



**The Federal Government:
Problems and Solutions for Today's Problems**

By Peter Soldato

August 2010

Friend of Liberty,

Good information is hard to find quickly in our frenetic world. Peter Soldato spent the summer working on a project with the Libertarian Party of Indiana. He began researching the issues that Americans and Hoosiers care about the most.

He identified the reasons why an issue needs solving, and how to fix it. These aren't official Libertarian Party of Indiana solutions, but they are thought stimulating, and workable. They help to move society and government in a libertarian direction.

We hope you find it useful in your daily conversations with potential voters.

Sincerely,

Chris Spangle

Executive Director

Libertarian Party of Indiana

LIBERTARIAN PARTY RESEARCH

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ECONOMY

PROBLEM: *WASTEFUL, DAMAGING, AND OVERSIZED* GOVERNMENT

FEDERAL DEFICIT:

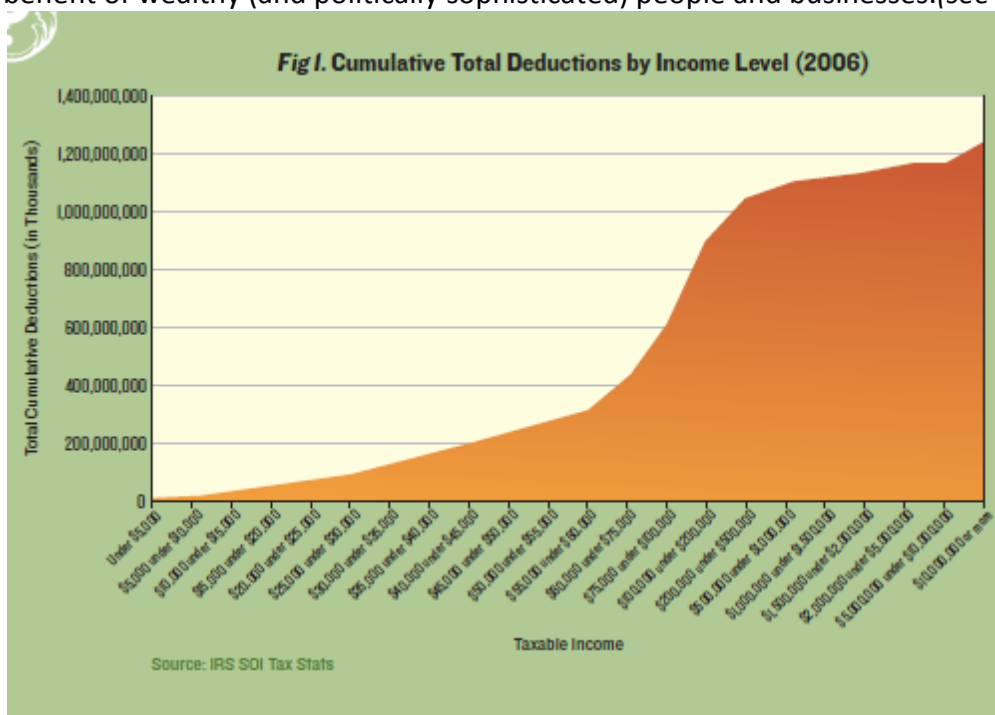
- **Total: over \$13 trillion** (the estimated population of the United States is **308,584,105** so each citizen's share of this debt is **\$42,389.13**)
- The National Debt has continued to increase an average of **\$4.10 billion per day** since September 28, 2007!
- The deficit for fiscal year 2009, which ended Sept. 30, came in at a record **\$1.42 trillion**, more than triple the record set just last year.
- In 2000, the federal government spent \$1.8 trillion while debt held by the public stood at \$3.4 trillion. A mere decade later, the federal government spent more than **\$3.1 trillion** in FY09. After taking out the government's core functions of national defense and justice, it still spent about **\$2.4 trillion** (roughly **\$21,000 for every household** in the United States)
- Congress has shown itself to be incapable of running a \$3 trillion organization with an adequate degree of competence. Americans would receive more benefit from the federal government if its size and scope were greatly reduced, and they received a limited range of much better quality services. Reforms should begin to shed the noncore functions of the federal government so that members of Congress and the president can focus on delivering high-quality basic services, such as national security.
- Total federal outlays **increased 68%** during the eight years of the Bush administration—fiscal years 2001 to 2009—with large increases in defense, education, health care, and other areas. Those increases have come just as the baby boomers begin to retire and the costs of federal entitlement programs are beginning to balloon.
- Even after the current spike in spending caused by the stimulus bill and financial bailouts, Obama is planning to spend at permanently higher levels. By 2019, nondefense spending would hit **17% of GDP**, a 30% higher share of the economy than under

President Clinton in the late 1990s. (This large expansion underestimates Obama's plans because it includes only a fraction of the spending for his health care proposal)

- Spending on the three main entitlement programs—Social Security, Medicare, and Medicaid—is expected to roughly double from \$1.27 trillion in FY08 to **\$2.42 trillion by FY18**

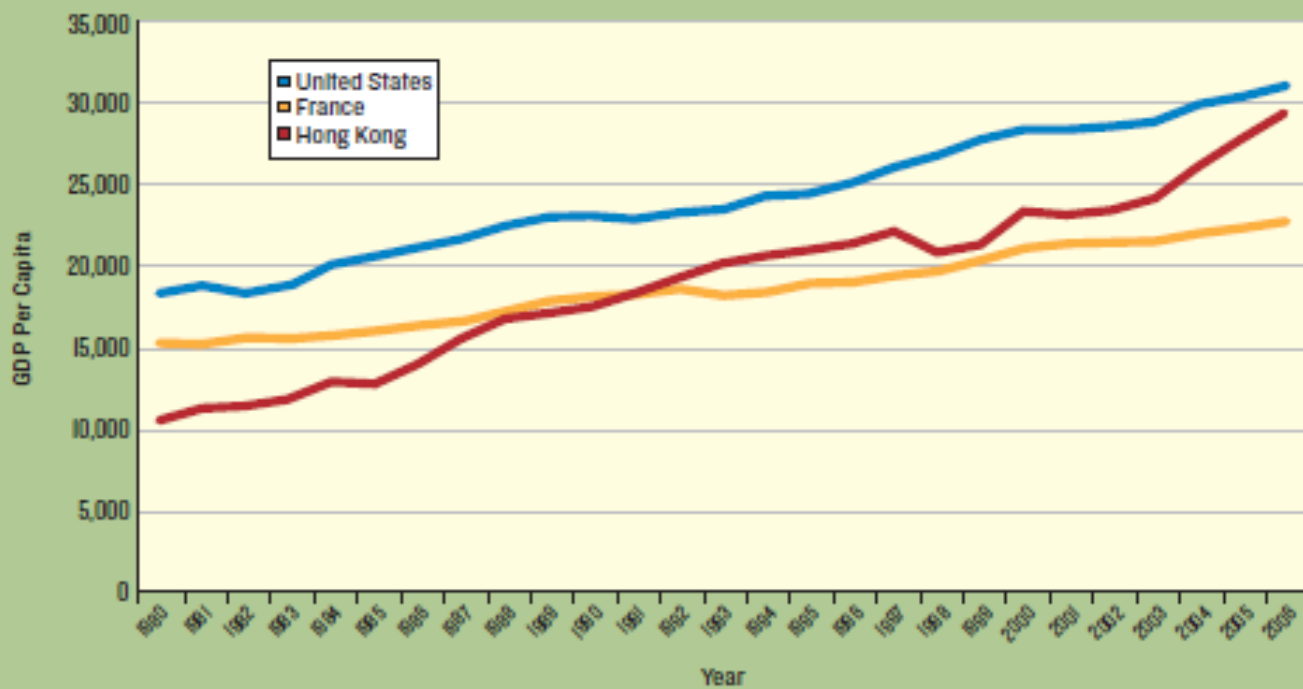
BURDENSOME TAX RATES

- Politicians claim that social-engineering tax breaks such as the itemized deductions for home mortgage interest and charitable contributions are for the middle class, for instance, but the overwhelming benefit flows to those making more than \$100,000 per year. The special tax loopholes in the code, needless to say, are almost entirely for the benefit of wealthy (and politically sophisticated) people and businesses. (see Figure 1)



- High income tax rates discourage work, saving, investment and entrepreneurship. Thus, tax rates are one of the reasons why zero-income-tax states such as Texas, Nevada, Tennessee and New Hampshire generally grow faster than states with harshly progressive tax systems such as California, New Jersey and New York. Likewise, low tax rates help explain why jurisdictions such as Hong Kong grow faster than the United States—and differences in tax burdens also help explain why both Hong Kong and the United States grow faster than high-tax nations such as France. (see Figure 3)

Fig 3. Comparison of GDP Per Capita Across the United States, France, and Hong Kong

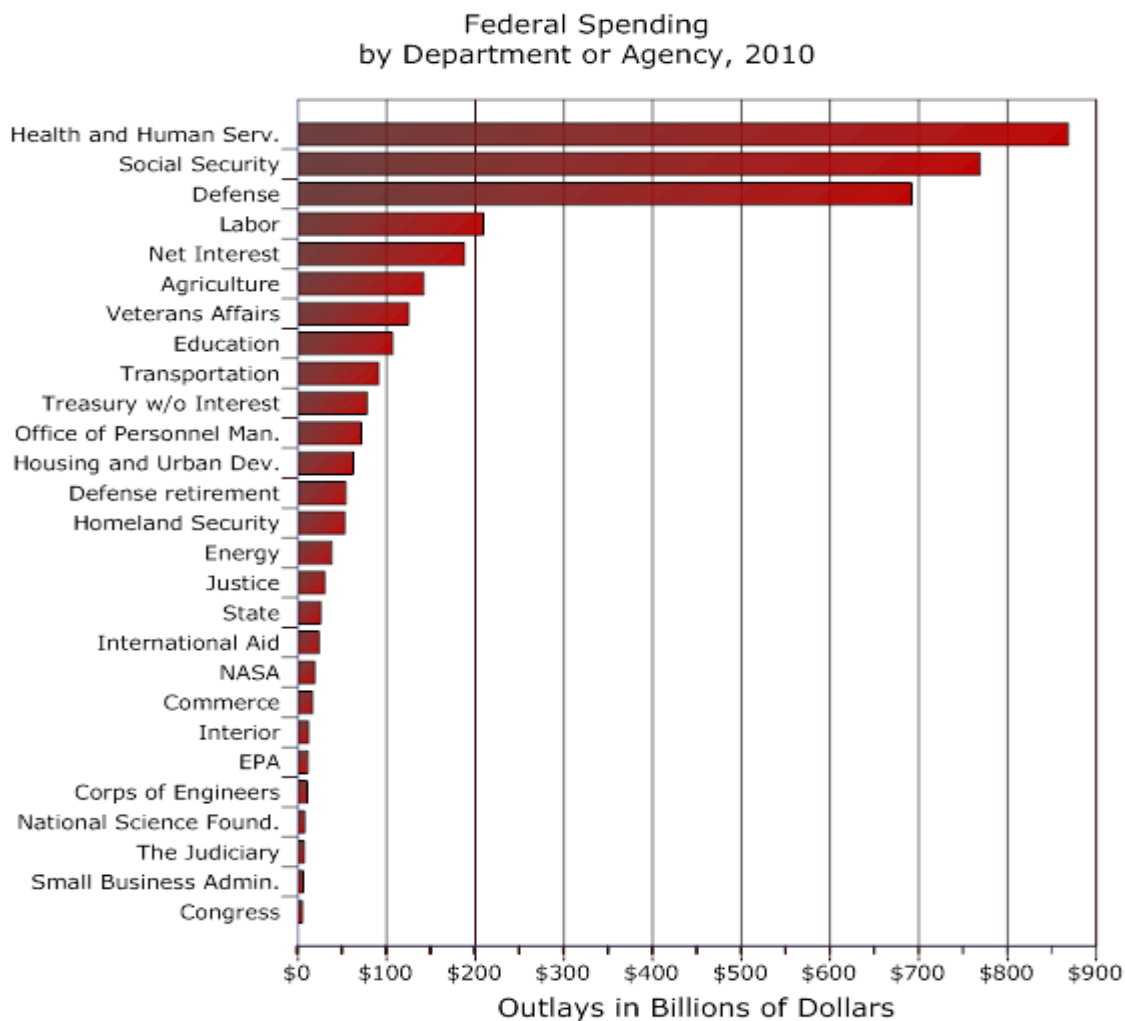


Source: Historical Statistics for the World Economy

http://www.cato.org/pubs/articles/mitchell_townhallmagazine_april_2009.pdf

WASTEFUL DEPARTMENTS

- Wasteful Federal Departments and the subsequent entitlement programs are the main cause of government spending (see charts below for spending by Department)



Cato Institute. Downsizing the Government. <<http://www.downsizinggovernment.org/compare-the-departments>>

Department of Health and Human Services

- Spent **\$872 billion** in 2009 (about **\$7,000 per US household**)
- Largest government department (operates about 350 subsidy programs)

- Oversees Medicare and Medicaid program
- After adjusting for inflation, spending in this department has **increased nine-fold** since 1970

Department of Commerce

- Home to unneeded programs that subsidize businesses and fund local development projects. Further, the department administers misguided foreign trade policies that seek to boost exports and restrict imports.
- Will spend about **\$17 billion** in 2010 (**\$140 for every U.S. household**)
- Employs 53,000 workers and has more than 250 offices in the United States and abroad. It operates 97 different subsidy programs.

Economic Development Administration

- Economic Development Administration provides grants and loans to state and local governments, nonprofit groups, and businesses in regions that are supposed to be economically distressed
- spent about \$352 million in 2009 (\$319 million on grants and loans, \$33 million on administrative costs)
- former EDA director, Orson Swindle, labeled the agency a “congressional cookie jar.” His experience made him realize that the private sector, not government bureaucrats, is better at fostering economic development. “The minute politics enters the equation, rational financial management and economic decisionmaking goes out the window,” he noted.

International Trade Administration

- According to a University of Michigan study, the average U.S. family of four still stands **gain an estimated \$7,800 per year** if there was total elimination of global barriers to trade in goods and services. The World Bank has reported that the elimination of global trade barriers could lift 300-500 million of the world’s poor out of poverty over the next 15 years.

- The ITA administers various protectionist measures to respond to “unfair” trading by foreign countries and businesses. It handles the licensing of steel imports and the enforcing of import barriers on textile manufacturers.
- ITA’s primary protectionist activity is administering the *antidumping* and *countervailing duty* laws.
- *Antidumping laws*: These laws may authorize the imposition of duties on imported goods after reviews by the ITA and the U.S. International Trade Commission (ITC). The ITA must determine if a good is priced below similar goods in the home market or below the cost of production. That might sound straightforward, but there is no accurate way to do such price comparisons in the real world. If the ITA determines that dumping has occurred, the ITC examines whether a U.S. industry has been “materially injured” by the import. If it answers affirmatively, the good in question is subject to U.S. import duties.
- *Countervailing duty laws*: These laws require that the ITA determine if an imported product is priced at less than “fair” value as a result of the goods being subsidized by a foreign government. If it finds in the affirmative, the ITC then determines whether U.S. businesses have been injured by the import, and if so, duties are assessed.
- The premise of these laws is that low-price imports are damaging to America. But low prices benefit both U.S. consumers and U.S. businesses that use imported products. If duties are slapped on imports of steel, for example, steel-using businesses such as automobile firms would suffer. The ITA does not factor in such broader damage when considering antidumping and countervailing duty cases.
- The antidumping and countervailing duty machinery is politically driven. U.S. industries can petition the ITA to conduct investigations on foreign goods that they object to, essentially using government power to attack their competitors. Not surprisingly, a 2004 study found strong correlations between political contributions made by firms seeking protection and antidumping outcomes in their favor

- A final troubling aspect of U.S. antidumping laws is that other countries have followed America's bad example and created antidumping laws of their own. U.S. exporters are being injured by an increased use of those measures by foreign governments. American use of antidumping rules has set off a global explosion in copycat laws.

Business Subsidies

- A number of Commerce programs subsidize particular companies and activities, which distorts the economy and increases tax burdens. The department's business subsidies are not huge—a few hundred million dollars annually—but this “corporate welfare” should be eliminated nonetheless.

Department of Housing and Urban Development (HUD)

- The department will spent **\$63 billion in 2010** (about **\$530 for every U.S. household**)
- Employs 9,500 workers, operates 108 different subsidy programs, and oversees more than 3,600 pages of regulations.
- Main programs:

Community Development Block Grants. This \$8 billion program provides formula-based grants to localities for a range of development projects such as parking lots, museums, and street repairs.

HOME Housing Program. This \$2.3 billion program provides formula-based grants for "affordable" housing.

Homeless Assistance Grants. This \$1.6 billion program funds local governments and nonprofit groups that offer assistance to the homeless.

Housing for Persons with AIDs. This \$289 million program provides housing assistance for low-income persons with HIV/AIDs.

Self-Help Homeownership Grants. This \$50 million program provides grants to nonprofit groups that build low-income housing. The beneficiaries provide "sweat equity" by contributing labor toward the construction of their homes.

Rural Subsidies. This \$24 million program funds a wide range of projects in rural areas.

- Community Development Block Grants (CDBG) are the largest community development activity in HUD. In 2009, CDBG spending totaled \$8 billion. The bulk (70 percent) of the funding goes to selected local governments that are called "entitlement communities." The top five recipients of these funds since 2000 are the cities of New York (\$1.6 billion), Chicago (\$780 million), Los Angeles (\$758 million), Philadelphia (\$557 million), and Detroit (\$412 million). The other 30 percent of CDBG funding goes to state governments as "nonentitlement community" funding. State governments dole out those funds to local governments and nonprofit groups.
- All these activities are purely local in nature, and there is no national interest in funding them. CDBG funding runs completely counter to the federalist model of American government. Federal policymakers are supposed to make decisions on national issues such as defense and security; it makes no sense for them to be city planners, but that's what the CDBG program effectively lets them do.

Housing Boom and Bust

- HUD's policies played a key role in causing the housing boom and bust and then the recession in its wake. Weak lending standards on HUD-insured mortgage loans helped fuel risky non-prime lending. HUD also put pressure on banks and the failed housing giants Fannie Mae and Freddie Mac to make risky loans to underqualified borrowers. Thanks to those policies, Fannie and Freddie went bankrupt and already have received \$112 billion in taxpayer bailouts.

- Steady increases in home-buying subsidies in recent decades were motivated by political attempts to curry favor with special interests such as the Realtor and homebuilder lobbies. Politicians justify the subsidies on their claimed civic virtues. But, as we've seen in the wake of the housing bubble's bursting, there's nothing virtuous about putting people into homes they can't afford.
- Since the financial crash, the politics of housing subsidies seem to have become even worse. The housing lobby groups continue pushing to expand federal intervention in housing markets, and politicians keep increasing subsidies through the Federal Housing Administration and the Government National Mortgage Association, which insure and guarantee more than \$700 billion in mortgages and mortgage-backed securities.
- HUD should be abolished. State and local governments should be left to decide what housing and community development programs they want to fund. Even better, housing should be left to private markets, which produced massive amounts of housing for people at all income levels for many decades before government encroachment.

