

Chapter 1: Policies for a Congressional Budget

Each year, Congress is required to pass a budget resolution that addresses the entirety of the federal budget: all spending and all taxes. While the budget resolution does not carry the force of law, it is a key tool for Congress to lay out its vision for the nation and establish policy goals for the following fiscal year and the years ahead.

The budget resolution also sets the stage for enabling Congress to follow through on its vision with separate legislation, especially budget reconciliation, which allows a bill to bring current law into compliance with the resolution to be fast-tracked in Congress, and makes it filibuster-proof in the Senate.

With nearly \$20 trillion in national debt, and an annual deficit projected to grow from a half trillion dollars to more than a trillion dollars before the end of the decade, the budget resolution presents a critical opportunity for Congress to address the key drivers of the government's financial problems: spending and debt. Sustainable budgeting is a bipartisan problem.

Congress should put the budget on a path toward balance in order to reduce debt and enable economic growth to raise living standards for all Americans, while reducing the tax burden and strengthening national defense.

Congress should repeal Obamacare and reform the major entitlement programs: Medicare, Medicaid, Social Security, and welfare. Congress should ensure that America's veterans receive quality, timely, and affordable health care that is focused on the unique needs of service-related conditions.

To strengthen civil society, Congress should protect life and conscience and defend religious liberty.

In reviving true federalism, Congress should leave matters of infrastructure, natural resource management, education, and welfare principally to states and localities and the private sector.

Congress should also review Federal Reserve policy and restrain the central bank's discretion. Reducing harmful regulations will enable entrepreneurs and businesses to expand the economy and enhance opportunity for all Americans to achieve their version of the American dream. This chapter outlines the major policy objectives that should guide the congressional budget.

Balanced Budget. Congress should reduce spending, cut taxes, protect the nation, and reduce the reach of special interests and the government into the lives of the American people. The proposals outlined here would balance the primary deficit (the deficit not including interest payments) within the first year of enactment. However, the annual deficit including interest payments will not reach balance until 2024 (or perhaps earlier with a dynamic calculation that would take account of economic growth sparked by reductions in federal spending and taxation). Under this proposal, debt-service payments would grow from \$293 billion in 2018 to \$513 billion in 2027 to pay for the debt accumulated before the plan is enacted. This proposal illustrates why it is so critical to reduce spending before even more debt is added to the federal balance sheet.

Strong National Defense. Congress should prioritize national security spending to fund critical defense needs and begin rebuilding of military capabilities after years of defense cuts. Under current

law, the fiscal year (FY) 2018 defense budget level is below the FY 2017 level in nominal terms, and is well below what is needed to defend the country. The Heritage Foundation's *2017 Index of U.S. Military Strength* rated the U.S. military as "marginal" due to cuts to capacity, which hurt both capability and readiness.

To begin rebuilding the military will require a significant funding increase for defense. Instead of continuing to shortchange our national defense, Congress should increase defense spending to preserve military capacity, increase readiness, and make investments in modernization. Congress should work with President Donald Trump to expand and strengthen the military and improve national security. While a strong defense budget alone is not enough to keep the U.S. safe, a weak defense budget leads to a weak military and invites further provocations from America's enemies.

Restoring Economic Freedom. Economic freedom in the United States has declined in nine of the past 10 years. According to The Heritage Foundation's *2017 Index of Economic Freedom*, the U.S. is ranked the 17th-freest economy in the world, registering its lowest economic freedom score since the *Index* was first published in 1994. Large budget deficits and a high level of public debt have contributed to the continuing decline of economic freedom in the United States. America's competitiveness in the world, as shown by the anemic economic recovery since the Great Recession, has been undermined by the increased size and scope of the government, including soaring regulatory and tax burdens. The perception of government cronyism, elite privilege, and corruption has reduced individual and business confidence in the U.S. economy. While the U.S. is currently deeply mired in the ranks of the "mostly free"—the second-tier economic freedom status into which it dropped in 2010—Congress can make substantial progress in restoring economic freedom by adopting the proposals in this budget.

Pro-Growth Tax Reform. Federal taxes should exist to raise only those revenues necessary to fund the constitutionally prescribed duties of the federal government. Revenues should be collected in the least economically damaging manner. The U.S. system fails Americans on both fronts: Taxes are too high, and the tax system is much more economically destructive than it should be.

The U.S. tax code's complexity and structure harms economic growth, productivity, job creation,

and real wage increases. Fundamental tax reform would alleviate the harm caused by the tax system and thereby significantly expand the size of the economy. Stronger economic growth would substantially improve the incomes of Americans, and enhance their economic opportunities.

