathtaking in its scope. It's huge.

If Maine was downgraded one notch, he said, the cost of the 10-year bond would have been an additional $780,000 over 10 years." [53]

SUMMARY: The change in the Cola for State retirees, thus reducing the unfunded liability from $4.1 billion to $2.4 billion is a big step to fiscal sanity. Prior legislatures and governors enacted benefits that we could not afford. This is part of the 75 year cycle of liberal spending and taxing policies that are now finally changing.

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[53] LePage Dramatically Reduces Payments Needed for Pension, At a Cost, by John Christie, Maine Center for Public Interest Reporting, Bangor Daily News, 7/13/11

16. Snowe, Collins Support Closing Tax Loopholes to Lower Debt

"Don't look for members of Maine's congressional delegation to support cuts in Social Security or Medicare as part of the debt limit legislation, but all four say a debt reduction package that includes budget cuts and new revenues is likely.

"There are solvency problems with both programs," Sen. Olympia Snowe said.

She said she has no idea what will come out of the budget talks but she believes to get enough votes to pass it will have to have cuts in spending and additional revenue.

"We are not talking about raising tax rates," she said, "but there are a lot of tax credits that are not needed and should be repealed."

Sen. Susan Collins agreed. In an interview Friday she said the Senate has already voted to end the tax subsidy for ethanol production and that would save close to $6 billion a year. She said there are many other agricultural subsidies that should be repealed.

"We spend billions of dollars a year in subsidies that go to some very wealthy corporate farmers," she said. "It has always troubled me that if you grow blueberries or potatoes you get absolutely no price subsidy, but if you grow corn, wheat soybeans or rice you get a guaranteed price and the taxpayers pay the bill."

Collins said there are also plenty of examples of wasteful spending that can be cut. She said a second type of engine for the new joint strike fighter aircraft is unneeded and eliminating would save billions.

Second District Rep. Mike Michaud said he is worried about a polarization in the House that could block passage of any package. He said in an interview that there are democrats vowing to vote against any package with budget cuts and republicans vowing to vote against any package with increased revenues.

Michaud said the current level of debt, where 40 cents of every dollar is being used to pay interest on the federal debt, is unsustainable. He said to get his vote a package will need to substantially reduce the debt through a combination of new revenues from losing tax loopholes and cutting spending."[54]

SUMMARY: With 40 cents of every dollar or $200 billion being spent on federal debt interest, real spending cuts must be made before considering tax revenue generators.

17. Balanced Budget Amendment Needed Now More than Ever

"Whatever the outcome of President Barack Obama's meeting with congressional leaders of both parties at the White House this week, no long-term solution is on the table for the spending habits in Washington that have endangered the prosperity of future generations. With our federal debt exceeding $14 trillion – nearly 100 percent of our gross domestic product – fiscal calamity is jeopardizing our standard of living

[54] Snowe. Collins Support Closing Tax Loopholes to Lower Debt, by Mal Leary, Capital News Service, Bangor Daily News, 07/10/11

and undermining our national security. And President Obama recently requested that we add an additional $2.4 trillion to our debt.
There has to be another way, and there is. Republicans in the Senate are united in our concern about our nation's fiscal future.

Nonetheless, the federal government is doing exactly that on an unimaginable scale, running historic deficits in excess of a trillion dollars for three consecutive years and borrowing 40 cents for every dollar spent. Our government has balanced its budget only five times in half a century.

The U.S. currently spends an astounding $200 billion per year just to pay interest on its debt, an annual amount projected to reach nearly $1 trillion by 2021. Money spent on debt-interest payments is money not invested in our economy, jobs, infrastructure or education.

Economists Carmen Reinhart and Kenneth Rogoff have found that gross debt levels above 90 percent of GDP slow economic growth by 1 percent per year. First-quarter GDP growth this year was already abysmal at 1.9 percent. At the rate, China would surpass the U.S. economy in size even before 2016, the year recently forecast by the International Monetary Fund.

If Congress increases our national debt ceiling next month without permanent, structural budget reforms, we will signal to taxpayers and bond markets alike that Washington is still in denial. Whatever agreement is reached, everyone will know that future Congresses are not obligated to follow it. As a result, the only way to compel lawmakers to maintain their responsibility forever is a balanced budget amendment to the Constitution.

The last time the Senate considered a balanced budget amendment was on March 4, 1997 – and it failed to pass by one vote. On that day 14 years ago, the nation's outstanding debt was $5.36 trillion. Today it is $14.3 trillion, or nearly three times that amount.

A constitutional amendment to balance the budget is imperative if we are to provide continuity of fiscal responsibility, and ensure we never return to the recklessness of the past and present. It's time Congress passed the amendment and gave the states – and "We the People" – their say."[55]

18. Common Sense and Respect for and from Government

"Last week, we celebrated the 235th anniversary of the birth of our country. Of all we expect of it, I propose that we must never, never let our government and its bureaucrats lose sight of common sense as they seek to protect us from ourselves.

The same 235 years past saw the publication of Thomas Paine's "Common Sense." His introduction began, "Perhaps the sentiments contained in the following pages, are not yet sufficiently fashionable to procure them general favor; a long habit of not

[55] Balanced Budget Amendment Needed Now More Than Ever, by Olympia Snowe and Jim DeMint, Bangor Daily News, 7/10/11

thinking a thing wrong, gives it a superficial appearance of being right and raises at first a formidable outcry in defense of custom."

Paine observed, "Many circumstances have, and will arise, which are not local, but universal, and through which the principles of all lovers of mankind affected, and in the event of which, their affections are interested."

To me, common sense does matter, I want to be able to respect my government and I want it to use common sense. The two go together today as they did in 1776."[56]

SUMMARY: I found the editorial by Richard Rhoda, to have great impact this year. As he quotes Thomas Paine's "Common Sense," the writing is a good lesson for everyone to keep in mind.

19. Talks: Inflation Change Could Cut Social Security

"Once considered untouchable, Social Security is now in play in the debt-ceiling negotiations.

Adopting a new inflation measure would allow policymakers to gradually cut benefits and increase taxes in a way that might not be readily apparent to most Americans. The inflation measure under consideration is called the chained consumer price index. On average, the measure shows a lower level of inflation than the more widely used CPI.

A chained CPI assumes that as prices increase, consumers buy lower-cost alternatives, reducing the amount of inflation they experience. For example, if the price of beef increases while the price of pork does not, people will buy more pork. Or, as opponents mockingly argue, if the price of home heating oil goes up, people will turn down their heat and wear more sweaters.

The measure, if adopted across the government, would have a wide-ranging effect on taxes and government benefits, and those changes would grow over time. The change would mean smaller annual increases in Social Security payments, government pensions and veterans' benefits. Current payments would not be affected, but recipients would receive smaller increases in the future.

Overall, the proposal would cut Social Security benefits by $112 billion over the next decade, according to the nonpartisan Congressional Budget Office. It would cut government pensions and veterans' benefits by $24 billion over the same time period if adopted for them as well.

The White House has been negotiating with congressional leaders over ways to reduce the government's huge budget deficit as part of a deal to extend the nation's ability to borrow. The government has already hit its $14.3 billion borrowing limit, and is in danger of defaulting on its obligations if the limit is not increased by Aug. 2.

In most years, Social Security payments are increased based on a measure of inflation called the consumer price index for urban wage earners and clerical workers. If

[56] Common Sense and Respect for and from Government, by Richard L. Rhoda, Bangor Daily News, 7/10/11

Social Security adopted the new measure, annual increases would be 0.3 percent smaller, according the program's actuaries."[57]

SUMMARY: The historical CPI versus the chained CPI raises a new level of debate regarding "hidden changes" that could effect the public. More transparency on this technique is needed as well as open debate.

20. Learning from New Hampshire's Tax Scheme: It's Complicated

"To small-government conservative, New Hampshire is the all-star state that gets it right. To liberals who believe taxes and government spending are essential for a vibrant economy and healthy society, New Hampshire is that annoying pebble in your shoe that you can't quite shake loose.

Specifically, using 2007, pre-recession data, New Hampshire collects $6,504 in revenues per capita, which is 22 percent below the New England average. Maine's per capita revenue collection is about $7,800. The Granite State spends $6,442 per capita – that's 20 percent lower than the regional average – while Maine spends about $7,500 per capita.

And New Hampshire residents aren't living in austerity because of lower state spending. The median household income is $67,508, compared with $48,568 in Maine.

Several Maine policy makers gathered at the State House last week to hear the report's author, Jennifer Weiner, explain her findings.

But ms. Weiner concluded that 60 percent of New Hampshire's status as a low-tax state comes through policy choices. These are worthy of Maine's consideration. The first is that New Hampshire spends the least in New England - $1,347 per capita – for social service programs. Maine spends $2,345 per capita.

In fact, the Granite State's lower welfare spending accounts for almost a third of the spending gap between New Hampshire and the New England average.

One might argue that the need is greater in Maine. But Ms. Weiner points out that New Hampshire sets its Medicaid eligibility levels at 45 percent to 56 percent of federal poverty guidelines, while Maine offers it for those with incomes of 200 percent to 207 percent of federal poverty levels.

New Hampshire also does not offer universal pre-kindergarten classes and only recently added universal kindergarten. New Hampshire's public colleges and universities rely more on tuition and fees and less on state appropriations than Maine.

Its contribution to the state employee pension system is the lowest in New England and public employees in New Hampshire are paid less than in other New England states.

Lastly, perception cannot be ignored. New Hampshire is revered among libertarians and free staters as a bastion of laissez faire government. Maine must do a better job

[57] Talks: Inflation Change Could Cut Social Security, by Stephen Ohlemacher, The Associated Press, Bangor Daily News, 7/7/11

of waving its flag. And it also should consider tightening spending as its neighbor has."[58]

SUMMARY: Here are the facts on Maine v. New Hampshire:

	New Hampshire	Maine
• Revenues Collected/yr/Capita	$6504	$7800
• Spending/Capita	$6422	$7500
• Median Income	$67,508	$48,568
• Social Programs/Capita	$1347	$2345
• Public Employees, Salary & Pensions	Less than ME	More than NH

The comparison is startling especially with no income tax in New Hampshire and it is a healthy one in Maine. Competition demands charge for Maine.

21. Federal Jobless Tax for Employers Expiring Quietly

"Nearly every private employer in the U.S. will get a tax cut on Friday.

But the expiration of the 35-year-old "temporary" unemployment tax- about $14 a year per worker- will mean real money for some big companies at a time when President Barack Obama is pushing Congress to raise taxes on businesses by closing some loopholes.

Some worry that reducing federal unemployment taxes while the jobless rate hovers above 9 percent will add to the system's financial problems. But the tax cut will save businesses nationwide more than $14 billion over the next decade, according to congressional estimates.

"The fact that it has taken 35 years for this 'temporary' tax to expire clearly illustrates the dangers of higher taxes – once in place, they are unlikely to ever go away."

The expiring levy was a 0.2 percent surtax on the first $7,000 of a worker's wages. Getting rid of it effectively lowers the federal unemployment tax from 0.8 percent to 0.6 percent for most employers. That's a decrease from $56 a worker to $42 a worker each year – a 25 percent cut.

The surtax was first imposed in 1976 to help pay for federal unemployment benefits distributed in the 1970s. The tax was supposed to be temporary, but like a lot of short-term measures in Washington, it endured and was extended at least eight times, under both Republican and Democratic presidents."[59]

SUMMARY: Make certain that "sunset laws" are etched in stone!

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58 Learning from New Hampshire's Tax Scheme: It's Complicated, Bangor Daily News, 7/5/11

59 Federal Jobless Tax for Employers Expiring Quietly, by Stephen Ohlemacher, The Associated Press, Bangor Daily News, 6/30/11

22. "Maine By The Number"

"Maine is a wonderful place to live but decades of big government, a punitive tax burden, and job killing policies have made it a difficult place to invest and prosper. Many businesses and young entrepreneurs are fleeing to other states where there is more opportunity to succeed.

Maine ranks in the top-ten states for cost of residential electricity, percent of households receiving food stamps, Medicaid spending per capita, and state and local taxes as a percent of personal income.

Maine's private sector job growth has been an anemic 0.7 percent, Wyoming, one of our rural peer states, is leading the nation in private sector job growth at more than 22 percent. And while our next-door-neighbor New Hampshire ranks first in the nation for private sector share of personal income, Maine ranks a dismal 44th."[60]

23. Bipartisan Debt Plan Would Alter Medicare

"A bipartisan team of senators aims to raise the Medicare retirement age to 67 and require the wealthy to pay more for their care as part of the White House-congressional effort to dramatically reduce federal deficits.

The plan, written by Sens. Joseph Lieberman, I-Conn., and Tom Coburn, R-Okla., would save an estimated $600 billion in the cost of Medicare, the government's health care program for the elderly and some disabled. While the plan is expected to meet strong resistance, some of its elements could be incorporated into a bipartisan deal.

Then senators' proposal would increase the Medicare eligibility age, now 65. It would go up two months each year; beginning with people born in 1949, until it reaches 67 in 2025. The age would then remain 67. If the 2010 federal health care law is repealed or overturned as Republicans want and courts are considering, the age would remain 65.

Any deal would be part of legislation to raise the nation's $14.3 trillion debt ceiling. Without an increase, administration officials estimate the government will exhaust its borrowing authority by Aug. 2, which could lead to a default on U.S. debts, chaos in financial markets and a new recession.

Medicare's trust fund is expected to be insolvent in 2024, and its projected annual costs are a major driver of federal spending.

The Lieberman-Coburn plan includes:

- A single combined annual deductible of $550 for both Part A (hospital) and Part B (general physician) Medicare plans.
- An annual out-of-pocket limit of $7,500. Currently there is no limit, which means catastrophic illness could exhaust a consumer's savings.
- New requirements that wealthier people pay more out-of-pocket. Those levels would reach $12,500 for individuals earning $85,000 to $107,000 and married

[60] Maine By The Number, by Michael Duddy, The Maine Heritage Policy Center, 06/29/11

couples making $170,000 to $214,000. At the highest end, couples earning $320,000 or more would pay up to $22,500.

- New policies for "Medigap" coverage. About one in five beneficiaries gets supplemental coverage to pay deductibles or co-pays. The Lieberman-Coburn plan would bar such policies from paying any of the first $550 of liability and would limit other coverage."[61]

SUMMARY: The Coburn-Lieberman medicare proposal, raising deferment from 65 to 67, and means testing, would save $600 billion in medicare costs. There are deductibles that are probably too high to be fair however.

24. Augusta's Attitude Change

"Maine's unhealthy business climate was a key issue during this past election. Most candidates – Republicans, Democrats and independents – included promises to address this problem as part of their campaigns.

In addition to our high taxes, energy costs and health insurance costs, our regulatory environment is considered a major impediment to the success of business in this state.

The final product was a unanimous report and near unanimous support dealing with a diverse set of reforms.

The LD 1 bill itself is composed of 32 pages of a dozen or so section dealing with a diverse set of reforms. Here's some of what it does:

- Creates incentives for businesses to voluntarily disclose and correct environmental violations.
- Authorizes agencies to conduct a benefit-cost analysis of proposed rules.
- Modifies the "Business Ombudsmen" program to assist businesses with the state bureaucracy and proposes to develop a consolidation of licenses for businesses such as convenience stores, restaurants and campgrounds.
- Creates the office of "Special Advocate" within the Secretary of State's office to assist small businesses in seeking resolutions to agency actions that may result in the closure of the business or termination of employees.
- Requires agencies to include sources of information relied upon by the agency when proposing rules.
- Directs the Department of Environmental Protection to adopt rules allowing certain hazardous materials to be more easily re-used or recycled.
- Clarifies that agency "guidelines" are not by themselves enforceable rules.
- Changes the Board of Environmental Protection allowing it to be more focused and efficient.
- Expands the authority of municipalities to issue fire permits, if authorized by the commissioner of public safety.
- Creates a stakeholder group to review option for paperwork reductions for businesses.

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[61] Bipartisan Debt Plan Would Alter Medicare, by David Lightman, Bangor Daily News, 06/29/11

- Allows legislative committees to direct agencies to review specific rules for relevancy, clarity and appropriateness and report back to the committee.
- Directs the Department of Economic and Community Development to collaborate with other agencies and businesses to apply to the U.S. Citizenship and Immigration Service for designation as an EB-5 state regional center.

LD1 is a big first step toward a better business climate in Maine and makes several major accomplishments. First, it is a true bipartisan work and illustrates what can be accomplished when all sides – Democrats, Republicans, environmentalists, businesses and state government – work toward the same goal. Second, and more important, it represents a change in attitude in Augusta from one that rarely considered the plight of businesses in Maine to one that realizes the importance of a strong business environment and the challenges those businesses face on a daily basis."[62]

25. Farmers, Ethanol Makers Likely OK With No Subsidy

"The likely end of a $5 billion-a-year federal subsidy that helped build the ethanol industry will mean two things, experts who have followed its development say.

First, it doesn't guarantee an end to the high prices that corn farmers have enjoyed and livestock producers and other food manufacturers have endured.

That's because of the second point: The ethanol industry likely would be fine without the subsidy and keep using just about as much corn as it has the past few years.

"What do you need a tax credit for when you have this built-in huge market in the United States?" asked Bruce Babcock, an economist at Iowa State University. "The U.S. ethanol industry is very competitive; they don't need to [subsidy]."

The U.S. Senate voted last week to end the tax credit and an accompanying tariff on ethanol imports in July, half a year ahead of schedule. The move was mostly symbolic – the amendment is part of broader legislation considered a long shot to become law when it moves to the House because some conservatives have said any move to eliminate tax breaks amounts to raising taxes – but it shows that lawmakers may be ready to let the subsidy die in December rather than renew it as they did last year.

Ethanol producers and corn farmers had hoped to preserve the tax credit, but now seem willing to compromise.

The tax credit, known as Volumetric Ethanol Excise Tax Credit, or VEETC, was created in 2004 to help encourage the use of ethanol, most of which in the United States is made of corn. The tax credit gave oil companies financial incentive to buy ethanol and blend it with their gasoline – using more of the alternative fuel – at a time when there was little financial incentive to do so. The credit and the renewable fuels mandate – a requirement that refiners use 12 billion gallons of renewable fuels in 2011, 15 billion by 2015 and 36 billion by 2022 – have worked together to drive up ethanol production. The U.S. produced 13.2 billion gallons of ethanol in 2010, up

[62] Augusta's Attitude Change, by Jonathan McKane, Bangor Daily News, 6/21/11

from 3.4 billion in 2004, according to Washington-based Renewable Fuels Association.

Last year, it took about one-third of the U.S. corn crop to meet the ethanol demand. When coupled with increased orders from livestock producers, who rely on corn for feed, and growing exports to China and elsewhere, the demand for corn has soared and caused prices to reach historic highs.

Chris Thorne, spokesman for the trade group Growth Energy, said there are roughly 8 million flex-fuel vehicles on U.S. roads now, but relatively few gas pumps that sell gasoline blended with the higher levels of ethanol they can burn.

"The [subsidy] did a great thing in building up demand and encouraging production of ethanol," Thorne said. "Well, we don't have a production problem anymore, we have a market access problem.'""[63]

SUMMARY: The VEETC (Ethanol Subsidy) should be repealed.

26. Energy Chief Sees Economic Gains With Offshore Wind

"Gov. Paul LePage's energy czar on Thursday said the administration sees economic development potential from the development of offshore energy.

Development of alternative sources of electricity should be viewed as a replacement for oil, Fletcher said. Both supply and costs of oil can be unpredictable, and when they jump, they hurt Mainers both at the gas pumps and in the cost of hearing oil. Maine is the most dependent state of heating oil.

Maine can develop wind farms 20 miles off the coast to produce green power for the East Coast, where more than 55 million people live, he said. Like the export of potatoes, wood products, paper and lobsters, Maine can export power and prosper from the trade, he suggested.