Department of Agriculture

- The Department of Agriculture provides an array of subsidy programs for farmers and imposes extensive regulations on agricultural markets. It operates food assistance programs, such as the food stamp and school lunch programs, and it administers many rural aid programs.
- Will spend **\$142 billion in 2010** (about **\$1,200 for every U.S. household**)
- Operates 237 different subsidy programs and employs 96,000 workers in about 7,000 offices across the nation. It oversees more than 10,700 pages of regulations.
- The U.S. Department of Agriculture distributes between \$10 billion and \$30 billion in cash subsidies to farmers and owners of farmland each year. More than 90 percent of agriculture subsidies go to farmers of five crops—wheat, corn, soybeans, rice, and cotton. More than 800,000 farmers and landowners receive subsidies, but the payments are heavily tilted toward the largest producers.

- A large array of farm subsidies were enacted during the 1930s, beginning with the Agricultural Adjustment Act of 1933.
- While farmers represent a smaller share of the population today than in the 1930s, the farm lobby is as strong as ever. One reason is that farm-state legislators have co-opted the support of urban legislators, who seek increased subsidies in agriculture bills for programs such as food stamps. Legislators in favor of environmental subsidies have also been co-opted as supporters of farm bills. As a result, many legislators have an interest in increasing the USDA's budget
- In 2008, Congress overrode a presidential veto to enact farm legislation that extended existing supports and created new subsidy programs.

SIX REASONS TO REPEAL FARM SUBSIDIES:

1. *Farm Subsidies Redistribute Wealth.* Farm subsidies transfer the earnings of taxpayers to a small group of fairly well-off farm businesses and landowners. USDA figures show that the average income of farm households has been consistently higher than the average of all U.S. households. In 2007, the average income of farm households was \$86,223, or 28 percent higher than the \$67,609 average of all U.S. households. When large-scale federal farm subsidies began in the 1930s, farm incomes were only half the national average. Although policymakers love to discuss the plight of the small farmer, the bulk of federal farm subsidies goes to the largest farms. For example, **the largest 10 percent of recipients have received 72 percent of all farm subsidy payments in recent years.**
2. *Farm Subsidies Damage the Economy.* The extent of federal micromanagement of the agriculture sector is probably unique in American industry. In most industries, market prices balance supply and demand, profit levels signal investment opportunities, market downturns lead to cost cutting, and entrepreneurs innovate to provide better products at lower prices. All of those market mechanisms are blunted or nonexistent in government-controlled agriculture markets. As a result,

farm programs result in overproduction, overuse of marginal farmland, and land price inflation, which results from subsidies being capitalized into land values. Subsidy programs create less efficient planting, induce excess borrowing by farmers, cause insufficient attention to cost control, and result in less market innovation. **In 2006 the Congressional Budget Office reviewed major studies that examined the repeal of U.S. and foreign agricultural subsidies and trade barriers. The CBO found that all the studies they reviewed showed that both the U.S. and global economies would gain from the repeal of subsidies and trade barriers.**

3. *Farm Programs Are Prone to Scandal.* Like most federal subsidy programs, farm programs are subject to bureaucratic inefficiencies, recipient fraud, and congressional pork-barrel politics. **The Government Accountability Office found that as much as half of 9 billion dollars in farm subsidies are paid improperly or fraudulently each year.** Farmers create complex legal structures to get around legal subsidy limits. And many farmers decide not to pay back their USDA loans: in 2001 the GAO found that more than \$2 billion in farm loans were delinquent.
4. *Farm Subsidies Damage U.S. Trade Relations.* Global stability and U.S. security are enhanced when less developed countries achieve stronger economic growth. America can further that end by encouraging the reduction of trade barriers. However, U.S. and European farm subsidies and agricultural import barriers are a serious hurdle to making progress in global trade agreements. U.S. sugar protections, for example, benefit only a very small group of U.S. growers but are blocking broader free trade within the Americas.

Trade liberalization would boost the exports of U.S. goods that are competitive on world markets, including many agricultural products, but U.S. farm subsidies and protections stand in the way of that goal.

5. *Farm Programs Damage the Environment.* Federal farm policies are thought to damage the natural environment in numerous ways. Subsidy programs can cause overproduction, which draws marginal farmland into active production. Similarly, trade barriers induce agriculture production on land that is less naturally productive. **As a result, marginal lands that**

might otherwise be used for parks or forests are locked into farm use because farm subsidy payments get capitalized into higher prices for land.

6. *Agriculture Would Thrive without Subsidies.* It is normal for people to fear economic change, but many industries have been radically reformed in recent decades with positive results, including the airline, trucking, telecommunications, and energy industries. If farm subsidies were ended, and agriculture markets deregulated and open to entrepreneurs, farming would change—different crops would be planted, land usage would change, and some farms would go bankrupt. But a stronger and more innovative industry would likely emerge having greater resilience to shocks and downturns.

Interestingly, producers of most U.S. agricultural commodities do not receive regular subsidies from the federal government. In fact, **commodities that are eligible for federal subsidies account for 36 percent of U.S. farm production, while commodities that generally survive without subsidies, including meats, poultry, fruits, and vegetables, account for 64 percent of production. And, of course, most other U.S. industries prosper without the sort of government coddling that farmers receive.**

FOOD SUBSIDIES

- **The largest portion of the U.S. Department of Agriculture’s budget consists of food subsidies, not farm subsidies. Food subsidies will cost taxpayers \$79 billion in fiscal 2009 and account for about two-thirds of USDA’s budget.**
- The largest food subsidy programs are food stamps; the school breakfast and lunch programs; and the women, infants, and children (WIC) program. The federal government as a whole has about 26 food and nutrition programs operated by six different agencies.
- Farm and food subsidies don’t make economic sense. Farm policies that increase commodity prices harm the lower-income families that food subsidy programs are supposed to help. For example, federal dairy policies raise the price of milk, which works against the goals of the school lunch and food

stamp programs. The solution is to repeal both farm and food subsidies, and allow open market competition to cut food prices for all families.

- The food stamp program aids lower-income families in their purchases of a variety of food products at retail. The program's official name is the Supplemental Nutrition Assistance Program. Eligibility is based on income and assets, with the gross income cutoff set at 130% of the poverty level. The maximum monthly benefit in 2009 for a household of four is \$668.
- The food stamp program cost federal taxpayers \$56 billion in fiscal 2009, triple the \$18 billion cost in fiscal 2000. The number of food stamp recipients fell during the 1990s but has risen sharply in recent years from 17 million in 2000 to 28 million in 2009.
- The food stamp program is run jointly by the USDA and the state governments. Federal taxpayers pay the direct cost of benefits, and they share the costs of state and local administration with state and local taxpayers. As is the case with all shared federal-state programs, extensive federal regulations are imposed on state and local governments.
- Food stamp administration costs are about \$5.5 billion per year. **That means that about \$5.5 billion of the "benefits" of the program go to government administrators, not to low-income families.** Those administrative costs—equal to more than 10 percent of the value of food stamps distributed—are split 50-50 between federal and state taxpayers.

SCHOOL BREAKFAST AND LUNCH PROGRAMS

- Like other subsidy programs, the school meal programs are widely abused. **Audits have found that about one-quarter of those receiving free and reduced-cost lunches are not eligible.** The USDA testified to Congress that in 2002 "27 percent more students are certified for free or reduced-price meals than the Census data itself would suggest are eligible."
- The USDA's inspector general reports that another area of abuse is local school contracting. The food service companies that supply school breakfasts and lunches are prone to inflate expenses and use fraudulent billing schemes in their school contracts.

- The bottom line is that local governments have many incentives to maximize the number of school meal recipients and little incentive to reduce waste and abuse. These problems are common in federal subsidy programs for state and local governments, in programs ranging from Medicaid to highway grants.

CORPORATISM

- The difference between laissez-faire and corporatism is one of the most important in today's public policy debates. Laissez-faire means the equality of all before the law, with the state neither helping nor hindering any market actor. Corporatism means offering special favors to those who've already succeeded. (**"Too big to fail" is corporatism**)
- Many commenters have blamed all of this on capitalism. This isn't capitalism. It's a peculiar kind of corporatist socialism, where good risks and the resulting profits remain private, but bad risks and the resulting losses are passed on to taxpayers. There's nothing free-market about it.

SOLUTION

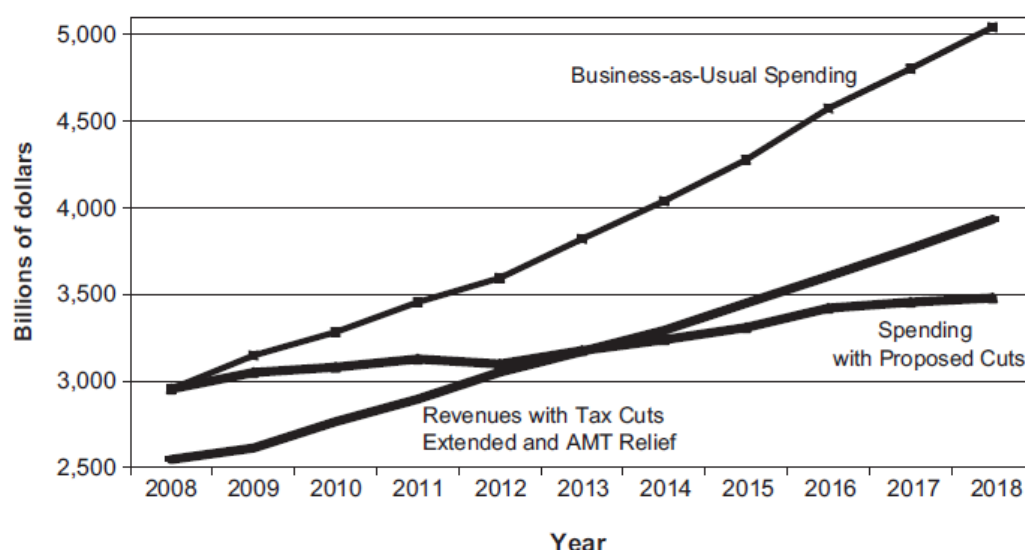
3 STEPS TO REGULATE FEDERAL SPENDING:

1) Cut federal spending from 21% to 16% of gross domestic product over 10 years

- The key to cutting federal spending and averting a federal fiscal crisis in the years ahead is to cut the three main "entitlement" programs—Social Security, Medicare, and Medicaid.
- Cutting back in entitlement programs by \$350 billion annually, combined with the proposed spending cuts in suggestion #2 below, would balance the federal budget and generate growing surpluses, even with all current tax cuts extended (see Figure 4.3). The plan would reduce the size of the federal government from about 21 percent of gross domestic product today to less than 16 percent by 2018. If enacted, they would avert a financial crisis and shrink government in a responsible way, while increasing economic freedom and growth.

- Figure 4.3 (below) shows that the above reforms would lead to a balanced budget by 2013, with growing surplus in the following years.

Figure 4.3
Projected Federal Revenues and Spending



SOURCE: Author's estimates based on Congressional Budget Office projections of September 2008. Note: Data are for fiscal years. The "Business as Usual" scenario is the Congressional Budget Office baseline but with discretionary spending growing with GDP. Both spending scenarios include CBO's optimistic option for Iraq troop cuts.

2) Terminate, privatize, or transfer to state governments more than 100 programs and agencies, including those involved in agriculture, education, housing, and transportation

- The programs in Table 4.1 should be terminated, privatized, or devolved to state and local governments. Those reforms would **save about \$440 billion annually**, which equates to savings of about \$580 billion annually in 2018 under baseline projections.
- To an economist, some reforms are no-brainers—farm subsidies should be terminated immediately, for example. Other reforms, such as privatizing Amtrak, would require detailed analysis to determine the best way to proceed. Over the long term, as federal involvement in the

targeted activities ended, it would be up to state governments, businesses, consumers, and private charities to determine whether those activities were worth sustaining without federal help.

Table 4.1
Proposed Federal Budget Terminations
(FY08 outlays in millions of dollars)

Department of Agriculture	
Economic Research Service	\$77
Agricultural Statistics Service	\$162
Agricultural Research Service	\$1,234
CSREES	\$1,193
Agricultural Marketing Service	\$636
Risk Management Agency	\$4,455
Farm Service Agency	\$14,223
Rural Development	\$145
Rural Housing Service	\$2,326
Rural Business Cooperative Service	\$166
Rural Utilities Service	\$1,023
Foreign Agricultural Service	\$1,192
Food Stamp Program	\$38,780
School Lunch and related programs	\$14,452
WIC nutrition program	\$5,974
Forest Service: state and private	\$487
Forest Service: land acquisition	\$96
Total proposed cuts	<hr/> \$86,621

Department of Commerce	
Economic Development Administration	\$352
International Trade Administration	\$369
Minority Business Development Agency	\$23
Pacific salmon state grants	\$74
Fisheries loans and marketing	\$7
Technology Administration	\$1
Advanced Technology Program	\$198
Manufacturing Extension Partnership	<u>\$91</u>
Total proposed cuts	\$1,115
Department of Defense	
A portion of the cuts proposed in Chapter 19	\$50,000
Department of Education	
Elimination of entire department	\$68,046
Department of Energy	
General science research	\$3,887
Energy supply research	\$894
Fossil energy research	\$646
Nuclear energy research	\$695
Electricity research	\$157
Energy Efficiency and Renewable Energy	\$1,549
Strategic Petroleum Reserve	\$182
Energy Information Administration	\$67
Power Marketing Administrations	<u>\$474</u>
Total proposed cuts	\$8,551
Department of Health and Human Services	
Medicare: increase premiums and deductibles; for other reforms, see Chapter 12	
Medicaid: convert to block grant and freeze federal spending; for other reforms, see Chapter 13	
National Institutes of Health: applied R & D	\$12,669
Substance Abuse and Mental Health	\$3,263
Temporary Assistance for Needy Families	\$17,030
State Payments for Family Support	\$4,277
Low-Income Home Energy Assistance	\$2,522
Promoting Safe and Stable Families	\$448

Child Care Entitlement grants	\$2,978
Child Care and Development grants	\$2,001
Social Services grants	\$1,936
Foster Care and Adoption grants	\$6,670
Head Start	\$687
Community Services grants	\$654
Health professions subsidy	\$319
Administration on Aging	<u>\$1,389</u>
Total proposed cuts	\$56,843

Department of Homeland Security	
State and local programs	\$1,651
Assistance to Firefighters grants	\$662
Coast Guard: Boat Safety grants	<u>\$131</u>
Total proposed cuts	\$2,444

Department of Housing and Urban Development	
Elimination of entire department	\$52,269
Department of the Interior: Bureau of Reclamation	\$1,493
State and Tribal Wildlife grants	\$107
Land Acquisition programs	\$40
Sport Fish Restoration Fund	\$478
Bureau of Indian Affairs	\$2,464
Office of Insular Affairs	\$374
Indian Gaming Commission	<u>\$16</u>
Total proposed cuts	\$57,241

Department of Justice	
Antitrust Division	\$146
State and local assistance	\$1,262
Weed and Seed Program	\$52
Community Oriented Policing Services	\$480
Juvenile Justice programs	<u>\$322</u>
Total proposed cuts	\$2,262

Department of Labor	
Employment and Training services	\$3,504
Community Service for Seniors	\$517
Trade Adjustment Assistance	\$834

Job Corps	\$1,490
Bureau of International Labor Affairs	<u>\$81</u>
Total proposed cuts	\$6,426
Social Security	
Cutting of growth in initial benefits by changing from wage indexing to price indexing; for other reforms, see Chapter 17	
Department of State	
Education and Cultural Exchanges	\$474
International Organizations, including the United Nations	\$1,578
Organisation for Economic Co-operation and Development	\$85
International Narcotics Control	\$708
Andean Counterdrug Initiative	<u>\$312</u>
Total proposed cuts	\$3,157
Department of Transportation	
Essential Air Service	\$62
FAA: air traffic control	\$2,440
FAA: grants to airports	\$2,970
FAA: facilities and equipment	\$2,704
Federal Highway Administration	\$37,630
Federal Transit Administration	\$6,261
Maritime Administration	\$591
Amtrak	<u>\$1,397</u>
Total proposed cuts	\$54,055
Other Agencies and Activities	
Agency for International Development	\$3,874
Appalachian, Delta, and Denali Commissions	\$99
Army Corps of Engineers	\$7,211
Cargo Preference Program	\$435
Corporation for National and Community Service	\$915
Corporation for Public Broadcasting	\$448
Davis Bacon Act	\$1,000
District of Columbia fiscal assistance	\$97
EPA: state grants	\$3,080
Equal Employment Opportunity Commission	\$330
Federal Trade Commission: antitrust	\$101
International assistance: economic	\$3,573

(continued)

International assistance: multilateral	\$2,093
International Trade Commission	\$68
Legal Services Corporation	\$350
Millennium Challenge Corporation	\$265
NASA	\$17,318
National Endowment for the Arts	\$132
National Endowment for the Humanities	\$146
National Labor Relations Board	\$249
National Mediation Board	\$12
Neighborhood Reinvestment Corp.	\$287
Peace Corps	\$333
Presidio Trust	\$3
Public Accounting Oversight Board	\$139
Service Contract Act	\$800
Small Business Administration	\$530
Trade and Development Agency	\$55
U.S. Postal Service subsidies	\$935
Total proposed cuts	\$44,878
Grand total annual spending cuts	\$441,639

SOURCE: Author, based on data in the *Budget of the U.S. Government, FY2009*.

NOTE: CSREES = Comparative State Research, Education, and Extension Service; EPA = Environmental Protection Agency; FAA = Federal Aviation Administration; NASA = National Aeronautics and Space Administration; R & D = research and development; WIC = Women, Infants, and Children.

3) Impose a statutory cap on the annual growth in total federal expenditures

- Statutory changes to budget rules can provide a way forward to control spending. In particular, a cap should be placed on the overall annual growth in federal outlays. While the Budget Enforcement Act imposed multiyear caps on discretionary spending, entitlement spending was not capped. Yet, it is *mainly entitlement spending* that is pushing the government toward a financial crisis, and thus entitlements should be included under a federal budget cap.
- A simple way to structure a cap is to limit annual spending growth to the growth in an economic indicator, such as gross domestic product.

- Another possible cap is the sum of population growth plus inflation. In that case, if population grew at 1 percent and inflation was 3 percent, then federal spending could grow by no more than 4 percent.
- The principle underlying such a cap is that the government should live within constraints, just as average families do, and it should not consume an increasing share of the nation's economy.
- Federal reformers can look to the states for ideas on reforming the budget process, as state policymakers are bound by tighter rules than is Congress. All states except Vermont have statutory or constitutional requirements to balance their budgets. In addition, more than 20 states have some form of overall limitation on taxes or spending. For example, Colorado's constitution limits annual state revenue growth to the sum of population growth plus inflation.

ULTIMATE ECONOMIC GOAL: FAIR TAX

The FairTax plan is a comprehensive proposal that replaces all federal income and payroll based taxes with an integrated approach including a progressive national retail sales tax, a prebate to ensure no American pays federal taxes on spending up to the poverty level, dollar-for-dollar federal revenue replacement, and, through companion legislation, the repeal of the 16th Amendment. This nonpartisan legislation (HR 25/S 1025) abolishes all federal personal and corporate income taxes, gift, estate, capital gains, alternative minimum, Social Security, Medicare, and self-employment taxes and replaces them with one simple, visible, federal retail sales tax -- administered primarily by existing state sales tax authorities. The IRS is disbanded and defunded. The FairTax taxes us only on what we choose to spend on new goods or services, not on what we earn. The FairTax is a fair, efficient, transparent, and intelligent solution to the frustration and inequity of our current tax system.