Fundamental tax reform should lower individual and business tax rates; establish a consumption tax base, rather than the hybrid income-consumption tax base that the current system uses; eliminate the bias against saving and investment; eliminate tax preferences; simplify the tax system; and make the U.S. tax system more transparent so that taxpayers understand how much they are paying every year to fund the federal government.

True Federalism. The U.S. should restore respect for the traditional role of states in this country's federal system, a federalism that has eroded steadily with the excessive growth of the federal government. Contrary to popular belief, federalism should not be in the service of the states, but in the service of the American people. States do not possess rights—people do.

Properly understood, federalism aims not only to limit power, but to create competition among the states, thereby creating incentives for them to enact policies that retain and attract citizens. Within the confines of the Constitution, states should therefore be free to enact policies that best serve the needs of their citizens.

To revive true federalism, Congress should focus on its core constitutional responsibilities and not treat the states as administrative sub-units tasked with helping to implement federal policies using federal funds. Because Congress is now involved in so many areas, Congress must propose issue-specific reforms that will restore constitutional governance in each of these areas. Congress should also stop trying to induce states to adopt its preferred policies by making state acceptance of these policies a condition of states' receiving federal funds. Rather, Congress should leave to the states those programs that do not carry out a constitutional function of the federal government, or that otherwise ought to be handled by states.

No Hidden Taxes Through Regulation. Federal spending and revenues constitute only one part of the total burden imposed on Americans by Washington. Rules imposed by federal regulators also impose crushing costs on the U.S. economy and society. During the Obama Administration alone, these costs increased by over \$100 billion annually.

Congress, along with the new President, must reverse this out-of-control regulatory growth. It should start by repealing the harmful and unnecessary rules that have been imposed on Americans. These range from restrictions on Internet providers to Obamacare health insurance mandates to costly limits on energy production and greenhouse gases. Next, Congress should require that every major new rule be approved by the House and Senate before taking effect. Moreover, existing rules should be subject to automatic expiration (often called “sunsetting”) if not specifically renewed after a certain time.

Support for Entrepreneurship Through Reformed Securities Laws. A morass of securities regulations impede capital formation, disproportionately harm small and start-up businesses, and reduce innovation and economic growth. Securities laws should focus primarily on the core mission of deterring and punishing fraud, and require reasonable, limited, scaled disclosure by widely held firms of material information required by investors to make informed investment decisions, such that larger and even more widely held firms are subject to greater disclosure requirements.

The modern securities market is generally *interstate* in character, and therefore most primary offerings, secondary markets, and broker-dealers should be subject only to the federal regulatory regime, while state securities regulation should be limited to *intra*-state offerings and anti-fraud enforcement rather than offering registration and qualification. The law should allow the development of robust secondary markets in the securities of smaller companies by improving existing secondary markets for small public companies, establishing a regulatory environment that enables venture exchanges, and reasonably regulating the secondary sales of private securities. Regulators should not engage in “merit review” or mandate particular portfolio choices; regulators should not substitute their investment or business judgment for that of investors.

Rules-Based Monetary System. Many take for granted that the Federal Reserve has contributed positively to economic stabilization, but the U.S. has experienced severe economic turmoil in at least four different decades since the Fed was founded. Recessions have not become less frequent or shorter in duration, output has not become less volatile, and some of the worst U.S. economic crises have occurred on the Fed’s watch. Furthermore, the Fed’s action during the 2008 financial crisis is only the latest

example of its long history of propping up failing firms—throughout its history, the Fed has operated within a purely discretionary policy framework.

Congress should reduce the Fed’s discretion in monetary policy and direct the central bank to implement rules-based policies that move the U.S. toward a truly competitive monetary system. Congress should also review the effectiveness of the Federal Reserve with a formal commission. Finally, Congress should require the Fed to announce a plan detailing how it will normalize its balance sheet and dispose of the government-sponsored enterprise (GSE) securities it bought.

Promotion of the Freedom to Trade. The freedom to exchange goods and services openly with others is the foundation of America’s modern economic system, which provides historically unprecedented opportunities for individuals to achieve greater economic freedom, independence, and prosperity. According to data in the annual *Index of Economic Freedom*, countries with low trade barriers are more prosperous than those that restrict trade. Open trade fuels vibrant competition, innovation, and economies of scale, allowing individuals, families, and businesses to take advantage of lower prices and increased choice.