The goal is to bring the cost of offshore wind power to 10 cents per kilowatt hour by 2020, at the grid. That's the production cost of energy. Currently, power in the state is at roughly 16 cents per kilowatt, hour, and half of that is transmission costs, he said.

John Ferland, vice president of project development at Ocean Renewable Power Co. LLC, talked about his company's tidal power technology, which recently finished beta testing in Cobscook Bay.

"The best thing about tidal energy is it's happening right now," said Ferland.

Cianbro Chairman and CEO Peter Vigue said it was reasonable to think of Maine as New England's future renewable power provider. The state has the people and companies to make it happen, the proximity to the market and the natural resources, he stressed.

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[63] Farmers, Ethanol Makers Likely OK With No Subsidy, by David Mercer, The Associated Press, Bangor Daily News, 6/21/11

Maine's expertise in manufacturing, advanced materials and other areas can attract companies here to make equipment for the wind sector, he said. General Electric currently makes all of its steam and gas turbine blades in Bangor, he said – the idea of Maine as a manufacturing hub isn't so remote.

"We can seize the moment if we act," said Vigue."[64]

27. Downgrade Reflects Ratings Service's Lack of Confidence In Deficit Reduction.

"Standard & Poor's Ratings Service downgraded its outlook Monday on U.S. government debt, expressing unprecedented doubts over the ability of Washington to bring the massive federal budget deficits under control.

The agency lowered the long-term outlook to "Negative" from "Stable," saying there is a one in three chance the United States could lose its top investment rating on its debt in the next two years.

S&P said it has little confidence that the White House and Congress will agree on a deficit-reduction plan before the fall 2012 elections and doubts any plan would be in place until after 2014.

The government is on pace to run a record $1.5 trillion deficit this year, the third consecutive deficit exceeding $1 trillion.

S&P said the U.S. has a fundamentally strong, diversified economy. Still, the agency noted that the U.S. deficit grew to 11 percent of gross domestic income in 2009. That is much higher than the 5 percent or less the country had averaged in the previous six years."[65]

SUMMARY: With the U.S. deficit at 11% of GDP, higher than the 5% in prior years, a downgrade by S & P was predictable without significant cuts in spending.

28. House Republicans Pass $6 Trillion Spending Cut Plan

"Under the House Republican plan approved Friday, deficits requiring the federal government to borrow more than 40 cents for every dollar it spends would be cut by the end of the decade to 8 cents of borrowing for every dollar spent.

The Plan was by Budget Committee Chairman Paul Ryan, R-Wis.

Its Medicare proposal would give people now 54 or younger health insurance subsidies that would steadily lose value over time- even as current beneficiaries and people 55 and older would stay in the current system.

[64] Energy Chief Sees Economic Gains With Offshore Wind, By Matt Wickenheiser, Bangor Daily News, 6/17/11

[65] Downgrade Reflects Ratings Service's Lack of Confidence in Deficit Reduction, by Paul Wiseman, The Associated Press, Bangor Daily News, 4/19/11

Republicans counter that low taxes and spending cuts would unleash capital into the economy and put it on firm footing – and avoid a European-style debt crisis that could force far harsher steps.

Virtually every budget expert in Washington agrees that projected Medicare cost increase are unsustainable, but the GOP initiative has brought heated disagreement.

"We hear a lot about Medicare as we know it," said Rep Tim Griffin, R-Ark. "Well, unfortunately Medicare as we know it is going bankrupt. If you are for the status quo with regard to Medicare, you are on the side of the elimination of Medicare as we know it."

The budget deficit is projected at an enormous $1.6 trillion this year, and, more ominously, current projections show an even worse mismatch in coming decades as the baby boom generation retires and Medicare costs consume an ever-growing share of the budget."[66]

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[66] House Republicans Pass $6 Trillion Spending Cut Plan, by Andrew Taylor, The Associated Press, Bangor Daily News, 4/16/11

IV. Recommendations, Studies, Complied Reports

A. Overview

1. It's Time for a Plan

"David Brooks, in his Feb. 28 column appearing in the *New York Times*, set forth three principals for cutting the federal budget that ought to be required reading for every member of Congress. Brooks understands what most politicians refuse to accept: It will be impossible to put the nation's fiscal house in order without developing a plan of action and then finding the will to make the difficult and painful choices necessary to see that plan to fruition. Brooks' principles are simply stated, but profound in their implications.

1. Make everybody hurt.
2. Trim from the old to invest in the young
3. Never cut without an evaluation process.

"Reducing or eliminating duplication, overlap or fragmentation could potentially save billons of tax dollars annually and help agencies provide more efficient and effective services," wrote the GAO. [1]

"Our own U.S. Sen. Susan Collins identified some of the major findings of the GAO;

- Fifteen federal agencies are involved in food safety and demonstrate bad coordination and use of funds.
- There are 80 economic development programs across the government with little efficiency, effectiveness, or metrics.
- Surface transportation has over 100 programs that are unaccountable and yield no documentation of results.
- Twenty different agencies and 56 programs have a hand in financial literacy programs. "This report confirms what most Americans assume about their government," said U.S. Sen. Tom Coburn (R-Oklahoma). "We are spending trillions of dollars every year and nobody knows what we are doing. The executive branch doesn't know. The congressional branch doesn't know. Nobody knows."
- Addressing those problems could save taxpayers hundreds of billions of dollars every year without cutting a single service, says Coburn. Senate Majority Leader, Mitch McConnell of Kentucky, that "what's reckless is the $1.6 trillion dollar deficit we are running this year" and "the $3 trillion we've added to our national debt." [2]

Summary: *We need to cut all waste, fraud, abuse, excess, overlap and duplication as a stated goal.*

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[1] The Ellsworth American, March 10, 2011, Section III, Page 1

[2] See id FN1

2. Unions, States Headed for Combat

"For some 30 years under Democrat administrations, Maine union members experienced little opposition to their bargaining status and considerable benefits. Under newly elected Governor Paul LaPage's administration, already filed are a couple of bills to prohibit payment of union dues or fees by public sector workers who choose not to join a union. Maine is not one of the nation's 22 states that have a right-to-work law. A state right- to- work law is permissible under the Taft- Hartley Act of 1947, which prohibits requiring compulsory union membership as a condition of employment. This provision was a congressional reaction to a series of strikes in 1946. It affirms the First Amendment right of freedom of association. The reasoning is that unions are private, voluntary organizations in which membership should be a conscience choice of the worker. There also is the argument that union security measures corrupt the merit of principle since public employees should be hired on the basis of qualification for the job rather then membership organization. Twenty-two states have adopted right-to-work statues or constitutional provisions." [3]

3. New CBO Budget Baseline Reveals Permanent Trillion-Dollar Deficits

"The new Congressional Budget Office (CBO) 10-year budget baseline shows virtually an unprecedented sea of red ink. The report reveals an unprecedented $1.5 trillion dollar deficit in the fiscal year (FY) 2012-an increase of $95 billion dollars over their last 2011 estimate. This will be the third consecutive year of trillion dollar deficits.

However, the baseline includes a number of unrealistic assumptions-assumptions that Congress requires the CBO to use-that skew the results. Once the baseline is scrubbed of these unrealistic assumptions, the more realistic baseline shows historic spending levels driving the budget deficit to $1.9 trillion by 2021. Over the next decade, deficits are projected to total $13.6 trillion." [4]

Summary: *Deficits are out of control. Without severe spending cuts, our economy will fail.*

Spending Drives Historic Debt

"The CBO baseline contains two important messages. First, Washington is accumulating debt at an unsustainable rate. After the debt slowly grew to $ 5.8 trillion through 2008, the more realistic baseline shows the federal government adding an astonishing $19.1 trillion in new debt between 2009 and 2021-$140,000.00 per household over those 13 years.
The second message is the surging government spending-not low revenues – is driving long-term deficits. Recession –depleted tax revenues are scheduled to rebound to their historical

[3] Mike Brown, The Ellsworth American, March 10, 2011, Section III
[4] http://www.origin.heritage.org "New CBO Budget Baseline Reveals Permanent Trillion Dollar Deficits" Brian Riedl, Jan 26, 2011 Heritage Foundation, WebMemo No. 3121.

average of 18.0 percent of GDP by 2018 and reach 18.4 by 2021-even if all tax cuts are made permanent . By contrast, federal spending (historically 20.3 percent of GDP) is projected to reach 26.4 percent of GDP by 2021. This means that, beginning in 2018, rising budget deficits are entirely the result of above-average spending. For example, the 2021 budget deficit is set to exceed its historical average of 5.7 percent of the GDP because rising revenues (0.4 percent of GDP above their historical average) will be dwarfed by surging spending (6.1 percent of GDP above its historical average). Spending is the moving variable."[5]

Summary: *Historic revenue levels are at 18% of GDP level. Spending is at an historic 20.3 % of the GDP levels. Thus, deficits occur. But now, spending is projected to increase to 26.4% of GDP, an unsustainable number. We have a spending problem, not a revenue problem.*

General Budget and Spending Trends: Looking Forward

"Much of this spending growth will be driven by entitlements such as Social Security, Medicare, and Medicaid. Between 2008 and 2021, the annual cost of these programs is set to rise from $1.2 trillion to $2.2 trillion (adjusted for inflation). Medicaid costs alone soar 129 percent faster than inflation over that period, due in part to expansions from the new healthcare law. Social Security and Medicare face a 75-year shortfall of $43 trillion.

Despite their intense focus, failing to extend the tax cuts for those earning more than $250,000 annually would raise just $736 billion over the next decade (closing 5 percent of the $13.6 trillion budget deficit), and even that assumes no negative economic consequences. By contrast, Social Security, Medicare and Medicaid are forecast to spend $21 trillion over the decade.

The 2009 budget deficit of 8.9 percent of GDP was just 1.0 percent of the GDP below the 2009 level that shattered the postwar record. Furthermore, the budget deficit is projected to remain above 5.9 percent of the GDP indefinitely.

By 2021, the budget baseline forecasts a $1.9 trillion annual budget deficit, publicly held debt of 104 percent of GDP, and annual net interest costs surpassing $1 trillion.

Over what would be President Obama's eight years in office, baseline budget deficits are projected to total $9.9 trillion- Triple the $3.3 trillion in deficits accumulated by President Bush. Publicly held debt-7.5 trillion at the end of 2009-is projected to triple to $24.9 trillion by 2020.

After remaining between 23 and 49 percent of GDP since the end of World War II, publicly held debt currently stands at 62 percent of the GDP and is projected to reach a peacetime-record 104 percent by 2021- well past the level that many economist believe harms economic growth.

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[5] See *id*, FN 4

As the budget deficit increases over the next decade, so will net interest spending, from $197 billion (1.3 percent of GDP) in 2010 to $1.082 trillion (4.5 percent of GDP) by 2020. Even that assumes that interest rates remain lower than in the 1990s. An interest rate spike could costs trillions of dollars in additional net interests costs.
By 2021, nearly half of all income tax revenues will be needed just to pay interest on the publicly held debt.

The coming tsunami of Social Security, Medicare, and Medicaid costs are projected to push publicly held debt to 344 percent of the GDP by 2050 and 854 percent of GDP by 2080." [6]

<u>Summary:</u> *The deficit as a percentage of GDP, 8.9 % as of 2009, is at record levels. Raising taxes will not solve the problem. Reducing entitlements must occur in a thoughtful manner.*

Fundamental Reform Necessary

"This is unacceptable. Fundamental spending reforms are required to avert a budget crisis.

1. Lawmakers should immediately bring non-defense discretionary spending down to 2008, or even 2009 levels.
2. Next, they should enact tough spending caps to help lawmakers set priorities and make trade-offs.
3. Then, Congress should disclose the massive unfunded obligations of Social Security, Medicare, and Medicaid and put those programs on long-term budgets.
4. Finally, lawmakers should enact the necessary entitlement and programmatic reforms that can keep government within those limits.

These spending reforms may not be easy, but the alternative-record government debt and historic tax increases-even worse." [7]

4. Obama's Tax Hikes on High-Income Earners Will Hurt the Poor –and Everyone Else

"Abstract: *Those who think that they are safe from looming Obama tax hikes because they are not "rich" are in for a rude awakening if the Obama tax plan goes into effect. Economic growth affects everyone- whether directly or indirectly. All people's microeconomic decisions contribute to the macroeconomic picture. When business owners hire fewer employees, the economy, as a whole suffers, not only those who otherwise would have jobs. Senor citizens are hurt most by the imminent tax increases because retired people rely disproportionately on dividend payments for their income.*

President Barack Obama has argued that the wealthiest Americans should take on a greater tax burden, and has promised that his tax increases would not affect those earning below $250,000 per year ($200,000 for single filers). The recent recession painfully demonstrated that in a complex, interdependent economy, this isolated effect on one group is not possible.

[6] See id, FN 4
[7] See id, FN 4

The effects of macroeconomic growth (or lack thereof) influence everyone in the economy. Al people's microeconomic decisions contribute to the macroeconomic picture. When business owners purchase fewer machines or hire fewer workers, the growth of the overall economy suffers. This limits the wage increase that people can expect, as well as their opportunities for creating savings that fuel the future." [8]

5. Top 10 Ways The Obama Budget Displaces Private Entrepreneurship

"The President's 2010 budget proposal increases taxes and spending by magnitudes only matched previous to this year by war. The budget, according to the Congressional Budget Office (CBO) includes over $3,550,000,000.00 to grow old programs and create new ones. As the budget expands the role of government, it pushes entrepreneurs aside.

1. Obama's budget tries to simulate the market in education rather then unleash capitalism. However, of the president recognizes that choice is important to parents and incentives matter for educators, then he should favor a private school system.
2. .Obama's budget stifles entrepreneurship in the oil industry and higher taxes.
3. Obama's budget plans to stimulate and plan the market in transportation rather than allow it to freely function.
4. Obama's budget wastefully funds socialized water production that displaces efficient private sector solutions.
5. Obama's budget funds food safety despite its failure.
6. Obama's budget will cripple private broadband Internet by placing heavy requirements in service.
7. Obama's budget wastes taxes on science, a field in which the private sector has a proven record of success.
8. The President wants government rather than entrepreneurs to plan local energy solutions.
9. The budget wastes more money on failed foreign aid.
10. The budget rewards Postal Service for failure. "[9]

6. Top 10 Ways the Obama Budget Wastes Taxpayer Money

1. "The budget includes a $646 billion Cap-and –Trade energy tax.
2. The budget makes a "down payment" on socializing healthcare.
3. The budget hands out billions to agencies that fund ACORN and other community organizing groups.
4. The budget increases department Housing and Urban Development (HUD) funding after it helped cause the financial crisis.
5. The budget summary claims that Government knows better than taxpayers about their retirement.
6. The budget creates yet another entitlement and spends billions on Pell Grants.
7. The budget spends $178 billion on interest on the debt.

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[8] http://www.heritage.org "Obama's Tax Hike on High Income Earners Will Hurt the Poor-and Everyone Else, Guinevere Nell and Karen Campdell, Ph.D, Nov. 15, 2010

[9] Onorati, Joesph, FreedomWorks, March 31, 2009 http://www.freedomworks.org

8. The budget (as part of its $1 trillion tax hike) raises taxes by $1 billion to fund the failed EPA superfund program.
9. The budget generates even more cheap credit to further distort the market.
10. The budget increases funding for space exploration while the country suffers in recession.[10]"

7. ***ISSUES:*** **Budget and Spending**

Budget Commandos!

"The battle has begun over President Obama's budget and the massive tax hikes that it would usher in. Obama's proposal would radically increase taxes on American businesses and taxpayers, more than $3 trillion over the next ten years. The Obama budget also explodes the size and scope of the federal government, with new programs including a cap and trade emissions and government run healthcare.

The Issue

Waste, fraud and abuse are rampant in the federal budgets from year to year. Rather than return the surplus tax dollars to taxpayers, the monies continue to be left in Washington to pay for the bloated federal government programs.

The FreedomWorks Position

Government is too big and spends too much of our money. A strong and vibrant free market economy-free from the burdensome taxation and regulation – offers the best hope for creating opportunity and improving the quality of life for every American.[11]"

8. **How to Limit the Damage from Obamacare-Pulling it Out Weed By Weed**

"**Abstract:** *Obamacare- the popular name for the recently enacted Patient Protection and Affordable Care Act (PPACA) – is highly disliked by American voters who want to see it repealed. A majority of states are suing to overturn it, and the House of Representatives has voted to repeal it. Though repeal is being blocked by the Senate and the Obama Administration, there are ways that lawmakers can reduce the damage that Obamacare is inflicting on the American economy and everyday freedoms. Former Representative from Oklahoma Ernest Istook explains that the tools-from routine defunding to cutting off backdoor* funding for PPACA- that policymakers could employ now.

The massive 2,700-page health care law is deliberately designed to make defunding and dismantlement difficult. Although original estimates reported that it created 159 new government agencies, later studies show even more, but that an exact count is impossible due to the complexity of the law. The new law attempts also to bypass the normal appropriations process, another feature that makes defunding more difficult. By making advance appropriations for tens of billions of dollars up and beyond the year 2020, these provisions of Obamacare seek to take spending decisions away from the current Congress

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[10] Kibbe, Matt, FreedomWorks, March 31, 2009 http://www.freedomworks.org

[11] Armey, Dick http://www.freedomworks.org

and from future Congresses and Presidents. Although Obamacare was not pitched to the public as a mandatory spending entitlement, the details of the legislation reveal an intent to block any future Congress from controlling Obamacare's spending.
Any strategy to repeal Obamacare will require lawmakers to focus on provisions that form the foundation of the new law's architecture, so that eliminating these would topple major portions of it. Such pillar provisions, among others, include:

- The individual and employer mandates;
- The health insurance "exchanges";
- The evisceration of Medicare Advantage;
- The requirement that states dramatically expand their Medicaid programs regardless of the expense; and

The authority granted to the Office of Personnel Management to create a prototype "public opinion" of a government-run insurance company."[12]

Summary: *Former Congressman, Ernest Istook has provided a roadmap to repeal PPACA (Obamacare). The Law will crush our economy. It is probably unconstitutional on several points.*

Obamacare Tries to Strip Congress of Power to Defund

"One of Obamacare's most egregious insults to the rule of law is its effort to take away the power of the current Congress, future Congresses, and future Presidents to decide what level of funding –if-any its programs should receive. The law does this by including billions of dollars in actual appropriations of them from future years."[13]

Cutting Off Backdoor Funding for Obamacare

"The packaging of appropriations bills become crucial, since the leverage is accomplished only by packaging whatever one wants in the same legislation as what somebody else desires. The typical approach-limitations language in appropriations bills- is important, but insufficient by itself to defund Obamacare. As noted by CRS, Congress may decide to "provide funds for some activities or projects under an agency, but not others."[14]

"But to defund Obamacare entirely, Congress must also cover the backdoor approaches used by executive branches to bypass the appropriations process, or to fund backdoor programs during a continuing resolution. These include:

- Transferring funds from other agencies or programs,
- Using unobligated balances from previous years' appropriations,
- Awarding grants through other funding accounts,. and

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[12] How to Limit the Damage from Obamacare-Pulling it out Weed by Weed, Ernest Istook, Jan. 27, 2011 http://www.heritage.org
[13] See *id*, FN 12
[14] See *id*, FN 12-13

- Using creative funding streams to bypass Congress". [15]

"**Expedited Review.** Congress could shorten or remove some of the legal hurdles that delay the time when the U.S. Supreme court may issue a final order on the constitutionality of Obamacare."[16]

"**Monitoring.** Transparency and good government require that all executive branch efforts to advance Obamacare should be known to Congress and to the public.[17]
Oversight. Although beyond the scope of this paper, heightened oversight by Congress and tracking cog expenditures is necessary for any problem that gives as much unfettered discretion to bureaucrats as President Obama has allocated.......

The debate over Obamacare boils down to how one answers the following question: Should the federal government control America's $2.5 trillion healthcare sector? As shown by the robust negative public response, no lawmaker should say "yes."[18]

B). State of Maine Facts

See Chart Following this Page.
Total State debt should be understood by everyone. The pension liability has been reduced by 2011 legislation, a good first step.

