Fiscal Year 2012

Budget

of the U.S. Government

Senator Rand Paul

United States Senate

March 2011

Table of Contents

Preface

This budget is not meant to be just a vision for the future, but a starting point to begin the discussion about the proper role of government. It identifies those bureaucracies that are without question outside the scope of the Constitutional role of the federal government. The challenges ahead of us are daunting, and will likely require all Americans to participate in the necessary sacrifices to come.

It was in 1975 that our country experienced a tipping point. For the first time in our nation's history, entitlement spending surpassed the amount of spending on general government and the programs prescribed to us in the U.S. Constitution, such as national defense, the protection of property rights by the Justice Department and the Judicial Branch, and basic infrastructure needs.

In order to preserve and restore the foundations of our country, we will need to begin tackling our largest vulnerabilities, such as entitlements like Medicare and Social Security. While it is imperative to be cognizant that many people have planned their futures around such programs, it is necessary to begin to reform and restructure these programs for future generations.

Furthermore, we need to return many of the responsibilities of the federal government back to those who handle them best: the states, local communities, and most importantly, individuals and families. A large federal government, often governing with the one-shoe-fits-all mentality is not a good government. In his book, "Planning for Freedom: Let the Market System Work," Economist Ludwig Von Mises states, "All that good government can do to improve the material well-being of the masses is to establish and to preserve an institutional setting in which there is no obstacles to the progressive accumulation of new capital and its utilization for the improvement of technical methods of production."

This budget emphasizes the need to return sovereignty back to the states, empowering individuals, promoting liberty, fixing a broken safety net, and finally, leaving the next generation with a better America.

Budget Resolution: Function Totals

Fiscal Year		2011	2012	2013	2014	2015	2016	(2012-2016)
National Defense (050)								
BA		715,404	636,410	573,332	534,771	546,422	553,892	2,844,827
OT		717,828	641,844	585,683	554,697	546,865	548,400	2,877,489
International Asst. (150)								
BA		57,640	7,334	4,657	3,603	4,083	5,361	25,038
OT		48,743	17,285	10,109	8,457	7,455	7,951	51,257
Gen. Science, Space, Tech (250)								
BA		31,085	19,605	19,923	20,279	20,682	21,134	101,623
OT		31,749	19,471	19,428	19,725	19,875	19,140	97,639
Energy (270)								
BA		9,343	5,942	4,686	3,720	2,327	1,760	18,435
OT		15,059	6,094	3,966	2,951	1,421	893	15,325
Nat. Resources/Environ (300)								
BA		39,189	24,276	23,872	24,452	24,548	25,269	122,417
OT		45,911	24,783	23,860	24,027	22,826	23,465	118,961
Agriculture (350)								
BA		25,685	19,120	19,874	20,404	19,848	20,109	99,355
OT		22,510	16,501	20,703	19,806	18,846	19,125	94,981
Commerce/Housing (370)								
BA		-1,173	21,582	17,262	14,921	14,876	14,918	83,559
OT		3,056	1,647	24,351	-234	-350	-3,057	22,357
Transportation (400)								
BA		93,493	90,515	79,729	83,729	83,529	83,349	420,851
OT		93,397	84,481	79,444	77,589	77,973	77,882	397,369
Comm/Regional Devel. (450)								
BA		17,471	12,047	12,145	12,328	12,291	12,952	61,763
OT		25,089	11,846	12,664	12,704	11,257	11,665	60,136
Education/Training Employ (500)								
BA		104,733	43,956	44,928	43,620	43,852	44,731	221,087
OT		132,586	53,666	47,304	43,723	40,908	41,328	226,929
Health (550)								
BA		374,459	324,266	327,445	308,851	342,220	328,851	1,631,633
OT		377,281	318,273	317,497	321,320	325,147	328,971	1,611,208
Medicare (570)								
BA		497,792	473,609	522,624	585,031	620,383	681,750	2,883,397
OT		497,458	473,556	522,902	584,986	620,136	682,111	2,883,691
Income Security (600)								
BA		598,959	362,036	347,677	349,970	351,877	359,279	1,770,839
OT		607,797	364,046	347,144	347,342	347,489	359,419	1,765,440
Social Security (650)	(on-budget)							
BA		106,689	54,439	29,096	32,701	36,261	40,171	192,668
OT		106,674	54,624	29,256	32,825	36,261	40,171	193,137
	(off-budget)							
BA		629,552	715,913	779,901	819,541	863,161	910,951	4,089,467
OT		626,627	712,700	776,323	815,610	858,826	906,214	4,069,673
Veterans' Benefits (700)								
BA		134,321	121,854	128,939	132,589	136,144	145,012	664,538
OT		132,586	121,052	128,937	132,599	130,583	139,264	652,435
Justice (750)								
BA		53,336	48,716	44,016	44,528	45,211	48,251	230,722
OT		54,811	39,406	42,321	44,127	42,602	45,423	213,879
General Govt (800)								
BA		29,813	24,055	23,812	24,030	24,315	24,537	120,749
OT		28,726	22,616	22,788	23,757	23,303	23,546	116,010
Allowances (920)								
BA		0	-43,100	-51,696	-65,706	-73,630	-176,769	-410,901
OT		0	-43,100	-51,696	-65,706	-73,630	-176,769	-410,901
Offsetting Receipts (950)								
BA		-84,383	-91,066	-95,337	-98,817	-104,737	-114,106	-504,063
OT		-84,383	-91,066	-95,337	-98,817	-104,737	-114,106	-504,063
Net Interest								
BA		224,707	250,328	284,497	325,920	406,639	449,223	1,716,607
OT		224,707	250,328	284,497	325,920	406,639	449,223	1,716,607
Total Outlays								
BA		**3,658,115**	**3,121,837**	**3,141,382**	**3,220,465**	**3,420,302**	**3,480,625**	**16,384,611**
OT		**3,708,212**	**3,100,053**	**3,152,144**	**3,227,408**	**3,359,695**	**3,430,259**	**16,269,559**

Analysis

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

-- Herbert Stein, Economist

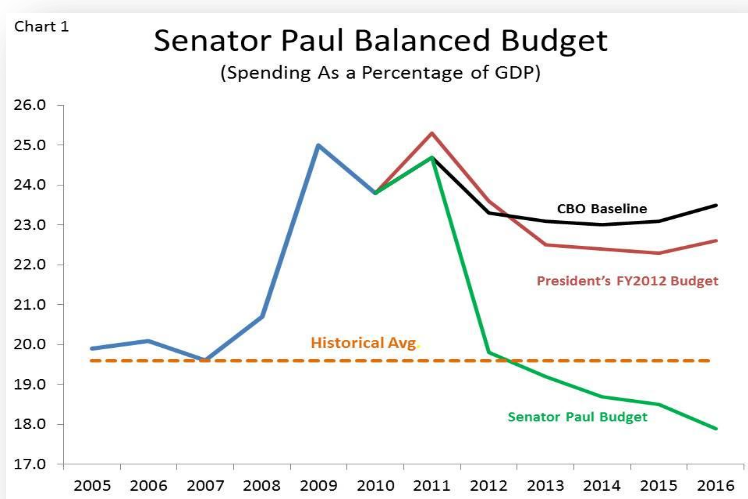
The budget presented before you reflects a serious change in direction from the current budget outlook. Like no other budget in recent history, this budget will bring the federal government's fiscal ledger into balance without raising taxes. Reversing the course of the past century with regard to the tremendous growth of government will be difficult, and everyone will have to share a piece of the burden. This budget doesn't solve the problems immediately, but begins to redirect the spending curve downward.