The United States has trade agreements with 20 countries around the world that reduce most taxes on imports from these countries to zero. These agreements cover only about 36 percent of U.S. annual imports, and Congress should further eliminate trade barriers and protectionist policies to increase Americans’ economic freedom. Nearly half of U.S. imports are intermediate goods (goods that are components used in making other goods), and U.S. manufacturers rely on these imported inputs to create American jobs and to compete in the global marketplace. The government should boost manufacturing by eliminating all taxes on imports of intermediate goods. Because the government should not be in the business of picking winners and losers, policies like the sugar program, which causes the price of sugar in the U.S. to be much higher than the global average, and the maritime Jones Act, which mandates that any goods shipped by water from one point in the U.S. to another U.S. location must be transported on U.S.-built vessels, should be eliminated.

Improving Efficacy and Accountability in Infrastructure Funding. Federal funding makes up about one-quarter of public spending on transportation infrastructure. Expansions of the federal

role over the last half-century have crowded out other sources of funding and led to diminution in efficiency, accountability, and fiscal responsibility of infrastructure spending. These expansive top-down decisions have led to a misallocation of resources, and poor incentives in public spending.

In surface transportation, the Highway Trust Fund has been continuously diverted to non-highway projects and has required extensive general-fund bailouts due to overspending. Discretionary grant programs administered at the federal level further create perverse incentives for states and localities to build new, unnecessary transit projects while badly needed maintenance of vital infrastructure goes unfunded. In aviation, federal airport improvement grants and prohibitive regulations siphon resources from the most important airports and distribute it to those of far less significance. The Federal Aviation Administration's Air Traffic Control continues to be run like a bureaucracy instead of a high tech business.

In order to spend more wisely on vital infrastructure that will improve both geographic and economic mobility, the federal role in funding should be restricted to a small group of issues strictly of national importance. This will leave the vast majority of funding decisions to states, localities, and the private sector, which can set priorities more effectively, identify and meet specific needs, and are more accountable to the public. Removing the federal middle man from infrastructure decisions will empower states, localities, and the private sector to build the infrastructure that best suits people's needs while restoring accountability to a system currently mired in federal mismanagement.

Repeal of Obamacare. Obamacare is unpopular, unaffordable, and unworkable. Congress should repeal Obamacare in its entirety. This would eliminate the nearly \$2 trillion in new spending created by the law's exchange subsidies and Medicaid expansion, as well as more than a trillion dollars in new taxes. In addition, full repeal would alleviate the burdens caused by Obamacare's costly and onerous federal insurance regulations that have caused massive disruption in the insurance market and dramatically increased costs. Repeal is essential to controlling government health care spending and to clear the way for an alternative reform that is patient-centered and market-based.

Patient-Centered, Market-Based Health Care Reform. Congress should put in place a framework for a health care reform alternative. This proposal should

promote a free market for health care by removing the federal regulatory and policy obstacles that discourage choice and competition, and address the major drivers in health care spending.

A replacement package should encourage personal ownership of health insurance by reforming the tax treatment of health insurance. Tax relief should be extended for individuals to purchase the coverage of their choice, and the value of the tax exclusion for employer-based health care should be capped.

Medicaid as a True Safety Net. A replacement package should also restore Medicaid to a true safety net. Federal Medicaid assistance for able-bodied individuals should be converted to a direct, defined contribution to facilitate participation in the private marketplace. Federal Medicaid assistance for the low-income elderly should be folded into the Medicare program to streamline seniors' health benefits. For the disabled population, payments to states should be limited to ensure fiscal control but also allow states flexibility to tailor their programs to the specific needs of their population.

Modernize Medicare. A replacement package should also modernize the Medicare program so that it can meet the growing demographic, fiscal, and structural challenges. Medicare should transition to a defined-contribution, premium support model. To prepare the way, smaller Medicare changes—such as raising the retirement age, reducing subsidies for wealthy seniors, and consolidating benefits—would help make the transition to premium support smoother.

Welfare Reform. The current U.S. welfare system has failed the poor. It fails to promote self-sufficiency, and its cost is unsustainable. Total federal and state government spending on dozens of different federal means-tested welfare programs now reaches over \$1 trillion annually. However, most policymakers, along with the American public, are not aware of the full cost of welfare. Congress should include in its annual budget an estimate of total current welfare spending, as well as 10-year projections.

There is dignity and value in work, in supporting one's self and one's dependents. Welfare reform should encourage work, a proven formula for reducing dependence and controlling costs. The food stamp program, one of the largest of the government welfare programs, would be a good place to start: Able-bodied adults receiving food stamps should be required to work, prepare for work, or look for work as a condition of receiving assistance. The work requirements of the

Temporary Assistance for Needy Families program, put into place by the 1996 welfare reform, are much too weak today and must be strengthened.