Bruce L. Poliquin[19]

An Imbalance of Power

"**.....**States from Maine to California are facing fiscal crisis of historic proportions, many of them with massive unfunded liabilities in their public employee health and pension plans."

Those circumstances have prompted governors and legislatures-and millions of citizens, as well to take a hard look at public employee unions, and they don't like a lot of what they see. Here in Maine, Governor LaPage has proposed an increase in retirement age to 65 for new and recent public employee hires, and his budget asks retirees to forgo the cost of living increases in the short term and accept modest increases in the future. LePage also wants to eliminate the requirement that union support be condition of public employment.

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[15] See *id*, FN 12-14
[16] See *id*, FN 12-15
[17] See *id*, FN 12-16
[18] See *id*, FN 12-17
[19] Poliquin, Bruce L. State Treasurer

TOTAL STATE DEBT

Treasury	$ 0.5 billion
Authorities	5.5
University	0.2
Pension UAL	4.3
Health Care UAL	2.2
Total	$ 12.7 billion

- Closer Oversight by Treasury

When it comes to public employees, however, that union membership is nearly five times higher at 36.8 percent. And in many instances, those public sector workers –thanks to their unions and to the politicians who have willingly acquiesced to their demands-have come to enjoy compensation and benefit packages that significantly exceed those of their private sector counterparts who finance the public payrolls.

There is a distinct difference to be drawn between unions in the private and public sectors of the economy. Charles Krauthammer, a conservative Washington Post columnist whose writing also appears in the Bangor Daily News, presented that difference between clearly and concisely last week." In the private sector, the capitalist knows that when he negotiates with the union, if he gives away his store, he losses his shirt," wrote Krauthammer. "In the public sector, the politicians who approve any deal have none of their own money at stake. On the contrary, the more favorably they dispose of union demands, the more likely they are to be the beneficiary of union largess in the next election. It's the perfect cozy setup.

Only 7.6 percent of the nation's private work force is ununionized.

The extent to which power and influence will be stripped from public employee unions will be decided in legislative chambers across the nation in coming months."[20]

9. LePage Details Budget Choices

"Gov. Paul LePage says that he's made several difficult budget decisions to improve the state's business climate, the only way he sees to improve Maine's economy.

Crucial to improving the business climate and growing the State's economy is his proposals to lower overall tax rates and conform to federal tax provisions to bolster investment, he said. "At the rate we are going now, it is going south and it['s not going to turn around until we stop the bleeding", LePage said." We need businesses to grow." Overall, taxes will fall $203million over the two budget years with his proposal he said. "If we don't do it in the biennium, we don't have a prayer of turning this state around."[21]

"The budget proposes that the retirement age for most state employees increase from 62 to 65 and freezing cost-of-living adjustments for current retirees and capping future increases as 2%. LePage also proposes that state employees contribute another 2% from their paychecks toward the pension system to help pay down the estimated $4.4 billion unfounded liability. State workers currently chip in 7.65 % of their salaries to the pension system."

LePage said some of the budget balancing options he would have liked to use, such as changing benefits under the state Medicaid program, could not be considered because of federal

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[20] The Ellsworth American, March 3, 2011, Section III, Page one
[21] Leary, Mal, March 7, 2011, MaineBiz, Volume 16, No. 5

law requiring that past levels of benefits be maintained. The budget for the state share of Medicaid is up nearly $80 million." [22]

Summary: *The Federal Government should allow the States to decide benefit distribution under Medicaid, to fit each State's needs.*

C). Budget Realities, Unions and States

1. Wisconsin, nation awakening to budget realities

"At the federal level, President Obama's budget makes clear that Democrats are determined to do nothing about the debt crisis, while House Republicans have announced that beyond their proposed cuts in discretionary spending, their April, 2011 budget reform will actually propose real entitlement reform. Simultaneously, in Wisconsin and other states, Republican governors are taking on unsustainable, fiscally ruinous pension and health care obligations, while Democrats are full-throttled in support of the public-employee unions crying "Hell no."

A choice, not an echo: Democrats desperately defending the status quo; Republicans charging the barricades.

Obama's Democrats have become the party of no. Real cuts to the federal budget? No. Entitlement Reform? No. Tax Reform? No. Breaking the corrupt and fiscally unsustainable symbiosis between the public-sector inions and state government? Hell no.

We have heard everyone-from Obama's own debt commission to the chairman of the Joint Chiefs of Staff-call the looming debt a mortal threat to the nation. We have watched Greece self-immolate. We can see the future, the only question has been: When will the country finally rouse itself? Amazingly, the answer is: now."[23]

2. Educators incensed about pension plan

"Concerned about their livelihoods and tired of misconceptions about teachers pay, educators from throughout Maine told lawmakers on Friday that Gov. Paul LePage's "pension reform" plan would harm cash-strapped retirees while failing to improve classroom instruction.

The LePage administration, meanwhile, said the reforms are needed to guarantee the long-term solvency of the pension system on which tens of thousands of retirees and current public employees depend.

For two days, scores of state employees and retirees have criticized LaPage's plan to close an estimated $4.3 billion pension shortfall and generate General Fund revenues by increasing

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22 See *id*, FN 21

23 Krauthammer, Charles, *Wisconsin, nation awakening to budget realities*, Bangor Daily News, Feb. 25, 2011 OpEd A11

worker contributions to the pension system, raising the retirement age for newer hires and freezing the capping retirees' cost-of-living adjustment."[24]

Summary: *The Governor was successful in 2011 in significantly reducing the un-funded pension liability.*

3. Top 10 Reasons to Reject Card Check

1. "Card check is un-American
2. Card Check would facilitate Union intimidation in the workplace.
3. Card Check would put Government Bureaucrats at the Helm of American business
4. Card Check is unpopular.
5. Card Check threatens to break the very backbone of American business.
6. Card Check doesn't work.
7. Card Check is unfair.
8. Card Check supporter's have built their case on demagoguery and outright lies
9. Card Check would further threaten our fragile economy and hurt jobs.
10. Card Check is really about building the liberal left's political machine."[25]

4. Save Our States, Stop the Unions

"Across our country, reasonable Governors and state legislatures are tackling bloated state budgets by confronting the exorbitant influence held by public sector unions. In Wisconsin, Ohio, Pennsylvania, and Tennessee, Freedomworks is supporting crucial legislation to "Save Our States".

In Wisconsin, Democrats and unions are trying to prevent Governor Scott Walker from passing his Budget Repair Bill.

In Ohio, Governor Kasich has introduced SB5, to end collective bargaining for state and local employees.

In Pennsylvania, Governor Corbett is trying to curb the influence of the teachers' unions by passing The Opportunity Scholarship and Educational Improvement Tax Credit Act.

Senator Jack Johnson and Rep. Debra Young Maggart of Tennessee have introduced corresponding pieces of legislation to prevent collective bargaining between teachers' unions and local school boards." [26]

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[24] Miller, Kevin Educators Incensed about Pension Plan, Bangor Daily News March 5-6, 2011 Pg A1-A2

[25] Jordan, Rob Top 10 Reasons to Reject Card Check, http://www.freedomworks.org

[26] Duncan, Michael Save our States, Stop the Unions, Feb 18, 2011 http://www.freedomworks.org/blog

"Comments:

Blatzrox "I hope this spreads like wildfire across the nations! These Unions are killing America! It's time to cut the golden benefit parachute."

TheresaKS "Had our teachers been taught properly and Civics classes not replaced with progressive BS. They would know hat they do not need the unions, they are already have protection under the Civil Servants act. They never needed to pay the unions ransom. How can we trust these people to teach our children, if they are not even educated in regard to their own protections?" [27]

5. Top 10 Reasons to Support SB5 in Ohio to Limit Public Sector Collective Bargaining

1. "Ohio is facing a $10 million dollar deficit in 2011.
2. Ohio's government workers receive far more pay then our private sector counterparts,
3. Ohio's state and local government employees; pensions are severely under funded.
4. Ohio's government workers pay little of their health care and pension costs.
5. SB5 is a very modest proposal.
6. Public sector collective bargaining is limited and outlawed in 24 states.
7. Collective bargaining is inconsistent with the right to freedom of association.
8. A clear conflict of interest exists between politicians and public sector unions.
9. It will limit pay increases to merit-based only.
10. Even former President Franklin Delano Roosevelt opposed collective bargaining for public sector workers."[28]

6. Governor's Tax Cuts Could Offer Relief

"When this legislative session comes to an end, sometime in June, Maine residents can count on one thing-tax relief is on the way.

Beginning in 2013, the second year of the budget, the top income tax rate drops from 8.5 percent to 7.95 percent-the lowest top rate since 1975. This is not just a tax cut for "the rich". For the 2011 tax year, it will take only $19, 950 in taxable income for a single filer

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[27] See *id* FN 26

[28] Borowski, Julie Top 10 Reasons to Support SB5 in Ohio to Limit Public Sector Collective Barganing. March 7, 2011 http://www.freedomworks.org

to hit the top bracket; for joint filers, the threshold will be $39,950. Some 240,000 Maine families will pay lower taxes once the reduced rate kicks in.

The governor's plan also brings the Maine standard deduction up to the federal level. This is a big deal.

Additionally, the budget proposal increases Maine's personal exemption to $3,750, up from $2,850, where it has stood since 2000. An MRS analysis projects that more than 420,000 families will benefit from this change, with an average tax decrease of $132.

The governor's plan also eliminates Maine's alternative minimum tax (AMT) on individuals-one of the most resented taxes on the books. And it abolishes the lump-sum retirement plan distribution tax and the tax on "early distribution" from retirement accounts.

It's all part of the governor's overall to make Maine friendlier to business in hopes of generating more jobs, which in turn would generate more tax revenue, which in turn would enable the governor to drive taxes down even further. Maine faces a long road back to a strong economy, but this tax cut package is a good first step."[29]

7. LePage Lauds NH Economic Climate

"Gov. Paul LePage says Mainers who want to see prosperity need to only look one state to the west.

Lepage said that New Hampshire is a more "welcoming place for commerce" While the Granite State's population is only slightly larger than Maine's, its $60 billion gross domestic product is 20% more than Maine's $50 billion in economic activity, he said.

LePage said New Hampshire's household incomes, $63,731, are the seventh-highest in the country, compared to Maine's 37th ranking at $46,581.

"It will take hard work, nut we can put Maine on a footing where we can compete with New Hampshire and the world." Lepage said." [30]

8. A Cock-of-the-Walk Governor

"In the eyes and mouths of Maine's liberals, Paul LePage has become a cock-of-the-walk governor, a conservative who seems to be dominating the entire government of Maine, and all who challenge his leadership.

The LePage election needs some explanation. For some 30 years, the state of Maine has been in the hands of elected and assigned politicians and government managers who

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29 Bennett, Paul Governor's Tax Cuts Could Offer Relief, York County Coast Star, March 31, 2011, Pg. A8

30 Bangor Daily News, April 11, 2011, Pg B8

dominated the social and business climate of Maine. Throughout these decades, the negative trends of commerce and the escalation of taxes became burdens that an especially aging population found difficult to beat.

Maine paper mills were taken over by Canadians and other foreign interests and Maine dropped 41st in the nation for annual salary. Maine's per capita gross domestic product was 42nd off all states. Neighboring New Hampshire was 22nd.

Maine has become one of the top five states in terms of welfare costs as a percentage of government expenditures.

LePage obviously draws the wrath of liberals and environmentalists who, for so long, have dominated Maine society and are largely responsible for the decline of the state's business climate and jobs. With a majority Republican Legislature, LePage seems to be taking the right fork in the road to change in Maine.

As for the continual liberal harping on Maine's chief executive, it's beginning to sound like all they have is a media hammer and all their problems look like penny nails."[31]

Summary: *Mainers average salary is 41st nationally. GDP is 42nd nationally (N.H. is 22nd). Maine is in the top 5 welfare States. We need change.*

D). U.S. Policies, Maine in a Global Economy And Financial Crisis

1.The Role of the US, Maine in a Global Economy

"People often blame globalization, or the increased linking of production and ,markets across different countries, for destroying jobs in the developed world, including the United States. Indeed millions of jobs have been outsourced over the last 20 to 30 years to China, India, Mexico, and a whole host of other emerging economies.

Activities bemoan the weak labor and environmental standards in host countries, and politicians proclaim they fight it to keep jobs in the United States.

Also, the United States is slipping in the World Economic Forum's ranking until a couple of years ago to fourth now, while China is climbing up, albeit still at a distant No. 27.

What should we do in Maine?

State government, companies, universities, and economic development agencies should emphasize innovation as a cornerstone of the state's future competitiveness. Sensible steps include:

- Focus on STEM areas (sciences, technology, engineering and math) in higher K-12 education

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[31] Brown, Mike, Ellsworth American, April 7, 2011, Section 3, Pg 1 and 2

- Promote innovation in the curriculum through initiatives such as the Student Innovation Center at the University of Maine. Encourage networking between inventors and entrepreneurs with business expertise to improve economic development.
- Make business climate friendly to entrepreneur ally minded investors.
- Target sectors in which Maine has good positions, such as wood composites, marine technology and aquaculture, and clean energy, and develop economic policies to encourage innovation and build a high-tech cluster around them.

In the era of globalization, sound, business-friendly policies are called for more than ever. The winners would have markets throughout the whole world. Slipping further back should not be an option."[32]

2. Fishermen want to weigh in on policy

"When it comes to establishing new federal policies and processes for reviewing and approving marine activates , fishermen say they should have a seat at the table.

The new national ocean policy created last summer by President Barak Obama does not give them one, several fishing industry officials told federal regulators Friday at the annual Maine Fishermen's Forum. The policy lays out a top-down management structure, they indicated, which likely will result in adverse impacts on fishermen.

"We do not have the opportunity as fishermen or be directly involved in the process, and that concerns me." Said David Wallace of Wallace & Associates, a seafood consulting firm in Salisbury, Md." [33]

Paul Howard, executive director of New England Fishery Management Counsel, said the potential impact to commercial fishermen is too great for them not to be directly involved. He said existing marine planning programs, such as the process of the federal Bureau of Ocean Energy Management, Regulation, and Enforcement that has been dealing with tidal and offshore wind energy development proposals, have not involved fishermen enough.

"I don't believe consultation is adequate, " said Howard. "We should be at the table. We need to protect our fishing resources and economy."

"The [fishing groups] have a tremendous amount to offer from a lot of different perspectives," he said." [34]

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32 Manev, Ivan, The Role of the US, Maine, in a global economy, Bangor Daily News, March 5-6, 2011 Section C1 and C6
33 Trotter, Bill Fishermen want to weigh in on policy, Bangor Daily News, March 5-6, Sec. C Pgs 1 and 2
34 See *id* FN 33

Summary: *The policy should be to include all groups in the discussion of policy decisions-talk to "line workers."*

3. LePage Calls for More Seafood Processing

"Gov. Paul LePape, speaking Friday at the Maine Fishermen's Forum, said Maine needs more seafood processing capacity and fewer fish regulations is its businesses and people are going to prosper.

He took particular aim at the federal government, which he said is "trying to get us off the water." If Maine is going to have jobs to offer young people now in school, he said, the federal government needs to limit its control of Maine's seafood industry and let the state do the rest,

"Too many of our kids are leaving the state", he said. "We have to stop the exodus. We have to convince the federal government that we're not hurting our resource; we're sustaining it."

LePage cited increased harvests last year in the state's lobster and salmon aquaculture industries but said increases catches are not enough. Having Maine's seafood processing industry expand, he said, is one way to help create job opportunities and growth. As it is, too much of fish and shellfish that are harvested in the state are shipped out of Maine-to Canada, in particular-before it is processed into more valuable products.

Some fishermen have complained that the boundary – which runs approximately three miles off shore and indicates where they have to use the more expensive whale safe gear and where they don't –is arbitrary and has complicated the fishing habits of lobstermen who are used to setting their gear in particular areas."[35]

Summary: *The Federal Government is standing in the way of our own prosperous fishing industry.*

4. Border Security

"Large scale illegal boarder crossings- the vast majority for economic reasons-are compromising the security if America's boarders

The FreedomWorks Position

A combined approach of a temporary worker and border security is the obvious way forward for Congress and America. Proposals like the plan offered by Rep. Mike Pence (R-Indiana) recognize that we will not be able to effectively secure our boarders unless we also address economic realities. By providing American employees and temporary guest workers a legal way to operate, we can eliminate the source of much of the current lawlessness at the border. Reducing the overall flow of illegal traffic at the boarder will allow law enforcement to focus on stopping criminal gangs and capturing terrorists."[36]

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[35] Trotter, Bill, LePage Calls for more Seafood Processing, Bangor Daily News, March 5-6, 2011, Pgs B1 and B5

[36] Border Security, http://www.freedomworks.org

5. Senators Question Plans for Fannie, Freddie

"Republican and Democratic senators clashed Tuesday on how best to overhaul Fannie Mae and Freddie Mac after a Treasury Department report on the troubled housing giants.

At issue are three long-term scenarios that Treasury posed for consideration in February for how to revamp the two government-controlled agencies, which were driven to the brink of collapse during the financial crisis of 2008.

Republicans called for a virtually privatized system in which the government's role in the mortgage market would be significantly reduced. In this scenario, only the Federal Housing Administration would be allowed to guarantee a small group of mortgages for low and moderate-income borrowers who meet the creditworthiness criteria.

"The less involvement by the public sector in housing, the better". Sen. Bob Crocker R-Tenn., said in an interview after the hearing.

Democrats backed a broader guarantee approach, where the government would offer reinsurance for securities of a targeted range of mortgages." [37]

6. Energy and Environment

"The U.S. Environmental Protection Agency is charged with protecting human health and safeguarding the natural environment. The regulations they impose and penalties they dispense are among the most restrictive in the world.

Also, the United States is in the midst of an energy crisis. New exploration and the production of energy resources has almost completely stopped, our refining capacity is stretched to the limit, and our dependence on foreign energy sources is at an historical high. Any effort to make electricity and fuel more expensive, or to cap or regulate CO2 will only exacerbate an already critical situation and cause tremendous economic damage.

Today, the United States imports nearly 60 percent of its crude oil-the highest level in history. Our ever-increasing reliance on foreign sources like OPEC not only exports environmental damage to other countries, but makes our economy dependant upon the whims of foreign governments." [38]

Summary: *Freedom Works and other groups remind us that the EPA often hinders our energy production. We need energy independence. The EPA should be supportive- if not, an overhaul is needed.*

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[37] Orol, Ronald, D. Senators Question plans for Fannie, Freddie, Bangor Daily News, March 16, 2011 Pg A6

[38] Energy and Environment, http://www.freedomworks.org

7. Lumber Dispute Process too Slow

"Advocates for the U.S. softwood lumber industry say a 2006 agreement with Canada has been effective, but suggest that international politics play too heavy a role in the process, slowing down action on potential violations.

The United States and Canadian softwood lumber industries are inherently different, said Zoltan van Heynningen, executive director of the Coalition for Fair Lumber Imports. The U.S. is a traditional free market system, with private owners of forestlands selling logs into the lumber industry. In Canada, most of the forestlands are owned by the government. The government sells logs to industry at vastly reduced prices-essentially, a subsidy- in order to preserve forest products jobs.

The subsidies give Canadian lumber companies an unfair advantage on pricing, he said.

The 2006 trade accord was an attempt to even the playing field and resolve decades of legal disputes. It essentially froze Canadian government subsidies at the 2006 level and imposed some taxes and quotas, while the U.S. companies agreed to forgo some of their rights under U.S. trade law.

"Any delay in enforcement of this trade agreement causes harm to the U.S. industry, in the form of last wages and jobs in the communities that can least enforce it", said van Heyningen." [39]

"Sen. Olympia Snowe, R-Maine, agreed with the coalition and said the USTR should move more quickly when it comes to initiating arbitration.