Under The Fair Tax Act of 2005 (H.R. 25 and S. 25),⁵ all federal income taxes and payroll taxes would be repealed. The specific taxes repealed include:

- Personal income taxes
- Estate taxes
- Gift taxes
- Capital gains taxes
- The alternative minimum tax
- Social Security and Medicare taxes
- Self-employment taxes

- Corporate taxes
- The FairTax rate of 23 percent on a total taxable consumption base of \$11.244 trillion will generate \$2.586 trillion dollars \$358 billion more than the taxes it replaces. [1]
- The FairTax has the broadest base and the lowest rate of any single-rate tax reform plan. [2]
- Real wages are 10.3 percent, 9.5 percent, and 9.2 percent higher in years 1, 10, and 25, respectively than would otherwise be the case. [3]
- Disposable personal income is higher than if the current tax system remains in place: 1.7 percent in year 1, 8.7 percent in year 5, and 11.8 percent in year 10. [4]
- The economy as measured by GDP is 2.4 percent higher in the first year and 11.3 percent higher by the 10th year than it would otherwise be. [4]
- Consumption increases by 2.4 percent more in the first year, which grows to 11.7 percent more by the tenth year than it would be if the current system were to remain in place. [4]
- The increase in consumption is fueled by the 1.7 percent increase in disposable (after-tax) personal income that accompanies the rise in incomes from capital and labor once the FairTax is enacted. [4]
- By the 10th year, consumption increases by 11.7 percent over what it would be if the current tax system remained in place, and disposable income is up by 11.8 percent. [4]
- Over time, the FairTax benefits all income groups. Of 42 household types (classified by income, marital status, age), all have lower average remaining lifetime tax rates under the FairTax than they would experience under the current tax system. [5]
- Implementing the FairTax at a 23 percent rate gives the poorest members of the generation born in 1990 a 13.5 percent improvement in economic well-being; their middle class and rich contemporaries experience a 5 percent and 2 percent improvement, respectively. [6]
- Based on standard measures of tax burden, the FairTax is more progressive than the individual income tax, payroll tax, and the corporate income tax. [7]
- Charitable giving increases by \$2.1 billion (about 1 percent) in the first year over what it would be if the current system remained in place, by 2.4 percent in year 10, and by 5 percent in year 20. [8]
- On average, states could cut their sales tax rates by more than half, or 3.2 percentage points from 5.4 to 2.2 percent, if they conformed their state sales tax bases to the FairTax base. [9]
- The FairTax provides the equivalent of a supercharged mortgage interest deduction, reducing the true cost of buying a home by 19 percent. [10]

TERRORISM

Problem: Loss of Civil Liberties

- Too many of our policymakers seem to believe that the way to deal with terrorism is to pass more laws, spend more money, and sacrifice more civil liberties. Al Qaeda terrorists do pose a security problem, but it is a problem that should be addressed from within the American constitutional framework.

Secret Subpoenas

- The Fourth Amendment to the Constitution provides, “The right of the people to be secure in their persons, houses, papers, and effects, against unreasonable searches and seizures, shall not be violated, and no Warrants shall issue, but upon probable cause, supported by Oath or affirmation, and particularly describing the place to be searched, and the persons or things to be seized.”
- It is important to note that the Fourth Amendment does not ban all government efforts to search and seize private property, but it does limit the power of the police to seize whatever they want, whenever they want.
- The warrant application process is the primary check on the power of the executive branch to intrude into people’s homes and to seize property. If the police can persuade an impartial judge to issue a search warrant, the warrant will be executed. However, if the judge is unpersuaded, he will reject the application and no search will take place. In the event of a rejection, the police can either drop the case or continue the investigation, bolster their application with additional evidence, and reapply for a warrant.
- The Bush administration has tried to bypass this constitutional framework by championing the use of secret subpoenas called “national security letters” (NSLs). An NSL is a document that empowers federal agents to demand certain records from businesspeople. Unlike the case with search warrants, executive branch agents do not need to apply to judges to obtain these letters. It is simply some agent’s decision that he wants certain information. These letters also threaten citizens with jail should they tell anyone about the government’s demands.
- Federal Judge Victor Marrero ruled that NSLs violated both the First Amendment and the Fourth Amendment. NSLs violate the First Amendment because they “operate as an unconstitutional prior restraint on speech.” NSLs violate the Fourth Amendment because they are written “in tones sounding virtually as biblical commandments,” thus making it “highly unlikely that an NSL recipient would know that he may have a right to contest the NSL, and that a process to do so may exist through a judicial proceeding.” The Federal Bureau of Investigation reportedly serves more than 30,000 NSLs a year. Congress

should abolish NSLs and have the police conduct their searches within the American constitutional framework.

Threat of Terrorism

- Recent research has concluded that the threat of terrorism is already on the wane. Andrew Mack and Zoe Nielsen analyzed four different data sets and determined that, broadly speaking, the incidences of global terrorism and the human costs of terrorist violence had declined since 2001. Looking to the future, Mack and Nielsen surmised, “In the long term, perhaps sooner, Islamist terror organizations will join the overwhelming majority of other terrorist groups that have failed to achieve their objectives.” Other empirical studies comport with these findings.
- Researcher Max Abrahms looked at 28 terrorist organizations and found that they failed to achieve their stated policy objectives 93 percent of the time. Abrahms further concluded that terrorism’s “poor success rate is inherent to the tactic of terrorism itself.” Because acts of terrorism often kill or injure the very people that terrorists seek to influence, the strategy carries within it the seeds of its own destruction.
- Policymakers should approach the problem of terrorism with the necessary perspective. Claims that our national survival hangs in the balance, or that the terrorists pose an existential threat comparable to that of the Nazis or the Soviets, build pressure for policies that do not increase our security but do erode the very liberties that define us as a nation. The new president should begin by recasting the discussion away from that of a war to be won and toward thinking of terrorism as a problem to be confronted and managed.

SOLUTION:

Of course, the electorate wants safety, but it wants the federal government to secure that safety by attacking the terrorist base camps, not by turning America into a surveillance state:

- Stop authorizing secret subpoenas
- Stop using the misleading phrase “war on terrorism”
 - The phrase “war on terror” conceals and confuses the nature of U.S. efforts to hunt down violent extremists. The term falsely implies that the challenge is chiefly a military one, and therefore stimulates demand for largely irrelevant, and occasionally counterproductive, military spending. The disastrous invasion of Iraq reflects the problems inherent in construing counterterrorism as a military problem, to be solved by military means.

- Finally, the loose reference to “terror” is overbroad and inaccurately lumps together disparate groups with often-incompatible objectives. By casting the challenge posed by al Qaeda terrorists as a war, policymakers risk contributing to the already widespread perception that the United States is engaged in a war against all of Islam, thereby playing into the rhetoric of the violent extremists.
- Understand that an aim of terrorism is to elicit overreactions that damage the victim state as badly or worse than direct attacks:
 - **Waste of blood and treasure.** Terrorist attacks, or well-placed threats of attack, can prompt the victim to waste its own resources—both the blood of its soldiers and the wealth of its people.
 - **Recruitment and sympathy gains.** A strong power victimized by terrorism may respond with violence that is badly directed, or even entirely misdirected, engendering sympathy for terrorist groups and therefore aiding their recruiting and support.
 - **Weakened political order and society.** Terrorism may cause victim states to come loose from their ideological moorings, such as the West’s traditions of tolerance, individual rights, due process, and the rule of law.
- Focus on disrupting al Qaeda senior leadership’s ability to plan future terrorist attacks and attract and train new recruits
- **Recognize that effective strategies for confronting the threat of terrorism rarely involve large-scale military action and that the presence of U.S. ground troops on foreign soil might actually be counterproductive** should focus the government’s efforts on those counterterrorism policies that will most likely reduce the threat of mass casualty attacks. Effective tactics include infiltrating and disrupting terror groups. Targeted, lawful surveillance of terrorists and terror suspects is essential. Controlling access to weapons of mass destruction and their precursors is also vital. Taking reasonable precautions to secure against likely vectors of attack on infrastructure is also important, as is preparing for attacks and their aftermaths. Public communications that more accurately convey risks might quell public demand for overreaction. Above all, policymakers should aim to counter the strategic logic of terrorism. Specifically, they should take great care not to expend the nation’s blood and treasure, avoiding military action if at all possible.
 - With the exception of the U.S. military operations to depose the Taliban and disrupt al Qaeda camps in Afghanistan, the most successful counterterrorism operations have not involved large numbers of ground troops. The disastrous

invasion and occupation of Iraq—cited in a National Intelligence Estimate as the “cause ce’le`bre” for jihadists, “breeding a deep resentment of U.S. involvement in the Muslim world and cultivating supporters for the global jihad movement”—stand in stark contrast to the successful nonmilitary operations that enabled the United States to capture such al Qaeda figures as Ramzi Binalshibh and Khalid Sheikh Mohammed, the key plotters of the 9/11 attacks.

- A number of experts note that stationing conventional forces in foreign lands is not conducive to fighting terrorism. Indeed, it is often counterproductive. The University of Chicago’s Robert Pape links the presence of American troops in the Middle East to the threat of future suicide terrorism against the United States and credits the occupation of Iraq with strengthening al Qaeda. Michael Scheuer, a 22-year veteran of the Central Intelligence Agency who served as head of the agency’s bin Laden unit from 1996 to 1999, concurs. Because of the Iraq War, Scheuer told an interviewer in 2006, “there are more people willing to take up arms against the United States, and we have less ability to win hearts and minds in the Arab world.”
- The leading source of resentment is the U.S. war in Iraq, and policymakers should commit to swiftly ending the U.S. military presence there. Other necessary steps include closing the terrorist holding facilities at Guantanamo Bay, Cuba, and formally renouncing torture, including waterboarding.

DEFENSE

PROBLEM:

- For the 2010 fiscal year, the president's base budget of the Department of Defense rose to \$533.8 billion. Adding spending on "overseas contingency operations" brings the sum to **\$663.8 billion**.
- The United States and its close allies are **responsible for two-thirds to three-quarters of the world's** military spending (of which, in turn, the U.S. is responsible for the majority)
- The Pentagon is the conduit for more than a fifth of our federal spending, and it accounts for about 65% of the \$583-billion increase in annual discretionary spending since 2001.
- The truth is that the U.S. no longer has a "defense" budget. The adjective is wrong. Our military forces' size long ago ceased to have any meaningful attachment to the requirements of protecting Americans. Now, much of our defense budget is used to "police the world."
- The dirty secret of American defense politics is that we are fairly safe: **Our military spending is nearly equal to half the world's, and our allies spend most of the other half.** Russia, China, North Korea, Syria and Iran collectively spend about a fourth of what we do on defense, according to statistics compiled by the International Institute for Strategic Studies. Even if we cut our military in half, it would still be far bigger than that of any conceivable rival.

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AFGHANISTAN

Casualties in Afghanistan:

Afghan troops killed	8,587
Afghan troops seriously injured	25,761
Afghan civilians killed	8,669
Afghan civilians seriously injured	15,604
U.S. troops killed	951
U.S. troops seriously injured	2,853
Other coalition troops killed	666
Other coalition troops seriously injured	1,998
Contractors killed	298
Contractors seriously injured	2,428
Journalists killed	9
Journalists seriously injured	unknown

Total killed in Afghanistan 19,180

Total injured in Afghanistan 48,644

- Given the nature of the conflict in Afghanistan, a definitive, conventional "victory" is not a realistic option. Denying a sanctuary to terrorists who seek to attack the United States does not require Washington to pacify the entire country, eradicate its opium fields, or sustain a long-term military presence in Central Asia.
- From the sky, U.S. unmanned aerial vehicles can monitor villages, training camps, and insurgent compounds.
- On the ground, the United States can retain a small number of covert operatives for intelligence gathering and discrete operations against specific targets, as well as an additional small group of advisers to train Afghan police and military forces.
- The United States should withdraw most of its forces from Afghanistan within the next 12 to 18 months and treat al Qaeda's presence in the region as a chronic, but manageable, problem.
- Washington needs to narrow its objectives to three critical tasks:

Security. Support, rather than supplant, indigenous security efforts by training and assisting the Afghan national army and police and, where appropriate, paying off or otherwise co-opting regional militias. Training should be tied to clear metrics. If those benchmarks are not achieved, Washington must cut its losses and cease further assistance. U.S. forces should not become Afghanistan's perpetual crutch.

Intelligence and Regional Relations. Sustain intelligence operations in the region through aerial surveillance, covert operations, and ongoing intelligence-sharing with the Afghan and Pakistani governments. Seek cordial relations with all of Afghanistan's neighbors, particularly Russia and Iran, as each has the means to significantly undermine or facilitate progress in the country.

Drugs. Dial back an opium eradication policy to one that solely targets drug cartels affiliated with insurgents rather than one that targets all traffickers, including poor local farmers. Harassing the latter alienates a significant portion of the rural population.

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- the United States, as a default position, should refrain from intervening abroad to export liberal democratic institutions, and it should unilaterally engage in free trade with all countries.

IRAQ

Casualties in Iraq:

Iraqi troops killed [13]	30,000
Iraqi troops seriously injured [14]	90,000
Iraqi civilians killed [15]	854,706
Iraqi civilians seriously injured [16]	1,538,471
U.S. troops killed [17]	4,402
U.S. troops seriously injured [18]	31,808
Other coalition troops killed [19]	318
Other coalition troops seriously injured [20]	2,290
Contractors killed [21]	933
Contractors seriously injured [22]	10,569
Journalists killed [23]	142

JOBS

- In part, the notion that government can “create jobs” is a debate about Keynesian economics, which is the theory that the economy can be boosted if the government borrows money and then gives it to people so they will spend it. This supposedly “primes the pump” as the money circulates through the economy. Keynesian theory sounds good, and it would be nice if it made sense, but it has a rather glaring logical fallacy. It overlooks the fact that, in the real world, government can't inject money into the economy without first taking money out of the economy. More specifically, the theory only looks at one-half of the equation — the part where government puts money in the economy's right pocket. But where does the government get that money? It borrows it, which means it comes out of the economy's left pocket. There is no increase in what Keynesians refer to as aggregate demand. Keynesianism doesn't boost national income, it merely redistributes it. The pie is sliced differently, but it's not any bigger.
- The real world evidence also shows that Keynesianism does not work. Both Hoover and Roosevelt dramatically increased spending, and neither showed any aversion to running up big deficits, yet the economy was terrible all through the 1930s. Keynesian stimulus schemes also were tried by Gerald Ford and George W. Bush and had no impact on the economy. Keynesianism also failed in Japan during the 1990s.
- Unfortunately, no matter how the issue is analyzed, there is virtually no support for the notion that government spending creates jobs. Indeed, the more relevant consideration is the degree to which bigger government destroys jobs. Both the theoretical and empirical evidence argues against the notion that big government boosts job creation. Theory and evidence lead to three unavoidable conclusions:
 - **The theory of government-instigated job creation overlooks the loss of resources available to the productive sector of the economy.** Frederic Bastiat, the great French economist (yes, there were admirable French economists, albeit all of them lived in the 1800s), is well known for many reasons, including his explanation of the “seen” and the “unseen.” If the government decides to build a “Bridge to Nowhere,” it is very easy to see the workers who are employed on that project. This is the “seen.” But what is less obvious is that the resources to build that bridge are taken from the private sector and thus are no longer available for other uses. This is the “unseen.”
 - **So-called stimulus packages have little bang for the buck.** Even if one assumes that money floats down from Heaven and we don't have to worry about the “unseen,” government is never an efficient way to achieve an objective. Based on the amount of money that is being discussed and the claims of how many jobs will be created, Harvard Professor Greg Mankiw filled in the blanks and calculated that each new job (assuming they actually materialize) will cost \$280,000. But since money doesn't come from Heaven, this calculation is only a

partial measure of cost. In reality, the cost of each government job should reflect how that \$280,000 would have been spent more productively in the private sector.

- **Government workers are grossly overpaid.** There are several reasons why it costs so much for the government to "create" a job, including the inherent inefficiency of the public sector. But the dominant factor is probably the excessive compensation packages for bureaucrats. According to Bureau of Economic Analysis data, the average employee for the federal government now gets paid nearly twice as much as workers in the productive sector of the economy.

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- The only “job-creating” idea President Obama and congressional Democrats put forward is to spend more money. It’s hard to imagine that the economy will benefit from a deficit larger than the currently projected \$1.5 trillion, which is already a trillion dollars more than any previous deficit except for 2009. If \$3 trillion in deficits in two years hasn’t stimulated the economy, it might be time to think about different strategies — like lifting the burdens on entrepreneurship, investment, and job creation.
- Small businesses, half of the private sector (and the most important part as far as jobs are concerned), created 64% of new jobs over the past 15 years, but they have cut five million jobs since the onset of this financial crisis. Large businesses, by comparison, have shed three million jobs in the past two years.
- Small businesses continue to struggle and cannot hire in this environment. Thus, the full weight of job creation falls upon large businesses. It would take large businesses rehiring 100% of the three million workers laid off over the past two years to make a substantial change in jobless numbers. Given the productivity gains enjoyed recently, it is improbable that anything near this will occur.
- Unless real focus is afforded to re-engaging small businesses in this country, we will have a tragic and dangerous unemployment level for an extended period of time.
- **Small businesses** spend nearly \$7,000 per year just to comply with federal regulations — that is 60% more than large companies!
- In the U.S., small **businesses employ 50% of the country's workforce and contribute 38% of GDP.** What's more, small businesses are often the primary source of this

country's innovation. Apple, Dell, McDonald's, Starbucks were all started as small businesses.

SOLUTION

- The true problem of unemployment is a problem of disconnect between those who would work and those who would hire: businesses right now can't afford to hire new workers. They keep letting them go. Therefore, unemployment is high, in the double digits, approaching 17% or more. Among black men, it is 25%. Among youth, it is 30% or higher. And the problem will continue to spread so long as there are barriers to deal making between hirers and workers.
- Again, it is not a lack of work to be done. It is simply too expensive to pay for the work to be done. So, what are those things that prevent deals from being made? Here is a list of a few barriers:
 - The high minimum wage that knocks out the first several rungs from the bottom of the ladder
 - The high payroll tax that robs employees and employers of resources
 - The laws that threaten firms with lawsuits should the employee be fired
 - The unemployment subsidy in the form of phony insurance that pays people not to work
 - The high cost of business start-ups in the form of taxes and mandates
 - The mandated benefits that employers are forced to cough up for every new employee under certain conditions
 - The withholding tax that prevents employers and employees from making their own deals
 - The age restrictions that treat everyone under the age of 16 as useless
 - The social-security and income taxes that together devour nearly half of contract income
 - The labor-union laws that permit thugs to loot a firm and keep out workers who would love a chance to offer their wares for less
- If these barriers were eliminated today, and it would only take one act of Congress to do so, the unemployment rate would collapse very quickly.