In modern times, since WWII, the smallest level of government spending was in 1950. At that time, the government consumed 15.6 cents of every dollar produced in the economy. Today, the U.S. government consumes nearly a quarter of every dollar produced. Adjusted for inflation, in constant FY2005 dollars, the government has grown by more than 667 percent since 1950.

And the situation only continues to escalate. While the government consumes a quarter of every dollar produced in the economy today, it is on track to consume 35 cents of every dollar by 2035, and more than 50 cents of every dollar by 2055. At a certain point, around 2080, the government is expected to engulf nearly the entire economy—perhaps beyond the indelible point of the socialist welfare state.

Government Spending:

The budget proposal significantly reduces spending relative to both the President's budget and the Congressional Budget Office (CBO) baseline. The President's budget never drops below 22.3 percent of gross domestic product (GDP), and the CBO baseline never gets under 23 percent of GDP, whereas this budget brings spending near the historical average of 19.6 percent of GDP in the very first year – eventually getting down to 17.9 percent of GDP in 2016. Based on the CBO baseline, the budget would save nearly $4 trillion in government spending over the next five years, a figure that represents an aggregate savings of nearly 20 percent over that time period.

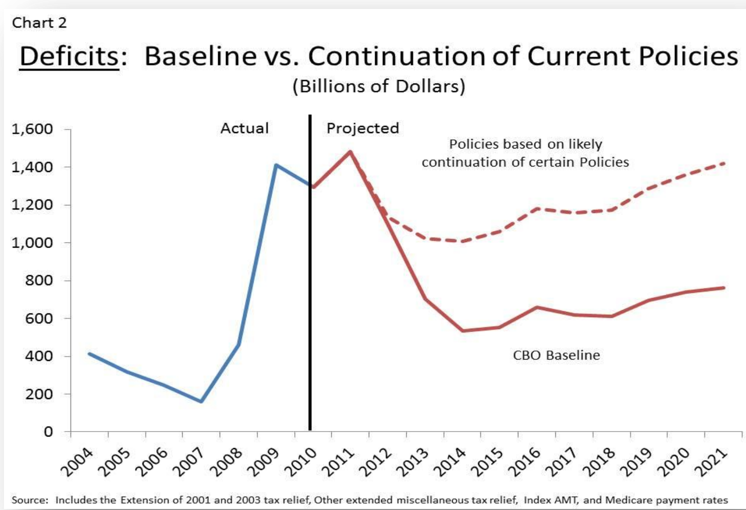


The overall spending theme provided in this budget reflects policy changes such as the draw-down and restructuring of the Department of Defense, the repeal of Obamacare, block granting programs such as Medicaid, SCHIP, food stamps and child nutrition programs. In addition, the budget completely eliminates four unconstitutional departments of the federal government: the Department of Commerce, the Department of Housing and Urban Development, the Department of Energy and the Department of Education.

Finally, the budget brings overall discretionary spending back to FY2008 levels, eliminates extraneous tax subsidies that exceed tax liability, and all international assistance, among many other cuts.

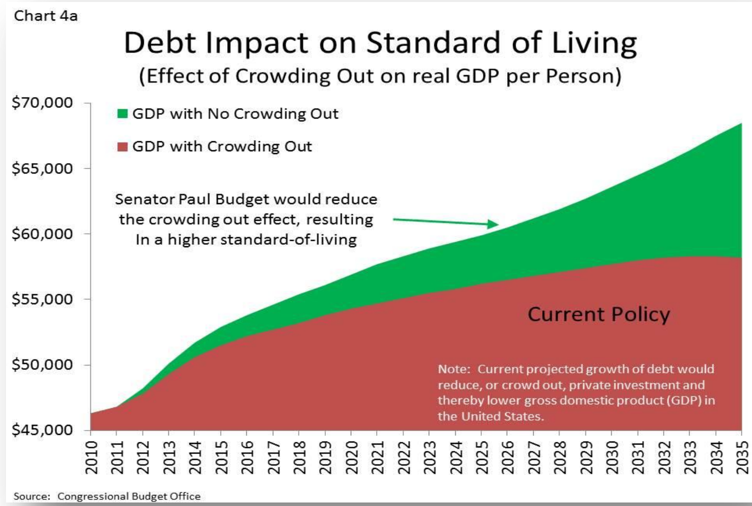
Deficits and Debt:

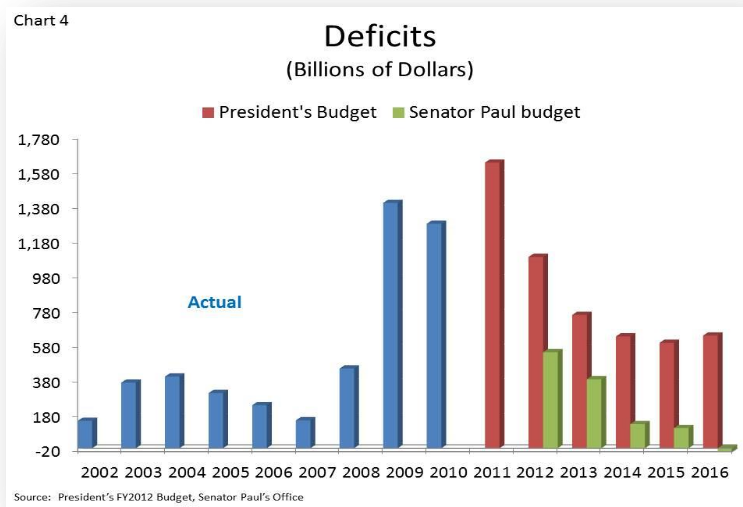
CBO budget projections assume budget deficits of greater than $550 billion in each year over the next decade, accumulating more than $6.6 trillion in new publicly held debt. By design, CBO baseline estimates presume the expiration of legislation that will likely be extended, the added revenue from the unlikely expiration of the 2001 and 2003 tax relief, and does not account for the adverse economic impact of the unsustainable deficits and debt. Under such a scenario, the 10 year accumulated deficit would likely be nearly $5 trillion larger, and would result in more than $1 trillion yearly deficits indefinitely.



The long-term impact of the unsustainable level of deficits and debt will likely impede current economic growth and reduce our overall standard of living over time. At some point, the economy hits a tipping point: Americans' ability to finance both the persistent deficits and invest in private investments will significantly diminish. These ever-higher deficit and debt levels would impact the economy through a variety of channels. First, this ever-increasing red ink would reduce resources available for capital investments, including the building of factories, creation of technology and innovation, and other private production; and although foreign lenders have provided us with the opportunity to continue to invest in our own economy, an even greater amount of resources—and our future incomes—will have to be shipped overseas at some point in the future to pay for these borrowed funds.

As these persistently large budget deficits increasingly become financed by capital inflows from other countries, the decrease in our country's capital stock will result in lower economic output and incomes in the long-run, leading to a lower standard-of-living for future generations. As stated by the Congressional Budget Office, "[T]hat crowding out phenomenon is slow but inexorable: In any given year, the incremental effect on output is small, but the effects would add up over time and can become substantial." CBO predicts that without significantly reducing deficits, debt, and spending, crowding out will reduce the standard-of-living, resulting in a decrease in gross national product per person by 8 percent in 2025 and by 21 percent in 2035.