"This is a real problem and Canada's repeated violations of the agreement threatens the livelihood of the industry and the jobs it supports here in Maine. This cycle is harmful to the U.S. workers, and it must stop." Said Snowe in a written statement, "But this will only happen for the industry in Canada knows moving forward that when it violates this trade agreement, enforcement action will be immediate." [40]

"Sen. Susan Collins, R-Maine, said for years that the Canadians have "skirted" the trade agreement, and that it was imperative that the Obama administration not allow them to "float this agreement with impunity," [41]

Summary: *Fishing, farming and forestry with Canada all need strong oversight and understanding to protect Maine workers and businesses from unfair trade.*

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[39] Wickenheiser, Matt, Lumber Dispute Process too Slow, Bangor Daily News, April 6, 2011 pg. A6
[40] See *id* FN 39
[41] See *id* FN 39-40

8. Fishermen Divided Over New Regulations

"A year ago, Rob Odlin of Scarborough was predicting the demise of his ground fishing career.

With his maximum catch reduced from about 300,000 pounds to 91,000 pounds and the number of days he could fish cut to 24, Odlin believed the new system was stacked against small boat operators like him.

Today, Odlin says he is still afloat, barely, and he hasn't changed his opinion of the new system.

Odlin is among many fishermen who say they are struggling under the new regulations that went into effect May 1. At the time, critics predicted half of New England's 1,480 ground fishing vessels would be put of business and ground fishing would screech to halt by summer.

The ports of New Bedford and Gloucester, Mass., and various fishing interests filed a lawsuit against Commerce Sec. Gary Locke and Jane Lubchenco, head of the National Oceanic and Atmospheric Administration, claiming the regulations violate federal laws.

The government also set stiff new quotas for haddock, cod, yellowtail flounder, and other groundfish species. Once a sector exceeds its quota for any 19 species, intentionally or not, the entire sector must stop fishing for that species." [42]

E.) Federal Energy Policies Offending our Economy

1. A Good Energy Bill Can Make Gas Prices and Electricity Affordable

"Gasoline prices are steadily rising towards $4 per gallon, the price that triggers public outcry and a congressional response. In a recent interview, Senator Lindsay Graham (R-SC) said that at $4 gasoline, "everybody is tripping over themselves to find an energy policy." [43] Graham mentioned he would start work on his clean energy standard (CES) bill that would mandate that a certain percentage of our nation's electricity come from carbon free sources. In a recent speech, Senate Energy and Natural Resources Committee chairman Jeff Bingaman (D-NM)renewed his interest in introducing a clean energy standard bill and for the first time supported nuclear's inclusion so long as the bill provided additional incentives for renewable energy." [44]

A Clean Energy Standard: No Effect on Gas, Real Effects on Electricity Prices

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42 Quimby, Beth, Fishermen Divided Over New Regulations, Bangor Daily News, April 4, 2011
43 Loris, Nicolas, A Good Energy Bill Can Make Gas Prices and Electricity Affordable, February 1, 2011 http://www.heritage.org
44 See *id* 43

Implementing a CES in response to high gas prices is a non sequitur, because a CES affects electricity generation. And since only about 1 percent of America's electricity was generated from petroleum in 2009 it is misleading to suggest that one would effect the other." [45]

Summary: *High gas prices are a result of too many regulations, too little nuclear, and blocks to use of the United States' natural resources. The private sector needs to be let alone to secure energy.*

Real Solutions

1. "The price of gasoline in the U.S. is gradually climbing and could rise to uncomfortably high levels, largely due to inflated crude oil prices in the face of strong demand for gasoline. Increasing access to oil reserves in the U.S., both onshore and offshore, would not only help offset rising demand but also increase jobs and stimulate the economy. A Heritage Foundation analysis found that increasing domestic supply by 1 million barrels per day, would create an additional 128,000 jobs and generate $7.7 billion in economic activity. The U.S. currently produces 5.3 million barrels of crude oil per day, so producing an additional; 1 million barrels per day would be nearly 20 percent increase. [46]
2. Access Offshore. With 19 billion barrels of oil in the currently restricted Pacific and Atlantic coasts and the eastern Gulf of Mexico-and another 19 billion barrels estimated in the Chukchi Sea off the Alaskan coast-increasing production by a million barrels per day is an easily achievable number. [47]
3. Access onshore. Federal leasing of oil and gas exploration in the western United States has dropped significantly in the past two years. According to data complied by the Western Energy Alliance, the Bureau of Land Management offered 79 percent fewer leases for oil and natural gas developments FY 2010 than in FY 2005 in the areas of Colorado, Montana, New Mexico, North Dakota, Utah and Wyoming. Another obvious and senseless onshore restriction is in the Artic National Wildlife Reserve, where an estimated 10 billion barrels of oil lies beneath a few thousand acres that can be accessed with minimal environmental impact. [48]
4. Access to easy Imports. The Keystone XL pipeline is a $12 billon pipeline system that would increase the amount of petroleum the US receives from Canada by over a million barrels per day. The Administration should not allow environmentalist and special interest

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[45] See *id* 43-44
[46] See *id* 43-45
[47] See *id* 43-46
[48] See *id* 43-47

motivations to prevent the construction of this valuable source of imports. [49]

5. At the Plug. If Congress wants to create pro-energy legislation, it should also focus on reforms that would produce affordable electricity without mandates, special tax breaks, or subsidies.
6. Real nuclear energy reform. Streamlining the onerous regulatory process for nuclear energy plants would allow plants to come online quicker, creating predictability and opening completion for new technologies. [50]
7. Predictable and sensible coal regulations. Although some new coal plants are coming online, it is not nearly the number of what it could be. The Environmental Protection Agency (EPA) should not over-regulate to kill existing coal plants while preventing new ones from being built. [51]
8. Peeling back regulations on renewable energy. Unnecessary regulatory red tape holds up renewable energy ventures, makes them prohibitively more expensive, and deters investment. Reducing this bureaucracy would allow the free market to develop new energy technologies more quickly. [52]
9. Ending energy subsidies. Subsidies create complacency within the industry and reduce the incentive to innovate. In most cases, subsidies either transfer part of the cost for a market-viable investment to the public or divert direct investment away from more efficient projects. [53]
10. Limiting litigation. Environmental activities delay projects by filing endless administrative appeals and lawsuits. Creating a manageable timeframe for groups or individuals contesting energy plans would avert potentially cost-effective ventures from being tied up for years in litigation." [54] Summary: The Heritage Foundation study is a good guide to solving many of our energy issues.

2. Republicans try to revive Yucca Mountain

"Yucca Mountain is still breathing."

"It has been 24 long years since Congress designated the site in the southern Nevada desert as the best place to store the nation's nuclear waste.

Under that plan, the nation would begin building nuclear plants on an unprecedented scale. The nation now gets 20 percent of its electricity from 104 nuclear reactors.

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[49] See *id* 43-48
[50] See *id* 43-49
[51] See *id* 43-50
[52] See *id* 43-51
[53] See *id* 43-52
[54] See *id* 43-53

There's one big problem: There's no place to put the radioactive waste.

The Republican legislation would take care of that. It would require the Nuclear Regulatory Commission to complete its review of Yucca Mountainside "without political interference.

Still 64 House Republicans have signed on to the bill that would triple the nation's nuclear capacity in 19 years. The legislation also promises to reignite an old battle calling for energy exploration in Alaska's Artic National Wildlife Refuge.

Sen. Lindsey Graham, R-S.C., one of the Senate's strongest supporters of Nuclear energy, said the president's decision to close Yucca Mountain "was ill-advised and leaves our nation without a disposal plan for spent nuclear fuel or Cold War waste."

"It was a political, not scientific, decision, " Graham said. "It is incumbent on the administrations come up with a disposal plan for this real problem facing our nation."[55]

Summary: *Nuclear power will be the solution to our energy problems in the long -term.*

F. Poverty in America

1. Understanding Poverty in America

"Poverty is an important and emotional issue. Last Year, the Census Bureau released its annual report on poverty in the United States declaring that there were nearly 35 million poor persons living in this country in 2002, a small increase from the preceding year. To understand poverty in America, it is important to look behind these numbers to look at the actual living conditions of the individuals the government deems to be poor.

For most Americans, the word "poverty" suggests destitution: an inability to provide a family with nutritious food, clothing and reasonable shelter. But only a small number of the 35 million persons classified as "poor" by the Census Bureau fit that description. While real material hardship certainly does occur, it is limited in scope and severity. Most of America's "poor" live in material conditions that would be judged as comfortable or well off just a few generations ago. Today, the expenditures per person of the lowest income one fifth (or quintile) of households equal those of the median American household in the early 1970s, after adjusting for inflation."

The following are facts about person's defined as "poor" by the Census Bureau, taken from various government reports:

- Forty six percent of all poor people own their own homes. The average home owned by persons classified as poor by the Census Bureau is a three bedroom house with one and a half baths, a garage, and a porch or patio.

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55 Hotakainen, Rob, Republicans try to revive Yucca Mountain, Bangor Daily News, March 14, 2011 Pg D2

- Seventy six percent of poor households have air conditioning. By contrast, 30 years ago, only 36 percent of the entire U.S. population enjoyed air conditioning.
- Only 6 percent of poor households are overcrowded. More than two-thirds have more than two rooms per person.
- The average poor American has more living space than the average individual living in Paris, London, Vienna, Athens, and other cities throughout Europe. (These comparisons are to the average citizens in foreign countries, not to those classified as poor.)
- Nearly three quarters of poor households own a car; 30 percent own two or more cars.
- Ninety seven percent of poor households have a color television; over half own two or more color televisions.
- Seventy eight percent of poor households have a VCR or DVD player; 62 percent have cable or sate little TV reception.
- Seventy three percent own microwave ovens, more than half have a sterol, and a third have an automatic dishwasher.

While the poor generally well nourished, some poor families do experience hunger, meaning a temporary discomfort due to food shortages. According to the U.S. Department of Agriculture (USDA), 13 percent of poor families and 2.6 percent of poor children experience hunger at some point during the year. In most cases, their hunger is short term. Eighty nine percent of the poor report their families have "enough" food to eat, while only two percent say they "often" do not have enough to eat.

In good economic times or bad, the typical poor family with children is supported by only 800 hours of work during the year: that amounts to 16 hours of work per week. If work in each family were raised to 2,000 hours per year the equivalent of one adult working 40 hours per week throughout the year nearly 75 percent of poor children would be lifted out of official poverty."[56]

<u>Summary</u>: *This is a revealing study: The real facts on poverty in America reveal that only a small percentage (7.6%) of children experience severe hunger in a year. We can stop that from occurring with better oversight. However, increased work hours should be offered to those families. My proposed voc-rehab-education plan takes on more significance in this arena and references a policy shift relying on the States for voc/ed rehab.*

What is Poverty?

"For most Americans, the word "poverty" suggests destitution: an inability to provide family with nutritious food, clothing, and reasonable shelter. For example, the "Poverty Pulse" poll taken by the Catholic Campaign for Human Development in 2002 asked the general public the question: " How would you describe being poor in the U.S.?" The overwhelming majority of responses focused on homelessness, hunger or not being able to eat properly, and not being able to meet basic needs.

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56 Rector, Robert and Johnson, Kirk, Ph.D. Understanding Poverty in America, http://www.heritage.org

But if poverty means lacking nutritious food, adequate warm housing, and clothing for a family, relatively few as 35 million people identified as being "in poverty" by the Census Bureau could be characterized as poor. 3 While material hardship does exist in the United States, it is quite restricted in scope of severity. The average "poor" person, as defined by the government, has a living standard far higher than the public imagines".[57]

G.) State Prosperity Projects Affecting National Policy

1. **"The Iowa Prosperity Project in a non-partisan effort to protect and grow jobs in Iowa.**

- We believe when employers and employees share information about issues and elections, our families, our communities, our state and our democracy will benefit.
- We believe that employers and employees should know and understand the public policies that affect job security and the economy.
- We believe when employers and employees share information about critical public policy issues facing business, we can find solutions to competing regionally, nationally and globally.
- We believe when employers and employees share information in a nonpartisan way, more Iowans will appreciate the importance of state and federal elections.
- We believe in empowering employers and employees to become better informed voters, while respecting their individual beliefs and their rights to choose.
- We believe when employers and employees share information about issues, candidates and those whose decisions impact business and industry, we all win." [58]

2. 2011-2012 Outline for Prosperity

"Substantial economic growth is the single most important factor leading to the prosperity and well being of Americans and our great nation. This growth, which is essential to reducing federal deficits, is more likely to occur in a tax and regulatory environment that encourages job creation and with effective participation in the global marketplace through fair and open trade.

Taxes and Regulation
Trade and the Global Economy
Domestic Policy
Talent and the Workplace
Infrastructure

- Telecommunications
- Transportation
- Energy

1. Health Care and Retirement Security

2. Economic Strength. A healthy private sector is essential for a strong economic base.

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[57] See *id* 56
[58] The Iowa Prosperity Project http://www.iowaprosperityproject.org

3. Quality of Life

4.Infrastructure Development

5. Government Spending and Taxes

6. Public Lands"[59]

3. Workforce Development

"As business, we need to attract and retain qualified workers. A well-educated workforce is vital to the economic prosperity of Iowa. Investment in human capital education and training is a vital step in enhancing and developing our workforce in years to come. Education and workforce policies should focus on enhancing student achievement. We must also embrace the concept of lifetime learning for our current workforce." [60]

4. Regulatory Environment

"For businesses to create jobs and stimulate the economy, they must be able to operate under regulatory policies that are predictable, reasonable and clear. Policies that are burdensome and complicated simply add to the cost of doing business, thus reducing the amount of money a company can reinvest in increasing wages, providing benefits and expanding operations.

All regulatory requirements should be examined carefully to ensure that they are necessary and not duplicative. Additionally, application and permitting processes should be streamlined to achieve maximum efficiency and compliance.

Companies and employees strive to maintain safe and complaint workplaces. All regulatory policies should be weighed against the cost of compliance to ensure that the public good is actually being served.

The regulatory burden on Iowa companies discourages business investment and slows economic growth and job creation." [61]

5. The Right Way to Balance the Budget

"The federal debt is at its highest level since the aftermath of World War II- it's projected to rise even further. Simply stabilizing debt levels would require an immediate and permanent

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59 The Iowa Prosperity Project, http://www.iowaprosperityproject.org
60 See *id* 59
61 The Iowa Prosperity Project http://www.iowaproserityprogram.org

23% percent increase in all federal tax revenues or equivalent cuts in government expenditures, according to Congressional Budget Office forecasts. What's clear is that to avoid a crisis, the federal government must undergo a significant retrenchment, or fiscal consolidation. The question is whether to do so by raising taxes or reducing government spending........

In new research that builds on the pioneering work of Harvard economists Alberto Alesina and Silvia Arrdagna, we analyzed the history of fiscal consolidations in 21 countries of Organization for Economic Cooperation and Development over 37 years. Some of those nations repaired their fiscal problems: many did not. Our goal is to establish a detailed recipe for success. If the United States were to copy past consolidations that succeeded, what would it do?

This article is available in full. The full text will be posted to AEI.org on Monday, January 31, 2011." [62]

H. Proposals to Cut Billions from the Federal Budget

1. How to Cut $343 Billion from the Federal Budget

"Abstract: Federal spending is on an unsustainable path that risks disaster for America. Runaway spending has increased annual federal budget deficits to unprecedented levels, adding $2.7 trillion to the national debt in the past two years alone. Each year's huge federal deficit increases the mountain of national debt borrowed from future generations of Americans. Congress needs to cut federal spending sharply and quickly.

Table 1 sets forth $343 billion in available spending cuts for the new Congress to consider when it takes up the federal budget for FY 2012. Many of the cuts fall into six areas:

- Empowering state and local governments. Congress should focus the federal government on performing a few duties well and allow the state and local governments, which are closer to the people, to creatively address local needs in areas such as transportation, justice, job training and economic development.
- Consolidating duplicative programs. Past Congresses have repeatedly piled duplicative programs on top of preexisting programs, increasing administrative costs and creating a bureaucratic maze that confuses people seeking assistance.
- Privatization. Many current government functions could be performed more efficiently by the private sector.
- Targeting programs more precisely. Corporate welfare programs benefit those who do not need assistance in the American free enterprise system. Other programs often fail to enforce their own eligibility requirements.
- Eliminating outdated and ineffective programs/ Congress often allows the federal government to run the same programs for decades, despite many studies showing their ineffectiveness.

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[62] Biggs, Andrew G., Hassett, Kevin A., Jensen, Matt, The Right Way to Balance the Budget, Wall Street Journal, Dec. 29, 2010 http://www.aei.org

- Eliminating waste, fraud and abuse. Taxpayers will never trust the federal government to reform major entitlements if they believe that the savings will go toward "bridges to nowhere," vacant government buildings, and the Grateful Dead Archives." [63]

Here are a number of suggestions from the Heritage Foundation:

"**Agriculture**
$15,000 Replace farm subsidies with Farmer Savings Accounts and improved crop insurance.
$2,033 Eliminate the Foreign Agriculture Service.
$1,500 Merge all four agriculture outreach and research agencies and cut their budget in half.
$1,000 Fund the Food Safety and Inspection Service with user fees.
Commerce
$500 Eliminate business subsidies from the National Institute of Standards and Technology.
Community Development
$6,000 Eliminate the Community Development Block Grant program.
$598 Eliminate the Rural Utilities Service.
$523 Eliminate the Economic Development Administration.
$480 Eliminate NeighborWorks America (formerly the Neighborhood Reinvestment Corporation).
$200 Consolidate the Rural Housing and Development Programs and convert them into block grants.
$73 Eliminate the Appalachian Regional Commission.
$48 Eliminate the Denali Commission.
$31 Eliminate the Minority Development Business Agency.
$8 Eliminate the Delta Regional Authority.
Education
$8,000 Return Pell Grants to their 2009 funding level of $24 billion, which is still double the 2007 level.
$2,000 Trim Head Start by $2 billion and convert it into vouchers.
$2,000 Scale back the Education Department bureaucracy.
$1,500 Eliminate dozens of small and duplicative education grants.
$298 Eliminate state grants for Safe and Drug-Free Schools and Communities.
Energy and the Environment
$6,500 Reduce energy subsidies for commercialization and some research activities.
$600 Block grant and devolve Environmental Protection Agency grant programs.
$200 Restructure the Power Marketing Administrations to charge market-based rates.
$63 Eliminate the Science to Achieve Results Program.
Government Reform
$44,000 Halve federal program payment errors by 2012, especially by reducing Medicare errors and
earned income tax credit errors. Tighten oversight by spending $5 billion on new resources, such as updated computer systems, and then recover $49 billion in payment errors.
$20,000 Rescind unobligated balances after 36 months.
$12,500 Halve the $25 billion spent to maintain vacant federal properties.

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63 Riedl, Brian, How to Cut $343 Billion from the Federal Budget, Oct. 28, 10
http://www.heritage.org

$10,000 Cut the federal employee travel budget to $4 billion (half of FY 2000 spending).
$3,000 Freeze federal pay until it can be reformed.
$1,000 Suspend acquisition of federal office space.
$600 Trim the federal vehicle fleet by 20 percent (a reduction of 100,000 vehicles).

Table 1: Spending Cuts for FY 2012

(in millions of dollars)

$300 Cut the House and Senate budgets back to the 2008 level of $2.2 billion.
$215 Eliminate the Presidential Election Campaign Fund.
$100 Tighten controls on federal employee credit cards and cut down on delinquencies.
$70 Require federal employees to fly coach on domestic flights.

Health Care

$6,200 Reform Medigap.
$5,000 Repeal Obamacare (larger savings in later years).
$3,700 Require Medicare home health co-payments.
$673 Eliminate the Maternal and Child Health Block Grant.
$414 Eliminate Health Professions grants.
$327 Eliminate Title X Family Planning.
$150 Eliminate the National Health Service Corps.
$98 Repeal Rural Health Outreach and Flexibility grants.

Homeland Security

$2,700 Eliminate most homeland security grants to states and allow states to finance their own programs.