SOCIAL SECURITY

PROBLEM: Social Security of the Current Magnitude is Not Sustainable

- Social security is currently the largest social welfare program in the U.S., constituting 37% of government expenditure and 7% of GDP
- **By 2017, Social Security will be paying out more in benefits than it takes in through taxes. In theory, Social Security is supposed to continue paying benefits after 2017 by drawing on the Social Security Trust Fund. Furthermore, the trust fund is supposed to provide sufficient funds to continue paying full benefits until 2041, after which it will be exhausted. At that point, *by law*, Social Security benefits will have to be cut by approximately 27 percent. However, in reality, the Social Security Trust Fund is not an asset that can be used to pay benefits. Any Social Security surpluses accumulated to date have been spent, leaving a trust fund that consists only of government bonds (IOUs) that will eventually have to be repaid by taxpayers.**
- **Even if Congress can find a way to redeem the bonds, the trust fund surplus will be completely exhausted by 2041. At that point, Social Security will need to rely solely on revenue from the payroll tax—but that revenue will not be sufficient to pay all promised benefits. Clearly, Social Security is not sustainable in its current form.**
Feldstein, M. (2005). Rethinking social insurance. *American Economic Review*, 95(1), pp. 1-24.
- The only ways to keep Social Security solvent are to (1) raise taxes, (2) cut benefits, or (3) **get a higher rate of return through private capital investment.**
- Many Americans believe that Social Security is an “earned right.” That is, because they have paid Social Security taxes they are entitled to receive Social Security benefits. However, the **Supreme Court has ruled, in the case of *Flemming v. Nestor*, that workers have no legally binding contractual or property right to their Social Security benefits, and those benefits can be changed, cut, or even taken away at any time.**
- In effect, Social Security turns older Americans into supplicants, dependent on the political process for their retirement benefits. If they work hard, play by the rules, and pay Social Security taxes their entire lives, they earn the privilege of going hat in hand to the government and hoping that politicians decide to give them some money for retirement.
- **In contrast, under a system of individual accounts, workers would have full property rights in their private accounts.** They would own their accounts

and the money in them the same way they own their individual retirement accounts or 401(k) plans. Their retirement benefits would not depend on the whims of politicians.

SOLUTION

- In current system, worker contributes half (6.2 percentage points) of Social Security tax, while the employer makes a matching contribution. The combined total for the employee and the employer is equal to 12.4% of gross compensation

NEW PLAN:

- Individuals would be allowed to put their half (6.2 percentage points) of the payroll tax into personal accounts.
- The remaining 6.2 percentage points of payroll taxes (employer contribution) would be used to keep paying Social Security retirement benefits to those at or near retirement during the transition and to fund disability and survivors' benefits. *Once the transition was complete, the employer payroll tax could be reduced to cover only survivors' and disability benefits.*
- Workers choosing the personal account option would receive a "recognition bond" to reflect the benefits they have already earned under the current Social Security system. Those bonds, redeemable at retirement, would repay workers for what they have already paid into the system. Workers choosing personal accounts would not earn any future retirement benefits under the traditional Social Security system.
- Contributions to personal accounts would initially be placed in a limited number of broadly diversified investment funds. Eventually, once workers had accumulated funds and had more investment experience, they would be allowed to choose from a wider array of investment options if they wished.
- At retirement workers could choose either to purchase an annuity providing annual income equal to 100 percent of the poverty level or a programmed withdrawal option providing an equivalent level of income. Significant funds are likely to be available above this level and could be taken out as a lump sum, saved, left for loved ones, or used however the retiree chose. All monies in the account would be fully inheritable. Any money left in the worker's account at the time of his or her death could be passed on to a loved one.

- The federal government would provide a safety net ensuring that no worker's retirement income would fall below the poverty level.
- The accounts would be *voluntary*. Those who wished to remain in the traditional Social Security system would be free to do so, accepting the level of benefits that Social Security can currently pay. Those who stayed in Social Security would not be affected by those who chose individual accounts. Workers age 55 or older would not have their benefits changed in any way.
- Financing the Transition:
Although moving to a system of personal accounts will save money in the long run, there will almost certainly be a short-term requirement for additional revenues. That is because, to the degree that workers choose personal accounts, payroll tax revenues will be redirected from the payment of current benefits to workers' personal retirement accounts. Because most of the workers expected to choose accounts are likely to be young, it will be many years before the accounts result in significant savings to the traditional system. Therefore, Congress will be forced to find money in the short term to pay for the benefits of current retirees. Congress may have to borrow, sell government assets, or reduce other government spending.
- Legislation based on Cato's plan has been introduced in Congress by Reps. Sam Johnson (R-TX) and Jeff Flake (R-AZ). According to the Social Security Administration, the Individual Social Security Investment Plan Act (H. R. 350) would return Social Security to permanent sustainable solvency.

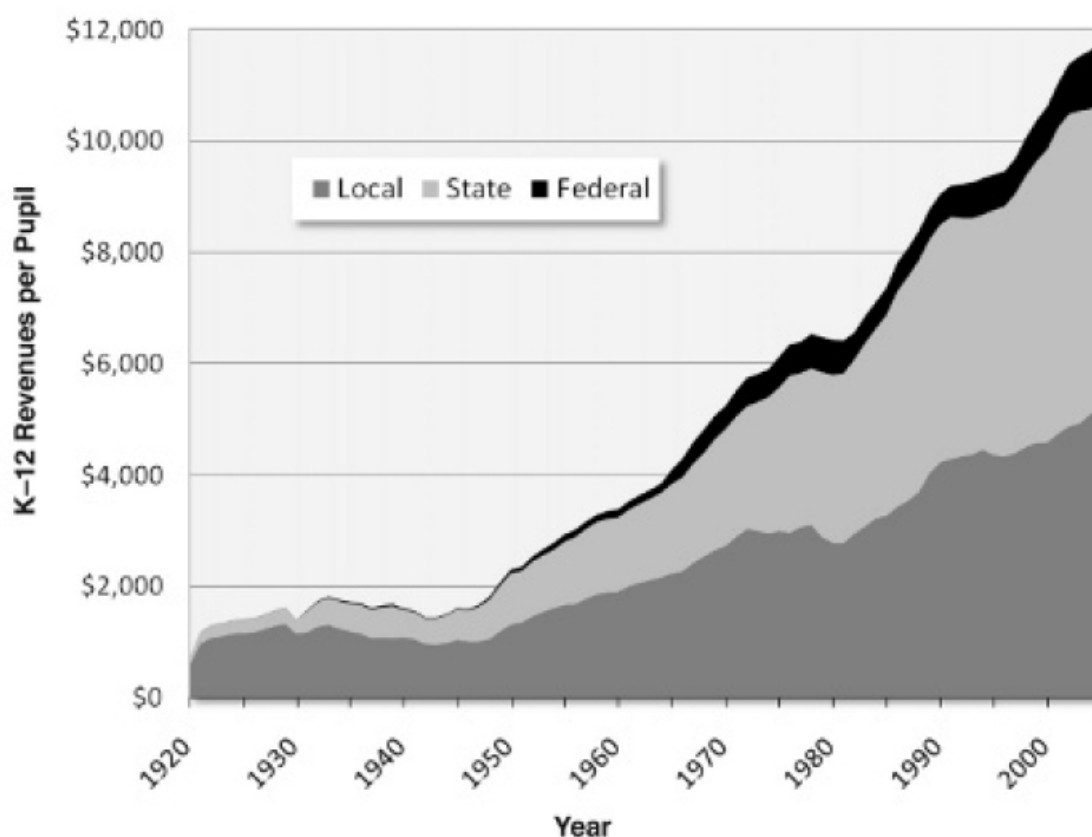
EDUCATION

- The U.S. Constitution delegates the federal government no power to determine the content, methods, testing, or staffing procedures of American schools. In fact, education is not mentioned in the Constitution of the United States, and for good reason. The Founders wanted most aspects of life managed by those who were closest to them, either by state or local government or by families, businesses, and other elements of civil society. Certainly, they saw no role for the federal government in education.

Have Federal Education Programs Worked?

- As shown in Figure 20.1, federal revenues constituted less than 1 percent of public school budgets before the 1930s, and grew only imperceptibly until the post–World War II period. That negligible level of spending was matched by a complete lack of federal interest in shaping what went on in America’s classrooms. It wasn’t until the National Defense Education Act (NDEA) of 1958, aimed at beefing up math and science instruction after Russia’s launch of the satellite Sputnik, that Congress sought to shape

Figure 20.1
K–12 Revenues per Pupil, by Level of Government, 1920 to 2005



SOURCES: Thomas Snyder, Sally Dillow, and Charlene Hoffman, *Digest of Education Statistics 2007* (Washington: U.S. Department of Education, 2008), Table 162. Missing values are linearly interpolated. Historical consumer price index inflation factors are from <http://oregonstate.edu/cla/polisci/faculty-research/sahr/sahr.htm>.

public school instruction.

- Some NDEA funding purchased new equipment for science classrooms, but much of it went toward the development of new math and science curricula by experts in colleges of education, new teacher training programs, and the hiring of experts in these fields as curriculum supervisors within the nation's public school systems.
- What effect did these expenditures have? Nationally representative data for the period are available from the Educational Testing Service, which administered its Preliminary Scholastic Aptitude Test to nationally representative samples of high school juniors periodically between 1955 and 1983. The mathematics results of these little-known "national norm studies" appear in Figure 20.2 (note that the PSAT does not include a science portion). The results depicted in Figure 20.2 indicate that mathematics performance declined slightly during the latter half of the 1950s, and that this decline actually accelerated from 1960 to 1966, after the NDEA was passed. The avowed belief of school district officials that the law was working is not supported by these results.
- Despite the NDEA's failure to improve mathematics and science achievement, Congress and the president decided to repeat the same ineffective strategy nearly half a century later, with the America COMPETES Act of 2007 (an acronym for Creating Opportunities to Meaningfully Promote Excellence in Technology, Education, and Science).
- In 1965, the federal government created two new programs aimed at closing the achievement gaps between high- and low-income children and between white and black children: the **Elementary and Secondary Education Act** and a **preschool program known as Head Start**.
- As its name implies, Head Start was intended to prepare disadvantaged students to perform better academically once they entered the K–12 system. According to the most recent large-scale study of the program, authored by Michael Puma and others, Head Start has some small positive effects in the early language skills of 3-year-olds, but no effect on their mathematics skills, when compared with a control group of students not receiving Head Start services. Among 4-year-olds, this same federally funded study found fewer language skill improvements and still no mathematics improvements. These findings are consistent with a comprehensive literature review of the Head Start research released by the Department of Health and Human Services in 1985. That review described some initial academic gains among preschoolers while they were participating in the program, but a gradual atrophy of such gains as students progressed through the elementary and higher grades.
- In fact, **according to the 1985 study, there were no lasting academic achievement benefits to Head Start:**

- Head Start represents a relatively small fraction of total federal spending on K–12 education. The bulk of that spending is made under the auspices of the Elementary and Secondary Education Act, which comprises hundreds of different programs. It directs funding to states and school districts for everything from early literacy to dropout prevention, and from “comprehensive school reform” to teacher training. All these programs are collectively intended to advance the law’s aim of closing the racial and economic achievement gaps.
- After more than 40 years of programs providing services from preschool to high school, the most meaningful way to determine the effectiveness of the federal government’s interventions is to look at how the achievement gaps have changed over time. Once again, it makes the most sense to look at students at the end of high school to see the cumulative effects of all federal programs (if any). The overall gap between black and white 17-year olds remained essentially unchanged through 1980. That is 15 years after the passage of both the ESEA and Head Start, time enough for the children being tested to have passed through all these federal programs from preschool through the end of high school. Nevertheless, the gap had not narrowed. If federal education programs were having their intended effect, we would expect the gaps to have narrowed more or less uniformly over the past 40 years. That has not happened.
- What about the gap in performance between rich and poor Americans, the reduction of which was the principal stated aim of both Head Start and the ESEA? Though breakdowns of NAEP scores by family income are unavailable, we can get a rough idea of them by looking at scores according to parental level of education. The gap in achievement between children of college graduates (generally wealthier) and those of high school dropouts (generally poorer) has not narrowed in either reading or science. The gap reduction that has occurred in mathematics amounts to barely 1 percent of the 500-point scale, and fluctuations in that gap are not obviously correlated with any particular shifts in federal policy, making it doubtful that federal policy played a decisive role even in that tiny change.

No Child Left Behind

- Disappointed by the ineffectiveness of federal programs despite generations of effort and a massive outlay of taxpayer dollars, Congress and President Bush decided to shift the emphasis of ESEA programs in 2002, reauthorizing the law under the name No Child Left Behind. In this reconstituted form, states were encouraged to test students in reading and mathematics and to focus their improvement efforts on those schools failing to show adequate progress on those tests from year to year.
- Has NCLB proved more effective than past federal initiatives? According to the NAEP’s Nation’s Report Card series of tests, 4th grade reading scores increased by less than one-half of 1 percent of the 500-point scale between 2002 and 2007. As it happens, 4th-grade scores had increased by just over 1 percent between 2000 and 2002, before NCLB was passed. So, if NCLB has had an effect at all, it has been to slow the rate of improvement

that existed immediately before its passage. The same, incidentally, goes for the black–white score gap, which shrank by 0.8 percent of the score scale between 2000 and 2002, but only by 0.6 percent of the scale in the five years after NCLB’s passage.

- At the 8th grade, students’ reading scores fell by one point (0.2 percent of the score scale) between 2002 and 2007, and the black–white score gap remained unchanged. In mathematics, the story is much the same.
- In the 4th grade, scores improved by 1 percent between 2003 and 2007, but had improved by nearly 2 percent between 2000 and 2003, before the NCLB could have had any effect. The racial achievement gap shrank by 0.6 percent after NCLB, but by 0.8 percent from 2000 to 2003. Scores for 8th graders rose by 0.4 percent after NCLB, but had improved by 1 percent between 2000 and 2003.
- Two sets of international tests, the Program on International Student Assessment and the Program on International Reading Literacy Survey, offer nationally representative data on trends in U.S. student achievement over the NCLB’s lifetime. In every subject, on both tests, the scores of American students have declined.
- PISA was first administered to 15-year-olds in 2000, testing them on mathematics, reading, and science. Students in the United States initially earned an overall math score of 493 on the 1,000-point scale, 7 points below average, placing us 18th out of the 27 participating countries. Three years later, PISA results showed no significant change in U.S. math performance. But according to the latest report, the United States suffered a significant decline in mathematics achievement between 2003 and 2006, a period in which an NCLB effect could reasonably have been expected. We now score 474—in 25th place among the 30 participating countries. PISA also tests students in science, a subject area not specifically targeted by NCLB.
- Taken together, the results of NAEP, PISA, and PIRLS indicate that the No Child Left Behind Act has continued the legacy of failure established by its predecessors.
- We have enough evidence and experience to draw a solid conclusion: the federal government cannot significantly improve school performance.

SOLUTION

- Recognize that the federal governments education programs have proved incapable of achieving their stated goals
- Understand that the federal governments failed education programs have cost American taxpayers \$1.85 *trillion* since 1965
- The federal government should phase out all its K–12 education programs over three years, resulting in a \$70 billion per year tax cut for the American people. By phasing out futile federal efforts in education, taxpayers would regain control of 70 billion of their hard-earned dollars every year.
- The first step would be to **convert all existing federal K–12 education programs into block grants to the states. These grants should then be phased out completely over three years, giving states the time to reallocate their own personnel and resources. As the block grants are phased out, federal income tax rates should be proportionately reduced so that taxpayers retain the money that was previously being spent on ineffective federal programs.** At the end of the three-year period, Americans would be enjoying a permanent \$70 billion annual tax cut.

IMMIGRATION

PROBLEM: “ENFORCEMENT-FIRST” MENTALITY

- According to the Constitution, regulating immigration is the responsibility of the federal government.
- Illegal immigration is the Prohibition debate of our day. By essentially barring the legal entry of low-skilled immigrant workers, our own government has created the conditions for an underground labor market, complete with smuggling and day-labor operations. As long as the government maintains this prohibition, illegal immigration will be widespread, and the cost of reducing it, in tax dollars and compromised civil liberties, will be enormous.

ARIZONA IMMIGRATION DEBATE

Arizona immigration law:

1. Creates the new state crime of “trespassing by illegal aliens,” which essentially consists of being in the state in violation of federal immigration laws as determined by an officer or agency authorized by the federal government to verify immigration status;
2. Sets out that no official or agency of the state or its political subdivisions (county, city, etc.) “may adopt a policy that limits the enforcement of federal laws to less than the full extent permitted by federal law;”
3. State (and local) law enforcement officials shall make a “reasonable attempt . . . when practicable, to determine the immigration status” of any person with whom they have made “lawful contact . . . where reasonable suspicion exists that the [detained] person is an alien who is unlawfully present in the United States;”
4. If an alien who is unlawfully in the United States is convicted of violating any state or local law [including the new “trespassing by illegal aliens”], the alien “shall be transferred immediately [on discharge from imprisonment or assessment of fine for the offense] to the custody of the [federal immigration authorities];”
5. A police officer “may lawfully stop any person who is operating a motor vehicle of the officer has reasonable suspicion to believe the person is in violation of any civil traffic law and [the the pre-existing law against human smuggling];”
6. Makes it illegal to stop to hire or pick up passengers for work if the vehicle “blocks or impedes the normal movement of traffic;”
7. Makes it illegal for an illegal alien to knowingly apply for work, solicit work in a public place, or perform work as an employee or independent contractor;
8. Makes it illegal for anyone violating the law (including the new illegal hiring law, as well as pre-existing prohibitions on hiring illegal aliens) to transport, move, conceal, or

harbor persons who the alleged violator knows to be illegally in the United States, as well as to encourage or induce aliens to come to Arizona illegally;

9. Provides an entrapment defense to the pre-existing crime of employing illegal aliens (whether knowingly or intentionally); and
 10. Authorizes the immobilization or impoundment of vehicles used to commit various vehicle-related offenses relating to illegal aliens.
- None of these provisions, on their face, appear to be unconstitutional, in the sense of Arizona intruding on federal authority over immigration policy. Indeed, as reported last week by the *Washington Post*, this conclusion is backed by a 2002 memo from the Office of Legal Counsel — the Department of Justice unit that acts as the executive branch’s “outside counsel.” This memo concludes: first, that states have “inherent power” to make arrests for violating federal law and, second, “federal statutes should be presumed not to preempt this arrest authority.”
 - Notwithstanding the new law’s facial constitutionality, state or local law enforcement officials could use it to behave in a way that intrudes on federal prerogatives or violates constitutionally protected individual rights. That circumstance could give rise to an “as-applied” legal challenge. If police officers stop Hispanic motorists on pretextual grounds just to ask for their papers, for example, that would constitute a Fourth Amendment violation. Notably, however, the sections relating to state enforcement of federal immigration laws contains a provision specifying: “This section shall be implemented in a manner consistent with federal laws regulating immigration, protecting the civil rights of all persons and respecting the privileges and immunities of United States citizens.”
 - Third, just because the law is constitutional doesn’t necessarily mean it’s good policy (just like not everything that some people say is good policy — like Obamacare, or torture during interrogations — is necessarily constitutional). There are many arguments against the Arizona law unrelated to civil liberties or racial profiling concerns, including that it misdirects state and local resources away from more pressing priorities (such as violent crime); that it’s driven by misguided fears of crime (when crime has actually been dropping in Arizona, and nationally the foreign-born commit crimes at lesser rates than the native-born); and **that an “enforcement-first” mentality gets things backwards in that we should first reform and expand the ways people can come here legally and then take action against those who still come illegally.** Similarly, there are many arguments in favor of the Arizona law not based in racism, or political opportunism, or misapplied economics.

