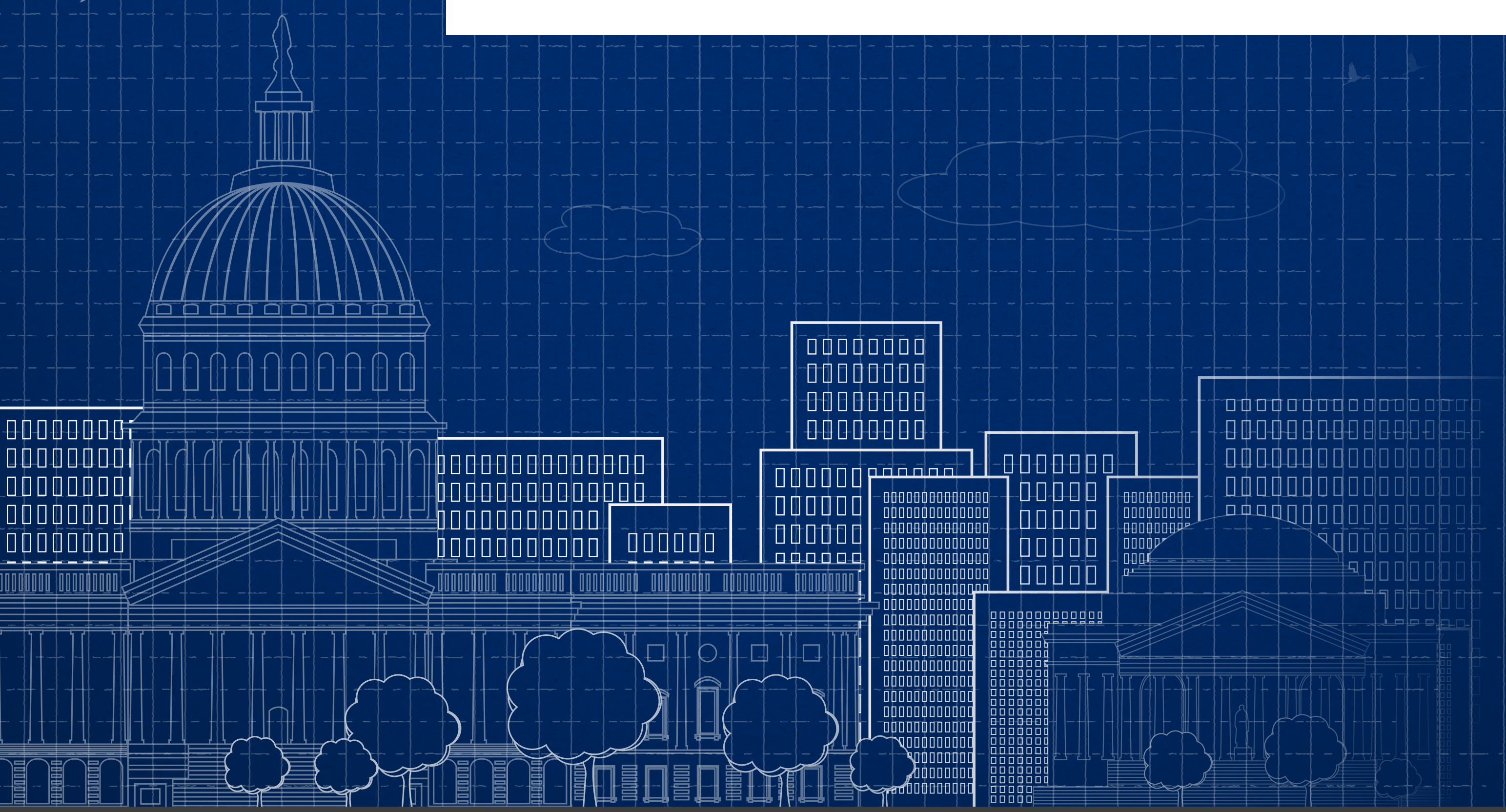
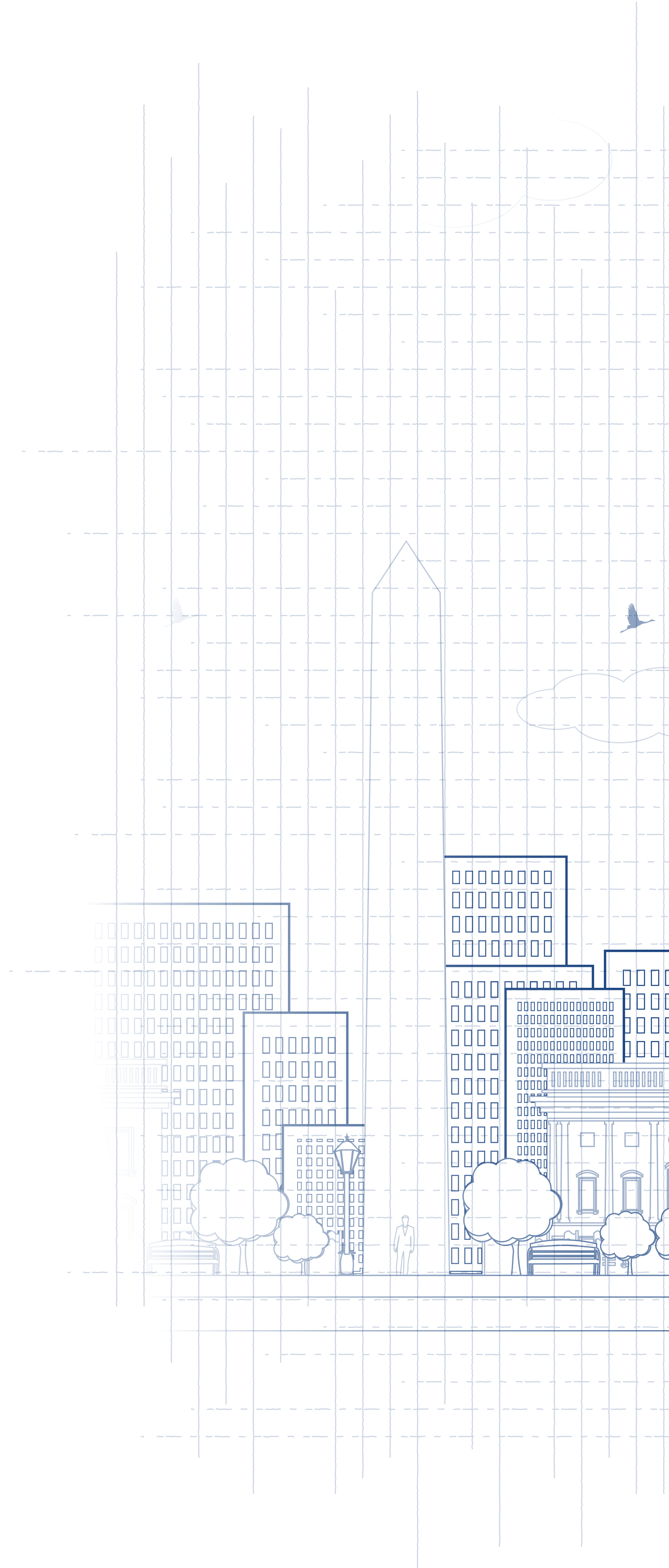
The Heritage Foundation

Blueprint for Reform

A Comprehensive Policy Agenda for a New Administration in 2017



MANDATE FOR LEADERSHIP SERIES



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MANDATE FOR LEADERSHIP SERIES

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A Mandate for Leadership in 2017

The Heritage Foundation is publishing a three-part Mandate for Leadership Series of documents over the course of 2016. Each document educates the American public, specifically including Congress, the new American President, and the new President's team. All three parts deliver a clear, unified policy vision for Congress and the President to preserve and create opportunities to enable all Americans provide for their families, contribute to their communities, and pursue their dreams.

Part I, "Blueprint for Balance: A Federal Budget for 2017," which Heritage published in March 2016, provides detailed recommendations for the federal budget put forth by Congress. Part II, "Blueprint for Reform: A Comprehensive Policy Agenda for a New Administration in 2017," this edition, establishes a long-term vision, and policies to achieve that vision, that requires presidential leadership and congressional action. Part III will identify presidential and Cabinet-level priorities for reforming major agencies consistent with the policy proposals presented in the first two parts of the Mandate series.

For Americans to achieve better lives, the next President and Congress must take steps to allow Americans to build for themselves a stronger economy, a stronger society, and a stronger defense. Heritage regularly assesses the strength of America's economy, society, and defense and has found great need for improvement, as reflected in:

- *2016 Index of Economic Freedom: Promoting Economic Opportunity and Prosperity,* ed. Terry Miller and Anthony B. Kim (Washington: The Heritage Foundation and Dow Jones & Company, Inc., 2016);
- *2016 Index of Culture and Opportunity: The Social and Economic Trends that Shape America,* ed. Jennifer A. Marshall and Christine Kim (Washington: The Heritage Foundation, 2016); and
- *2016 Index of U.S. Military Strength: Assessing America's Ability to Provide for the Common Defense,* ed. Dakota L. Wood (Washington: The Heritage Foundation, 2015).

Adoption of the recommendations set forth in this "Blueprint for Reform" would strengthen America's economy, society, and defense.

A COMPREHENSIVE POLICY AGENDA

The federal government of the United States has grown considerably both in size and scope under President Obama. Years of defense budget cuts have also resulted in a smaller and weaker military at a time when protection of individual liberties at home and abroad requires a strong national defense. The policies pursued by Congress and the President have led to a demonstrable reduction in personal freedoms and an increase in debt, resulting in declining economic freedom.[1]

Federal debt has nearly doubled, from $9.986 trillion at the end of 2008 to $19.207 trillion in May 2016.[2] By the end of this year, gross debt will have increased from 68 percent of the economy to 105 percent between 2008 and 2016, according to the Office of Management and Budget.[3]

The growing debt is expected to double annual debt service payments within five years and quadruple them over the next 10 years, from $253 billion in 2016 to $839 billion in 2026.[4] That $839 billion in interest represents 59 percent of the entire amount of the discretionary spending projected for the government in 2026. In fact, the government projects that it will spend 17 percent more on debt service payments than it will for national defense in that year. The country cannot and should not sustain the current course of excessive spending and borrowing.

Excessive spending has driven the growing debt and created an unsustainable budget. A recent Heritage Foundation study finds that the growth in federal programs accounting for 60 percent of total spending over the next 10 years cannot be supported by future tax increases.[5]

Reforming the major entitlement programs, especially the federal health care and retirement programs (i.e., Medicare, Medicaid, and Social Security), is essential to improving the budget outlook and avoiding a future debt crisis.

There has also been an unparalleled expansion of the regulatory state in the last eight years. The Obama Administration has imposed 229 major rules since 2009 at a cost of $108 billion annually (according to the regulatory agencies own numbers). The actual costs are far greater, both because costs have not been fully quantified for a significant number of rules, and because many of the worst effects—loss of freedom and opportunity, for example—are incalculable.

The next President of the United States and Congress will face significant challenges in restoring to public life the principles of free enterprise, limited government, individual freedom, traditional American values, and a strong national defense. They can begin by pursuing the following proposals:

Pro-Growth Tax Reform. The tax system should raise the revenue necessary to fund a limited government at the lowest level possible for constitutionally appropriate activities, but the current U.S. system is outdated and extracts too much from the private economy. The tax system should apply the least economically destructive forms of taxation, have low rates on a broad base, minimize interference with the operation of the free market and free enterprise, and minimize the cost of compliance for taxpayers. It should also minimize adverse impact on the core institutions of civil society.

Balance the Budget. The federal budget absorbs enormous resources from the economy, both in money taken in from taxpayers and in money borrowed. The budget should be balanced by driving down federal spending, including through entitlement reforms, while maintaining a strong national defense and not raising taxes.

Reduce Regulatory Burden. In a post-Obama era, the need for reform of the regulatory system will be greater than ever before. Immediate reforms should include the requirement that legislation undergo an impact analysis before a floor vote in Congress, as well as a requirement that every major regulation obtain congressional approval before taking effect. Sunset deadlines should be required for all major rules, and independent agencies should be subject to the same White House regulatory review as executive branch agencies.

Repeal Harmful Laws such as Obamacare and Dodd–Frank. The Patient Protection and Affordable Care Act of 2010 (Obamacare) and the Dodd–Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd–Frank) greatly expanded federal control of the health care and financial sectors. Obamacare is unpopular, unaffordable, and unworkable.

Congress should repeal Obamacare in its entirety and replace it with patient-centered, market-based reforms. Dodd–Frank should also be repealed. Additional reforms should include removing the federal government from housing finance, ending the Federal Reserve's emergency lending power, and ending federal loan and security guarantees.

Rebuild the Military Capabilities of the United States. The military capabilities of the United States to protect America and its interests abroad have been significantly reduced. The risk to Americans everywhere posed by global terrorism, the eruption of conflicts in many regions of the world, and American retreat in the face of challenges have begun to show the American people what a world without America looks like. The ability of the United States to exercise leadership and protect its interests depends substantially on the strength of the U.S. armed forces. The new President and Congress need to allocate the necessary resources to strengthen U.S. military capabilities.

Reform Welfare. The current U.S. means-tested welfare system has failed the poor. It fails to improve self-sufficiency and the cost of the welfare system is unsustainable. Total federal and state government spending on means-tested welfare now reaches over $1 trillion annually. Welfare reform should encourage work, a proven formula for reducing dependence and controlling costs. Furthermore, the vast majority of means-tested welfare spending is federal. Because states are not fiscally responsible for welfare programs, they have little incentive to curb dependence or rein in costs. States should gradually assume greater revenue responsibility for welfare programs; that is, they should pay for and administer the programs with state resources. Additionally, leaders should work to strengthen marriage. The absence of fathers in the home is one of the greatest drivers of child poverty. Policymakers should reduce marriage penalties in the current welfare system and find ways to promote marriage in low-income communities.

The first six chapters of the Comprehensive Policy Agenda provide policy summaries in the areas of economics, tax, entitlements, regulation, energy and natural resources, and foreign policy and defense. The second section of the book is dedicated to establishing agency and department budgets and policy objectives for the next 10 years. Each agency and department chapter also contains a revised "Mission Summary" outlining its proper scope. The appendix includes estimates showing how the policies presented here will affect the federal budget and agency budgets. The book can serve as the next President's first budget.

A *Blueprint for Reform* will:

- Improve the long-term sustainability of the federal budget by slowing the growth of entitlement spending;
- Update the tax code to promote economic growth and opportunity;
- Streamline the operations and personnel costs of federal departments and agencies;
- Reduce total spending by $10 trillion over 10 years on a cash basis and by $10.3 trillion on an accrual basis if used for agency personnel costs; and
- Balance the federal budget on a unified basis by 2024.

ENDNOTES

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2. U.S. Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2017: Historical Tables* (Washington: U.S. Government Publishing Office, 2015) Table 7.1, https://www.whitehouse.gov/omb/budget/Historicals (accessed May 19, 2016). Years are fiscal years unless otherwise stated.
3. Ibid.
4. Congressional Budget Office, *Updated Budget Projections: 2016 to 2026*, March 2016, https://www.cbo.gov/publication/51384 (accessed May 19, 2016).
5. Paul L. Winfree, "Causes of the Federal Government's Unsustainable Spending," Heritage Foundation *Backgrounder* No. 3133, July 7, 2016, http://www.heritage.org/research/reports/2016/07/causes-of-the-federal-governments-unsustainable-spending.

Chapter 1: Economic Policy

The financial crisis of 2007 led to a "Great Recession" that took far too long to recover from. President Obama and his supporters have consistently argued that the crisis and ensuing recession were caused by the worst excesses of the free market. They claim that unbridled capitalism during the presidency of George W. Bush crashed the economy and that the heroic application of federal power via emergency bailouts, massive stimulus, and new regulations saved America from an even darker economic fate. This narrative is false: Overregulation and excessive government meddling led to the financial crisis, and the Obama Administration has expanded policies that weaken the economy.

Under the Obama Administration, labor agencies have cracked down on employers who choose not to employ union labor in their facilities. The Administration has imposed vast new energy regulations, drastically limiting the energy sector's potential growth. The President also signed into law sweeping new financial regulations, further bringing the financial sector under government control and providing new protections to troubled, "too-big-to-fail" firms. Perhaps worse, government involvement in housing markets has become further entrenched, even though it was a primary factor in the 2008 meltdown. And, of course, President Obama signed the Affordable Care Act (Obamacare) into law, possibly the boldest attempt at government central planning in American history.

These examples, among others, help explain why it took nearly six years to recover from the Great Recession that officially ended in June 2009, far longer than it took to recover from all other major recessions dating back to 1960.[1] Undoubtedly, the massive federal intervention that's been foisted on the private economy during the last eight years has to be reversed, but the problem predates the Obama Administration. Federal control and involvement in the private sector has been on the rise for decades. Beginning under several of President Obama's predecessors, this trend has increased the cost of doing business, made markets less competitive and productive, and contributed to financial instability. While all of these regulations have been bogging down the economy, the Obama Administration and its predecessors have allowed the tax code to become more convoluted and anti-growth than ever.[2]

FINANCIAL MARKET REFORMS

Financial regulations in the U.S. have not been significantly reduced in more than 100 years. If Congress repealed the 2010 Dodd–Frank Wall Street Reform and Consumer Protection Act in its entirety, the remaining financial regulatory system still would be wholly antagonistic to a free society. For decades, U.S. regulators have been expanding the size and scope of banking regulations, as well as increasingly applying bank-like regulations to non-bank financial companies. Undaunted by their past failures, regulators have continued to grasp a more active role in managing financial firms' risk taking. This increasingly paternalistic role has harmed the stability, competitiveness, and effectiveness of the financial system.

The next presidential proposed budget should recognize that banks and other financial companies improve economic growth and prosperity. A vibrant financial sector improves economic opportunity by fostering capital formation and promoting a more efficient allocation of capital. The current financial regulatory framework is complex, counterproductive, and disruptive. The expansion of government's role has made the financial system less stable, reduced competition, promoted industry concentration, harmed investors, and hampered economic growth. The next budget should set forth a path for returning financial market regulation to its core purposes: deterring and punishing fraud and fostering reasonable, scaled disclosure of material information.[3]

LABOR MARKET IMPROVEMENTS

Congress and the next Administration should repeal the salaried overtime regulations that the Obama Labor Department has promulgated. These rules require employers to track the hours of salaried employees making less than $47,500 a year and pay overtime rates for time worked in excess of 40 hours a week. Even proponents of the regulations concede companies will offset these costs by reducing base salaries, leaving total pay unchanged. But the requirement to track hours will impose considerable costs on employers and restrict the schedule flexibility that many salaried employees value.

Congress and the Administration also should roll back the recent National Labor Relations Board (NLRB) policy changes. The Obama NLRB has aggressively re-interpreted federal law to facilitate union organizing. Workers have a right to unionize if they choose, but the government should not attempt to force it on them. Unionized companies create fewer jobs and are more likely to go bankrupt. One of the NLRB's rules—changing the "joint employer" standard—has the potential to destroy the franchise business model.

The next Administration should encourage state governments to eliminate excessive occupational licensing. One in three jobs now requires a government license. Some licenses exist to protect public safety, particularly those in medical fields. However, states license many jobs that have few such safety concerns, such as barbers, bartenders, and interior designers. These licenses exist primarily to restrict access to these occupations and limit competition. They wall off large portions of the economy to low- and moderate-income workers trying to switch jobs.

TAX REFORM

The existing tax code stifles economic freedom, reducing the amount of prosperity the private economy can create. Fundamental tax reform would alleviate the harm caused by the tax system and allow the economy to grow. The new presidential budget should reflect that this stronger economic growth would substantially improve the incomes of all Americans and enhance economic opportunities.

The new budget should prompt Congress to design a tax system that is fair and efficient and that funds the necessary functions of government. A flat tax that eliminates penalties on saving and investment is the least economically destructive tax system. Relative to the current income tax system, a flat tax that excludes gains on income that is saved or invested (often referred to as a consumption tax base) has the potential to increase economic growth substantially. Four leading conservative tax reform plans are the Hall–Rabushka flat tax, the new flat tax, a national sales tax, and a business transfer tax. Each tax attempts to tax an equivalent base on consumption, each would apply essentially the same tax rate to raise a given amount of tax revenue, and each would provide the same economic benefits.[4]

SHRINKING THE REGULATORY STATE

Regulation has become so pervasive in the U.S. that the fundamental character of the nation resembles servitude to the state more than individual liberty. Never before has the need to contain regulation been so critical. More than 20,000 new regulations have been added in the last seven years, along with more than $108 *billion* in new annual costs. Complying with these regulations requires the private sector to shift an enormous amount of resources away from innovation, expansion, and job creation, thus harming economic growth. This regulatory expansion harms low-income families and fixed-income seniors the most because the higher compliance costs translate to higher consumer prices that exhaust a relatively larger share of their personal budgets.

The next President should rein in the administrative state by devising a budget that withholds appropriations from unwarranted regulatory initiatives and overzealous agencies. Meaningful reform also requires voters to hold Congress accountable. For example, no major regulation should be allowed to take effect until Congress explicitly approves it, as is called for under the Regulations from the Executive in Need of Scrutiny (REINS) Act. The President's budget should also address the extent to which it is even appropriate for the federal government (or any level of government) to intervene in policy matters that can be managed by states or, in many instances, by the private sector in a more effective fashion.[5]

REDUCING THE SIZE AND SCOPE OF FEDERAL INVOLVEMENT

Federal involvement in virtually all sectors of the economy has been expanding in both size and scope for decades. This expansion has negatively impacted the long-term health of the economy by imposing both indirect and direct costs. Since 1996, 25 different laws have imposed new fees on the private sector. In the last 10 years, 14 percent of laws enacted contained private sector mandates. Almost 20 percent of these mandates during the last decade exceed the 1995 Unfunded Mandates Reform Act threshold of $100 million.[6] The next presidential budget should reverse these trends and reassert the principle of limited government.

Aside from the sheer volume of regulations, federal involvement in the economy has expanded via federal guarantees that shield private financial market participants from losses. These guarantees—both implicit and explicit—result in greater financial risks in the economy than would otherwise exist, sowing the seeds for future financial turmoil. Aside from providing flood insurance and crowding out private insurers, the federal government regularly backs private loans via agencies such as the Small Business Administration and the Export–Import Bank. Virtually no part of the housing finance sector is free from some kind of government backing via Fannie Mae, Freddie Mac, the Federal Housing Administration, or the Rural Housing Service. This backing also includes protecting creditors of so-called systemically important financial institutions. The next President needs to lead the effort to eliminate the many forms of federal backing for private sector financial risk taking, leaving economic decisions to the free market.

IMPROVING MONETARY POLICY

The overall track record of the Federal Reserve shows that the U.S. experiment with central banking has not fulfilled its promise. In the post-WWII era, business cycles have not been tamed, the long-term purchasing power of the dollar has declined, and the benign deflation that arises from improved productivity has all but disappeared from the U.S.[7] Furthermore, the too-big-to-fail doctrine has roots in the Federal Reserve's so-called emergency lending. Throughout its history, the Fed's emergency lending and discount window loan policies have jeopardized its operational independence and put taxpayers at risk. These outcomes are not surprising given that monetary policy under the Federal Reserve has been shielded from virtually any private competition.

Economic instability in the pre-Federal Reserve era (i.e., before 1913) is often blamed on the fact that there was no U.S. government monopoly of currency. Research has shown, however, that government regulations, not private competitive currencies, were a major cause of monetary difficulties in the U.S. prior to the 20th century.[8]

Key policy improvements include removing regulatory barriers that prevent private innovations in money from flourishing, requiring the Fed to follow a short-term, rules-based policy; ending the Fed's role as a financial regulator; and ending the Fed's emergency lending authority.[9] The next presidential budget should outline reforms to ensure that the Federal Reserve embraces its role as a facilitator of money creation by competitive banks and does not usurp the role of the private banking sector.

FREEING THE ECONOMY TO GROW

Those who expanded federal involvement in the economy over the past few decades believe that government officials should be the key decision makers and arbiters of the economy's winners and losers. They are mistaken. Removing oppressive federal rules and regulations, along with fundamentally reforming the tax code, will create a vibrant, growing economy that expands opportunity for all.

ENDNOTES

1. This recovery period refers to real gross domestic product per capita. See Peter Wallison, "Why Large Portions of the Dodd–Frank Act Should Be Repealed or Replaced," chap. 1 in ed. Norbert J. Michel, *The Case Against Dodd–Frank: How the "Consumer Protection" Law Endangers Americans* (Washington: The Heritage Foundation, 2016), pp. 11–30.
2. Many business owners now cite both taxes and government red tape as their two greatest problems. See William C. Dunkelberg and Holly Wade, "NFIB Small Business and Economic Trends," National Federation of Independent Business Research Foundation, July 2014, http://www.nfib.com/Portals/0/PDF/sbet/sbet201407.pdf (accessed May 19, 2016).
3. David R. Burton and Norbert J. Michel, "Financial Institutions: Necessary for Prosperity," Heritage Foundation *Backgrounder* No. 3108, April 14, 2016, http://www.heritage.org/research/reports/2016/04/financial-institutions-necessary-for-prosperity.
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8. Ignacio Briones and Hugh Rockoff, "Do Economists Reach a Conclusion on Free-Banking Episodes?" *Econ Journal Watch*, Vol. 2, No. 2 (1995), pp. 279–324, https://econjwatch.org/articles/do-economists-reach-a-conclusion-on-free-banking-episodes (accessed June 1, 2016).
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Chapter 2: Tax Policy

The federal tax system is in dire need of reform. Tax rates that place too great a burden on families and businesses have stifled the economy. Government's imposition of taxes on savings, multiple taxes on investment, and picking of winners and losers have depressed employment, saving, investing, and risk-taking across the economy. Reducing these building blocks of growth has made the economy smaller and has made Americans at all income levels worse off because of the damage done by the tax system.

The federal government collects too much from the private economy and spends even more. The federal government expects to collect $42.1 trillion in revenues between 2017 and 2026 and spend $51.4 trillion during that period.[1] The $9.3 trillion of spending not covered by revenues will be paid for by issuing debt. That will bring the U.S. total gross debt from $19.2 trillion in May 2016 to an estimated $29.1 trillion by September 2026.[2]

The debt issued today to pay for additional spending contributes to ever-escalating debt service costs that are expected to exceed $830 billion each year by 2026.

The excessive levels of taxes and spending are disastrous for the economy. Total tax revenue must decline, along with spending, to maximize the benefits of updating the tax code and eliminating the multiple layers of taxation on savings and investment to stimulate growth. The Congressional Budget Office projects that over 60 percent of the total revenue collected over the next 10 years will come from individual and corporate income taxes. The next President and Congress should implement pro-growth tax reform that is more transparent, imposes a flat rate on income, excluding that which is savings or investments. This would leave only what is consumed to be taxed, which is often referred to as a consumption tax, and would eliminate the barriers to business growth.[3]

Updating the tax system will lower taxes on labor, capital, and business creation and will stop punishing equity in relation to debt and instead will lower the cost of investment and saving. It will prevent taxing savings, prevent taxing investment multiple times, and reduce the tax bias against work. These reforms will ultimately bring about a stronger economy, more business formation, more jobs, and higher wages for American families.

PRINCIPLES OF TAX REFORM

1. The tax system should raise the revenue necessary to fund a limited government at the lowest level possible for constitutionally appropriate activities. In particular, the tax system should: (a) apply the least economically destructive forms of taxation; (b) have low tax rates, on a broad tax base; (c) minimize interference with the operation of the free market and free enterprise; and (d) minimize the cost to taxpayers of compliance with, and administration of, the tax system.

2. The tax system should minimize its adverse effect on the core institutions of civil society.

3. To help preserve the rights to life, liberty, and property, the tax system should: (a) impose no unreasonable burdens; (b) apply consistently to all, with special privileges for none; and (c) afford due process to respect taxpayer rights.

4. The entire tax burden imposed (including all forms of taxation) should be transparent and easily understood by taxpayers.

5. No aspect of the existing tax system should be immune to change, given the complexity and economic incoherence of the existing tax code.

There are several ways to update the tax system so that it is more equitable, pro-growth, and adheres to each of the principles.[4] One possible method is outlined here.

A FOUNDATION FOR UPDATING THE INDIVIDUAL TAX SYSTEM

The individual income tax system would be replaced with a low, flat tax rate applied on a base that includes all wages and salaries, and some other forms of income, including income from retirement accounts that have been funded with pre-tax income under the current system. The rate would be set based on collecting just enough revenue for constitutionally appropriate activities.

In the updated tax system, savings can be treated either as yield-exempt, or families can be given a deduction for their net savings and pay tax when they withdraw from those savings, plus the returns they earned. The former system is like a Roth individual retirement account (IRA). The latter is akin to a traditional IRA or 401(k) plan. The Roth treatment raises more revenue in the earlier years of the budget window and is easier to administer. The traditional IRA approach raises more revenue in later years.

In order to achieve that lowest possible flat rate, deductions from income should be eliminated or held to an absolute minimum. With each deduction, the tax base is reduced and the tax rate must be correspondingly increased. However, a deduction for charitable contributions would be included. In the updated tax system, income that families devote to the betterment of civil society should not be subject to tax. Interest income should be taxable to lenders and its cost deductible to borrowers, or interest income should be exempt from tax for lenders with no deduction for borrowers. Both treatments are economically equivalent, but exempting interest income and removing the deduction for interest paid raises more revenue, which allows for lower tax rates, because of the large number of non-taxable lenders. Non-taxable lenders include university endowments, tax-deferred retirement funds, charitable foundations, and other similar non-taxable entities that act as lenders.

The updated tax system eliminates completely capital gains taxes, dividends taxes, and estate taxes. It abolishes federal excises that do not fund a specific trust fund.

A FOUNDATION FOR UPDATING THE BUSINESS TAX SYSTEM

All types of businesses should be subject to the same tax system. This is a significant departure from the current business tax system where C-corporations pay the corporate tax and all other businesses pay on the individual returns of their owners.

The updated business tax system would replace the current system with a flat, low tax rate on gross receipts minus all business expenses. Business expenses should include wages, salaries, and other forms of compensation, changes in inventory, and capital investment.

The system should be "territorial" meaning that it only taxes businesses on the gross receipts net of expenses that they earn in the U.S.[5]

OVERVIEW OF PROPOSED TAX SYSTEM

An updated tax system that started with this foundation and raised the same amount of revenue under the current law baseline (excluding the repeal of about $1.3 trillion in revenues from the Affordable Care Act) would have a have a flat tax rate of 12 percent on families and businesses based on a static revenue estimate. Given that less revenue is needed to fund constitutionally appropriate activities, this rate should be lowered even further. This assumes the updated tax system treats savings similar to current treatment under a Roth IRA, excludes interest income and denies an interest cost deduction, and excludes significant reforms of the current payroll taxes. This updated tax system would increase output and allow the economy to grow closer to its capacity.

DISTRIBUTIONAL EFFECTS OF A BASIC FLAT TAX

Under the basic flat tax, as described above, the tax burden would be distributed evenly throughout the economy. Compared to the current system, some would pay smaller amounts in taxes; some, including many middle and lower-income families, would pay larger amounts. To address concerns regarding changes, the proposed new system will maintain an exclusion for employer-provided health insurance and provide a new tax treatment for non-employer insurance, the Earned Income Tax Credit, and exemption for low-income taxpayers or a new tax treatment for additional human capital expenses. Reintroducing these policies in the updated tax system would help to align the distribution of the tax burden closer to that of the current system, largely by making a certain level of income tax-exempt, or creating a zero-percent tax bracket.

The next President and Congress could also exempt an additional amount of income from taxation to achieve its desired distribution. The exemption should increase with the number of people in a family. For instance, the exemption could be 100 percent of the federal poverty level (FPL) for a single person and then increase for each additional family member. To prevent a marriage penalty, an additional amount would need to be added in the base of a married couple so that the deduction for a married couple is equal to that of two single people. The exemption could be larger too, for instance, 110 percent of FPL. A child tax credit could also be used to further alter the distribution.

In total, the flat tax rate would increase by approximately 3 percentage points once policies are in place to bring the distributional impact of the new tax system roughly in line with the current system. These policies would bring the final tax rate, including the payroll tax, to approximately 30 percent.

DISTRIBUTIONAL EFFECTS VS. ECONOMIC GROWTH

Distributional effects are an important consideration when crafting a workable tax reform plan. However, policymakers need to weigh the benefits of achieving a certain distribution against the cost of lost economic growth. Each of the policies described above will generally reduce the amount of growth tax reform can generate.

Furthermore, moving to a more efficient tax system with more saving, investing, and economic growth will have positive feedback effects on lower and middle-class families. An updated tax system will make everyone better off than they are under the current system. The next President and Congress should pay close attention to the positive distributional effects that show up only in the dynamic analysis of moving to an updated, pro-growth tax system.

TAX REFORM WILL BOOST ECONOMIC GROWTH

The American people are rightly upset that wages and opportunities have grown so slowly in recent years. A well-constructed tax plan could boost the economy by 15 percent without increasing the deficit, according to some analyses.[6] Tax reform is something the next President and Congress could implement quickly that would have a measurable and substantial benefit for Americans at every income level.

ENDNOTES

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Chapter 3: Entitlements

America's entitlement programs, including Social Security, Medicare, Medicaid, and Obamacare, make up the largest part of the federal budget, accounting for more than half of all tax revenues in 2015. Transfers for means-tested federal welfare programs consume another 13 percent of all federal spending. Thus, federal transfer payments consume nearly two-thirds of all federal spending.

The government should promote the welfare of the people by protecting America's freedom, establishing and enforcing laws to protect individuals' rights and freedoms, but should not promote dependence on government.

Spending on the major entitlement programs has grown so much because they are largely set on auto-pilot, meaning Congress does not have to revisit the appropriations for these programs on an annual basis. Unless Congress takes action to reduce spending on these programs, program growth can continue without constraint. And grow they have; since 1965, mandatory spending has more than doubled as a share of the economy, driven mostly by growth in the large entitlements. Families and individuals cannot exclude certain expenses from their overall budget; Congress should not be able to either.

The federal government's current budget outlook is unsustainable. The path to sustainability runs through entitlement reform. Entitlement reform within Social Security should focus benefits on poverty-prevention and within Medicare on providing income-based premium support. Welfare reform should focus on lifting people out of poverty rather than just spending more money on failed policies.

FLAWED ENTITLEMENT STRUCTURE CONTRIBUTES TO UNINTENDED, UNSUSTAINABLE GROWTH

America's entitlement programs have expanded the size and scope of government and threaten to crowd-out the government's primary purpose: protecting Americans' individual liberties. More than one in every five Americans receives monthly checks from Social Security's Old Age and Survivors Insurance or Disability Insurance (DI) programs. When these programs were established, they were intended to function as a true safety net that protected individuals against the risks associated with aging out of the workforce, outliving one's savings, or incurring high health care costs late in life or as a result of a disability.

Both the level of entitlement benefits and the percentage of the population that is eligible to receive those benefits continue to rise. Moreover, the government's consistent practice of promising far more in benefits than it sets aside to pay those benefits (and spending those designated funds on other government programs) has created an enormous unfunded liability that will be borne by young people and future generations. Without reform, Social Security, federal health care programs, and interest on the debt will consume all federal tax revenues by 2033. This is unsustainable.

Congress must reform the structure of America's entitlement programs. The establishment of trust funds was supposed to set aside individuals' contributions to pay their future benefits, but instead, it gave way to two primary flaws. First, the trust funds made it possible for politicians to promise far more in benefits than the programs require in taxes to fund those benefits, leaving younger and future generations on the hook. Second, some economists estimate that the trust funds led to as much as a dollar-for-dollar increase in government deficits as the surplus provided a way for the government to spend trillions of dollars more than it otherwise would have.[1]

Consequently, we are left with entitlement programs that have promised far more in benefits than the programs can provide to future beneficiaries, and individuals who feel that they have a right to promised benefits because of payroll taxes they paid. In reality, however, every generation to date has been promised far more in benefits than they have contributed in payroll taxes. Moreover, the Social Security trust funds have nothing more than IOUs remaining in them, meaning every dollar of benefits paid in excess of payroll taxes collected must come from general tax revenues or borrowing. In budgetary terms, the trust funds' insolvency dates indicate when the government has paid off the loans it made to itself. Without congressional action, trust fund insolvency would lead to cuts in Social Security and Medicare benefits. However, history shows that Congress is unlikely to allow the exhaustion of Social Security's or Medicare's trust funds to result in benefit reductions.

Rather than focus on making the trust funds solvent, policymakers should focus on making the programs themselves sustainable by reining in the ever-expanding costs of Social Security and Medicare so that they provide for those in need without extracting excessive taxes.

RETURN SOCIAL SECURITY TO TRUE INSURANCE

True insurance provides financial protection for high-cost, low-probability events. Reaching age 62 or 66, wanting to stop working, and needing medical care after retirement are no longer low-probability events. Subsidizing decades-long retirements for able-bodied and financially secure individuals is not something America can afford—at least not without sacrificing economic growth and opportunity for younger and future generations.

Congress should raise Social Security and Medicare retirement ages to account for increased life expectancies and work capacities; transition to a flat, anti-poverty benefit for Social Security and Disability Insurance so that the programs do not pay the highest benefits to those with the least need; and reduce the payroll tax to allow individuals to save more on their own for retirement and disability.

Moreover, Congress should improve the efficiency and integrity of the broken DI system by incorporating a needs-based component to the DI system so that individuals are not locked into the system for life; encouraging private disability insurance; eliminating non-medical factors from the disability determination process; and ending the government's role as middleman in privately paid DI representative fees.

Congress should also eliminate Supplemental Security Income (SSI) benefits for children. SSI was designed to provide cash assistance for adults who can't support themselves due to disability or because of age. Children are not expected to support themselves and they are certainly not expected to support their families. Low-income parents with a disabled child are eligible for other means-tested benefits, such as cash assistance from the Temporary Assistance for Needy Families (TANF) program, Medicaid, and food stamps.

MEDICARE

There is nothing about turning 65 that necessitates individuals leave the traditional health insurance market and enter a government-controlled one, but the subsidized provision of Medicare leads virtually every 65-year-old to do just that. While Medicare is a good deal for individuals in the sense that they pay far less in payroll taxes and Medicare premiums than they receive in benefits, Medicare's inefficient and outdated structure fails to deliver efficient, patient-centered, and cost-effective health care.

Congress should transition Medicare from a government-controlled health insurance program that isolates individual decisions from costs, and restricts patients' access to care, to a market-based premium support program with greater choice and improved care. Taking away some of the barriers that exist between Medicare and market-based health insurance would increase the program's efficiency and dramatically reduce its costs.

Changes to Medicare should include transitioning traditional Medicare into a single plan covering both hospital and physician services, an eligibility age that reflects increased life expectancy and greater work capacity, a market-based payment structure that offers more choices and encourages individuals to consider costs when selecting a plan, income-based premium increases to reduce excessive cost growth, and fewer regulatory obstacles.

MEDICAID

Medicaid is a joint federal-state, income-related health care program that currently covers a diverse mix of individuals (able-bodied and disabled children and adults and the elderly) with different health care needs. The current one-size-fits-all Medicaid program should focus exclusively on disabled individuals who have unique and complex needs that are not adequately met through other public or private coverage. Able-bodied individuals with low incomes should instead be provided with direct assistance to purchase health insurance in the private market, which offers superior coverage and access than Medicaid. Low-income elderly individuals would benefit from the new Medicare premium support model while continuing to receive income-related Medicaid support for premium and cost-sharing assistance. These programs should be subject to per capita and aggregate spending caps to prevent excessive cost growth and promote greater efficiencies.

OBAMACARE

Access to health care is a desirable goal, but Obamacare is not the solution. Not only is Obamacare's subsidy system complex and inequitable, but the law also overregulates the health insurance market in ways that restrict access to care and drive up health care costs.

Already, Obamacare's cost to the federal government has risen dramatically, estimated at nearly $2 trillion over the next decade. Obamacare should be repealed and replaced with age-adjusted premium support to purchase health insurance in the private market, accompanied by a set of simpler and less costly rules for that market.

WELFARE

The means-tested welfare system should be designed to provide assistance in times of need. It must encourage self-sufficiency for able-bodied adults rather than trapping individuals and families in government dependence by undermining work and penalizing marriage, two of the greatest protectors against poverty.

Programs like the Supplemental Nutritional Assistance Program (SNAP or food stamps) should be reformed to include work requirements for able-bodied adults to receive benefits: requiring them to work, do job training, perform community service, or at least look for work in exchange for receiving benefits. Policymakers should also find ways to reduce marriage penalties throughout the means-tested welfare system and to promote healthy marriage in low-income communities.

Congress must also protect taxpayer dollars by addressing fraud. Excessively high improper payment rates in certain welfare programs, including the Earned Income Tax Credit and the Child Tax Credit, should be addressed.

Furthermore, federalism should be promoted in the means-tested welfare system. Welfare is not a function of the federal government, but about three-quarters of the welfare system is paid for by federal taxpayer dollars. States should be required to take financial responsibility for certain components of welfare, such as subsidized housing programs.

Additionally, while certain means-tested welfare programs are designed to help individuals improve their circumstances—employment training, prisoner re-entry, child development, and so forth—these programs are often ineffective. A portion of payments for these programs should be outcome-based to promote more effective services to individuals and more efficient use of taxpayer dollars.

Finally, means-tested welfare programs—of which there are roughly 80 that provide cash, food, housing, medical care, and social services to low-income Americans—are spread across multiple government agencies. This hides the total cost of means-tested welfare spending. The aggregate cost of means-tested welfare spending should be clearly set forth in the annual presidential budget submissions and the Congressional Budget Resolution along with 10-year projections.

Reining in our nation's income transfer and welfare programs is absolutely essential to America's economic future. Our nation's long-term spending trajectory is on a fiscal collision course. With entitlements and interest on the debt accounting for 85 percent of all spending growth over the next decade, the U.S. cannot afford to keep reform of these programs off the table any longer.

PATH TO INCREASED OPPORTUNITY AND FISCAL SUSTAINABILITY

With over $19 trillion in national debt and an annual deficit projected to grow from more than a half a trillion dollars last year to more than a trillion dollars before the end of the decade, the next President should provide a plan that balances the budget within the next decade, thereby reducing debt and enabling economic growth that raises living standards. In order to put the budget on a sound fiscal course, Congress and the next President must address the growth in entitlement programs, while engaging in welfare reform that lifts people out of poverty.

ENDNOTE

1. Sita Nataraj and John B. Shoven, "Has the Unified Budget Undermined the Federal Government Trust Funds?" National Bureau of Economic Research *Working Paper* No. 10953, December 2004, http://www.nber.org/papers/w10953 (accessed May 24, 2016).

Chapter 4: Regulation

Every facet of daily life, including how Americans heat their homes and light their rooms, what food they buy and how they cook it, their children's toys and their TV volume, is now controlled by government. Legions of bureaucrats who have never set foot on a factory floor now have their hands in every product that comes off the line. And woe to anyone who dares to ply a trade without an occupational license, including junk dealers, auctioneers, locksmiths, security guards, athletic trainers, florists, decorators, tow truck operators, and fortune tellers.