Income Security

$500 Better enforce eligibility requirements for food stamps.

Interior

$1,500 Open the coastal plain of the Arctic National Wildlife Refuge to leasing. (The savings are leasing revenues, which are classified as negative spending in the federal budget.)
$200 Suspend federal land purchases.

International

$2,636 Eliminate the Development Assistance Program.
$625 Eliminate the State Department's education and cultural exchange programs.
$321 Eliminate the International Trade Administration's trade promotion activities or charge the beneficiaries.
$183 Eliminate the Democracy Fund.
$68 Eliminate the International Trade Commission and transfer oversight of intellectual property rights to the Treasury Department.
$56 Eliminate the Trade and Development Agency.
$29 Eliminate the Overseas Private Investment Corporation.
$19 Eliminate the East–West Center.
$17 Eliminate the United States Institute of Peace.
$2 Eliminate the Japan–United States Friendship Commission.

Justice

$7,334 Eliminate all Justice Department grants except those from the Bureau of Justice Statistics and
the National Institute of Justice, thereby empowering states to finance their own justice programs.
$398 Eliminate the Legal Services Corporation.
$32 Eliminate the Justice Department's Community Relations Service.

$30 Eliminate the duplicative Office of National Drug Control Policy.
$26 Reduce funding for the Justice Department's Civil Rights Division by 20 percent because of its policy against race-neutral enforcement of the law.
$4 Eliminate the State Justice Institute.

Labor

$4,300 Eliminate failed federal job training programs.
$2,000 Eliminate the ineffective Job Corps.
$576 Eliminate the Senior Community Service Employment Program.

National Science Foundation

$1,700 Reduce National Science Foundation funding to 2008 levels.
$86 Eliminate National Science Foundation spending on elementary and secondary education.

Transportation

$45,000 Devolve the federal highway program and most transit spending to the states.
$1,900 Privatize Amtrak.
$1,009 Eliminate grants to large and medium-sized hub airports.
$554 Eliminate the Maritime Administration.
$125 Eliminate the Essential Air Service Program.

Treasury

$26,646 Eliminate the additional child refundable credit.
$103 Eliminate the Community Development Financial Institutions Fund.

Veterans

$2,500 Cap increases in Department of Veterans Affairs health care spending.
$1,930 Reduce Veterans' Disability Compensation to account for Social Security Disability Insurance
payments.

Cross-Agency and Other

$60,000 Repeal unspent stimulus spending.
$8,000 Switch to using the "Superlative CPI" in funding calculations.
$6,000 Repeal the Davis–Bacon Act.
$2,250 Eliminate Federal Communications Commission funding for school Internet service.
$2,000 Ban project labor agreements on all federally funded construction projects.
$1,000 Eliminate the Small Business Administration, which unnecessarily intervenes in free markets.
$736 Eliminate the National Community Service programs, such as AmeriCorps.
$253 Eliminate the Institute of Museum Services and Library Services.
$140 Eliminate the National Endowment for the Humanities.
$133 Eliminate the National Endowment for the Arts.
$61 Eliminate Army Corps of Engineers funding for beach replenishment projects.
$10 Eliminate the Commission of Fine Arts.
$8 Eliminate the National Capital Planning Commission.
$5 Eliminate the Advisory Council on Historic Preservation.

Total

$343,207 million"[64]

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[64] See *id* 63

***Summary:** The $343 billion in cuts are only the tip of the iceberg. Food for thought?*

2. Fiscal Commission Report: Too Much Taxes, Not Enough Spending Cuts

"The National Commission on Fiscal Responsibility and Reform deserves credit for taking in the large structural deficits that risk eventual economic calamity. Over the next decade, runaway spending is set to double the national debt, which would risk higher interest rates, slower growth and steeply higher tax rates. Unfortunately, however, the Commission's report involves a tax-heavy solution to a spending problem.

Spending Is The Problem
Expanding spending-not declining revenues-drives America's long-term deficits. Even if all tax cuts are extended revenues will soon slightly exceed their historical average of 18 percent of the economy. Federal spending-rising from its historical average of 20 percent of the economy to a projected 26 percent by the end of the decade-is the moving variable.

Nearly all of this new spending will come from Social Security, Medicare, Medicaid and no interest on the debt, the combined nominal cost of which will rise from $1.6 trillion to 3.6 trillion over this decade. Over the long term, the Congressional Budget Office (CBO) projects that nearly all new debt will result from these four spending categories."[65]

The Highest Tax Burden in American History
Because spending is driving long-term deficits, a reasonable solution would focus overwhelmingly on this growing spending. One aim would be to limit government spending to the amount Washington has historically taxed –18 percent of GDP. A compromise could balance the budget at 19 percent of the GDP, the midpoint between historical tax revenues (18 percent) and spending (20 percent) . Instead, the commission aims to eventually balance the budget at 21 percent of GDP, which would represent the highest tax level in American history. And it would take until 2035 to balance the budget."[66]

The following table provides some insight into the issues:

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[65] Riedl, Brian Fiscal Commission Report: Too Much Taxes, Not Enough Spending Cuts, Dec. 3, 2010 http://www/heritage.org
[66] See *id* 65

The Fiscal Commission v. the Current-Policy Budget Baseline [67]

Current-Policy Baseline	2008 (Actual)	2009 (Actual)	2010 (Actual)	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2011–2020
Total Revenues	2,524	2,105	2,143	2,351	2,576	2,814	3,121	3,279	3,492	3,693	3,887	4,076	4,261	33,550
Total Outlays	2,983	3,518	3,485	3,736	3,655	3,811	4,102	4,416	4,799	5,097	5,384	5,764	6,131	46,896
Social Security	612	678	701	726	753	789	831	878	931	989	1,052	1,119	1,191	9,259
Health Care	602	693	738	801	791	850	949	1,048	1,173	1,251	1,316	1,427	1,524	11,130
Other Mandatory	382	722	487	573	476	450	448	450	476	474	470	495	507	4,819
Discretionary	1,134	1,238	1,358	1,408	1,367	1,371	1,411	1,462	1,529	1,589	1,652	1,726	1,800	15,315
Net Interest	253	187	202	227	268	351	463	578	691	795	895	997	1,109	6,373
Deficit	–459	–1,413	–1,342	–1,385	–1,080	–998	–981	–1,137	–1,308	–1,404	–1,497	–1,687	–1,870	–13,346
Debt Held by the Public	5,803	7,545	9,031	10,331	11,529	12,634	13,705	14,928	16,321	17,818	19,413	21,201	23,178	
Commission Plan	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2011–2020**
Total Revenues			2,143	2,511	2,722	3,045	3,387	3,603	3,844	4,077	4,303	4,541	4,774	36,806
Total Outlays			3,485	3,703	3,671	3,691	3,842	4,024	4,276	4,450	4,597	4,839	5,052	42,144
Social Security			701	726	752	786	826	870	921	975	1,035	1,100	1,167	9159
Health Care			738	799	795	828	917	1,013	1,133	1,208	1,261	1,367	1,461	10,782
Other Mandatory			487	573	475	441	433	429	449	443	435	456	463	4,596
Discretionary			1,358	1,379	1,385	1,297	1,237	1,200	1,195	1,195	1,197	1,210	1,222	12,518
Net Interest			202	226	264	338	429	511	579	628	670	705	739	5,089
Deficit			–1,342	–1,192	–949	–646	–455	–421	–432	–372	–294	–298	–279	–5,338
Debt Held by the Public			9,031	10,133	11,200	11,952	12,497	13,004	13,522	13,987	14,380	14,779	15,164	
Difference	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2011–2020**
Total Revenues			0	160	146	231	266	324	352	384	416	465	513	3,256
Total Outlays			0	–33	16	–120	–260	–392	–523	–647	–787	–925	–1,079	–4,752
Social Security			0	0	–1	–3	–5	–8	–10	–14	–17	–19	–24	–100
Health Care			0	–2	4	–22	–32	–35	–40	–43	–55	–60	–63	–348
Other Mandatory			0	0	–1	–9	–15	–21	–27	–31	–35	–39	–44	–223
Discretionary			0	–29	18	–74	–174	–262	–334	–394	–455	–516	–578	–2,797
Net Interest			0	–1	–4	–13	–34	–67	–112	–167	–225	–292	–370	–1,284
Deficit			0	–193	–131	–352	–526	–716	–876	–1,032	–1,203	–1,389	–1,591	–8,008
Debt Held by the Public			0	–198	–329	–682	–1,208	–1,924	–2,799	–3,831	–5,033	–6,422	–8,014	

Sources: Current-policy budget baseline based on Congressional Budget Office data. See Brian Riedl, "The Three Biggest Myths About Tax Cuts and the Budget Deficit," Heritage Foundation *Backgrounder* No. 2423, June 21, 2010, at *http://www.heritage.org/Research/Reports/2010/06/The-Three-Biggest-Myths-About-Tax-Cuts-and-the-Budget-Deficit* (December 2, 2010); National Commission on Fiscal Responsibility and Reform, "The Moment of Truth," December 2010, at *http://www.fiscalcommission.gov/news/moment truth report national commission fiscal responsibility and reform* (December 2, 2010).

Table 1 • WM 3071 heritage.org [67]

3.Top Federal Budget Cuts: 43.5 Trillion Worth, Just for Starters

"Congress is in an unprecedented spending binge. Washington's reckless spending habits have skyrocketed the annual deficit to $1.3 trillion and the national debt to over $14 trillion. Unless Congress significantly reins in spending, Americans' future prosperity and standard of living will continue to be in jeopardy. If Congress only enacts the 20 budget cuts listed below, we could save roughly $3.5 trillion over the next decade."

1. Cut Federal Pay by at least 10 percent. *Save taxpayers $20 billion annually.*
2. Completely End Federal Farm Subsidies. *Save taxpayers $25 billion annually.*
3. Reform Fannie and Freddie Mac. *Save taxpayers at least $30 billion.*
4. Reduce Government Employment to 2008 Levels to Save taxpayers $35 billion over the next decade. *Save taxpayers over $35 billion over the next decade.*

Since 2008, federal government employment has grown by 188, 000 (excluding temporary Census workers.) However, the private sector has lost over 7.9 million jobs. Taxpayers in the private sector cannot afford to pay for an excessive number of government employees that do not perform necessary functions of government. A policy should be implemented that the federal

[67] See *id* 65-66

government may only hire one employee for every two that leave government service until the workforce is reduced to 2008 levels.

5. Sell Excess Federal Property. *Save taxpayers up to $15 billion.*
6. End Energy Subsidies. *Save taxpayers $20 billion a year.*
7. Completely End TARP. *Save taxpayers at least $7 billion over the next 4.decade.*
8. Repeal Obamacare. *Save taxpayers over $1 trillion dollars.*
9. Retire AmeriCorps. *Save $10 billion over next decade.*
10. Eliminate the Department Housing and Urban Development. *Save taxpayers $63 billion annually.*
11. Eliminate Subsidies for Amtrak and End Rail Subsidies. *Save taxpayers $31 billion over next decade.*
12. Privatize the US Postal Service. *Save taxpayers $238 billion in the next ten years.*
13. Defense Spending Cuts. *Save $154 billion over the next five years.*
14. Cutting NASA Spending by 50 Percent. *Save taxpayers $90 billion over next decade.*
15. Repeal Davis-Bacon Labor Rules. *Save $60 billion over next decade.*
16. Return Unspent "Stimulus" Funds to Treasury. *Saves roughly $45 billion.*
17. Shutter the small business Administration. *Save $14 billion over the next decade.*
18. Privatize Air Traffic Control. *Save $38 billion over next decade.*
19. End Mass Urban Transit Grants. *Save $52 billion over next decade.*
20. Reform Entitlement Programs. *Save $370 billion over the next decade."* [68]

Summary: *These proposals from Freedom Works account for several trillion in cuts.*

4. Waking Up America

"The talk in Washington these days is about cutting back on defense to ease the budget and winding down the war in Afghanistan and our presence in Iraq. Our Defense secretary wonders why we need so many aircraft carriers. The most popular military analysts argue that somehow our military can do more while spending less.

Meanwhile, our two great adversaries during the Cold War, Russia and Communist China, grow their navies and arsenals and make strategic presence felt around the world, even ours recedes. The trend is alarming. Our real defense budget-excluding the overhead costs of Iraq and Afghanistan-has shrunk to its lowest level compared to GDP, to less than 3.6 percent, compared to the average in time of peace if 5.7 percent. Even Bill Clinton, before 9/11 managed 4.5 percent.

The truth is every dollar spent on defense goes into real hardware and real jobs, even union jobs. By one estimate, just 5 percent boost in the Pentagon's operations and maintenance budget could create as many as 300,000 jobs. A similar boost in research and development for things like

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[68] Borowski, Julie, Issue Analysis, Top Federal Budget Cuts: $3.5 Trillion Worth, Just for Starters, http://www.freedomworks.org

robotics, missile defense, new remote guidance technology and cyberwarfare would reverberate through the economy and could boost our GDP by billions a year.

A strong military is our economic stimulus. By becoming strong and vigilant once more, and by allowing our military to rebuild and integrate with our existing forces, we can be a pillar of strength for the world-and for ourselves.

These are forces only waiting to be unleashed in 2011. As Roosevelt said "We have every good reason for hope-hope for peace, yes, and hope for the defense of our civilization"- and for the cause and liberty and freedom." [69]

5. Congress Should Consider Defense Spending Cuts

"In particular, has been provided protected status that has isolated it was from serious scrutiny and allowed the Pentagon to waste billions in taxpayer money. A new Congress, with a clear mandate to cut spending and the size of government, should signal its fiscal resolve by proposing cuts for all federal spending.

Proponent of a larger Department of Defense budget have argued that security outlays should be weighed against mandatory spending levels, suggesting that explosive entitlement growth serves as an appropriate metric for defense spending.

And yet, defense spending continues to enjoy protected status. The Pentagon is slated to spend $6.5 trillion over the next ten years equal to the current projected deficit spending in the same time period." [70]

6. Healthcare

"Healthcare costs are rising at a staggering pace. As a result, providing quality healthcare for workers and their families has never been more difficult. Many employers are choosing to restructure their benefit programs to compensate for the increasing costs. Some are being forced to eliminate insurance coverage altogether.

Over the years, the number of government mandates on insurance coverage has steadily increased, resulting in an increase should be determined by market demand, not government demand.
Government mandates are a major factor in the rising costs of providing workers with quality healthcare at a reasonable price." [71]

7. The Future of Health Care Reform: Paul Ryan's "Roadmap" And Its Critics

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69 Herman, Arther, New York Post, Dec. 29, 2010, Waking Up America http://www.aei.org

70 Kibbe, Matt, Congress Should Consider Defense Spending Cuts, Dec. 1, 2010 http://www.freedomworks.org

71 The Iowa Prosperity Project, http://www.iowaprosperityproject.org

"Among serious analysts there is a broad, bipartisan consensus that the federal budget has the nation on the path to disaster. Erskine Bowles and Alan Simpson, co-chairmaen of the President's National Commission on Fiscal Responsibility and Reform (Debt Commission), estimate that by 2020, without reform, Americans will be paying $1 trillion annually in interest payments on national debt." [72]

8. The Issue

"The healthcare system in the Untied States is plagued by rising costs and declining insurance coverage. Congress has considered ways to bolster the system, including reforming private insurance, encouraging medical savings accounts, encouraging state initiatives, providing financial assistance and reforming medical malpractice.

The Freedomwork Position

We want Americans to be able to use the free market to choose the care that suits their individual needs. We believe that government should not gain more control over healthcare." [73]

9. Medicare, The Issue

"Medicare is going bankrupt and it fails to meet the health care needs of the 40 million older and disabled Americans covered by the system. When the baby boomers retire, Medicare rolls are expected to nearly double, further straining an already ailing system. Legislation has not yet offered a cure, though the federal government's rules and regulations on Medicare weigh in at 111,000 pages.

Real Medicare reform should give seniors more choices not more government. After paying into the system for over three decades, they should be able to use Medicare's limited funds to select the type of coverage that is right for their individual circumstances." [74]

10. Social Security Pras

"America is on the brink of a national fiscal and retirement security crisis. Social Security has a massive unfounded liability of $12 trillion, and in 2017 the program runs into the red as benefits paid exceed contributions. What's more. The Social Security Trust Fund is full of meaningless government IOUs- there are no real assets in the "Trust Fund". If nothing is done, in just a few years Americans will face massive tax hikes and benefit cuts.

Social Security has become a bad deal for younger Americans. Today, most young Americans are likely to get less back in retirement benefits than they paid into the system. We believe workers should be allowed to divert a portion of their payroll taxes into Personal Retirement Accounts that they-not buearocrats and politicians –own and control. This plan would allow

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[72] Moffit, Robert Ph.D and Nix, Kathryn The future of Health Care Reform: Paul Ryan's "Roadmap" and Critics Dec. 3, 2010 http://www.heritage.org
[73] Healthcare http://www.freedomworks.org
[74] Issues: Medicare http://www.freedomeworks.org

workers to divert a portion of Social Security payroll taxes into a "nest egg" that they own, control; and can even pass to their children. PRAs would grow with the economy and provide seniors with secure retirement income. If we don't act now, the cost of fixing Social Security will only continue to grow." [75]

11. Insurance

"In recent years, state governments have been aggressively regulating the insurance marketplace. The proper role of insurance as a risk management tool, rather than as an instrument of social welfare policy to support a market-based approach to insurance regulation." [76]

12. Restoring America's Future will:

"Balance the primary budget in 2014, reduce deficits including interest to small and manageable levels, and **stabilize the debt below 60 percent of GDP by 2020.**
In 2020, the federal government will pay $1 trillion – 17 percent of all federal spending-just for interest payments." [77]

13. Other Budget Cuts to Consider

1. "Top 10 Reasons to Stop the International Monetary Funds (IMF) Bailouts

1. The IMF is a prime example of our bailout culture.
2. Cost to U.S. Taxpayers.
3. The IMF has made global financial crises much worse.
4. The IMF encourages reckless behavior.
5. The IMF threatens our sovereignty.
6. The IMF does not create wealth.
7. The IMF's policies have hurt poor countries.
8. The IMF still lacks transparency.
9. The IMF fosters a cycle of dependency.
10. The IMF props up authorities regimes. [78]

14. School Choice

Parents strive to send their children to safe schools where they will get the educational opportunities that they need to compete in a global economy. Currently, there are a growing number of educational alternatives ranging from traditional public schools, private or parochial schools, schools vouchers, private scholarship programs and home schooling.

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[75] Social Security Pras, http://www.freedomworks.org
[76] Insurance, http://www.freedomworks.org
[77] Restoring America's Future, pg 10
[78] Borowski, Julie Top 10 Reasons to Stop the International Monetary Fund (IMF) Bailouts, Jan. 26, 2011 http://www.freedomworks.org

Education bureaucracy and teachers' unions bar parents from full access to all these different educational opportunities to accomplish school choice in your community and state."[79]

15. A guide for Deficit Reduction in the United States Based on Historical Consolidations That Worked

"Most developed countries face the need for significant policy changes to balance their budgets over the long run. Yet there is significant disagreement in the literature concerning the identification and impact of successful fiscal consolidations. While conclusions about the growth impact of reforms vary depending on methodology, we find that there is much less disagreement concerning composition. Specifically, we find strong evidence that expenditure cuts outweigh revenue increases in successful consolidations. We also find evidence that the type of the spending cuts is an important determinant of success, as is the type of tax increases.

Outside of the debate over the expectation view, an additional channel by which fiscal consolidations can spur expansion is through effects on interest rates. High levels of debt will impose a premium on interest rates to account for inflation and default risk.

While there is significant debate regarding the effect of fiscal consolidations on short-term economic growth, there is wide consensus from the literature that the composition of the fiscal adjustment is a major factor determining the likelihood of a lasting debt reduction. In particular, fiscal consolidations based upon expenditure cuts have tended to be more effective than tax-based consolidations based on the evidence from empirical studies.