- *Wall Street Journal* reports that the incidence of violent crime in Phoenix last year plunged 16.6 percent compared to 2008, a rate of decline that was three times the national average.
- According to the Phoenix Police Department, the downward trend in crime has continued into 2010 even as the “illegal immigrant crime wave” story reverberates on cable TV and talk radio. As the *Journal* story reports:
 “In Phoenix, police spokesman Trent Crump said, “Despite all the hype, in every single reportable crime category, we’re significantly down.” Mr. Crump said Phoenix’s most recent data for 2010 indicated still lower crime. For the first quarter of 2010, violent crime was down 17% overall in the city, while homicides were down 38% and robberies 27%, compared with the same period in 2009.”
- Arizona’s major cities all registered declines. A perceived rise in crime is one reason often cited by proponents of a new law intended to crack down on illegal immigration. The number of kidnappings reported in Phoenix, which hit 368 in 2008, was also down, though police officials didn’t have exact figures.
- According to the most recent figures from the U.S. Department of Justice, the violent crime rate in Arizona in 2008 was the lowest it has been since 1971; the property crime rate fell to its lowest point since 1966. In the past decade, as illegal immigrants were drawn in record numbers by the housing boom, the rate of violent crimes in Phoenix and the entire state fell by more than 20 percent, a steeper drop than in the overall U.S. crime rate.
- Arizona suffers from its share of crime, but it is not out of proportion for a large city. Among similar-sized metro areas, such as Boston, Dallas, Detroit, San Francisco and Washington, D.C., Phoenix had the lowest violent crime rate in 2008. In Detroit, which is not known as a magnet for illegal Hispanic immigrants, the rate was three times that of Phoenix.

GENERAL IMMIGRATION

- For the past 20 years, the U.S. government has pursued a policy of “enforcement only” in its effort to curb illegal immigration. Since the late 1980s, spending on border enforcement has grown exponentially. The number of Border Patrol officers grew threefold between 1986 and 2002, and doubled again during President Bush’s two terms in office. Miles of fencing have been erected through urban border areas and into the surrounding desert. There is no evidence that more vigorous enforcement has had any long-term effect on the number of illegal workers entering the country.

- According to the most widely accepted estimates, about 12 million foreign-born people are living in the United States without authorization, and that number has been growing by 400,000 to 500,000 annually in recent years. Most illegal immigrants are low-skilled workers, and most come from Mexico and Central America.
- The continuing inflow of unskilled immigrants to the United States has been driven by two powerful economic and demographic trends: On the demand side, the U.S. economy continues to create hundreds of thousands of net new jobs each year that require relatively few skills. Although the fastest-growing categories of new jobs being created in our increasingly sophisticated economy require at least some specialized skills, training, and education, jobs are also being created in lower-skilled, mostly service sectors that complement the higher-end jobs. Meanwhile, the supply of native-born Americans who have traditionally filled such jobs continues to shrink as the typical American worker becomes older and better educated. As recently as the early 1960s, half of the adult Americans in the workforce were high school dropouts; today, fewer than 7 percent of native-born American adults are laboring without a high school diploma. **A better-educated labor force is a profoundly positive development, but it also means that fewer workers are willing to claim the still-growing number of jobs in our economy that require few skills and minimal formal education.**
- Immigrants fill that growing gap in the labor market. Those immigrant workers enable important sectors of the U.S. economy, such as retail, construction, landscaping, restaurants, and hotels, to continue to grow and meet the needs of their customers. Because of low-skilled immigration, those sectors have been able to expand, attract investment, and create middle-class jobs in management, bookkeeping, marketing, and other areas that employ native-born Americans.

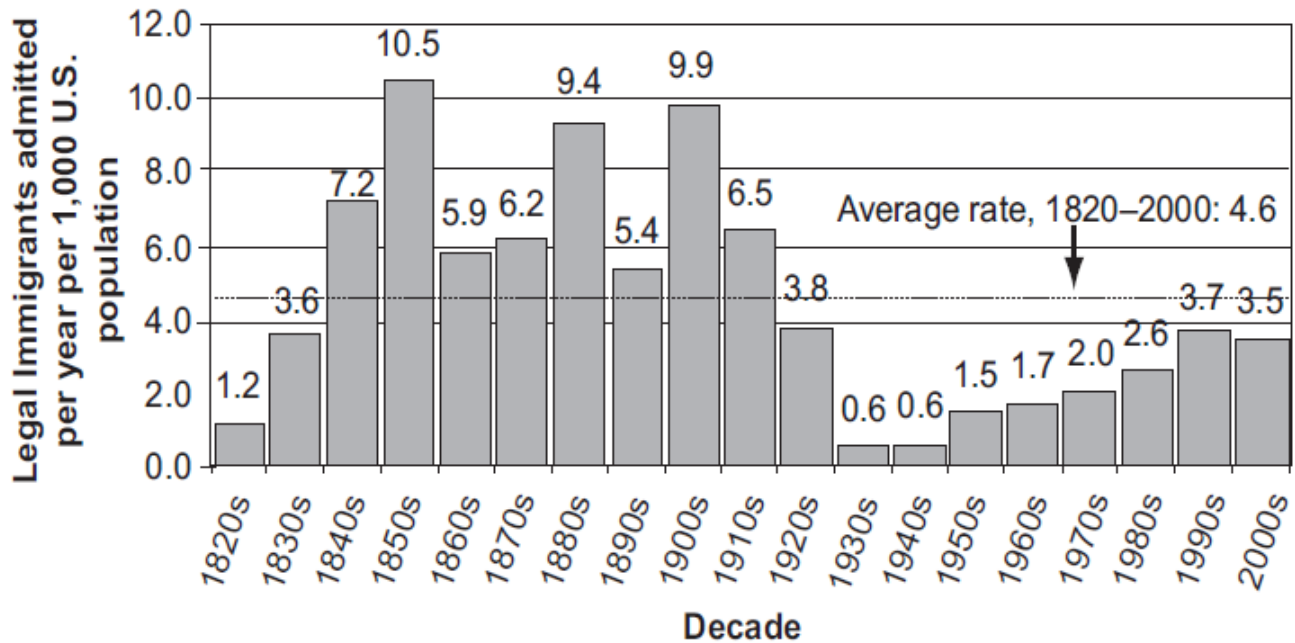
Immigration allows the United States to maintain a healthy increase in the workforce:

- Immigration has not fueled a population explosion. Instead, it has only partially offset a steep decline in the birthrate and natural growth of the U.S. population and labor force. Since 2000, the annual growth rate has slipped to just below 1 percent, the slowest rate since the Great Depression. **Without immigration, the growth of the U.S. labor force would decline rapidly toward zero during the next two decades.** The primary drivers of local population growth remain births and internal migration.
- Immigration also slows the aging of the U.S. population. According to the Census Bureau, the median age of immigrants who have arrived since 2000 is 28.1 years, compared with 35.6 years for the native-born population. **Immigration is helping America avoid the serious demographic problems confronting rapidly aging societies such as Russia, Italy, Japan and, soon, China.**

Current Immigration Procedures

- Since the federal government began counting in 1820, more than 73 million immigrants have legally entered the United States to settle and begin new lives.
- Most immigrants who gain legal permanent residence status (i.e., a green card) either are closely related to a legal resident in the United States or are sponsored by an employer who must demonstrate a lack of sufficient U.S. workers available for the position. A U.S. citizen can sponsor his or her foreign-born spouse, minor and adult children, brothers and sisters, and parents (if the sponsor is 21 or older). A noncitizen, permanent legal resident can sponsor only his or her spouse, minor children, and adult unmarried children. There is no sponsorship of cousins, aunts, uncles, or other such extended family.
- A maximum of 50,000 “diversity visas” are also offered each year to immigrants from countries that send relatively few immigrants to the United States.
- The United States is also open to a limited number of refugees and asylum seekers who fear persecution in their home countries.
- Most visa categories are limited by strict quotas. There is no cap on immediate relatives (spouses, minor children, and parents) of U.S. citizens, but all other family preference categories are limited to a total of 226,000 visas per year. In addition, no more than 7 percent of family preference or employment visas (about 26,000) each year can be granted to immigrants from any single country. One result of the quotas is long waiting periods.
- Employment-based visas are capped at 140,000 per year. Most of those visas are set aside for professors and researchers, members of professions such as doctors, and skilled workers such as computer scientists.
- Only 5,000 permanent residence visas are available each year for low-skilled workers.
- **Since 2000, the United States has admitted an average of 1 million legal immigrants per year**, or an immigration rate of 3.5 per year per 1,000 U.S. residents. That rate compares with an immigration rate of 9.4 to 10.5 in previous peak decades, as shown in Figure 60.1.

Figure 60.1
American Immigration in Perspective



SOURCES: U.S. Census Bureau; *2007 Yearbook of Immigration Statistics*, U.S. Office of Immigration Statistics.

- In fact, the current legal immigration rate is lower than that of any decade between 1830 and 1930, and is below the average rate of 4.6 during the 19th and 20th centuries. The United States could significantly expand legal immigration and still be well below the immigration rates of previous periods.
- The share of the U.S. population that is foreign-born also remains below its historical peaks. According to the U.S. Census Bureau, 12.7 percent of the U.S. population was foreign-born in 2006. That number has been steadily rising since its nadir in 1970, but it is still below the peak of nearly 15 percent in 1910.

SOLUTION

- Expand current legal immigration quotas, especially for employment-based visas
 - If the goal is to curb illegal immigration, any temporary worker program must offer enough visas to meet the legitimate demands of a growing U.S. labor market. The fact that 400,000 to 500,000 foreign-born workers join the U.S. labor force each year indicates the general magnitude of how much demand exceeds the supply of available, legal workers. A temporary worker program should offer at least that number of visas to allow the revealed demand of American employers to be met legally.
 - We know from experience that expanding opportunities for legal immigration can dramatically reduce incentives for illegal immigration. In the 1950s, the federal government faced widespread illegal immigration across the Mexican border. In response, the government simultaneously beefed up enforcement while greatly expanding the number of workers allowed in the country through the *Bracero* guest-worker program. The result: Apprehensions at the border dropped by 95 percent.
 - If we want to “get control” of our border with Mexico, the smartest thing we could do would be to allow more workers to enter the United States legally under the umbrella of comprehensive immigration reform. Then we could focus our enforcement resources on a much smaller number of people who for whatever reason are still operating outside the law.
- Repeal the arbitrary and restrictive cap on H1-B visas for highly skilled workers
 - The main channel for American companies to hire highly skilled foreign born workers is the H1-B visa program. An H1-B visa allows a worker to enter the United States temporarily for a renewable period of three years. Current law maintains a cap of 65,000 such visas each year, plus another 20,000 for graduates of U.S. universities who have earned at least a master’s degree. The 65,000 cap remains at the same level as when it was first imposed in 1990 despite the dramatic growth of America’s hightech sector. In recent years, requests for the visas have exceeded supply months before each fiscal year has begun. American companies need to be able to compete for top talent in the world.
 - Our producers must be able to hire the right workers with the right skills to compete in the global marketplace. The Bureau of Labor Statistics projects that the U.S. economy will add a net 1 million new jobs in computers, math, and engineering in the next decade. This expansion of demand occurs during a time when the number of native-born Americans earning degrees in those fields is woefully inadequate.

- Highly skilled workers generally complement rather than compete against American-born workers. H1-B workers create employment opportunities for native-born Americans by increasing research and development, production, and exports. Studies have shown that for every H1-B visa requested by an S&P 500 or technology company, the company typically adds five additional workers.
- Create a temporary worker program for lower-skilled workers to meet long-term labor demand and reduce incentives for illegal immigration
- Refocus border-control resources to keep criminals and terrorists out of the country.
 - Immigration reform would actually enhance America's border security by bringing more order to the border. Reform would greatly reduce demand for human smuggling, document fraud, and other underground criminal activities. It would encourage millions of undocumented workers to come forward to register and cooperate with law enforcement authorities.
 - This would allow the Homeland Security Department to concentrate its apprehension efforts on violent criminals and terrorists rather than meatpackers and janitors. As Homeland Security Secretary Michael Chertoff told Congress in 2007: "A regulated channel for temporary workers would dramatically reduce the pressure on our borders, aid our economy and ease the task of our law enforcement agents inside the country. There is an inextricable link between the creation of a temporary worker program and better enforcement at the border."
- Comprehensive reform should also offer legal status to workers already here without authorization. It would be an economic and humanitarian disaster, as well as an administrative nightmare, to round up the 12 million people already here illegally and somehow deport them to their home countries. Most have been in the country for five years or more, and 40 percent have been here for more than a decade. Their contributions to their employers and the U.S. economy should be recognized and weighed against their violation of U.S. immigration laws.

HELPING THE POOR/ WELFARE

- The next Congress needs to take seriously the goal of ending welfare as we know it, rather than simply tinker with this decades-old, fundamentally flawed program.
- 1996 is viewed as a landmark year by welfare reformers on all parts of the political spectrum. Through a bipartisan effort, the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) was signed into law, ending the historic federal entitlement to cash assistance. Under the new law, states receive federal welfare funding in the form of block grants and have broad flexibility in choosing how to use those funds to meet welfare reform's aims. Consequently, the country has turned into a learning lab in which states are experimenting with methods for achieving labor-market attachment, marriage, two-parent families, and poverty reduction.
- The new law's most celebrated success is having cut nearly 6 million individuals from the welfare rolls. Yet, despite a 47 percent decline in the caseload between August 1996 and December 1999, most people who have exited the rolls have been the short-term, easiest-to-employ recipients.
- Welfare reform has been largely unsuccessful in moving long-term unemployed, difficult-to-place individuals off cash assistance. Studies show that those who remain on the rolls four years into reform have less education, fewer basic skills, less previous job experience, and a longer history of welfare receipt than people who left the rolls early on. The new law has demonstrated little potential for chipping away at long-term dependence
- In addition, fewer than 25 percent of former recipients manage to keep their jobs for an entire year; few get adequate on-the-job training and opportunities for advancement, and 30 percent end up eventually returning to the welfare rolls.
- Last, and most important, while the new law has made progress in deterring some potential new recipients from signing onto the rolls, it has been largely ineffective in decreasing out-of-wedlock childbearing by young women— the primary precursor to long-term dependence. Giving birth out of wedlock is the reason one-third of welfare recipients end up on the rolls and is the cause of most long-term dependence.
- President Obama's budget seeks to overturn the fundamental principles of **welfare** reform. To accomplish this, his budget would:
 - Create a new funding system to reward states for increasing the size of their welfare caseloads; and
 - Eliminate the only remaining federal program to strengthen **marriage** at a time when the unwed birth rate is approaching 40 percent.

- The Obama budget also eliminates all funding for the Marriage and Fatherhood grant program, which has served to advance and encourage healthy marriages in low-income communities and strengthen relationships between fathers and children. Despite the fact that the collapse of marriage is the prime cause of child **poverty** and welfare dependence, the Obama Administration plans to terminate all federal activity designed to strengthen marriage. Instead, Obama will dramatically expand the over \$300 billion the government spends each year subsidizing single parenthood. His Administration will also continue government welfare policies that penalize lower income couples that do marry. Through these changes, the Obama Administration is endorsing the death of marriage in lower-income communities.
- The stimulus package created a new \$5 billion program called the TANF Emergency Fund, which pays states 80 cents on the dollar for every new case that enters their welfare caseloads above the size of their caseloads in 2007 or 2008. This was a return to the old AFDC-style system that **rewards states for growing caseloads instead of shrinking them**. In addition, the federal matching rate is much higher in this new fund than in the old AFDC system.
- **Although touted as a “temporary” program, the TANF Emergency Fund has reappeared in the President’s 2011 budget with an additional \$2.5 billion in funding.**^[1] According to the Department of Health and Human Services, where this program is administered, states have drawn down only \$1.2 billion of the \$5 billion allotted.^[2] Yet the Administration wants to add another \$2.5 billion, and Congress appears poised to act on this request in short order.

SOLUTION

- Perhaps the most important step that Congress could take to end welfare dependence would be to prohibit new entrants to the system. Despite increased efforts at diversion under welfare reform, states continue to allow new and returning entrants into the cash assistance system. Consequently, caseloads have recently begun to level off or even grow in some states. This trend testifies to the fact that women will continue to drop out of school and have children out of wedlock so long as going on welfare remains an option.
- Welfare reformers need to turn their efforts to encouraging young women to (1) finish high school; (2) not get pregnant outside marriage; and (3) get a job, any job, and stick with it. The most effective way Congress can communicate this message is to remove welfare as an alternative for young women who fail to make smart choices. While continuing to support and encourage work among those already receiving welfare, Congress should enact a prohibition against new, single mothers’ signing onto the rolls.

This cutoff will have the effect of encouraging young women to think twice before entering into an unsustainable situation. Those who continue to have children they are unable to support will have to turn to their families and the community for assistance.

- Repeal welfare acts that provide incentive for increasing rather than decreasing welfare rolls.
- Already, a rich variety of private-sector, voluntary, and faith-based initiatives is available to families attempting to surmount obstacles on the path from welfare to work. Such efforts would likely proliferate in the absence of the public cash assistance alternative.

ENERGY

PROBLEM

- Advocates of renewable energy argue that the demand for renewables would rise if conventionally generated electricity were priced to reflect its pollution costs. But a reasonable interpretation of the evidence suggests that the additional cost of further pollution reduction would exceed the additional health benefits. Even if current regulatory costs are insufficiently reflective of true environmental costs, "getting prices right" will not significantly affect consumer choices of fuel. For example, reducing emissions of nitrogen oxides and sulfur dioxide by 75 percent below 1997 levels would increase electricity prices by only about 1 percent, too little to trigger a shift from coal or natural gas to renewable energy.

CAP AND TRADE

- To date, the leading proposal for reducing carbon emissions in the United States has been the Waxman-Markey cap and trade scheme, which passed the House of Representatives last June. The heart of Waxman-Markey is the creation of an economy-wide cap on carbon dioxide emissions requiring that emitters must have a permit for each ton of carbon dioxide they release into the atmosphere. The artificial scarcity of emissions permits would put a price on carbon dioxide produced by burning fossil fuels like coal, natural gas, and oil. This congressionally-mandated carbon market would boost energy prices, forcing consumers and businesses to cut back on their energy use and subsidizing innovators to develop low and no-carbon energy sources like solar, wind, and nuclear. But in order to secure the acquiescence of major industries, the 1,200 page Waxman-Markey bill is filled with special interest deals that dramatically distort the proposed carbon market making energy even more expensive than it would be under a simple cap-and-trade arrangement.
- Clocking in at nearly 1000 pages, the American Clean Energy and Security Act—or Waxman-Markey after its sponsors Rep. Henry Waxman (D-Calif.) and Rep. Edward Markey (D-Mass.)—proposes to reduce U.S. greenhouse gas emissions by 20 percent below their 2005 level by 2020, by 42 percent by 2030, and by 83 percent by 2050. In addition, the bill requires that electricity retailers meet 20 percent of their load by 2020 using either renewable sources of electricity or conservation. To achieve these goals, the U.S. will have to spend money on clean energy technologies which are far more expensive than conventional energy technologies.