Regulation has become so pervasive that the fundamental character of the nation resembles servitude to the state more than individual liberty. Never before has the need to contain regulation been so critical. In just the past seven years, more than 20,000 new regulations have been added to the books along with more than $108 *billion* in new annual costs. That requires shifting a tremendous amount of resources from innovation, business expansion, and job creation to compliance with government dictates.

The true costs of regulation are actually far greater, in part because costs have not been fully quantified for a significant number of rules. And regulatory costs are not just a problem for business. They ripple across the economy and soak consumers: higher energy rates from the Environmental Protection Agency's "Clean Power Plan"; increased food prices for both people and pets as a result of excessively prescriptive food production standards; restricted access to credit for consumers and small businesses under Dodd–Frank financial regulations; fewer health care choices and higher medical costs because of the Affordable Care Act; and reduced Internet investment and innovation under the network neutrality rules imposed by the Federal Communications Commission.

Low-income families and fixed-income seniors are hardest hit, of course; higher prices consume a larger proportion of their assets. Ultimately, however, the highest price is the loss of liberty inherent in every government edict.

The Obama Administration, more than any of its modern predecessors, has aggressively exploited regulation to accomplish its policy agenda. But excessive regulation cannot be blamed on this White House alone. Much of the red tape imposed during the past five years has been driven by vast and vaguely worded legislation enacted by Congress, including the misnamed Patient Protection and Affordable Care Act (Obamacare) and the Dodd-Frank financial regulation statute—both of which grant broad discretion to multiple agencies.

The next President should seek to rein in the administrative state by proposing a budget that withholds appropriations from unwarranted regulatory initiatives and overzealous agencies.

There is certainly no shortage of targets to start with, such as President Obama's "Climate Action Plan," his transgender bathroom directive to schools, and the "net neutrality" nonsense perpetrated by the Federal Communications Commission.

Meaningful reform will also require Congress to do its job and hold agencies accountable. For example, no major regulation should be allowed to take effect until Congress explicitly approves it, as is called for under the Regulations from the Executive in Need of Scrutiny (REINS) Act. Lawmakers should also include requirements for congressional approval of rules in every bill that authorizes regulation.

THE COST OF EXCESSIVE REGULATION

No one in government tracks the cumulative costs of regulation, which attests to how little Washington cares about the regulatory burden. One oft-cited independent estimate exceeds $2 trillion annually—more than is collected in income taxes. This estimate, while useful as a guide, is far from precise and likely modest.

Since the 1970s, regulatory agencies have generally been required to examine the costs and benefits of proposed rules. Analyzing costs is necessary to determine the most efficient and effective course of action among various alternatives, and to identify the trade-offs inherent in rulemaking. It is also crucial information that allows the public to hold regulators accountable. Without such information, regulators are free to act on a whim.

For executive branch agencies, the integrity of cost analyses is the responsibility of the Office of Information and Regulatory Affairs (OIRA). But a great deal of rulemaking is now being conducted by independent agencies that are outside the direct control of the White House. Regulations issued by independent agencies such as the Securities and Exchange Commission, the Consumer Financial Protection Bureau, and the Federal Communications Commission are not subject to OIRA review or even required to undergo a cost-benefit analysis. This is a gaping loophole in the rulemaking process; these agencies should be fully subject to the same regulatory review requirements as executive branch agencies.

At present, OIRA's staff of 45 is outnumbered 6,000 to one by the regulators whose work they are charged with reviewing. The President's budget should focus more resources on OIRA by shifting funds from regulatory agencies.

The agencies that do perform analyses have incentives to minimize or obfuscate the costs and exaggerate the benefits. For example, the only way the EPA could show that the benefits of the Clean Power Plan exceed the costs was to count presumed benefits worldwide rather than just in the United States. Second, the agency ascribes the majority of benefits to health impacts associated with the reduction of ancillary air pollutants that are already controlled under other regulations.

The President's budget should defund enforcement of the Clean Power Plan and all the other elements of Obama's Climate Action Plan, as it will increase the cost of energy across the economy and erode the reliability of energy supplies—without mitigating global warming in any way.

For some rules, costs are only partially quantified; for others, they are not quantified at all. For example, there was no analysis prepared by the Federal Reserve System for its regulatory capital rules although it requires the largest bank holding companies to retain an additional *$200 billion* as a buffer against losses.

Even quantified costs may often fail to capture the true impacts, as regulators cannot estimate intangibles, the costs of which could dwarf the direct compliance burden. One of the most significant regulations adopted in 2015 after contentious debate is the Federal Communication Commission's misnamed "Open Internet Order." As a result of these new rules, not only will investment and growth in the Internet be chilled, but innovation itself will be hindered, as firms find themselves compelled to ask permission from the FCC prior to making service changes. Neither the effects of this rule, nor possible alternatives to this regulatory approach, were analyzed in any formal way. The President's budget should defund all activities related to the Open Internet Order.

Other agencies go to great lengths to negate regulatory costs altogether. The Environmental Protection Agency, for example, actually claimed there would not be any direct costs from its "Waters of the United States" rule, which vastly expands the agency's powers over virtually every body of water—as well as vast tracts of land. The President's budget should zero out all funding related to the waters of the U.S. rule, and allow states and private landowners to manage wetlands.

Regulatory oversight is also weakened by procedural loopholes that circumvent the rulemaking process. A study by the Mercatus Institute at George Mason University found that agencies exempted more than *92 percent* of rules from the Regulatory Flexibility Act, which requires agencies to consider the impact of regulations on small businesses. A 2012 study by the Government Accountability Office found that agencies invoked the "good cause" exception to forego cost analyses for 44 percent of rules.

The absence of cost analyses represents a major dysfunction in the rulemaking process. How is the public to judge the efficiency of a regulation or hold agencies accountable for effectively managing a problem if the costs of a rule are estimated to range, say, from $290 million to $2.05 billion—as was the case with a rule setting margin requirements for uncleared swaps promulgated by the Commodity Futures Trading Commission?

In order to properly exercise regulatory oversight, Congress needs to be able to analyze various regulatory policies objectively. This new capability need not require a net increase in staff or budget, but could easily be paid for through reductions in existing regulatory agency expenses.

INSIDE THE AGENCIES

As the volume of regulations grows, so does the size and scope of government. According to budget figures compiled by Susan Dudley and Melinda Warren (of George Washington University and Washington University in St. Louis, respectively), administering red tape in fiscal year 2015 was forecast to cost taxpayers more than $57 billion, an increase of 4.3 percent over 2014, and 83 percent more than in 2001. Part of the cost is the increasing number of regulators who write and enforce ever more rules. Dudley and Warren report that there were 277,000 employees at regulatory agencies in 2015, an all-time high.

Underlying most every rule imposed by the agencies is the presumption that government intervention is the best course for correcting a purported market failure or righting a wrong. But the actual outcomes of regulation are often different than policymakers intend—and often yield more harm than benefit. The President's budget should eliminate funding for enforcement of calorie labeling on menus and vending machine items, which have been shown to impose high costs on manufacturers but make no difference to public eating habits.

Regulatory agencies are inherently political entities and thus are driven by particular organizational interests as much as or more than by the public interest. Indeed, the more powerful the federal government has grown, the more essential political influence has become, leading to corruption in the realm of both research and regulation.

Regulators often work in concert with advocacy groups to produce settlements to lawsuits that result in greater regulation. Such collaboration has become a common way for agencies to impose rules that otherwise would not have made it through the regulatory review process. To prevent such "faux" settlements, agencies should be required to subject proposed settlements to public notice and comment.

Federal agencies also mask politically driven rules as social, economic, or scientific imperatives. In such cases, the regulators selectively pick evidence to justify their actions and ignore evidence that contradicts their agenda.

The President's budget should eliminate funding for the implementation and enforcement of the latest ozone standard, the benefits of which are dubious. As much as 75 percent of the benefits of the ozone rule cited by the agency are credited to particulate matter, not ozone, which is already controlled by other regulations.

The President and Congress should impose strict information-quality standards for rulemaking, and conduct oversight to ensure that the standards are met. Compliance with such standards ought to be subject to judicial review, and noncompliance should be deemed "arbitrary and capricious."

REGULATORY REFORM IS CRITICAL TO ECONOMIC GROWTH

It is not enough to consider how to reform the rulemaking process. A more substantive debate must address the extent to which it is even appropriate for the federal government (or any level of government) to intervene in policy matters that can be managed by states and, in many instances, by the private sector in a more effective fashion.

The American free enterprise system is the greatest engine of wealth creation in history, yet the economy has been underperforming for years and millions of people are still jobless. Taxes are a primary factor, but regulatory excess increasingly inhibits economic growth. Unless constrained, the administrative state will overwhelm America's entrepreneurial spirit and diminish the freedoms upon which this nation was founded.

Chapter 5: Energy and Natural Resources

Economist and scholar Dr. Julian Simon called energy the "master resource" because it "enables us to convert one material into another. As natural scientists continue to learn more about the transformation of materials from one form to another with the aid of energy, energy will be even more important."[1]

Paired with human ingenuity (what Simon calls the "ultimate resource"), the ability to harness energy has significantly improved the quality of life for Americans and people around the world. Whether it is providing heat in a blustery winter, generating electricity to keep a hospital running, or powering iPhones, energy is a critical component for almost everything we make and do.

Energy markets operate most efficiently when they operate under the four pillars of economic freedom: rule of law, limited government, regulatory efficiency, and open markets. Free enterprise provides more choices at competitive prices, ultimately to the benefit of families and businesses.

Over time, however, the four pillars have been eroded by increasing amounts of government intervention. Prohibiting access to natural resource exploration, subsidizing politically preferred energy sources, and implementing burdensome regulations that provide little to no environmental benefit have distorted markets, reduced choice, and made Americans worse off. Though many market distortions existed before 2008, the Obama Administration doubled down and expanded government intervention into the energy sector.

The next presidential budget should enable open access to resource development and trade, eliminate favoritism, and reduce the overbearing regulatory burden, placing more regulatory authority with the states. The budget should reflect policies that protect the taxpayer and remove the regulatory shackles on free enterprise. Moreover, it should eliminate superfluous spending within the Department of Energy (DOE), significantly reduce the bureaucratic overreach of the Environmental Protection Agency (EPA) and Department of Interior (DOI), and lay the foundation for Congress to pursue a free-market energy agenda.

OPEN ACCESS TO DOMESTIC PRODUCTION, EXPAND OPPORTUNITIES ABROAD

America has an abundance of natural resources, including sufficient energy reserves to provide Americans with affordable, reliable energy for several centuries. With its plentiful reserves of coal, natural gas, uranium, and oil, the United States is already a global leader in energy production.

Regrettably, the federal government prohibits resource development in many parts of the country and off its coasts. For instance, the Administration placed a moratorium on new coal leases of federal lands until the DOI's Bureau of Land Management conducts a more comprehensive environmental review that includes effects on climate. After initially supporting drilling off the Atlantic coast, the Administration reversed course and prohibited Atlantic offshore oil and gas exploration, while failing to open other territorial waters.

Opening access begins with providing the opportunity for companies to develop America's energy resources, whether through conventional sources, minerals, or wind or solar power. Ideally, states should be given charge of managing resource development within their boundaries and off their shores.[2]

The federal estate is massive, consisting of some 635 million acres. The majority of this land is not classified as a national treasure, like Yellowstone or the Grand Canyon, but large swaths of open space with tremendous economic potential—as well as potential for environmental improvement. The federal footprint is even larger because limitations on federal lands often affect the use of adjacent state and private lands; government agencies lock up lands through informal designations and study areas. The next presidential budget should explore and begin the process of turning over more management of the federal estate to states and the private sector. Federal land should be categorized according to what can be sold to individuals and what can be transferred to state and local control.

In the meantime, the President's budget should make clear that the federal government will open all federal waters and all non-wilderness, non-federal monuments to exploration and production of all of America's natural resources. Congress should require that the DOI conduct lease sales if a commercial interest exists, whether for offshore oil or offshore wind. Congress should also force the DOI to take any steps within its authority to attract interest in federal lands, including streamlining bureaucratic processes or reducing royalties.[3]

Open access, however, means more than simply permitting energy exploration and development. Borders should not dictate whether or not an individual can sell a product, nor should they force consumers to pay artificially high prices for goods in the form of tariffs. Yet laws restrict opportunity, whether by encouraging unnecessary bureaucratic barriers to exports of liquefied natural gas or by imposing tariffs on solar technology. Freely importing and exporting energy and energy technologies would yield tremendous economic benefits, providing Americans with more opportunities to sell products to more customers and to buy cheaper goods and services from abroad. Free trade in energy also bolsters national security by increasing supply diversity and providing choices for allies; it will have beneficial geopolitical implications for every region of the world.[4]

ELIMINATE PREFERENTIAL TREATMENT FOR ALL ENERGY COMPANIES

In public policy, preferential treatment in the energy sector takes many forms. Over the years, Congress has implemented numerous policies that use the political process to support the production or consumption of one good over another, including direct cash grants, special tax treatment, taxpayer-backed loans and loan guarantees, socialized risk through insurance programs, mandates to produce biofuels or force energy conservation, tariffs, and energy sales at below-market costs. Politically connected energy companies received a big boost when President Obama signed the American Recovery and Reinvestment Act of 2009 into law.

Whatever shape the favoritism takes, the results are the always the same: The government delivers benefits to a small, select group and disperses the costs across families and consumers. Free market competition, not political favoritism through the government, should determine the allocation of resources.

In some instances, the federal government has squandered taxpayer dollars on economic losers, like the much-maligned solar manufacturer Solyndra. Even with a $535 million loan guarantee from the Department of Energy, Solyndra could not survive. The economic pain cuts deeper than wasted taxpayer money because government intervention allows Washington to direct the flow of private-sector investments. The number of investment opportunities is broad and expansive, but available capital is limited. Of course, investors must choose among the different projects, but government favoritism diverts limited capital by dictating who should receive it. This makes some projects appear less risky because they enjoy the confidence of the government.

Private investors sank $1.1 billion into Solyndra. Much of the private financing came *after* the Department of Energy announced that Solyndra was one of 16 companies eligible for a loan guarantee in 2007. The opportunity cost is not only the lost taxpayer dollars, but also the $1.1 billion that might have been invested elsewhere in the economy.

In other instances, the federal government has awarded subsidies to very profitable, well-established companies or ones that already enjoy federal, state, or local subsidies. The current and long-term success of these companies often depends on subsidies, which explains why they continually plea for more of them.

In cases where companies quite simply have an innovative, money-making technology, private actors should bear the full risk and reap the benefits of investing in such endeavors, rather than padding their bottom lines with taxpayer dollars.

Perhaps more perverse is that these subsidies significantly obstruct the long-term success and viability of the very technologies and energy sources that they were intend to promote. When a company minimizes costs, it not only maximizes profit but also maximizes value to the consumer. Instead of relying on a process that rewards competition, taxpayer subsidies prevent a company from truly understanding the price point at which the technology will be economically viable. When the government plays favorites, it traps valuable resources in unproductive places. The market, not politicians in Washington, is much better at determining how to allocate resources to meet consumer demand.

The President's budget should make clear that no taxpayer dollars will go directly to energy production, storage, efficiency, infrastructure, or transportation for nongovernment consumers, including the extension of existing programs. Similarly, special tax treatment serves the same purpose as a subsidy that favors one industry. Congress should not create any new tax credits for energy production, energy infrastructure, transportation production and consumption, or energy efficiency initiatives. Congress should expedite the sunsetting of existing tax credits and reduce taxes by the amount of revenue generated by eliminating the tax credits.[5]

The President's budget also should urge Congress to repeal specific energy mandates like the Renewable Fuel Standard (RFS) and the military's alternative energy requirements. By requiring the use of biofuels in the nation's fuel supply regardless of the cost, the RFS has made most Americans worse off through higher food and fuel expenses for the short-term benefit of a select group of special interests. Tinkering around the edges will not fix this unworkable policy.[6] Also, forcing the military to purchase more expensive alternative fuels leaves fewer resources for training, modernization, and recapitalization, resulting in a less capable military.[7] The Pentagon should pursue alternative energy sources (or any energy sources) only if they increase capabilities or reduce costs without sacrificing performance.

REDUCE THE REGULATORY BURDEN

The regulatory state has become increasingly overbearing, with little to no environmental benefit to show for it. Regulatory agencies commonly underestimate or ignore costs, exaggerate environmental benefits, and push constitutional boundaries. In recent years, the Obama Administration used the ostensible threat of human-caused global warming to justify energy regulations and executive actions, such as regulations on power plants and rejecting the permit applications to build the Keystone XL Pipeline. The Obama Administration has proposed and implemented a series of climate change regulations, pushing to reduce greenhouse gas emissions from vehicles, heavy-duty trucks, airplanes, oil and gas drilling, and new and existing power plants.

The next President's budget should prohibit all federal agencies from regulating greenhouse gas emissions.[8] Since conventional carbon-based fuels provide more than 80 percent of America's energy, these restrictions on using abundant, affordable energy sources will only inflict economic pain on households and businesses. They will produce no discernible climate benefit and will cost hundreds of thousands of jobs and trillions of dollars in gross domestic product. The next Administration should order the EPA to implement the necessary procedure to withdraw its endangerment finding on greenhouse gas emissions, recognizing that greenhouse gas emissions are affecting the climate, but that no credible evidence suggests that the earth is heading toward catastrophic warming or that climate regulations will affect global temperatures.

The Obama Administration's global warming regulations are part of a larger problem with environmental regulations. The environmental statutes crafted 40 years ago, mainly the Clean Air Act and the Clean Water Act, are largely ill-suited to meet the environmental challenges of today. With each federal regulation that creates more stringent standards, economic costs grow to exorbitant levels with only diminishing marginal returns to the environment. Congress ceded a great deal of power to unelected officials in agencies like the EPA and the DOI, and now agencies can promulgate and enforce harmful regulations with little accountability.

Regulatory reform does not mean a world without regulations. Instead, the next Administration's budget should address pressing fundamental problems in the current regulatory state. Too many regulations are written on the premise that any amount of risk is too much. Agencies increase the stringency of existing regulations that produce minimal if any environmental benefits. Agencies also use the regulatory process to micromanage Americans' choices, from the energy efficiency of microwaves to fuel efficiency mandates.

A new budget should reflect the fact that state and local governments are closer to most environmental issues than Washington and can more effectively promote environmental stewardship and economic growth. Federal ownership and federal regulation of public lands restrict economic activity and often have created environmental problems due to mismanaged lands and lack of a proper incentive structure to maintain the properties. States, local governments, and individuals are the best arbiters of how to manage land, and the federal government should explore opportunities to privatize land and shift more land to state control. New leadership should shift the regulatory authority to the states for land use and environmental protection.

The next President's budget should also empower states to regulate energy and environmental activities without federal interference. State regulators and private land owners have the knowledge and incentives to promote economic growth while protecting their environment. States have also been more responsive to the unique interests and concerns of their communities.

Turning responsibility back over to the states includes a wide swath of regulations, from eliminating federal energy efficiency mandates to federal land management. Washington should realize that government mandates, rebate programs, or spending initiatives are not needed to make businesses and homeowners more energy efficient.[9] Short of returning land ownership to private individuals and the states, the federal government should permit states to conduct the environmental review and permitting process of natural resource projects within their borders. Doing so would benefit all energy sources and technologies, including renewable sources that face onerously long environmental review and permitting timeframes.

Federal regulation has also reduced the ability of the energy sector to grow and innovate, and, ultimately, provide the energy that fuels the American economy. Streamlining the environmental review and permitting processes for new pipelines and grid investments is a welcome step for managing new supplies. However, taxpayers should not subsidize those endeavors. Congress should eliminate any federally imposed cost-socialization requirements through which regulatory agencies support expensive, uneconomic projects by spreading the costs to citizens who derive little, if any, benefit from those projects. Additionally, the next budget should ensure that Congress and federal agencies are mindful of protecting private property rights and respect the state authority to control local and regional needs. Congress should also shift responsibility for nuclear waste management from the federal government to nuclear waste producers.[10]

A PRESIDENTIAL BUDGET SHOULD EMPOWER FREE ENTERPRISE

Abundant energy supplies, competitive prices, more innovation, and a better standard of living require open markets and less government intervention. The next President can accomplish some of these objectives within the executive branch, but accomplishing others will require working with Congress. A presidential budget that establishes a policy vision based on free enterprise and the elimination of favoritism will demonstrate that the next President is not beholden to special interests, their lobbyists, or the specific pet projects of Members of Congress. The American people, businesses, the energy sector, and the economy at large will be much better off because of it.

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Chapter 6: Foreign Policy and Defense

The United States must demonstrate strength and confidence to protect the nation's vital interests at home and abroad. These vital interests are: (1) defense of the homeland; (2) ability to prevent or successfully conclude a major war with the potential to destabilize regions of critical interest to the U.S.; and (3) freedom of movement within the global commons: the sea, the air, cyberspace, and the outer space domains in which the world conducts business.

Bridging the divide between the current economic and security situation and where the nation needs to be to properly protect and guarantee vital interests requires a strategy to address the gap between where we are and where we must go. This strategy should identify and combine key alliance, defense, and economic foreign policy initiatives, including strengthening enduring alliances, rebuilding defense, and repositioning the economy. Rebuilding the military through fiscally responsible means that reduce non-defense discretionary spending while fully funding defense must be a key element of this strategy.

EMPOWERING ENDURING ALLIANCES

America needs allies. Strong alliances are built by proactively reinforcing the sovereignty of states and simultaneously strengthening the bonds of trust and confidence between free peoples, enabling them to act in their common interest. The focus should be on building enduring alliances with key nations in key regions, not just "coalitions of the willing."

Deepening U.S. Relations with European Allies. The top foreign policy goals in Europe should include living up to treaty obligations in order to defend, and when necessary liberate, NATO members; helping allies develop military capability and capacity, enabling them to take responsibility for their own security; encouraging allies to increase defense expenditures; and helping nations to decrease energy dependence on Russia.

The U.S. must strengthen America's Special Relationship with the United Kingdom through both diplomatic and military initiatives to secure interests throughout the region. Issues that could be addressed together include standing up against Russian aggression in Central and Eastern Europe, joint military and defense procurement projects, pursuing joint initiatives to combat Islamist terrorism in Europe and the Middle East, and discussing how the U.K. could be an even closer partner with the U.S.

In order to defend Europe against Russia and deter Russian threats, the U.S. needs to reinvest in its relationships with European allies and insist that NATO focus on checking Russian aggression. With regard to strengthening bilateral relations, the U.S. should: (1) improve its security relationship with Finland and Sweden so that the U.S. will have permission to access the two countries' airspace and territory should the U.S. need to defend the Baltics, and (2) take its NATO obligations to the Baltic States seriously in order to substantiate U.S. commitment to the transatlantic alliance.

To embolden NATO and send a strong message to Russia, the U.S. and NATO members should: (1) permanently base NATO troops in Central and Eastern Europe; (2) shift NATO training from counterinsurgency operations toward force-on-force and collective security operations; (3) pursue regular joint training exercises to assure the interoperability and readiness of NATO forces; (4) promote increased defense investment across Europe; and (5) encourage increased investment in missile defense programs, which have been underfunded for years and, as a result, have lagged behind the ballistic missile threat.

The U.S. as an Asia–Pacific Power. The crucial foreign policy goal in the region is establishing an order whereby all peaceable Asian nations that play by the rules are treated equally, with the right to chart their own course without being dictated to by any aspiring hegemon.

In light of China's recent bullying of its neighbors, the U.S. should pursue increased intergovernmental dialogue with key players in the Asia–Pacific region in an effort to preempt and counter Beijing's aggressive moves to recast the liberal order of the past 70 years in favor of its extensive and extralegal territorial claims. U.S. efforts must start with strengthening and integrating security partnerships with traditional allies and friends like Japan, South Korea, Taiwan, India, and Australia.

U.S. cooperation with Japan, India, and Australia should be coordinated through a relationship known as the "Quad." The four-way intergovernmental communication should focus on two issues: ensuring the freedom of the commons (air, sea, space, and cyberspace), and establishing a common approach to resolving territorial disputes. Freedom of the commons and the peaceful resolution of territorial claims are the grease that can best check the friction caused by China's expectations. Quad discussion should complement U.S. dialogue and cooperation in Asia, not subvert or replace it.

Stabilizing North Africa and the Middle East. The two chief goals of the U.S. in this region must be to reduce or mitigate Iran's regional and global threat and to eliminate terrorist control over large swaths of territory. Either could represent the core of a global Islamist insurgency movement that, if left unchecked, could threaten global stability.

Iran represents a significant security challenge for the region. Its open hostility to the U.S. and Israel, sponsorship of Hezbollah and other Islamist terrorist groups, and historic and avowed threats to the global commons foretell the additional problems Iran will pose with increased resources and capabilities. To prevent Iran from becoming a nuclear weapons state, the U.S. should maintain its own sanctions in addition to those imposed by the United Nations; keep the military option on the table as a credible deterrent; and pursue closer security cooperation with Israel, Turkey, and allied Arab states to force Tehran to accept much tighter restrictions on its nuclear plans.

With regard to eliminating terrorist control, the U.S. should (1) apply extensive and intensive air power, (2) embed U.S. military advisers in Iraq's frontline military units, and (3) deploy U.S. Special Operations forces in greater strength and embed them with Kurdish Peshmerga and Sunni Arab tribal militias in order to break the self-styled Islamic State's territorial control and maintain regional stability.

REBUILDING DEFENSE

Today, there is Russian adventurism in Eastern Europe, Chinese expansion in the South China Sea, and radical Islamist terrorist organizations inciting violence across swaths of Asia, the Middle East, and North Africa. The U.S. is unprepared and ill-equipped to handle this reality. The military is being reduced to a size at which it will be able to fight one war at best. America's technological edge is being challenged by prospective adversaries abroad and by a broken acquisition system at home. The U.S. defense industrial base, while still capable of producing world-class weapons systems, lacks the robustness to support a rapid and sustained defense build-up.

If this nation is to protect its vital interests, deter conflicts with would-be regional hegemons, reassure allies, and respond to crises of all sorts, it needs a robust military of sufficient size, sophistication, resources, and readiness to deal not only with known threats, but also with inevitable surprises. In order to meet these demands, the U.S. will have to increase military readiness across the board.

First, the nation should reprioritize defense spending while maintaining the aggregate spending levels for discretionary programs under the Budget Control Act levels. Increased defense funding should be channeled to: (1) restore cuts to capacity, particularly cuts made to U.S. ground forces; (2) accelerate readiness for all the military services; (3) shift initiatives from the Overseas Contingency Operations account to the baseline defense budget; (4) increase funding for updating nuclear weapons and missile defense systems; and (5) provide stability for modernization programs. Ultimately, fixing readiness and maintaining modernization programs critical to the preservation of America's technological advantage is essential to America's ability to fight and win wars.

Second, the U.S. should pursue reforms to make the Department of Defense (DOD) more efficient managers of U.S. defense. Within this context, the nation should: (1) cut excessive DOD bureaucracy, (2) mandate widespread employment of performance-based logistics, (3) establish the right global military footprint, and (4) craft a 21st-century acquisition system. These initiatives would help make the DOD sustainable, cost-effective, and streamlined.

These reforms will help build a robust and sophisticated military that will enable the nation to protect its vital interests, deter conflicts with would-be regional hegemons, reassure allies, and respond to crises of all sorts.

MAKING AMERICA THE ENGINE OF GLOBAL ECONOMIC FREEDOM

American leadership must take a broad view of the tools available to advance America's interests. The powerful role that freedom and free markets play in advancing opportunity at home and abroad must not be forgotten, with particular care given to America's allies.

America should strengthen enduring alliances and build on nascent ones by increasing economic opportunities and collaboration—by removing barriers to free trade and promoting an economic freedom agenda abroad. In some cases, this may mean taking the first step, perhaps unilaterally, to eliminate economic barriers.

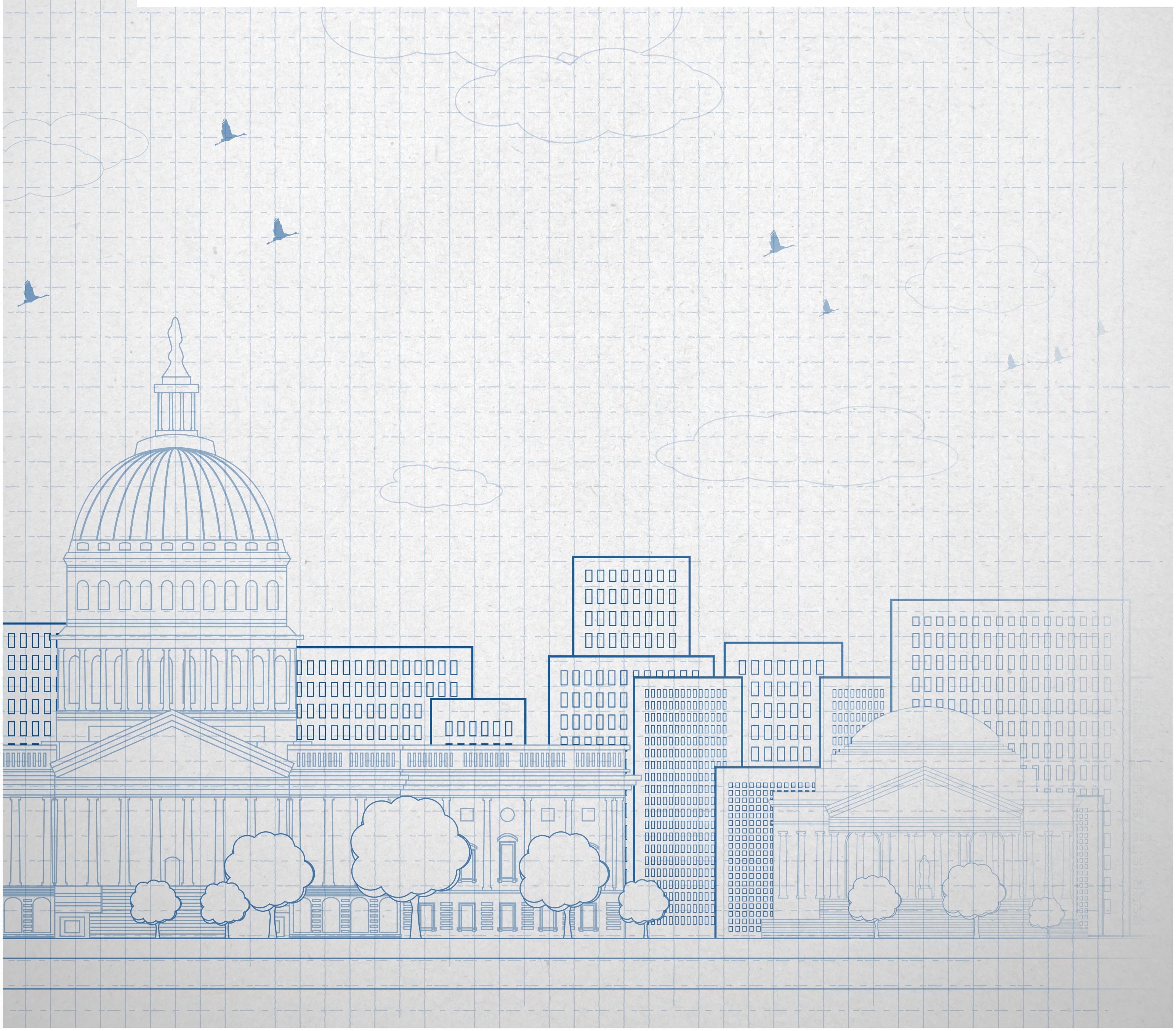
To foster a stronger and more self-confident American economy and promote an economic agenda abroad, the U.S. should (1) create a bold, consistent narrative about the benefits of free trade and market liberalization, (2) adopt an aggressive, free-market agenda (including energy exports), (3) repeal the maritime Jones Act, a protectionist measure that has decreased U.S. competitiveness in shipbuilding, trade, and maritime services for 85 years, (4) endorse economic freedom in the Arctic, and (5) advance free trade rather than vehicles used to advance regulatory agendas, which would require rethinking the Transatlantic Trade and Investment Partnership.

By promoting economic freedom at home and abroad, the U.S. would set the proper tone and character for a new foreign policy and deliver strategically meaningful results. These initiatives would unshackle the U.S. economy at home and promote economic freedom around the world, which would allow the U.S. to pursue its vital interests.

REBUILDING DEFENSE IS NECESSARY TO NATIONAL SECURITY

The strategy outlined above identifies singular and critical priorities to rebuild American power: strengthening enduring alliances, rebuilding defense, and repositioning the economy to protect and guarantee vital interests both at home and abroad. The strategy sets a demanding but doable to-do list. More important, it establishes a foundation from which future American leadership can act with greater freedom and increased confidence in meeting the challenge of keeping the nation free, safe, and prosperous in the 21st century.

Departments and Agencies



Department of Agriculture

MISSION SUMMARY

The U.S. Department of Agriculture (USDA) develops and disseminates agricultural information and research, identifies and addresses threats to public health and safety arising from food and agriculture, and advocates free trade in agriculture, all to be based on sound science, objectivity, and a respect for free enterprise and private solutions.

AGENCY OVERVIEW

In 1862, President Abraham Lincoln signed into law the legislation that created the USDA. Its mission was specific:

> …there is hereby established at the seat of government of the United States a Department of Agriculture, the general designs and duties of which shall be to acquire and to diffuse among the people of the United States useful information on subjects connected with agriculture in the most general and comprehensive sense of that word, and to procure, propagate, and distribute among the people new and valuable seeds and plants.[1]

The agency's mission as merely an informational source and distributor of seeds is a distant memory. Over the years, the USDA has evolved into a federal executive department that oversees some of the most market-distorting policies in the nation, distributing an endless array of costly subsidies. Beyond the agricultural subsidies, the USDA has become a welfare agency, running the food stamp program along with other nutrition programs. It also has a wide range of programs covering everything from conservation to biofuels. Its current mission statement reflects this broader focus:

> USDA provides leadership on food, agriculture, natural resources, rural development, nutrition, and related issues based on sound public policy, the best available science, and efficient management.[2]

The USDA is one of the largest departments or agencies in terms of number of employees, with about 95,000 full-time civilian employees.[3] Out of the 15 federal executive departments that make up the Cabinet, the USDA is the sixth largest, behind the Departments of Defense, Homeland Security, Veterans Affairs, Justice, and Treasury.[4]

Based on the USDA's fiscal year 2017 budget request, outlays would be $151 billion: $25 billion in discretionary spending and $126 billion, or 83 percent, in mandatory spending.[5] The 2017 outlays include nutrition spending, which accounts for 71 percent of spending; farm and commodity programs, 16 percent; and conservation and forestry, 7 percent (the remaining 6 percent would be spread across other programs).[6]

WHAT THE USDA SHOULD LOOK LIKE

The USDA's limited role should be focused on agriculture. This is not the same thing as serving the interests of farmers or any other special interest. All Americans are affected by agriculture, and the federal department that has responsibility for agriculture should reflect this reality. The process of reforming the USDA should begin with an evaluation of its current programs and policies to determine if they are needed and, if so, whether another agency would be better suited to manage them.

Costly and harmful subsidies intended to help farmers manage agricultural risk are not needed; farmers are fully capable of managing risk just like other businesses. These subsidy programs, like the heavily subsidized federal crop insurance program, crowd out private solutions to risk management and discourage farmers from utilizing tools to manage risk on their own, among other problems. There should be a move to start getting rid of the subsidies. These concerns should inform any reorganization of the USDA.

SUMMARY OF REFORMS

Many agencies within the USDA should be eliminated or significantly reduced in size, including:

Food and Nutrition Service. This agency administers the food and nutrition programs, including the food stamp program.[7] The agency should be eliminated and the food stamp program should be moved to the Department of Health and Human Services (HHS), the primary welfare department of the federal government. Other programs, like the school meal programs, should also be moved to HHS.

Farm Service Agency. This agency administers the farm commodity programs as well as some conservation programs.[8] Since there should be a move to get rid of subsidies, the role of the FSA would be significantly reduced.

Risk Management Agency. This agency implements the federal crop insurance program.[9] The federal government should, at a minimum, start moving toward reducing crop insurance subsidies, which would reduce the size of this agency.

Center for Nutrition Policy and Promotion. The federal government should not be in the nutritional advice business.[10] The Dietary Guidelines for America that are developed by this agency (along with HHS) are emblematic of nutritional advice in general. The most recent Dietary Guidelines Advisory Committee that made recommendations to both the USDA and HHS on the Guidelines veered away from its dietary and nutrition mission and considered environmental concerns when developing its recommendations. Diet, according to this committee, should not just focus on human health, but also on issues such as sustainability and global warming.

Believing that the government can provide some definitive source of nutritional advice when such information is constantly changing requires a significant level of arrogance. Numerous sources of quality information on nutrition already exist and the public can easily access them. Such services also do not have the imprimatur of the federal government providing unwarranted legitimacy.

Rural Development. The USDA should be concerned with agriculture, not rural development. The two are not the same. Further, many of the programs promoted under USDA Rural Development are addressed by other agencies, such as broadband development.[11] Rural programs that promote bioenergy are just another way to pick winners and losers in the energy sector. This agency should be eliminated and all of its flawed and often duplicative programs eliminated.[12]

U.S. Forest Service. This agency is responsible for managing the forests and grasslands of the U.S.[13] Its work should be moved to the U.S. Department of Interior, which currently manages national parks and public lands. This should help consolidate the work of Interior and improve communication.

Agricultural Marketing Service. This agency (AMS) performs numerous tasks, including developing grade standards for food and running the national organic program. Both of these tasks, and for that matter other tasks of the agency, could be run by private entities if there is the requisite demand. Other programs, such as grant programs to help farmers market their food and the Farmers Market Promotion Program, are inappropriate roles for government. AMS also runs the infamous marketing orders that can trigger volume controls (supply restrictions) on the sale of fruits and vegetables.[14] This agency should be eliminated.

Foreign Agricultural Service. This agency (FAS) does many things that need to be eliminated, particularly subsidy programs to help producers with their exports. Food aid programs focused on humanitarian and disaster relief should be shifted to the State Department and the U.S. Agency for International Development, and legislative mandates on shipping and U.S. purchases should be eliminated to maximize efficiency. Its trade efforts,[15] such as working on trade negotiations, are extremely important; the U.S. needs to become more proactive in this regard. A new FAS should be focused almost exclusively on helping to break down trade barriers.

Some USDA agencies should remain relatively intact, including:

Agricultural Research Service. This agency is the USDA's "chief scientific in-house research agency."[16] While reforms may be necessary, agricultural research plays an important role. Any research done by this agency should be evaluated to ensure that it is not duplicating private efforts or crowding out private research.

National Institute of Food and Agriculture (NIFA). Unlike the Agricultural Research Service, NIFA does not focus on in-house research but funds research outside the department.[17] Its sole focus should be agriculture and issues directly affecting agriculture, not unrelated issues such as energy independence, which it touts as part of its efforts.

Economic Research Service and National Agricultural Statistics Service. Both of these agencies provide valuable information to the public that helps agricultural producers, policymakers, and the public better understand the agricultural environment.[18] Such detailed information is unlikely to exist, at least for free, without these agencies. In many ways, they perform the main role of information provider that was envisioned for the USDA over 150 years ago.

Animal and Plant Health Inspection Service. This agency is charged with addressing both animal and plant health, including having protocols in place to respond to major diseases.[19] These efforts help to minimize the spread of pests and diseases that could harm agriculture.

Food Safety and Inspection Service. This agency addresses human health concerns connected to meat, poultry, and eggs. It conducts inspections, provides public health alerts, and analyzes risks to human health.

Grain Inspection, Packers and Stockers Administration. This agency, known as GIPSA, actually has two distinct roles. In 1994, two different agencies were combined together to make up GIPSA: the Federal Grain Inspection Service (FGIS) and the Packers and Stockyards Administration (P&SP).[20] FGIS, among other things, handles standards for grain, develops inspection procedures for grain, and provides stowing examinations ensuring that grain containers are clean.[21] P&SP focuses on trade practices connected to the livestock, meat, and poultry industries, promoting fair business practices, and protecting against deceptive practices and fraud.[22] For now, these agencies should remain in the USDA, but their work could very well be more appropriate elsewhere. For example, FGIS efforts could be moved to U.S. Customs and Border Protection, and the work of P&SP could be moved to the Federal Trade Commission.

Though not exhaustive, the preceding lists cover many of the major agencies. Even the agencies that remain should have their roles carefully examined and curtailed or, in a few instances, possibly expanded.

The current USDA works more on issues unrelated to agriculture than on issues connected to agriculture. This is mostly due to the nutrition programs, but not completely, as evidenced by the rural and energy programs. The agricultural programs that do exist are predominantly focused on providing subsidies to farmers.

A new USDA should focus on agriculture. It should not be a money dispenser for agriculture but rather a source of information, conducting necessary and valuable research that the private sector otherwise would not produce, promoting free trade, and protecting food safety. Its role should be carefully examined and monitored, recognizing that free enterprise and not government intervention is the best way to have a stable and safe food supply.

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Department of Commerce

MISSION SUMMARY

The Commerce Department grants patents, conducts the decennial census, collects and publishes key statistics, provides weather analysis and warning services, establishes national technical standards, administers U.S. export restrictions, administers U.S. fishery rules, and allocates the electromagnetic spectrum.

AGENCY OVERVIEW

In fiscal year (FY) 2007, the Commerce Department had 36,556 full time positions and a budget of $6.5 billion.[1] For FY 2016, the Commerce Department has approximately 44,427 full time positions and a budget of $9.3 billion.[2] Thus, over 10 years, the Commerce Department staff has increased by 22 percent, and its budget has grown 43 percent. Over that same period, overall federal spending increased 45 percent, inflation increased 15 percent, and the economy increased in size by 25 percent.

The Commerce Department is a hodgepodge of agencies, listed and described below. They include one law enforcement agency, two major statistical agencies housed under the auspices of the Economics and Statistics Administration (ESA), three agencies primarily devoted to corporate welfare, and five science and technical agencies. In addition, the primary mission of two subagencies within the National Institute of Standards and Technology (NIST) is to provide corporate welfare.

1. **Bureau of Industry and Security (BIS).** The primary role of BIS[3] is to administer the U.S. export control regime to prevent technologies and goods from being provided to persons, firms, or governments that raise national security concerns. BIS also works with foreign governments to harmonize and enforce export control rules.

2. **Economics and Statistics Administration (ESA).** The two primary agencies within ESA[4] are the Bureau of Economic Analysis (BEA)[5] and the Census Bureau.[6] The BEA produces the national income and product accounts that measure production (Gross Domestic Product and its components), consumption, investment, exports and imports, and income and saving. The Census Bureau conducts the constitutionally mandated decennial population census. It also produces a great deal of economic and demographic data. For example, it conducts the American Community Survey, the American Housing Survey, the Census of Governments, County Business Patterns Survey, the Current Population Survey, an Economic Census, and the Survey of Income and Program Participation.