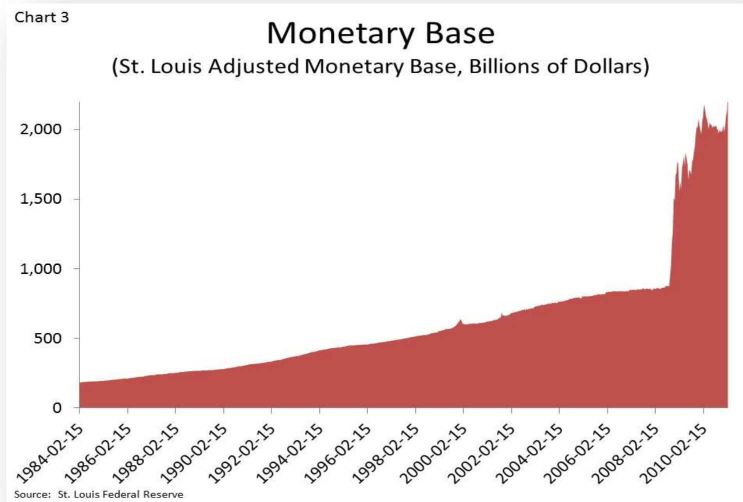




Based on the substantial reduction in deficits, slowing the growth of debt, and reducing spending provided in this budget, would put us on track to maximizing our potential growth, leading to a higher standard-of-living relative to current law.

Eventually, if the government cannot act responsibly and cut spending to sustainable levels, the urgency to address the large and persistent deficits may force bureaucrats to take the easier approach: monetize the debt, or simply put, to address the problem by debasing (printing) dollars. As investors begin to recognize that underlying policy approach, they would quickly begin to demand higher interest rates, as well as an increase on their return on investment to compensate, and hedge against future inflation. These higher interest rates would lead to much higher borrowing costs —not only for the U.S. government, but also for consumers, making it more expensive to finance new homes, purchase new vehicles, or expand businesses with the purchase of new equipment, for example.

The idea of monetizing our debt might only be a hypothetical approach to our looming debt problem, however many economists have begun to question the recent actions taken by the Federal Reserve, in particular their reoccurring policy of quantitative easing. As chart 3 shows, the Fed has substantially increased the overall size of the monetary base since mid-2008.



Though the CBO baseline and the President's budget provide us with a glimpse of the looming fiscal catastrophe that's quickly approaching, this budget would alter that course, significantly reducing both deficits and debt, and eventually achieving a surplus by 2016. This budget prevents debt held by the public from exceeding $12 trillion within the five-year budget window; this is a stark achievement relative to current law, which would exceed that $12 trillion mark one year after this budget, should it be enacted.

This balanced budget would decrease projected accumulated deficits by more than $2.6 trillion over the five-year budget window, and reduce net interest costs by more than $250 billion.

Legislative Branch

Policy Proposal: *Reduce funding to FY2008 levels and limit growth to rate of inflation.*

The spending increase in the Legislative Branch epitomizes the growth of government over the past 10 years; since 2000, the budget of Congress and its support agencies has increased by more than 100 percent. This aggrandized spending has outpaced what is achievable through taxation. Historically, the country has collected revenue equal to roughly 18 percent of gross domestic product, regardless of the tax rate. For example, during the mid-1950s and early 1960s, the top marginal tax rate was above 90 percent, yet revenue as a percent of GDP averaged only 17 percent.

According to the Congressional Budget Office, this is the third of four years that will have deficits greater than $1 trillion over a 10 year span. This out-of-control spending has done nothing to ease our fiscal crisis. Economic growth remains stagnant, unemployment rates are at levels not witnessed since the Great Depression, debt and deficits have been accumulating at an unprecedented pace, the Federal Reserve has pumped up the monetary base beyond sustainable levels, and increasing taxes has become the status quo.

The solution to our problems begins by returning the government to the people, once again empowering the states, and decreasing the size and scope of the federal government. There is no other area of the government more appropriate to begin to addressing our fiscal crisis than the Legislative Branch.

Policy Proposal: *Eliminate the Government Printing Office (GPO)*

Advancements in technology have led to the electronic age, an era that eliminates the need for the government to print exorbitant numbers of documents, many of which can be accessed and read on the Internet. Every government office and agency should budget for their own printing costs.

The waste at the Government Printing Office (GPO) is incessant. In 2010 alone, GPO spent nearly $30 million in taxpayer dollars to provide Congressional offices with the rarely read *Congressional Record*, and in September they released their first-ever comic book, "Squeaks Discovers Type," to teach children why printing is important.

Judicial Branch

"The law is the organization of the natural right of lawful defense. It is the substitution of a common force for individual forces. And this common force is to do only what the individual forces have a natural and lawful right to do: protect persons, liberties, and properties; to maintain the right of each and to cause justice to reign over us all."

--Frederic Bastiat

Policy Proposal: *Reduce funding to FY2008 levels and limit growth to rate of inflation.*

The court systems in the U.S. provide the important and necessary function of providing checks and balances, as well as providing a means of enforcing laws. It is essential to provide sufficient funding to the Judicial Branch, but since 2001, funding has increased nearly 30 percent faster than the rate of inflation. The integrity of our justice system becomes vulnerable if our government weakens, a situation that is currently developing with unsustainable spending, deficits and debt.

Strengthening our fiscal situation and promoting smaller government will require every agency at every level of government to make sacrifices. Ultimately, an accountable and fiscally responsible government will increase our liberty and the rule of law.

Department of Agriculture

The Department of Agriculture (USDA) is one of the largest agencies of the federal government. With fewer than 1 million farmers in the United States, the USDA has over 110,000 employees, or roughly one federal employee for every nine farmers. The Department of Agriculture currently provides anywhere from $10 billion to $25 billion in subsidies each year to farm and crop support programs, not including government subsidies for crop insurance and marketing support. In addition to the support provided to farmers, USDA also administers food and supplemental nutrition programs that account for more than half of all agriculture spending.

Policy Proposal: *Means test commodity payments*

Currently, crop subsidies are extended to nearly 1 million farmers; however, the payments are heavily directed toward the largest producers. The proposal adopted in the budget would limit payments to wealthy farmers, restricting subsidies to growers with farm income of less than $500,000, or non-farm income of less than $250,000.

Policy Proposal: *Eliminate the Agriculture Research Service*

Chris Edwards of the CATO Institute writes in his article "Agricultural Subsidies," that: "Most American industries fund their own research and development programs. The agriculture industry is a notable exception. USDA spends about $3 billion annually on agricultural research, statistical information services, and economic studies." Agriculture, like all other industries, can perform its own research and development without the use of federal subsidies.

Policy Proposal: *Eliminate the National Institute of Food and Agriculture*

National Institute of Food and Agriculture (NIFA) is the parent agency to the Agriculture Research Service (ARS). NIFA is essentially the communications arm to spread ARS information to the public. In addition, the agency is responsible for research and development within the agricultural industry, providing subsidies to increase productivity and help with environmental sustainably. However, many of these functions are already being funded at public research institutions such as colleges and universities. In addition, states that have a large agricultural community should provide their own funding for such activities.

Policy Proposal: *Eliminate the Foreign Agriculture Service*

Originally this agency was created to manage our agricultural trade agreements and the daily/weekly prices of agriculture commodities across the globe. In a world of constant, real-time information, we do not need this program publishing daily reports regarding the fluctuations of commodity prices.

Policy Proposal: *Block grant food stamps and the child nutrition program*

The food stamp program was originally created as a temporary program from 1939 to 1943, but became permanent in 1964 under President Lyndon Johnson. After the program swelled to more than 15 million recipients in 1974 and continued to increase in scope with the expanded benefits provided by Congress in 1993, Congress and the President finally decided to address the food stamp program through welfare reform in 1996. Food stamps were ultimately turned into a block grant program, which decreased the number of food stamp recipients, and helped lower costs. It wasn't until 2002, under the direction of both a Republican President and Congress, that the food stamp program was once again expanded.

In 2001, the food stamp program cost taxpayers $18 billion, but has since increased by more than 289 percent (FY2010 cost of $70 billion), and the Congressional Budget Office estimates that this entitlement program will cost nearly $700 billion over the next 10 years.