The vast majority of welfare spending is federal, even when administration of the program occurs at the state level. Because states are not fiscally responsible for welfare programs, they have little incentive to curb dependence or to 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. A first step would be to gradually return fiscal responsibility for all subsidized housing programs to the states.

Additionally, leaders should look for ways to strengthen marriage. The absence of fathers in the home is one of the greatest drivers of child poverty, yet the welfare system penalizes marriage. Policymakers should eliminate marriage penalties in the current welfare system. A place to begin would be with the earned income tax credit (EITC). By reducing widespread fraud in the EITC, policymakers could not only restore integrity to the EITC program and reap large savings, but a portion of that savings could be put toward eliminating marriage penalties in the rest of the welfare system.

Limit Federal Intervention and Restore State and Local Control of Education. Since President Lyndon B. Johnson signed the Elementary and Secondary Education Act (ESEA) into law in 1965 as the keystone education component of his War on Poverty, the federal government—which represents 10 percent of all K–12 education spending—has appropriated some \$2 trillion in an effort to improve the educational outcomes of American students. Despite a more than doubling of inflation-adjusted federal per-pupil expenditures since that time, only slightly more than one-third of children in grades four and eight are proficient in reading—a figure effectively unchanged since the early 1970s. Moreover, achievement gaps among students remain, and graduation rates for disadvantaged students are stagnant.

These lackluster outcomes—and in some cases declines—in academic performance come despite continued increases in education spending. These underwhelming outcomes add to the evidence that ever-increasing government spending is not the key to improving education. In order to shift education functions from the federal government to state and local leaders, Congress should limit federal intervention in education, beginning by eliminating ineffective and duplicative programs and offering relief to

states and schools through reforms in the Academic Partnerships Lead Us to Success (A-PLUS) Act.

Higher Education Accreditation Reform and Restraint in Federal Higher Education Subsidies. When tax credits and deductions are included, total aid for higher education, including non-federal sources, exceed \$250 billion annually. Federal aid alone accounts for more than \$158 billion annually. Federal higher education subsidies have increased substantially over the past decade. The number of students who borrow money through federal student loans increased by 64 percent—from 5.9 million students during the 2002–2003 academic year, to some 9.7 million today. At the same time, Pell Grant funding has more than doubled in real terms; the number of recipients has nearly doubled over the same time period.

As federal subsidies have increased, so, too, have college costs. Since 1980, tuition and fees at public and private universities have grown at least twice as fast as the rate of inflation. Some 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.

To increase access to and affordability of higher education, policymakers should limit federal subsidies and spending, which have contributed to increases in costs. In order to truly drive down college costs and improve access for students, policymakers should undertake major reforms to accreditation, including decoupling federal financing from the ossified accreditation system.

Access to Natural Resource Production, Increased Trade Opportunities, and Empowered States. With the abundance of resources beneath U.S. soil, this land is literally a land of opportunity. America has an abundance of natural resources, including plentiful reserves of coal, natural gas, uranium, and oil. Federal government control of vast tracts of America's land and federal regulations have stymied proper management of lands and development of natural resources. Furthermore, the government has placed restrictions on trading energy that blocks opportunities to expand to new markets.

Congress should open access to natural resource development in the U.S., allow states to control the environmental review and permitting processes within their borders, and open opportunities to freely import and export energy resources and technologies.

Elimination of All Energy Subsidies. Over the years, Congress has implemented numerous policies

to subsidize the production or consumption of one good over another, including through direct cash grants, special tax treatment, taxpayer-backed loans and loan guarantees, socialized risk through insurance programs, mandates to produce biofuels, tariffs, and energy sales at below-market costs. Whatever shape such favoritism takes, the results are always the same: The government delivers benefits to a small, select group and spreads the costs across the economy to families and consumers.

Subsidies significantly obstruct the long-term success and viability of the very technologies and energy sources that they intend to promote. 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. Congress should eliminate preferential treatment for every energy source and technology and let a free market in energy work to the benefit of Americans.

Reform of Social Security, Including Disability Insurance. Social Security's Old Age Survivors and Disability Insurance (OASDI) programs provide a false sense of security by promising more in benefits than they can pay. Combined, these programs cost \$1 trillion in 2018—about one-quarter of the federal budget—to provide benefits to 60 million beneficiaries. OASDI's combined unfunded obligation over the 75-year horizon tops \$13 trillion.

Although Congress avoided the DI program's 2016 insolvency by raiding \$150 billion from the OASI Trust Fund, the DI program remains plagued by widespread fraud and abuse, excessive structural flaws and inefficiencies, and work disincentives. To address these problems, policymakers should introduce an optional private DI component; improve work incentives; adopt a needs-based period of disability; eliminate the non-medical vocational grids that allow individuals to receive benefits based on their age, education, or skill; and instruct the Social Security Administration to improve the program's efficiency and integrity.