3. **Economic Development Administration (EDA).** The EDA[7] provides money, in the name of economic development, to favored businesses, universities, and local governments that are not offering products and services that can survive in the marketplace without taxpayer subsidy. It also provides "trade adjustment assistance."

4. **International Trade Administration (ITA).** The ITA[8] promotes U.S. exports and foreign investment in the U.S. It is, in effect, a taxpayer-financed sales department for favored businesses. Businesses should market and sell their own products without using tax money, and foreigners need little help understanding that the U.S. market is worth entering through investments. ITA also administers the enforcement of U.S. antidumping duty and countervailing duty trade laws, the Foreign Trade Zones program, and the protectionist steel licensing program.

5. **Minority Business Development Administration (MBDA).** The MBDA[9] provides grants and loans to minority businesses and not-for-profit organizations and operates 40 business centers around the country. These business centers are effectively federally funded consulting firms.

6. **National Oceanic and Atmospheric Administration (NOAA).** NOAA[10] is an umbrella agency for a number of smaller agencies, the most prominent of which is the National Weather Service. Others include the National Environmental Satellite, Data, and Information Service, the National Marine Fisheries Service, the National Ocean Service,

the Office of Marine & Aviation Operations, and the Office of Oceanic & Atmospheric Research. NOAA accounts for over three-fifths of the Commerce Department budget. NOAA conducts or funds research on climate, weather, oceans, and coasts. It regulates coastal and marine fisheries and protects endangered marine species and habitats.

7. **National Telecommunications and Information Administration (NTIA).** NTIA[11] regulates the use of the electromagnetic spectrum allocated to the Federal Government and oversees the Internet Corporation for Assigned Names and Numbers (ICANN). ICANN plays a central role in ensuring that the Internet functions smoothly, including overseeing the Domain Name System (DNS). NTIA also provides grants to promote increased broadband access and for other purposes.

8. **Patent and Trademark Office (PTO).** The purpose of the PTO[12] is to grant U.S. patents and register trademarks. Granting patents is constitutionally required.[13] The agency also advises other agencies on intellectual property policy.

9. **National Institute of Standards and Technology (NIST).** Formed in 1901 (as the National Bureau of Standards), NIST[14] operates scientific laboratories, including the Center for Nanoscale Science and Technology, the Communications Technology Laboratory, the Engineering Laboratory, the Information Technology Laboratory, the Material Measurement Laboratory, the NIST Center for Neutron Research, and the Physical Measurement Laboratory. It also operates the Standards Coordination Office, a Smart Grid program, and other technical programs. NIST operates the Hollings Manufacturing Extension Partnership,[15] which is a federally funded management consulting operation directed at manufacturers. The National Network for Manufacturing Innovation (NNMI),[16] also managed by NIST, provides federal grants to support commercial technology research.[17]

10. **National Technical Information Service (NTIS).** NTIS[18] is a repository for government-funded scientific, technical, engineering, and business related information. Its operations are fee-supported. It maintains a database of approximately three million publications covering more than 350 subject areas.

SUMMARY OF REFORMS

The primary function of the following agencies or programs is to dispense corporate welfare to favored businesses or tax-exempt organizations serving business interests. Therefore, as unwarranted interference in the free market and a burden to taxpayers, they should be terminated.

1. Economic Development Administration

2. International Trade Administration[19]

3. Minority Business Development Agency

4. Hollings Manufacturing Extension Partnership (part of NIST)

5. National Network for Manufacturing Innovation (NNMI) (part of NIST)

The merit of other NIST, as well as NTIA and NOAA grant programs, should be evaluated carefully and their termination considered.

U.S. antidumping law should be reformed so that it is subject to a predatory pricing test drawn from American antitrust law. Application of such a standard would strengthen the American economy and benefit U.S. consumers while precluding any truly predatory dumping designed to destroy domestic industries and monopolize American industrial sectors.[20]

The current export control system is needlessly complicated and establishes counterproductive standards. As a result, America's allies find it difficult to work with U.S. government and industry partners to develop, procure, and ultimately operate advanced weapons systems in a cooperative fashion. Furthermore, U.S. industries can find themselves at a disadvantage in marketing their products even to close and reliable allies. The United States should implement a simpler, more streamlined, and efficient export control system.[21]

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Department of Defense

MISSION SUMMARY

The mission of the Department of Defense is to provide the military forces needed to protect the security of the United States and its interests around the globe.[1]

AGENCY OVERVIEW

The Department of Defense (DOD) is responsible for providing for the defense of the United States and the protection of U.S. interests abroad. The DOD accomplishes this mission by developing and maintaining a military force capable of deterring adversaries or defeating them in battle.

The DOD mission can only be accomplished by the federal government; it cannot be left to the states or the private sector.

In fiscal year 2017, spending on the DOD will account for about 15 percent of the federal budget.[2] While mandatory programs consume a far greater portion of the budget, the DOD represents the largest discretionary portion of departmental federal spending. However, since 2011, the national defense budget (budget function 050) has dropped by 25 percent in real terms,[3] resulting in dramatic cuts to the size and readiness of the U.S. military.

The U.S. military is getting weaker while threats to U.S. interests are rising. Top military leaders have warned that Russia is a serious threat to the U.S., based on its combination of nuclear weapons, conventional military power, and aggressive actions.[4] China continues to modernize its military while taking provocative actions in the South China Sea and elsewhere. North Korea has nuclear weapons and long-range missiles, and Iran is pursuing both. On top of all this, the threat of Islamist terrorism remains serious and the risk of cyber-attacks is growing.

In assessing the U.S. military, the *2016 Index of U.S. Military Strength* analyzed each military service on the basis of three criteria most relevant to their ability to fulfill their purpose: how big they are, how ready they are, and how modern they are.[5] The *Index* compared their current size to the amount of force the country has historically needed to fight a major war, the readiness of the services relative to their own standards for competency, and the age and technological condition of key equipment necessary to successfully perform their missions. Each service finds itself in different situations, but all face challenges in size, readiness, and modernization. The *Index* concluded that the U.S. military today is only "marginal" in its ability to perform its mission.

SUMMARY OF REFORMS

In the face of growing threats, the "Blueprint for Reform" includes steps the Department of Defense should take to rebuild the U.S. military over the next decade.

Increase Military Readiness. The first priority must be to increase the military's combat readiness. The military is too small (as outlined below). Especially at such a small size, it must at least be maintained at the highest possible levels of preparedness.

Military readiness requires three basic things: people, training, and equipment. A military unit cannot be ready for combat without the right number of the right people. An Army brigade with only 80 percent of the necessary people cannot be combat ready. Gaps in personnel often take time to fill due to the training and experience required to develop a particular expertise. Skilled service members are developed over years and are not easily interchangeable; a fighter pilot cannot become an effective cyber-warrior overnight.

Once a unit has the right number of the right people, those people need proper training. This training must happen at multiple levels and takes time. Just like a football team, individual players must hone their skills, but those individuals must also come together and practice as a team. In the same way, individual service members must be fully trained, but they must also have extensive practice with their unit in order to be combat ready.

A military unit also needs the right equipment in good condition. An armored brigade without tanks, or with broken-down tanks, will not be ready for combat. Additionally, a unit without the right equipment will not be able to train properly, further hurting the unit's readiness.

Unfortunately, all of the pillars of readiness are currently crumbling. News reports and testimony before Congress have revealed a military that is lacking in people, training, and equipment. Many parts of the military are in a vicious downward readiness spiral.

Increased military readiness must be the top priority. Readiness takes time to rebuild, and a smaller force must be as combat ready as possible. With rising threats, our military must be prepared to fight and win.

Increase the Size of the Military. Serious threats to the United States are growing. After the attacks on 9/11, the military focused on the terrorist threat. Today the military must continue fighting terrorists while also preparing to fight peer competitors like Russia or China and rogue countries like North Korea or Iran. These threats require a larger force, but the military continues to shrink. The Air Force has fewer planes and people than it did on 9/11. The Navy's fleet is 14 percent smaller than it was 9/11. The Army just fell below the size it was on 9/11 and is now the smallest it has been since 1940.[6] The Marine Corps has been the most stable in size, but it too is smaller than it needs to be to support current operations.

When discussing the size of the military, a common rebuttal is that military platforms have become more capable over recent decades, and therefore the military should be able to accomplish the same mission with fewer resources (ships, planes, brigades, etc.). While these platforms have improved in capability, the capabilities of our adversaries have improved as well.

Highly capable threats have also proliferated beyond just our near-peer adversaries, so that smaller countries or even non-state actors can possess deadly threats to our country and armed forces. A Navy destroyer is far more capable today than the equivalent ship 40 years ago, but so are the threats facing that destroyer.

The size of the military should be based on a strategic concept for how the military will be used to win wars. *The Index of U.S. Military Strength* proposes using a two-conflict concept for military force structure. The idea, in short, is that the U.S. military should have sufficient forces to fight one war while maintaining the ability to deter other adversaries from harming U.S. interests elsewhere. This force structure also provides sufficient forces to provide for the day-to-day operations needed to protect U.S. interests around the world.

The U.S. military is too small to meet the needs of the *Index*'s modest structure and strategy. The Army is at 31 combat brigades instead of 50. The Navy is at 272 ships instead of approximately 350.[7] The Marine Corps is at 23 battalions instead of 36.[8] The Air Force has a large number of fighter aircraft, but many of them are old and approaching the end of their usefulness.[9]

It is also worth noting that the readiness and size challenges are interconnected. The Navy is struggling to provide enough aircraft carriers to meet today's needs. This often means that the Navy will extend the deployments of carriers while they are in key regions. This temporarily provides some relief, but results in longer maintenance periods upon their return and longer deployment for sailors separated from their families. Repeated cycles like this will lead to growing maintenance problems, short-circuited training programs, and the loss of good people. With greater numbers, in this case of more carriers, the Navy could meet the needs for combat power while better managing the readiness of the fleet.

Instead of continuing to shrink, the U.S. military should be growing toward the force size capable of defending America's vital interests. A larger force will provide a better capacity to build military readiness and provide credible deterrence.

Increase Modernization. After addressing the readiness crisis and starting to grow the force, the next step is to modernize the force. Many of the primary combat systems (planes, ships, etc.) in the military today were designed and built during the Cold War. During the 1990s, investments in future capabilities were significantly cut. From 2001 through 2015, modernization spending was eclipsed by funding for ongoing conflicts, and some major modernization efforts, like the Army's Future Combat System, struggled to produce results.

The lack of modernization is easily seen in the Air Force: The main bomber fleet averages 53 years old, and the main aerial refueling tankers entered the fleet in 1956.[10] The Marine Corps also faces clear challenges. The Marines' amphibious vehicle fleet is an example of a poor return on investment. The program to develop the Marines' next generation amphibious assault vehicle began in 1988, but after over two decades of development problems, the program was canceled in 2010 without any new vehicles in the Marine Corps inventory.[11] Today the Marines are once again trying to develop a replacement for their amphibious assault vehicles that entered service in 1972, so that the Marines can project combat power from ship to shore for decades to come.

Modernize Nuclear Weapons and Missile Defenses. The modernization challenges are not limited to the conventional military forces. Our strategic forces—the nuclear and missile defense forces—also face modernization challenges. U.S. nuclear weapons and delivery systems are aging and investments in them are overdue. If not modernized, the U.S. will soon have inadequate nuclear weapons infrastructure and inadequate nuclear delivery platforms. Further delays increase the overall cost of the programs and leave the U.S. less capable of responding to unexpected developments in the nuclear programs of other nations.

The U.S. also needs to continue developing a layered, comprehensive missile defense system. The system should be able to address various ranges of ballistic missiles in various threat scenarios. Currently, the U.S. lags behind the ballistic missile threat. Space-based interceptors provide the best opportunity to accomplish these tasks at the best cost-per-interceptor ratio.

Reform the Way the Department of Defense Operates. While the most pressing challenges facing the DOD are a lack of capacity and capability due to underfunding, there are ways in which the DOD could perform its mission better. While some advocates for defense reform see it as a means to save money, this is not the main focus. Warfighting cannot be measured with the same standards of efficiency used in the private sector or other parts of the government. Instead of DOD reforms pursuing "efficiencies," DOD reforms should pursue increased mission effectiveness. Financial efficiencies can certainly be achieved but should not come at the cost of mission effectiveness. Some reforms may actually cost money, and that is acceptable, provided those reforms increase the DOD's ability to successfully achieve the mission of defending the U.S. and its interests.

Congress has begun taking some serious steps in improving how DOD operates. Senator John McCain (R–AZ) and Representative Mac Thornberry (R–TX), who chair the Armed Services Committees in the Senate and House, have undertaken a multi-year project to implement serious defense reforms. In 2015, McCain and Thornberry implemented a major change to military retirement and took significant steps on acquisition reform.[12] Both chairmen continue to champion serious reforms in 2016, and strong oversight from Congress is critical to improving how the Department of Defense operates.

INVESTING IN NATIONAL DEFENSE

Underlying all five of these items (increase readiness, increase size, increase modernization, modernize nuclear weapons and missiles, and reform ways of operating) is the need for additional funding for national defense. In order to increase readiness, grow the size of the force, and increase modernization, the DOD must have increased funding. Current funding levels are insufficient, resulting in a military that is too small and unprepared for combat.

Even after a 25 percent cut, the U.S. defense budget sounds significant in size, but not when the defense budget is understood in a strategic context. Defense spending as a percent of total federal spending has not been lower since before World War II. Measured as a percent of gross domestic product (GDP), it is at historic lows. If the defense budget today were the same percent of GDP or federal budget that President Jimmy Carter spent, the budget would be almost 50 percent larger: Instead of $600 billion, it would be approximately $900 billion. The Reagan-era defense budget as a percentage of GDP would be over $1 trillion in today's dollars.

Historical levels are useful for putting the budget in perspective, but a defense budget should be built based on an assessment of U.S. vital interests, the threats against those interests, and what sort of military is required to defend those interests. An interests- and threats-based analysis, as outlined in the *Index*, would lead to a larger, more modern, and more ready military, which can only be achieved with increased defense spending.

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Department of Education

MISSION SUMMARY

The Department of Education should target K–12 assistance on the basis of low-income and special-needs student populations while allowing states flexibility in deciding how best to serve students' needs as a transitional phase toward restoring educational authority to states and localities and ending federal intervention, in addition to administering limited federal student aid programs for higher education and providing for educational choice in the District of Columbia.

AGENCY OVERVIEW

The Department of Education (ED), which became a cabinet-level agency in 1979, coordinates federal education funding and programs, including administering federal student aid programs for higher education. Federal education programs had been housed within the Department of Health, Education, and Welfare (HEW) until 1979, when those programs and their funding were largely redirected into the newly created Department of Education. The remaining functions of HEW were subsumed under a renamed Department of Health and Human Services (HHS). In authorizing the agency's creation, the Department of Education Organization Act set out to "ensure that education issues receive proper treatment at the federal level" and to "enable the federal government to coordinate its education activities more effectively."[1] Today, the Department of Education is divided into more than two dozen offices and initiatives, including the Institute of Education Sciences, which administers the National Assessment of Educational Progress (NAEP).

Federal education programs and spending have grown rapidly since the department's creation in 1979. The Department of Education's discretionary budget for fiscal year (FY) 2016, including Pell Grants, reached $68.1 billion, an 89 percent increase from FY 2000 alone, when appropriations to the agency totaled $36 billion. Since 1980, the department's first year of operation, appropriations to the Department of Education have more than doubled in real terms, from about $29 billion in current dollars ($11.6 billion in 1980).[2] Growth in federal spending over the decades since ED's creation has corresponded with growth in the number of programs managed by the agency, particularly those related to K–12 education. The most recent reauthorization of the Elementary and Secondary Education Act (ESEA), the Every Student Succeeds Act (ESSA), authorizes approximately $24 billion for nearly 50 K–12 education programs. In addition to ESSA, the department manages dozens of other K–12 programs, along with programs for rehabilitative services, and new federal preschool grants.

ED also manages a large pool of mandatory spending, primarily in the form of student loans for higher education. For example, students and their parents borrowed nearly $95 billion in federally subsidized and unsubsidized loans during the 2014–2015 school year.[3] Federal lending now constitutes 93 percent of all student loan aid, shifting the burden of higher education financing to all taxpayers, who must pay both the subsidies for such loans and the cost of defaults when they occur.[4] This trough of federal subsidies has likely exacerbated increases in college costs.

Since 1980, tuition and fees at public and private universities have grown at least twice as fast as the rate of inflation. A recent evaluation by economists at the Federal Reserve Bank of New York found that for every additional dollar of Pell Grant funding, tuition increased by 40 cents. Moreover, for every dollar increase in federally subsidized student loans, tuition increased 63 cents. The result has been that 60 percent of bachelor's degree holders leave school with more than $26,000 in student loan debt, with cumulative student loan debt now exceeding $1.2 trillion.

In total, the Department of Education manages more than 100 federal education programs for both K–12 and higher education. In order to manage the many programs operated by ED, the agency now employs 4,269 individuals, costing $2.2 billion in salaries and expenses annually.[5]

Since its inception in 1980, growth in the size and scope of the Department of Education has not ushered in improvements in the educational outcomes of U.S. students. In fact, this growth in federal intervention has produced little in the way of academic opportunity, while creating a tremendous bureaucratic compliance burden for state and local leaders. That compliance burden has oriented school leaders' attention toward regulations handed down from Washington, limiting their ability to focus on the local concerns of the families in their communities and the students in their schools. The result: stagnant academic performance, compounded by a lack of education choice options in many states. Student achievement in math and reading has not increased on the NAEP, and graduation rates for disadvantaged students have failed to improve over the past four decades.

The policy proposals presented below address this misalignment by restoring state and local control over education and limiting federal intervention driven primarily by programs at the Department of Education. The labyrinth of federal competitive grant programs is eliminated, and funding for large formula grant programs is repurposed to provide a state option for portability, following children to schools of choice. These reforms would significantly downsize the Department of Education and would shift to the compensatory education model that was originally envisioned for federal spending on education.

SUMMARY OF REFORMS

- The budget restores state and local control over education spending and decisions by empowering states to opt out of the programs funded under the ESEA and to put funding toward any lawful education purpose under state law. It streamlines funding by eliminating competitive grant programs that have accumulated over the decades. It also supports choice in education in the District of Columbia and in federally managed Bureau of Indian Education schools.

- The budget reduces loan burdens on students, their parents, and taxpayers by eliminating risky federal lending programs, such as PLUS loans that have pushed private lenders out of the market, and by requiring that the federal government use a non-subsiding interest rate when determining interest rates for federal student loans. It also decouples federal financing from accreditation, enabling both academia and industry to accredit and credential classes and courses of study, providing more options for students while reducing the overall cost of higher education.

POLICY DETAILS

Allows States to Direct Education Funding Through A-PLUS. This budget allows states to opt out of federal K–12 programs authorized under the ESEA and direct funding to the programs of their choice. It gives states more freedom in how federal education dollars are spent so that state and local leaders can use those resources to best serve student needs. The approach, known as the A-PLUS model, creates direct accountability to parents and taxpayers, aligning the incentives of states with the needs of families, rather than compliance with Washington. By allowing states to opt out of ESEA and consolidate the many federal programs operated under the law, state leaders will be able to direct funding to the most pressing education needs. This will also reduce federal red tape, limit the bureaucratic compliance burden and associated man-hours and paperwork, ensure transparency, and provide direct accountability to parents and taxpayers.

Eliminates Competitive Grant Programs. The proliferation of competitive grant programs has redirected states' orientations upward to the federal funding stream instead of horizontally to the demands of parents and taxpayers. States must complete numerous applications, track federal program regulations and notices, and adhere to significant reporting requirements, which "erodes coherent, school-level strategic leadership based on the needs of individual students."[6] This budget eliminates the vast majority of competitive grant programs operated within the Department of Education, along with attendant funding.

Eliminates New Programs Added Under the ESSA. Although the ESSA, the most recent reauthorization of the ESEA eliminated roughly two dozen programs, most of those programs were shell programs that had not been funded since 2013 or earlier. When considering just those programs that actually had funding behind them, ESSA eliminated just two of the programs that had been funded under NCLB in recent years. It also added several new federal programs. This budget eliminates funding for newly added programs under ESSA, including Preschool Development Grants (which will be managed by HHS) and Presidential and Congressional History Teaching Academies.

Establishes a State Option on Title I Portability. Title I of the ESEA provides approximately $15 billion annually to low-income school districts. Yet its convoluted funding formulas, coupled with policies in some states that assign students to public schools based on their parents' zip code, do not make Title I a vehicle conducive to achieving its primary purpose of "provid[ing] a good education for every boy and girl—*no matter where he lives.*"[7] By reforming Title I to give states the option to make dollars portable, following children from low-income families to schools or education options of choice, this budget creates much-needed flexibility for schools and families, and increases the likelihood of achieving that goal.

Transitions the District of Columbia into an All-Choice District. Education in the District of Columbia falls under the jurisdiction of Congress. Revenue for D.C. Public Schools now exceeds $29,400—the highest in the nation. Yet academic outcomes for District students are some of the lowest in the country. This budget establishes Washington, DC, as an all-education savings account district and sends funding for K–12 education in the District directly into parent-controlled education savings accounts, enabling parents to voluntarily contract with the schools and service providers of their choice, including regular public schools, charter schools, and private schools.[8]

Supports and Expands the D.C. Opportunity Scholarship Program. This budget supports and expands the D.C. Opportunity Scholarship Program, which provides scholarships to low-income children living in DC to attend a private school of choice, by collapsing the additional funding for DC Public Schools created through the "three sector approach" into new scholarships for eligible children.

Converts Funding for Bureau of Indian Education (BIE) Schools into Education Savings Accounts. The federal government spends over $830 million to educate 48,000 children attending 183 BIE schools. When food service is included, BIE-operated day schools spent $16,394 per student during the 2009–2010 school year. That same school year (2009–2010), the traditional public school per-pupil average was $10,295. BIE schools spend 56 percent more than the national average per-pupil expenditure in traditional public schools.[9] This budget shifts BIE funding to an education savings account model, open to all children who attend BIE schools. Funds can then be used to attend any school of choice and to pay for additional education services, products, and providers.

Allows States to Make Individuals with Disabilities Education Act (IDEA) Dollars Portable. As with Title I funding for children in low-income school districts, states should have the option to make federal funding for children with special needs, which is authorized under IDEA, portable, following children to schools of choice.

Lifts the Cap on Coverdell Education Savings Accounts and Allows K-12 Expenses to Be 529 Eligible. This budget reforms the existing Coverdell program to empower families with increased access to school choice. The existing $2,000 annual cap on Coverdell contributions prevents the accounts from being as beneficial as they could be to help families afford a variety of education options outside the traditional public school realm. This budget lifts the cap on Coverdell contributions entirely. At the same time, this budget expands 529 Accounts to include K–12 education expenses. It expands section 529 of the Internal Revenue Code to allow families to contribute money to 529 plans for K–12 educational expenses. This reform significantly increases the school choice landscape by creating opportunities for millions of American families to open ESAs.

Decouples Federal Financing from Accreditation. Today, federally sanctioned regional and national accrediting agencies are the sole purveyors of accreditation. The six regional accrediting agencies that now exist are "regional monopolies that control access to federal funding for virtually every type of college and university in their geographic area."[10] The resulting system has created barriers to entry for innovative start-ups by insulating traditional brick-and-mortar schools from market forces that could reduce costs. The existing accreditation regime has also made it difficult for students to customize their higher education experience to fully reach their earnings and career potential. Moreover, because entire institutions are accredited instead of individual courses, accreditation is a poor measure of course quality and a poor indicator of the skills acquired by students. This budget decouples accreditation from access to federal Title IV funds under the Higher Education Act. Although accreditation remains a condition of access to federal aid, this reform takes it closer to the meaningful professional nature of an academic check on institutions without the federal government dictating who qualifies as an accreditor. It also allows federal aid (loans and grants) to be portable to colleges as well as to individual programs and courses.

Reforms the Pell Grant Program to Better Serve Low-Income Students (Title IV). Expanded eligibility has meant that Pell funding has increased to cover twice as many students as it did a decade ago, instead of allocating funding to the students who need it most. To better serve the low-income students whom the Pell program was designed to help, this budget awards Pell funding only to those students who attend college at least half time. It also maintains the 12-semester limit on Pell awards (put into place in 2012), and the current maximum grant award of $5,730. Importantly, it shifts Pell funding from mandatory funding to discretionary funding, enabling Congress to have more oversight of program funding from year to year.

Decreases Loan Burdens by Eliminating Subsidies for PLUS Loans (Title IV). Parent PLUS loans are available to parents of undergraduate students; they are able to borrow up to the cost of attendance at a given college. There is no limit (either in number of years or aggregate dollars) on how much a parent can borrow, and the loans are available in addition to federal loans that are already available to the students themselves. The availability of Parent PLUS loans, created in 1980, has resulted in families incurring substantial debt, while failing to ease the cost of college over time. Similarly, the Graduate PLUS loan program, open to graduate students who elect to take out loans to finance graduate school, enables students to borrow up to the full cost of attendance. These programs have fueled borrowing and debt among students and their parents, while incentivizing colleges to raise costs. This budget terminates subsidies for the PLUS loan program. As a considerable driver of higher education costs, the PLUS loan program should eventually be eliminated in its entirety.

Relieves Taxpayers and Disincentivizes Colleges from Raising Tuition by Eliminating Federal Loan Forgiveness. Income-based repayment (IBR) caps eligible borrowers' monthly payments at 15 percent of discretionary income, with any remaining balance being forgiven after 25 years. If a student goes into "public service," loan forgiveness kicks in after just 10 years. Pay As You Earn (PAYE) caps eligible borrowers' monthly payments at 10 percent of discretionary income, with the remaining loan balance forgiven after 20 years. PAYE also includes 10-year forgiveness for working in public service. Income-contingent repayment calculates payments based on adjusted gross income and family size, and sets payments on Direct Loans accordingly, with any remaining balance forgiven after 25 years. Repayment caps such as those offered through IBR and other policies put no downward pressure on college prices, and spread the cost of attending college to taxpayers, while making students less sensitive to increases in college costs. This budget repeals federal loan forgiveness initiatives.

Stipulates the Use of Fair-Value Accounting. This budget requires the Department of Education to use fair-value accounting. Fair-value estimates take market risk into account and, as a result, are a more accurate reflection of the cost of federal student loans. Any loan program should use a non-subsidizing interest rate (the rate at which the program breaks even). Absent fair-value accounting, it is impossible to determine the extent to which the student loan programs are providing a subsidy to borrowers. The Department of Education will use fair-value accounting estimates calculated by the Congressional Budget Office and adjust loan rates accordingly going forward, on an annual basis. This will help determine where to set interest rates to ensure federal loan programs break even.

Repeals "Gainful Employment" Regulations. This budget repeals "gainful employment" regulations that require for-profit institutions and vocational programs to have a cohort default rate of less than 30 percent or be ineligible for federal student aid if graduates' average debt-to-earnings ratio is more than 12 percent of their income (or more than 30 percent of their discretionary income). By repealing these regulations, this budget enables private for-profit and vocational colleges to continue to serve students who have been historically underserved by traditional universities.

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Department of Energy

MISSION SUMMARY

The Department of Energy encompasses energy, environment, and nuclear programs.

AGENCY OVERVIEW

The Department of Energy's (DOE) current mission is to "ensure America's security and prosperity by addressing its energy, environmental and nuclear challenges through transformative science and technology solutions."[1] DOE bases this mission on four core strategic themes:

- **Energy:** Catalyzing the transformation of the American energy system and ensuring U.S. leadership in clean energy development.
- **Science and Innovation:** Maintaining strong participation in science and engineering with a focus on emerging technologies, innovation, science education, and science and technology.
- **Nuclear Safety and Security:** Improving and bolstering nuclear deterrence and keeping nuclear materials secure through defense, nonproliferation, and environmental work.
- **Management and Operational Excellence:** Maintaining an effective and adaptable framework for all of its stakeholders.

DOE'S CURRENT STRUCTURE AND PROGRAMS

The fiscal year (FY) 2016 enacted budget for DOE was $29.6 billion.[2] President Obama's FY 2017 request proposed an increase to $32.5 billion: $30.2 billion in discretionary funds and an additional $2.3 billion in mandatory spending for green projects, which would require new legislation.[3] In attempting to carry out this mission, DOE allocates taxpayer dollars to a wide range of activities through a number of program offices. The DOE budget funds applied research on fossil fuels (Office of Fossil Energy); renewable energy and energy efficiency (Office of Renewable Energy and Energy Efficiency); electricity reliability (Office of Electricity Delivery and Reliable Energy); and nuclear energy (Office of Nuclear Energy).[4]

Within these offices, DOE has gone far beyond basic research with spending on applied research, technology development, and demonstration activities for specific energy resources and technologies. Included in the Office of Fossil Energy is the Strategic Petroleum Reserve (SPR), which holds more than 690 million barrels of government-controlled crude oil. Congress established the emergency reserve as part of an agreement with the International Energy Agency.

DOE's Office of Science is very different from the applied research programs in which many of the technologies already exist and are ready to be tested in the marketplace.[5] The Office of Science is meant to bring about groundbreaking discoveries and inventions as well as to conduct basic research on scientific matter and employ computational modeling for a wide variety of research.

To carry out its programs of basic and applied research, DOE has a National Laboratory system. Seventeen labs around the country conduct research to advance understanding and discovery in a variety of fields, including basic energy sciences, high-energy physics, fusion power, biological and environmental research, nuclear physics, and advanced scientific computing research.

DOE has a loan portfolio that includes the 1703 loan-guarantee program, the 1705 loan-guarantee program,[6] and the Advanced Technology Vehicles Manufacturing (ATVM) loan program. The 1703 loan-guarantee program, created under the Energy Policy Act of 2005, offers taxpayer-backed loans for politically preferred sources of energy, including "biomass, hydrogen, solar, wind/hydropower, nuclear, advanced fossil energy coal, carbon sequestration practices/technologies, electricity delivery and energy reliability, alternative fuel vehicles, industrial energy efficiency projects, and pollution control equipment."[7] The ATVM program provides direct loans for alternative vehicle technologies and for manufacturers to retool their factories to produce qualifying vehicles.[8]

Another program within DOE is the Advanced Research Projects Agency–Energy (ARPA–E). Congress authorizes funds for ARPA–E to spend money on high-risk, high-reward projects in which the private sector ostensibly would not invest on its own. ARPA–E's mission is to reduce energy imports, increase energy efficiency, and reduce energy-related emissions, including greenhouse gases.[9] ARPA–E received its initial funding in FY 2009.

The National Nuclear Security Administration (NNSA) is a sub-autonomous agency within DOE established in 2000. NNSA maintains and protects the country's nuclear stockpile and oversees the U.S. Navy's nuclear propulsion program. The agency also works on nonproliferation activities as well as radiological and nuclear emergency response.[10]

In response to government-funded defense and civilian nuclear activities, DOE created the Office for Environmental Management (EM) to clean up the environmental legacy of the Cold War era.[11] EM hires contract workers for much of this work, which covers a wide range of cleanup activities, including cleanup of hazardous and radioactive waste materials. The largest amount of EM spending and liability is dedicated to cleaning up the Hanford site, a decommissioned nuclear production site on the Columbia River in Washington State. Established as part of the Manhattan Project in 1943, the Hanford site was home to America's first large-scale nuclear reactor as well as plutonium manufacturing. The site expanded during the Cold War as the federal government built more reactors and several plutonium processing complexes for weapons.

DOE's Power Marketing Administrations (PMAs) consist of four power entities that sell electricity generated primarily by hydroelectric power. Formed in the early 1900s, PMAs were set up to provide cheap electricity to rural areas, mostly small communities and farms. PMAs originated as federal water projects and are currently operated by the Army Corps of Engineers and the Bureau of Reclamation. PMAs use the revenue generated by sales of electricity to reimburse taxpayers for construction and operation costs, but they can sell the electricity at below-market rates because they receive federal tax exemptions and receive loans at below-market interest rates. The PMAs' construction, rehabilitation, operation, and maintenance costs are financed through the main DOE budget, offset collections, alternative financing, and a reimbursable agreement with the Bureau of Reclamation.

The Energy Information Administration (EIA) collects and publishes data on energy sources and trends "to promote sound policymaking, efficient markets, and public understanding of energy and its interaction with the economy and the environment."[12] EIA provides information on the sources and uses of energy technologies, market trends and forecasts, short-term and annual energy outlooks, production and consumption trends, environmental data, state-level data, and international data.

THE FEDERAL GOVERNMENT'S ROLE IN ENERGY

Domestically and internationally, energy markets are exceedingly complex. Market analysts who spend their entire lives digging through trends and data have a difficult enough time predicting what gasoline prices will be six months from now. A wide range of variables contributes to how companies produce energy, how energy markets grow and shrink, and how and when innovative energy technologies reach the market. Instead of spending taxpayer dollars on a variety of politically preferred energy technologies and hoping for the next energy revolution through DOE, the federal government should recognize how successful free enterprise has been in driving energy transformations and meeting consumer demand.

The reality is that when it comes to energy policy, the market works. The federal government should understand the power of the market's price signals. Prices play a critical role in the market by efficiently allocating resources to their most highly valued use. For instance, higher oil prices incentivize companies to extract and supply more oil. Higher oil prices also incentivize entrepreneurs to invest in innovative alternatives to oil, whether it is batteries, natural gas vehicles, or biofuels. The market demand for energy to fuel transportation, to heat and light homes, and to power businesses represents a lucrative opportunity. The electricity and transportation fuel markets represent multi-trillion dollar opportunities that create massive incentives for entrepreneurs and companies to invest in a wide range of endeavors across the spectrum of energy technology. Companies will also invest in early stages of research and development if opportunities motivate them to do so, which is why government intervention is simply not needed.

Whether a shortage or a surplus of any given natural resource or technology exists, the federal government should not distort the role of price signals. Prices undistorted by the federal government will drive innovation, investment, and decision making, which will in turn spur economic growth, create jobs, and save money for the taxpayer. When risks and rewards are properly aligned, economically viable ideas will flourish. Uncompetitive technologies will fail. Certain resources and technologies will replace others as prices change. But the market will efficiently determine those transitions.

The business environment for energy is robust despite seemingly endless forays by policymakers and bureaucrats into the energy industry, but those attempts to control energy markets do have an adverse effect: Government intervention reduces competition and stifles innovation. By attempting to force government-preferred technologies and fuels into the market, the government diminishes the role of the entrepreneur by reducing the incentive to be cost-competitive. When the government attempts to drive commercialization, the result is technological stagnation, because companies depend on the government to advance their respective technologies instead of relying on prices and market-driven signals to innovate. The government misallocates resources and distorts prices when it spends money trying to advance specific energy sources.

The federal government's role in energy should be minimal if not nonexistent. The following policy reforms will result in termination of the Department of Energy. Some functions currently at DOE will still exist, either in different agencies as separate entities serving national priorities. By and large, however, DOE's functions should operate in the private sector, and not with funds appropriated by Congress.

SUMMARY OF REFORMS

Eliminate the Offices of Fossil Energy, Renewable Energy and Energy Efficiency, Electricity Deliverability and Reliable Energy, Nuclear Energy, the Loan Programs Office, and the Advanced Research Projects Agency–Energy. None of these spending activities is a legitimate function of the federal government. Each is an inherent subsidy for the industry the government is supporting. Even research that is in the early stages of commercial readiness but has an end goal of improving the functionality of wind power or extracting natural resources more effectively should be left to the private sector. Eliminating the Loan Programs Office would revoke any existing ability to administer government-backed loan or loan guarantees. The Secretary should auction the servicing rights of existing loan and loan guarantees to private banks.

Eliminate Office of Science Spending on Technology-Specific Research. The perception of spending within the Office of Science is that the federal government is allocating money to research that is basic and far removed from increasing the technological readiness of certain energy sources. In some instances, this is true; research at the national laboratories focuses on scientific discovery. Infrastructure at the national labs, such as the photon light source or the synchrotron light source, enables scientists to study the basic elements of matter, explore new scientific frontiers, and cultivate new discoveries.

In other instances, however, the funded research may be basic in nature but has an end goal of creating a cost-effective alternative energy source. In such cases, Congress should call even the basic research into question. For instance, Congress tasks scientists at DOE with studying the basic elements of biological matter but with the objective of creating a cost-effective biofuel—a policy priority that should not exist in the first place. Congress should eliminate all Office of Science spending on activities that are aimed at promoting specific energy sources and technologies.

Prioritize and Consolidate the Work at the National Laboratories to Maximize Efficiency. Congress should establish a path to prioritize and consolidate the work of the national labs. Consolidation does not mean the elimination of federally funded research. Congress's first priority should be to set aside any lab assets that serve a national security function. Policymakers should then identify where lab infrastructure and expertise will serve to meet national priorities that cannot be undertaken by the private sector. These lab assets can remain government owned and contractor operated, but Congress should transform lab management away from DOE micromanagement and focus on contractor accountability.[13]

Demand for the labs at the federal level, not the political objectives of entrenched Members of Congress and special interests, will help to determine their true value. Congress can then explore opportunities to consolidate or transfer ownership of the remaining lab infrastructure. Over the next four years, Congress should transfer any remaining lab assets that do not serve a national purpose to the states or the private sector. The transition could occur in a number of ways that would depend on a lab's attributes and infrastructure. For instance, a consortium of companies, nonprofit organizations, or universities that believe in renewable energy's importance could invest in the National Renewable Energy Laboratory. Or there might be enough industry investment in various parts of a lab to allow it to be spun off to the private sector.

The lab system will look different from today's system. Some lab infrastructure will likely cease to exist. If labs are not serving a national policy objective and are not wanted by universities or the private sector, Congress should consolidate their size and scope. Other parts of the lab infrastructure may be privatized. Proper reform will enable a more effective, flexible lab system that is focused less on serving political pet projects and more on the country's national priorities.

Liquidate the Strategic Petroleum Reserve. Private inventories and reserves are abundant, and open markets will respond more efficiently to supply shocks than federally controlled government stockpiles can. Congress should authorize the Department of Energy to liquidate the entire inventory, using the revenues solely for deficit reduction.[14] So as not to disrupt oil markets, DOE should sell the SPR oil by auctioning periodically an amount not exceeding 10 percent of the country's previous month's total crude production until the reserve is completely depleted. The DOE should then decommission the storage space or sell it to private companies. DOE should also liquidate and/or privatize the naval petroleum and oil shale reserves, which no longer serve a defense purpose, and the Northeast home heating oil reserve.

Allow the National Nuclear Security Administration to Operate as an Autonomous Agency and Transfer Any Critical National Security–Related Spending to the Department of Defense. Nonproliferation, naval nuclear propulsion, and other national security priorities should remain under NNSA but as an autonomous agency. Congress should limit government involvement in the electricity grid to activities related to meeting the government's cybersecurity requirements. Much of the grid investment and improved security can and should be driven by the private sector. Furthermore, Congress should halt NNSA programs that do not contribute directly to the country's nuclear weapons programs.[15]

Empower the Private Sector to Manage Yucca Mountain. Any sustainable, long-term solution for nuclear waste management requires geologic storage. Taxpayers and electricity rate payers have spent more than $15 billion on the Yucca Mountain site, and no technical or scientific evidence has yet disqualified it as a viable option. DOE has submitted its license application, and the Nuclear Regulatory Commission (NRC) should complete its review of the permit application and decide whether the project should move forward based on its technical review. However, DOE should not be responsible for managing spent nuclear fuel; Congress should transition to a policy that empowers the nuclear industry to manage its own spent fuel while limiting the government role to regulating through the NRC.

Reform the Office of Environmental Management (EM) and Transfer Defense-Related Cleanup to the Department of Defense. EM is largely responsible for cleaning up nuclear waste and materials related to DOD nuclear weapons; therefore, Congress should move all defense-related cleanup activities from EM to DOD.

DOE's Office of Environmental Management environmental cleanup and construction projects have been fraught with significant cost overruns, schedule delays, mismanagement, and waste. In 2009, a Government Accountability Office (GAO) official testified that "DOE had added nearly $14 billion and 45 years to its initial cost and schedule estimates of then ongoing construction projects, and added an additional $25 billion to $42 billion and an additional 68 to 111 years to initial cost and schedule estimates of ongoing environmental cleanup."[16] NNSA projects incurred similar problems. The GAO identified areas in which project oversight and transparency could be improved, and DOE has taken steps to rectify the problems.

However, many EM projects need a fundamental overhaul. This is especially true with respect to cleanup of the Hanford location. DOE signed a legally binding agreement with the State of Washington and the Indian tribes to remove all of the highly radioactive waste from very old carbon steel tanks. In 1989, DOE promised to have the entire site clean in 30 years. By 2008, after billions of dollars of taxpayer money had been spent, more than half of the waste remained. In 2000, DOE hired contractors to vitrify the radioactive waste into glass logs and store the glass logs above ground in a warehouse. The project has faced cost and schedule overruns as well as technical and management problems.[17]

Privatize Power Marketing Administrations (PMAs). PMAs are an outmoded means of providing rural areas with electricity, yet they still enjoy tremendous special privileges that interfere with market competition. DOE should restructure the PMAs to sell electricity at market rates by eliminating the subsidy for federal electricity rates and privatize PMAs completely.

Eliminate or Privatize the Energy Information Administration. While the EIA provides quality data on energy markets, it does not need to be a function of the federal government. Members of

Congress do not need information on energy market trends to create sound policy. In fact, the federal government should have a minimal, if any, role in energy markets. Further, information has value. Investors who need this information can obtain it from private parties. If the federal government should need information on energy markets, it can pay for it as well.

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Department of Health and Human Services

MISSION SUMMARY

The Department of Health and Human Services should administer major health care entitlement programs through a patient-centered, market-based delivery system; target welfare assistance to those most in need in ways that promote self-sufficiency; and protect marriage, family, life, and religious liberty.

AGENCY OVERVIEW

The Department of Health and Human Services (HHS) is responsible for administering the major federal health entitlement programs such as Medicare and Medicaid; social services such as Temporary Assistance for Needy Families (TANF), Head Start, and foster care; and research and public health programs of the Food and Drug Administration, National Institutes of Health, and Centers for Disease Control and Prevention, among others. HHS is also largely responsible for administering the Affordable Care Act, or Obamacare, which has greatly expanded the size and scope of the department's regulatory powers.

HHS was provided more than $1.11 trillion in budgetary resources in fiscal year (FY) 2016. To put this into context, HHS spending was more than the gross domestic product of all but 15 countries last year. Since FY 2000, the department's budgetary resources have increased by 187 percent, an average of about 11 percent per year or 9 percentage points faster than inflation. The number of department employees has grown by 26 percent, from 61,654 in 2000 to 77,583 in 2016.

Today, almost 8 percent of total HHS budgetary outlays ($83.4 trillion in FY 2016) is provided through the annual appropriations process and classified as discretionary spending. The remaining 92 percent ($1.02 trillion in FY 2016) of its budgetary resources is provided in authorization bills and classified as mandatory spending. If the Medicare, Medicaid, welfare, and Obamacare entitlements are left unreformed, mandatory spending is expected to increase over the next 10 years to $2.06 trillion by 2026. HHS spending is also expected to account for a third of all tax revenue over the next 10 years.