This proposal returns the funding for the food stamp program and the child nutrition program to FY2008 levels, and provides a block grant to the states, allowing them to efficiently administer nutritional welfare programs to their constituencies. This proposal will save $182 billion over five years, relative to the CBO baseline.

Department of Commerce

"[Department of Commerce is] nothing more than a hall closet where you throw in everything that you don't know what to do with."

-- Robert Mosbacher, Former Secretary of Commerce

Policy Proposal: Eliminate the Department of Commerce; transfer the Bureau of the Census, the Patent and Trademark Office, the National Oceanic and Atmospheric Administration, and the International Trade Administration to other appropriate agencies.

Quoted above, former Secretary of Commerce Robert Mosbacher accurately reflects the Department of Commerce as a catchall for miscellaneous agencies and programs. Although the department does contain agencies based on its original mandate to provide economic assistance, it has also taken on agencies that have nothing to do with economic assistance, including those involved in scientific research and monitoring the conditions of the oceans and atmosphere. Some agencies of the Department of Commerce are necessary based on their fiduciary responsibilities, such as the Patent Office, and others are necessary to comply with the U.S. Constitution, such as the Bureau of the Census. However, the overall bureaucracy and inefficient allocation of resources that result from maintaining the Department of Commerce make its existence unjustifiable.

The few who do benefit from the economic and business subsidies provided by the department do so at the detriment of citizens and businesses, large and small, that pays taxes to support these programs. Famous economist Henry Hazlitt highlights the impact of such misallocation of resources through his lesson on the broken window fallacy. In short, while we may be able to visually witness the impact of the spending provided by the Department of Commerce, we may fail to acknowledge that these resources are depleted, by way of taxes, from other businesses, preventing further economic development and/or expansion. This can also be said for the consumer that has less money, and therefore, less to spend at these many different businesses.

The following are examples of waste, fraud, and abuse:

- A North Carolina county receives $1.5 million to honor a local bluegrass singer; and
- Between 1990 and 1994, the Department of Commerce provided $280 million in "corporate welfare" research grants to seven of the largest companies in America (Amoco, AT&T, DuPont, GE, GM, IBM, and Motorola)

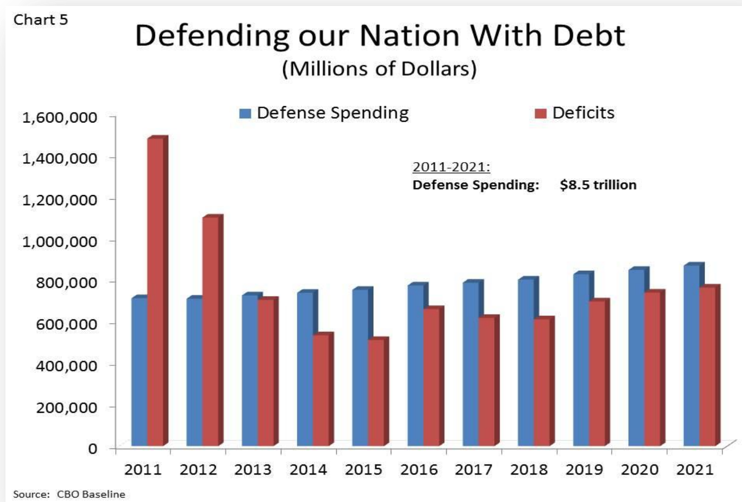
Department of Defense

"We will bankrupt ourselves in the vain search of absolute security."

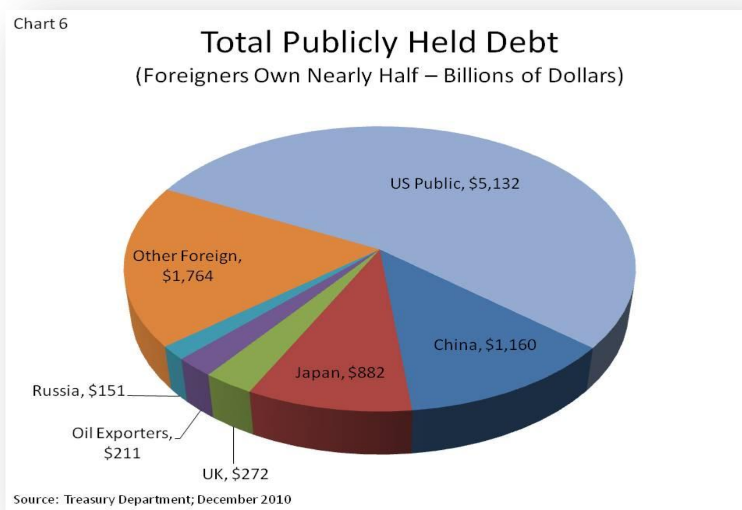
--General Dwight D. Eisenhower

As stated in the U.S. Constitution, our national defense is one of the primary roles of the federal government. Therefore, it is our Constitutional obligation to provide the U.S. military with the resources and tools to protect our homeland, our liberties, and our way of life from all foreign enemies.

The resources and funding we provide to our national defense are unprecedented, however. Military funding has often far outpaced not only our most likely enemies, but has often outpaced the entire world's military spending combined. Since the end of the Cold War, the United States has spent more than $8.1 trillion to fund our military, and the Congressional Budget Office predicts we will spend more than $8.5 trillion on defense over the next 11 years.



In this fiscal year alone (FY2011), the military will spend the equivalent of $2,351 for every man, woman and child in the U.S. This is more money than the per capita GDP of 42 different countries around the world. Unfortunately, our ability to continue to provide this level of funding is limited, and therefore the ability to preserve our military strength can only continue if we begin to strengthen our fiscal standing. Over the next decade, nearly all of our military spending will be at the mercy of borrowed funds from countries such as China, Japan, the United Kingdom and countries in the Middle East, all of whom are our current largest creditors.



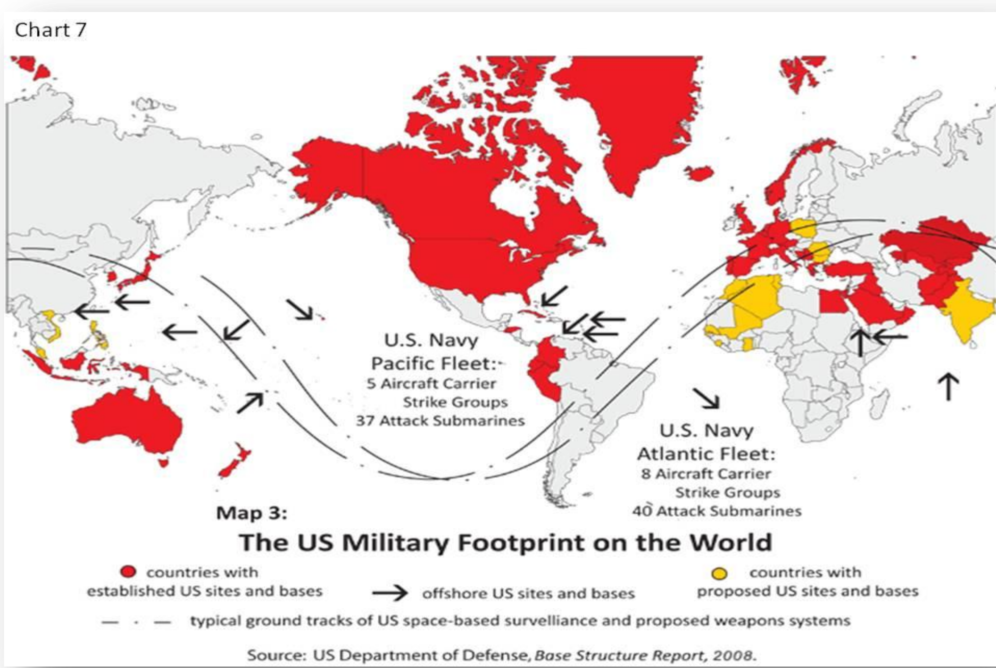
The structure of the U.S. military continues to reflect the build up during the Cold War; a structure that was necessary to deter or fight a nuclear war. Since the early 1990s and end of the Cold War, the global landscape has changed dramatically, and technology and military innovation have given a futuristic face to the modern idea of military combat.