Within Social Security's retirement program, lawmakers should gradually and predictably increase the program's early and full retirement ages to account for increases in life expectancy, and then index both to longevity. Across both the OASI and DI programs, policymakers should transition to a flat, anti-poverty benefit focused on individuals who need it most, and immediately replace the current cost-of-living adjustment with the more accurate chained consumer price

index. More individuals should be empowered to save for retirement through private means.

Veteran-Centered Reform of the VA Health System. The U.S. Department of Veterans Affairs (VA) health care delivery system is in need of comprehensive reform to ensure that America's veterans receive quality, timely, and affordable health care that is consistent with the changing health care demands of the veteran population and not the institutional concerns of the VA.

First of all, the VA should immediately develop a clear and consistent strategy for ending its current access crisis by allowing VA patients who face excessive wait times or travel-related delays to receive medical care in the private sector. The decisions about when and where to receive care should be based on veteran-specific health care circumstances rather than time or distance restrictions or the arbitrary judgment of VA administrators.

In addition, the VA should resolve the current personnel and management failures by ensuring an adequate supply of highly competent clinicians and by demanding accountability from all employees, regardless of their level within the organization.

More fundamental, fiscally responsible longer-term reforms should include refocusing the use of limited resources on service-related health care needs, especially those services for which the VA has a unique expertise, such as poly-trauma, post-traumatic stress disorder (PTSD), and rehabilitation. However, if a veteran can receive better care at a non-VA facility, especially for non-service-related issues, the VA should facilitate access to those services. These reforms should be fiscally responsible, providing quality care in a cost-effective way. In addition, reforms should be based on a longer-term policy and budget window and avoid the pattern of enacting short-term fixes.

Protection of Life and Conscience. Since the Supreme Court's 1973 decisions in *Roe v. Wade* and *Doe v. Bolton*, inventing a right to abortion on demand, the pro-life movement has worked tirelessly to re-orient the hearts and minds of an entire generation toward the dignity and worth of every existing individual—born and unborn. Despite major pro-life victories over the past four decades, the challenges to life and conscience that inevitably stem from sanctioned abortion on demand persist.

Policymakers should return to a deeper respect for foundational American principles by protecting the freedom of conscience of individuals, medical

providers, and taxpayers, and ensuring the basic rights of liberty and life for everyone, including those still in the womb.

There is long-standing, broad consensus that federal taxpayer funds should not be used for elective abortions or for health insurance that includes coverage for elective abortions. Policymakers should close the patchwork of federal prohibitions on abortion funding by making policies, such as the annually re-enacted Hyde amendment—which prohibits the use of certain federal funds for abortion coverage—permanent across federal law, and enact permanent prohibitions on use of taxpayer funding to encourage or pay for abortions overseas, through foreign aid or otherwise.

American taxpayers simply should not be forced to subsidize the abortion industry. Policymakers should end taxpayer funding for the Planned Parenthood Federation of America affiliates and all other abortion providers, and redirect funding to centers that provide health care for women without entanglement in on-demand abortion. Policymakers should also enact permanent conscience protections for individuals, families, employers, and insurers to keep them from being forced to offer, provide, or pay for coverage that violates their conscience.

Defense of Religious Liberty. The freedom to earn a living, care for the poor, heal the sick, and serve the community in ways that are consistent with one's beliefs is essential for maintaining a just and

free society—and this freedom has suffered erosion in recent years. The right of Americans and institutions to exercise their religious beliefs is not confined to the private sphere, and is protected from government burden and discrimination in public life.

America must return to a more reasonable and historically accurate understanding of religious liberty, upholding religious and moral conscience as an invaluable support for healthy republican government and human flourishing. In 2015, the Supreme Court imposed a redefinition of marriage on all 50 states in the decision of *Obergefell v. Hodges*. Policymakers should promote policies that protect from discrimination those who believe that marriage is the union of one man and one woman. Congress should enact laws to prevent the government from discriminating in regard to contracts, grants, licensing, accreditation, or the award or maintenance of tax-exempt status, against any person or group on the basis of speaking or acting on the belief that marriage is the union of one man and one woman.

A Vision for America. The congressional budget resolution provides Congress with a critical opportunity to review federal policy in all areas and to put forth a strong vision for an America that offers opportunity for all with favoritism to none. Congress should seize this opportunity to begin to drive down federal spending to a balanced budget, while reducing taxes, freeing the economy, and maintaining a strong national defense.