The proposals presented here would reform the major health care entitlements and health programs in a way that improves access to quality and affordable health care through competition and reduces the strain on the federal budget. These proposals would also reform the welfare programs by promoting work, self-sufficiency, and marriage in order to reduce poverty and future dependence and would protect life and the rights of conscience.

Health Care Reforms. Congress should repeal the Affordable Care Act and set a new course for more patient-centered, market-based health care by updating the tax treatment of health insurance, reforming Medicaid, modernizing Medicare, and removing policy and regulatory obstacles that impede a flourishing marketplace for health care.

Welfare Reforms. Congress should reduce welfare dependence and decrease poverty by increasing self-sufficiency for able-bodied adults, increase upward mobility by promoting work and marriage, restore an element of federalism to the welfare system by returning public housing assistance and education (Head Start) spending to the states, and increase efficiency in the use of taxpayer funds.

Life and Conscience Protections. Congress should preserve the restrictions on federal funding of abortions by disentangling abortion services from women's health care, which would also protect the conscience rights of health care providers and citizens.

HEALTH CARE REFORM[1]

- **Repeal the Affordable Care Act.** Repeal of the ACA would affect multiple departments. Most notably for HHS, it would include repeal of insurance subsidies and cost-sharing arrangements, Medicaid expansion and Children's Health Insurance (CHIP) enhanced funding, the government exchanges, and the many insurance mandates, including the HHS abortion-inducing drug and gender identity treatment mandates that violate freedom of conscience and interfere with the professional independence of health care providers.

- **Put in place an alternative mechanism for taxpayers who purchase coverage on their own.** Current tax policy for health care almost exclusively favors coverage obtained through the place of work. This budget would put in place an alternative mechanism, to be made available to individuals or families who purchase health care on their own. The amount would be adjusted according to age and household composition so as to correspond with the underlying patterns of medical care consumption and how health insurance is priced and sold. For example, there would be a per-child amount and a per-adult amount, and the total family contribution would be the sum of the applicable adult and child amounts.

- **Equalize the tax treatment of employer-sponsored health benefits.** The current tax treatment of employer-based health care is outdated and distortionary. Congress should cap the amount that could be spent on a pre-tax basis on employer-sponsored health benefits. Taxpayers with access to employer-sponsored plans could either elect to continue having the cost of their coverage excluded from their taxable income (up to the capped amount), or instead apply the new alternative mechanism to the cost of their employer-sponsored plan. The cap would be adjusted annually, as needed, to offset the federal budgetary effects of more taxpayers claiming the alternative in lieu of the tax exclusion. Over time, the new mechanism could replace the cap entirely while still allowing taxpayers with access to an employer-sponsored plan to apply the new mechanism toward their employer-sponsored plan.

- **Extend protections for continuous coverage to the individual market.** Congress should restore prior group insurance rules and extend them to the non-group/individual market. Individuals who maintain continuous health insurance coverage in the non-group market would receive the same protections that individuals with group coverage have, allowing them to change plans without being denied coverage or facing preexisting condition exclusions.

- **Disaggregate Medicaid based on population category and put federal Medicaid spending on a budget.** The Medicaid program is growing significantly in both enrollment and cost. Congress should separate Medicaid enrollees into three distinct categories—able-bodied, disabled, and elderly—and should finance each category independently but within an aggregate federal spending cap. This change would put Medicaid spending on a more predictable fiscal path and allow for different policy and financing arrangements for these different sets of enrollees to better meet their different needs.

- **Transition able-bodied enrollees into the private market with direct assistance.** Congress should replace traditional Medicaid for able-bodied Medicaid and CHIP enrollees with a fixed amount of federal assistance mirroring the new tax mechanism to offset the cost of purchasing health care insurance and services. This direct-to-the-individual federal assistance would replace the current federal Medicaid contribution to the states, although states could still provide supplemental assistance for this population. The change would transition able-bodied, low-income families out of government health care and into the private market, which offers superior care, and encourage greater self-sufficiency by enabling beneficiaries to use income-related assistance to pay for employment-based or directly purchased coverage.

- **Refocus Medicaid as a safety net program for the disabled.** Congress should narrow the focus of the Medicaid program exclusively to low-income disabled populations and their unique and complex needs. The current arrangement for providing states with federal matching funding would continue, but federal funding would be set on a per-capita basis. In exchange, states would be given greater statutory latitude to adopt more patient-centered models for the disabled populations rather than needing to get federal permission through the waiver process.

- **Integrate low-income seniors into Medicare premium support and target stand-alone long-term care services in Medicaid to the most vulnerable.** Low-income seniors would continue to receive assistance to offset premiums and cost-sharing requirements in Medicare, but that assistance would be integrated into the new Medicare premium support model rather than provided separately through Medicaid "wrap-around" coverage. Long-term care services would remain as a stand-alone benefit in Medicaid, although federal financing would also be set on a per-capita basis. In addition, eligibility standards would be tightened to ensure that funding for long-term care services is targeted to the most vulnerable.

- **Unify Medicare Part A and Part B.** The Medicare program is divided into four programs: Part A (hospitalization); Part B (physician services); Part C (comprehensive private Medicare plans); and Part D (prescription drug coverage). Congress should combine Medicare Part A and Part B into a single plan and streamline Medicare's cost sharing with one premium, one deductible, uniform cost-sharing, and a catastrophic limit. This would remove Medicare's outdated silo structure and provide seniors with a more coherent program that integrates both hospital and physician services.

- **Gradually raise the standard age of Medicare eligibility.** The average life expectancy has increased greatly since Medicare was created, but the program's age of eligibility has remained the same. Congress should gradually increase the age of eligibility to 68 years of age and then index it to life expectancy. This change better reflects today's life expectancy and better aligns Medicare eligibility with Social Security eligibility.

- **Gradually increase Medicare enrollee premiums based on income.** Congress should expand the income thresholds for Medicare premium subsidies. Medicare premiums would increase gradually with incremental increases in annual income. This would ensure that limited taxpayer resources are distributed more evenly based on income and would target subsidies to those who need them most.

- **Replace the Medicare Advantage payment system with new market-based payments and expand this financing to all of Medicare.** Congress should replace the current Medicare Advantage (Part C) payment system with a new benchmark based on regional market-based bids from competing private health plans to provide traditional Medicare benefits. This new payment system would eventually apply to all of Medicare in lieu of the stand-alone Part A, B, and D payment structure. Under this new defined contribution ("premium support") system, a beneficiary who chose a plan that was more expensive than the market-based benchmark would pay the difference. If a beneficiary chose a less expensive plan, he or she would receive the difference in a cash rebate that could be used to offset other health costs.

- **Guarantee that participation in alternative Medicare delivery reform models is voluntary.** Physicians, health care providers, and patients should neither be compelled to participate in reformed payment models nor financially penalized for not participating. This would shield the practice of medicine from government interference, preserve individual choice, and protect the doctor–patient relationship.

- **Allow private contracting in Medicare.** Congress should eliminate all statutory and regulatory restrictions or penalties on the right and ability of Medicare enrollees and their physicians to contract privately outside of the Medicare program for Medicare-covered services. Restoration of this freedom would improve seniors' access to medical care.

- **Allow specialty hospitals to participate in Medicare.** Congress should eliminate statutory restrictions on Medicare payment to specialty hospitals, including physician-owned hospitals. Eliminating these barriers would intensify much-needed competition in the hospital sector and stimulate innovation in the delivery of high-quality care to seniors.

- **Clarify that direct primary care arrangements are not insurance.** Congress should clarify in the tax code and in federal health care programs that when patients pay medical providers directly on a subscription, pre-payment, or bundled payment basis, such arrangements are treated under federal law as payments for medical care and not as payments for health insurance. Such arrangements would encourage experimentation with alternatives to the traditional fee-for-service system. Innovative approaches, such as direct primary care, tested in a competitive market are more likely than government-designed and mandated "payment reforms" to produce positive and lasting results.

- **Separate supplemental provider payment from Medicare and Medicaid.** Congress should remove from Medicare and Medicaid the various supplemental payments and fee schedule adjustments that are currently used to deliver targeted subsidies, such as those for medical education, rural access, and low-income communities. Instead, it would treat them as stand-alone discretionary programs and restructure each one to make the distribution of federal funds better targeted and more transparent and accountable.

- **Transition health savings accounts to a free-standing health savings mechanism.** Congress should allow individuals who purchase an HSA-qualified, high-deductible health plan to pay their premiums from the HSA; increase the maximum contribution limit to an HSA to match total out-of-pocket expenses, not just the deductible; and transition HSA arrangements to a free-standing savings mechanism for health care. These reforms would encourage greater pre-funding of future health care needs and create a simple, standard mechanism for delivering public and private health care assistance on a defined contribution basis.

WELFARE REFORM[2]

- **Account for total means-tested welfare spending and include better measurements of income.** The current size of the welfare state is largely hidden, and the piecemeal approach distorts the actual sums devoted to the poor. Therefore, Congress should require an aggregate total spending on all means-tested programs and set forth aggregate spending projections for the next 10 years in the annual Congressional Budget Resolution. Congress should also bring greater prominence to alternative surveys to capture consumption and actual living conditions at the low end of the income scale.

- **Require work for able-bodied, non-elderly adults.** Welfare programs should seek to promote self-sufficiency through work for able-bodied adults. Congress should require able-bodied welfare recipients to work, prepare for work, or at least look for work under supervision as a condition for receiving aid. Congress should introduce work requirements for able-bodied, non-elderly adults without dependents receiving food stamps and for able-bodied parents receiving food stamps while strengthening work requirements for able-bodied adults in the Temporary Assistance for Needy Families program.

- **Reduce fraud and marriage penalties while increasing work incentives in the Earned Income Tax Credit (EITC) program.** The EITC program is the largest means-tested cash welfare program, and erroneous and often fraudulent overclaims account for over a quarter of all EITC payments. Congress should require income verification before payments are made and limit eligibility to custodial parents and legal guardians as a means to reduce fraud. Marriage is the greatest protector against child poverty, yet nearly all means-tested welfare programs impose significant penalties against marriage. Congress should reduce these penalties in the welfare state by expanding the EITC for married couples. Congress should also adjust the EITC benefit scales so that their value increases as the number of hours worked increases, while not increasing overall spending on the program.

- **Transfer fiscal responsibility for low-income housing from the federal government to the states.** The federal government currently pays 90 percent of the cost of subsidized housing for poor and low-income persons. Congress should phase down federal low-income housing assistance at a rate of 10 percent per year, reaching zero funding at the end of a decade. This would restore true federalism by allowing a state to determine how and to what extent it will replace federal housing programs with alternative programs designed and funded by state and local authorities.

- **Reform Social Service and training programs and create greater employment opportunities for hard-to-employ individuals.** Ten percent of federal welfare spending goes to programs aimed at improving human capabilities and changing behaviors in a positive direction, such as employment training, child development, educational improvement, prisoner re-entry, dropout prevention, and drug rehabilitation. Congress should shift the funding structure of these programs from a funding-for-service model to a payment-for-outcomes model. A portion of the payments made to the state and individual grantees should be contingent on achieving certain specified outcomes. In addition, Congress should reform the Work Opportunity Tax Credit by redirecting its funds to assist hard-to-employ individuals and by targeting job placement centers in poor communities.

- **Return Supplemental Security Income (SSI) to serve its originally intended population.** SSI was created to provide cash assistance to disabled or elderly adults who are unable to support themselves through work. Assistance for low-income parents of disabled children is provided through programs such as TANF, food stamps, and Medicaid. About 15 percent of SSI recipients are children. Congress should focus SSI on providing cash assistance to low-income adults who are unable to work. Cash SSI benefits for children should be eliminated, with the exception of medical expenses due to a child's disability that are not covered by another program, such as Medicaid. Parents of children who are no longer receiving SSI cash benefits would continue to be eligible for a wide variety of means-tested welfare aid, including TANF, EITC, food stamps, and Medicaid.

- **Reduce excessive payments in the welfare system.** Some low-income households receive a very large package of means-tested welfare benefits, including food assistance, housing assistance, refundable tax credits, and health care. A single mother with two school-aged children earning the minimum wage would have a combined post-tax income of earnings and welfare benefits equaling approximately $37,000. If the family also receives a housing benefit, their total benefit package could come to around $47,000 annually. In order to reduce excessive benefits, households that receive subsidized housing assistance should not be eligible to simultaneously receive the refundable tax credits–EITC and ACTC–under this budget.

- **Sunset the Head Start program.** Head Start has failed to live up to its stated mission of improving kindergarten readiness for children from low-income families. Low-income families should not have to depend on distant, ineffective federal preschool programs. Congress should restore revenue responsibility to the states by reducing federal funding for Head Start by 10 percent in the first year and an additional 10 percent from the 2017 baseline every year thereafter until the program is sunset in 10 years. The phase out would provide states with adequate time to make way for better state and local alternatives.

LIFE AND CONSCIENCE PROTECTIONS

- **Protect conscience rights for providers in health care and human service programs.** Congress should codify protections allowing health care and human service providers and organizations to provide their services according to their moral or religious beliefs. Providers and organizations should not be required to offer services, such as abortion, that violate their conscience. Nor should providers or organizations be discriminated against for providing adoption and foster care services based on their beliefs about marriage.

- **Prevent family planning grants to abortion providers and redirect Medicaid funding away from abortion providers.** Federal law prohibits taxpayer funding for elective abortions, but many abortion providers receive federal funding through family planning grants and Medicaid for non-abortion services. Congress should prohibit abortion providers from being eligible to receive family planning grants and federal Medicaid funding for non-abortion health care services. Instead, such funding would be redirected to other health care centers that serve women but do not perform abortions.

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ENDNOTES

1. Some policy recommendations are outside the scope of the Department of Health and Human Services. However, to communicate the scope and coherence of this budget's health care reform policy, the recommendations are included in this section.
2. Some policy recommendations are outside the scope of the Department of Health and Human Services. However, to communicate the scope and coherence of this budget's welfare reform policy, the recommendations are included in this section.

Department of Homeland Security

MISSION SUMMARY

The Department of Homeland Security should protect the American homeland from and prepare for terrorism and other hazards in both the physical and cyber realms, provide for secure and free movement of trade and travel, and enforce U.S. immigration laws without favoritism.

AGENCY OVERVIEW

In 2017, a new President will face significant challenges at the Department of Homeland Security (DHS). Rectifying these shortcomings is important if the U.S. is to remain secure and prosperous. Started in 2003, DHS initially had a budget of $31.2 billion for fiscal year (FY) 2003, which grew to a total budget authority of $66.3 billion in FY 2016. This budget funds a diverse set of agencies responsible for a wide range of issues: counterterrorism, transportation security, immigration and border control, cybersecurity, and disaster response. Yet DHS's management of these issues is highly flawed, both in the finer details of execution and in the department's broader priorities. Such failure has led some to question the value of DHS as a whole and whether the U.S. would be better served without it. Serious changes across all of the department's policy areas, realignment of its priorities, and reform of the way its headquarters operates are imperative.

The proposals outlined here improve DHS operations while prioritizing resources in a risk-based, cost-effective manner. This includes leveraging private-sector and state and local government partners whenever possible. While many of DHS's operations (such as anti-counterfeiting and customs functions) are federal responsibilities, many other activities (including immigration enforcement, transportation security, and disaster response) require or benefit from close cooperation with non-federal partners. Embracing such principles would allow DHS to maximize the use of limited resources and keep the U.S. homeland safe and prosperous.

SUMMARY OF REFORMS

DHS Management and Oversight Reforms. DHS's organizational cohesiveness and central leadership continue to face serious challenges that include financial management, acquisitions, information technology, planning, and budgeting. The Obama Administration has attempted to remedy some of these problems through its Unity of Effort initiative to make the department work as a more cohesive whole, but more remains to be done. A good step would be completing the headquarters campus in Washington, D.C., a project for which the President requested and Congress provided additional funding in FY 2016. With a history of cost overruns, DHS should ensure that this and future funding is well spent.

Beyond this, additional measures need to be taken to improve the authority of DHS's central leadership. This includes reforming congressional oversight of DHS. Labyrinthine layers of congressional oversight are consuming the department's time and resources, and there is bipartisan agreement among former and current DHS officials, think tanks, and the 9/11 Commission that this system of congressional oversight is harming security. It is time for parochial interests and battles over jurisdiction to give way to common-sense oversight and improved security.

Immigration and Vetting Reforms. DHS policy, most notably President Obama's 2014 executive action on immigration, has increasingly pushed immigration officers to focus their enforcement efforts on so-called priorities while ignoring or even rewarding the vast majority of illegal immigrants who do not fit such priorities. DHS statistics indicate that the U.S. conducted only 462,463 deportations in FY 2015, the lowest level since 1971. Deportations from the interior of the U.S. have dropped from around 230,000 in FY 2010 to approximately 70,000 in FY 2015, a decline of 70 percent in just five years. Although removing criminal aliens is one of the Administration's stated priorities, Immigration and Customs Enforcement (ICE) deported just over 63,000 criminal aliens from the U.S. interior in 2015, a decline of almost 60 percent from approximately 150,000 in FY 2011.

This dismal enforcement record is due to a long train of Obama Administration policies that is far too long to detail fully here. Highlights include:

- Multiple policies establishing enforcement priorities, including certain classes of criminals and repeat immigration offenders. As a result, the vast majority of illegal immigrants are not considered priorities and almost never face immigration actions.

- Legal action and Administration policy decisions that attempt to reduce the role that state and local governments can play in helping to enforce immigration law.
- Ignoring states that work actively to hinder immigration enforcement and break U.S. immigration laws (for example, by providing in-state tuition to illegal immigrants).
- Field-level directives ordering ICE, U.S. Citizenship and Immigration Services (USCIS), and Customs and Border Protection (CBP) officers and officials to rubber-stamp applications, release certain individuals despite their being in violation of U.S. law, and otherwise ignore various immigration laws under the threat of punishment.

So long as such policies are in place, the U.S. immigration system and the rule of law will continue to erode.

At the same time, America has drifted away from assimilating immigrants. Elites—in the government, the culture, and the academy—have led a push toward multiculturalism, which emphasizes group differences. This transformation has taken place with little input from rank-and-file Americans, who overwhelmingly support assimilation. Patriotic assimilation is the bond that allows America to be a nation of immigrants. Without it, America would cease to be a nation at all, becoming instead a hodgepodge of groups that could no longer meaningfully welcome immigrants into a commonly shared, characteristic way of life. Like immigrant groups themselves, America can be trusted to find a sustainable balance between honoring the unique cultures from which diverse Americans come and integrating all Americans into a unified nation, just as it always has.

Additionally, the U.S. immigration system relies to a significant degree on vetting capabilities to prevent threats, whether of a terrorist or an immigration nature, from entering the U.S. Ultimately, vetting is based on law enforcement and intelligence sharing that detects known or suspected threats. The U.S. government should pursue greater intelligence sharing and provide the intelligence community with the resources they need to detect threats and vet individuals. Regular risk assessments and tests of the vetting systems are important in determining how systems can be improved and where additional resources and tools are needed.

Coast Guard Reforms. The United States Coast Guard (USCG) is a unique part of DHS, being the only military branch located outside the Department of Defense. The USCG has a variety of missions ranging from Arctic operations to port security, drug interdiction, search and rescue, and other maritime safety and compliance responsibilities. Yet the government has funded the USCG inconsistently and insufficiently in recent years, and this has led to a number of capacity and capability challenges. The passage in late 2015 of an omnibus appropriations bill provided some relief to the USCG by increasing its acquisition budget and funding an unrequested (but necessary) ninth National Security Cutter (NSC). However, the sea service is far behind in two other key programs: the Offshore Patrol Cutter (OPC) and a replacement polar icebreaker.

Importantly, these underfunded programs are just the program of record for the Coast Guard: the minimum number of vessels needed to meet its statutory missions while assuming significant risk. The Fleet Mix Analysis and other studies have found that for modernization programs such as the Offshore Patrol Cutter and Fast Response Cutter, nearly double the number of hulls in the program of record would be prudent. While the Coast Guard has stated that meeting the program of record requires consistent acquisitions funding of at least $1.5 billion annually, Congress could fund the acquisition account at a higher level to ensure that the Coast Guard can better execute its missions. The Coast Guard has officially projected that upwards of $2.5 billion annually would not be excessive in meeting its acquisition requirements while minimizing risk to the fleet.

Federal Emergency Management Agency Reforms. The lead federal agency in preparing for and responding to disasters, the Federal Emergency Management Agency (FEMA) provides critical resources and expertise during disaster but is overtasked and crowding out state and local preparedness. After passage of the Stafford Act in 1988, the number of declared federal disasters changed dramatically, rising steadily from an average of 28 per year under President Ronald Reagan to an average of 130 per year under Presidents George W. Bush and Barack Obama.

The Stafford Act shifted most of the costs of a federalized disaster away from states and local governments to the federal government and made it relatively easy to qualify as a federal disaster. This combination has put FEMA in high demand, leaving it unprepared—in terms of both readiness and money—for truly catastrophic disasters in which its services are most needed. Reform of FEMA requires a greater emphasis on federalism and state and local preparedness, leaving FEMA to focus on large, widespread disasters.

FEMA is also responsible for the National Flood Insurance Program (NFIP). Today, almost all flood insurance is issued by the federal government, because Washington provides insurance at prices lower than the actuarially fair rate; that is, it subsidizes flood insurance, transferring tax dollars to those who build homes and businesses in flood zones. As a result, when the cost of flooding exceeds the revenue gathered by the program, FEMA ends up requiring taxpayer-funded bailouts, which as of 2015 totaled $23 billion. By subsidizing building in these zones, the NFIP encourages more people to live in flood zones, increasing the potential losses both to the NFIP and to the taxpayer. The NFIP should be wound down and replaced with private insurance starting with the least risky areas currently identified by the program.

Finally, not all of FEMA's grant programs are effective or the best use of limited homeland security dollars. Grants should be allocated in a risk-based manner and must be effective. For example, Heritage Foundation research has found that a variety of firefighter and emergency personnel grants—including Staffing for Adequate Fire and Safety (SAFER) Grants, Fire Prevention and Safety (FP&S) Grants, and Assistance to Firefighter Grants (AFG)—are not effective in reducing fire casualties. Given that there are other areas in DHS, or even other grant programs, where this funding could be used more effectively, Congress should require the consolidation of the grant program and elimination of ineffective grants.

Transportation and Travel Security Reforms. The U.S. holds the dubious honor of being one of only a handful advanced nations that employ government airport screeners. Created after 9/11, the Transportation Security Administration (TSA) assumed the important role of providing security at airports, but this is not the best way to accomplish this goal. Most European countries and Canada allow airports to provide their screening force or have a contractor provide it. The U.S. has a limited, private Screening Partnership Program (SPP) that substitutes private screeners with TSA oversight in place of TSA screeners. SPP allows cost, customer satisfaction, and productivity benefits while performing no worse than government screeners in terms of security. While this would seem like an easy decision for most airports, the regulations and past TSA decisions regarding SPP have made it difficult and uncertain to use, as it can take as long as four years to join or renew an SPP contract that is micromanaged by the TSA. The U.S. would realize significant benefits by switching to private screeners through an expansion of the SPP.

The U.S. has pursued and should continue to pursue Trusted Traveler programs. TSA PreCheck ensures that participants usually receive an expedited screening process, including the ability to keep on shoes, belts, and light jackets and keep computers and liquids in their bags, at over 150 participating airports. Its 2 million members are subject to background checks or are part of other programs or groups (for example, the U.S. military) that have undergone background checks. Concerns about the use of "managed inclusion," or including non-PreCheck members in PreCheck security lines, resulted in the phasing out of managed inclusion, but the TSA should continue to ensure that risks are being properly screened at security lines.

Other Trusted Traveler programs run by CBP similarly require a background check and include PreCheck benefits for U.S. citizens and permanent residents, but also provide expedited immigration and customs processing at airports or land borders. Global Entry is open to U.S. citizens and permanent residents as well as citizens from Germany and South Korea, the Netherlands, Panama, the United Kingdom, and Mexico. NEXUS is for use between the U.S. and Canada, and SENTRI is for use between the U.S. and Mexico. Expanding Trusted Traveler programs would let the U.S. focus its resources on higher-risk individuals while expediting the travel of Americans and citizens of friendly nations.

Finally, the U.S. should also continue to expand its Visa Waiver Program (VWP). The VWP allows citizens of 38 member countries to travel to the U.S. without a visa and provides U.S. citizens with reciprocal benefits. Visa-free travel does not mean screening-free travel. Individuals coming to the U.S. through the VWP are checked against all of the same information against which traditional visitors are checked. Furthermore, member countries must share additional crime, terrorism, and passport data to be in the program and must raise their airport and passport security. The VWP also lets the U.S. focus its finite consular resources on those travelers that pose a larger threat to the U.S.

POLICY DETAILS

- **Empower DHS management.** DHS management should be empowered to ensure that department-level directives and unity of action are accomplished. Congress and the President should provide more authority to centralized service components, such as the General Counsel, the Chief Financial Officer, the Chief Information Officer, and International Affairs, over their respective component offices. Such measures should not exclude component heads from exercising their authority, but rather should ensure that department-level directives are being carried out. For example, a more unified, standardized procurement and acquisitions process would require an empowered Chief Procurement Officer and policies. A more robust DHS Office of Policy is essential to developing intra-agency policy, resolving disputes, and driving organizational change to make DHS components work as a more cohesive whole.

- **Streamline congressional oversight of DHS.** Oversight of DHS should resemble that of the Departments of Justice and Defense, being comprised of one primary homeland security committee in the House and in the Senate with some additional oversight by the Intelligence Committees and a homeland security appropriations subcommittee in both chambers.

- **Enforce U.S. immigration law.** In essence, the President should use his discretion to ensure that the laws are being followed and enforced as much as possible, not as little as possible. This includes reversing President Obama's executive actions and directives on immigration enforcement, expanded of use of rapid removal authorities, and greater use of programs and tools that ensure that illegal immigrants are appearing at their court hearings. This also requires making greater use of state and local partners by expanding programs like the 287(g) program, which trains and deputizes state and local police to help enforce immigration law.

- **Affirm patriotic assimilation.** The U.S. should reverse the multicultural trend that tries to separate Americans into groups rather than unite them as Americans. Policies that hinder adherence to American values and the promotion of patriotic assimilation should be avoided and reversed. School choice, education that celebrates American principles, and stronger civic and naturalization instruction are critical to assimilating the next generation of immigrants.

- **Provide appropriate resources and tools to intelligence and vetting programs.** Our vetting programs require that the U.S. have access to good intelligence. Programs and tools that provide the U.S. with such intelligence should be pursued and risk assessments conducted to constantly improve these programs.

- **Recapitalize the Coast Guard.** Congress should commit to providing consistent acquisitions funding to avoid additional inefficiencies and costs. The bare minimum the Coast Guard has requested is $1.5 billion for acquisitions, but alternative Coast Guard Fleet Mix Analysis indicates that greater investments are needed to ensure that the Coast Guard can execute its missions. Congress should not fall below $1.5 billion for Coast Guard acquisitions and should consider larger sums to better meet mission needs.

- **Return more responsibility for disasters to state and local governments.** This would include increasing the threshold for federal aid to $3 per capita in damages with a $5 million minimum threshold (under which a federal disaster is never declared) and a $50 million maximum threshold (over which a disaster declaration is always issued). Alternatively, a deductible idea currently being considered by FEMA could accomplish a similar outcome. Additionally, the cost share provision for smaller disasters should be decreased to 25 percent from 75 percent, with a larger cost share available for truly catastrophic disaster. This system would return responsibility to states for more localized disasters, making them better prepared for disasters and letting FEMA save funds for catastrophic disasters.

- **Transition nearly all users of the NFIP to private insurance.** After one year, the NFIP should begin to end insurance for lower-risk insured groups, followed by phasing out NFIP insurance for increasingly high-risk properties. Within four years, the NFIP should exist only to serve a select few homeowners who are unable to acquire insurance not because the cost is too high, but because it is not offered in their area. These properties, however, should not be subsidized; owners of these properties should pay a fee at a rate that is as actuarially fair as possible.

- **Consolidate homeland security and emergency preparedness grant programs and allocate funds in a risk-based manner.** Rather than being treated merely as federal dollars that should be spread around, federal grants should be focused on the highest-risk areas or issues. As part of this consolidation, grant programs should be evaluated, and ineffective ones should be canceled.

- **Expand trusted traveler programs and the Visa Waiver Program.** The U.S. should look to build on existing partnerships not only among nations already participating in Global Entry, but also with VWP member countries, thus creating a trusted travel superhighway that enhances security and facilitates travel. Along the same lines, the VWP should be judiciously expanded.

SOURCES OF FURTHER INFORMATION

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Department of Housing and Urban Development

MISSION SUMMARY

The Department of Housing and Urban Development implements a wide range of federal housing programs.

AGENCY OVERVIEW

The Department of Housing and Urban Development (HUD) is responsible for administering various programs, including subsidized housing through public housing rental units and housing vouchers; Native American housing programs, such as Section 8 and the Native American Housing Block Grant; community development programs, such as the Community Development Block Grant; the Federal Housing Administration (FHA); and the Government National Mortgage Association (Ginnie Mae).

HUD was provided $47.9 billion in budgetary resources in fiscal year 2016.[1] The number of agency employees was 8,260 in 2015.[2]

This proposal eliminates the major functions of the Department of Housing and Urban Development. It transfers fiscal responsibility of the major subsidized housing assistance programs to state governments, ends the Community Development Block Grant program, eliminates two key elements of federal housing finance, and transfers several targeted assistance programs to other relevant departments.

The FHA has outlived its usefulness to taxpayers and homeowners. Despite various reform initiatives since the 1930s, the FHA has consistently had trouble meeting safety and soundness guidelines, undermined the stability of the housing market, and in recent years required several billion dollars to cover losses. At best, the FHA's single-family mortgage insurance program accelerates homeownership for individuals who would otherwise obtain home loans in the conventional market a few years later.[3] By enacting all of these reforms, agency spending will be eliminated completely over the next 10 years.

SUMMARY OF REFORMS

Subsidized Housing. HUD operates numerous subsidized housing programs. These programs include the Housing Choice Voucher Program, the Project-Based Voucher Program, the Public Housing Capital Fund, the Public Housing Operating Fund, Choice Neighborhoods, HOPE VI, and the Family Self-Sufficiency Program, Homeownership Voucher Program, Public Housing Homeownership (Section 32), the Section 8 Moderate Rehabilitation Program, the Public Housing/Section 8 Moving to Work Demonstration Program, the Neighborhood Networks (NN) Program, the Resident Opportunity and Self-Sufficiency (ROSS) Program, and the HOME Investment Partnerships program.[4] Subsidized housing programs are one component of a complex and costly federal means-tested welfare system. The vast majority of means-tested welfare spending–roughly 75 percent–is funded by federal taxpayer dollars.

The largest subsidized housing programs provide rental assistance to low-income individuals in various ways, including both project-based and tenant-based programs. While project-based vouchers provide subsidies to housing project owners, tenant-based vouchers provide subsidies to private landlords. The Housing Choice Vouchers program, commonly referred to as Section 8 vouchers, is the main tenant-based subsidy. HUD distributes nearly twice as much on Section 8 vouchers compared to project-based rental assistance. Section 8 vouchers effectively serve as a price floor, thus distorting the rental market and raising prices, especially for those who do not receive vouchers.[5]

State and local government should take greater financial responsibility for means-tested welfare programs. A first step toward this would be gradually returning fiscal responsibility for all subsidized housing programs to the states. Doing so would also help promote greater efficiency in subsidized housing assistance. States would have greater incentive to spend wisely if funding came from their own coffers, and resources would be better directed to help those in need.

For example, the Chicago Housing Authority was using HUD funding to subsidize lavish apartments for some low-income families. The rent subsidies provided by HUD were subsidizing rent in high-rise apartments that had been listed among the top 10 most expensive apartments in Chicago.[6] A local government or state would likely not engage in such extravagant spending if it was using its own dollars. Funds would be more wisely directed to provide more basic housing for low-income families.

Indian Housing. HUD operates numerous Native American housing programs. These include the Tribal Housing Activities Loan Guarantee Program (Title VI), the Indian Community Development Block Grant (ICDBG) Program, the Indian Housing Block Grant (IHBG) Program, Loan Guarantees for Indian Housing (Section 184), Loan Guarantees for Native Hawaiian Housing (Section 184A), and the Native Hawaiian Housing Block Grant (NHHBG) Program. As HUD is phased out, these programs should be eliminated or transferred to the Department of the Interior.

Community Development. The federal government operates the Community Development Block Grant (CDBG), which provides money to state and local governments for low-income housing, infrastructure development, public services, and other activities. This program has been in place since 1974 and has cost taxpayers more than $100 billion during the course of its lifetime.[7] The CDBG is not well-targeted to low-income communities, and due to a lack of transparency in the data it is difficult to assess whether the program is meeting its stated goals of, among others, creating jobs for low-income individuals and eliminating "slums and blight."[8]

Federal Housing Financing. Finally, this proposal ends two key components of federal involvement in housing finance. The FHA provides taxpayer-backed insurance for mortgages, and Ginnie Mae is the primary financing vehicle for all government-insured mortgage loans. Specifically, Ginnie Mae provides principal and interest guarantees on mortgage-backed securities, which consist entirely of government-insured mortgages (such as those guaranteed by the FHA).

Starting in the 1930s, Congress passed a series of laws that significantly expanded the federal government's presence in the housing finance system. These federal programs have grown and contributed to an explosion of mortgage *debt* over the past few decades, while rates of ownership of homes have barely changed. The long-term increase in mortgage debt spurred by these federal programs exposes homeowners and taxpayers to significant financial risks. In return for substantial costs to taxpayers, federally backed mortgage insurance programs have had minimal impact on homeownership rates.[9]

Other HUD Reforms. HUD operates other smaller programs aside from subsidized housing, Indian housing, community development, and federal housing finance programs. These programs include homeless assistance programs and Housing Opportunities for Persons with AIDS. These programs should be transferred to the Department of Health and Human Services. HUD also operates HUD-Veterans Affairs Supportive Housing Vouchers (HUD-VASH), a veteran's assistance program that operates in conjunction with the Housing Choice Voucher program. This portion of the program could be transferred to the Department of Veterans Affairs.

POLICY DETAILS

Transfer Subsidized Housing Programs from the Federal Government to the States. The cost of subsidized housing assistance programs came to roughly $53 billion in FY 2015.[10] Federal funding for means-tested housing programs should be phased down at a rate of 10 percent per year for 10 years. Each state should be allowed to determine how and to what extent it will replace federal housing programs with alternative programs designed and funded by state and local authorities.

Eliminate the Community Development Block Grant. Beginning in the following fiscal year, FY 2018, funding for the Community Development Block Grant should be ended.

Eliminate the Federal Housing Administration. Congress should eliminate the FHA. The federal government should ultimately stay out of the home financing business.

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Department of the Interior

MISSION SUMMARY

The Department of the Interior (DOI) protects and manages the nation's natural resources and cultural heritage; provides scientific and other information about those resources; and honors its trust responsibilities or special commitments to American Indians, Alaska Natives, and affiliated island communities.

AGENCY OVERVIEW

DOI's purview is vast, encompassing more than 500 million acres of public lands, including national parks and national wildlife refuges; 700 million acres of subsurface minerals; 1.7 billion acres of the Outer Continental Shelf (OCS); 23 percent of the nation's energy; water in 17 Western states; and trust responsibilities for 566 Indian tribes and Alaska Natives.

The department's 2017 budget request totals $13.4 billion, an increase of $61 million over the 2016 enacted level. The proposed budget also includes permanent spending proposals estimated at $18 billion over the next decade. Receipts from energy, minerals, grazing, timber, and land sales are forecast to exceed $10 billion during 2017.

DOI was established as the Home Department in 1849. The variety of its early responsibilities—Indian affairs, the District of Columbia jail, hospitals and universities, and conducting the census, among others—earned it the nickname "Department of Everything Else." Its mission became more focused on natural resources with the rise of the conservation movement in the early 20th century.

Today, the department has nearly 70,000 employees in 2,400 locations across the United States.

MISGUIDED POLICIES AND DYSFUNCTION

Given the scale of its responsibilities and the range of resources under its command, it should hardly be surprising that the department is rife with misguided policies and practices. For example:

- The public lands managed by DOI are worth billions of dollars, yet the department loses billions of dollars managing them each year.

- The department relentlessly seeks to expand its inventory of property even though it fails to manage its existing holdings adequately. Deferred maintenance for the Park Service alone exceeds $11.5 billion.[1]

- Water shortages in Western states have worsened under DOI management. Subsidies have encouraged overconsumption, and the revenue needed to maintain water infrastructure has not been generated.

- DOI sells timber for less than it costs to conduct the sale, and its failure to maintain forest and rangelands properly has dramatically increased the risk of catastrophic fires.

- Americans are routinely deprived of their property rights by DOI's administration of the ineffective and costly Endangered Species Act.

- Dozens of schools managed by the Bureau of Indian Education are falling apart and require replacement. A 2015 *Star Tribune* editorial series documented an estimated $1 billion construction backlog nationwide.[2]

- DOI evades transparency by ignoring its obligations under the Freedom of Information Act and congressional requests for documents. During a recent hearing of the House Committee on Natural Resources Subcommittee on Oversight and Investigations, Chairman Louie Gohmert (R–TX) referred to "astounding violations" by high-ranking officials in the National Park Service and the Bureau of Indian Affairs.[3]

These and other problems are the predictable consequences of government control of the nation's resources. Well-intentioned or otherwise, DOI cannot manage the hundreds of millions of acres of land, minerals, energy feedstocks, and water under its control in an effective manner. It is impossible for Washington bureaucrats to keep abreast of resource conditions across the entire country or the constant changes that affect the value of the resources the department manages. At the same time, by its very nature, government rewards failure over success.

Remedies exist. Private enterprise, for example, is better equipped than the Bureau of Reclamation to manage Western water supplies and hydroelectric power. In fact, water quality would be greatly enhanced if managed by those who hold a personal and financial stake in the resource. Market pricing would also ensure that water—and all of the other resources under DOI control—is put to its highest and best use and that consumption is sustainable. State and local governments, as well as private enterprise, ought to assume control of the hundreds of dams and other water infrastructure that have harmed the environment and are crumbling under DOI management.

DOI's management of energy resources reflects the Obama Administration's hostility toward conventional fuels. Rather than shrink access to energy, Congress and the new Administration should open all federal waters and all non-wilderness, non-federal-monument lands to exploration and production. Congress should also require DOI to conduct lease sales if a commercial interest exists. At the same time, authority for environmental review and permitting of energy projects on federal lands should be delegated to the states, which should receive a 50 percent share of royalty revenues.

The Interior Department's management of Indian affairs has been a colossal failure, as documented by the Property and Environment Research Center, among others. As PERC's Terry Anderson has noted, "When you see 160 acres overgrazed and a house unfit for occupancy, you can be sure the title to the land is held by the federal government bureaucracy."[4]

Organizational dysfunction within DOI also abounds. The DOI Inspector General has found that the agency lacks policies and procedures to ensure that its property, plant, and equipment are properly supported by accounting records, properly capitalized, and properly valued.[5] Another audit found that non-employees maintained active user accounts in various departmental systems and that software security patches were not properly implemented.[6] Internal control "weaknesses" also were identified in timekeeping, accounting, and billing systems.[7]

BUDGET STRUCTURE

At $13.4 billion, the Interior Department's 2017 proposed budget is small relative to many other federal agencies. However, DOI spending has increased by 24 percent since 2000. On the other side of the ledger, the department is forecast to generate receipts exceeding $10 billion, with more than $4.6 billion in "offsetting receipts" from oil and gas royalties, timber and grazing fees, park user fees, and land sales, among other sources. The 2017 budget also includes permanent spending proposals estimated at $18 billion in outlays over the next decade.

Most of the proposed allocations are divided among nine bureaus:

Bureau of Indian Affairs. Fulfills Indian trust responsibilities on behalf of 566 Indian tribes; supports natural resource education, law enforcement, and social service programs delivered by tribes; operates 182 elementary and secondary schools and dormitories and 29 tribally controlled community colleges, universities, and post-secondary schools.

Bureau of Land Management. Manages and conserves resources for 248 million acres of public land and 700 million acres of subsurface federal mineral estate, including energy and mineral development, forest management, timber and biomass production, and wild horse and burro management.

Bureau of Ocean Energy Management. Manages access to renewable and conventional energy resources of the Outer Continental Shelf, including more than 6,400 fluid mineral leases on approximately 35 million OCS acres; issues leases for 24 percent of domestic crude oil and 8 percent of domestic natural gas supply; oversees lease and grant issuance for offshore renewable energy projects.

Bureau of Reclamation. Manages, develops, and protects water and related resources, including 476 dams and 337 reservoirs; delivers water to one in every five Western farmers and more than 31 million people; is America's second largest producer of hydroelectric power.

Bureau of Safety and Environmental Enforcement. Regulates offshore oil and gas facilities on 1.7 billion acres of the Outer Continental Shelf; oversees oil spill response; supports research on technology for oil spill response.

National Park Service. Maintains and manages 401 natural, cultural, and recreational sites, 26,000 historic structures, and more than 44 million acres of wilderness; provides outdoor recreation; provides technical assistance and support to state and local programs.

Office of Surface Mining Reclamation and Enforcement. Regulates coal mining and site reclamation; provides grants to states and tribes for mining oversight; mitigates the effects of past mining.

U.S. Fish and Wildlife Service. Manages the 150 million-acre National Wildlife Refuge System; manages 70 fish hatcheries and other related facilities for endangered species recovery; protects migratory birds and some marine mammals.

U.S. Geological Survey. Conducts scientific research in ecosystems, climate and land use change, mineral assessments, environmental health, and water resources; produces information about natural hazards (earthquakes, volcanoes, and landslides); leads climate change research for the department.

SUMMARY OF REFORMS

The federal estate—lands controlled by the Department of the Interior or the Department of Agriculture—is far larger than most Americans realize, and only a fraction of it is composed of National Parks. Federal agencies are unable to manage these lands and the natural resources on them adequately. Nevertheless, the federal government continues to expand its land holdings and increasingly restricts public access to them.

At the same time, laws such as the Endangered Species Act and wetlands regulations increasingly erode property rights, often without conservation benefit or, worse, with adverse unintended consequences. Federal lands are also detached from state property taxes and increasingly restricted from being used for economic purposes, such as development of oil, natural gas, and coal resources, forgoing billions of dollars in tax revenues and huge losses in economic activity as well as hundreds of thousands of jobs.

Congress should prohibit agencies from expending any funds for land acquisitions that result in a net gain in the size of the federal estate; studies, proposals, or designations of new National Monuments, National Heritage Areas and Corridors, or Wild and Scenic Rivers; and Landscape Conservation Co-operatives and Climate Science Centers. The following program cuts are recommended:

Eliminate Coastal Climate Resilience Programs. These funds are intended to assist "at-risk" coastal states, local governments, and communities to prepare for and adapt to climate change. DOI proposes to fund the program by redirecting roughly half of oil and gas revenue-sharing payments. However, the department lacks the rational basis to treat climate change as either a priority or a credible risk—especially compared to more plausible environmental threats. (Because this spending has not yet been appropriated, the savings from eliminating it are not included in the estimated agency-wide savings.)