Policy Proposal: *Modernize military force size*

Although the end of the Cold War did bring about a reduction in the large size of the military complex, much of the outdated structure was kept in place. This budget proposal does not simply reduce military spending, but provides directives to realign the military for the 21st Century. It also proposes to utilize modern innovation and technology in a way that would provide the capability to begin replacing and reducing our 1.5 million person military to a size more consistent with needs of our defense. Each year the military experiences roughly 5 to 7 percent turnover through natural attrition. The military should use this natural process to begin reducing our force levels.

Policy Proposal: *Reduce overseas presence*

The ability to utilize our immense air and sea power, to be anywhere in the world in a relatively short amount of time, no longer justifies our expanded presence in the world. This budget would require the Department of Defense to being realigning the over 750 confirmed military installations around the world. It would also require the countries that we assist to begin providing more funding to their own defense. European, Asian, and Middle Eastern countries have little incentive to increase their own military budgets, or take control of regional security, when the U.S. has consistently subsidized their protection.



Policy Proposal: *Transition security forces to new Iraqi and Afghanistan governments*

The Iraqi government currently has 800,000 personnel who serve in the military and police units, and Afghanistan is currently scheduled to employ 171,600 soldiers and 134,000 police officers. After nearly 10 years, the time has come to return Iraqi and Afghani sovereignty and provide them the responsibility of defending, rebuilding and running their own countries. The budget provides two years of war funding, at the President's requested levels, after which time, funding is completely zeroed out, consistent with the Commander-in-Chief's projections.

Policy Proposal: *Reduce waste, fraud, and abuse*

As one of the largest government agencies, it may not be surprising that waste, fraud and abuse would be plentiful at the Department of Defense (DOD). However, even the DOD should not be treated sacrosanct with regard to the treatment of taxpayer dollars. The following are just a few examples of recent waste, fraud and abuse at the Pentagon:

- The Pentagon can't account for $9 billion that was meant to be provided to the Iraqi government;
- The Department of Defense paid over $285 billion to contractors engaged in fraudulent behavior over a 3-year period; and
- Nearly $200 million was transferred to the Army's personnel fund after funds were lost and overspent.
- "Too big to fail." With a budget larger than that of most countries, and a facility (the Pentagon) ranked as the largest office building in the world, the Pentagon claims that due to its enormous size, accurate financial reporting is complicated, "The DOD obligates an average of $2 billion to $3 billion every business day and handles hundreds of thousands of payment transactions, which take place in thousands of worldwide locations, including war zones. This lack of accountability on paper puts the department at high risk of major losses in cash and inefficiencies, and just like any other federal bureaucracy, the DOD should be held accountable and forced to comply with regular audits. Currently, the DOD has been provided six years to organize and prepare for the scheduled audit in 2017.

Department of Education

"The very magnitude of the power over men's minds that a highly centralized and government-dominated system of education places in the hands of the authorities ought to make one hesitate before accepting it too readily."

--F.A. Hayek, Nobel Prize Economist

"I believe a case can be made that the decline in the quality of public school education began when federal aid to education became federal interference in education."

--Ronald Reagan

Policy Proposal: Eliminate the Department of Education; preserve the Pell Grant program at FY2008 levels

The Department of Education has created one-size-fits-all curricula and has gotten away from tailoring education to the needs and requirement of communities and states. Nobel Prize winning economist Friedrich Hayek questioned central government control of community schools in his book, "The Constitution of Liberty":

> Even if education were a science which provided us with the best methods of achieving certain goals, we could hardly wish the latest methods to be applied universally and to the complete exclusion of others —still less that the aims should be uniform. Very few of the problems of education, however, are scientific questions in the sense that they can be decided by any objective tests. They are mostly either outright questions of value, or at least the kind of questions concerning which the only ground for trusting the judgment of some people rather than that of others is that the former have shown more good sense in other respects.
>
> Indeed, the very possibility that, with a system of government education, all elementary education may come to be dominated by the theories of a particular group who genuinely believe that they have the scientific answers to those problems should be sufficient to warn us of the risks involved in subjecting the whole education system to central direction.

Prior to the 1930s, the federal government provided less than 1 percent of total revenue to public schools. It wasn't until the late 1950s that the federal government began to impede over the state's powers and decisions of public schooling. Federal involvement in public education has significantly increased per pupil spending, led to more bureaucracy, and pushed programs and ideals that are inconsistent with many of the state and local needs.

The growth in education spending at the federal level has gone from nearly $53 billion in 2001 to an estimated $95 billion in FY2011 – an 80 percent increase. The Department of Education is funded through resources that are drained from the states, diluted via Washington bureaucracy, and sent back to the school districts with red tape and strings attached.

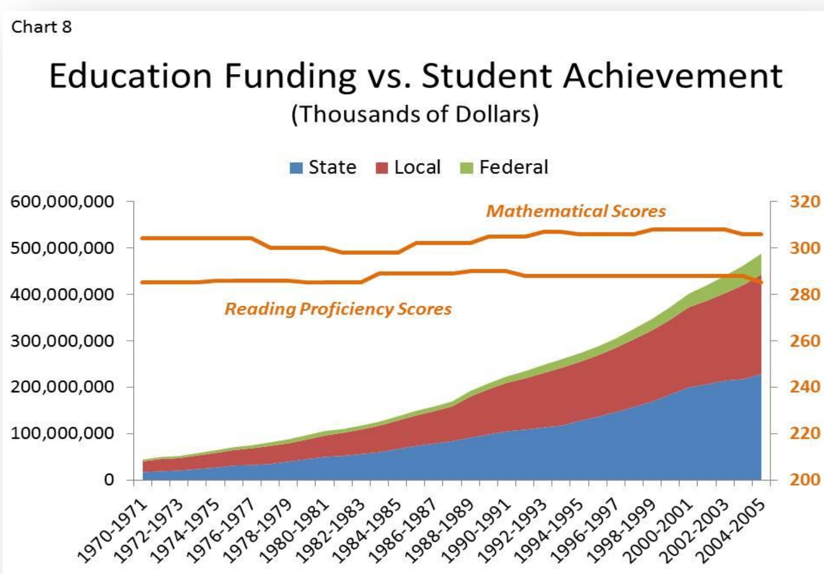
During the first half of the past century, America ranked among the most educated populations in the world. Since that time, the role of the federal government in education has expanded significantly, accounting for as much as 10 percent of all government spending in FY2009. As the role of the federal government in education has increased, conversely, the U.S. rankings have been falling below other economically developed countries. In December 2010, the OECD reported that the U.S. ranked 14th in reading skills, 17th in science, and 25th in mathematics (considered below average) out of 35 developed nations. The OECD recently ranked China as the No.1 country in math, reading, and science proficiency.

This budget proposal is not antithetical toward the goals of public education. An educated population is important to preserve our liberties and to increase our standard of living. This was adduced by economist Milton Friedman in his book, "Capitalism and Freedom":

> A stable and democratic society is impossible without a minimum degree of literacy and knowledge on the part of most citizens and without widespread acceptance of some common set of values. Education can contribute to both. In consequence, the gain from the education of a child accrues not only to the child or to his parents but also to the other members of the society. The education of my child contributes to your welfare by promoting a stable and democratic society.