- All rhetoric aside, mandates cost money. Today, for example, President Barack Obama declared that new U.S. automobiles must get an average of 35 miles-per-gallon by the year 2016. Yet it is widely acknowledged that meeting this new standard will add **\$1,300 to the cost of each new car**. In general, when prices go up, people buy less. So, all other things being equal, less demand for a product (like cars) means fewer jobs, not more. (Of course, there is one way to raise prices and create more jobs: reduce worker productivity. If policy makers deliberately encourage inefficiency in an industry, more jobs will likely follow. But that reduced productivity also means workers will receive **lower wages**.)
- Producing low-carbon electricity will also **cost more** money. Currently, producing solar photovoltaic electricity costs about 33 cents per kilowatt hour; wind generated electricity is about 9 cents per kilowatt hour; and coal-fired production with carbon capture and sequestration is estimated to cost up to 10 cents per kilowatt hour. In contrast, producing electricity by means of conventional coal-fired plants now costs 6.5 cents per kilowatt hour and nuclear power comes to 7.5 cents per kilowatt hour.
- Once again, all other things being equal, higher costs mean that the energy industry will raise the prices of its goods and services. Which means that consumers will buy less, thus leaving the industry with less to spend on producing goods and services or to pay its workers. Will there be more people specifically employed making and installing higher-cost, government subsidized wind turbines, photovoltaic arrays, batteries for plug-in hybrid automobiles, and weatherized houses? Sure. But on net, there will fewer new jobs thanks to rising low-carbon energy costs.
- In testimony before the Senate Energy and Natural Resources Committee last year, Peter Orszag, Obama's Director of the Office of Management and Budget, admitted that a 15 percent cut in carbon dioxide emissions would **reduce American incomes**. According to Orszag, the lowest quintile of households would pay an average of \$680 more each year for goods and services (3.3 percent of their incomes) and the highest quintile would pay \$2,180 more (1.7 percent of their incomes) than they would have in the absence of carbon rationing.
- Cap-and-trade is complex legislation with a very simple premise: make energy so expensive to consume that Americans use less of it, and "greenhouse gas" emissions are thereby curtailed.
- According to the Heritage Foundation, Analysis of the economic impact of Waxman-Markey projects that by 2035 the bill will:

- Reduce aggregate gross domestic product (GDP) by \$7.4 trillion,
- Destroy 844,000 **jobs** on average, with peak years seeing unemployment rise by over 1,900,000 jobs,
- Raise **electricity** rates 90 percent after adjusting for inflation,
- Raise inflation-adjusted gasoline prices by 74 percent,
- Raise residential natural gas prices by 55 percent,
- Raise an average family's annual energy bill by \$1,500, and
- Increase inflation-adjusted federal **debt** by 29 percent, or \$33,400 additional federal debt per person, again after adjusting for inflation.

All of these costs accrue in the first 25 years of a 90-year program that's **temperature impact climatologists have calculated to be only hundredths of a degree in 2050 and no more than two-tenths of a degree at the end of the century!** (Analysis by the Environmental Protection Agency (EPA) shows that a 60 percent reduction in CO2 emissions by 2050 will reduce CO2 concentrations by only 25 ppm in 2095. This reduction would affect world temperatures by 0.1 to 0.2 degrees C. In other words, proposed legislation makes virtually no difference.)

- Thanks to the Supreme Court's landmark decision in *Massachusetts v. Environmental Protection Agency* (2007), the EPA has authority to issue its own regulations on carbon dioxide. So while asking legislators to swallow hard on the bitter gristle of cap-and-trade, the president has really had the power to enact its core components on his own all along. Small wonder lawmakers of his own party are more than willing to toss the issue back onto his plate.
- Now that cap-and-trade has so spectacularly failed in the legislature, it is a sure bet that Obama will direct (or has directed) EPA Administrator Lisa Jackson to issue her own cap-and-trade protocols.

DEPARTMENT OF ENERGY

- Department of Energy research activities should be terminated. The private sector is entirely capable of performing by itself research into coal, natural gas, nuclear power, solar power, and other forms of energy. Businesses will fund new technologies when there is a reasonable chance of commercial success, as they do in other private industries.

- The bulk of the Department of Energy's activities are defense-related. Those activities, which total about \$19 billion annually, should be moved to the Department of Defense. That would allow for a more transparent presentation of defense costs in the budget, and it would allow the Department of Energy to be abolished.
- Federal research subsidies impose a burden on taxpayers, and they can be counterproductive if they steer markets away from the most efficient energy solutions. Furthermore, federal energy research has a track record of poor management, cost overruns, and wasteful boondoggles.
- The Strategic Petroleum Reserve and the Power Marketing Administrations should be privatized. The Federal Energy Regulatory Commission should be terminated. Ending all these activities would save taxpayers more than \$17 billion annually.

SOLUTION

- Open up public lands currently off limits to the oil and gas industry in the outer continental shelf and the Arctic National Wildlife Refuge for exploration and drilling
- Repeal subsidies for all energy industries, including oil, gas, coal, nuclear, and renewable energies of all kinds
- Repeal fuel consumption mandates for ethanol and resist prospective consumption mandates for other renewable energies
- Eliminate all targeted public energy research and development programs and replace them with a generalized tax credit for private research and development undertakings
- Transfer the maintenance of the nuclear weapons stockpile from the Department of Energy to the Department of Defense and privatize the national laboratories
- Eliminate the Department of Energy and all its programs
- Refuse appeals to impose new taxes and/or regulations on energy producers and manufacturers.

ENVIRONMENT

PROBLEM

The foremost engine of environmental destruction in America today is not the private sector but federal and state government. A great deal of environmental harm could be alleviated by eliminating the subsidized use of natural resources:

Five “Brownest” Programs in the Budget

- Agricultural subsidies are responsible for excessive pesticide, fungicide, and herbicide use with corresponding increases in nonpoint-source pollution.
 - Sugar import quotas, tariffs, and price-support loans sustain a domestic sugar industry that might not otherwise exist; the destruction of the Everglades is the ecological result.
 - Electricity subsidies via the power marketing administrations and the Tennessee Valley Authority artificially boost demand for energy and thereby are responsible for millions of tons of lowlevel radioactive waste and the disappearance of wild rivers in the West.
 - Irrigation subsidies and socialized water services, which generally underwrite half of the cost of consumption, have done incalculable damage to western habitat while artificially promoting uneconomic agriculture with all the attendant environmental consequences. They also lead to tremendous overuse of water resources and worsen periodic shortages.
 - Federal construction grant projects—such as the river maintenance, flood control, and agricultural reclamation undertakings of the Army Corps of Engineers—allow uneconomic projects to go forward and cause an array of serious environmental problems.
- Congress should take a page from the welfare reform experience and allow states to appeal for waivers from EPA in order to facilitate experiments in regulatory policy.
 - Case Western law professor Jonathan Adler proposes that Congress adopt a mechanism similar to Section 160 of the 1996 Telecommunications Act to facilitate this reform. Section 160 allows telecommunication companies to submit a request for a regulatory waiver from the Federal Communications Commission. The FCC “shall forbear from applying any regulation or any provision” of the act to a company or class of service providers if the FCC determines upon review of the petition that “enforcement of such regulation or provision is not necessary” to ensure that rates “are just and reasonable and are not unreasonably discriminatory,” “enforcement of such regulation or provision is not necessary for the protection of consumers,” or “forbearance from applying such provision or regulation is consistent with the public interest.” The FCC has one year to

respond or the or the petition is deemed granted, and any decision to grant or deny forbearance is subject to judicial review under the Administrative Procedure Act.

- Adapting a mechanism akin to Section 160 of the 1996 Telecommunications Act to the environmental arena would mean allowing states to apply for forbearance from any standard or requirement administered by EPA. The state would be expected to submit supporting material detailing the basis for the request and explain why the waiver would serve the public interest.
- A policy of preference neutrality would be most easily applicable to consumer preferences that do not directly affect the rights of others to exercise alternative preferences (so-called private goods). TSCA (which governs the use of various chemicals and the abatement of asbestos, indoor radon concentrations, and lead-based paint) and FIFRA (which regulates the use of agricultural chemicals) impose politically derived risk preferences (and their related costs) on individuals without respect for those who are more risk tolerant than the political majority. Accordingly, both statutes should be abolished.
- The Endangered Species Act, which prevents private property owners from making certain uses of their land in order to secure the “public good” of biological diversity, should thus be repealed since it provides no compensation to landowners for public takings. Instead, a federal biological trust should be established that would be funded out of general revenues at whatever level Congress found appropriate. The trust fund would be used to purchase conservation easements (in a voluntary and noncoercive fashion) from private landowners in order to protect the habitat of endangered species. The virtue of such a reform is that landowners would have incentives rather than disincentives to protect species habitat. Moreover, the cost of biological preservation would become more transparent, which allows better-informed decisionmaking about the use of resources.

SOLUTION

- Establish a mechanism by which states can apply for regulatory waivers from the Environmental Protection Agency in order to allow states some flexibility in establishing environmental priorities and to facilitate experiments in innovative regulatory Approaches
- Replace the Federal Insecticide, Fungicide, and Rodenticide Act and the Toxic Substances Control Act with a consumer products labeling program under the auspices of the Food and Drug Administration
- Repeal the Comprehensive Environmental Response, Compensation, and Liability Act and privatize the cleanup of Superfund sites

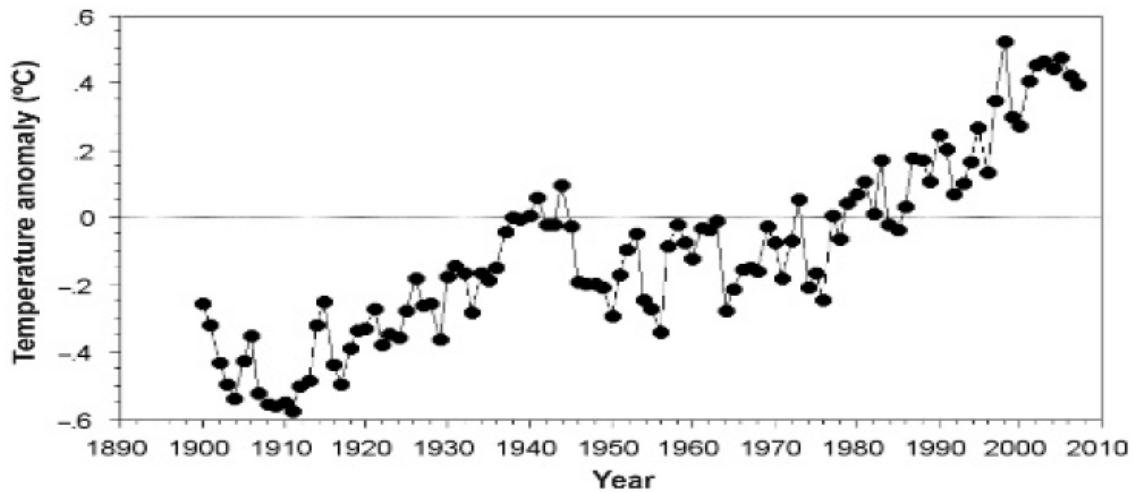
- Replace the Resource Conservation and Recovery Act with minimal standards for discharge into groundwater aquifers
- Eliminate federal subsidies and programs that exacerbate environmental Damage
- Replace the Endangered Species Act and section 404 of the Clean Water Act with a federal biological trust fund.

GLOBAL WARMING

PROBLEM

- Global warming is indeed real, and human activity has been a contributor since 1975. But global warming is also a very complicated and difficult issue that can provoke very unwise policy in response to political pressure. In 2005, for instance, Congress clearly made a very bad decision about climate change when it mandated accelerated production of ethanol. Critics had argued then that corn-based ethanol would actually result in *increased* carbon dioxide emissions. An increasing body of science has since verified this position. Further, corn-based ethanol is responsible in part for the skyrocketing price of corn, soybeans, rice, and wheat since the mandates began.
- Although there are many different legislative proposals for substantial reductions in carbon dioxide emissions, there is no operational or tested suite of technologies that can accomplish the goals of such legislation. Fortunately, and contrary to much of the rhetoric surrounding climate change, there is ample time to develop such technologies, which will require substantial capital investment by individuals.
- Although there are several different records of planetary surface temperature, the one most cited is from the United Nations' Intergovernmental Panel on Climate Change:
 - The IPCC history (Figure 45.1) shows two distinct periods of warming: one roughly from 1910 through 1945 and another that began rather abruptly around 1975 and ended in 1998. The rates of warming of the two periods are statistically indistinguishable. However, they likely resulted from two very different causes. The early warming is more attributable to changes in solar activity, whereas the latter warming has a clear "human" signature, although other "natural" changes also contributed to a minority of that warming.

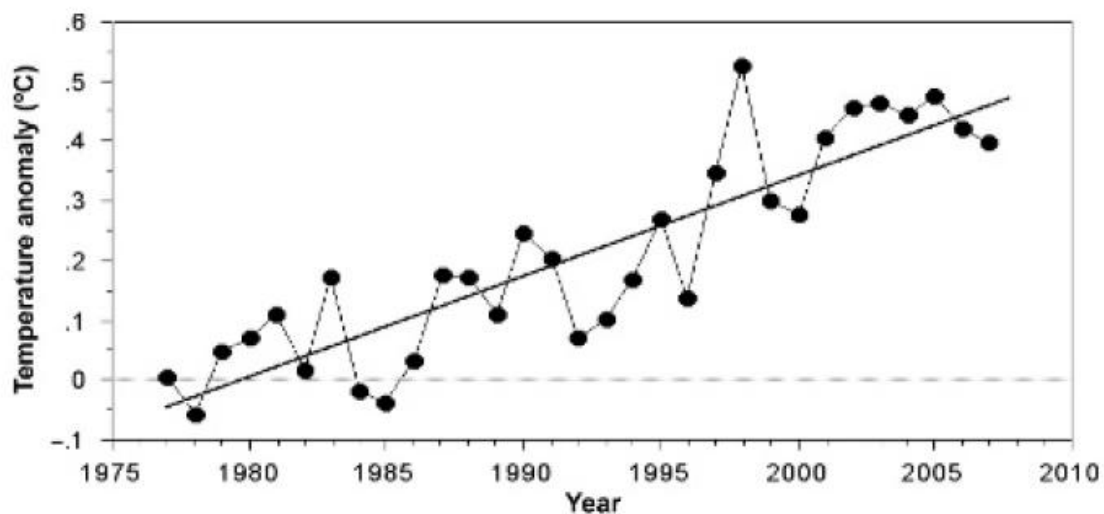
Figure 45.1
Average Global Surface Temperature Anomalies, 1900–2007



SOURCE: Intergovernmental Panel on Climate Change, 2007 and updates. <http://www.cru.uea.ac.uk/cru/data/temperature/>.

- The public is generally unaware that there has been no net change in the earth's average surface temperature in the last 11 years, as shown in the IPCC history (see Figure 45.2)

Figure 45.2
Average Global Surface Temperature Anomalies, 1977–2007



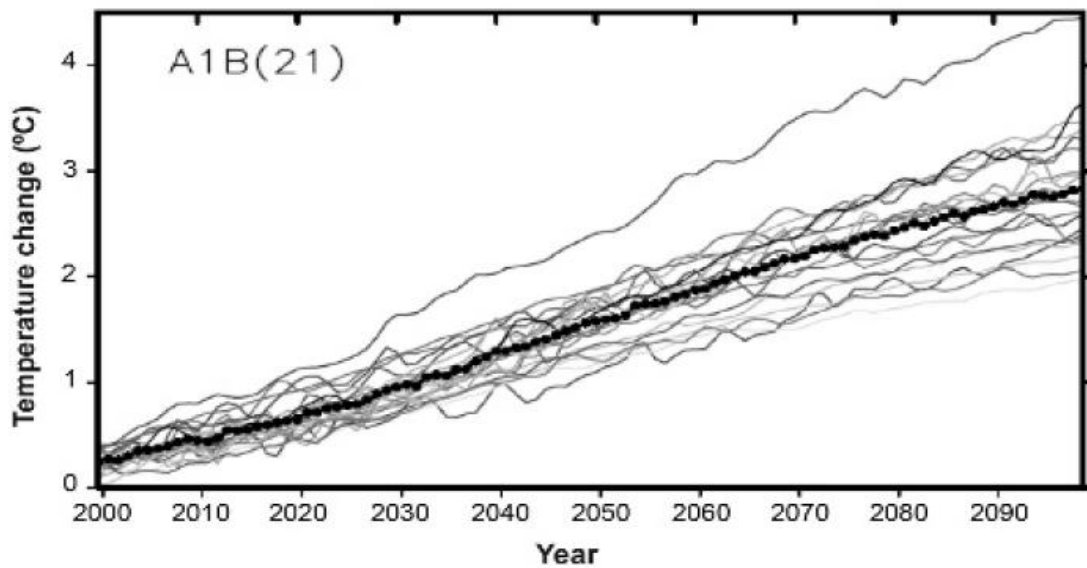
SOURCE: Intergovernmental Panel on Climate Change, 2007 and updates. <http://www.cru.uea.ac.uk/cru/data/temperature/>.

- Because of a large El Niño climate event, 1998 was an unusually hot year—in fact, it remains the warmest year in IPCC's entire temperature history of

almost 150 years. After a strong El Niño warming, there is often a cooling of the relative temperature, which occurred in 1999 and 2000.

- To begin a study of any trend at a high or a low point is highly dubious. However, if one starts in 2001, after the compensatory cooling, there was still no warming trend through 2007. A close examination of observed temperatures since 1998 reveals that a combination of tropical oceanic temperatures (as modulated upward and downward by the presence of a warm or cold phase of El Niño) and low solar activity was responsible for the lack of warming, despite increasing concentrations of atmospheric carbon dioxide, the main global-warming gas. Clearly, these two factors could reverse their effects, which would accelerate a warming trend.
- However, current indications are that warming may not resume until the middle of the next decade, as shown in a May 2008 article in *Nature* by Noel Keenlyside. Keenlyside's work is based on a projection of two long-term temperature patterns, in the North Atlantic and the tropical Pacific. These patterns will influence the global mean surface temperature— especially over North America and western Eurasia. Keenlyside's work, along with the lack of warming since 1998, has important policy implications.
- Scientists and policymakers really have only one set of tools at their disposal for predicting climate change, namely, computer models of how increasing atmospheric carbon dioxide should affect earth's temperature. The thin lines in Figure 45.3 represent individual climate models run by the United Nations' IPCC. They are for IPCC's "midrange" scenario for emissions in this century. *Not one* of these computer models for climate in the 21st century contains a 20-year period with no warming. So given the lack of warming since 1998, and projections for little or no warming until the middle of the next decade, *there is no scientifically credible model for future warming.*

Figure 45.3
Various Runs of IPCC Computer Models for Its "Midrange" Carbon Dioxide Emissions Scenario



SOURCE: Intergovernmental Panel on Climate Change, 2007, p. 763.