Eliminate America's Great Outdoors Initiative. These funds would be used to cover basic operating costs for the 13 National Conservation Lands (NCL) units that have been designated during the Obama Administration, as well as to acquire new lands. Because DOI cannot maintain its current land inventory effectively, no new NCL designations should be funded. Responsibility for the existing lands should be devolved to states and private property owners.

Privatize the U.S. Geological Survey. The U.S. Geological Survey's original mission was to classify public lands and examine the geological structure, mineral resources, and products of the national domain. At its creation in 1879, the USGS was the *only* source for reliable maps and geological information, but many private-sector corporations have since excelled in the field. Consequently, the USGS is using taxpayer financing to compete with the private sector. Private-sector energy producers, mineral mining companies, and other similar industries have sufficient market incentives to find mineral deposits on their own. Any USGS research projects that cannot be privatized should be terminated. Many universities and private research organizations are capable of conducting that research.

Eliminate the Bureau of Reclamation. The Bureau of Reclamation is charged with managing, developing, and protecting water and related resources, primarily in Western states. The bureau effectively subsidizes special interests and encourages overconsumption. In place of federal management of water supplies, Congress should implement a system of water rights allocated by competitive bidding for resale to customers. States and independent conservation trusts should assume stewardship of rivers and other water sources currently under the bureau's control.

Eliminate the Land and Water Conservation Fund. Using earnings from offshore oil and gas leasing, the fund has been used to underwrite recreation areas and facilities. It is set to expire on September 30, 2018. The budget proposes $425 million in mandatory funding and $475 million in discretionary funding (shared by Interior and the Department of Agriculture). The federal estate is already too massive for the government to manage, and many recreation areas are underutilized. (Because this spending has not yet been appropriated, the savings from eliminating it are not included in the estimated agency-wide savings.)

Prohibit Land Acquisition. The federal government's land holdings are greater than the areas of France, Spain, Germany, Poland, Italy, the United Kingdom, Austria, Switzerland, the Netherlands, and Belgium combined, approaching a third of the U.S. land mass. There is no justification for increasing those holdings—especially when DOI cannot maintain them properly.

Eliminate the Endangered Species Conservation Fund and Endangered Species Management. The Endangered Species Act was intended to bring endangered species back from the brink of extinction, but its success rate is dismal—in large part because the program structure is fatally flawed. Congress should revisit the issue and enact reforms that are based on science and that account for private property rights.

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Department of Justice

MISSION SUMMARY:

The Department of Justice should enforce our nation's laws in a fair manner, consistent with the Constitution. It should be a faithful steward of its resources by prioritizing enforcement of federal law in cases which involve truly federal matters, while deprioritizing enforcement in cases better left to state and local governments. It should advance a vision of U.S. law in the courts that is truly federalist, originalist, and constitutionalist, and should not abuse its authority by entering into unwarranted settlements or threatening unjustified legal action against innocent actors to achieve policy goals not written into law.

AGENCY OVERVIEW

The Department of Justice (DOJ) is the federal executive department tasked with law enforcement and is headed by the Attorney General of the United States.[1] The department dates back to 1870, but the position of Attorney General, a Cabinet position, dates back to the Judiciary Act of 1789. Today, DOJ has three major functions:

- Operating federal law enforcement agencies, such as the Federal Bureau of Investigation (FBI); the Drug Enforcement Agency (DEA); the United States Marshals Service; the Bureau of Alcohol, Tobacco, Firearms, and Explosives (BATF); and the Bureau of Prisons (BOP).

- Overseeing the legal activities of the federal government, which includes operating the 93 U.S. Attorneys' Offices that prosecute federal crimes and engage in civil litigation in their jurisdictions, as well as the various divisions of main Justice that enforce federal law nationwide. The Office of the Solicitor General, which authorizes appeals and represents the United States before the U.S. Supreme Court, is also under the Attorney General.

- Administering grant programs designed to (among other things) provide training and facilitate federal, state, and local law enforcement cooperation.

In fiscal year (FY) 2015, DOJ received nearly $36 billion in funding, including about $28 billion in appropriations revenue (roughly 83 percent of funding) and approximately $7.7 billion in other revenue (roughly 17 percent of funding). Non-appropriated funds included $3.2 billion in earned revenue, about $2.6 billion in "nonexchange revenues," and $1.6 billion in donations and forfeiture of property. "Earned revenue" would include money earned when DOJ provides services to state or foreign governments, such as prisoner transfers or sales of equipment. "Nonexchange" revenue includes fees, penalties, and forfeitures of property. In other words, DOJ self-funds to the tune of about 17 percent.[2]

SUMMARY OF FORFEITURE REFORMS

DOJ has a laudable mission: "To enforce the law and defend the interests of the United States according to law." Nevertheless, a few of its self-funding mechanisms deserve scrutiny, and its non–law enforcement expenditures could be curtailed to save taxpayer money and depoliticize the department. These suggested reforms would not have a significant budgetary impact, but they would serve to improve accountability and would be in line with our constitutional system of government.

Forfeiture Reforms. Civil asset forfeiture is a law enforcement tool that local, state, and federal agencies use to seize property that allegedly was used to commit a crime or represents the ill-gotten gains of the illicit act.[3] The vast majority of federal civil forfeitures do not end up contested in court, and The Heritage Foundation has documented numerous examples of abuse of this tool.[4]

One major problem with forfeiture is that the federal government often partners with state law enforcement personnel in joint operations, enabling these state and local agencies to transfer seized property to federal officials for forfeiture under federal law. The original seizing agency then receives up to 80 percent of the proceeds, which are not controlled by state or local legislatures, as part of the department's equitable sharing program.

Since 2000, DOJ has paid out more than $5 billion to various state and local law enforcement agencies. The program is authorized but not required by federal law, so its continuation is at the discretion of the Attorney General. In fact, DOJ voluntarily suspended payments under the equitable sharing program late last year, only to restart them this March.

Since forfeiture at the federal level involves both revenue generation and expenditures that are not predictable, it is difficult to assess the long-term fiscal impact of eliminating the equitable sharing program. However, doing so would remove the financial incentive to circumvent state forfeiture laws and would return oversight and budgetary authority to elected lawmakers.[5] It would also eliminate any perverse incentives for law enforcement officials to focus more on seizing cash and other valuable property (often in highly questionable ways) than on apprehending and prosecuting criminals.

What can be measured, however, is the size of the Assets Forfeiture Fund into which forfeiture proceeds are deposited. This fund, as of FY 2014, was over $2.5 billion, and it recently was raided to finance congressional appropriations elsewhere in the budget. Discontinuing the fund could represent a one-time, multibillion-dollar windfall for the federal budget.[6]

Judgment Fund Reforms. The "Judgment Fund" is a permanent, indefinite appropriation that pays monetary awards against the United States. Because the United States will undoubtedly continue to owe monetary awards, the fund cannot be eliminated, but it should be reformed.[7] Often, advocacy organizations, such as certain environmental groups, file lawsuits against a friendly agency, such as the Environmental Protection Agency. The agency will quickly and happily settle, doling out money from the Judgment Fund and binding the agency to a novel legal theory or to requirements that the agency otherwise could not have imposed under its regulatory authority.

Congress should shed much-needed light on the Judgment Fund by requiring audits of the fund; by requiring that additional information be made public (such as parties in interest to the settled matter, the purported cause of action for the lawsuit, or any conditions placed on the federal government) before money is paid out from the fund; and by mandating the disclosure of recipients of fund money. This could save taxpayer money, expose abusive practices at federal agencies, and—perhaps most important—reinforce the separation of powers principles found in our Constitution by preventing the executive branch from settling cases that obligate the government to implement changes and mandate compliance with new requirements that should be available only through ordinary legislative processes.

Community Relations Service Reforms. The Community Relations Service (CRS) within DOJ has no law enforcement function. Rather, it is intended to work against "community conflicts and tensions." The community relations budgets that also exist in other components of DOJ make it hard to justify CRS's $11 million annual budget. Further, the highly politicized CRS has actually *escalated* local tensions in such places as Ferguson, Missouri, and Florida following the arrest of George Zimmerman.[8]

Civil Rights Division Reforms. A recent report by the Justice Department Inspector General described the Civil Rights Division as a dysfunctional division torn by "polarization and mistrust."[9] The division's FY 2015 budget was $147.2 million. The Civil Rights Division has waged a war on election integrity and has filed abusive lawsuits intended to enforce progressive social ideology in areas ranging from public hiring to public education to the use of bathroom facilities. Its budget should be significantly cut to $120 million. Such a budget would enable core civil rights work to continue while forcing the division to eliminate its activist agenda.[10]

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Department of Labor

MISSION SUMMARY

The Department of Labor regulates use of labor in interstate commerce, including wages, hours, occupational safety, and unemployment insurance. The Department also collects and publishes labor standards.

AGENCY OVERVIEW

The Department of Labor (DOL) has three primary responsibilities:

- Enforcing federal labor laws that protect workers on the job. DOL enforcement agencies include the Wage and Hour Division (WHD); Employee Benefits Security Administration (EBSA); Occupational Safety and Health Administration (OSHA); Mine Safety and Health Administration (MSHA); Office of Labor Management Standards (OLMS); and Office of Federal Contract Compliance Programs (OFCCP). These agencies enforce federal laws and regulations on overtime, the minimum wage, child labor, pension protection, union corruption, workplace safety, and anti-discrimination requirements.

- Overseeing the unemployment insurance (UI) system and administering the multiple federal job training programs for which the Employment and Training Administration (ETA) has primary responsibility.

- Operating the Bureau of Labor Statistics (BLS), the primary statistical agency responsible for calculating labor-market data such as rates of unemployment, job creation, and wage growth.

Congress authorized the Labor Department to spend $45.7 billion in fiscal year (FY) 2016. Discretionary spending authorized through annual appropriations made up just 27 percent of that amount ($12.2 billion). The rest was mandatory spending, primarily unemployment insurance benefits. The vast majority of DOL's discretionary spending went to one agency: the Employment and Training Administration. ETA's UI oversight and job training programs accounted for more than three-quarters of the department's discretionary budget ($9.2 billion).

Despite dominating the Labor Department's budget, the ETA's job training and re-employment assistance programs have a poor track record. Many of them have never been evaluated to determine whether they help workers find jobs or raise their earnings. Of the job training programs that have been evaluated, several have been found to be completely ineffective—or, worse, actively harmful to participant's financial prospects. Employers and state workforce development officials often report that they simply ignore ETA's training programs because they have no connection to their workforce needs.

Under President Obama, the Labor Departments' enforcement agencies have promulgated regulations that make workplaces significantly less flexible. The Wage and Hour Division now requires employers to treat all salaried employees making less than $47,500 a year like hourly employees. WHD has also issued administrative interpretations that make it substantially more difficult for individuals to work for themselves instead of for a corporation. New EBSA regulations will dramatically restrict the availability of retirement planning services for low- and middle-income families. These policy changes restrict opportunity and upward mobility.

The reforms presented here would refocus the Labor Department as an enforcement agency. Needed reforms include eliminating job training programs that have proven ineffective, while transferring oversight of the remaining training programs to the Department of Commerce and block granting them to the states. Congress should eliminate several redundant or unnecessary agencies within DOL. The remaining enforcement agencies should focus on effectively protecting workers without interfering with workplace flexibility. Congress should also eliminate the Davis–Bacon Act, a crony policy enforced by DOL that restricts non-union competition on federal construction projects.

POLICY DETAILS

Reform Job Training Programs. The Employment and Training Administration oversees multiple work preparation and job training programs. These include:

- Job Corps;
- Trade Adjustment Assistance;
- Indian and Native American Programs;
- Reentry Employment Opportunities for ex-offenders;
- The Senior Community Service Employment Program for senior citizens;
- Wagner–Peyser Employment Services;
- Youth Build;
- Workforce Investment Act (WIA) Youth Services;
- WIA Adult Program; and
- WIA Dislocated Workers Program.

Some of these programs, like Job Corps, provide services directly to participants. Others provide restricted grants and funding for states and nonprofits to use to serve target populations. These ETA programs serve overlapping populations, often using separate bureaucracies. For example, federal regulations require that Wagner–Peyser Employment Services be administered by state civil service employees, but private contractors typically administer WIA services. An unemployed worker eligible for benefits under both programs will have a separate case worker for each.

Employers often report that federal job training is disconnected from their hiring needs. The training provided is typically not driven by employer demand for skills. Consequently employers place little value on the training that most workers receive through ETA.

Evaluations usually find that federal job training programs have at most a small effect on participants' earnings and future employment. Some ETA programs have no measurable effect at all or even hurt participants' prospects. For example:

- Congress spends approximately $1.7 billion a year on Job Corps, a program intended to prepare at-risk youth for jobs and raise their future earnings. Recent evaluations showed that youth who participate in Job Corps do not make more than youth who do not. Worse, the government has not even protected the safety of Job Corps participants. Inspector General reports document that many Job Corps centers have been plagued with violence and gang activities.
- Congress spends another $1 billion a year on Trade Adjustment Assistance (TAA), a program that subsidizes workers who lose their jobs due to foreign trade if they spend time in federal job training programs instead of immediately looking for work. An evaluation commissioned by DOL found that TAA participants would have been better off if they had instead looked for new work immediately. The evaluation found that participating in TAA lowers laid-off workers' total earnings by an average of $27,000 over four years—a figure that includes the additional government benefits that participants collect.

Instead of wasting tax dollars on programs that are ineffective or even harmful, Congress should take several steps to reform federal job training programs:

- **Consolidate grant funding and lift most restrictions.** Congress should consolidate all of the job training funding that ETA currently disburses to states and nonprofits into a single stream without restrictions. This money should be block granted to the states with the sole requirement that they use it to provide job training services that are aligned with market demand and produce industry-recognized credentials. The government should not encourage workers to spend time getting training that employers do not value. Beyond these requirements, Congress should allow state workforce development agencies to innovate as they see fit and adapt the training funding to local needs.
- **Mandate rigorous, randomized controlled trials of all training programs.** Congress should require regular multi-site, randomized controlled trial evaluations of all job training programs that ETA directly administers or funds through the newly consolidated state grants.

- **Move ETA and the Department of Education's vocational education programs to the Department of Commerce.** Part of ETA's problem comes from the fact the Labor Department has an institutional social services mentality, not an economic development mindset. Congress should move ETA to the Commerce Department with instructions to focus training on market-driven skills that employers value. Congress should also move the Department of Education's Career and Technical Education program, which encourages vocational education, to the Commerce Department. The Education Department has an institutional bias toward promoting programs with a terminal degree. However, an industry-recognized credential that leads to a job may be more valuable than a formal associate's degree to many students. Shifting both the Labor and Education Department job training functions to Commerce would promote a market-driven economic development mindset. It also would leave the Labor Department free to focus on labor law enforcement instead of splitting its focus between job training and enforcement.

- **Eliminate demonstrably ineffective programs.** Congress should eliminate federal job training programs that high-quality evaluations find do not improve participants' labor market prospects. This should include the immediate elimination of Job Corps and Trade Adjustment Assistance. The government should also reduce the grant funding available to states whose job training programs prove ineffective. The government should not waste taxpayer dollars on programs that do not work.

Repeal Harmful Workforce Regulations. The Obama Labor Department has promulgated numerous harmful regulations that will reduce opportunity in the workforce. These regulations include:

- **Salaried overtime requirements.** Employers must pay overtime rates (1.5 times base wages) to almost all hourly employees when they work more than 40 hours per week. However, employers do not have to track the hours of salaried employees if they have sufficiently advanced job duties and make more than a baseline amount. This allows employers to pay salaried employees for work performed rather than particular hours logged. As a result, salaried employees typically enjoy more flexible schedules and have a greater ability to balance work and family lives.

  In mid-2016, the Obama Administration increased this salary baseline to $47,500 a year, effectively converting many salaried employees—especially in regions with lower costs of living—into hourly workers. Employers will offset these new overtime costs by lowering workers' base pay, leaving total pay unchanged, but millions of salaried workers will have to log their hours and will lose scheduling flexibility. Employers will also crack down on practices like telecommuting because verifying telecommuted hours is much more difficult. These regulations will fail to raise pay but will make it much harder for many salaried workers to balance their work and family lives.

- **Persuader rules.** The Office of Labor Management Standards has issued new regulations requiring lawyers who advise firms during union organizing campaigns to file detailed financial disclosure reports. The lawyers must disclose not only how much the firm at issue has paid them, but all of their labor law clients, including those that are unrelated to union organization, and the content of the advice they provided. This directly violates attorney–client privilege. Many lawyers see the regulations as an attempt to discourage them from providing legal services to companies during union organizing elections. These "persuader" regulations make unfair labor practices during union organizing campaigns significantly more likely. Congress should statutorily deny OLMS the authority to issue or enforce these or similar regulations.

- **Public OSHA disclosure.** Occupational Safety and Health Administration regulations require employers to publicly report workplace injuries that occur, identifying the employers and incident by name. This disclosure could lead to revealing the identities of workers injured on the job and would discourage businesses from reporting on-the-job injuries accurately for fear of attracting negative publicity.

- **Fiduciary restrictions.** The Department of Labor recently proposed seven rules imposing new obligations on firms that sell securities to retirement plans and individual retirement account (IRA) investors. If implemented, these rules will harm the investing public, small businesses, the securities industry, and the overall economy. Among other things, the rules would substantially broaden the class of persons deemed a fiduciary under current law. Broker-dealers and registered representatives already must comply with Financial Industry Regulatory Authority (FINRA) Rule 2111 relating to suitability. This relatively new FINRA rule already provides a high degree of protection to investors while imposing fewer duties, less risk of litigation, and less regulatory risk on broker-dealers and registered representatives than a fiduciary duty would impose.

  Under the proposed rules, the considerable risks and costs of being a fiduciary would make securities professionals much less likely to provide services to low-income and moderate-income individuals and small businesses. The regulatory and litigation risks of assuming the fiduciary role and the difficulty of receiving adequate compensation for these risks and the cost of providing the services would make servicing small accounts unattractive.

  In a free society, it is inappropriate paternalism for the government to prevent people from making investments that they judge to be good opportunities or from choosing to invest for reasons other than pecuniary gain, such as a personal relationship or affinity for the mission of the enterprise. As long as the seller of the investment or advice is honest about his or her duties (or lack thereof) toward the investor and about the nature of the investment, the investor should be entitled to choose that investment product or make that investment. Similarly, the government should not force investors to follow the opinions or judgment of fiduciaries about what is or is not good for the investor.

Congress should pass legislation repealing these harmful regulations.

Clarify Independent Contractor Status. Millions of Americans work for themselves. For example, many truck drivers own their own rigs and drive routes independently. They do not work for a trucking firm but contract independently with clients that need their goods moved. They choose the jobs they will work and thus their own hours. Many workers value this flexibility and the ability to be their own boss. Independent contracting is widespread in many sharing-economy jobs. Uber's driver-partners, for example, are independent contractors who work for themselves but through Uber connect with clients.

Trial lawyers and labor unions strongly oppose independent contracting. Unions cannot organize independent contractors precisely because they work for themselves: They have no boss to negotiate with or strike against. Similarly, federal law exempts independent contractors from overtime regulations because they choose their own hours and collect all the money from their jobs. Independent contracting thus limits the ability of trial lawyers to file Fair Labor Standards Act lawsuits.

The Obama Administration has engaged in a coordinated regulatory offensive to define most independent contractors legally as employees of their clients instead of self-employed. The National Labor Relations Board has modified its definition of "Joint Employer" to classify most business contractors as employees of a firm if that firm has "indirect" "unexercised" control of the contractor's working conditions—a broad definition that covers almost everyone.[1] DOL's Wage and Hour Division has issued new administrative guidance on how it interprets independent contracting for purposes of enforcing the Fair Labor Standards Act, and its interpretation is similarly expansive.

If the courts uphold these reinterpretations, firms will have to treat these contractors as employees. That means controlling the hours they work and the jobs they take. The freedom and flexibility that many self-employed workers value will disappear.

Congress should statutorily clarify the definition of independent contracting and require all agencies to use the same definition. This statutory clarification should be based on the common-law test. The uniform independent contracting test should focus on whether a firm only tells a worker what must be done or also directs them in how they should do it. Generally, companies that tell individuals how, when, and where to work and provide them the means to do their job are properly classified as employers. But if a firm only contracts for an end product and the individual decides whether to accept the contract and, if so, how to do it, then federal agencies should recognize that individual as an independent contractor. Uniform federal rules would protect both the ability of Americans to work for themselves and the existence of sharing-economy companies like Uber.

Repeal the Davis-Bacon Act. The Davis–Bacon Act (DBA) requires federal construction contractors to pay "prevailing wages" (generally union wage and benefit scales) and use union work rules. This reduces competition on federal construction projects; all contractors must pay above-market wages and adopt inefficient union work practices. As a result Davis-Bacon restrictions increase the cost of federal construction projects by roughly 10 percent. Congress passed Davis–Bacon during the Great Depression expressly to protect white northern construction workers from competition from black workers who had migrated from the South. The law remains on the book because labor unions still find it useful to limit competition from non-union workers. Congress should repeal this expensive and offensive relic of the Jim Crow era. Taxpayers should not pay inflated rates for federal construction.

Eliminate Unnecessary or Redundant Programs and Grants. The Labor Department funds several redundant programs and unnecessary grants:

- **Office of Federal Contract Compliance Programs.** President Lyndon Johnson signed Executive Order No. 11246, prohibiting federal contractors from engaging in racial discrimination, in 1965. The Office of Federal Contract Compliance Programs (OFCCP) enforces these requirements. At the time Johnson promulgated this executive order, the Civil Rights Act provided only weak enforcement powers. Since then, Congress has given the Equal Employment Opportunity Commission strong enforcement powers. Federal employees frequently appeal allegedly discriminatory actions to the EEOC. The OFCCP has become redundant. Taxpayers should not fund two separate and duplicative anti-discrimination agencies, one for federal contractors and one for all employers.

- **Women's Bureau.** Congress created the Women's Bureau in 1920, a time when few women worked outside the home. The bureau was created to examine the challenges that uniquely faced women when they entered the workforce. Today, women make up half of the workforce. The challenges facing female employees are now the challenges facing the workforce as a whole.

- **International Labor Affairs Bureau grants.** The International Labor Affairs Bureau (ILAB) has two primary responsibilities: monitoring foreign nations' compliance with labor provisions in trade treaties and making grants to unions and aid organizations to improve the welfare of foreign workers. This grant making accounts for most of ILAB's budget. The effectiveness of these grants is unclear, and they do not redound to the benefit of U.S. citizens.

- **Harwood grants.** OSHA spends approximately $10 million a year on Harwood grants to promote job safety training. These grants are awarded with little accountability and are not systematically evaluated for effectiveness. A large portion of Harwood funding goes to unions, union-affiliated workers' centers, or left-wing nonprofits.

Congress should eliminate the OFCCP and the Women's Bureau, as well as funding for ILAB and Harwood grants. These programs are a poor use of tax dollars in a time of tight budgets.

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Department of State

MISSION SUMMARY

The Department of State should advance the interests and foreign policy priorities of the United States of America and assist Americans abroad.

AGENCY OVERVIEW

The budget for the Department of State, Foreign Operations, and Related Programs provides funding for the Department of State (DoS), U.S. contributions to international organizations, and most of America's foreign assistance agencies and programs, including the U.S. Agency for International Development (USAID). The Department of State, U.S. assistance programs, and contributions to international organizations are the primary vehicles for advancing U.S. interests and policies internationally through diplomacy, communications, economic engagement, and support for initiatives and policies that contribute to those interests directly or indirectly by, for instance, encouraging market reforms, good governance, and the rule of law in developing countries.

While America remains a global superpower, there is a clear sense of erosion of U.S. leadership and influence. Fifteen years ago the U.S. Commission on National Security/21st Century (the Hart–Rudman Commission) described the State Department as a "crippled institution" suffering from "an ineffective organizational structure in which regional and functional policies do not serve integrated goals, and in which sound management, accountability, and leadership are lacking."[1] It further observed,

> Foreign assistance is a valuable instrument of U.S. foreign policy, but its present organizational structure, too, is a bureaucratic morass. Congress has larded the Foreign Assistance Act with so many earmarks and tasks for the U.S. Agency for International Development (AID) that it lacks a coherent purpose. Responsibility today for crisis prevention and responses is dispersed in multiple AID and State bureaus, and among State's Under Secretaries and the AID Administrator. In practice, therefore, *no one is in charge*…
>
> Neither the Secretary of State nor the AID Administrator is able to coordinate these foreign assistance activities or avoid duplication among them. More important, no one is responsible for integrating these programs into broader preventive strategies or for redeploying them quickly in response to crises.[2]

Partial efforts have been made to address this problem by requiring USAID to operate "under the direct authority and foreign policy guidance of the Secretary of State." However, USAID remains largely insulated from State Department priorities, coordination is lacking, and the problem of overly restrictive and sometimes contradictory or outdated congressional earmarks and instructions remain largely unaddressed.[3] Similarly, despite generally being the largest financial contributor, the ability of the U.S. to guide policy decisions of and reform international organizations has been limited. Efforts by multiple Administrations and Congress to convince international organizations to improve efficiency, exercise budgetary restraint, and enhance accountability have made limited progress—often later reversed—despite repeated examples and reports of poor management, limited impact, and even reprehensible behavior, like ongoing revelations of sexual exploitation and abuse by U.N. civilian personnel and peacekeepers.[4] In these organizations, U.S. policy priorities necessarily must pass muster with other member states that often have countervailing interests, which leads to dilution of those policies or prevents their implementation entirely.

The Hart–Rudman Commission called for a significant restructuring of the State Department and America's foreign assistance programs, noting that funding increases could only be justified if there was greater confidence that those institutions would use its funding more effectively. Unfortunately, the opposite has occurred, with increased funding provided while reforms to improve focus and effectiveness and to establish clearer lines of authority and responsibility have languished.

In many ways the bureaucratic and institutional structure has become even more complex. For instance, atop the old foreign assistance programs new initiatives have been established, including the President's Emergency Plan for AIDS Relief in 2003, the Millennium Challenge Corporation in 2004, and the President's Malaria Initiative in 2005. Meanwhile, the Department of State has stood up new bureaus, departments, and offices absent explicit congressional authorization. Indeed, a State Department and USAID authorization bill, under which such a restructuring would normally take place, has not been enacted for years.

According to the Congressional Budget Justification for the Department of State, Foreign Operations, and Related Programs, the fiscal year (FY) 2016 total budget estimate for International Affairs (150 Budget Account), which provides funding to DoS and USAID, was $54.6 billion.[5] Since fiscal year 2000, the International Affairs budget has increased by 132 percent in nominal terms from $23.5 billion.[6] The number of full time permanent employees at State in FY 2000 was 25,239, which included 9,023 Foreign Service, 6,590 Civil Service, and 9,852 Foreign Service National employees.[7] Foreign Service employment in 2015 totaled 13,760 and Civil Service employees totaled 10,964. Thus growth in these two categories was, respectively, 52.5 percent and 66.4 percent between 2000 and 2015.

The proposals presented here reform the Department of State and America's foreign assistance system in a way that improves focus and effectiveness while reducing the strain on the federal budget. It would also review U.S. membership in international organizations and seek to improve external accountability.

POLICY DETAILS

Restructure the Department of State. This restructuring should strengthen U.S. bilateral and multilateral diplomacy over thematic bureaus and offices to ensure that the interests and foreign policy priorities of the United States are first and foremost the focus of the Department. It should seek to eliminate unnecessary bureaus and offices, merge complementary bureaus and offices and trim the use of special envoys to both reduce costs and clarify lines of authority. In addition, Voice of America (VOA) should be brought explicitly within the authority of the Department of State to emphasize its role in supporting U.S. policy.[8]

Clarify and, to the Extent Possible, Codify the Treaty Process. Which international agreements do or do not constitute treaties requiring Senate advice and consent in accordance with Article II of the Constitution is often subject to dispute. This ambiguity ill-serves the constitutional process and America's negotiating partners, who cannot be certain of the status, permanence, and legality of an agreement with the U.S.

Bring USAID Fully and Directly Under the Control of the State Department to Better Coordinate Its Activities with U.S. Policy Priorities. As noted in Hart-Rudman, "Development aid is not an end in itself, nor can it be successful if pursued independently of other U.S. programs and activities… Only a coordinated diplomatic and assistance effort will advance the nation's goals abroad, whether they be economic growth and stability, democracy, human rights, or environmental protection."[9] Previous reforms require USAID to operate "under the direct authority and foreign policy guidance of the Secretary of State," but USAID still functions as an independent agency largely insulated from the State Department and its policy priorities. The next Administration should co-hat the under secretary for the Bureau of Economic and Business Affairs, possibly renamed as the Bureau for Economic Development, as administrator of USAID and incorporate the agency into the State Department where the other priorities of the Department can more directly influence foreign assistance policy and allocation decisions.

Conduct an Independent Evaluation of All U.S. Assistance Programs and Eliminate Unnecessary U.S. Assistance Agencies. As stewards of American taxpayer dollars, Congress and the Administration have a responsibility to ensure that humanitarian, security, and development assistance dollars are not squandered. They must endeavor to ensure that assistance is effectively and efficiently achieving its intended purpose whether it is augmenting economic development, alleviating suffering during a crisis, or supporting America's national interests. As a matter of due diligence, Congress and the Administration should evaluate all U.S. assistance programs to determine whether they are doing what America needs them to do and, if not, implement changes to address those failings. Likely targets for elimination or downsizing are the Complex Crises Fund, the Development Credit Authority, and the Overseas Private Investment Corporation, which are unnecessary, outdated, or should not be separate from existing aid programs.

Replace or Comprehensively Update the 1961 Foreign Assistance Act. This act, which is the legislative foundation of America's foreign assistance programs, is antiquated and burdened with 50 years of various instructions, reporting requirements, mandates, and tweaks added over time. Congressional earmarks (mandates requiring certain funds be spent in certain countries or on specific purposes) number in the scores. They can exceed total available funds, can be contradictory, and undermine effective use of U.S. assistance.

Reform America's Food Assistance Programs. The U.S. should eliminate costly legal requirements for the use of U.S. food and shipping, end monetization programs, and trim the food assistance budget to reflect the greater reach enabled by these efficiency reforms.

Establish a Dedicated Unit for International Organizations in the Office of Inspector General for the Department of State. The U.S. remains dependent on the internal U.N. oversight mechanisms, many of which lack independence, have inadequate resources, or face problems with competence, corruption, or bias. U.N. organizations have in the past resisted efforts to allow external non-U.N. audits of their activities. To encourage cooperation with the new Inspector General unit, Congress should pass legislation withholding a portion of U.S. contributions to those international organizations that refuse to cooperate with the unit.

Conduct a Periodic Cost-Benefit Analysis of U.S. Participation in All International Organizations. Although a number of U.N. organizations provide important contributions to U.S. diplomatic, economic, and security interests, not all do. The U.S. lacks a comprehensive analysis of whether these contributions are advancing or undermining U.S. interests or being used to maximum effect. An example of what the U.S. should do is the Multilateral Aid Review conducted by the United Kingdom's Department for International Development that assessed the relative value for U.K. aid money disbursed through multilateral organizations. This report identified those U.N. agencies providing poor value for money and led to the decision to zero out funding for four U.N. agencies. The last time the U.S. conducted a similar exercise, albeit in a far less rigorous manner, was under the Clinton Administration in 1995, which led directly to the U.S. decision to withdraw from the United Nations Industrial Development Organization. High on the list of international organizations that the U.S. should withdraw from are United Nations Educational, Scientific and Cultural Organization and the United Nations Framework Convention on Climate Change. The U.S. cannot legally provide funding to them because these organizations have granted the Palestinians full membership, which triggers U.S. legal prohibitions.

Enforce the 25 Percent Cap on America's Peacekeeping Assessment. The U.S. should resume pressure on the U.N. to fulfill its commitment to lower the U.S. peacekeeping assessment to 25 percent. To encourage the U.N. organization to do so, the U.S. should withhold the difference between our now-higher-than-25-percent peacekeeping assessment and the 25 percent cap until the U.N. adopts a maximum peacekeeping assessment of 25 percent.[10]

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Department of Transportation

MISSION SUMMARY

The stated mission of the Department of Transportation is to serve the United States by ensuring a fast, safe, efficient, accessible, and convenient transportation system that meets vital national interests and enhances the quality of life of the American people, today and into the future.

AGENCY OVERVIEW

Established in 1967 under President Lyndon B. Johnson, the Department of Transportation consolidated 31 federal transportation-related programs under one cabinet post.[1] The DOT was created to facilitate "a coordinated transportation system that permits travelers and goods to move conveniently and efficiently from one means of transportation to another, using the best characteristics of each."[2]

The DOT is comprised of nine federal sub-agencies (and the Office of the Secretary) that implement various spending programs for infrastructure projects, exercise safety oversight, and perform other transportation-related functions such as Air Traffic Control. Agencies within the Department of Transportation include:

- Federal Highway Administration (FHWA)
- Federal Motor Carrier Safety Administration (FMCSA)
- National Highway and Traffic Safety Administration (NHTSA)
- Federal Transit Administration (FTA)
- Federal Railway Administration (FRA)
- Pipeline and Hazardous Materials Safety Administration (PHMSA)
- Federal Aviation Administration (FAA)
- Maritime Administration (MARAD)
- St. Lawrence Seaway Development Corporation (SLSDC)

The DOT's budget totaled $76 billion in 2016.[3] These expenditures typically account for about one-quarter of public investment in transportation infrastructure; states and local governments account for the remainder.[4]

Because DOT spending primarily consists of budget authority (a type of appropriation)[5] expended from various trust funds, the bulk of its spending authority is classified as mandatory, while outlays are classified as discretionary. This hybrid status allows much of DOT's spending to bypass usual spending enforcement measures, such as limits on discretionary budget authority and pay-as-you-go (PAYGO) procedures that apply to mandatory outlays.[6]

The DOT's primary financing mechanism is the Highway Trust Fund, which receives revenues from taxes on gasoline and other transportation activities and spends them on highway and transit projects.[7] In 2016, the Highway Trust Fund received $42 billion in revenues and spent $52 billion in outlays, continuing deficit spending that has been directed by Congress since 2008.[8]

As Congress spends more from the Highway Trust Fund than it receives in revenues, the Trust Fund has required multiple transfers from the Treasury's general fund to avoid reaching a balance shortfall. Since 2008, these transfers have totaled $140 billion, including $70 billion from the most recent surface transportation authorization (Fixing America's Surface Transportation [FAST] Act), which is intended to keep the fund solvent through 2021.[9] Moreover, these deficits are expected to continue: The Congressional Budget Office (CBO) projects that the Highway Trust fund will spend $188 billion more than it receives in revenues through 2025.[10]

Funding for other programs is derived from related revenues deposited into trust funds—such as the Airport and Airways Trust Fund for the Federal Aviation Administration—and general appropriations.

WHAT THE DOT SHOULD LOOK LIKE

The Department of Transportation (DOT) should improve commerce and mobility by limiting its focus to the interstate aspects of the nation's transportation network. The Department should foster responsible funding choices and encourage accountability by centering transportation decisions at the state or local level.

SUMMARY OF REFORMS

Since its inception, the Department of Transportation has far exceeded its proper boundary as an arm of the federal government, interfering in state, local, and private sector affairs.

The following reforms aim to refocus the DOT on its core responsibility of overseeing the interstate aspects of the transportation network. Limiting the federal government's role in transportation will enable states and localities to oversee their own transportation needs, while at the same time reducing the budgetary, regulatory, and tax burden of federal transportation activities.

Eliminate Unnecessary Federal Transportation Programs and Agencies. Many DOT programs are wasteful, counterproductive, or outside the proper purview of the federal government. Federally directed spending has led to a misallocation of infrastructure resources and a lack of accountability for spending projects. This proposal eliminates or privatizes these spending programs and transportation agencies, including funding for surface transportation outside the National Highway System, the FTA and all transit funding, FAA grants for airports, the FRA and rail subsidies (including those for Amtrak), MARAD, and the St. Lawrence Seaway Development Corporation.

Empower States, Localities, and the Private Sector. Removing the above programs and their corresponding taxes does away with the one-size-fits all model of federalized transportation funding and allows states, localities, and the private sector to structure non-interstate transportation systems. These reforms will bring greater efficiency, affordability, and accountability to transportation programs at every level.

Refocus the DOT's Mission. The proposal refocuses the DOT on its core mission of overseeing the interstate aspects of the transportation network. Gasoline taxes and Highway Trust Fund spending will be reduced to solely cover the National Highway System while diversions to all local projects will cease. Moreover, the proposal recommends comprehensive reviews of DOT transportation safety programs for effectiveness, redundancy, and the suitability of federal control. Following review, the federal government should coordinate any necessary transfers of programs to states. Remaining safety programs will be housed under a proposed new authority, the Interstate Transportation Safety Administration, eliminating overhead and reducing bureaucracy.

Turn Back Surface Transportation Funding. Federal involvement in highway spending since the completion of the Interstate Highway System in the early 1990s has been marked by irresponsible fiscal management, misallocation of resources, and continuous overreach into projects beyond its proper scope. Congress has overspent from the Highway Trust Fund, requiring more than $140 billion in general fund transfers since 2008. The FAST Act (P.L. 114–94) diverts nearly 30 percent of authorized spending allocations to programs unrelated to highway construction or rehabilitation. In FY 2013, less than 50 percent of spending went toward road construction and 6 percent funded major construction, reconstruction, or rehabilitation projects of $500 million or more.[11] Funding derived from federal taxes on motorists is likewise diverted to activities that are strictly local in nature, such as bike paths, sidewalks, and historical restoration projects. The following reforms would bring much-needed efficiency, affordability, and accountability to surface transportation spending.

The proposal would transfer the bulk of transportation funding responsibility to states and localities while focusing the federal government on the National Highway System (NHS), with an emphasis on the Interstate System. This rebalancing would be achieved by phasing down the federal gas tax from its current 18.4 cents per gallon to five cents per gallon or less over a period of five years. Other taxes would be reduced correspondingly or eliminated. The limited revenue is reserved exclusively for the National Highway System, thus eliminating all other programs funded by the Highway Trust Fund.

The reformed federal funding system focuses on maintaining and rebuilding the Interstate Highway System, while allowing states to apply a portion of funding to other NHS projects that are integral for interstate commerce. Importantly, the total mileage of roads eligible for NHS funding would remain capped, and stricter criteria for NHS eligibility would be established to ensure only systemically significant roadways are eligible for federal funding. Regulations that impede states' abilities to raise transportation revenues—namely the prohibition on tolling on interstate highways—would also be lifted, giving states greater autonomy in raising and allocating revenues. Finally, the proposal eliminates discretionary grant programs, like the Transportation Investment Generating Economic Recovery (TIGER), which are not part of the Highway Trust Fund.

The proposal reforms the unusual budgetary treatment of highway spending by classifying both contract authority and outlays as discretionary, placing the proper fiscal checks on highway spending by making it subject to the annual appropriations process.

Eliminate Mass Transit Funding and the Federal Transit Administration. The FTA improperly funds local projects that fall outside the appropriate role of the federal government. The agency's spending has also proven ineffective: despite billions of dollars in federal subsidies, mass transit's share of commuter trips is lower than it was in 1980.[12] Worse still, federal grants for mass transit introduce perverse incentives that encourage localities to build new, expensive transit systems that rarely meet ridership projections and leave localities on the hook for exorbitant future operating and maintenance costs.[13] These federally induced projects end up crowding out maintenance on more useful existing infrastructure.

The proposal eliminates the FTA, including its formula grant programs as well as discretionary grants such as Capital Investment Grants (also known as New Starts) and grants to the Washington Metropolitan Area Transit Authority (WMATA). States and localities would then be responsible for crafting and funding their own local mass transit agendas, bringing greater accountability to both riders who use the systems and taxpayers who fund them.

End Rail Grants and the Federal Railroad Administration. The proposal eliminates the Federal Railroad Administration and the various grant programs it administers. Most federal rail funding is directed to subsidize the National Railroad Passenger Corporation (Amtrak) which receives over a billion dollars in federal subsidies each year. Almost all of Amtrak's lines provide poor service and lose money, largely due to its monopoly status and government mismanagement. The proposal ends federal subsidies for Amtrak, privatizes any profitable lines (chiefly the Northeast Corridor), and opens up intercity passenger rail to competition. Other grants and subsidized loans, such as safety grants, subsidies for Class II and III Railroads, and the Railroad Rehabilitation and Improvement Financing Program, would also be eliminated.

Finally, the FRA's research and development facilities should be sold to the private sector, while its safety functions should be evaluated as recommended in the safety reforms below. Following the transfer or elimination of any safety duties, the FRA could be dissolved.

Privatize Air Traffic Control. The federal government is still heavily involved in the aviation industry even after air carrier deregulation was undertaken in the late 1970s. The FAA's financial vehicle, the Airport and Airway Trust Fund, collects roughly $14 billion in aviation taxes annually, primarily from taxes on commercial passengers.[14] Federal taxes and fees comprise 13.7 percent of the cost of a domestic ticket (excluding federal fuel taxes).[15]

The FAA expends these taxes primarily on operations and capital costs of Air Traffic Control, which is operated by the FAA's Air Traffic Organization (ATO). The U.S.'s experience with government-run Air Traffic Control has proven to be problematic. Government bureaucracy has led to an ATO that is slow to react, mired in red tape, and managed by Congress when it should be run like an advanced business. Billions of dollars have been spent on technology modernization efforts (known as the Next Generation Air Transportation system, or NextGen) to no avail, and the ATO struggles with basic business functions such as hiring employees, investing in capital improvements, and improving efficiency in its current structure.[16]

Instead of maintaining Air Traffic Control as a government entity, the proposal fully privatizes air traffic control to bring private sector flexibility and efficiency to the essential service. This new private entity would be wholly separated from the federal government and subject to competitors, with an explicit specification that it would not receive taxpayer assistance under any circumstance. Free from bureaucratic shackles, the private air traffic control provider would then be able to issue bonds, pursue management reforms, and collect its own revenues, allowing it to modernize effectively and benefit the whole aviation industry.

Eliminate Federal Airport Funding. In addition to privatizing Air Traffic Control, the proposal eliminates all federal grants to airports. This primarily includes the $3.35 billion Airport Improvement Program, which diverts passenger taxes away from the most-traveled airports used by the vast majority of fliers to airports of less economic significance.[17] The "Blueprint" would also end the wasteful subsidies provided by the Essential Air Service program and the Rural Airport Improvement fund.

Following the elimination of federal funding, the proposal eliminates all federal aviation taxes.

Correspondingly, it aims to localize airport funding by reducing or removing restrictions on allowing airports to collect revenue (i.e., the Anti-Head Tax Act of 1973[18]), thus giving states, localities and the airports themselves greater ability to provide funding for airport improvements.[19]

The remaining regulatory, safety, and certification components of the FAA would be evaluated in conjunction with the safety reforms detailed below. Following the privatization of the ATO, the elimination of FAA grant programs, and the relocation of safety programs, the FAA could be disbanded.