The ideas provided in this budget are meant to embolden states and communities to develop an educational system that is most effective for their constituents.

As Chart 8 shows, education funding in the U.S. has increased dramatically over the past 40 years, yet it has failed to positively impact educational achievement.

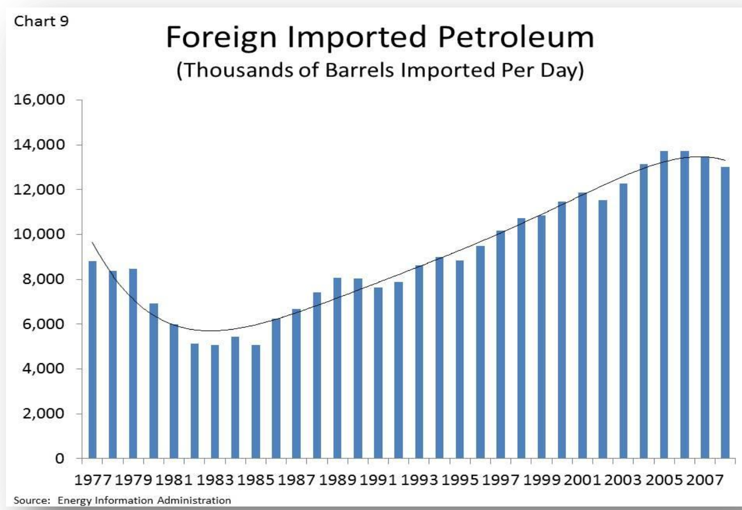


Department of Energy

Policy Proposal: *Eliminate the Department of Energy; transfer the Atomic Energy Agency and all nuclear research laboratories to the Department of Defense.*

In 1977, shortly after the U.S. experienced the effects of the oil embargo by the Organization of Petroleum Exporting Countries (OPEC), President Jimmy Carter created the Department of Energy. The overall purpose and intent of the Department was to regulate oil prices at the time, but was also given the mandate to both eliminate our dependence on foreign oil and produce alternative energy.

However, since the creation of the department, U.S. dependence on foreign oil has consistently been trending upward. In 1977, the U.S. imported 45 percent of the total petroleum consumed; today, the U.S. imports nearly 70 percent. Total spending at DoE since 1977 has exceeded a half-trillion dollars, and yet there is little to show for it with regard to the advancement of alternative and renewable energy.



In addition to their original mandate, the DoE has provided research grants and subsidies to energy companies for the development of newer, cleaner forms of energy. All forms of energy development are subsidized by the federal government, from oil to nuclear, wind, solar, and bio-fuels, however these subsidies and research are often centered on forms of energy that can survive without subsidies. In a country that has 250 million operational vehicles that run on petroleum, even government advancements in renewable energy or hand-outs to big energy corporations won't have much of an impact on the overall dependence of foreign oil. The market has always provided new forms of energy development without governmental interference; it is time for the free market to start taking the reins.

The following are examples of waste, fraud, and abuse:

- $10,000 in federal grants to design footwear from renewable resources; and
- $96.2 billion for Yucca Mountain, a nuclear waste repository that will likely go unused

Department of Health and Human Services

The Department of Health and Human Services (HHS) is the largest department in the federal government. The department includes programs such as Medicare and Medicaid, as well as other entitlement programs. HHS and its programs are some of the government's largest challenges, and are among the leading contributors to our fiscal crisis. Medicare alone has a $30 trillion unfunded liability and will continue to grow until it eventually consumes all government outlays.

The sheer numbers of those whom rely upon our social welfare systems presents a challenge to the feasibility of reform. The government's willingness to provide support for those in need is altruistic in nature, yet eventually leads to a distortion in the market as people become content with a government-provided safety net, and the populace's incentive to plan and provide for themselves diminishes.

Medicaid provided benefits to an average of 20 million individuals throughout most of the 1970's and 1980's. However, since the early 2000's, the growth in the number of people reliant on Medicaid has increased to nearly 50 million people.

Policy Proposal: *Block grant Medicaid and State Children's Health Insurance Program*

Medicaid and the State Children's Health Insurance are both programs that provide health care subsidies to the poor. Each program is connected of the other, with states matching the federal contributions. Medicaid spending is growing rapidly, and continuing the program as it is currently designed is unsustainable. In 2000, Medicaid spent $118 billion on medical subsidies, however, that figure will have tripled in less than two decades – by 2015. Providing block grant funding to each state will not only provides those states the flexibility to create innovative health care programs for those who need it most without the federal bureaucracy, but it will significantly lower costs and reduce the burden on the federal government.

Policy Proposal: *Eliminate the Low-Income Home Energy Assistance Program*

The Low-Income Home Energy Assistance Program (LIHEAP) was originally created in the early 1980's as a temporary support program to ease skyrocketing energy prices. Like most programs created by the federal government, LIHEAP has become more permanent. The budget proposes to eliminate this federal subsidy and return the responsibilities back to the states.

Policy Proposal: *Reduce Food and Drug Administration 20 percent from FY2008 levels*

The Food and Drug Administration (FDA) is another example of an agency that continues to expand every year in power and funding. New FDA powers granted by the recent Food Safety Modernization Act grant the government further intrusion into the nation's food supply.

Policy Proposal: *Reduce Health Resources and Services Administration 20 percent from FY2008 levels*

One way to combat illegal immigration is to remove the benefits our country provides to non-citizens. The Health Resources and Services Administration provides funding for 1,645 free health clinics for migrant workers all over the United States, contributing to the incentives for illegal immigrants to take advantage of our country and its taxpayers. These clinics are an unnecessary burden, and do not serve the interests of Americans.

Policy Proposal: *Reduce Indian Health Services 20 percent from FY2008 levels*

The federal government's Indian Health Services agency is notoriously wrought with fraud. A June 2009 Government Accountability Office (GAO) report highlights that, "millions of dollars in property and equipment continue to be lost or stolen." In particular, GAO claims that over 5,000 lost or stolen property items from the IHS took place between 2004 and 2007, amounting to more than $15.8 million. The report also highlighted a substantial amount of wasted spending, including the funding of 10 vacant properties as well as abandoned equipment that had a value of more than $700,000.

Policy Proposal: *Reduce Centers for Disease Control and Prevention 20 percent from FY2008 levels*

The annual budget for the Centers for Disease Control (CDC) also keeps increasing annually, in spite of "cost-saving efforts" by the department in the way of travel expenses and contract reductions to the tune of $100 million. The center is often mentioned in media reports highlighting their lavish accommodations. For example, in 2005, the CDC built a conference center for $106 million, complete with large-screen plasma TV's. They also spent tens of millions of dollars on state-of-the-art anti-gravity seating for employees, as well as luxury furniture. Taxpayers can no longer afford the luxury working atmosphere of the CDC.

Policy Proposal: *Reduce National Institute of Health 20 percent from FY2008 levels*

The National Institute of Health's (NIH) budget has nearly doubled since 2000. NIH is responsible for basic and applied research on a variety of medical issues. However, the private sector also invests in research and development, spending nearly $40 billion annually without taxpayer funding. Additionally, much of the research and development undertaken by the NIH provides direct subsidies to the pharmaceutical industry, which consistently ranks among the most profitable industries in the United States.