- Further, what warming does occur will likely be lower than the average indicated by all these models. That is because of the nature of carbon dioxide-induced warming. Carbon dioxide is a “greenhouse” gas, meaning that it absorbs energy coming from the earth’s surface. When a molecule of carbon dioxide releases that energy, it can either go out to space (where it would have normally gone, absent carbon dioxide) or be reradiated downward, which will result in additional warming. But the effect is rather small. If carbon dioxide were acting alone, the rise in surface temperature expected this century would be a little more than 1 degree Fahrenheit. However, this increment of warming raises the temperature of the oceans, which means they will naturally send more water vapor into the atmosphere. Water vapor, like carbon dioxide, is a greenhouse gas, and is in fact currently responsible for keeping the earth’s surface temperature nearly 30 degrees Centigrade warmer than it would be if there were none. If, for any reason, warming stops for 20 years (it has already stopped for 11), the “feedback” effect between carbon dioxide and water vapor will also be delayed, as the ocean does not warm up instantaneously. This effect will be further delayed, resulting in less warming than was anticipated, at least in the first half of this century. This delay gives the political process time to address global warming, time that will allow for the development of technologies that can result in lower emissions of carbon dioxide into the atmosphere. The alternative— precipitously mandating major reductions in emissions without any known acceptable technology—is to be avoided.
- Figure 45.2 shows IPCC temperatures since the beginning of the recent warming in the mid-1970s. The rate of overall warming also appears to

be quite constant, despite the lack of warming since 1998. If this is indeed the rate that has been established as a result of greenhouse gas changes, that should be quite reassuring. It means that warming is modest and will continue to be so. As noted earlier, projections indicating the continued absence of warming in the next few years mean that the IPCC's average warming forecast for this century is most likely an overestimate.

- What is a reasonable policy response to such a modest warming? Clearly, an unreasonable response is one that costs a tremendous amount of money while doing nothing about global warming. Legislation to reduce emissions by 70 percent by 2050 is an example. **No known technology can accomplish that reduction. Consequently, the policy response is known as “cap-and trade,” where corporations or individuals buy “permits” to emit carbon dioxide above a certain limit, sold by entities that have reduced emissions below that limit. The result is that carbon-based fuels become increasingly expensive as fewer and fewer “permits” are allowed.**
- Assume that the United States adopts Lieberman-Warner (the initial “Cap-and-Trade” bill) and that all other industrial nations meet and keep their obligations under the Kyoto Protocol (only two major countries, Germany and the United Kingdom, will do so, but because of political rather than environmental changes). **The net result would be a reduction in warming of 0.08 degrees Centigrade by 2050, an amount far too small to measure.** The basis for this calculation was published by the U.S. National Center for Atmospheric Research in 1998. However, the cost of this bill is enormous, aggregating into trillions of dollars as it goes into effect.
- As is stated in the “Energy” section, **impact climatologists have calculated that the new “Cap and Trade” bill will reduce global temperature by only hundredths of a degree in 2050 and no more than two-tenths of a degree at the end of the century!**
- Among other things, the costs included the issuance of “credits” for the production of biomass ethanol. Although this cannot yet be achieved on a cost-effective basis, recent research published in *Science* magazine has demonstrated that using existing forested or agricultural land for this process produces *more* carbon dioxide than is emitted by the simple combustion of gasoline for motor fuel.
- The lesson to Congress must be clear. Observed warming is at or near the low end of the IPCC's projection ranges. The lack of recent warming and projections that this will continue for several years reinforce the notion that warming will be modest, at least in coming decades. Drastic action is unwarranted at this time.

Global Warming Myths

- The apocalyptic vision of global warming is driven largely by scenarios of rapid sea-level rise caused by the loss of Greenland's ice, and increasingly strong tropical cyclones (hurricanes and typhoons). These are worth discussing in some detail.
- *Greenland, the Arctic, and Sea Level*
 - In that vision, Greenland, on which sits 10 percent of the world's ice, will suddenly shed that ice, raising sea levels by 20 feet or so, possibly as soon as 2100. This scenario has been popularized in Al Gore's movie and book, *An Inconvenient Truth*, and has been proselytized largely by one scientist, James Hansen, who heads the Goddard Institute for Space Studies, a branch of the U.S. National Aeronautics and Space Administration. Both the IPCC and reality paint a much different picture. The 2007 Fourth Assessment Report of the IPCC (which was awarded the 2007 Nobel Peace Prize along with Gore) projects sea-level rise of between 9 and 19 *inches* in the 21st century, for its "midrange" estimate of carbon dioxide and other greenhouse gas emissions. **IPCC notes that this estimate does *not* assume a rapid ice loss from Greenland. Instead, the IPCC wrote that there is no current scientific support for this hypothesis. Indeed, since the IPCC published its report, several scientific papers have been published demonstrating that rapid loss is highly unlikely.**
 - It is also worth noting that the Eurasian Arctic was several degrees warmer for several *millennia* after the end of the last ice age and that there was no catastrophic loss of Greenland's ice. The notion that Greenland's temperatures are particularly unusual at this juncture is simply untrue. Note that 1979 is near the end of the *coldest* period in the Arctic since the 1920s (See Figure 45.5). Nowhere in news stories about Arctic ice has this fact been noted: in the beginning of the satellite history, sea ice had to have been abnormally expanded. Since then, about half the contraction probably represents a return to more normal conditions for the 20th century, whereas the warming of the most recent years has resulted in another contraction to far below normal, compared to the last century.
- *Increased Hurricane Activity*
 - The unusually strong 2004 and 2005 hurricane seasons in the Atlantic basin heightened concern about a relationship between planetary warming and the frequency or severity of tropical cyclones.
 - On September 16, 2004, in the midst of a hurricane season in which

Florida was struck by four major storms, the *Journal of Climate* published an article by Thomas Knutson of the National Oceanic and Atmospheric Administration and Robert Tuleya from Old Dominion University in which computer-generated hurricanes showed a slight increase in strength as carbon dioxide accumulated in the atmosphere.

- It is noteworthy that Knutson's most recent work now calculates that the number of *Atlantic* tropical storms and hurricanes will *decrease* with global warming. In recent decades, as the surface temperature has warmed, the frequency of these storms has dropped in both the eastern North Pacific and Southern oceans.

Nonetheless, alarmist press statements on melting ice, rising seas, and hurricanes cause serious difficulties for policymakers. Further, the proclivity of the media to publicize dramatic interpretations of global warming science should be obvious: stories suggesting that climate change might be more benign are simply not as attractive as those spelling gloom and doom.

SOLUTION

- Pass no legislation restricting emissions of carbon dioxide
 - According to the Heritage Foundation, analysis of the economic impact of Waxman-Markey projects that by 2035 the bill will:
 - Reduce aggregate gross domestic product (GDP) by \$7.4 trillion,
 - Destroy 844,000 **jobs** on average, with peak years seeing unemployment rise by over 1,900,000 jobs,
 - Raise **electricity** rates 90 percent after adjusting for inflation,
 - Raise inflation-adjusted gasoline prices by 74 percent,
 - Raise residential natural gas prices by 55 percent,
 - Raise an average family's annual energy bill by \$1,500, and
 - Increase inflation-adjusted federal **debt** by 29 percent, or \$33,400 additional federal debt per person, again after adjusting for inflation.
- Repeal current ethanol mandates
 - In 2005, in the name of “energy independence,” Congress and President Bush mandated a doubling of the national use of ethanol as an additive in gasoline, specifically requiring the consumption of 8 billion gallons of ethanol in the U.S. by 2012. Ethanol production also receives a federal tax credit of 51 cents per gallon, which will expand with the new mandate, costing U.S. taxpayers over \$4

billion a year by 2012. Several Midwestern states offer similar state subsidies for ethanol production.

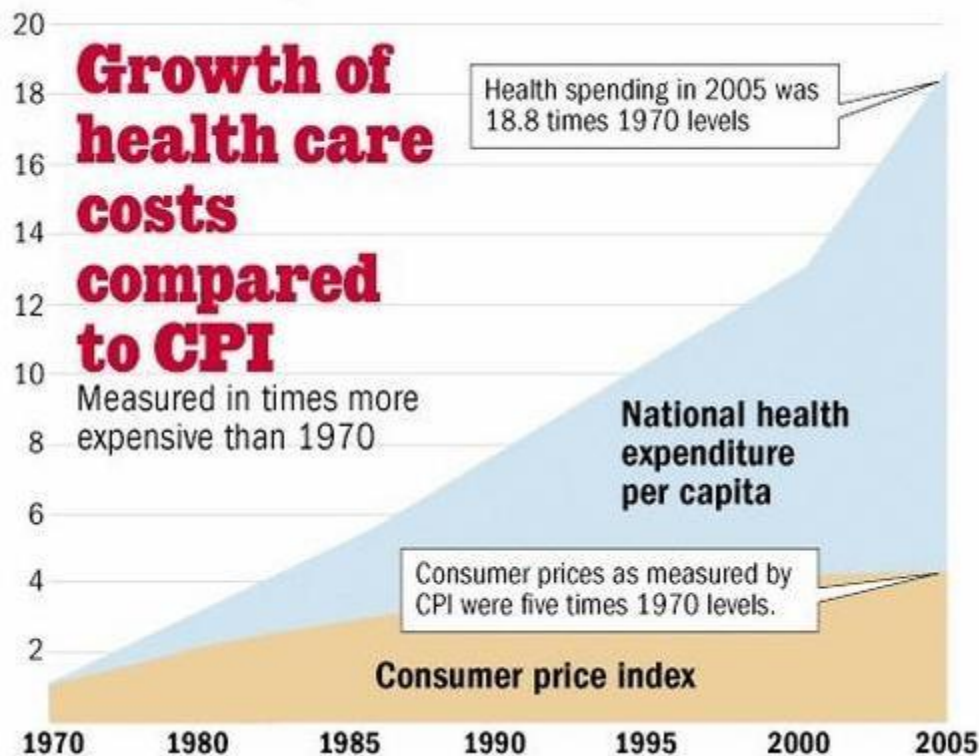
- Thanks to protectionist barriers and other restrictions, the U.S. will meet the expanded mandate through the inefficient milling of domestic corn into ethanol. The result is a massive new subsidy for corn growers—who already receive generous cash subsidies and other benefits from the traditional USDA corn commodity program, which paid corn growers \$51.3 billion in the period from 1995-2005.
- Yet, in spite of this extraordinary federal support, **the planting, harvesting, milling, refining, and transporting of corn-based ethanol consumes more energy inputs than the final energy value of a gallon of ethanol. Cornell professor David Pimentel and his colleagues found that converting corn to ethanol consumes 29 percent more fossil energy than is produced. Put another way, because corn ethanol is a net energy loser, America is probably using more traditional fossil fuels because of the ethanol mandate than we would without any mandate at all.**
- Further, corn agriculture has a negative impact on the environment, including bringing new farmland under till and heavy pesticide use. Purdue University estimates that the new mandate will bring 10 million new acres of land under corn production in 2007, for a total of 88 or 89 million acres. That is the most corn under acreage in America since 1946, when the U.S. was feeding war-devastated Europe. About 25 or 30 percent of the nation's corn acreage in 2007 will be dedicated to producing for the ethanol mandate.
- Finally, since ethanol has a somewhat lower energy content than traditional gasoline, more fuel is now required to travel the same distance—the ethanol mandate effectively reduces the Miles Per Gallon for all of America's drivers.
- Inform the public about how little climate change would be prevented by proposed legislation.
 - Analysis by the Environmental Protection Agency (EPA) shows that a 60 percent reduction in CO₂ emissions by 2050 will reduce CO₂ concentrations by only 25 ppm in 2095. This reduction would affect world temperatures by 0.1 to 0.2 degrees C. In other words, proposed legislation makes virtually no difference.

HEALTHCARE

Common Misconceptions

- A common argument advanced in support of greater government intervention in the American healthcare market is that a large and growing fraction of the gross domestic product (GDP) is spent on healthcare, while the results, such as average life expectancy, do not compare favorably to the Western nations that have adopted some form of universal healthcare. This argument is spurious for two reasons:
 1. A growing fraction of GDP spent on healthcare is not a problem *per se*. In the early half of the 20th century, the fraction of GDP spent on healthcare grew significantly as new treatments, medical technology and drugs became available. Growth in spending of this nature is desirable if it satisfies consumer preferences.
 2. Attributing national-health results to the healthcare system adopted by different countries confuses correlation with causation and ignores the many salient variables that are causal factors affecting aggregate statistics (such as average life expectancy). Factors that are likely to be at least as important as the healthcare system include the dietary and exercise preferences of a population.
- Another argument commonly used in healthcare-policy debates is that there are almost 46 million people who have no health insurance at all.^[3] Again, this is not a problem in and of itself. According to the National Health Interview Survey, 40 percent of those uninsured are less than 35 years old, while approximately 20 percent earn over \$75,000 a year.^[4] In other words, a large fraction of those who are uninsured can afford insurance but choose not to buy it or are healthy enough that they don't really need it (beyond, perhaps, catastrophic coverage).

PROBLEM



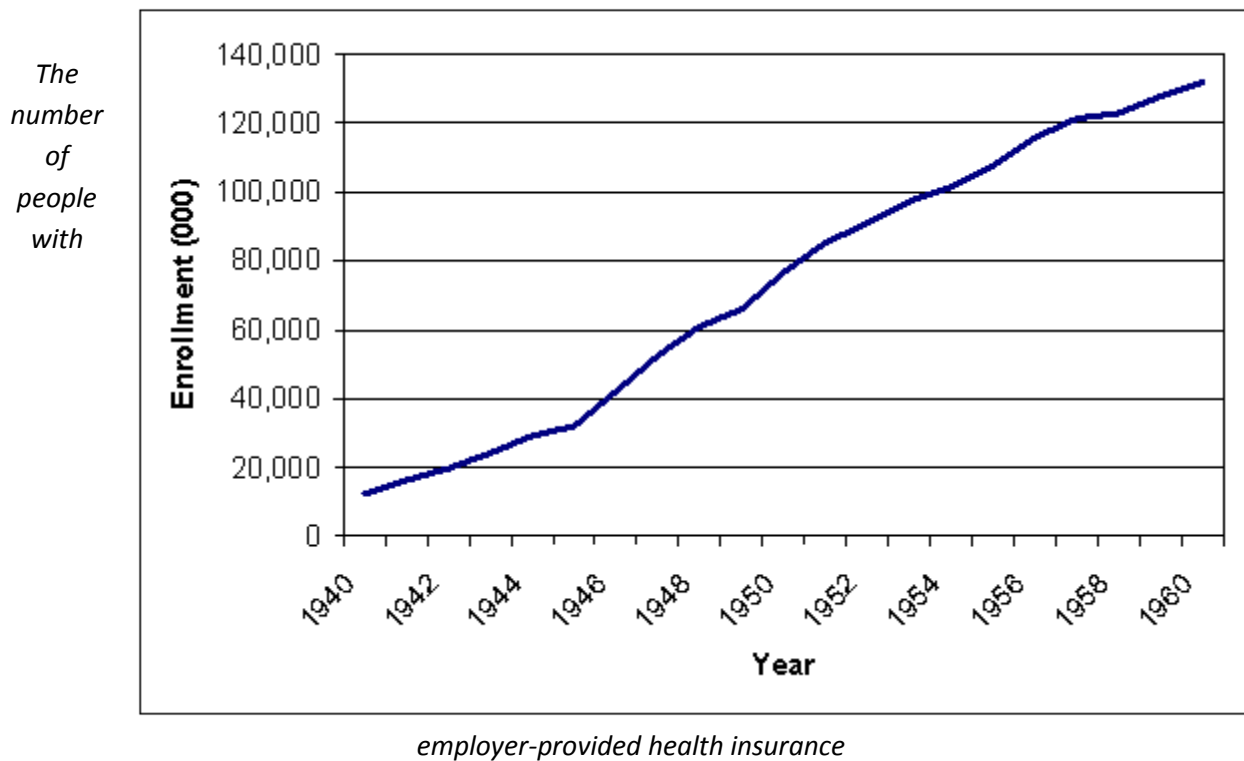
- The real problem with the American healthcare system is that prices are continually rising, greatly outpacing the rate of inflation, making healthcare unaffordable to an ever-increasing fraction of the population — particularly those without insurance. (see chart below)
- There are four major causes of rising prices in the healthcare market, and in every case government intervention has either directly caused or greatly exacerbated the problem:

1) *Employer-Provided Health Insurance*

- Perhaps the most important cause of rising healthcare prices in America is the employer-provided health-insurance system. The very existence of the system is itself a very strange occurrence and a big hint that government

intervention played a key role in its creation. After all, employers do not pay for food or gasoline; why do they pay for healthcare?

- Employer-provided health insurance has its origin in a tax policy passed in 1943, which made insurance provided by employers tax free. At the time the United States was engaged in World War II and had enacted wage and price controls,^[5] preventing employers from competing for scarce labor using the normal mechanism of offering a higher salary. Instead, businesses used the availability of newly tax-subsidized healthcare as a means of differentiating themselves.
- The tax advantages were made even more attractive and fully codified in the 1954 Internal Revenue Code. Over the next few decades, the government's subsidization of employer-provided health insurance led to the dominance of that model of healthcare delivery, as the following data from the 1965 *Sourcebook of Health Insurance Data* makes clear.



- The most important economic consequence of the existence of the employer-provided health insurance is that consumers are much less likely to discriminate on cost. Beyond the deductible, the employer pays the cost of medical procedures through an insurance company. As anyone who has gone on a business trip knows, if the company is paying, then the employee is likely to purchase a more expensive ticket and accommodation. Where an economy ticket may have sufficed for a personal budget, a business-class ticket becomes far more attractive.
- Not only are consumers less likely to discriminate on cost, but providers of healthcare services have greater incentive to provide medical treatments that are only marginally more effective at much higher cost. This is the opposite of how the price mechanism works in a free market, where consumers (who are paying out of their own pocket) search for the cheapest prices and providers work hard to provide services that are equally efficacious but less costly.
- In 1965, Medicare was passed as part of the Social Security Act, essentially supplying employer-provided health insurance to all citizens above the age of 65. However, the "employer" in this case was the US government, which does not have the same economic incentives as a business, but rather has political incentives. Elected officials have a strong incentive to promise their elderly constituents an expansion in the range of treatments covered by Medicare, as well as to lower the deductible that Medicare consumers pay out of their own pocket. Both these factors further undermine a consumer's desire to discriminate on cost when seeking medical treatments. Unsurprisingly, the passing of Medicare in 1965 almost immediately led to a precipitous rise in US healthcare spending as a fraction of GDP.
- While price sensitivity has widely been undermined in the American healthcare system, there remain some exceptions to the rule, where the normal market mechanism remains intact. One such example is the LASIK corrective-vision procedure, which has become very popular over the last decade. LASIK is an elective procedure that is not covered by standard insurance, and consumers must pay directly for the service — which means that they are much more likely to discriminate between providers both on cost and reported quality of the surgeon. With these incentives in place, the LASIK procedure has been reported to have fallen in cost by over 30 percent during the last decade.^[6] Even more importantly, the quality of the procedure has improved dramatically in that period as providers competed to deliver the most efficacious treatment.