Shutter the Maritime Administration and Repeal the Jones Act. The proposal closes down the Maritime Administration (MARAD) and recommends transferring any programs that have a vital security component to the Department of Defense, the Coast Guard, or another security agency. Moreover, the proposal eliminates the preferential Maritime Guaranteed Loan Program (Title XI) as well as improper activities including the Maritime Heritage Education and Preservation Projects. A comprehensive review of the administration's safety and security program should be conducted in accordance with safety reforms below, transferring any necessary security applications to an appropriate agency. Furthermore, the costly and protectionist Jones Act would be repealed.[20]

Privatize St. Lawrence Seaway Development Corporation. The proposal privatizes the St. Lawrence Seaway Development Corporation (SLSDC), which maintains and operates the U.S. portion of the Saint Lawrence Seaway. The privatization would end ending taxpayer contributions to maintenance and operating activities, mirroring SLSDC's Canadian counterpart, which was privatized in 1998.[21]

Review Safety Functions and Consolidate Them into an Interstate Transportation Safety Administration. In conjunction with the elimination of wasteful grant-making and other non-safety programs, Congress should undergo a comprehensive evaluation of all safety programs for effectiveness, redundancy, and suitability in regards to a limited federal role. This would primarily include the safety agencies National Highway and Traffic Safety Administration, the Federal Motor Carrier Safety Administration, the Pipeline and Hazardous Materials Safety Administration, the FRA, and the FAA, as well as any safety components administered by the FTA, FHWA, and MARAD. Following review, Congress should eliminate any ineffective or harmful safety activities and relinquish those more appropriately handled by the states.

The safety responsibilities appropriately handled at the federal level would be compiled under a new agency, the Interstate Transportation Safety Administration, which would encompass all federal safety programs.[22] Combining these safety programs under one department will reduce overhead, economize with synergies across various issue areas, and reduce the vast government bureaucracy.

Reform the DOT Office of the Secretary. The proposal focuses the Office of the Secretary on management and oversight of data and statistics collection. The proposal also eliminates the Office of the Secretary's role in funding Research and Development (work best left to the private sector), the highly-preferential Minority Business Research Center, and the DOT's role in the Office for Small and Disadvantaged Business Utilization.

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Department of the Treasury

MISSION SUMMARY

The Treasury Department should help maintain a strong economy and create economic and job opportunities by promoting conditions that enable economic growth and stability at home and abroad, and manage the U.S. government's finances and resources effectively in ways that do not confer favoritism on particular individuals, businesses, or industries.

AGENCY OVERVIEW

In fiscal year (FY) 2014, the Treasury Department had 100,612 full time positions and a budget of $14.5 billion.[1]

The Treasury Department consists of the following offices:[2]

- **The Treasurer of the United States** oversees the Bureau of Engraving and Printing and the United States Mint.
- **Domestic Finance** develops policies and guidance for Treasury Department activities in the areas of financial institutions, federal debt finance, financial regulation, and capital markets.
- **International Affairs** strengthens the international environment for U.S. growth, preventing and mitigating global financial instability.
- **Terrorism and Financial Intelligence** develops and implements strategies to combat terrorist financing domestically and internationally.
- **Economic Policy** reports on current and prospective economic developments and assists in the determination of appropriate economic policies and developments in the financial markets.
- **General Counsel** provides legal and policy advice to the Treasury Secretary and other senior departmental officials.
- **Legislative Affairs** advises the Secretary on congressional matters relating to the department.
- **Management** directs the internal management and the policy of the department in the areas of budget, planning, human resources, information and technology management, financial management and accounting, procurement, privacy, records, and administrative services to Departmental (Headquarters) Offices.
- **Public Affairs** develops and implements communications strategy for the department and its bureaus, deciding how best to communicate issues and priorities of public interest.
- **Tax Policy** develops and implements tax policies and programs, reviews regulations and rulings to administer the Internal Revenue Code, negotiates tax treaties, and provides economic and legal policy analysis for domestic and international tax policy decisions. It also provides estimates for the President's budget, fiscal policy decisions, and cash management decisions.
- **Office of Financial Stability** implements the Troubled Asset Relief Program (TARP) to help stabilize the U.S. financial system and promote economic recovery, following the 2008 financial crisis.
- **Office of Financial Research** serves the Financial Stability Oversight Council, its member agencies, and the public by improving the accessibility of financial data and information, conducting and sponsoring research related to financial stability, and promoting best practices in risk management.

SUMMARY OF REFORMS

The Treasury Department's primary role in the next Administration should be aiding the Congress and the President with fundamental tax reform. To that end, the Secretary of the Treasury should issue a directive requiring the Office of Tax Policy to change the way it analyzes tax reform proposals. Specifically, the Office of Tax Analysis (OTA) should follow the lead of the House of Representatives and model the macroeconomic effects of tax policy changes when conducting revenue estimates, which is known as dynamic scoring. In addition, the OTA should take these macroeconomic effects into account when conducting distributional analysis so that more complete economic effects of pro-growth tax policies are considered. Unlike the methodology, which assumes away the deadweight loss associated with taxation, a dynamic approach would take into account the distortions due to different taxes, and thus would show that less distortionary taxation can raise incomes relative to highly distortionary tax policy. The OTA should also change its tax expenditure analysis so that it is consistent with the two leading economic definitions of income accepted by economists (Haig-Simons or Ture-Fisher) rather than the current highly idiosyncratic definition of a "normal" tax system.

The individual income tax system should be reformed to include one low, flat tax rate applied on a base that includes all wages and salaries, and some other forms of income. The rate would be set based on collecting just enough revenue for constitutionally appropriate activities. Under the updated tax system there would be no capital gains or dividends taxes, nor an estate tax.

All businesses should be subject to the same tax system. The updated business tax system would replace the current system with a flat, low tax rate on gross receipts minus all business expenses. Business expenses should include wages, salaries, and other forms of compensation, changes in inventory, and capital investment.

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Department of Veterans Affairs

MISSION SUMMARY

The Department of Veterans Affairs should administer its health and benefits programs by concentrating on providing high quality, specialized care and operating national cemeteries for the veterans who served in the nation's armed forces.

AGENCY OVERVIEW

The Department of Veterans Affairs (VA) is responsible for administering medical care and compensation benefits provided to veterans, their families, and survivors. The department offers a broad set of benefits including medical care to over 9.4 million people administered through the Veterans Health Administration (VHA), disability compensation and pensions for veterans and survivors, educational assistance, vocational rehabilitation, and housing benefits administered through the Veterans Benefit Administration (VBA). The VA also oversees the national cemetery system through the National Cemetery Administration (NCE).

The department was provided nearly $164 million in budgetary resources in fiscal year (FY) 2015. The department's total budgetary resources for FY 2000 were $45.4 million. The number of department employees has grown by 65 percent from 202,621 employees in 2000 to 335,280 in 2015, with the largest portion employed in the VHA. As a result of passage of the Veterans Access, Choice, and Accountability Act (VACAA) of 2014, the number of VHA employees will increase from 298,546 in 2015 to an estimated 326,415 in 2017.

In FY 2015, mandatory spending accounted for 58 percent ($95.4 million) of the department's budget, and discretionary spending accounted for 42 percent ($68.5 million). Medical programs accounted for 87 percent of discretionary spending.

The proposed budget is intended to meet the current health care obligations to our country's veterans by providing better access to high-quality health care and to encourage aggressive oversight of much-needed managerial and administrative reforms and restructuring of the VHA to meet the needs of veterans.

POLICY DETAILS

- **Ensure that current managerial and administrative reforms are fulfilled.** The scandalous reports uncovering the long wait times, secret waiting list, and deaths associated with the VHA have exposed the department's lack of transparency and accountability, as well as a pattern of gross mismanagement and negligence. Legislative efforts to reform management of the VHA have been enacted, but diligent oversight and supervision must follow to ensure that these changes lead to results in the short term and that additional personnel reforms are considered if needed.

- **Monitor, evaluate, and make adjustments in existing reforms.** Recent legislative action, including passage of the VACAA, has put in place several key reforms to address the challenges faced by veterans in the VHA system. These reforms, including the newly expanded Veterans Choice program and other delivery reform models, are intended to improve access and care. Yet, some of these efforts have failed to resolve the access issues and have, in some cases, created new problems for veterans. Decisions about care should be driven by the veteran-specific health care circumstances and not by arbitrary restrictions.

- **Prepare the way for longer-term structural changes in the VHA.** The recently enacted reforms should be seen as provisional measures. VHA should be realigned and structurally reformed to better serve the needs of veterans. The VHA's core focus should be to provide the services for which it has particular experience and expertise, including treatment of traumatic brain injuries, spinal cord injuries, and post-traumatic stress disorders, while developing more specialized care and treatments to adapt to the complex and changing needs of veterans with these and other service-related injuries and illnesses. The VHA should also assess non–service related conditions that could be outsourced from the VHA and better integrate with the private sector to deliver those services in a way that improves access to high-quality health care for those who have earned it by their service to America.

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Environmental Protection Agency

MISSION SUMMARY

The Environmental Protection Agency (EPA) administers the Clean Air Act, Clean Water Act, and other federal statues intended to protect human health and the environment.

AGENCY OVERVIEW

The agency develops and enforces regulatory standards for virtually all stationary, mobile, and non-point sources of emissions and discharges; evaluates the toxicity of chemicals and pesticides and tracks their use; oversees land use; monitors environmental conditions; and conducts a variety of research. In more recent years, the agency has extended its activities to lifestyle choices ("greener living"), including "smart" growth, "environmentally preferable purchasing," and "food recovery."

The EPA was established on December 2, 1970, under President Richard Nixon's Reorganization Plan No. 3. With the approval of Congress, authority for the pollution control statutes that had been administered by various agencies was consolidated within the new agency.

The EPA's fiscal year (FY) 2017 budget request totals $8.3 billion in discretionary funding, $127 million above the FY 2016 enacted budget. The agency seeks to increase its workforce to 15,078 appropriated full-time equivalent (FTE) employees, an increase of 39.9 percent FTE above FY 2016.

The EPA's budget is small relative to total federal spending, but its broad authority gives it enormous influence on the economy, society, and government. Between January 2009 and December 2015, for example, the agency issued 35 major regulations that the government estimates will increase private-sector regulatory costs by more than $54 billion annually. This is in addition to the trillions of dollars of existing regulatory costs, and numerous other rules are in the pipeline.

The agency is organized into 13 offices, of which some perform administrative functions and others focus on specific natural resources (e.g., air, water, land). The EPA also operates 10 regional offices that oversee regulatory activity in the states and U.S. territories. Three offices administer geographic programs (Chesapeake Bay Program Office, Great Lakes National Program Office, and Gulf of Mexico Program Office). The EPA also has responsibility for protecting human health and the environment in Indian country.

The EPA operates some 40 laboratories with facilities in 170 buildings and 30 cities. Its research activities are managed by six program offices: Air, Climate, and Energy; Chemical Safety; Human Health; Homeland Security; Water Resources; and Sustainable and Healthy Communities. Several advisory groups review EPA policies, including the Advisory Council on Clean Air Compliance, Board of Scientific Counselors, Clean Air Scientific Advisory Committee, National Advisory Council for Environmental Policy, and Technology Science Advisory Board.

The agency under the Obama Administration has identified five priority goals for FY 2017:

- **Addressing climate change and improving air quality.** The EPA seeks to reduce greenhouse gas emissions and develop "adaptation strategies" to address climate change. On August 3, 2015, the EPA issued its "Clean Power Plan" at a cost of more than $7 billion annually. The agency is also preparing stricter emissions standards for light-duty and heavy-duty vehicles.

- **Protecting America's waters.** The EPA plans to assist urban communities with "green infrastructure" to increase "local climate resilience" and enhance storm water infrastructure. The agency also will assist small water utilities to "improve resilience" in drinking water, wastewater, and storm water systems.

- **Cleaning up communities and advancing sustainability.** The EPA will seek to clean up communities, advance "sustainable development," protect "disproportionately impacted" low-income and minority communities, prevent releases of harmful substances, and clean up and restore contaminated areas.

- **Ensuring the safety of chemicals and preventing pollution.** The EPA plans to conduct 3,400 assessments of pesticides and other commercial chemicals to evaluate risks they may pose to human health and the environment.

- **Protecting human health and the environment by enforcing laws and assuring compliance.** The EPA says it will "transform the way business is conducted" through the "E-Enterprise" strategy, a new model for state–federal governance that streamlines notification of new or updated regulations and reporting requirements.

THE EPA'S ROLE

America's environment is remarkably cleaner today than in the 1970s, when pollution abatement came to the forefront of public policy. Billions of dollars' worth of new technologies and resource innovations have dramatically reduced industrial emissions and discharges. Despite this significant improvement, both the number and cost of environmental regulations have continued to increase, especially under the Obama Administration. With air and water cleaner and clearer than in decades, further marginal improvements sometimes may conceal outsized cost. Also, with the traditional objectives of clean air and clean water substantially fulfilled, the agency has fixed its regulatory focus on global warming and the American lifestyle.

This shift from the traditional "clean it up" focus to a "change their ways" focus represents a radical departure from the EPA's original mission. The foundational environmental statutes targeted smokestacks and drain pipes and were designed to support collaboration between the EPA and states in a type of environmental federalism. Over time, however, an excess of judicial deference and congressional delegation of lawmaking powers has turned the agency from collaborator to dictator. For example, the U.S. Government Accountability Office (GAO) recently determined that the agency engaged in covert propaganda and violated federal anti-lobbying prohibitions with respect to its "Waters of the United States" rulemaking in FY 2014 and FY 2015.

The extent to which the EPA has abandoned any pretext of federalism is evident in its deep reach into local affairs, such as school curricula,[1] and programs to "enhance the livability and economic vitality of neighborhoods" and "promote more sustainable, healthier communities." With these ever-greater powers has grown a convoluted bureaucracy that lacks the flexibility necessary to adapt to variations in environmental, economic, and social conditions across the United States—a reality for which federalism was custom-made. The EPA instead operates in a highly centralized and rigid command-and-control mode that makes it largely incapable of adapting to the constant changes in circumstance that render its policies unworkable or obsolete.

The more powerful the EPA has grown, the more essential political influence has become, leading to corruption in the realm of both research and regulation. The agency has been thoroughly captured by environmental activists, politicians, and corporate interests. Green groups fabricate risks that expand the agency's authority. Lawmakers posture as environmental crusaders to curry constituents' favor. Industries conspire with regulators to maximize their competitive advantage.

All of this is distressingly evident in the EPA's current obsession with global warming, which it ranks as "the issue of highest importance facing the agency."[2] The absence of actual evidence that global warming is the planet's greatest risk—to say nothing of the existence of evidence to the contrary—reflects the corruption of science and principle within the EPA.[3] The basis of many agency regulations today is more fantasy than empiricism. This is not to say that real environmental problems do not demand attention, but rarely, if ever, is the EPA held accountable for misplaced priorities, bureaucratic incompetence, or the outright deception of its research.

Decades of ever-expanding authority without sufficient oversight have also rendered the agency administratively dysfunctional. For example, when President Obama directed regulatory agencies to eliminate excess properties, the EPA could not respond for lack of accurate and reliable information on its web of laboratories and research offices. In 2010, the GAO reported that the EPA had not analyzed its workload and workforce since the late 1980s to determine the optimal numbers and distribution of staff. Moreover, the agency had not performed a rigorous analysis of hazardous waste sites to help inform budget estimates in line with program needs. It also has failed to develop sufficient assessments of chemicals that may pose health risks. In addition, it has not provided clear justifications for its funding requests, and its budget documents do not properly account for funds from prior-year appropriations that were not expended.

In many respects, the need for reform of environmental regulation has never been greater. The nation's primary environmental statutes are woefully outdated and do not reflect current conditions. The White House, Congress, and the EPA ignore regulatory costs, exaggerate benefits, and breach legislative and constitutional boundaries. They also increasingly dictate lifestyle choices instead of focusing on public health and safety.

Americans want a clean, healthy, and safe environment. Reforms are needed that reflect today's cleaner conditions and technologies and that account for the regulatory experience of the past four decades. It is now abundantly clear that big government does not maximize environmental quality.

The question is which policies will realize these goals most effectively. It is not enough only to consider how to reform federal regulation. A more substantive debate must address the extent to which it is even appropriate for the federal government to intervene in policy matters that can be managed more effectively by states and private stewardship. The well-being of societies and individuals has long been enhanced by individual freedom, free markets, property rights, and limited government. A regulatory paradigm of environmental federalism is needed to unleash innovation and reward creativity in the environmental realm.

BUDGET STRUCTURE

In the past decade, the EPA budget has ranged from a low of $7.5 billion in 2008 to a high of $10.3 billion in 2010. There has also been a dramatic drop in FTEs in the same period, from a high of 17,759 in 2005 to a low of 15,335 in 2015. However, the number and cost of regulations have skyrocketed despite the loss of agency manpower. EPA appropriations are divided into nine accounts:

State and Tribal Assistance Grants. Seventeen "categorical" grants assist states and tribes with implementing regulations and supporting advocacy group activities. This account also includes funds for infrastructure under the Clean Water State Revolving Fund, the Drinking Water State Revolving Fund, and new lending authority under the Water Infrastructure Finance and Innovation Act (WIFIA).

Environmental Programs and Management. This account funds salaries, travel, contracts, grants, and cooperative agreements for pollution abatement, control, and compliance activities. It also supports geographic-specific restoration programs.

Hazardous Substance Superfund. These funds cover the cleanup of uncontrolled or abandoned hazardous waste sites, management of the backlog of projects, and the pursuit of potentially responsible parties.

Science and Technology. This account supports salaries and travel, science, technology, monitoring, research, contracts and grants, intergovernmental agreements, and purchases of scientific equipment. It also funds the Office of Research and Development to provide the scientific and technology bases for EPA policy and regulatory development.

Leaking Underground Storage Tank (LUST) Trust Fund. This fund covers prevention and response to releases from underground storage tanks. It is financed by a 0.1 cent per gallon tax on motor fuels through September 30, 2016. Funds are allocated to states through cooperative agreements to clean up sites.

Buildings and Facilities. This appropriation provides for the construction, repair, improvement, extension, alteration, and purchase of fixed equipment, land, or facilities that are owned or used by EPA.

Office of Inspector General. Funds support the independent Office of Inspector General, which conducts audits, evaluations, and investigative activities and advisory services. Additional funds for audit, evaluation, and investigative activities associated with the Superfund Trust Fund are appropriated under that account and transferred to the Inspector General account.

Inland Oil Spill Program. This appropriation provides for the EPA's responsibilities for prevention, preparedness, response, and enforcement activities.

Hazardous Waste Electronic Manifest System Fund. This fund supports the development and maintenance of a system that will be designed to (among other functions) assemble and maintain the information contained in the estimated 5 million manifest forms accompanying hazardous waste shipments across the nation.

SUMMARY OF REFORMS

Decades of experience with the EPA's centralized regime has demonstrated that states and private property owners, harnessing the power of markets, would be far better stewards of the environment. At the very least, the agency lacks accountability and does not possess sufficient information and expertise to manage hundreds, if not thousands, of dissimilar conditions from coast-to-coast in an effective manner.

Environmental agencies already exist in every state. Reform efforts should focus on eliminating obsolete and unwarranted regulatory programs, devolving the EPA's regulatory and enforcement powers to states, and granting industries and property owners the maximum flexibility to comply with rational environmental standards. For example, states could certify private firms to verify compliance, as is done in finance with certified public accountants. The freedom to innovate, coupled with competition among states, could revolutionize the regulatory landscape.

Funding to Address Climate Change. These funds are distributed across numerous EPA programs under multiple appropriations accounts. The EPA lacks the rational basis to treat climate change as either a priority or a credible risk—especially compared to other more plausible environmental problems. Congress should zero-out all such appropriations, including funds for defending the Clean Power Plan against pending legal challenges.

Categorical Grants. These grants are necessary only because the EPA imposes an unsustainable level of regulation and states fail to constrain spending to priority actions. These grants should be eliminated pending the devolution of authority for most environmental stewardship to states and private property owners.

Superfund. The Superfund, LUST, and Brownfields programs for cleaning and redeveloping contaminated and hazardous waste sites are inefficient and ineffective. Funds are consumed by environmental studies, compliance with handbooks, regulations and guidance, and lawsuits. From FY 1999 through FY 2013, the total number of nonfederal sites on the National Priorities List annually remained relatively constant, while the number of completions declined. Funding for the programs should be eliminated, and responsibility for program functions should be shifted to the states.

Drinking Water State Revolving Fund, Clean Water State Revolving Fund, and Water Infrastructure Finance and Innovation Act. The State Revolving Funds (SRFs) and WIFIA provide communities with low-cost financing for a range of water quality infrastructure projects. (States match 20 percent of federal contributions under the SRFs.) Maintaining publicly owned infrastructure is a basic responsibility of state and local governments, but the discounted federal financing allows states and municipalities to shift the cost of these responsibilities to taxpayers nationwide. Funding these accounts with regular appropriations is unsustainable. Private-sector firms can provide financing.

Compliance Monitoring. This funding should be eliminated because it is inefficient for both the federal government and states to conduct compliance monitoring. States are better positioned to detect local violations and determine the infrastructure necessary for monitoring.

Promote Sustainable and Livable Communities. The EPA should be barred from interfering in local zoning matters, as well as taking actions based on demographic factors instead of environmental risk factors.

Indoor Air. The most pressing indoor air issues relate to asthma, which should be addressed by state public health departments and not the EPA.

Wetlands. EPA wetlands programs have repeatedly violated private property rights and exceeded the agency's statutory authority. A number of states also regulate wetlands, and all states, in cooperation with private property owners, should assume that authority from the EPA.

Environmental Education. Curriculum content should be set by parents and local school districts. A number of research studies have found that educational products produced by the agency are politicized and fail to emphasize scientific principles.

Environmental Justice. Regulatory priorities should be set by states on the basis of risks to human health and the environment, not social factors.

Montreal Protocol Multilateral Fund. The U.S. has long paid a disproportionate share of funding to enable developing countries to comply with their obligations under the Montreal Protocol to phase out the use of Ozone Depleting Substances.

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Office of Personnel Management

MISSION SUMMARY

Office of Personnel Management provides compensation and work-related standards that govern much of the federal workforce and federal retirees.

AGENCY OVERVIEW

The Office of Personnel Management (OPM) is responsible for personnel management issues in the federal civil service. This includes formulating policies on recruiting, retaining, training, and motivating a qualified, effective, and inclusive federal workforce.[1] OPM's stated objectives include providing easy avenues to search and apply for federal jobs; providing benefits that are "relevant, flexible, fair and rewarding"; making federal employment accessible and possible for those who seek it; and retaining a "diverse and versatile" workforce.[2]

Although OPM was first established as a separate organization under the Civil Service Reform Act of 1978, its function began nearly a century earlier under the Civil Service Act of 1883.

The federal government pays compensation to nearly 4.1 million federal employees (based on 2015 data), including 2.04 million executive branch civilian employees; 1.40 million members of the armed forces; 576,000 United States Postal Service (USPS) employees; and 62,000 legislative and judicial branch employees.[3] Total compensation for these federal employees was estimated at $462 billion for 2015, along with another $162 billion in pay and benefits for retired employees.[4]

Studies that compare federal employee compensation to private-sector compensation consistently conclude that federal employees receive significantly higher compensation, on average, than private-sector employees receive. A Heritage Foundation study[5] estimated that federal employee compensation is 30 percent to 40 percent higher than private-sector compensation; a Congressional Budget Office (CBO) study[6] estimated that the advantage is 16 percent; and an American Enterprise Institute study[7] estimated that the gap is 61 percent.

PROPOSED REFORMS

The proposals presented here would help to bring federal compensation in line with private-sector compensation. The federal government should have the tools to compete with private-sector employers to recruit and retain valuable employees, but it must also minimize taxpayer costs by not providing excess pay and compensation to federal employees. These proposals seek to do just that: maximize federal employee quality and minimize taxpayer costs. In addition, these proposals would provide portability and autonomy for federal employees by not discouraging them from moving into and out of federal employment and by providing them greater ownership and control of their retirement benefits.

These reforms would reduce accrued federal employee compensation costs by an estimated 10 percent over the 2017–2026 period.[8] In isolation from reforms proposed for other agencies (which might reduce federal employment), this would translate into $332 billion in accrued savings over the same period.

SUMMARY OF WAGE CHANGES

A Heritage Foundation study found that federal employees receive 22 percent higher wages, on average, than similar private-sector employees receive. This wage premium is possible because the federal government operates outside of market forces that keep wages in line with productivity; it does not have to compete for taxpayer dollars and has significant advantages in its ability to finance deficits.

Although OPM is supposed to structure pay scales that align with private-sector pay, government wages are often significantly out of line with private pay. Moreover, whereas private pay increases are generally based on performance, federal pay increases are primarily automatic.

Congress should require that OPM better align the federal General Schedule (GS) pay scale, which covers roughly 70 percent of federal civilian employees, with private-sector pay and emphasize performance-based pay increases over automatic increases. In some instances—primarily lower-skilled positions—this would result in lower pay; in others—some very high-skilled positions—it would result in higher pay.

- First, Congress should reduce what amount to automatic Within Grade Increases (WIGIs) of about 3 percent to about 2 percent so that there is a 20 percent (as opposed to the roughly 30 percent) difference between steps one and 10 of each GS grade.

- Second, and relatedly, Congress should take away the automatic nature of WIGIs by making it easier for federal managers not to give all employees WIGIs. The GS pay scale already includes annual increases to account for changes in the cost of living. WIGIs are supposed to represent performance-based increases, but with more than 99.9 percent of all federal employees receiving WIGIs each year, it is hard to argue that they are anything but simply automatic increases. Congress should limit the requirement that managers develop a time-consuming Performance Improvement Plan (PIP) for all employees that do not receive step increases and should limit the scope of appeals for employees who do not receive step increases to within the agency as opposed to an outside forum.

- Finally, federal managers should have larger performance bonus budgets so that they can reward and retain their highest-performing employees.[9]

SUMMARY OF PAID LEAVE CHANGES

Federal employees receive significantly more paid leave than private-sector employees receive. A federal employee with five years of service receives up to 33 days of paid leave, including 20 vacation days and 13 sick days, and 10 paid holidays.[10] The typical private-sector employer provides between 19 and 23 days of paid leave and fewer paid holidays for employees with that length of service. Additionally, many private-sector employers have transitioned to providing employees a single Paid Time Off (PTO) allotment instead of separate vacation and sick leave. PTO eliminates the incentive for employees to claim sick leave when they are not actually sick.

Congress should bring federal paid time off in line with that of private-sector pay through one of the following options:

- Combine federal vacation and sick leave into a PTO plan similar to that offered by large, private sector employees. This would amount to 16 days for workers with fewer than three years of service and up to 27 days for the longest-serving workers.

- Maintain separate vacation and sick leave provisions but bring the total amount of leave provided in line with the upper tier of private-sector employers.[11] This would include reducing the current vacation allowance from 13 days, 20 days, and 26 days (for employees with fewer than three years of service, between three and 14 years, and 15 or more, respectively) to 10 days, 15 days, and 20 days. Additionally, annual sick leave would be reduced from 13 days to 10 days with the continued ability to roll sick leave over from year to year.

SUMMARY OF HIRING AND FIRING PROCEDURES

Federal law makes it very difficult to separate poorly performing federal employees from their jobs. Managers who wish to discharge problematic employees, whether because of misconduct or because of poor performance, must go through draining and time-consuming procedures that take about a year and a half.[12] Consequently, the federal government rarely fires employees, even when their performance or conduct justifies it. In 2013, the federal government terminated just 0.3 percent of its tenured workforce for performance or misconduct.[13] This system shelters bad employees and raises costs for taxpayers by requiring more employees than necessary to get the job done.

Congress should make dismissing federal employees less difficult by:

- Extending the probationary period from one to three years so that agencies have more time to evaluate employees' performance before making a more permanent commitment to hiring them. (Beyond the probationary period, federal employees receive civil service protections that make firing federal employees extremely difficult.)

- Requiring employees to appeal their dismissal through only one forum instead of up to three different forums, which currently provides employees multiple bites of the apple and drags out the firing process.[14]

- Lowering the burden of proof necessary to fire federal workers from "a preponderance of evidence" to "substantial evidence" and from the requirement of proving that dismissing the employee will improve the performance of the agency to showing that it is not unreasonable to assume that firing the employee will improve performance. These changes would reduce the current incentive to retain poor-performing employees.

- Expediting the dismissal process for employees who (1) hinder the efficiency of the service; (2) pose a threat to the safety or security of the workforce; (3) endanger national security; (4) abuse their positions for personal motives; or (5) are seriously negligent or derelict in their duty.[15]

SUMMARY OF PENSION CHANGES

On average, private-sector employers who offer retirement plans typically contribute a maximum of between 3 percent and 5 percent of employees' salaries to their retirement plan.[16] The federal government, on the other hand, contributes up to 18 percent of employees' pay toward both the government's defined benefit pension (the Federal Employees Retirement System, or FERS) and its defined contribution plan (the Thrift Savings Plan, or TSP).[17] The proposed reforms would reduce future federal contributions to 8 percent of pay—a level still above that of large private-sector firms—and phase out the government's defined benefit system. Defined benefit plans are becoming less common in the private sector as they can be overly burdensome and risky for employers, they fail to provide employees with control or ownership of their retirement funds, and growing pension plan failures and unfunded liabilities have left and will leave many employees with significantly lower benefits than they were promised.

Without reducing the value of any benefits federal employees have already earned toward their defined benefit pensions, federal retirement benefits should transition to a system that more closely resembles those provided by large private-sector employers. The transition would grandfather employees with 25 years or more of service, allow employees with between five and 24 years a choice of three options, and put new hires and employees with fewer than five years of service into a new system.

Grandfathered Employees. Pension benefits would not change for employees with 25 years or more of federal service. Additionally, any former employees who left federal service would continue to be eligible to receive the entirety of the benefits they earned during their service, and current workers would remain eligible for any benefits they have already accrued.

Vested Employees. Federal employees who have five or more years of service (and who are vested in the FERS pension system) but fewer than 25 years will have a choice of three options:

- **Option A:** Remain in the FERS system and continue to receive both FERS and TSP benefits but pay a higher share of FERS costs.

- **Option B:** Maintain a frozen FERS benefit with no further FERS contributions but receive an additional 3 percentage points of matching TSP contributions, for a total government-provided contribution of up to 8 percent (4 percent automatic plus up to 4 percent matching), compared to the current 5 percent max.

- **Option C:** Receive a lump-sum benefit payment equal to 75 percent of the present value of accrued FERS benefits, no future FERS benefit, and higher TSP contributions (an additional 3 percent matching, up to 8 percent total).

Non-Vested Employees: Federal employees with fewer than five years of service (who are not vested in the FERS system) would no longer receive FERS contributions. They would receive a lump-sum benefit equal to the contributions they have made to FERS and would receive an additional 3 percentage points in automatic TSP contributions, making them eligible to receive up to 8 percent in total government contributions.

SUMMARY OF HEALTH INSURANCE BENEFIT CHANGES

Eliminate the Requirement that Employees Pay a Minimum of 25 Percent of FEHBP Premiums. Federal employees can choose from a wide variety of health insurance plans offered through the Federal Employees Health Benefits Program (FEHBP) network. The government contributes an amount equal to 72 percent of the weighted average of FEHBP premiums but requires that employees pay at least 25 percent of the premium. This leaves little incentive for employees to choose lower-cost plans because the government, not the employee, reaps most of the savings.

Just as private-sector employers who offer multiple health plans tend to pass much of the savings from lower-cost plans on to employees, so too should the federal government. OPM should eliminate the requirement that federal employees pay a minimum of 25 percent of premiums and instead provide a flat contribution equal to 72 percent of the weighted average of FEHBP premiums. Although this initially could increase costs by a small amount through larger subsidies to employees who choose lower-cost plans, the potential savings for employees would both spur competition among plans and encourage employees to choose lower-cost plans. Over time, this would generate savings for federal taxpayers.

Eliminate the Federal Subsidy for Retiree Health Benefits for New Hires. Only about 15 percent of private-sector employers provide retiree health coverage, yet the federal government continues to provide FEHBP benefits to all retirees. With a minimum retirement age of only 57, employees can leave federal service and collect health and pension benefits while working for private employers.

Maintaining health benefits into retirement adds a significant cost to federal taxpayers and often results in windfall benefits to employers of retired federal employees who do not have to provide those employees with health insurance benefits. A 2001 study by the CBO estimated that the accrual cost of retiree health coverage equals 6 percent of pay.[18] The federal government should eliminate the employer-provided subsidy for retiree health benefits for new hires. The government could continue to provide access to FEHBP benefits in retirement but require employees to pay the full cost of those premiums.

Eliminate the federal subsidy for Congress and Congressional staff in the Obamacare exchange. With the enactment of the Affordable Care Act in 2010, Congress legislated itself out of the FEHBP, its employer-based coverage, and into the Obamacare exchange program. In 2013, the U.S. Office of Personnel Management (OPM) decided to provide the previous employment-based subsidies to Congress and staff to be enrolled in the exchange program in 2014. Congress, however, neither authorized nor appropriated such subsidies. Congress and staff are thus enrolled in Obamacare on terms and conditions that do not apply to other Americans, and are thus receiving $5,500 for single coverage or $12,700 for family coverage regardless of income.

SUMMARY OF SAVINGS

As noted, these reforms would reduce accrued federal employee compensation costs by an estimated 10 percent over the 2017–2026 period.[19] In isolation from reforms proposed for other agencies (which might reduce federal employment), this would translate into over $330 billion in accrued savings over the same period.

However, many of those savings would not be recorded as budgetary savings until much later, when current employees retire. Compared to more than $330 billion in accrued savings, the proposed reforms would produce only about $16 billion in net budgetary savings over the next decade. Agencies would save about $271 billion in total compensation costs, but because much of the savings would come from lower contributions to the federal retirement system—an account within OPM's budget—those savings would be fully offset in the budget as they would register as a decline in OPM's revenues. Additionally, the lump sum pension benefits that would be paid out in 2017 would register as a significant cost while all future savings would occur outside the 10-year window.

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6. Congressional Budget Office, *Comparing the Compensation of Federal and Private-Sector Employees*, January 2012, http://cbo.gov/doc.cfm?index=12696 (accessed June 17, 2016).
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8. Many of the reforms would reduce future benefits. Our savings estimates include the accrual value of those benefits: that is, what the government would have to pay today to provide promised benefits in the future.
9. Congress should increase agencies' performance bonus budgets by a fixed percentage of base pay. That percentage should be determined by OPM so that average federal pay falls 5 percentage points after accounting for smaller step increases and larger performance bonuses.
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11. This option maintains the existing, effective short-term disability insurance program but does not address the problematic use-it-or-lose-it policy for sick leave accruals past the 30-day level.
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13. Heritage Foundation calculations using data from U.S. Office of Personnel Management, "FedScope: Federal Human Resources Data," http://www.fedscope.opm.gov/ (accessed June 17, 2016). The rate divides FY 2015 terminations for discipline/performance for employees with three or more years of service by December 2015 total federal employment for that same group of employees.
14. Currently, employees who are dismissed can file charges with the Equal Employment Opportunity Commission alleging discrimination; with the Office of Special Counsel (OSC) alleging retaliation for whistleblowing; with the Merit Systems Protection Board (MSPB); or through their union grievance procedures.
15. Expedited procedures should include: reducing to 14 days the current mandatory 30-day waiting period before dismissing an employee; granting the authority to suspend pay during this waiting period, providing back pay only if the employee wins on appeal; and restricting employee appeals to the regional MSPB offices without allowing an appeal to MSPB headquarters.
16. Bureau of Labor Statistics data show an average 5 percent ceiling on employer matches. See U.S. Department of Labor, Bureau of Labor Statistics, "Automatic Enrollment, Employer Match Rates, and Employee Compensation in 401(k) Plans," *Monthly Labor Review*, May 2015, http://www.bls.gov/opub/mlr/2015/article/automatic-enrollment-employer-match-rates-and-employee-compensation-in-401k-plans.htm (accessed April 14, 2016). Data from the 401kHelpCenter.com show a 2.7 percent average employer contribution to employee retirement plans. See 401kHelpCenter.com, "Benchmark Your 401(k) Plan—2015," http://www.401khelpcenter.com/benchmarking.html#.V2Qa1E3wvL8 (accessed June 17, 2016).
17. OPM estimates that the total government contribution to the Federal Employees Retirement System (FERS) equals 13.2 percent (14.0 percent cost less 0.8 percent employee contribution) for employees hired before 2013 and 11.1 percent for employees hired in 2014 and later (14.2 percent less a 3.1 percent employee contribution. An additional 1.3 percent employee contribution goes toward paying off unfunded CSRS obligations. All employees receive an automatic 1 percent government contribution to their Thrift Savings Plan (TSP) and up to an additional 4 percent in matching contributions, bringing total government retirement contributions to between 15.1 percent and 18.2 percent.
18. See Congressional Budget Office, *The President's Proposal to Accrue Retirement Costs for Federal Employees*, June 2002, https://www.cbo.gov/sites/default/files/107th-congress-2001-2002/reports/accrual.pdf (accessed June 17, 2016).
19. Many of the reforms would reduce future benefits. Our savings estimates include the accrual value of those benefits: that is, what the government would have to pay today to provide promised benefits in the future.

United States Postal Service

MISSION SUMMARY

The United States Postal Service should provide delivery of letters, mail, and other communications to consumers on a sustainable basis without subsidy or regulatory advantage from the government.

AGENCY OVERVIEW

The Postal Service claims roots going back to Benjamin Franklin, who in 1775 became Postmaster General under the Continental Congress. The Postal Service that Americans know today, however, dates only to 1970, when the old Post Office Department was replaced by a newly created United States Postal Service (USPS), meant to be a self-supporting entity of the U.S. government.

Organizationally, USPS is an independent establishment within the executive branch of the U.S. government, with its own board of governors and budgeting authority. It receives relatively few taxpayer dollars, and its management and workforce are not part of the Civil Service System. Yet it is still a creature of the federal government. Functionally, it operates under terms and conditions set by Congress. It is required to provide mail services on a universal basis, regardless of cost. Strict standards of service are enforced, and closures of post offices and other facilities are limited by federal law.

For most of its existence, USPS was relatively stable financially. It has never received general-purpose operating support from the government, although it does receive a small appropriation—$55 million in fiscal year (FY) 2016—to cover mandated free services, such as delivering ballots from Americans overseas.

As recently as 2006, USPS turned a small profit, but in 2007, it suffered a $5 billion loss, and it has lost money every year since then, losing nearly $60 billion during that time. The majority of these losses were in the form of defaulted payments due to the U.S. Treasury to pre-fund the USPS health retirement benefit system's liabilities.

Even without this obligation, however, the Postal Service would be in financial crisis. The core problem facing USPS is a sustained, steep, and stark drop in demand for mail services. With the relentless rise of digital communications, Americans simply are not mailing things as often as they used to. The numbers tell the tale: Volume, which peaked in 2006 at 213 billion pieces of mail, totaled 154 billion in FY 2015, a 28 percent drop.[1] The reduction in the volume of first-class mail, USPS's biggest source of revenue, has been more dramatic: From a high of 103 billion pieces in 2001, first-class volume has dropped by 40 percent to fewer than 62 billion in 2015.[2]

Things will get worse before they get better. The U.S. Government Accountability Office (GAO) has estimated that total volume could fall to 127 billion pieces by 2020, a drop of 60 percent from 2006 and 20 percent less than current volume.[3] Even worse for the Postal Service, the largest portion of this decrease will come from first-class mail, its most profitable class of mail, which the GAO projects will drop to 39 million pieces by 2020, or 60 percent of today's level.

POLICY DETAILS

Congress needs to act quickly to clear the way for fundamental change at the Postal Service and to ensure that taxpayers will not be on the hook for a postal bailout. The ultimate goal should be to make the Postal Service a privately run organization, without access to taxpayer dollars or taxpayer bailouts, and enjoying no regulatory advantages. Conversely, it must be free of restrictions and mandates placed on it by Congress. The steps needed to accomplish this goal include:

- **Lifting congressionally imposed restrictions on the closure of USPS processing centers and post offices.** The Postal Service should be able to use its business judgment in deciding which and how many facilities are needed.

- **Lifting restrictions on delivery times and schedules,** permitting delivery on a five-day-per-week basis or even less if the shrinking market demands it.

- **Eliminating service-level mandates,** including that of door-to-door service.

- **Providing for the resumption of pre-funding payments for retiree health benefits.** Any such schedule should ensure 100 percent prepayment over a defined and limited period of time to protect the Treasury and taxpayers from having to bear the risk of default.

- **Eliminating restrictions on competition in the postal business,** including the prohibition on private delivery of letter mail. This would encourage development of new and innovative approaches to letter delivery.
- **Removing restrictions on USPS's offering of non-postal services and restrictions on rate changes** after—and only after—all special legal protections and advantages enjoyed by the Postal Service are eliminated, so that USPS is truly competing in the private market without government-imposed advantages.

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Social Security Administration

MISSION SUMMARY

The Social Security Administration (SSA) protects eligible individuals and their families from loss of income due to old age or disability and provides financial assistance to the elderly and individuals with disabilities who are unable to support themselves.

AGENCY OVERVIEW

The Social Security Administration is the agency responsible for administering Old-Age and Survivors Insurance (OASI), Disability Insurance (DI) and the Supplemental Security Income (SSI) programs.

The SSA is responsible for determining eligibility for OASI, DI, and SSI benefits and for distributing the benefits to eligible beneficiaries. As part of these duties, the SSA issues Social Security numbers to legal residents of the U.S.[1] The SSA further provides and verifies data for various purposes, including employment, voting, and eligibility for Federal and State programs, including the Affordable Care Act and the Department of Veterans Affairs. The SSA also processes application for enrollment in Medicare Parts A and B, and collects Medicare premiums, including prescription drug plan premiums upon election by beneficiaries.[2]

In fiscal year (FY) 2015, the SSA spent close to $1 trillion to administer programs and pay out benefits.[3] Of the SSA's total budget, just over 1 percent comes from congressional appropriations. The rest of the budget comes from program trust funds.[4] Benefits paid by SSA are considered "mandatory" spending that is not subject to change through the annual Congressional appropriations process.

The SSA will account for roughly 25 percent of all federal spending for FY 2016.[5] Since FY 2000, the SSA's budget has more than doubled, increasing by $500 billion in nominal terms.[6]

Under current law, the combined finances of the OASDI Trust Fund will be depleted by 2034, with expected revenue falling short of benefits as currently scheduled by roughly 23 percent.[7]

WHAT THE SSA SHOULD LOOK LIKE

The SSA needs to modernize its outdated entitlement structures, provide secure poverty protection for the disabled and elderly, and reduce the burdens placed on younger and future generations. The following reform proposals aim to reduce the size and scope of Social Security's major programs, thus freeing up resources for individuals to attain greater retirement incomes and disability insurance coverage through personal savings and private disability insurance. In short, any serious Social Security reform proposal should reduce agency spending by at least five percent over the next 10 years.