The goal of this exercise is to address the budget shortfall evolving over the next several decades through steps that consist of approximately 85 percent reductions in expenditures and 15 percent increases in revenues, percentages that are consistent with historically successful fiscal consolidations. This ratio is chosen as it matches the approximate average expenditure shares for successful fiscal consolidations examined in earlier sections. However, this exercise should carry the important caveat that the United States' fiscal shortfalls are projected to evolve over a much longer time frame than available data on fiscal consolidations abroad allow us to examine. This exercise applies lessons learned from fiscal consolidations taking place over the space of several years to addressing fiscal problems that, while present at the moment, will continue to increase over a space of decades."[80]

Summary: *The AEI article reminds us that balancing budgets requires expenditure cuts, not revenue increases!*

"The Congressional Budget Office calculates the fiscal gap for the federal government over various periods of time. The fiscal gap measures the immediate and permanent change in the primary budget balance necessary to stabilize the ratio of debt to GDP over

79 Issues, School Choice http://www.freedomworks.org
80 Biggs, Andrew, G., Hassett, Kevin A., Jensen, Matthew, A Guide for Deficit Reduction in the United States Based on Historical Consolidations that Worked, Dec. 27, 2010 http://www.aei.org

a given period of time. Under its more realistic projection scenario for revenues and outlays, the CBO calculates a fiscal gap of 4.8 percent of GDP over 25 years, 6.9 percent of GDP over 50 years, and 8.7 percent of GDP over 75 years." [81]

'While the current U.S. budget deficit is driven principally by recession-induced reductions in revenues and increases in discretionary government expenditures, the principal drivers of the long-term budget gap are the so-called entitlement programs of Social Security, Medicare and Medicaid. Outlays on these social transfer programs will increase significantly due to the aging of the population and increases in per capita health expenditures. Outlays on these three programs, plus ancillary health programs such as CHIP and funds for the state health exchanges included in the 2010 health care reform, are projected by the Congressional Budget Office to increase by 7.4 percent of GDP from 2010 through 2035. This exercise will close that 7.4 percent of GDP gap through reductions in the growth of entitlements and other outlays and increases in revenues, with an approximately 85 percent expenditure share and 15 percent revenue share. Most of the expenditure reductions outlined here will be composed of reduced growth of outlays for these three programs, with a small role played by reductions in the government wage bill. Rising Social Security costs could be addressed through the following steps:

- First, gradually increase the full retirement age from the currently legislated level of 67 to 70 for individuals born in 1993 and retiring in the 2050s.

- Second, increase the early retirement age from 62 to 65 for individuals born in 1966. This change would have little effect on Social Security's finances, but would raise total retirement incomes through longer work lives and could increase long-run GDP by at least 2 percent.

- Third, reduce annual Cost of Living Adjustments (COLAs) by 0.11 percentage point. This adjustment is designed to approximate the net effects on the current CPI of adjusting market baskets to the buying habits of older individuals (as is done in the experimental CPI-E) and accounting for the ways in which purchasing patterns respond to price changes (as in the C-CPI-U).

- Fourth, "progressive price indexing," which would reduce future benefits for middle and higher earners on a progressive basis.

These steps by themselves would make Social Security nearly solvent over 75 years, as opposed to being short by 5.8 trillion dollars in present value (0.6 percent of GDP). On an annual basis, the target size of our consolidation is approximately 7.4 percent of GDP as of the year 2035; reductions in Social Security costs account for around 11 percent of total expenditure reductions in that year." [82]

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[81] See *id* 80

[82] See *id* 80-81

In addition, an employer-side payroll tax increase levied on all earned income would generate revenues both to resolve Social Security solvency and to provide additional income for the Medicare and Medicaid programs. A gradual introduction of a 2.5 percent tax on all earned income (not limited to earnings under the current Social Security taxable maximum wage of $106,800) could generate revenues equal to approximately 1.5 percent of GDP by the year 2035, sufficient to cover approximately 15 percent of the cost of increased expenditures at that time. Since there is no VAT in the U.S., an increase in the payroll tax is the closest substitute. That such a large increase closes only around one-sixth of the shortfall highlights how massive the problem is. [83]

Rising Medicare costs would be addressed by introducing a deductible based upon a percentage of the average expenditures per capita. Current per capita Medicare outlays are around $9,500. A deductible of 10 percent, for instance, would require that individuals pay the first $950 of annual health costs, after which Medicare would pay the remainder. Note that the deductible would be based on a percentage of average per capita costs, not on a percentage of the individual's own health costs. Under this provision, the deductible would reach 16 percent of average costs by 1017, 30 percent of costs by 2024, and 47 percent of average costs by 2035. This deductible would not address all Medicare cost increases, but it does significantly impact the consolidation. [84]

Medicaid costs would be contained by converting the Medicaid matching formula to a program of block grants to states. The size of these grants would be allowed to grow from year to year at the rate of increase in GDP. Shifting from a matching formula, in which the federal government pays 50-83 percent of total Medicaid costs, to a system of block grants would require states to bear the marginal costs of Medicaid expansions, providing significant incentives to pursue cost-effective Medicaid policies. To the degree cost effectiveness improves, total costs may be lower than projected here. As with Medicaid, no additional savings due to behavioral changes are included in these projections. This shift would resolve approximately 26 percent of the budget gap as of 2035. Finally, public sector pay is reduced to account for estimated overcompensation of federal employees. The 1999 Handbook of Labor Economics reviews a number of studies on federal pay, most of which find a premium of 10-20 percent over otherwise similar private sector employees. A recent analysis by one of the authors using the 2009 Current Population Survey found a federal salary premium of 12 percent after adjusting for a range of demographic factors, firm size and geographic differences. Eliminating this pay differential, through across the board pay reductions or preferably through pay adjustment targets based upon job queues for specific federal positions, would reduce federal payroll costs by approximately 0.25 percent of GDP. [85]

In total, reduced expenditures address approximately 80 percent of projected cost increases for Social Security, Medicare and Medicaid, which together account for most of the federal government's long-term fiscal gap.

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[83] See *id* 80-82
[84] See *id* 80-83
[85] See *id* 80-84

(See Attached Graph) [86]

Technology Policy

"Innovations in communications and technology have fueled the Information Age. New discoveries emerge daily, rendering yesterday's technologies obsolete.

Taxes and government regulation slow down the growth of technological innovation. Government lawsuits against high-tech developers hamper the pace of innovation while costing the taxpayer money. Outdated government regulations pigeonhole companies-especially telephone companies-and make it difficult for them to react in a dynamic marketplace." [87]

Privacy

"With the growth of the Internet and changes in policy after 9/11, protecting privacy has become a key issue for America. CSE is working with our citizen members, the business community, and policy-makers to find the right balance to guard our security , economic growth, and individual liberty." [88]

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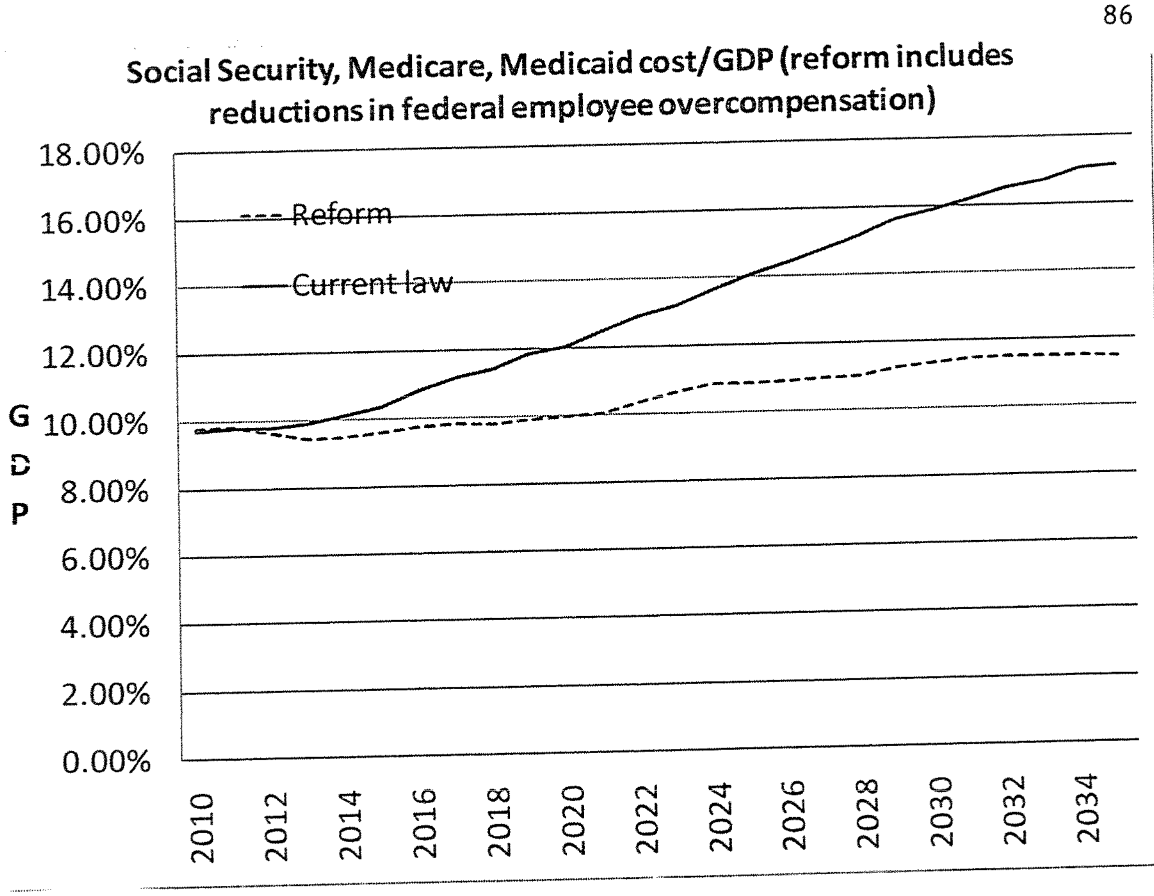

89

[86] See *id* 80-85
[87] Issues: Technology Policy http://www.freedomworks.org
[88] Issues: Privacy http://www.freedomworks.org
[89] Biggs, Supra Attached Graph

18. **Recovery Stalled After Obamacare Passed**

"Private-sector job creation initially recovered from the recession at a normal rate, leading to predictions last year of a "Recovery Summer." Since April 2010, however, net private-sector job creation has stalled. Within two months if the passage of Obamacare, the job market stopped improving. This suggests that businesses are not exaggerating when they tell pollsters that the new healthcare law is holding back hiring,. The law significantly raises business costs and creates considerable uncertainty about the future. To encourage hiring, Congress should repeal Obamacare."

"In March 2010, Congress passed President Obama's Health care reform legislation. The law discourages employees from hiring in several ways:

- Businesses with fewer than 50 workers have a strong incentive to maintain this size, which allows to avoid the mandate to provide government-approved health coverage or face a penalty;
- Businesses with more than 50 workers will see their costs for health coverage rise-they must purchase more expensive government-approved insurance or pay a penalty; and
- Employers face considerable uncertainty about what constitutes qualifying health coverage and what it will cost. They also do not know what the health care market or their health care costs will look like in four years. This makes planning for the future difficult.

Within two months of Obamacare's passing, the recovery stalled. In a recent survey, 33 percent of business owners said that the health care law was either their greatest or second-greatest obstacle to new hiring. Federal Reserve officials report similar concerns".[90]

19. YOU Stopped the Obama Tax & Borrow Bailout

"Do you remember where America was just one year ago? The Pelosi-Reid-Obama agenda was doing a daily dose of damage to our American economy, destroying jobs with crippling regulations, oppressive spending and brand new taxes. If that wasn't enough, the Democrats passed a government takeover of healthcare, spending record amounts of money we didn't have on a program we didn't want. And to top it off. They raised taxes on hardworking taxpayers to pay for an $800 billon dollar stimulus-claiming that they should have spent even more. While the Budget Control Act is far from perfect, it is a step forward. Rather than trampling on the taxpayers, as the Democrats did when they controlled the House, this bill showed real respect to the hardworking taxpayers. The legislation:

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90 Shrek, James Recovery Stalled After Obamacare Passed, July 19, 2011
http://www.heritage.org

- Stopped ALL of the tax increases Obama, Reid and Pelosi demanded;
- Forced the Senate to pass its first budget in two years, delivering Harry Reid a dose of accountability;
- Held every politician accountable to vote yes or no on a balanced budget amendment; and
- Protected the economy while demonstrating a commitment to reducing the debt.

This isn't the end of bringing spending discipline to Washington. It's just the beginning.[91]

20. A Deal Not to Like

"Rather than make serious cuts in spending and an end to unneeded tax loopholes, congressional leaders and the president have so far agreed to anemic cuts and-the fallback for every problem in Washington-a commission to look for places to further cut federal spending.

The president's lack of leadership is part of the reason Congress didn't address the debt ceiling months ago- a report from the National Commission on Fiscal Responsibility and Reform laid out the solution to the problem in December, but was ignored.

In short, the deal allows the president to raise the debt ceiling by $400 billion immediately with another $500 billion increase later in the fall-if two-thirds of more Congress doesn't vote against it. More than $900 billion will be cut from government agency spending and then caps spending below current levels.

A 12-member House panel, made up of equal numbers of Republican and Democrats is charged with cutting $1.5 trillion from the federal spending over the next decade. Medicaid, Social Security, veterans benefits and government employee retirement plans are exempt from the cutting. In a smart move to try to ensure the committee's work isn't shelved, its recommendations must be accepted in full by Congress or the White House budget office can come up with its own cuts. [92]

21.State Exploring Health Care Shift for Veterans

"State officials are exploring ways to encourage veterans on Medicaid to shift some or all of their health care to the federal Department of Veterans Affairs, saving the state money and potentially improving benefits for veterans.

Maine has approximately 150,000 veterans, one of the highest per capita in the nation. Peter Ogden, director of the state of Bureau of Veterans Services, said only about 40,000 of them are taking advantage of the various Veterans Affairs health programs.

It does cost to set up such a system, but other states have already realized significant savings. For example, Montana had $900,000 savings in its first year of use, 2008. Washington state estimates

[91] Priebus, Reince, RNC Chairman The Republican National Committee, August 2, 2011

[92] Bangor Daily New, August 1, 2011

that since it first implemented the program in 2003, the state has saved $27 million and 9,500 veterans have moved from Medicaid to VA programs.

There is no doubt the saving here can be significant, Mayhew said. "We hope to at least start with some of the changes we can do in the next six to nine months." [93]

22. Pipeline Pipe Dreams

"Being of a practical mind, I have little sympathy for two recent contributions to the BDN, one a letter from Fran Ludwig of Damariscotta (Aug. 23), and the others an OpEd, "Taking a stand against the Keystone XL pipeline, " (Aug 24) by Jean Matlack of Rockport.."

"The belief, surely based largely on what they see and read in our media, is that the world is headed to a hot-house hell due to man-made global warming, CO2 being the culprit. But there is consternation lately in liberal-land: the world, after warming from about 1980 to 2000 synchronous with rising CO2 levels, hasn't warmed since. We learn that the earth's temperature has been as warm or warmer in recent geologic history when CO2 levels were lower.

In short, it's not as simple a correlation as the public has been led to believe.

You may have heard of Al Gore's meltdown recently, an obscenity-laden diatribe against those wicked "climate deniers" of whom there are many more every year. Scores of well-qualified climate scientists, meteorologists and physicists are speaking out against falsified data and other shady dealings of the "warmist" persuasion (see "Climategate" and numerous other "gates").

Huge sums, billions, are at stake in governmental grants, all for advancing a dubious theory which has never been substantiated, that we miserable human beings are responsible for the warming of the 1980s and '90s that, in all likelihood, was just part of normal, cyclic climate change.

And, oh yes, an all-powerful federal government will be needed to issue innumerable regulations to make sure we cut back on our use of "fossil fuels." Any threat to our livelihoods should not matter.

What will happen if these eco-extremists and their like-minded friends get their way?

Expect the price of gasoline in very short order to rise to $10 per gallon, as it is now in much of Europe. Food prices will rise further. Everything becomes more expensive, and if we think unemployment is bad now, just wait.

Most of these protesters probably mean well but it's hard to imagine any energy policy more destructive to our economy. James LaBrecque and Joshua Hayward in "Finding the economic viability of alternative energy" (BDN OpEd, Aug. 25) illustrate nicely how misguided our state's

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[93] Leary, Mal, State Exploring Health Care Shifts for Veterans, Bangor Daily News July 31, 2011

energy policy can be when it's based on ignorance of the fundamentals, such as the payback time for tax-supported subsidies rarely making economic sense."[94]

Summary: *Dr. Alan Boone makes a great point- "eco-extremists" have had their way for too long. So-called "global warming" has been labeled a myth by leading scientists and writers. Everyday alternatives are always a good idea. That means knowing the facts and telling the truth. Dr. Boone's opinion is the correct one.*

23. Rethinking Nuclear Power

"Let's look at the wind vs. nuclear options. The air has a fixed density and a fixed range of velocities available to any given design. The maximum efficiency (the Betz limit) is 59 percent. This is a "law of physics" limit and is nothing humans can change. A wind farm has a generation capacity of one to four watts per square meter of land or sea surface and there is nothing the designer can do about it. In the Pacific Northwest, the management of electric generation in the Columbus River Basin has forced the shutdown of wind units. Hydroelectric generation associated with high spring runoff has overwhelmed the capacity of the region to use electricity. While wind generated electricity is locked into the limits of wind velocity and air density, the nuclear option has no such constraints. No, the design of new generation nuclear power plant is underway worldwide. the realities 1. Reactor fuel is being recycled. 2. Weapons proliferation is being foreclosed. 3.Improvement in physical protection and safety is available. 4. Modular construction will be possible. There is a big future in nuclear generated electricity. The only problem: the public perception of risk. Most of the increase in cost is the layer upon layer of redundancy in the name of safety." [95]

24. Reducing Waste in War Contracts

At least one in every six dollars of U.S. spending for contracts and grants in Iraq and Afghanistan over the past decade, or more than $30 billion, has been wasted. And at least that much could again turn into waste if the host governments are unable or unwilling to sustain U.S.-funded projects after our involvement ends.

Those sobering but conservative numbers are a key finding of the bipartisan Commission on Wartime Contracting in Iraq and Afghanistan.

Tens of billions of taxpayer dollars have been wasted through poor planning, vague and shifting requirements, inadequate competition, substandard contract management and oversight, lax accountability, weak interagency coordination, and subpar performance or outright misconduct by some contractors and federal employees.

Our final report includes 15 strategic recommendations to improve contingency contracting. They include:

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[94] Boone, Alan W. Pipeline Pipe Dreams Aug. 29, 2011

[95] Hill, Richard C. Rethinking Nuclear Power, Ellsworth American, page 1 Section III, August 25, 11

much could again turn into waste if the host governments are unable or unwilling to sustain U.S.-funded projects after our involvement ends.

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Our final report includes 15 strategic recommendations to improve contingency contracting. They include:

• Designating a "dual-hatted" official to serve in the Office of Management and Budget and to participate in National Security Council meetings to ensure that the many agencies involved in contingency contracts or grants are properly resourced and coordinated;

• Making more rigorous use of risk analysis when deciding to use contractors, rather than assuming that any task not on a list of "inherently governmental function" is appropriate for contracting;

• Requiring that officials examine current and proposed projects for risk of unsustainability.