2)Licensure

- Licensure is the practice of restricting entry into a market by forcing practitioners and providers to seek permission before doing so. A common fallacy is that medical licensure protects consumers — yet having a license is no assurance of the ability of a person to practice medicine. Some who have received their license decades ago may no longer be fit to practice, demonstrated either by incompetence or lack of continued education.
- From its inception, the practice of licensure has been motivated primarily by the control of supply by organized medicine — in particular, the American Medical Association (AMA) — to allow the increase of wages for members of the licensed group. In the early 20th century, for instance, a physician named J.N. McCormack spent several years traveling the United States on behalf of the American Medical Association in an attempt to convince doctors of "The Danger to the Public from an Unorganized and Underpaid Medical Profession."[\[8\]](#)
- The restriction of supply and the attendant rise in prices faced by consumers is not the only detrimental factor that can be attributed to the actions of the AMA. The AMA has sought not only to limit supply, but also to regulate who can practice various aspects of medicine. For instance, many medical procedures and decisions about prescriptions could be handled by nurses or medical technicians rather than doctors, whose labor is more expensive. Licensure limits the extent to which market forces — that is, forces that lead to the cheapest and most effective results for consumers — may determine the most efficient use of doctors, nurses, and technicians.
- A recent example of the AMA's use of licensure was their attempt — ostensibly for "patient safety," — to regulate Walmart's creation of low-cost retail clinics by preventing the clinics from operating using only nurse practitioners. The practitioners would have only been providing very basic medical services, such as administering needles and prescribing drugs, which Van Ruth et al. conclude carries no extra risk to patients. It is precisely the sort of clinics operated by Walmart that allow consumers — and especially the poorest in society — access to basic, affordable healthcare. By regulating these clinics and reducing the supply of doctors and providers, the AMA has caused higher prices for American consumers of healthcare.

3) *The Obesity Epidemic*

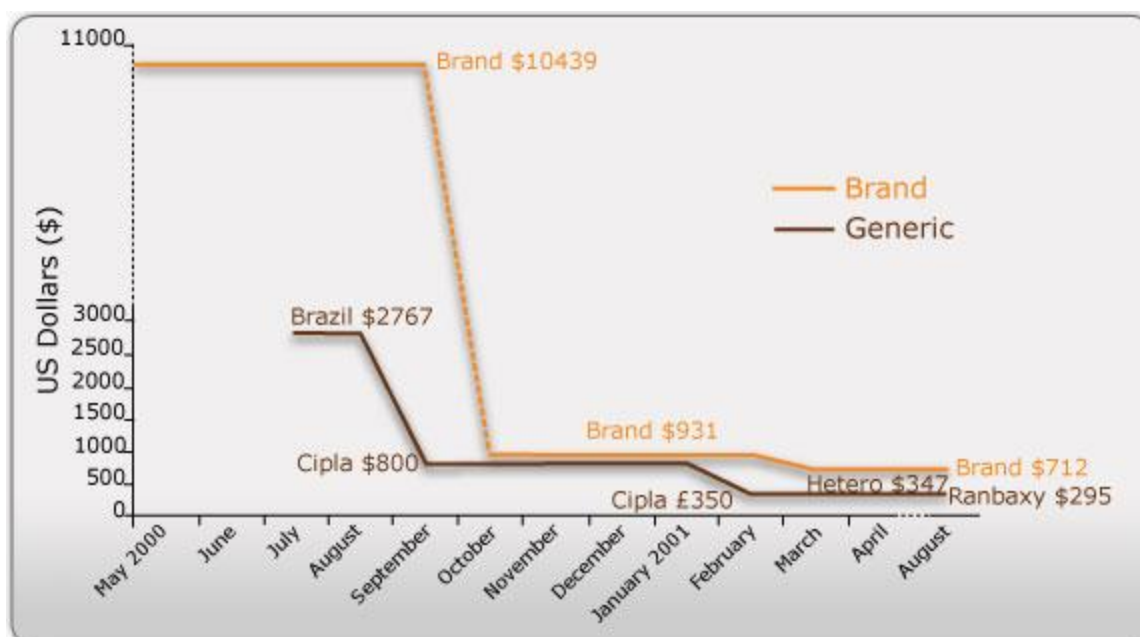
- In terms of its cost, obesity is perhaps the largest medical problem in America. Finklestein et al. estimate that medical expenditures for treatment of patients who are either overweight or obese accounted for almost 10 percent of all medical expenditures in 1998, at a cost of 92 billion dollars (in 2002 inflation-adjusted dollars). They also estimate that almost half of all Americans are either overweight or obese, with the numbers in each category growing by 70 percent and 12 percent, respectively, during the decade prior to 2003. Sturm estimates that obese adults incur annual medical expenditures that are 36 percent higher than those of normal weight incur. [
- In fact, government policy has played a crucial role in encouraging the production of unhealthy foods supplied to American consumers.
- Recent research has uncovered the baneful influence that corn-based sweeteners have had on America's obesity epidemic. It is estimated that Americans consume 73 pounds of corn-derived sweetener per person per year, and as Michael Pollan points out, the growth of corn-based sweeteners is a direct result of the government's farm policy, which subsidizes corn production. A basic consequence of economic law is that when something is subsidized, more of it will be produced. Pollan writes, "Very simply, we subsidize high-fructose corn syrup in this country, but not carrots. While the surgeon general is raising alarms over the epidemic of obesity, the president is signing farm bills designed to keep the river of cheap corn flowing, guaranteeing that the cheapest calories in the supermarket will continue to be the unhealthiest."
- The obesity epidemic in America has been exacerbated by the abundance and relative cheapness of high-fructose corn syrup. The growth of calories produced, and in particular the abundance of unhealthy calories, is not an outcome of the free market but rather the direct — if perhaps unintended — consequence of government farm policy.

4) *Intellectual Property*

- A patent is a government-granted monopoly on production. Holders of pharmaceutical patents are free of the strictures of competition when deciding the price at which to sell

the drugs they produce. In practice this means that drug companies are able to charge significantly higher prices than they could in a market free of government intervention. Kesselheim et al. estimate that for three drugs alone (amoxicillin, metformin, and omeprazole), the delayed availability of generic alternatives cost Medicaid 1.5 billion dollars between 2000 and 2004.

- The following chart illustrates the effect of generic competition on the price of a cocktail of antiretroviral drugs, used to treat HIV, between 2000 and 2001



- Before the availability of a generic competitor the brand cocktail cost over \$10,000. Once generic competition was introduced, the price rapidly dropped to \$712. The dramatic difference in cost hardly covers the human cost of government-granted monopolies on drug production — namely, the tens of thousands infected with HIV who died for want of affordable treatment.
- Patents are not a natural outcome of the free market but are government-granted monopolies on production. Contrary to conventional economic wisdom, patents are not an unequivocal benefit in fostering the development of ideas. The existence of patents is, on the contrary, a clear contributor to the high cost of medical treatments available to American consumers.

OBAMACARE

- The problem of high costs will be further exacerbated by extending insurance to cover more people and more procedures while also reducing deductibles.
- The only solution to increasing costs is to eliminate government interference in the market and to allow the price mechanism to work as it should. Consumers who pay out of their own pocket will search for the cheapest solutions to suit their needs, while providers of healthcare will compete, through constant innovation, to drive prices down and discover the most efficacious treatments.
- Close examination of the effects of "Obamacare" on the labor market is important. It will be no surprise to learn that the Democrats' bill will seriously harm precisely those poor and uninsured citizens it is ostensibly designed to help. The harm will come by compounding mass unemployment and depriving these citizens of consumption choices.
- According to pages 269–273 of the gargantuan bill, employers of full-time workers will be required to cover at least 72.5 percent of the premium of the least expensive health-insurance plan available that fulfills the bill's minimum criteria of "acceptable coverage." In cases in which family coverage is provided, 62.5 percent of the premium is to be borne by the employer. **Depending on the specific plan and other variables such as location, this amounts to a direct labor tax of approximately \$300 per month for an individual, or nearly \$700 for family coverage.**
- The implication of this increased cost is that workers whose revenue productivity is less than \$300 per month higher than their wages will be laid off, or have their hours cut to the level that will classify them as part-time.

Obamacare is Unconstitutional

- For the first time ever, Americans will be forced to buy a service as a condition of lawful residence in this country. Americans will lose control over their money without the government even having the decency to formally call for a tax increase.

- Patient Protection and Affordable Care Act, aka Obamacare, Virginia's attorney general filed a lawsuit in federal court challenging the constitutionality of the health care overhaul. Virginia's complaint alleges, in relevant part, that the PPACA's requirement that every individual purchase health insurance or pay a fine — the "individual mandate" — is unconstitutional because Congress lacks the power to enact it.
- The U.S. Government filed a motion to dismiss, claiming that Virginia lacked standing to bring this suit but also that the Commerce Clause, the Necessary and Proper Clause, and Congress' taxing power all justify the individual mandate. Virginia responded, in relevant part, that the Commerce Clause does not grant Congress unbridled authority to regulate *inactivity* and force every man, woman, and child to enter the marketplace or face a civil penalty.
- It should be pointed out that the Necessary and Proper Clause is not an independent source of congressional power, but enables Congress to exercise its enumerated powers. Similarly, the taxing power does not authorize the individual mandate because the non-compliance penalty is a civil fine — and it would be unconstitutional even if it were a tax because it is neither apportioned (if a direct tax) nor uniform (if an excise tax). Moreover, Congress cannot use the taxing power as a backdoor means of regulating an activity unless such regulation is authorized elsewhere in the Constitution.

MILITARY

- The United States dominates the globe militarily. The threats facing America pale compared to its capabilities. Why, then, is Washington spending so much on the military?
- In 2010 the U.S. will spend roughly \$700 billion on the military. This is an increase of 2 percent (after inflation) from the Obama administration's original non-war defense budget of \$534 billion.
- Despite initial plans for zero growth in defense spending in coming years, there are rumors that the Department of Defense will receive a 2 percent increase in real outlays through 2015. Still, some conservatives want to enshrine a military buildup in a law mandating fixed outlays at 4, 5 or even 6 percent of gross domestic product. Hawks focus on the percentage of GDP going to the military — currently about 4.4 percent — since that figure has fallen over the years.
- America spends more inflation- adjusted dollars on the military today than at any time since the end of World War II. Figured in 2000 dollars, the U.S. devoted \$774.6 billion to the military in 1945, the final year of World War II. In 1953, the final year of the Korean War, military outlay ran to \$416.1 billion. Expenditure during the Vietnam War peaked at \$421.3 billion in 1968.
- By contrast, in 2010 — even before the Afghan surge and other unplanned expenditure — the administration expected to spend \$517.8 billion. That's more than during the lengthy, but often warm, Cold War.
- Military outlay should be tied to threats, not economic growth. Can anyone credibly claim the military threat facing America is two, three, or six times as great today as during those years?
- Today the U.S. does not face a significant military threat. As Colin Powell famously declared in 1991 when chairman of the Joint Chiefs of Staff: "I'm running out of enemies. I'm down to Castro and Kim Il Sung." The U.S. has no great power enemies. Relations with China and Russia are at times uneasy, but not confrontational, let alone warlike. Washington is allied with every other industrialized state.
- America possesses the most sophisticated nuclear arsenal and the most powerful conventional force. Washington's reach exceeds that of Rome and Britain at their respective peaks. Other nations, most notably China, are stirring, but it will take years before they match, let alone overtake, the U.S.
- Even subtracting the costs of the Afghanistan and Iraq wars leaves American military outlay around five times that of China and 10 times that of Russia. Combine a gaggle of

adversaries, enemies and rogues — Burma, Cuba, Iran, North Korea, Syria — and the U.S. spends perhaps 25 times as much.

- Military outlay by the U.S. plus its NATO allies accounts for about 70 percent of world military spending. Add in America's other allies and friends, such as South Korea, and the total share of global military outlay hits 80 percent.
- Terrorism remains a pressing security threat. However, terrorist attacks, though horrid, do not pose an existential danger. Al-Qaida is no replacement for Nazism and Communism, nuclear-topped ICBMs and armored divisions. Nor is traditional military force the best way to combat terrorism. Indeed, foreign intervention often promotes terrorism, like swatting a hornet's nest. America's military spending is determined by its foreign policy.

OIL SPILL

- Politicians are right to decry the environmental damage associated with the accident and to insist that the responsible parties fully compensate those harmed by the spill. But that's hardly controversial. Calls for regulatory measures to ensure that this never happens again, however, are something else:
 - First, we don't know for sure exactly how this happened or exactly who was at fault and why. Until we do, it's impossible to say exactly what public regulators could do to reduce risk.
 - Second, how much to spend to reduce risk is unclear. There are obviously diminishing returns on expenditures, and those expenditures will increase production costs and, thus, consumer prices. Nevertheless, producers have every incentive to spend whatever makes economic sense. BP has lost 19% of its market value in the stock market — a bit more than \$36 billion — from the April 20 explosion until May 11, so BP shareholders are taking a big hit financially. Oil companies do themselves no economic favors by under-investing in safety.
 - Third, **the implicit political demand for zero environmental risk is unrealistic.** As long as human beings are involved in drilling (or coal mining or petrochemical refining or nuclear power operations or oil transport or natural gas delivery), accidents will happen.
- The environmentalists' call to flatly reject expanded offshore drilling as unacceptably risky is ill-considered. The logical implication of the argument is that all offshore drilling ought to be prohibited, not just plans to expand drilling zones at the margin. The fact that few Americans are willing to shut down existing platforms suggests that, for the most part, we intuitively understand there are benefits to drilling that ought to enter into the conversation.
- What are the benefits of expanded offshore drilling? If we accept the best (albeit speculative) estimates from the Interior Department's Minerals Management Service about how much oil and gas could be produced from offshore areas currently off-limits to industry, Oxford University economist Robert Hahn finds that **the value of the oil and gas we could put into the market is probably about \$1.3 trillion over the productive lifetime of those fields, once we subtract production costs. Hence, the central**

question is whether the cumulative environmental harms from drilling are likely to exceed \$1.3 trillion. If that is an unlikely proposition (the minerals service estimates that the total costs of any spills, conventional air and water pollution and lost tourist and recreational dollars would be about \$700 million), then we are better off opening up those fields.

- Crunching the numbers through a worst-case scenario using the Environmental Protection Agency's (EPA) **Basic Oil Spill Cost Estimation Model** results in an estimate that the cleanup and payment for Gulf damages will cost about \$8.7 billion; double that if the well continues to gush until August. Some other estimates suggest that the cleanup and costs for damages will ultimately add up to **\$40 billion**. BP, the oil company that holds the drilling permit, is responsible for the disaster and has spent \$1.5 billion on the cleanup.
- BP is essentially self-insured through its ownership of what is known as a captured insurance company, **Jupiter Insurance**, which can make a maximum payout of \$700 million per incident to its parent. And while the amount is not known, BP also has some insurance through Lloyd's of London. Possibly the best news for those damaged by the spill is that BP cleared **\$14 billion in profits** last year.
- Why is it that BP carried so little insurance? Oil spill liability is a complex patchwork of private and public insurance schemes. On the private side, energy companies banded together to set up two industry-owned Bermuda-based mutual insurers, **Oil Insurance Ltd.** (OIL) in 1971, and **Oil Casualty Insurance Ltd.** (OCIL) in 1986. OIL insures its petroleum company members up to \$250 million per occurrence against such risks as property damage, well control costs, and third-party pollution liability. In 2009, OIL's assets totaled over \$6 billion. OCIL offers excess liability insurance, that is, the insurer pays off when a company's liabilities exceed those covered by other policies. OCIL's assets totaled just over \$1 billion last year. So **even if BP had decided to join these mutual insurers, their entire capitals would not be enough to pay off the Gulf spill damages.**
- Let's take a look at the public sector. **In 1990, both houses of Congress passed with nearly unanimous bipartisan support and President George H.W. Bush signed the Oil Pollution Act** in the wake of the Exxon Valdez oil spill in Alaska. The act created a \$1

billion **Oil Spill Liability Trust Fund** paid for by an 8 cent per barrel tax on oil produced in or imported into the United States. The trust fund makes payments to people damaged by a spill and then seeks repayment from the parties that are responsible for it.

- The 1990 act also set a **\$75 million cap on liability** on damages to natural resources and economic losses suffered by private parties resulting from offshore drilling spills. However, drillers are responsible for all cleanup and containment costs. The cap does not apply if a company is found to have violated federal regulations or engaged in gross negligence (an issue that will certainly be litigated in this case).
- The federally approved liability cap doesn't look like such a good idea. On June 9, **Brookings Institution Senior Fellow Michael Greenstone**, testifying before the **House Committee on Transportation and Infrastructure**, **argued** "the cap creates incentives for spills." Why? Because if drillers believe that their liability is limited, they will engage in riskier activities than if they feared that they would be responsible for all the costs if things go wrong. While acknowledging that we cannot know whether this incident would have occurred without the cap, Greenstone asserts, "**The cap effectively subsidizes drilling and substandard safety investments in the very locations where the damages from spills would be the greatest.**" In other words, the liability cap is a good example of **government failure**. Government failure occurs when government intervention causes a more inefficient allocation of goods and services than would occur without the intervention.
- Going forward, the liability cap should be removed. This would align the future incentives of drillers and their insurers to take into better account the risks of offshore oil production. Lifting the cap would also mean higher gasoline prices for consumers and job losses in the oil industry. Ultimately, insurance markets may well tell oil drillers that with current technologies deep water drilling is just too risky.

17 Enumerated Powers of Congress

The constitution gave specific enumerated powers to the congress and said all power not assigned to the federal congress was given to the states. The further our government has drifted from our founding father's design of limited government, the closer we come to outright tyranny. Libertarians must read and learn the provisions of the Constitution in order to select leaders who will also read and observe the constitutional limits placed upon their power. These 17 powers, as delineated in the Consitution, were the limits of congressional authority. The states were responsible for all responsibilities not enumerated above.

Article I

Section. 8. The Congress shall have Power

- To lay and collect Taxes, Duties, Imposts and Excises, to pay the Debts and provide for the common Defence and general Welfare of the United States; but all Duties, Imposts and Excises shall be uniform throughout the United States;
- To borrow Money on the credit of the United States;
- To regulate Commerce with foreign Nations, and among the several States, and with the Indian Tribes;
- To establish an uniform Rule of Naturalization, and uniform Laws on the subject of Bankruptcies throughout the United States;
- To coin Money, regulate the Value thereof, and of foreign Coin, and fix the Standard of Weights and Measures;
- To provide for the Punishment of counterfeiting the Securities and current Coin of the United States;
- To establish Post Offices and post Roads; To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries;
- To constitute Tribunals inferior to the supreme Court;
- To define and punish Piracies and Felonies committed on the high Seas, and Offenses against the Law of Nations;
- To declare War, grant Letters of Marque and Reprisal, and make Rules concerning Captures on Land and Water;
- To raise and support Armies, but no Appropriation of Money to that Use shall be for a longer Term than two Years;
- To provide and maintain a Navy;
- To make Rules for the Government and Regulation of the land and naval Forces;
- To provide for calling forth the Militia to execute the Laws of the Union, suppress Insurrections and repel Invasions;
- To provide for organizing, arming, and disciplining, the Militia, and for governing such Part of them as may be employed in the Service of the United States, reserving to the

States respectively, the Appointment of the Officers, and the Authority of training the Militia according to the discipline prescribed by Congress;

- To exercise exclusive Legislation in all Cases whatsoever, over such District (not exceeding ten Miles square) as may, by Cession of particular States, and the Acceptance of Congress, become the Seat of the Government of the United States, and to exercise like Authority over all Places purchased by the Consent of the Legislature of the State in which the Same shall be, for the Erection of Forts, Magazines, Arsenals, dock-Yards and other needful Buildings;—And
- To make all Laws which shall be necessary and proper for carrying into Execution the foregoing Powers, and all other Powers vested by this Constitution in the Government of the United States, or in any Department or Officer thereof.