SUMMARY OF REFORMS

Old-Age and Survivors Insurance Program. In 2014, Social Security's main program—Old-Age and Survivors Insurance (OASI)—ran its fifth consecutive cash-flow deficit: $39 billion. Meanwhile, the program's unfunded obligations continue to grow. According to the 2015 annual Trustees' Report, the 75-year unfunded obligation of the Social Security OASI Trust Fund is $9.43 trillion. After including federal debt obligations recorded as assets to the Social Security trust fund of $2.73 trillion, the old-age and survivors insurance program's total 75-year unfunded obligation is nearly $12.2 trillion. Congress must address these unfunded obligations immediately both to protect current and future retirees as well as current and younger generations of taxpayers.

Congress should return Social Security to its original purpose of protecting against poverty among the elderly and disabled by increasing retirement eligibility ages, transitioning toward flat, anti-poverty benefits, and by eventually eliminating the payroll tax and funding the programs through general revenues in the same manner as other welfare programs.

Eligibility Ages. Since 1950, life expectancy at birth in the U.S. has increased by more than 10 years, while life expectancy at age 65 has increased by more than five years. At the same time, work in the U.S. is less physically demanding and individuals live longer and healthier lives. Recent research finds that Americans between the ages of 55 and 69 could work an additional 2.5 years to 4.2 years on average.[8] The SSA should gradually and predictably raise the early and full retirement ages to 65 and 70 over the next two decades, and then index both to increases in life expectancy. Individuals unable to engage in physical labor but have not yet reached Social Security's retirement age could still qualify for Disability Insurance.

Antipoverty Benefits. The OASI program can best meet its goal of protecting older Americans from poverty by providing them with the assurance of a predictable, flat benefit above the poverty-line. This proposal preserves the current benefit structure for individuals already receiving benefits and individuals within 10 years of the full eligibility age to allow for necessary adjustments to the new benefit structure. For individuals reaching the full eligibility age in 10 years or after, price indexing for the initial benefit calculation would provide a progressive benefit reduction over time, with lower-income workers receiving smaller reductions than higher-income workers. Moreover, the establishment of a minimum, anti-poverty flat benefit would result in higher benefits for many low-income workers who currently live in poverty. No one who works for 35 years or more should fear poverty in retirement.

Inflation Adjustments. The current measure used for Social Security's Cost of Living Adjustments (COLAs) is outdated and inaccurate. It is both limited in its scope and fails to take into account how consumers respond to changes in prices. Both the OASI and SSDI programs—as well as all federal programs—should use the more accurate chained-CPI measure of inflation.

Social Security Payroll Taxes. Social Security's original purpose was poverty protection, yet it provides the largest benefits to individuals with the greatest incomes. The SSA must extract far more revenues than necessary in order to provide benefits to financially secure individuals. Rather than force all Americans to pay for federal retirement benefits they may not need, Congress should move toward eliminating Social Security payroll taxes and transitioning Social Security to an anti-poverty program, funded by general tax revenues.

Social Security Trust Funds. Aside from providing the impetus for Congress to act when one of Social Security's Trust Funds has approached zero, the existence of separate Trust Funds has not isolated Social Security spending from other spending as Social Security taxes have been used to finance all sorts of other government spending. In fact, general tax revenues are being used currently to pay Social Security benefits. Instead of protecting individuals' contributions and future benefits, the Trust Funds have made it easier for the federal government to increase other spending. Once the program has been transitioned into an anti-poverty program, the Social Security Trust funds should be eliminated.

By eliminating both Social Security payroll taxes and Social Security Trust Funds, the government could focus retirement and disability benefits on those who need them, at far less cost to taxpayers.

Disability Insurance Program. The percent of the working-age population receiving disability insurance benefits has more than doubled since 1990—from 2.3 percent to 5.1 percent. Less than 0.5 percent of disability insurance recipients leave the rolls each year. This proposal limits DI benefits to those with medical disabilities, provides incentives and support for disabled individuals to return to work, and implements reforms to improve the consistency and effectiveness of the determination process for the DI program.

Needs-based Period of Disability. The current disability program sets no clear expectation that individuals with marginal and temporary disabilities will eventually return to work. Moreover, the program makes no provisions for individual conditions and fails to acknowledge potential future work capacity. A reformed program that aligns individual needs and abilities with benefit provisions will better help reintegrate individuals with disabilities into labor markets. This proposal replaces permanent benefits and ineffective continuing disability reviews with a needs-based period of disability of one to two years for individuals for whom medical improvement is expected, and of two to five years for individuals for whom medical improvement is possible. Beneficiaries for whom medical improvement is not expected would remain subject to continuing disability reviews, as is the case in the current system. Individuals whose conditions worsened after exiting the program could reapply using the current expedited reinstatement process that was adopted as part of the Ticket to Work and Work Incentives Improvement Act of 1999.

Optional Private Disability Insurance. Compared to SSDI, private disability insurance offers a more efficient and effective adjudication process; assistance and accommodations for workers; better fraud and abuse screening and monitoring; and lower overall costs.[9] If incorporated partially into the SSDI system, private disability insurance could improve the quality and efficiency of the SSDI system, as well as the overall well-being of disabled individuals. Using private disability insurance for the first years of benefits would capitalize on the private sector's ability to keep more people employed, as well as on its more efficient adjudication process.

Because accommodations and verification of continued disability would keep more people in jobs, fewer people would enter the federal program and the federal program would save most of the costly administrative expenses of determining benefit eligibility for individuals with private disability coverage. Moreover, this budget offers a tax credit for employers providing private disability insurance covering the first years of benefits.

Flat Benefit Structure. Replacing the current progressive benefit structure with a flat, anti-poverty benefit would lift millions of disabled individuals and their families out of poverty and better accomplish SSDI's purpose of poverty prevention.[10] Current SSDI beneficiaries would not see changes in benefits, because already-disabled individuals are unable to increase savings or purchase private insurance to prepare for the shift to a flat benefit. This budget would implement a flat, anti-poverty SSDI benefit for all individuals who first apply for disability insurance benefits in 2017 and after, allowing individuals time to purchase private disability insurance if they desire more than anti-poverty benefits in the event of disability.

Non-Medical Factors in the Determination Process. Under the SSA's current medical-vocational (grid) rules, individuals can receive SSDI awards based on factors other than mental or physical disabilities, such as education, skill, and ability to speak English. These grid rules play a large role in disability determinations, affecting 40 percent of all awards. However, non-medical factors alone cannot cause disability. This proposal eliminates the grid rules and relies exclusively on physical and mental disability factors when making determinations.

Direct Payment of SSDI Representative Fees. Unlike traditional attorney-client relationships in which the client pays the attorney at the conclusion of a case, attorneys representing SSDI claimants receive payment directly from the SSA.[11] This proposal eliminates direct payment of SSDI representative fees to better serve disabled individuals, improving SSDI representation and eliminating governmental intrusion into disabled individuals' finances. In the SSA as everywhere, individuals should be free to contract and pay representatives in accordance with the services they provide.

Supplemental Security Income. This proposal returns Supplemental Security Income to serve its originally intended population by eliminating SSI benefits for children. SSI was intended to provide cash assistance to low-income adults who are unable to work and provide for their families because of disability or age, and to the low-income elderly. Children are not supposed to be income-providers and, consequently, SSI benefits for children should be eliminated. However, SSI should cover any medical expenses due to a child's disability that Medicaid or another program cannot cover. Parents of children no longer receiving SSI cash benefits would continue to be eligible for a wide variety of means-tested welfare aid, including TANF, the Earned Income Tax Credit, food stamps, and Medicaid.

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Securities and Exchange Commission

MISSION SUMMARY

The Securities and Exchange Commission is intended to protect investors, encourage investment, and help maintain fair, orderly, and efficient markets in securities.

AGENCY OVERVIEW

The Securities and Exchange Commission (SEC) was created in 1934 to regulate U.S. capital markets. Its stated mission is to "protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation."[1] The SEC has five members who serve staggered five-year terms. No more than three commissioners may be from the same political party. The chairman serves as the SEC's senior executive.

In fiscal year (FY) 2007, the SEC had 3,567 full-time positions and a budget of $877 million.[2] For FY 2016, it has approximately 4,621 full-time positions and a budget of $1.68 billion.[3] Thus, over 10 years, the SEC staff has increased by 30 percent and its budget has grown 92 percent. Over that same period, overall federal spending increased 45 percent, inflation increased 15 percent, and the economy increased in size by 25 percent. Thus, the SEC budget has grown twice as rapidly as other federal spending over the past decade. For FY 2017, it has requested that its staff be increased an additional 5.4 percent to 4,870 full-time positions and that its budget be increased by 6.0 percent to $1.78 billion.[4]

The SEC has five divisions and 23 DC-based offices that are separate from the five divisions. It also has 11 regional offices. The five divisions are:

- **Corporation Finance,**[5] which regulates issuers and oversees the corporate disclosure system that provides information to investors about issuers.

- **Trading and Markets,**[6] which regulates securities exchanges, securities firms, clearing agencies, transfer agents, securities information processors, and credit rating agencies. It also oversees the Financial Industry Regulatory Authority (FINRA).[7] FINRA is a so-called self-regulatory organization. It is a not-for-profit organization with a $1 billion budget (about 60 percent of the SEC budget) and 3,400 employees (about three-quarters of the SEC staffing level).[8] FINRA's primary function is to regulate broker-dealers and their employees and to resolve securities disputes between securities firms and their customers. It is not, like a true self-regulatory organization, controlled by the industry. Trading and Markets also oversees the Securities Investor Protection Corporation (SIPC) and the Municipal Securities Rulemaking Board (MSRB).

- **Investment Management,**[9] which regulates investment managers and investment advisers, including those that operate mutual funds, closed-end funds, exchange traded funds, business development companies and money market funds. It also regulates variable life insurance and other insurance products that are or contain securities.

- **Enforcement,**[10] which investigates potential securities law violations and may recommend that the Commission bring, and upon approval, file civil actions in federal court or as administrative actions before an administrative law judge against alleged violators. It may make criminal referrals to the Department of Justice. Securities law violations may include misrepresentation or omission of material information required to be provided in disclosure documents, market manipulation, theft of customers' funds or securities, insider trading, selling unregistered securities or other violations.

- **Economic and Risk Analysis (DERA),**[11] which analyzes the potential economic effects of SEC rulemakings, seeks to "anticipate, identify, and manage risks, focusing on early identification of potential fraud and illegal or questionable activities," and provides litigation support to the Division of Enforcement.

The primary laws that the SEC enforces are the Securities Act of 1933, the Securities Exchange Act of 1934, the Trust Indenture Act of 1939, the Investment Company Act of 1940, and the Investment Advisers Act of 1940, as amended. The most important recent amendments were made by the

Sarbanes–Oxley Act of 2002, the Dodd–Frank Wall Street Reform and Consumer Protection Act of 2010, and the Jumpstart Our Business Startups (JOBS) Act of 2012.

POLICY DETAILS

Better Data Collection. There is a remarkable dearth of good data available to help policymakers evaluate the securities laws and proposed reforms. The SEC's Division of Economic and Risk Analysis should publish annually data that would improve policymakers' decision-making. Specifically, DERA should provide annual data about how much capital is raised in public offerings or private offerings, indicating which exemption (Regulation A,[12] Regulation D,[13] or crowdfunding[14]) was used, and the costs incurred by issuers, and what gives rise to those costs. DERA should conduct an annual survey about costs incurred by issuers, just as most other government agencies do to create and publish datasets. The SEC should also collect and annually publish detailed information about the frequency and types of securities laws violations and which types of firms give rise to which types of violations so that policymakers can better assess what reforms are appropriate and how best to allocate enforcement resources. All of these data should be organized so that year-to-year comparisons are possible and trends can be identified.

Reasonable Exemptions to Reduce Cost. Approximately $1.3 trillion is invested each year in private offerings made pursuant to Rule 506 of Regulation D.[15] Under current SEC rules, with limited exceptions, only accredited investors may invest in these private offerings. An accredited investor is generally a financial institution or a natural person with an income of $200,000 ($300,000 jointly for a married couple) or a residence-exclusive net worth exceeding $1 million. There has been a sustained effort by progressives to raise these thresholds and limit the number of people who may invest in private placements. There is a limited exception in Regulation D permitting sophisticated investors to invest in Regulation D offerings. However, there is also no definition of who is "sophisticated" in the regulations, so this provision is rarely used. Approximately 7 percent–10 percent of households are permitted to invest in these offerings because they meet the accredited investor requirements.[16]

Congress should establish a statutory definition of "accredited investor" for purposes of Regulation D offerings that sets the income and net worth requirements for natural persons at current levels and establishes specific bright-line tests for sophistication. Bright-line tests for sophistication should include specified educational attainment (e.g., an advanced degree in finance, business, or entrepreneurship); specified licensure (e.g., a certified public accountant, registered representative, or registered investment advisor); or specified accreditation (e.g., a certified financial planner).

Currently, securities traded on an exchange, privately offered securities exempt pursuant to Rule 506 of Regulation D, and securities offered through JOBS Act Title III equity crowdfunding are "covered securities" exempt from state "blue sky" registration and qualification requirements; securities of small public companies not traded on an exchange and many Regulation A securities are not.[17] Having to comply with a myriad of state laws imposes very high costs and delay on small companies seeking to raise capital. Moreover, about three-fifths of states engage in so-called merit review, where regulators purport to decide whether an investment is good or fair rather than whether the issuer has fairly disclosed the terms of the offering. Although all federal and state anti-fraud laws should remain applicable, primary and secondary offerings of all public companies and all Regulation A securities should be exempt from state registration and qualification requirements.[18]

If an offering is sufficiently private or sufficiently small, an entrepreneur should not be required to deal with the SEC and hire sophisticated, expensive securities counsel. A "micro offering" safe harbor should be provided so that SEC registration is not required if the offering (1) is made only to people with whom an issuer's officers, directors, or 10 percent or more shareholders have a substantial preexisting relationship; (2) involves 35 or fewer purchasers; or (3) has an aggregate offering price of less than $500,000 (within a 12-month period).[19]

A finder (sometimes called a private placement broker) is a person who introduces a company to a potential investor and is compensated. This is often done by Main Street business people or professionals such as attorneys and accountants. It can be an important means for entrepreneurs to find investors. The SEC has adopted the position that finders should be required to register as broker-dealers, an extremely expensive process.[20] Companies that use finders may have to rescind transactions involving finders in the future when they encounter more sophisticated and risk-averse counsel in later financing rounds. They also face greater litigation risk if the venture does poorly. Congress should create a statutory exemption to the broker-dealer registration requirements for finders who are not "engaged in the business of effecting transactions in securities for the account of others" or of "buying and selling securities" and, as an integral component of that exemption, should provide a bright-line safe harbor such that small finders falling within the specified criteria are not deemed to be engaged in the business of being a securities broker or a dealer.[21]

There are 4.2 million S corporations, most of which are small businesses. They have 9.2 million shareholders. The Internal Revenue Code prohibits S corporations from having more than 100 shareholders. Most small businesses using Title III equity crowdfunding or Regulation A plus[22] to raise small amounts of capital from a large number of shareholders are going to have more than 100 shareholders. Thus, S corporations are effectively prohibited from using these new means of finance. Congress should amend the Internal Revenue Code so that shareholders who acquired their shares only through a crowdfunding offering or a Regulation A offering would not count toward the 100-shareholder S corporation limit.[23]

Market Improvements. A primary offering is one in which investors buy securities from a company directly, providing capital to the company. A secondary offering is one in which an investor sells securities to other investors. Stock exchanges are an example of a secondary market. Robust, liquid secondary markets help investors because they enable them to achieve a better price for their investment and to sell a security when they need to. They also help entrepreneurs because investors are more likely to provide capital to a company in a primary offering if they know that a liquid secondary market exists. Venture exchanges are meant to provide a less regulated exchange in which small-company securities can trade cost-effectively. In addition, it is important to reduce the regulatory burden on existing dealer-made over-the-counter secondary markets. Congress should create the regulatory framework for venture exchanges and treat all securities as covered securities that (1) are traded on established securities markets and (2) have continuing reporting obligations (a) as a registered company, (b) pursuant to Regulation A, or (c) pursuant to Regulation Crowdfunding. An established securities market should be defined to include those on electronic markets such as an SEC-designated alternative trading system (ATS) and exchanges.[24]

The current disclosure regime for public companies under Regulation S-K is extremely burdensome and expensive.[25] Both Congress and the SEC should improve the disclosure requirements under Regulation S-K for smaller reporting companies by providing a coherent and reasonable scaled disclosure regime for registered companies.[26] In addition, Congress should limit securities disclosure to items that are material to the valuation of companies' securities.[27]

Fix FINRA. FINRA is responsible neither to the industry it regulates nor to the public.[28] Although it has been given an effective regulatory monopoly by statute and by the SEC and is an agent of government, it is not subject to any of the normal transparency and due process provisions applicable to a government agency. Congress should require (1) that a "national securities association" (i.e., a self-regulatory agency) must comply with a set of rules substantially similar to the requirements imposed on government agencies relating to the notice and comment provisions of the Administrative Procedure Act[29] and the Freedom of Information Act;[30] (2) that FINRA must secure an affirmative vote of Congress to raise fees; and (3) that revenue from fines imposed by FINRA goes either to an investor fraud/embezzlement reimbursement fund or to the Treasury, not to FINRA's budget. Congress should either terminate or substantially reform FINRA's arbitration function. Moreover, Congress should substantially enhance its oversight of FINRA by requiring an annual report to Congress with specified information and annual hearings on the report and by requiring an annual Government Accountability Office review of FINRA's operations.

Put the SEC on a Budget Diet. Over the past 10 years, the SEC staff has grown by 30 percent, and its budget has grown by 92 percent. There is no reason to believe that this flood of resources has improved the SEC's performance or effectiveness. In fact, the SEC has become sclerotic and moribund. It has too many layers of middle management, too many offices, and too many layers of review. It needs to be reformed and streamlined. It needs to focus on its core enforcement mission of preventing fraud and ensuring compliance with disclosure laws. What it does not need is more taxpayer money. The SEC budget should be held constant in real, inflation-adjusted terms.

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Federal Communications Commission

MISSION SUMMARY

The Federal Communications Commission regulates communications in interstate and foreign commerce by radio, television, wire, satellite, and cable.

AGENCY OVERVIEW

The Federal Communications Commission, established by the Communications Act of 1934, is responsible for "regulating interstate and foreign commerce in communication by wire and radio."[1] Until the 1980s, this primarily meant comprehensive regulation of interstate telephone service, largely served by the monopoly Bell System, and licensing and pervasive regulation of the limited number of broadcast radio and television stations that were allowed to operate. The agency also was responsible for the allocation and assignment of licenses to use electromagnetic spectrum frequencies for all other purposes. This meant defining specific uses for each frequency and choosing licensees to operate on them.

A series of technological and economic developments in the latter part of the 20th century radically changed the FCC's role. The court-ordered breakup of the Bell System in 1984 and the introduction of competition into telephone service, followed by the rapid growth of competitive wireless carriers, eliminated the need for comprehensive telephone regulation. Meanwhile, an explosion of competitive alternatives to traditional broadcast stations, starting with cable and satellite TV and continuing on to today's online video providers, has undercut the rationale for FCC broadcast regulation. The FCC's role in spectrum use also changed substantially. Since the 1990s, the FCC has largely abandoned detailed service definitions and has assigned licenses to be used for whatever purpose the licensee determined, with new licensees assigned through auctions rather than administrative hearings.

These changes, however, did not translate into a reduction in FCC activity. As the rationale for pervasive regulation of the old 20th century communications industries has weakened, the FCC has worked to assume greater responsibility in the 21st century broadband marketplace. The single largest expansion of its remit took place in February 2015, when the commission adapted its Open Internet (network neutrality) order classifying Internet service as a "telecommunications service." This put Internet service providers under common-carrier rules, subjecting them to pervasive regulation by the FCC.

The expansion of the FCC's role from regulator of telephones and broadcasters to regulator of the Internet is occurring in other contexts as well. The FCC subsidy program for telephone service for low-income Americans is being expanded to pay for broadband connections. Rural support for telephone service is being shifted to broadband support. The agency has proposed regulating Internet-based television as a cable service, has issued broadband privacy rules, has proposed regulating cable set-top boxes to include broadband video providers, and more.

Consequently, instead of shrinking, the FCC budget has grown substantially, from $163 million in 1990 to $430 million in 2010 to $490 million in 2016 (in constant 2009 dollars).[2] This appropriation is funded entirely from user fees, auction revenues, and other offsetting receipts. The auction revenue varies substantially from year to year, but in 2015, auctions raised a record $41 billion.

The primary effect of the FCC's activity on Americans, however, is not in the dollars it spends or raises, but in its negative impact on the marketplace. Through its regulations, it inhibits and distorts investment and innovation in broadband and other markets to the detriment of consumers. Eliminating these barriers to growth should be the goal of any FCC reform. FCC reform should include the following elements:

- **Eliminate the common-carrier designation for Internet service providers.** Common carriage is a regulatory concept largely developed for railroads in the 19th century and long used to control monopoly telephone companies, but broadband is no monopoly. In nearly every broadband market, consumers have a choice of at least two fixed broadband providers in addition to several wireless operators. As for telephone service, for most of the 20th century, it was static technologically, with little or no innovation or change. This marketplace simply does not need and could be substantially damaged by the common-carrier regulatory system that the FCC is imposing on it.

- **Repeal open Internet, or network neutrality, rules.** As part of the same decision as the common-carrier designation, the FCC also imposed new "open Internet" or "net neutrality" rules on broadband service providers. These rules prohibit Internet service providers (ISPs) from engaging in a broad range of conduct that the FCC believes would favor one Internet content provider over others. Among these are rules banning ISPs from blocking content sent to consumers by content providers; "throttling" or slowing down the delivery of content; and "paid prioritization," under which content providers pay a fee to have their content delivered on an expedited basis.

  These practices present no dangers to consumers, and are a feature of most well-functioning markets, especially dynamic and innovative markets. Premium pricing (and discounting) adds to consumer choice and also provides a way for challengers in an industry to differentiate themselves and compete with bigger, more established firms. These practices are pro-consumer and pro-competitive. The FCC should repeal its rule banning them.

- **Shift broadband competition policy authority to the Federal Trade Commission.** Eliminating network neutrality rules does mean consumers would be unprotected from any ISPs that exercise undue market power, but such situations are already covered by existing competition law. The FCC is ill-suited to enforce competition law. A better agency for this task is the Federal Trade Commission, which has focused on competition policy issues for over a hundred years and in fact had responsibility for broadband policy issues until the ISPs were reclassified as common carriers, putting them outside the FTC's jurisdiction. The FTC should be allowed to resume its traditional role in this area.

- **Eliminate FCC merger review authority.** Mergers and acquisitions in the communications industry currently must go through a double review process. First, they must be approved by the relevant antitrust authority (either the Antitrust Division of the Department of Justice or the Federal Trade Commission). Then they undergo scrutiny by the Federal Communications Commission.

  The FCC review is not mandated by the Communications Act; it is an outgrowth of the commission's authority to approve license transfers that the merging firms may hold. These licenses, however, may represent a minimal part of the merger and present no issues in themselves. Instead, they are a hook for the FCC to embark on its own lengthy review of such transactions.

  For the most part, the FCC review is redundant, covering much of the same ground as the antitrust agencies, but the "public interest" standard used by the FCC is broader than the competition-based standard used under antitrust law. This has allowed the FCC almost unlimited discretion to examine any issue or demand any concession from the merging firms, even it has little or nothing to do with the economic effect of the merger on the marketplace. The FCC's merger review process is unnecessary and harmful, and it should be eliminated.

- **Reduce universal service subsidies and transfer them to other agencies.** The Universal Service Fund (USF) was created in 1996 to replace a system of implicit subsidies administered by telephone companies. Run by the Federal Communications Commission through the Universal Service Administrative Company, the program is financed by a dedicated fee paid by all telecommunications service users. The program funds a number of subsidy programs, including those for rural telephone companies, schools, and libraries and for low-income consumers:

  1. The "high-cost fund," with an authorized support level of $4.5 billion in calendar year 2015,[3] largely supports rural areas where the cost of providing telecom connections is high. Under reforms adopted by the FCC in summer 2014, the USF, which traditionally subsidized rural phone companies, will be replaced by a new fund focused on rural broadband and wireless service. Even after that reform, however, the program will

remain fundamentally flawed, because it provides federal cash regardless of need. Residents of Aspen, Colorado, and Jackson Hole, Wyoming, for instance, receive support regardless of need at the expense of poorer Americans elsewhere. The program should be ended.

2. The schools and libraries (E-Rate) fund, with an authorized support level of $2 billion for funding year 2015,[4] was originally intended to finance the connection of schools and libraries to the Internet. For the most part, that task was completed years ago, but rather than declare victory, the program has been expanded to fund other Internet-related goods and services. This program is not needed.

3. The "Lifeline" fund provides discounted phone service and equipment to low-income Americans. While well-intended, the program has been plagued by fraud and abuse as costs tripled from under $821 million in 2008 to over $2.1 billion in the 2012 funding year.[5] The authorized funding for the 2015 calendar year was $1.5 billion.[6] The FCC adopted some reforms of the program in 2015, but there is much more to do, including imposition of a cap on runaway spending. Yet the FCC seems more interested in expanding the program, voting in June 2015 to provide broadband Internet subsidies. The program should instead be reformed and placed under a budget without expanding it to more markets.

In addition to specific reforms, the USF program should be transferred to another agency. The FCC is a regulatory agency and has little expertise in overseeing such subsidy programs. Executive branch departments such as the Department of Agriculture and Department of Education would provide much better oversight for the rural schools and libraries and low-income funds.

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Federal Deposit Insurance Corporation (FDIC)

MISSION SUMMARY

The Federal Deposit Insurance Corporation (FDIC) is an independent agency created by the Congress to maintain stability and public confidence in the nation's financial system by insuring deposits; examining and supervising financial institutions for safety and soundness and consumer protection; making large and complex financial institutions resolvable; and managing receiverships.[1]

AGENCY OVERVIEW

The Federal Deposit Insurance Corporation (FDIC) provides federally backed deposit insurance for bank accounts of up to $250,000. The FDIC also serves as banking regulator for all non-Federal Reserve member state chartered banks and is responsible for resolving insolvent commercial banks. In addition to its main deposit insurance program, the FDIC has emergency authority to guarantee other types of bank accounts and even loans.

The fear that a bank failure could freeze a large amount of customer deposits, resulting in economic disruption, has been a main contributing factor to the existing FDIC bank-resolution process. Many options could replace the FDIC process and bring much-needed market discipline to the banking industry.[2] Imposing more market discipline in the banking sector requires major changes to the FDIC bank resolution process, the FDIC deposit-insurance scheme, and the FDIC's authority to grant emergency guarantees. The following reform proposals improve competitiveness and reduce moral hazard in financial markets, leading to the eventual elimination of the need for the FDIC.

REFORMS AND ELIMINATING THE NEED FOR THE FDIC

Federal backing in financial markets reduces the incentive for people to monitor carefully both personal and institutional financial risks. For example, the FDIC's taxpayer-backed deposit insurance insulates banks from market discipline. To mitigate this problem, FDIC deposit insurance should be reduced at least to the pre-Dodd–Frank Act of 2010 limit of $100,000 per account. Even lowering the value to the pre-1980 limit of $40,000 per account would insure a level nearly 10 times the average transaction account balance of approximately $4,000.

Another major improvement would be to require banks to acquire *private* deposit insurance. Should consumers value deposit insurance, a private system would develop as it has in other developed countries. Countries with more government involvement in a deposit insurance system, and with higher levels of deposit insurance coverage, tend to have more bank failures and financial crises. Furthermore, through its so-called systemic risk authority, the FDIC guaranteed more than $345 billion in private debt issued between 2008 and 2009.[3] The Dodd–Frank Act placed superficial restrictions on the FDIC's authority to issue guarantees, but it should have eliminated the systemic risk exception altogether.

In 2015, the FDIC's budget outlay, exclusive of offsetting fees, was $4.3 billion. The 2016 and 2017 budget outlays, exclusive of offsetting fees, were projected to be $3.7 billion and approximately $9 billion, respectively. Enacting the reforms below would eliminate these budget outlays. The offsetting fees are mainly paid into the FDIC's deposit insurance fund (DIF). The DIF should be liquidated and rebated proportionately to those banks which paid into the fund.

Private market control of deposit insurance will bring much-needed market discipline to the financial sector. If customers value deposit insurance, private financial companies will provide it. Government provision of financial guarantees undermines competitiveness and stability in financial markets. Banks, like other failed companies, should be allowed to go through the bankruptcy process.

Shrinking the current coverage limit, shifting to private deposit insurance, reforming the bank resolution process, and removing government guarantees for private financial risks will eliminate the need for the Federal Deposit Insurance Corporation.

SUMMARY OF REFORMS

FDIC's Systemic Risk Exception. The FDIC provided hundreds of billions in loan guarantees in the wake of the 2008 crisis—mainly by invoking its systemic risk exception in Section 13(c)(4)(G) of the Federal Deposit Insurance Act. Congress should eliminate the FDIC's systemic risk exception and prohibit the FDIC from providing any types of loan guarantees.

Coverage Limit on FDIC Deposit Insurance. FDIC deposit insurance should be reduced at least to the pre-Dodd–Frank limit of $100,000 per account, preferably to the pre-1980 limit of $40,000 per account.

FDIC's Bank Resolution Process. Banks, like any other type of business, should be allowed to fail. The possibility of bankruptcy or failure is integral for market discipline in the financial sector. If anything, the FDIC can implement an open bank-resolution policy that freezes a portion of a failed bank's assets but allows the bank to remain open to conduct limited business until resolution.

Shift to Private Deposit Insurance. Private markets, not a government-backed insurance system, should control deposit insurance. If customers truly value deposit insurance, private financial companies will provide it.

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Consumer Financial Protection Bureau

MISSION SUMMARY

The Consumer Financial Protection Bureau regulates consumer financial markets and enforces prohibitions on "unfair, deceptive, or abusive practices" in such markets.

AGENCY OVERVIEW

The bureau was established in 2010 under Title X of the Dodd–Frank Act as an independent bureau within the Federal Reserve System, and its operations are funded by transfers from the earnings of the Fed. The CFPB's fiscal year (FY) 2017 budget estimate is $636.1 million.

The bureau is charged by Congress to "regulate the offering and provision of consumer financial products or services under the Federal consumer financial laws."[1] It is granted supervisory and enforcement authority for consumer laws over banks and credit unions (with assets exceeding $10 billion) and supervision of "nonbank firms," such as mortgage originators, brokers, and servicers, as well as payday lenders and private education loans. The bureau also is empowered to designate other "larger participants" in nonbank services, which currently include debt collection, credit reporting, auto lending, international money transfer, and servicing of student loans.

The CFPB may also supervise any nonbank firm that it deems as posing a "risk" to consumers or engaging in "unfair, deceptive, or abusive" practices (although neither "risk" nor "abusive" was defined in the statute).[2]

The bureau is run by a single director who serves for a five-year term and may be removed by the President only "for inefficiency, neglect of duty, or malfeasance in office."

The CFPB is organized into six divisions:

- **Consumer Education and Engagement,** which works to "empower consumers" with the "knowledge, tools, and capabilities they need in order to make better-informed financial decisions."

- **Supervision, Enforcement, and Fair Lending,** which ensures compliance with consumer protection laws by supervising providers of financial services and bringing enforcement actions.

- **Research, Markets, and Regulations,** which conducts research to understand financial markets and consumer behavior, evaluates whether regulation is needed, and determines the costs and benefits of regulations.

- **Legal,** which ensures bureau compliance with all applicable laws and provides advice to the director and other bureau divisions.

- **External Affairs,** which manages bureau relationships with stakeholders.

- **Operations,** which sustains bureau operations and processes consumer complaints.

The bureau also convenes a Consumer Advisory Board, a Community Bank Advisory Council, an Academic Research Council, and a Credit Union Advisory Council.

CFPB'S ROLE

Prior to Dodd–Frank, authority for some 50 rules and orders stemming from 18 consumer-protection statutes was divided among seven agencies. But more than simply consolidating regulatory authority, Congress granted the CFPB unparalleled rulemaking, supervisory, and enforcement powers over virtually every consumer financial product and service.

As currently structured, the bureau unduly restricts access to credit without oversight from Congress or the executive branch. In just four years, the CFPB has restructured the mortgage market by broadening lenders' fiduciary responsibilities and standardizing home loans. There are new restrictions on credit cards, ATM services, auto lending and leasing, electronic funds transfers, student loans, and arbitration clauses in credit contracts. More rules are in the pipeline for small-dollar loans, credit reporting, overdraft coverage, debt collection, and general-purpose reloadable cards.

The bureau was designed to evade the checks and balances that apply to most other regulatory agencies. CFPB funding is set by law at a fixed percentage of the Federal Reserve's operating budget. This budget independence limits congressional oversight of the agency, and its status within the Fed precludes presidential oversight. Even the Federal Reserve is statutorily prohibited from "intervening" in bureau affairs. This lack of accountability and oversight invites regulatory excess.

Until passage of Dodd–Frank, most consumer protection law was designed to equip consumers with the information necessary to act on their preferences, given market conditions, and to punish fraud and other wrongdoing. The role of government, at least theoretically, was to facilitate choice and competition—an approach reflecting the belief that free enterprise, albeit imperfect, yields greater benefit than autocratic alternatives.

That deference to consumer autonomy has now been supplanted by a regulatory framework that treats consumers as fundamentally irrational and prone to act against their self-interest. Under this paternalistic paradigm, regulatory intervention is necessary to protect consumers from themselves by limiting complex credit options and standardizing "qualified" loans. The result is fewer choices for consumers, less competition, and higher credit costs.

The bureau aggressively solicits complaints from consumers, which officials describe as the "start and end" of the bureau's rulemaking and enforcement actions and which Director Richard Cordray has called the agency's "lifeline." For all of the consequential uses to which the data are put, however, the complaints are not verified. The bureau does not determine whether a complaint relates to dissatisfaction with or misunderstanding of legitimate terms of service—as opposed to actual wrongdoing. There is also no way to distinguish whether a complaint is made because a company failed to offer an adequate remedy to the customer or because the customer simply rejected a reasonable response.

The bureau heavily promotes reports generated from these complaints, but the data lack statistical validity and context. The bureau thus exposes financial firms to unwarranted reputational harm and lawsuits.

Although already in possession of a massive amount of consumer financial data, the bureau has increased reporting requirements for lenders under the Home Mortgage Disclosure Act (HMDA). Dodd–Frank mandated some new data collection, but the bureau has vastly exceeded those provisions with a new 797-page rule. Dodd–Frank explicitly prohibits the bureau from collecting personally identifiable information, but so vast is the HMDA dataset that homeowners' privacy is at considerable risk. Nor are the data secure. A 2014 study by the U.S. Government Accountability Office found that "additional efforts are needed in several areas to reduce the risk of improper collection, use, or release of consumer financial data."[3]

The CFBP's current structure, with its lack of accountability and absence of oversight, invites regulatory excess. Along with its unparalleled powers and approach to regulation and enforcement, the bureau's actions are chilling the availability of financial products and services. The CFPB's paternalistic treatment of consumers also means fewer choices and higher costs of credit. This will undoubtedly leave families and entrepreneurs without customized options with which to invest and build wealth.

Consumer protection against fraud and other misdeeds is certainly necessary, but the bureau's regulatory actions extend well beyond what is reasonable.

BUDGET STRUCTURE

Funding for CFPB operations is obtained primarily through transfers from the Board of Governors of the Federal Reserve System. In accordance with the Dodd–Frank Act, transfers to the bureau in FY 2013 were capped at 12 percent of the Federal Reserve's 2009 operating expenses. After FY 2013, the transfer cap was adjusted annually based on the percentage increase in the government's Employment Cost Index for total compensation for state and local government. The inflation-adjusted transfer cap for FY 2017 is $646.2 million. Funds from the Fed to the bureau are transferred quarterly and maintained at the Federal Reserve Bank of New York.

The CFPB is also authorized to collect and retain for specified purposes civil penalties obtained from violations of consumer financial laws. In general, the bureau may use these funds to compensate victims. To the extent that victims cannot be located or payments are otherwise not practicable, the funds may be used for consumer education and financial literacy programs. The Civil Penalty Fund is also maintained at the Federal Reserve Bank of New York, although as a separate account. Amounts in the fund are available without fiscal year limitation.

Additionally, a small portion of the CFPB's budget comes from receipts collected from interest on Treasury securities and filing fees pursuant to the Interstate Land Sales Full Disclosure Act of 1968. These fees are deposited into an account maintained by the Department of the Treasury and may be expended by the bureau for the costs it incurs to administer the Interstate Land Sales program.

SUMMARY OF REFORMS

The CFPB epitomizes much of what is wrong about the Dodd–Frank Act: Congress misdiagnosed the problems that required reform, granted inordinate regulatory powers without sufficient oversight and accountability, and failed to anticipate the harms that regulatory actions would impose on consumers and the credit market.

The most useful reform would be outright elimination of the CFPB through repeal of the entire Dodd–Frank Act. The statute is too flawed to be salvaged. Until the CFPB is abolished, several interim reforms would improve matters:

- **Abolish the CFPB's current funding mechanism and subject it instead to congressional control.** Although some financial regulatory agencies (such as the Federal Deposit Insurance Corporation and the Fed itself) also fall outside the congressional appropriations process, they are the exceptions rather than the rule among government agencies. Given the CFPB's broad policymaking role and enforcement powers, there is no justification for allowing it to escape congressional oversight and accountability. CFPB should receive its funding through annual appropriations laws passed by Congress.

- **Prohibit the bureau from using funds to punish "abusive" practices.** There is no regulatory precedent or jurisprudence that interprets the term "abusive" in the context of consumer financial services, and the bureau should not have discretion to define its own powers.

- **Prohibit the spending of funds for public release of raw or unverified complaint data.** The publication of mere accusations can subject businesses to undeserved reputational harm and unnecessary litigation. The CFPB should be required to obtain approval for all major rulemakings from the Office of Management and Budget's Office of Information and Regulatory Affairs. Such oversight would increase agency transparency and accountability.

- **Eliminate all funding for "financial literacy" programs.** In its rulemaking and enforcement actions, the bureau has shown an outright hostility to basic tenets of capitalism. It should not be allowed to produce propaganda that masquerades as "financial literacy" materials.

- **Prohibit the bureau from expending funds for any action based on "disparate impact."** This widely disputed doctrine holds that a creditor's practice may be considered unlawful if it results in a discriminatory effect—even if the creditor has no intention to discriminate and the practice appears to be neutral on its face.

- **Prohibit the bureau from using funds to regulate so-called payday lending.** A total of 48 states already regulate payday lending.

- **Impose a hiring freeze on the bureau.** The CFPB has increased its workforce dramatically in just four years, and it will lack adequate office space even after its current headquarters renovation is completed.

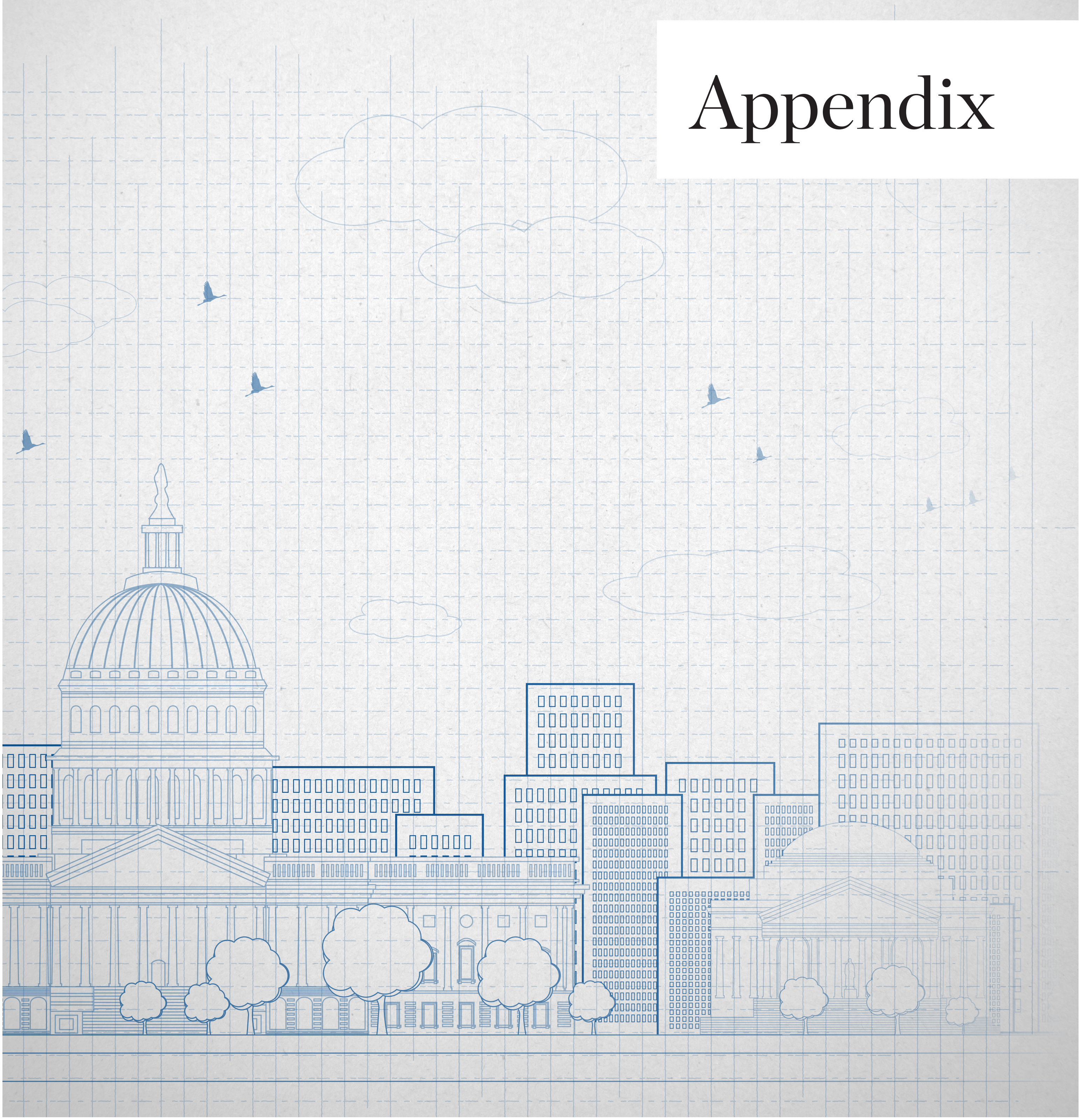
SOURCES OF FURTHER INFORMATION

- Diane Katz, "Consumer Financial Protection Bureau: Limiting Americans' Credit Choices," Heritage Foundation *Backgrounder* No. 3102, April 28, 2016, http://thf-reports.s3.amazonaws.com/2016/BG3102.pdf.
- Diane Katz, "Dodd–Frank Mortgage Rules Unleash Predatory Regulators," Heritage Foundation *Backgrounder* No. 2866, December 16, 2013, http://thf_media.s3.amazonaws.com/2013/pdf/BG2866.pdf.
- Norbert J. Michel, "Dodd–Frank and the Consumer Financial Protection Bureau Put Squeeze on Private Payday Lenders," Heritage Foundation *Issue Brief* No. 4479, November 4, 2015, http://www.heritage.org/research/reports/2015/11/doddfrank-and-the-consumer-financial-protection-bureau-put-squeeze-on-private-payday-lenders.
- Alden Abbott, "Time to Eliminate the Consumer Financial Protection Bureau," Heritage Foundation *Legal Memorandum* No. 172, February 8, 2016, http://www.heritage.org/research/reports/2016/02/time-to-eliminate-the-consumer-financial-protection-bureau.