• Creating a permanent inspector general for contingency operations." [96]

25. Congress' Accountant Clarifies GAO Report to Lawmaker

"U.S. Comptroller General Gene Dodaro of the Government Accountability Office (GAO) referred to as the 'congressional watchdog' the GAO is charges with investigating ho the federal government spends taxpayer dollars. Dodaro warned that "the federal government is on an unsustainable long-term fiscal path," as a likely result due to the growing deficit and increases in spending." [97]

26. Fiscal Year 2012 Budget Request: U.S. Government Accountability Office

"First on March 1, 2011, we detailed 81 opportunities to reduce duplication, overlap, or fragmentation. These opportunities span a range of federal government mission areas such as agriculture, defense, economic development, energy, general missions, our report touched on hundred of federal programs, effecting virtually all major federal departments and agencies. By reducing or eliminating unnecessary duplication, overlap, or fragmentation and by addressing the other cost-saving and revenue enhancing opportunities contained in the report, the federal government could save tens of billions of tax dollars annually and help agencies provide more

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[96] Shays, Christopher and Thibault, Michael Reducing Waste in War Contract, BDN, Aug. 31, 2011
[97] http://www.c-span.org Congress' Accountant Clarifies GAO report to Lawmakers March 11, 2011

efficient and effective services. Second, our High Risk update issues on February 17, 2011 identified 30 federal areas and programs at risk of fraud, waste, abuse and mismanagement, and those in need of broad-based transformation. Solutions to high-risk problems offer the potential to save billions of dollars, dramatically improve service to the public and strengthen confidence and trust in the performance and accountability of the U.S. Government." [98]

27. Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars and Enhance Revenue

In its report, "Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars and Enhance Revenue" GAO CG Dodaro focuses on the programs in an analytical and fair way to save billions of dollars. Of the 81 areas of consideration, there were 47 cost saving and revenue enhancing areas and 34 areas of potential duplication, overlap or fragmentation. (Report. p.3-15) Table 1, attached, lists those programs. (Rpt pgs 3-5). In addition, Table 2 Rpt pgs 12-15, reveal other programs targeted for savings.[99]

Summary: *The GAO report, if adopted by Congress and enacted, could save billions of dollars annually. Sen. Tom Coburn requested the report and it should be enacted.*

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[98] http"//www.gao.gov Fiscal Year 2012 Budget Requests: U.S. Government Accountability Office, March 11, 2011

[99] Gene L. Dodaro, Comptroller General of the U.S., U.S. Government Accountability Office" opportunities to reduce potential duplication in Government Programs, Save Tax Dollars, and Enhance Revenues, March 3, 2011

Overlap and Fragmentation Can Indicate Unnecessary Duplication

We identified 34 areas where agencies, offices, or initiatives may have similar or overlapping objectives or may provide similar services to the same populations; or where government missions are fragmented across multiple agencies or programs (see table 1). Overlap and fragmentation among government programs or activities can be harbingers of unnecessary duplication. The areas identified below are not intended to represent the full universe of duplication, overlap, or fragmentation within the federal government. Our future work will examine other areas of government for potential duplication, overlap, and fragmentation.

Missions	Areas identified	Federal agencies and programs where duplication, overlap, or fragmentation may occur
Agriculture	1. Fragmented **food safety** system has caused inconsistent oversight, ineffective coordination, and inefficient use of resources	The Department of Agriculture's (USDA) Food Safety and Inspection Service and the Food and Drug Administration are the primary food safety agencies, but 15 agencies are involved in some way
Defense	2. Realigning **DOD's military medical command** structures and consolidating common functions could increase efficiency and result in projected savings ranging from $281 million to $460 million annually	Department of Defense (DOD), including the Office of the Assistant Secretary for Health Affairs, the Army, the Navy, and the Air Force
	3. Opportunities exist for consolidation and increased efficiencies to maximize response to **warfighter urgent needs**	At least 31 entities within DOD
	4. Opportunities exist to avoid unnecessary redundancies and improve the coordination of **counter-improvised explosive device** efforts	The services and other components within DOD
	5. Opportunities exist to avoid unnecessary redundancies and maximize the efficient use of **intelligence, surveillance,** and **reconnaissance** capabilities	Multiple intelligence organizations within DOD
	6. A departmentwide acquisition strategy could reduce DOD's risk of costly duplication in purchasing **tactical wheeled vehicles**	DOD, including Army and Marine Corps
	7. Improved joint oversight of DOD's **prepositioning programs** for equipment and supplies may reduce unnecessary duplication	DOD including Air Force, Army, and Marine Corps
	8. **DOD business systems** modernization: opportunities exist for optimizing business operations and systems	About 2,300 investments across DOD
Economic development	9. The efficiency and effectiveness of fragmented **economic development programs** are unclear	USDA, Department of Commerce (Commerce), Housing and Urban Development (HUD), and the Small Business Administration (SBA); 80 programs involved
	10. The federal approach to **surface transportation** is fragmented, lacks clear goals, and is not accountable for results	Five agencies within the Department of Transportation (DOT); over 100 programs involved
	11. Fragmented federal efforts to meet **water needs** in the **U.S.-Mexico border region** have resulted in an administrative burden, redundant activities, and an overall inefficient use of resources	USDA, Commerce's Economic Development Administration, Environmental Protection Agency (EPA), Department of Health and Human Services' (HHS) Indian Health Service, Department of the Interior's (Interior) Bureau of Reclamation, HUD, and the U.S. Army Corps of Engineers

Missions	Areas identified	Federal agencies and programs where duplication, overlap, or fragmentation may occur
Energy	12. Resolving conflicting requirements could more effectively achieve **federal fleet energy goals**	A number of agencies, including the Department of Energy (Energy) and the General Services Administration (GSA) play a role overseeing the governmentwide requirements
	13. Addressing duplicative federal efforts directed at increasing **domestic ethanol production** could reduce revenue losses by up to $5.7 billion annually	EPA and the Department of the Treasury
General government	14. **Enterprise architectures:** key mechanisms for identifying potential overlap and duplication	Governmentwide
	15. Consolidating **federal data centers** provides opportunity to improve government efficiency and achieve significant cost savings	Twenty-four federal agencies
	16. Collecting improved data on **interagency contracting** to minimize duplication could help the government leverage its vast buying power	Governmentwide
	17. Periodic reviews could help identify ineffective **tax expenditures** and redundancies in related tax and spending programs, potentially reducing revenue losses by billions of dollars	Governmentwide
Health	18. Opportunities exist for **DOD** and **VA** to jointly modernize their **electronic health record systems**	DOD and the Department of Veterans Affairs (VA)
	19. **VA** and **DOD** need to control **drug** costs and increase **joint contracting** whenever it is cost-effective	DOD and VA
	20. HHS needs an overall strategy to better integrate nationwide **public health information systems**	Multiple agencies, led by HHS
Homeland security/Law enforcement	21. Strategic oversight mechanisms could help integrate fragmented interagency efforts to defend against **biological threats**	USDA, DOD, Department of Homeland Security (DHS), HHS, Interior, and others; more than two dozen presidentially appointed individuals with responsibility for biodefense
	22. DHS oversight could help eliminate potential duplicating efforts of interagency forums in **securing** the **northern border**	DHS and other federal law enforcement partners
	23. The Department of Justice plans actions to reduce overlap in **explosives investigations**, but monitoring is needed to ensure successful implementation	Department of Justice's Federal Bureau of Investigation and Bureau of Alcohol, Tobacco, Firearms and Explosives

Missions	Areas identified	Federal agencies and programs where duplication, overlap, or fragmentation may occur
	24. **TSA's security assessments** on commercial trucking companies overlap with those of another agency, but efforts are under way to address the overlap	DHS's Transportation Security Administration (TSA) and DOT
	25. DHS could streamline mechanisms for **sharing security-related information** with **public transit agencies** to help address overlapping information	Three information-sharing mechanisms funded by DHS and TSA
	26. **FEMA** needs to improve its oversight of **grants** and establish a framework for assessing capabilities to identify gaps and prioritize investments	DHS's Federal Emergency Management Agency (FEMA); 17 programs involved
International affairs	27. Lack of information sharing could create the potential for duplication of efforts between U.S. agencies involved in **development efforts** in **Afghanistan**	Principally DOD and the U.S. Agency for International Development
	28. Despite restructuring, overlapping roles and functions still exist at State's **Arms Control** and **Nonproliferation Bureaus**	Two bureaus within the Department of State (State)
Social services	29. Actions needed to reduce administrative overlap among **domestic food assistance** programs	USDA, DHS, and HHS; 18 programs involved
	30. Better coordination of federal **homelessness** programs may minimize fragmentation and overlap	Seven federal agencies, including Department of Education (Education), HHS, and HUD; over 20 programs involved
	31. Further steps needed to improve cost-effectiveness and enhance services for **transportation-disadvantaged** persons	USDA, DOT, Education, Interior, HHS, HUD, Department of Labor (Labor), and VA; 80 programs involved
Training, employment, and education	32. Multiple **employment** and **training** programs: providing information on colocating services and consolidating administrative structures could promote efficiencies	Education, HHS, and Labor, among others; 44 programs involved
	33. **Teacher quality**: proliferation of programs complicates federal efforts to invest dollars effectively	Ten agencies including DOD, Education, Energy, National Aeronautics and Space Administration, and the National Science Foundation; 82 programs involved
	34. Fragmentation of **financial literacy** efforts makes coordination essential	More than 20 different agencies; about 56 programs involved

Source: GAO-11-318SP.

As table 1 shows, many of the issues we identified are focused on activities that are contained within single departments or agencies. In those cases, agency officials can generally achieve cost savings or other benefits by implementing existing GAO recommendations or by undertaking new actions suggested in our March 1 report. However, a number of issues we

Opportunities Exist for Other Cost Savings or Revenue Enhancements

Given today's fiscal environment, our work summarizes 47 additional areas—beyond those directly related to duplication, overlap, or fragmentation—describing other opportunities for agencies or Congress to consider taking action that could either reduce the cost of government operations or enhance revenue collections for the Treasury. These cost-saving and revenue-enhancing opportunities also span a wide range of federal government agencies and mission areas (see table 2).

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Table 2: Federal Agencies and Programs Where Cost-Saving or Revenue-Enhancement Opportunities May Exist

Missions	Areas identified	Federal agencies and programs where cost-saving or revenue-enhancement options may exist
Agriculture	35. Reducing some **farm program payments** could result in savings from $800 million over 10 years to up to $5 billion annually	Department of Agriculture
Defense	36. DOD should assess costs and benefits of **overseas military presence** options before committing to costly personnel realignments and construction plans, thereby possibly saving billions of dollars	DOD
	37. Total compensation approach is needed to manage significant growth in **military personnel costs**	DOD
	38. Employing best management practices could help DOD save money on its **weapon systems acquisition programs**	DOD
	39. More efficient management could limit future costs of **DOD's spare parts** inventory	DOD, including the military services and Defense Logistics Agency
	40. More comprehensive and complete cost data can help DOD improve the cost-effectiveness of **sustaining weapon systems**	DOD
	41. Improved **corrosion prevention** and control practices could help DOD avoid billions in unnecessary costs over time	DOD's Office of Corrosion Policy and Oversight
Economic development	42. Revising the **essential air service** program could improve efficiency and save over $20 million annually	Department of Transportation
	43. Improved design and management of the **universal service fund** as it expands to support broadband could help avoid cost increases for consumers	Federal Communications Commission; four programs involved
	44. The **Corps of Engineers** should provide Congress with project-level information on **unobligated balances**	U.S. Army Corps of Engineers

Missions	Areas identified	Federal agencies and programs where cost-saving or revenue-enhancement options may exist
Energy	45. Improved management of federal **oil and gas resources** could result in approximately $1.75 billion over 10 years	Department of the Interior's Bureau of Land Management, Bureau of Ocean Energy Management, Regulation and Enforcement, and Office of Natural Resources Revenue
General government	46. Efforts to address **governmentwide improper payments** could result in significant cost savings	About 20 federal agencies; over 70 programs involved
	47. Promoting **competition** for the over $500 billion in **federal contracts** can potentially save billions of dollars over time	Governmentwide
	48. Applying **strategic sourcing** best practices throughout the federal procurement system could save billions of dollars annually	Governmentwide
	49. Adherence to new guidance on **award fee contracts** could improve agencies' use of award fees and produce savings	Several agencies, including DOD and the National Aeronautics and Space Administration
	50. Agencies could realize cost savings of at least $3 billion by continued disposal of **unneeded federal real property**	Governmentwide, including DOD, General Services Administration (GSA), and Department of Veterans Affairs
	51. Improved cost analyses used for making **federal facility ownership** and **leasing** decisions could save tens of millions of dollars	Primarily GSA, the central leasing agent for most agencies
	52. The Office of Management and Budget's **IT Dashboard** reportedly has already resulted in $3 billion in savings and can further help identify opportunities to invest more efficiently in information technology	Governmentwide
	53. Increasing **electronic filing of** individual income **tax returns** could reduce IRS's processing costs and increase revenues by hundreds of millions of dollars	Department of the Treasury's (Treasury) Internal Revenue Service (IRS)
	54. Using **return on investment** information to better target IRS enforcement could reduce the tax gap; for example, a 1 percent reduction would increase tax revenues by $3 billion	IRS
	55. Better management of **tax debt collection** may resolve cases faster with lower IRS costs and increase debt collected	IRS
	56. Broadening IRS's authority to correct **simple tax return errors** could facilitate correct tax payments and help IRS avoid costly, burdensome audits	IRS
	57. Enhancing **mortgage interest information** reporting could improve tax compliance	IRS

Missions	Areas identified	Federal agencies and programs where cost-saving or revenue-enhancement options may exist
	58. More information on the types and uses of canceled debt could help IRS limit revenue losses on **forgiven mortgage debt**	IRS
	59. Better information and outreach could help increase revenues by tens or hundreds of millions of dollars annually by addressing overstated **real estate tax deductions**	IRS
	60. Revisions to content and use of **Form 1098-T** could help IRS enforce higher education requirements and increase revenues	IRS
	61. Many options could improve the tax compliance of **sole proprietors** and begin to reduce their $68 billion portion of the tax gap	IRS
	62. IRS could find additional **businesses not filing tax returns** by using third-party data, which show such businesses have billions of dollars in sales	IRS
	63. Congress and IRS can help **S corporations** and their shareholders be more tax compliant, potentially increasing tax revenues by hundreds of millions of dollars each year	IRS
	64. IRS needs an agencywide approach for addressing tax evasion among the at least 1 million **networks of businesses** and related entities	IRS
	65. Opportunities exist to improve the targeting of the $6 billion **research tax credit** and reduce forgone revenue	Treasury and IRS
	66. Converting the **new markets tax credit** to a grant program may increase program efficiency and significantly reduce the $3.8 billion 5-year revenue cost of the program	Treasury
	67. Limiting the tax-exempt status of certain **governmental bonds** could yield revenue	Treasury
	68. Adjusting **civil tax penalties** for inflation potentially could increase revenues by tens of millions of dollars per year, not counting any revenues that may result from maintaining the penalties' deterrent effect	IRS
	69. IRS may be able to systematically identify **nonresident aliens** reporting unallowed tax deductions or credits	IRS
	70. Tracking **undisbursed balances** in **expired grant accounts** could facilitate the reallocation of scarce resources or the return of funding to the Treasury	Governmentwide

Missions	Areas identified	Federal agencies and programs where cost-saving or revenue-enhancement options may exist
Health	71. Preventing billions in **Medicaid improper payments** requires sustained attention and action by CMS	Department of Health and Human Services' Centers for Medicare & Medicaid Services (CMS)
	72. Federal oversight over **Medicaid supplemental payments** needs improvement, which could lead to substantial cost savings	CMS
	73. Better targeting of **Medicare's** claims review could reduce **improper payments**	CMS
	74. Potential savings in **Medicare's payments** for **health care**	CMS
Homeland security/Law enforcement	75. **DHS's management of acquisitions** could be strengthened to reduce cost overruns and schedule and performance shortfalls	Department of Homeland Security (DHS)
	76. Improvements in **managing research and development** could help reduce inefficiencies and costs for homeland security	DHS
	77. Validation of **TSA's behavior-based screening** program is needed to justify funding or expansion	Transportation Security Administration (TSA)
	78. More efficient **baggage screening systems** could result in about $470 million in reduced TSA personnel costs over the next 5 years	TSA
	79. Clarifying availability of certain **customs fee collections** could produce a one-time savings of $640 million	DHS's Customs and Border Protection (CBP)
Income security	80. **Social Security** needs data on pensions from noncovered earnings to better enforce **offsets** and ensure benefit fairness, resulting in estimated $2.4-$2.9 billion savings over 10 years	Social Security Administration
International affairs	81. Congress could pursue several options to improve collection of **antidumping** and **countervailing duties**	CBP

Source: GAO-11-318SP.

Examples of opportunities for agencies or Congress to consider taking action that could either reduce the cost of government operations or enhance revenue collections include:

- *DOD spare parts:* We have identified weaknesses in DOD's inventory management practices, including problems in accurately forecasting demand for spare parts. Most recently, we reviewed the Defense Logistics Agency inventory levels and reported in 2010 that the Agency, over a

V. 50 BUDGET RECOMMENDATIONS

By now, the reader has had a fairly broad spectrum of ideas, articles and studies in the series of compiled works heretofore. With this background, the following recommendations for Budget Reform in the U.S. will hopefully make more sense. While I tried to select a balanced recitation of information from various sources for the paper, I acknowledge the efforts could have gone on even farther. However, I found that many of the writings became repetitious, untimely, or so far fetched that they were unworthy of repetition. I also intended to provide accurate quotes and writings with clear footnoting, to allow the reader to verify any facts or statements. I thank all of the writers of articles and studies that were selected for this paper, as they each provided the kind of background information I wanted to include for this compilation type format. I also added a short summary following several articles as a personal editorial addition.
The recommendations include some of what has been recited in the compiled data. Nevertheless, others are from my work, including several proposals that date to my participation as a member of the State Restructuring Commission and updates I presented in 2010.
If the paper creates additional interest from others to present suggestions, maybe then we will have something worth enacting.

GENERAL CONSIDERATIONS

1. Repeal the Obama Health care legislation - savings of $800 billion in tax increases. (Patient Protection and Affordable Care Act) (PPACA).
2. Reject any effort to increase taxes. Spending cuts first and foremost. We have a spending problem, not a revenue problem.
3. Consider a flat tax of 15% - 25% for corporations and 15% - 18% for individuals. Eliminate unnecessary loopholes, subsidies, handouts and credits. Governor Pawlenty has opined that a 5% growth rate over ten years would generate $3.8 trillion in new revenues. [1]
   (Note: Jia Lynn Yang of the Washington Post as reported in the Bangor Daily News on 11/4/11, noted that while corporations are taxed at 35%, a recent study found taxes of 280 large corporations were less than zero for 30 of those in 2008-2010).
4. No class warfare allowed. (Remember the Obama civility lecture after Tucson: actions speak louder than words)
5. No scare tactics allowed; e.g. Mediscare.
6. Maintain a strong national defense; No unnecessary interventions and rely on U.N. or NATO, not just U.S. dollars. (Follow Sec. Gates recommendations).
7. Medicare retirement age at 67; no benefit cuts to those 55 and older. Under 55 are allowed to allocate a portion of their FICA contribution to a private IRA. Consider means testing COLAS (see Congressmen Ryan's plan).

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[1] Governor Tim Pawlenty, www.TimPawlenty.com/articles, a better deal.

8. Privatize Freddie Mac, Fannie Mae and Ginnie Mae. (Thus far with $150 billion in bailouts to these agencies). Also, investigate abuses under the fair housing act (community reinvestment act), for potential prosecutions. No government interference with banks and lenders, being forced to give loans to unacceptable buyers, and no threat of racism or hatred by liberals under the fair housing act;
9. Maintain 2008 spending levels, and thus reduce spending and deficits for a balanced budget; Investigate former Senator Dodd regarding Countrywide Loan Scandal and Congressman Frank regarding Freddie Mac Scandal; Investigate Solyndra Scandal for possible prosecutions.
10. Follow the lead of 49 states and enact a federal balanced budget amendment. Adopt cut, cap and balance as a goal. Break the tax and spend cycle plaguing our nation for over 75 years.
11. Maintain ban on earmarks.
12. Eliminate duplicative programs, unnecessary give aways and ensure everyone has a stake in our taxing system. It is outrageous that 50% of U.S. citizens pay no taxes, while 1% pays 20%, 5% pays 40%. Shame on socialism, redistribution and this un-American tragedy created over 75 years of liberal taxing and spending policies.
13. Revenues and spending should balance to about 18% of GDP. Cap spending at 18% of GDP as a part of a balanced budget amendment. Remember a 1% spending reduction per year for 6 years would balance the federal budget by 2017.[2]
14. Apply zero based budgeting principles to the federal budget. Apply private sector realities to the government work force, and set priorities.
15. JOB CREATION: With unemployment rates hovering at 9.1% (some say real rates are at 15%-16% when including those who are no longer searching for jobs), 14 million U.S. citizens are unemployed, and economic growth is at an anemic pace, the question is how to stimulate job growth.