Department of Housing and Urban Development

Public housing has failed at providing a one-time stop for families on their way out of poverty and have become havens of crime and dysfunction, driving away the very business investment and homeowners that would revitalize a city block. Economist Friedrich Hayek wrote in his book, "The Constitution of Liberty":

> It should also be realized that the endeavor to make housing a public service has already in many instances the chief obstacle to the general improvement of housing conditions…
>
> Public housing (and subsidized housing) can thus, at best, be an instrument of assisting the poor, with the inevitable consequences that it will make those who take advantage of it dependent on authority to a degree that would be politically very serious if they constituted a large part of the population. Like any assistance to an unfortunate minority, such a measure is not irreconcilable with the generally system of freedom. But it raises very grave problems that should be squarely faced if it is not to produce dangerous consequences.

Policy Proposal: *Eliminate the Department of Housing and Urban Development*

The Low Income Housing Tax Credit, which subsidizes construction or rehabilitation of low-income housing, is a perfect example of market manipulation that does nothing to further the mission of public housing:

- The structure of the credit encourages projects to focus on particularly low-income areas, exacerbating the concentration of poverty within cities.
- The tax credit is also allocated to areas where few housing affordability problems exist.
- The program does nothing to facilitate its goal of lower rents. Developers pocket $4 billion in annual tax credits, while the rents in the buildings constructed under the program are generally no lower than they would have been in the absence of the program.

Replacing public housing with Section 8 vouchers has not improved upon delivery of services. In a landmark story by Atlantic Monthly on the rise of community crime rates associated with Section 8 vouchers, Urban Institute expert Susan Popkin said the voucher program "has not lived up to its promise. It has not lifted people out of poverty, it has not made them self-sufficient, and it has left a lot of people behind."

Section 8 vouchers are an open-ended benefit that recipients can receive indefinitely. There are no mandatory time limits and no work requirements; families or individuals can stay as long as they want. And since the Section 8 voucher is linked to income, recipients have little incentive to seek personal advancement. The value of a New York City Housing Authority voucher for a two-bedroom apartment in 2010 was $1,543 a month. This subsidy is low for rent costs in New York City, and as a result, tenants remain tied to low-income areas, preventing the community from enjoying natural changes and upgrading over time, stymieing the opportunity of improving and advancing their lives.

State Responsibility

Federal housing subsidies are often incongruous to state reforms. In Delaware, for example, the state housing authority has adopted a mandatory three-year time limit for all its non-elderly residents, and many other states are trying to set up similar programs that limit reliance on welfare and provide incentives to improve social standing. Currently, HUD prohibits any federal housing authority to ever consider mandatory time limits.

Private Sector Equivalent

As we witnessed from the devastation of Hurricane Katrina, there are plenty of organizations that provide low-cost or free housing to low-income individuals and families, such as Habitat for Humanity, an organization that operates on individual and corporate contributions. These private donations have allowed Habitat for Humanity to grow to a $160 million-a-year enterprise. Habitat for Humanity currently has chapters in more than 1,100 American cities, up from 350 in 1991. The organization has built more than 125,000 houses to date and more than 4,700 a year, ranking it as the 14th largest U.S. builder. This impressive organization not only provides housing to low-income individuals and families without costing the government money, but also provides homeownership opportunities to individuals.

Contributions to the Housing Crisis

Policies perpetuated by HUD and related agencies played a key role fostering subprime lending that brought the financial system to its knees in 2008. By implementing policies that expanded risky mortgages to under-qualified borrowers, HUD is directly implicated in the loss of over 1 million homes in 2008. Three of HUD's policies had a direct impact on the housing crisis that still plague many parts of the country today:

1) Loosening down-payment standards on mortgages guaranteed by the Federal Housing Administration (FHA)

The Federal Housing Administration (FHA) was originally founded to provide liquidity in the mortgage market by insuring mortgage loans made by private firms to qualified borrowers. Their standards for qualification continued to relax. In its rush to meet affordable housing goals, FHA was putting unqualified borrowers into mortgages they couldn't afford. HUD officials knew as early as 2000 that borrowers were accepting high priced mortgages due to low initial interest rates, and even informally indicated that they would no longer credit Fannie Mae and Freddie Mac for mortgages made without regard to the borrower's ability to pay. Yet policy was never made to stop that from happening. By 2004, the required down payment on the FHA's most popular mortgage program had fallen to only 3 percent.

HUD, the federal regulator of Fannie Mae and Freddie Mac, did not have the power to require them to maintain minimal capital levels or limit their debt obligations. As a result, by the end of 2007, the debt obligations of Fannie and Freddie were almost equal to the total publicly held debt of the U.S. federal government -- $5 trillion.

In September, 2010, a report by the HUD Inspector General revealed that in FY 2009, serious flaws in the FHA's automated underwriting process resulted in more than $6.1 billion in loans winning automatic approval for FHA insurance, even though these borrowers had too much debt and posed a greater risk of default.

2) Strengthening the Community Reinvestment Act

The Community Reinvestment Act requires commercial banks to report the extent to which they lend funds back into the neighborhoods where they gather deposits. In 1995, regulators were allowed to deny a bank the ability to merge with another bank if their CRA ratings were low. This implicit pressure to lend resulted in some banks distributing mortgages to low-income borrowers previously considered non credit-worthy.

3) HUD's Pressure to Lend

Congress exerted pressure on HUD to put more low-income families into their own homes. As a result, HUD required that the two government-chartered mortgage finance firms, Fannie Mae and Freddie Mac, purchase far more "affordable" loans made to these borrowers.

HUD required, particularly in 1996, that 42 percent of Fannie and Freddie's mortgage financing had to go to borrowers with income below the median in their area. The target increased to 50 percent in 2000 and 52 percent in 2005. However, the agency neglected to examine whether borrowers could make the payments on the loans that Fannie and Freddie classified as affordable. From 2004 to 2006, the two government sponsored entities purchased $434 billion in securities backed by subprime loans, creating a market for more lending of the same type.

The following are examples of waste, fraud, and abuse:

- $1.5 million spent in city of Shreveport, La., on mold remediation for a public housing complex prior to be demolished;
- $1 billion spent to subsidize utility costs on public housing deemed to be structurally inadequate, with poor insulation, and little regard to energy consumption; and
- The Department of Housing and Urban Development paid more than $15 million to subsidize nearly 4,000 deceased individuals.

Homeland Security

The Department of Homeland Security (DHS) was created after the terrorist attacks of Sept. 11, 2001, and since then has been plagued by waste, fraud, and extensive bureaucracy. Overall, the agency has struggled to achieve many of the goals the Department was mandated to accomplish. For example, the Transportation Security Administration consistently has a high failure rate with regard to screening for weapons, bombs, and other deadly devices—some estimates range as high as 70 percent. Additionally, the department has struggled to adequately secure our nation's borders, as well as sufficiently respond to natural disasters.

Policy Proposal: *Reduce Transportation Security Administration 20 percent from FY2008 levels*

Following the 9/11 attacks, the Transportation Safety Administration has provided the majority of airport security screeners across the country. A number of airports however, (17 in a recent count) have replaced TSA screeners with private contractors. Kansas City International Airport was the first airport to use private screeners as opposed to the TSA. Kansas City Airport director Mark VanLoh said in an NPR article, "In my opinion, these contract employees – they're not federal employees; they're not guaranteed a job for life. If they don't meet performance goals, or maybe they're consistently rude, or maybe they miss objects that go through the machine, they are terminated."

Concerning the use of private screeners, GAO has stated, "The private screening under federal supervision works and performs statistically significantly better, so our main purpose here is in getting better screening and better performance, not to mention that we can get better cost for the taxpayer."

Currently TSA has over 67,000 employees across the United States and screeners have plans to unionize, which can and will drive up costs to the American taxpayer.