ENDNOTES

1. Consumer Financial Protection Act of 2010, 12 U.S.C. § 5491 (2010).
2. Ibid.
3. Government Accountability Office, "Consumer Financial Protection Bureau: Some Privacy and Security Procedures for Data Collection Should Continue Being Enhanced," AO-14-758, September 2014, http://www.gao.gov/assets/670/666000.pdf (accessed July 1, 2016).

Appendix



APPENDIX TABLE 1

Heritage Proposal: Federal Department and Agency Spending (Page 1 of 9)

SPENDING IN MILLIONS OF DOLLARS

DEPARTMENT OF AGRICULTURE

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
CBO Base Discretionary	26,533	27,220	27,924	28,649	29,403	30,160	30,953	31,758	32,595	33,469
CBO Base Mandatory	121,204	122,383	120,037	119,859	121,048	121,657	123,387	124,837	127,228	130,182
CBO Base Total	147,737	149,603	147,961	148,508	150,451	151,817	154,340	156,595	159,823	163,651
Heritage Base Discretionary	5,794	5,903	5,467	5,001	4,511	4,020	3,513	2,994	2,451	1,883
Heritage Base Mandatory	5,700	5,924	4,145	3,611	3,468	3,068	3,209	2,977	3,043	3,100
Heritage Compensation Reforms	−815	−876	−935	−1,018	−1,085	−1,157	−1,242	−1,322	−1,407	−1,512
Heritage Base Total	10,679	10,950	8,676	7,594	6,893	5,930	5,479	4,648	4,086	3,470
Budgetary Impact	−137,058	−138,653	−139,285	−140,914	−143,558	−145,887	−148,861	−151,947	−155,737	−160,181

TOTAL BUDGETARY IMPACT, 2017–2026: −1,462,083

NOTE: Total Budgetary Impact includes $1.067 trillion in transfers to the Departments of Health and Human Services, State, and the Interior. Excluding these transfers, the proposed reforms would reduce Department of Agriculture spending by $395.1 billion over the 2017–2026 period.

DEPARTMENT OF COMMERCE

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
CBO Base Discretionary	9,480	9,730	9,986	10,254	10,528	10,805	11,097	11,393	11,702	12,023
CBO Base Mandatory	203	214	204	204	204	206	206	208	209	211
CBO Base Total	9,683	9,944	10,190	10,458	10,732	11,011	11,303	11,601	11,911	12,234
Heritage Base Discretionary	16,088	16,544	16,525	16,501	16,471	16,453	16,421	16,397	16,362	16,324
Heritage Base Mandatory	30,705	32,929	32,918	32,917	32,917	32,919	32,919	32,921	32,922	32,924
Heritage Compensation Reforms	−426	−459	−489	−533	−568	−605	−650	−692	−736	−791
Heritage Base Total	46,366	49,014	48,953	48,885	48,820	48,766	48,690	48,626	48,547	48,457
Budgetary Impact	36,683	39,070	38,763	38,427	38,088	37,755	37,387	37,025	36,636	36,223

TOTAL BUDGETARY IMPACT, 2017–2026: 376,057

NOTE: Total Budgetary Impact includes $404.9 billion in transfers from the Department of Labor. Excluding these transfers, the proposed reforms would reduce Department of Commerce spending by $28.9 billion over the 2017–2026 period.

DEPARTMENT OF DEFENSE

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
CBO Base Discretionary	592,745	607,080	621,769	637,053	652,772	668,758	685,404	702,328	719,924	738,199
CBO Base Mandatory	−2,664	−3,919	−4,205	−4,596	−4,943	−5,176	−5,558	−5,901	−6,254	−6,480
CBO Base Total	590,081	603,161	617,564	632,457	647,829	663,582	679,846	696,427	713,670	731,719
Heritage Base Discretionary	600,000	616,000	632,000	648,000	655,000	682,000	700,000	718,000	736,000	755,000
Heritage Base Mandatory	−2,664	−3,919	−4,205	−4,596	−4,943	−5,176	−5,558	−5,901	−6,254	−6,480
Heritage Compensation Reforms	−1,033	−1,111	−1,186	−1,291	−1,376	−1,467	−1,575	−1,677	−1,784	−1,917
Heritage Base Total	596,303	610,970	626,609	642,113	648,681	675,357	692,867	710,422	727,962	746,603
Budgetary Impact	6,222	7,809	9,045	9,656	852	11,775	13,021	13,995	14,292	14,884

TOTAL BUDGETARY IMPACT, 2017–2026: 101,550

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APPENDIX TABLE 1

Heritage Proposal: Federal Department and Agency Spending (Page 2 of 9)

SPENDING IN MILLIONS OF DOLLARS

DEPARTMENT OF EDUCATION

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
CBO Base Discretionary	69,096	70,469	71,839	73,281	74,792	76,300	77,878	79,455	81,092	82,785
CBO Base Mandatory	2,325	3,651	5,122	5,538	5,392	5,520	5,546	5,583	5,618	5,556
CBO Base Total	71,421	74,120	76,961	78,819	80,184	81,820	83,424	85,038	86,710	88,341
Heritage Base Discretionary	52,879	53,540	53,540	53,540	53,540	53,540	53,540	53,540	53,540	53,540
Heritage Base Mandatory	1,779	2,774	3,904	4,203	4,078	4,116	4,064	4,005	3,920	3,746
Heritage Compensation Reforms	−40	−43	−46	−50	−53	−56	−61	−64	−69	−74
Heritage Base Total	54,619	56,271	57,399	57,693	57,565	57,599	57,544	57,480	57,391	57,212
Budgetary Impact	−16,802	−17,849	−19,562	−21,126	−22,619	−24,221	−25,880	−27,558	−29,319	−31,129

TOTAL BUDGETARY IMPACT, 2017–2026: −236,065

DEPARTMENT OF ENERGY

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
CBO Base Discretionary	30,214	30,870	31,511	32,178	32,874	33,563	34,284	35,009	35,766	36,555
CBO Base Mandatory	−2,304	−2,753	−3,058	−3,240	−3,391	−3,755	−4,973	−5,750	−6,035	−4,002
CBO Base Total	27,910	28,117	28,453	28,938	29,483	29,808	29,311	29,259	29,731	32,553
Heritage Base Discretionary	20,008	20,386	21,049	21,106	21,482	21,873	22,263	22,666	23,071	23,495
Heritage Base Mandatory	−19,682	−21,077	−2,808	−2,990	−3,141	−3,305	−3,473	−3,650	−3,835	−4,002
Heritage Compensation Reforms	−141	−152	−162	−176	−188	−201	−215	−229	−244	−262
Heritage Base Total	−19,665	−843	18,079	17,940	18,153	18,368	18,575	18,787	18,992	19,231
Budgetary Impact	−27,725	−28,960	−10,374	−10,998	−11,330	−11,440	−10,736	−10,472	−10,739	−13,322

TOTAL BUDGETARY IMPACT, 2017–2026: −146,097

DEPARTMENT OF HEALTH AND HUMAN SERVICES

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
CBO Base Discretionary	86,867	88,939	91,047	93,260	95,567	97,907	100,342	102,801	105,369	108,047
CBO Base Mandatory	1,062,281	1,059,201	1,147,978	1,230,419	1,296,075	1,416,526	1,467,592	1,512,720	1,645,713	1,754,157
CBO Base Total	1,149,148	1,148,140	1,239,025	1,323,679	1,391,642	1,514,433	1,567,934	1,615,521	1,751,082	1,862,204
Heritage Base Discretionary	91,454	92,483	91,410	90,272	89,089	87,919	86,710	85,517	84,281	82,991
Heritage Base Mandatory	924,328	910,750	938,996	982,252	1,003,597	1,044,387	1,062,610	1,106,368	1,154,063	1,191,902
Heritage Compensation Reforms	−802	−863	−921	−1,002	−1,068	−1,139	−1,223	−1,302	−1,385	−1,489
Heritage Base Total	1,014,981	1,002,370	1,029,485	1,071,522	1,091,617	1,131,167	1,148,098	1,190,583	1,236,958	1,273,405
Budgetary Impact	−134,167	−145,770	−209,540	−252,157	−300,025	−383,266	−419,836	−424,938	−514,124	−588,799

TOTAL BUDGETARY IMPACT, 2017–2026: −3,372,622

NOTE: Total Budgetary Impact includes $957.6 billion in transfers from the Departments of Agriculture and Housing and Urban Development. Excluding these transfers, the proposed reforms would reduce HHS spending by $4.330 trillion over the 2017–2026 period.

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APPENDIX TABLE 1

Heritage Proposal: Federal Department and Agency Spending (Page 3 of 9)

SPENDING IN MILLIONS OF DOLLARS

DEPARTMENT OF HOMELAND SECURITY

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
CBO Base Discretionary	49,420	50,839	52,293	53,773	55,321	56,877	58,509	60,182	61,920	61,800
CBO Base Mandatory	–1,699	–1,522	–2,244	–2,517	–2,952	–3,235	–3,539	–3,870	–4,223	3,495
CBO Base Total	47,721	49,317	50,049	51,256	52,369	53,642	54,970	56,312	57,697	65,295
Heritage Base Discretionary	41,025	42,651	44,341	46,093	47,889	49,744	51,664	53,626	55,656	55,835
Heritage Base Mandatory	–2,098	–4,456	–6,793	–8,696	–10,777	–11,461	–12,184	–12,950	–13,756	–6,510
Heritage Compensation Reforms	–1,760	–1,892	–2,020	–2,198	–2,344	–2,498	–2,683	–2,855	–3,039	–3,266
Heritage Base Total	37,168	36,303	35,528	35,199	34,769	35,785	36,798	37,821	38,861	46,060
Budgetary Impact	–10,553	–13,014	–14,521	–16,057	–17,600	–17,857	–18,172	–18,491	–18,836	–19,235

TOTAL BUDGETARY IMPACT, 2017–2026: –164,338

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
CBO Base Discretionary	38,982	41,076	42,680	44,387	46,453	47,462	48,566	49,667	50,819	52,021
CBO Base Mandatory	–166	–157	–157	–157	–157	–157	–157	–157	–157	–157
CBO Base Total	38,816	40,919	42,523	44,230	46,296	47,305	48,409	49,510	50,662	51,864
Heritage Base Discretionary	34,737	31,297	27,782	23,927	19,456	15,148	10,575	5,787	756	0
Heritage Base Mandatory	–149	–126	–110	–94	–79	–63	–47	–31	–16	0
Heritage Compensation Reforms	–77	–83	–89	–97	–103	–110	–118	–126	–134	–144
Heritage Base Total	34,510	31,088	27,583	23,736	19,274	14,975	10,410	5,630	607	–144
Budgetary Impact	–4,306	–9,831	–14,940	–20,494	–27,022	–32,330	–37,999	–43,880	–50,055	–52,008

TOTAL BUDGETARY IMPACT, 2017–2026: –292,864

NOTE: Total Budgetary Impact includes $28.2 billion in transfers to HHS. Excluding these transfers, the proposed reforms would reduce HUD spending by $264.6 billion over the 2017–2026 period.

DEPARTMENT OF THE INTERIOR

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
CBO Base Discretionary	13,556	13,939	14,331	14,727	15,151	15,566	15,998	16,467	16,932	17,415
CBO Base Mandatory	576	1,387	1,117	1,208	897	946	832	507	463	425
CBO Base Total	14,132	15,326	15,448	15,935	16,048	16,512	16,830	16,974	17,395	17,840
Heritage Base Discretionary	11,098	11,375	11,344	11,307	11,238	11,215	11,180	11,093	11,055	11,015
Heritage Base Mandatory	831	1,545	1,272	1,075	929	982	870	546	499	464
Heritage Compensation Reforms	–586	–630	–673	–732	–780	–832	–893	–951	–1,012	–1,087
Heritage Base Total	11,343	12,289	11,944	11,650	11,386	11,365	11,156	10,688	10,542	10,392
Budgetary Impact	–2,789	–3,037	–3,504	–4,285	–4,662	–5,147	–5,674	–6,286	–6,853	–7,448

TOTAL BUDGETARY IMPACT, 2017–2026: –29,887

NOTES: Total Budgetary Impact includes $70.5 billion in transfers from the Department of Agriculture. Excluding these transfers, the proposed reforms would reduce Interior Department spending by $120.2 billion over the 2017–2026 period. In addition to these savings, the budget would rescind $19.8 billion in additional unobligated resources.

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APPENDIX TABLE 1

Heritage Proposal: Federal Department and Agency Spending (Page 4 of 9)

SPENDING IN MILLIONS OF DOLLARS

DEPARTMENT OF JUSTICE

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
CBO Base Discretionary	29,269	30,142	31,037	31,968	32,928	33,903	34,919	35,965	37,052	38,184
CBO Base Mandatory	18,537	4,662	3,720	3,719	3,217	3,217	3,188	3,178	3,179	3,072
CBO Base Total	47,806	34,804	34,757	35,687	36,145	37,120	38,107	39,143	40,231	41,256
Heritage Base Discretionary	26,571	27,318	27,408	27,490	27,578	27,681	27,778	27,875	27,970	28,061
Heritage Base Mandatory	18,537	4,662	3,720	3,719	3,217	3,217	3,188	3,178	3,179	3,072
Heritage Compensation Reforms	−1,078	−1,159	−1,237	−1,347	−1,436	−1,531	−1,643	−1,749	−1,862	−2,001
Heritage Base Total	44,030	30,821	29,890	29,863	29,359	29,367	29,322	29,304	29,287	29,133
Budgetary Impact	−3,776	−3,983	−4,867	−5,824	−6,786	−7,753	−8,785	−9,839	−10,944	−12,123
TOTAL BUDGETARY IMPACT, 2017–2026:										**−74,680**

DEPARTMENT OF LABOR

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
CBO Base Discretionary	12,235	12,616	13,128	13,721	14,106	14,474	14,856	15,249	15,654	16,076
CBO Base Mandatory	32,470	34,820	38,767	43,649	45,895	47,592	49,692	52,310	54,744	56,958
CBO Base Total	44,705	47,436	51,895	57,370	60,001	62,066	64,548	67,559	70,398	73,034
Heritage Base Discretionary	2,537	2,614	2,631	2,648	2,665	2,683	2,702	2,721	2,741	2,762
Heritage Base Mandatory	873	929	866	735	678	771	698	691	654	603
Heritage Compensation Reforms	−149	−160	−171	−186	−198	−211	−227	−242	−257	−276
Heritage Base Total	3,261	3,383	3,326	3,197	3,145	3,242	3,173	3,170	3,138	3,089
Budgetary Impact	−41,444	−44,053	−48,569	−54,173	−56,856	−58,824	−61,375	−64,389	−67,260	−69,945
TOTAL BUDGETARY IMPACT, 2017–2026:										**−566,889**

NOTE: Total Budgetary Impact includes $404.9 billion in transfers to the Department of Commerce. Excluding these transfers, the proposed reforms would reduce Department of Labor savings by $162.0 billion over the 2017–2026 period.

DEPARTMENT OF STATE, FOREIGN OPERATIONS, AND RELATED PROGRAMS

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
CBO Base Discretionary	29,116	29,778	30,451	31,149	31,876	32,606	33,373	34,146	34,958	35,797
CBO Base Mandatory	966	1,005	1,040	1,080	1,123	1,167	1,211	1,258	1,307	1,359
CBO Base Total	30,082	30,783	31,491	32,229	32,999	33,773	34,584	35,404	36,265	37,156
Heritage Base Discretionary	29,975	30,658	30,658	30,658	30,658	30,658	30,658	30,658	30,658	30,658
Heritage Base Mandatory	729	779	814	854	897	941	985	1,032	1,081	1,133
Heritage Compensation Reforms	−231	−248	−265	−288	−307	−328	−352	−374	−398	−428
Heritage Base Total	30,473	31,189	31,207	31,224	31,248	31,271	31,291	31,316	31,341	31,363
Budgetary Impact	391	406	−284	−1,005	−1,751	−2,502	−3,293	−4,088	−4,924	−5,793
TOTAL BUDGETARY IMPACT, 2017–2026:										**−22,844**

NOTE: Total Budgetary Impact includes $14.1 billion in transfers from the Department of Agriculture. Excluding these transfers, the proposed reforms would reduce Department of State savings by $36.9 billion over the 2017–2026 period.

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APPENDIX TABLE 1

Heritage Proposal: Federal Department and Agency Spending (Page 5 of 9)

SPENDING IN MILLIONS OF DOLLARS

DEPARTMENT OF THE TREASURY

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
CBO Base Discretionary	13,064	13,505	13,962	14,434	14,921	15,414	15,928	16,460	17,013	17,587
CBO Base Mandatory	647,420	727,556	820,269	892,494	956,354	1,018,364	1,085,100	1,148,002	1,208,366	1,271,631
CBO Base Total	660,484	741,061	834,231	906,928	971,275	1,033,778	1,101,028	1,164,462	1,225,379	1,289,218
Heritage Base Discretionary	12,640	12,640	12,640	12,640	12,640	12,640	12,640	12,640	12,640	12,640
Heritage Base Mandatory	591,742	660,160	745,728	815,109	875,592	934,297	997,411	1,056,420	1,113,278	1,173,255
Heritage Compensation Reforms	–887	–954	–1,018	–1,108	–1,181	–1,259	–1,352	–1,439	–1,531	–1,646
Heritage Base Total	603,495	671,846	757,350	826,641	887,051	945,678	1,008,699	1,067,621	1,124,387	1,184,249
Budgetary Impact	–56,989	–69,215	–76,881	–80,287	–84,224	–88,100	–92,329	–96,841	–100,992	–104,969
								TOTAL BUDGETARY IMPACT, 2017–2026:		–850,826

DEPARTMENT OF TRANSPORTATION

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
CBO Base Discretionary	18,998	19,422	19,846	20,293	20,759	21,224	21,713	22,207	22,719	23,253
CBO Base Mandatory	58,372	59,437	60,806	54,577	54,583	54,589	54,596	54,603	54,611	54,618
CBO Base Total	77,370	78,859	80,652	74,870	75,342	75,813	76,309	76,810	77,330	77,871
Heritage Base Discretionary	10,627	10,955	10,966	10,988	11,002	11,010	11,036	11,052	11,080	11,113
Heritage Base Mandatory	45,310	46,398	46,577	45,657	44,745	44,839	44,937	45,040	44,145	44,254
Heritage Compensation Reforms	–514	–553	–590	–642	–684	–730	–783	–834	–887	–954
Heritage Base Total	55,423	56,801	56,953	56,003	55,063	55,119	55,189	55,258	54,338	54,413
Budgetary Impact	–21,947	–22,058	–23,699	–18,867	–20,279	–20,694	–21,120	–21,552	–22,992	–23,458
								TOTAL BUDGETARY IMPACT, 2017–2026:		–216,665

DEPARTMENT OF VETERANS AFFAIRS

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
CBO Base Discretionary	76,499	78,754	81,083	83,485	85,962	88,476	91,098	93,796	96,606	99,525
CBO Base Mandatory	102,404	99,179	111,487	115,916	120,257	134,582	130,273	125,084	140,525	145,519
CBO Base Total	178,903	177,933	192,570	199,401	206,219	223,058	221,371	218,880	237,131	245,044
Heritage Base Discretionary	72,182	74,152	69,281	68,999	68,711	68,446	68,144	67,837	67,479	67,101
Heritage Base Mandatory	102,404	99,179	111,487	115,916	120,257	134,582	130,273	125,084	140,525	145,519
Heritage Compensation Reforms	–3,419	–3,677	–3,925	–4,272	–4,555	–4,855	–5,213	–5,549	–5,904	–6,346
Heritage Base Total	171,167	169,654	176,843	180,643	184,413	198,173	193,204	187,372	202,100	206,274
Budgetary Impact	–7,736	–8,279	–15,727	–18,758	–21,806	–24,885	–28,167	–31,508	–35,031	–38,770
								TOTAL BUDGETARY IMPACT, 2017–2026:		–230,666

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APPENDIX TABLE 1

Heritage Proposal: Federal Department and Agency Spending (Page 6 of 9)

SPENDING IN MILLIONS OF DOLLARS

ENVIRONMENTAL PROTECTION AGENCY

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
CBO Base Discretionary	8,331	8,539	8,749	8,970	9,201	9,430	9,670	9,913	10,174	10,437
CBO Base Mandatory	41	55	−49	−49	−49	−49	−49	−49	−49	−49
CBO Base Total	8,372	8,594	8,700	8,921	9,152	9,381	9,621	9,864	10,125	10,388
Heritage Base Discretionary	2,704	2,771	2,771	2,728	2,802	2,876	2,954	3,032	3,116	3,201
Heritage Base Mandatory	82	91	−9	−9	−9	−9	−9	−9	−9	−9
Heritage Compensation Reforms	−146	−157	−168	−182	−195	−207	−223	−237	−252	−271
Heritage Base Total	2,640	2,704	2,594	2,536	2,599	2,660	2,722	2,786	2,855	2,921
Budgetary Impact	−5,732	−5,890	−6,106	−6,385	−6,553	−6,721	−6,899	−7,078	−7,270	−7,467
							TOTAL BUDGETARY IMPACT, 2017–2026:			**−66,101**

OFFICE OF PERSONNEL MANAGEMENT

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
CBO Base Discretionary	280	287	294	302	310	318	326	334	343	354
CBO Base Mandatory	96,195	99,322	102,945	106,752	110,715	114,805	119,012	123,360	127,816	132,394
CBO Base Total	96,475	99,609	103,239	107,054	111,025	115,123	119,338	123,694	128,159	132,748
Heritage Base Discretionary	280	287	287	287	287	287	287	287	287	287
Heritage Base Mandatory	96,195	99,322	102,945	106,752	110,715	114,805	119,012	123,360	127,816	132,394
Heritage Compensation Reforms	86,206	14,335	15,377	16,853	17,812	18,566	19,994	20,597	21,793	23,200
Heritage Base Total	182,681	113,944	118,609	123,892	128,814	133,658	139,293	144,244	149,896	155,881
Budgetary Impact	86,206	14,335	15,370	16,838	17,789	18,535	19,955	20,550	21,737	23,133
							TOTAL BUDGETARY IMPACT, 2017–2026:			**254,448**

U.S. POSTAL SERVICE

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
CBO Base Discretionary	330	340	352	363	376	388	400	414	427	441
CBO Base Mandatory	3,457	60	64	67	72	77	82	87	93	99
CBO Base Total	3,787	400	416	430	448	465	482	501	520	540
Heritage Base Discretionary	330	340	340	340	340	340	340	340	340	340
Heritage Base Mandatory	3,457	60	64	67	72	77	82	87	93	99
Heritage Compensation Reforms	0	0	0	0	0	0	0	0	0	0
Heritage Base Total	3,787	400	404	407	412	417	422	427	433	439
Budgetary Impact	0	0	−12	−23	−36	−48	−60	−74	−87	−101
							TOTAL BUDGETARY IMPACT, 2017–2026:			**−441**

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APPENDIX TABLE 1

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SPENDING IN MILLIONS OF DOLLARS

SOCIAL SECURITY ADMINISTRATION

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
CBO Base Discretionary	10,662	10,987	11,322	11,667	12,022	12,384	12,760	13,149	13,553	13,974
CBO Base Mandatory	917,027	970,493	1,039,814	1,109,630	1,184,048	1,269,494	1,348,651	1,431,501	1,531,822	1,633,013
CBO Base Total	927,689	981,480	1,051,136	1,121,297	1,196,070	1,281,878	1,361,411	1,444,650	1,545,375	1,646,987
Heritage Base Discretionary	9,097	9,365	9,299	9,556	9,821	10,082	10,374	10,684	10,980	11,286
Heritage Base Mandatory	901,531	946,718	1,007,469	1,066,085	1,129,329	1,200,508	1,265,149	1,330,582	1,412,408	1,422,695
Heritage Compensation Reforms	−612	−658	−702	−764	−815	−868	−932	−992	−1,056	−1,135
Heritage Base Total	910,017	955,426	1,016,067	1,074,876	1,138,336	1,209,721	1,274,591	1,340,274	1,422,332	1,432,846
Budgetary Impact	−17,672	−26,054	−35,069	−46,421	−57,734	−72,157	−86,820	−104,376	−123,043	−214,141

TOTAL BUDGETARY IMPACT, 2017–2026: −783,488

SECURITIES AND EXCHANGE COMMISSION

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
CBO Base Discretionary	0	0	0	0	0	0	0	0	0	0
CBO Base Mandatory	86	66	261	61	61	61	61	61	61	261
CBO Base Total	86	66	261	61	61	61	61	61	61	261
Heritage Base Discretionary	0	0	0	0	0	0	0	0	0	0
Heritage Base Mandatory	22	−41	108	−141	−193	−247	−305	−367	−431	−300
Heritage Compensation Reforms	−43	−46	−49	−53	−57	−61	−65	−69	−74	−79
Heritage Base Total	−21	−87	59	−194	−249	−308	−370	−436	−505	−379
Budgetary Impact	−107	−153	−202	−255	−310	−369	−431	−497	−566	−640

TOTAL BUDGETARY IMPACT, 2017–2026: −3,532

FEDERAL COMMUNICATION COMMISSION

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
CBO Base Discretionary	0	0	0	0	0	0	0	0	0	0
CBO Base Mandatory	−3,117	103	10,153	10,813	10,973	11,133	12,408	12,583	7,043	12,773
CBO Base Total	−3,117	103	10,153	10,813	10,973	11,133	12,408	12,583	7,043	12,773
Heritage Base Discretionary	0	0	0	0	0	0	0	0	0	0
Heritage Base Mandatory	−3,117	103	10,153	10,813	10,973	11,133	12,408	12,583	7,043	12,773
Heritage Compensation Reforms	−16	−17	−18	−20	−21	−22	−24	−25	−27	−29
Heritage Base Total	−3,133	86	10,135	10,793	10,952	11,111	12,384	12,558	7,016	12,744
Budgetary Impact	−16	−17	−18	−20	−21	−22	−24	−25	−27	−29

TOTAL BUDGETARY IMPACT, 2017–2026: −219

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APPENDIX TABLE 1

Heritage Proposal: Federal Department and Agency Spending (Page 8 of 9)

SPENDING IN MILLIONS OF DOLLARS

FEDERAL DEPOSIT INSURANCE CORPORATION

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
CBO Base Discretionary	0	0	0	0	0	0	0	0	0	0
CBO Base Mandatory	975	2,300	3,000	2,500	2,200	2,200	2,300	2,400	2,500	2,600
CBO Base Total	975	2,300	3,000	2,500	2,200	2,200	2,300	2,400	2,500	2,600
Heritage Base Discretionary	0	0	0	0	0	0	0	0	0	0
Heritage Base Mandatory	975	2,300	3,000	2,500	2,200	2,200	2,300	2,400	2,500	2,600
Heritage Compensation Reforms	−62	−66	−71	−77	−82	−87	−94	−100	−106	−114
Heritage Base Total	913	2,234	2,929	2,423	2,118	2,113	2,206	2,300	2,394	2,486
Budgetary Impact	−62	−66	−71	−77	−82	−87	−94	−100	−106	−114

TOTAL BUDGETARY IMPACT, 2017–2026: −860

CONSUMER FINANCIAL PROTECTION BOARD

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
CBO Base Discretionary	0	0	0	0	0	0	0	0	0	0
CBO Base Mandatory	665	723	736	749	763	777	791	805	820	835
CBO Base Total	665	723	736	749	763	777	791	805	820	835
Heritage Base Discretionary	0	0	0	0	0	0	0	0	0	0
Heritage Base Mandatory	325	163	0	0	0	0	0	0	0	0
Heritage Compensation Reforms	−14	−15	0	0	0	0	0	0	0	0
Heritage Base Total	311	147	0	0	0	0	0	0	0	0
Budgetary Impact	−354	−576	−736	−749	−763	−777	−791	−805	−820	−835

TOTAL BUDGETARY IMPACT, 2017–2026: −7,206

OTHER AGENCY FEDERAL COMPENSATION REFORM SAVINGS

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Heritage Compensation Reforms	−7,888	−8,483	−9,055	−9,854	−10,507	−11,199	−12,025	−12,800	−13,621	−14,639

TOTAL BUDGETARY IMPACT, 2017–2026: −110,072

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APPENDIX TABLE 1

Heritage Proposal: Federal Department and Agency Spending (Page 9 of 9)

NOTES

Compensation Reforms: The reported savings are based on federal compensation reforms detailed in Rachel Greszler and James Sherk, "Why It Is Time to Reform Compensation for Federal Employees," Heritage Foundation Backgrounder No. 3139, July 27, 2016, http://report.heritage.org/bg3139. Whereas the accrual–based compensation savings exceed $330 billion over 10 years, many of those savings are not realized until federal employees retire, so the budgetary savings over the first 10 years are more limited. Much of the reduction in agencies' personnel costs comes through lower pension contributions, but those reductions are recorded as a loss to OPM because the funds no longer go into the federal employees' retirement fund. If compensation reform savings were reported on an accrual basis (the present value of future savings as savings accrue), the total 10–year budgetary savings of all proposed reforms would increase from $10.003 trillion to $10.319 trillion. Estimated personnel savings are based on the number of employees in each agency in December 2015. While we account for the effect of proposed federal compensation reforms on the number of federal employees, we do not take into account additional, agency–specific proposals that would affect the number of federal employees. For example, although the Department of Labor would shift a significant portion of its employment to the Department of Commerce, we do not estimate that shift in employment between agencies, but instead assume all agencies' total employment figures grow at the same rate based on their December 2015 levels. Moreover, we do not estimate reduced levels of employment based on agency reforms. To the extent that certain proposals change an agency's employment levels, compensation savings could be larger or smaller than reported.

Transfers: Some proposals transfer particular programs and services from one agency to another. We include the impact of those transfers in the Heritage Discretionary and Mandatory Spending levels. As a result, some agencies appear to have very large increases or decreases in spending that do not originate from those agencies' listed reforms. In those cases, we've included a note on the total budgetary impact excluding transfers for each agency's savings based exclusively on the specific reforms outlined within that agency, excluding any transfers into or out of the agency.

SOURCES: In most cases, estimated savings come from eliminating or reducing program spending as reported in the CBO's baseline spending estimates: Congressional Budget Office, "Updated Budget Projections: 2016 to 2026," March 24, 2016, https://www.cbo.gov/publication/51384 (accessed June 15, 2016). If specific programs were not included in the CBO's baseline, FY 2016 appropriated spending levels were typically used. Those 2016 levels were then calculated as a percentage of total discretionary or mandatory baseline spending and projected forward for 2017–2026 (if that methodology resulted in unreasonable assumptions, the FY 2016 spending levels were usually adjusted upwards for inflation). Some estimates, such as those for health care and federal compensation reforms were estimated through The Heritage Foundation's Center for Data Analysis. Additional information on savings calculations can be found in Appendix Table 2.

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APPENDIX TABLE 2

Heritage vs. CBO: Outlays by Major Category

HERITAGE PROPOSAL—OUTLAYS BY MAJOR CATEGORY

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2017–2026
Social Security	942	990	1,046	1,103	1,164	1,225	1,289	1,354	1,423	1,423	11,957
Medicare	557	558	575	595	616	646	653	685	721	745	6,349
Medicaid and Other Mandatory	776	697	760	786	800	840	843	844	878	926	8,150
Discretionary (Base)	1,006	999	1,009	1,018	1,021	1,033	1,046	1,057	1,067	1,079	10,336
Defense	572	591	609	625	642	658	676	693	711	729	6,506
Non-Defense	434	407	400	393	379	375	371	364	356	350	3,830
Global War on Terrorism	61	27	26	26	25	10	3	0	0	0	178
Net Interest	301	347	394	428	450	465	482	488	486	492	4,333
Total Outlays	3,644	3,618	3,809	3,955	4,076	4,219	4,315	4,428	4,575	4,664	41,304

HERITAGE PROPOSAL—OUTLAYS AND REVENUE

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2017–2026
Outlays	3,644	3,618	3,809	3,955	4,076	4,219	4,315	4,428	4,575	4,664	41,304
Revenue	3,429	3,546	3,665	3,816	3,959	4,115	4,281	4,463	4,664	4,850	40,787
Deficit (–) or Surplus (+)	–215	–72	–145	–139	–117	–104	–34	34	90	185	–516

CBO—OUTLAYS AND REVENUE (March 2016 Baseline)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2017–2026
Outlays	4,058	4,194	4,482	4,729	4,972	5,290	5,504	5,709	6,051	6,385	51,373
Revenue	3,508	3,645	3,772	3,931	4,082	4,247	4,423	4,615	4,825	5,042	42,089
Deficit (–) or Surplus (+)	–550	–549	–710	–798	–890	–1,043	–1,080	–1,094	–1,226	–1,343	–9,283

HERITAGE PROPOSAL VS. CBO

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2017–2026
Outlays	–414	–576	–673	–774	–896	–1,071	–1,188	–1,280	–1,476	–1,721	–10,069
Revenue	–79	–99	–107	–115	–123	–132	–142	–152	–161	–192	–1,302
Deficit (–) or Surplus (+)	335	477	566	659	773	939	1,046	1,128	1,315	1,529	8,767

SOURCES: Congressional Budget Office, "Updated Budget Projections: 2016 to 2026," https://www.cbo.gov/publication/51384 (accessed June 15, 2016), and Heritage Foundation calculations.

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Savings Estimates

In most cases, estimated savings come from eliminating or reducing program spending as reported in CBO's baseline spending estimates: Congressional Budget Office, "Updated Budget Projections: 2016 to 2026," March 24, 2016, https://www.cbo.gov/publication/51384 (accessed June 15, 2016).

If specific programs were not included in CBO's baseline, we typically used FY 2016 appropriated spending levels, calculating those levels as a percent of total discretionary or mandatory baseline spending and then projecting them forward for 2017–2026. If that methodology resulted in unreasonable assumptions (for example, when there were large swings in total discretionary or mandatory spending levels), the FY 2016 spending levels were usually adjusted upward for inflation and then eliminated or reformed per the proposal.

Some estimates, such as those for health care and federal compensation reforms, were estimated through the Heritage Foundation's Center for Data Analysis (CDA).

HEALTH CARE REFORMS

Health insurance market effects were modeled in the CDA utilizing the Heritage Health Insurance Microsimulation Model (HHIMM).

For more information on proposed Medicare reforms, see Robert E. Moffit and Rea S. Hederman, "Medicare Savings: 5 Steps to a Down Payment on Structural Reform," Heritage Foundation *Issue Brief* No. 3908, April 11, 2013, http://www.heritage.org/research/reports/2013/04/medicare-savings-5-steps-to-a-downpayment-on-structural-reform.

FEDERAL COMPENSATION REFORMS

The savings presented for federal compensation reforms represent cash-based savings—that is, they show the total difference in actual spending by agencies and across the total federal budget each year. Because many of the reforms deal with retirement benefits, those savings are not realized until employees retire. While agencies themselves realize savings in the form of reduced contributions to the federal employees retirement systems, those reduce contributions are fully offset in the budget as reduced revenues into federal employees' retirement account within OPM. Additionally, the impact of lump sum payouts for employees who choose to roll over their accrued FERS benefits into their TSP accounts results in a big expense to the government in 2017, but that expense generates much larger savings in future years and decades as no pension benefits will be paid to employees who choose a lump sum rollover.

On a cash basis, as outlined in this document, the federal compensation reforms generate about $34 billion in savings over the 2017–2026 period. On an accrual basis, which would recognize the reduced costs as they accrue (as opposed to when benefits are paid), the compensation reforms would generate $333 billion in savings.

NON-DEFENSE DISCRETIONARY FREEZE

In addition to the specific reforms proposed, all remaining non-defense discretionary spending was frozen at its FY 2018 level, as specified in CBO's March 2016 Baseline Budget. For example, if a reform proposal either reduced or eliminated 10 of a total of 50 line items in a department's non-defense discretionary spending budget, we took the remaining 40 line items and froze them at their 2018 level for the years 2019–2026.

INTEREST SAVINGS

The proposed reforms and federal compensation savings generate significantly lower deficits, which in turn reduce federal interest payments. The proposed reforms would generate $1.468 trillion in interest savings over the 2017–2026 period. These interest savings are included in the total $10.003 trillion in savings over the 2017–2026 period.

ADDITIONAL SAVINGS FROM THE BASELINE

The total reported savings include removal of emergency spending from the CBO baseline and the addition of program integrity savings as well as a slightly revised level of spending on Oversees Contingency Operations (OCO).

Revenue Estimate of Foundational Tax Plan

The revenue estimate for the foundational tax plan was produced using a fixed-revenue baseline that equals the CBO revenue baseline minus taxes enacted to pay for the coverage expansions implemented by the Affordable Care Act (Obamacare). The tax rate for the proposal is set so that it raises that predetermined revenue level given the chosen base.

The individual income tax will be replaced with a new base that taxes all wages and salaries, but excludes income from investments, savings, interest, and rents. The new tax base was estimated using National Income and Product Account (NIPA) data from the Bureau of Economic Analysis (BEA).

Wages and salaries are the largest part of the base, which also includes fringe benefits. The value of employer-provided health insurance is included, as the plan does not include the exclusion for employer-provided health insurance. Leaving it out would mean that income would be deducted twice once the exclusion is added back or an individual credit is substituted in its place. Since the foundational plan assumes a yield-exempt, or Roth IRA, treatment of savings, employer-pension contributions were also included in the base, as were distributions from existing tax-deferred retirement savings plans like 401(k)s, since income placed in those accounts has not been taxed yet. Some government transfers are also included in the base because they are income. Half of Social Security income is included as it is under current law. Only the charitable deduction is included in the foundation plan. Data for that was obtained from the IRS.

The final tax base was calculated by adding all the components of the base and subtracting charitable contributions. The resulting tax base was then divided by the predetermined revenue amount to calculate the rate.

All businesses are subject to the business tax, which is different than the current tax system, where many businesses pay taxes through the individual income tax system. There is no distinction between c-corporations and pass-through business. The base is calculated by starting with Gross Domestic Product (GDP) (minus net imputed rental income), and subtracting employee compensation, changes in inventories, and capital investment. The rate is calculated the same ways as on the individual side.

Individual income taxes are assumed to collect about 40 percent of all taxes. We calculated this figure by taking the average percentage of revenue the individual income tax has raised since 2004 and subtracting pass-through business income, which the proposal taxes under the new business tax system. Revenue from abolished taxes, such as excise taxes not devoted to a particular trust fund, and the estate tax are added to the individual share of the total tax burden.

The business tax accounts for about 20 percent of tax revenue. That accounts for the average corporate revenue since 2004 plus pass-through revenue.

Payroll taxes are assumed to raise the same amount of revenue as they have since 2004, or about 40 percent of all revenues.

The remaining revenue comes from excises dedicated to trust funds and other taxes.

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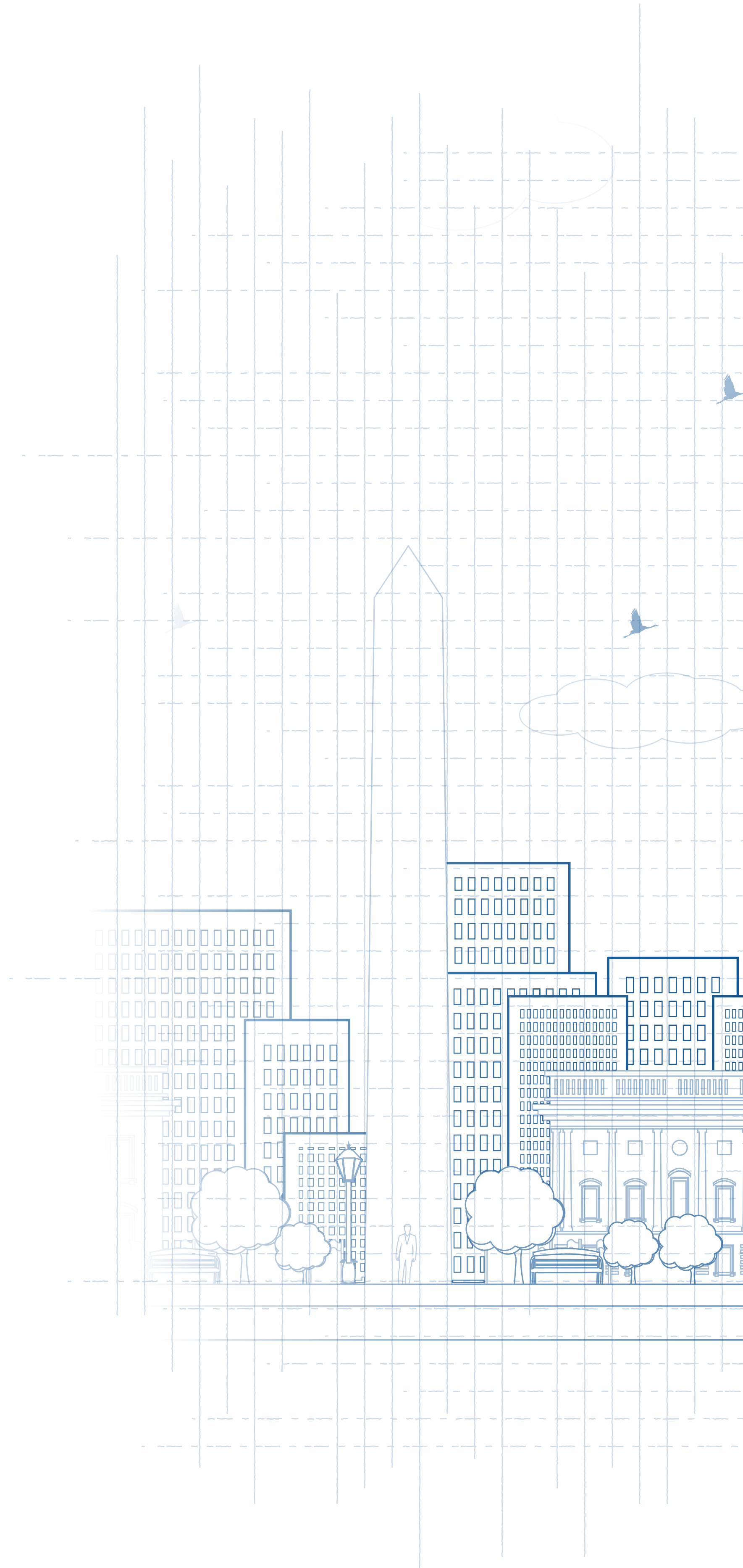

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