I suggest the following:

(1) Cut corporate taxes;
(2) Reduce corporate red tape and administrative regulations, (Fed. Regs.) Regulations cost about $1.75 trillion per year with $1.3 trillion per year in lost economic activity.
(3) Reduce, curtail, or eliminate Dodd-Frank and Sarbannes-Oxley, and allow the SEC to do its job;
(4) Expand oil drilling, oil shale production, sand oil refining, coal and diversify our National Energy Portfolio, including nuclear, gas, and solar, wind and tidal, where appropriate; Allow permits for the Canadian Pipeline and cooperate with P.M. HARPER. Support the Bakken Oil field in North Dakota and Montana into Canada.

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[2] Id. Governor Pawlenty; See Congressman Mack's, Penny Plan

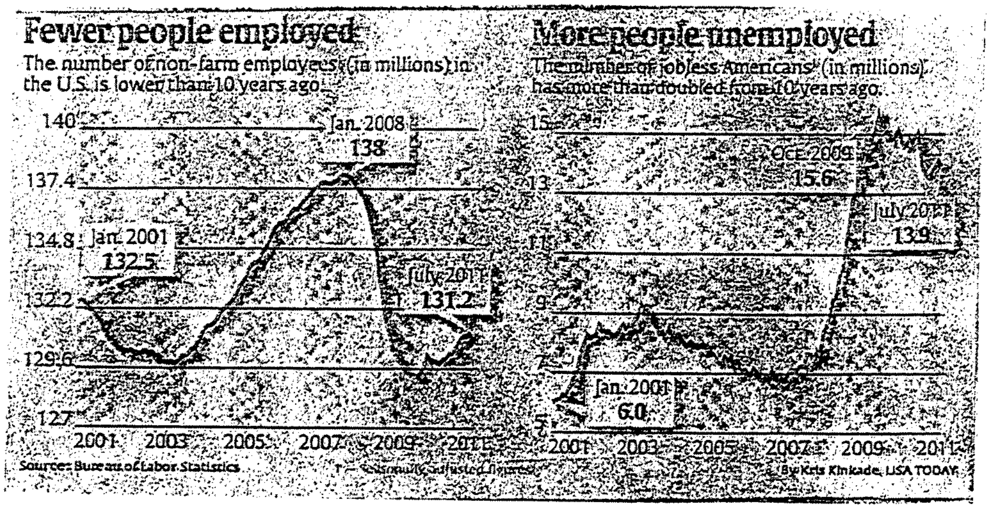
(5) Support selected Road and Bridge infrastructure work with private sector controls and elimination of Davis-Bacon wage restraints, no card check allowed, and fair work laws enforced.

(6) No economic stimulus packages allowed !

(7) New hiring credits to employers of $10,000 per new employee hired for up to 2 years. [3]

(8) Eliminate unnecessary and failed subsidies for ethanol and wind energy, as examples. Note, while regulations have extracted $1.75 trillion per year from the economy, including the $281 billion dollars for environmental regulations. <u>e.g.,</u> Eliminate the volumetric ethanol excise tax credit. (VEETC)

See the following charts demonstrating that real unemployment has risen dramatically in the last 2 ½ years. (USA Today, Id. pp. 2B, 09/02/11)



16. Consider combining Federal Agencies along functional lines, resulting in substantial reductions in costs, programs, and bureaucracy;

a) Department of Commerce

Department of Labor

Department of Housing and Urban Development

Department of Transportation

Primary Functional Attention: Interstate/National Commerce and Economic Activity.

b) Department of Interior

Department of Agriculture

[3] Paul Davidson, USA Today, "7 Ways to Create Jobs," pp. 1B-2B, (9/2/11); Bangor Daily News, "U.S. Chamber Spellsout its our Job Agenda," (AP, 9/5/11)

Department of Energy

Primary Functional Attention: Natural Resources, Preservation and Development.

c) Department of Health and Human Services

Department of Education

Department of Veteran Affairs

Primary Functional Attention: Jobs

d) Department of Defense

Department of Homeland Security

Primary Functional Attention: Domestic/International Security.

e) See organizational charts of the Executive Branch, attached. [4],[5]

f) Eliminate the following:

- African Development Foundation;
- Broadcasting Board of Governors;
- Corporation for National and Community Service;
- Defense Nuclear Facilities Safety Board;
- Export – Import Bank of the United States;
- Farm Credit Administration;
- Federal Housing Finance Board;
- Federal Labor Relations Authority;
- Federal Mediation and Conciliation Service;
- Federal Retirement Thrift Investment Board;
- Inter-American Foundation;
- Merit Systems Protection Board;
- National Capital Planning Commission;
- Overseers Private Investment Corporation;
- Pension Benefit Guaranty Board;
- Postal Rate Commission;
- Selective Service System
- Trade and Development Agency;

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[4] Edwards, Wattenberg & Lineberry, Government in America, People, Politics and Policy, Pg. 431, (9th Ed. 2008).

[5] http://bensguide.gpo.gov/files/gov_chart.pdf

Figure 13.3 Organization of the Executive Branch

The President
Executive Office of the President

Department of State

Department of the Treasury

Department of Defense

Department of Justice

Department of the Interior

Department of Agriculture

Department of Commerce

Department of Labor

Department of Transportation

Department of Housing and Urban Development

Department of Health and Human Services

Department of Energy

Department of Education

Department of Veterans Affairs

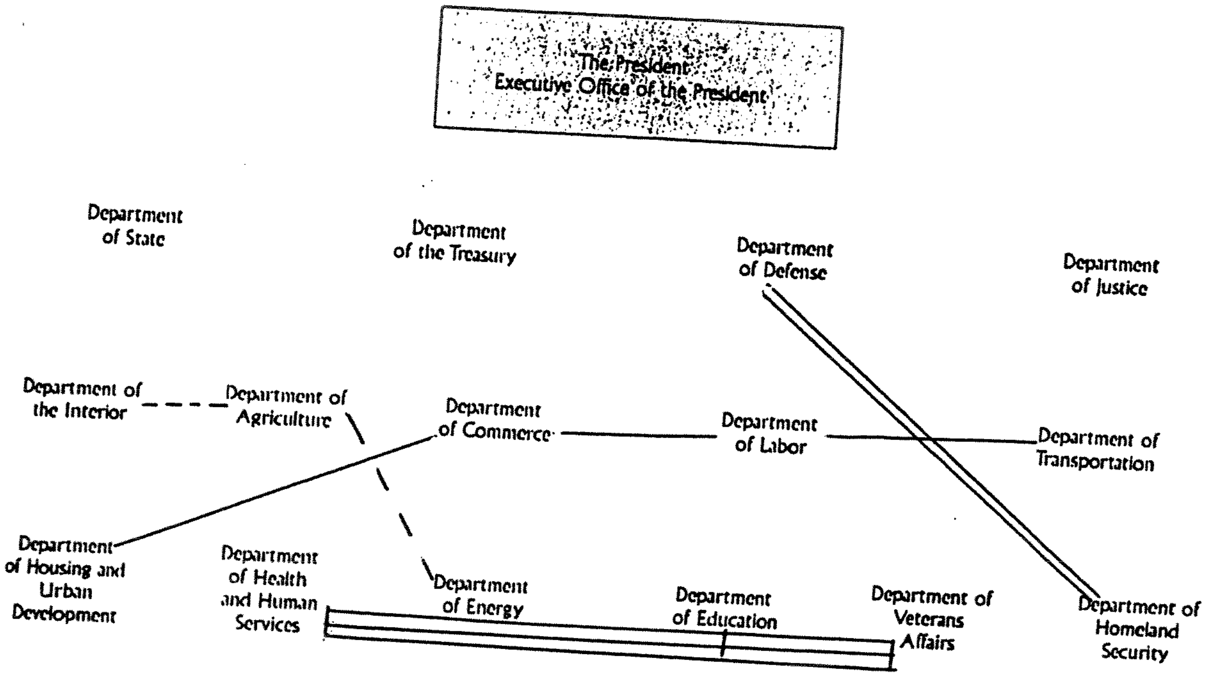
Department of Homeland Security

INDEPENDENT ESTABLISHMENTS AND GOVERNMENT CORPORATIONS

African Development Foundation
Broadcasting Board of Governors
Central Intelligence Agency
Commodity Futures Trading Commission
Consumer Product Safety Commission
Corporation for National and Community Service
Defense Nuclear Facilities Safety Board
Environmental Protection Agency
Equal Employment Opportunity Commission
Export-Import Bank of the United States
Farm Credit Administration
Federal Communications Commission
Federal Deposit Insurance Corporation
Federal Election Commission
Federal Housing Finance Board
Federal Labor Relations Authority
Federal Maritime Commission
Federal Mediation and Conciliation Service
Federal Mine Safety and Health Review Commission
Federal Reserve System
Federal Retirement Thrift Investment Board
Federal Trade Commission
General Services Administration
Inter-American Foundation
Merit Systems Protection Board
National Aeronautics and Space Administration
National Archives and Records Administration
National Capital Planning Commission
National Credit Union Administration
National Foundation on the Arts and Humanities
National Labor Relations Board
National Mediation Board
National Railroad Passenger Corporation (Amtrak)
National Science Foundation
National Transportation Safety Board
Nuclear Regulatory Commission
Occupational Safety and Health Review Commission
Office of the Director of National Intelligence
Office of Government Ethics
Office of Personnel Management
Office of Special Counsel
Overseas Private Investment Corporation
Peace Corps
Pension Benefit Guaranty Corporation
Postal Rate Commission
Railroad Retirement Board
Securities and Exchange Commission
Selective Service System
Small Business Administration
Social Security Administration
Tennessee Valley Authority
Trade and Development Agency
U.S. Agency for International Development
U.S. Commission on Civil Rights
U.S. International Trade Commission
U.S. Postal Service

Source: Office of the Federal Register, *United States Government Manual 2006–2007* (Washington, DC: U.S. Government Printing Office, 2006), 21.

Figure 13.3 Organization of the Executive Branch



INDEPENDENT ESTABLISHMENTS AND GOVERNMENT CORPORATIONS

~~African Development Foundation~~
~~Broadcasting Board of Governors~~
Central Intelligence Agency
Commodity Futures Trading Commission
Consumer Product Safety Commission
~~Corporation for National and Community Service~~
~~Defense Nuclear Facilities Safety Board~~
Environmental Protection Agency
Equal Employment Opportunity Commission
~~Export-Import Bank of the United States~~
~~Farm Credit Administration~~
Federal Communications Commission
Federal Deposit Insurance Corporation
Federal Election Commission
~~Federal Housing Finance Board~~
~~Federal Labor Relations Authority~~
Federal Maritime Commission
~~Federal Mediation and Conciliation Service~~
Federal Mine Safety and Health Review Commission

Federal Reserve System
~~Federal Retirement Thrift Investment Board~~
Federal Trade Commission
General Services Administration
~~Inter-American Foundation~~
~~Merit Systems Protection Board~~
National Aeronautics and Space Administration
National Archives and Records Administration
~~National Capital Planning Commission~~
National Credit Union Administration
National Foundation on the Arts and Humanities
National Labor Relations Board
National Mediation Board
National Railroad Passenger Corporation (Amtrak)
National Science Foundation
National Transportation Safety Board
Nuclear Regulatory Commission
Occupational Safety and Health Review Commission

Office of the Director of National Intelligence
Office of Government Ethics
Office of Personnel Management
Office of Special Counsel
~~Overseas Private Investment Corporation~~
Peace Corps
~~Pension Benefit Guaranty Corporation~~
~~Postal Rate Commission~~
Railroad Retirement Board
Securities and Exchange Commission
~~Selective Service System~~
Small Business Administration
Social Security Administration
Tennessee Valley Authority
~~Trade and Development Agency~~
~~U.S. Agency for International Development~~
U.S. Commission on Civil Rights
U.S. International Trade Commission
U.S. Postal Service

Source: Office of the Federal Register, *United States Government Manual 2006–2007* (Washington, DC: U.S. Government Printing Office, 2006), 21.

- United States Agency for International Development.

17. Adopt Congressman Mack's "one percent spending reduction act of 2011, the so-called "penny plan," mandating spending not to exceed 18% of GDP, and a one (1) percent reduction from 2012 to 2017, thus cutting $7.5 trillion from the budget over 10 years.
18. Require all states to utilize vocational-educational rehabilitation for injured, disabled, and laid-off workers, as a condition of benefit receipt. The goal is JOBS-JOB-JOBS! Interface with Department of Labor and Education.
19. Follow guidelines of former Defense Secretary Robert Gates regarding reduction of inefficient spending totaling +/- $178 billion, with reinvestment into key combat capabilities and support our Veterans. (See also, Andrew Nepp, "Husson to Show Maine Made film on Veterans struggles", Bangor Daily News, 8/26/11)
20. Enact legislation to curb anti-fraud spending of about $125 billion annually in improper payments; Hire private attorneys on a contingency fee basis to prosecute the claims.
21. Adopt the President's fiscal commission recommendations to reduce the federal auto fleet by 20% noting in 2010 an inventory at 662,000 vehicles existed.
22. No more bailouts.
23. Restructure all farm subsidies to restore competition.
24. No pay or benefits to members of Congress if spending exceeds 18% of GDP or military personnel or the elderly are not paid their benefits.
25. Make all mandatory spending subject to the appropriations process.
26. Require all welfare recipients to spend funds on life care needs, no spending on tobacco, illegal drugs, alcohol, lottery tickets/gambling or illegal activities. Require healthy living lifestyles, exercise and preventative care and mandatory conditions of receipt of welfare. Require mandatory drug testing. Any violations constitutes a crime of theft (co-conspirators, including those aiding and abetting the fraud, would be prosecuted as well).
    All recipients must work or receive job training. Interface with Department of Labor and Education.
27. Convert the SNAP program to a block grant to states - tie into work/ re-training.
28. No educational class warfare – Pell Grants offered to all students; no discrimination against students based on wealth/poverty. The goal: Destroy attempts to create wedges between citizens and no blackmailing some segments of society into voting for candidates based on the amount of welfare they bring to individuals or handouts. Treat everyone the same, thus a flat tax as <u>e.g.</u>
29. Use the State of Maine Prelitigation Screening Panel process for medical malpractice claims as a fair and reasonable program to prevent

unnecessary litigation. Lawyers are not the problem: the system is the problem.

30. Allow a liberal option tax (LOT), for liberals to tithe at least 10% of their AGI for federal spending programs. Maybe liberals can then catch up with conservatives on charitable giving in that way. Any LOT contributions would be non deductible and non refundable.
31. Eliminate the Death Tax, retroactively.
32. Eliminate capital gains taxes, retroactively.
33. Follow the Heritage Foundations recommendations as reported by James Phillips and James Carafano:
*Remain firmly committed to a stable and free Iraq;

*Maintain the need for a close and strategic cooperative relationship with Israel;

*Stay engaged in Lebanon.;

*Support Egypt's army to safeguard freedom.

34. Retrieve and pay down the debt with unused and repaid stimulus dollars from the American Recovery and Reinvestment Act (ARRA) and never repeat the mistake again.
35. Follow Sen. Tom Coburn's plan to cut $9 trillion from the federal budget over the next decade that reduces government services and cuts tax credits, producing $1 trillion in revenues; Adopt Sen. Coburn's plan to cut spending equal to any future debt ceiling increases – Balance occurs in 10 years.
36. Prohibit states from providing Medicaid to anyone above 133% of the national poverty level, or lose all federal financing - maintain consistency between states to minimize mobility for welfare receipt, and require work/vocational training as a condition of obtaining benefits.
37. According to Sen. Susan Collins:
   a. 15 federal agencies are involved in food safety.
   b. There are 80 economic development programs across the government.
   c. There are over 100 programs for surface transportation.
   d. 70 agencies and 56 programs control financial literacy programs.

   The GAO states billions would be saved by eliminating wasteful and duplicative programs. (See fn.)

38. Reject card check – allow workers freedom of choice and the right to work without retaliation.
39. Reject cap and trade – no new energy costs are needed; reduce gas prices.
40. Repeal the Dodd-Frank Wall Street Reform and Consumer Protection Act, as a wasteful and unnecessary overreaction to bailouts and favors. The SEC is fully capable of enforcing the law. "Critics argue that Dodd-Frank contains inadequate mens rea standards, criminalizes behavior that we should consider civil wrongs... duplicates criminal enforcement... and provides risky and substantial aide to whistleblowers", who are likely to fabricate for gains. (See Julianne Baliaro, "Criminal Provisions and

Implications of the Dodd-Frank Act," For the Defense, P. 50 (July 2011). See also, Richard Bale and Tricia Volpe, "Ponzi Schemes and Financial Fraud Litigation," The Brief, Vol. 40, #4, pg. 15 (Summer 2011).

41. Support policies for Maine that promote fishing, farming and forestry. (See, e.g. Eric Russell, "LePage comments on Logging Stirs Debate in the County," Bangor Daily News, 8/16/11)
42. Consider the Heritage Foundations proposal by Brian Riedl to cut tens of programs totaling over $300 billion (see fn, 63)
43. Reject the fiscal commissions report recommendations to increase taxes.
44. Consider recommendations of Julie Borowski, from Freedomworks, including over 10 years:
    a. Retire Americorps ($70 billion)
    b. Privatize US Postal Service ($238 billion)
    c. Repeal Davis Bacon labor rules ($60 billion)
    d. Return unspent stimulus funds to the treasury ($45 billion)
    e. Repeal Small Business Administration ($14 billion) and HUD ($63 billion);
    f. End farm subsidies ($250 billion- over 10 years)
    g. End TARP ($7 billion)
    h. End energy subsidies ($20 billion/year)
    i. Privatize air traffic control {$38 billion, with a total of about $650 billion over 10 years} (See Fn. 66, Section IV)
45. Stop IMF bailouts (Fn 78, Section IV)
46. Consider the Heritage Foundation proposal to:
    a. Balance the federal budget at 18.5% of GDP (The historical average) within a decade;
    b. Reduce the debt to 30% of GDP (I prefer 18%);
    c. Cut the size of Government;
    d. Adopt a simpler tax code (e.g. flat tax);
    e. Protect Social Security and Medicare. (Consider retirement as defined contribution plans and not as defined benefit plans that now exist).
    f. Incentivize work, savings and investing. [4]
47. Return to 2008 spending levels through 2015, and capping to inflation would save $2 trillion in the 1st decade. [5]
48. Maintain the modern average of collecting revenue to 18.5% of GDP. (The Heritage Foundation found the 18.5% figure was the upper limit Americans had accepted over many decades.) [6]
49. Allow 3 tax deductions with a flat tax rate, higher education, charitable donations, and mortgage interest. [7] (I suggest adding interest free municipal bonds).

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[4] Butler Fraser & Beach, "Saving the American Dream: The Heritage Plan to fix the debt, cut spending and restore prosperity," (Heritage Foundation, pg. 12, 7/8/11)
[5] Id. at pg. 29
[6] Id. at pg. 34
[7] Id at pg. 36

50. Adopt the proposal from the Comptroller General of the U.S. Government accountability office, wherein 47 cost savings and revenue enhancing areas were identified and 34 areas of duplication, overlap or fragmentation, with potential savings of billions of dollars. The GAO report and findings are noted at Section IV, fns 98-99, supra. (This report was requested by Sen. Tom Coburn).