The following are examples of waste, fraud, and abuse:

- TSA lost control of over $300 million spent by contractors to hire airport screeners after 9/11;
- $526.95 was spent on one phone call from a Hyatt Regency in Chicago to Iowa City;
- Spent $1,180 for 20 gallons of Starbucks coffee at a Santa Clara Marriott in California;
- $1,540 to rent 14 extension cords for three weeks at Wyndham Peaks Resort; and
- $8,100 for elevator operators the Marriot Marquis in Manhattan

Policy Proposal: *Eliminate Homeland Security grants to states and local communities*

DHS has an array of different grant programs, including funding for emergency management, transit protection, and terrorism prevention equipment. Unfortunately, the consistent with regard to these grants is clear: the system for allocating these grants is inefficient, often highlighted by GAO as "high risk" and the incidents of waste, fraud and abuse are prevalent. The federal government should discontinue this wasteful program, and return the responsibility of local policing and protection to the states and local communities.

The following are examples of waste, fraud and abuse:

- $230,000 in DHS grants spent on a state-of-the-art patrol boat for a recreational harbor in Connecticut;
- $67,000 spent on protective gear in Marin County, Calif., which was never used;
- A rural Wyoming county with 11,500 people received $546,000 in Homeland Security grants; and
- A $30,000 grant was provided for specially outfitted SUV in North Dakota

Department of the Interior

The Department of the Interior (DOI) is responsible for managing millions of acres of land, forests, and parks, as well as building dams. The department has consistently been given poor management ratings by the White House's Office of Management and Budget, and provides many functions that could be reduced or privatized. Many of the department's programs should be reduced to FY2008 funding levels, and given additional cuts or eliminated altogether (i.e. the Land and Mineral Management, Bureau of Reclamation, U.S. Geological Survey, the National Park Service, and Bureau of Indian Affairs).

Policy Proposal: *Reduce Land and Mineral Management 50 percent from FY2008 levels*

The management of public lands and resources is best left up to the states. States have better and fuller knowledge about the best use of their lands for energy, recreation, and preservation.

Policy Proposal: *Eliminate the Bureau of Reclamation*

Established in 1902, the Bureau of Reclamation has held a majority of the dams, hydroelectric power plants, and canals in the western-most 17 states. The Bureau is the largest wholesaler of water in the country and provides water for farmers in many states. Owning a majority block of energy and water resources is not the business of the federal government. Water rights should be controlled by the states, and agreements can be made between the states to ensure water supply to all.

Policy Proposal: *Reduce the U.S. Geological Survey 20 percent from FY2008 levels*

The U.S. Geological Survey is the largest water, earth, and biological science civilian mapping agency in the United States. Though these are important activities, they can be given to state researchers at our colleges and universities, without having large numbers of regional executives and multiple offices.

Policy Proposal: *Reduce the National Park Service 30 percent from FY2008 levels*

In 2009, repairs performed on the Vietnam Memorial were done without the use of taxpayer funds. The Vietnam Veterans Memorial Fund took over the duty of preserving the memorial because the National Park Service (NPS) did not have the resources.

Every year appropriations increase to the NPS, yet both the GAO and the Congressional Research Service have stated that NPS's backlog on projects and maintenance would cost several billion dollars to the American taxpayer to complete. National Parks have seen a decrease in visitors and campers each year due to trash, lack of facilities, or even safety. Returning these public lands back to the states and or the private sector would allow an increase in quality, safety and a reduction in government spending each year.

Policy Proposals: *Eliminate the Bureau of Indian Affairs*

The Bureau of Indian Affairs (BIA) has swindled and mismanaged billions of dollars in Indian trust funds. Former Special Trustee Thomas Slonaker testified in 2004 that the DOI and BIA were incapable of reform and were unwilling to hold people accountable for their actions. Former Department of Interior Special Trustee Paul Homan also testified before Congress, saying that a “vast majority of upper and middle management at the BIA were incompetent.” The Bureau also lacks any ability to track the amount of funding provided to the tribes or individual Native Americans. Additionally, the Bureau has no measure of the ability of the tribes to be self-sustaining, preventing any type of reforms to directly funding the neediest tribes while allowing wealthy tribes with lucrative casinos and other revenue streams to manage their own affairs.

Department of Transportation

The Department of Transportation (DOT) extracts tax dollars from the states and then returns those dollars back to the states to fund highways, airports and other transportation systems and programs. The department is notorious for providing members of Congress an avenue to direct funding and earmarks to their states, which is frequently highlighted by the press as wasteful and inefficient. Many states complain that funding is provided for projects that are not needed and the associated red tape increases overall costs. For example, due to many provisions included in transportation funding, such as Davis-Bacon wage rules and the Buy-America clause, it is estimated federally funded projects cost nearly twice as much as the amount a state would pay for the same project.

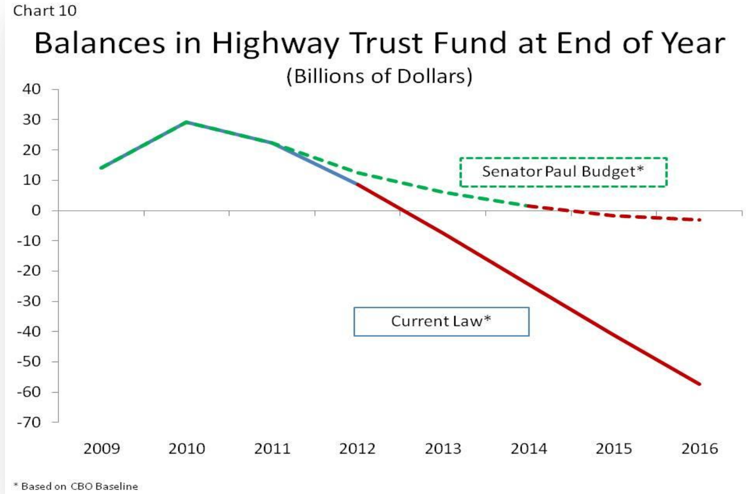
This proposal includes funds the Federal Highway Administration and the Federal Transit Administration at the level of projected gas tax revenue, currently $37 billion. It also eliminates Amtrak subsidies and reduces the remainder of the department back to FY2008 levels with an additional reduction of 20 percent.

Policy Proposal: Fund Federal Highway Administration and Federal Transit Administration at gas tax levels

When the U.S. Highway Trust fund was established in 1956, excise taxes off the sale of gasoline could be used to fund three major programs: highways, mass transit, and repairs to leaking underground storage tanks. Currently, the American consumer pays 18.4 cents per gallon in taxes toward this trust fund, but the fund no longer has to be used just for highways and transit. It can now be used to support any form of transportation, such as bike lanes and paths, and those that use little or no fuel.

As chart 10 shows, the misallocation of funding from the highway trust fund has exhausted resources meant for highway and road construction. Beginning in 2013, the trust fund will permanently begin running negative cash balances.

Chart 10



Because of the constant depletion of the trust fund by agencies and programs that are unaffiliated with the highway system, additional taxpayer money must to be used to sponsor the $52 billion FY2010 budget of the DOT's Federal Highway Administration (FHWA). Setting a cap on the spending of these two programs equal to the amount of excise tax collected will require the federal government to prioritize road projects more efficiently, and will place decision making and implementation of road maintenance on the states.

Policy Proposal: *Eliminate Amtrak Subsidies*

Since 1970 when Amtrak was created by an act of Congress to provide passenger rail service, it has never returned a yearly profit. During its first 35 years, federal assistance amounted to approximately $30 billion. Yet from FY2007 to FY2010 alone, subsidies amounted to $7 billion. Of the 21,000 miles of train track in its system, only 625 miles are actually owned by Amtrak. Congress has actually forced private freight rail companies to allow Amtrak to use the lines their companies own and maintain.

We need to allow the states to have greater oversight of train service between their cities. To provide better service, Amtrak must develop a sound business model, which will push them toward becoming profitable, instead of being a drain on government funds.

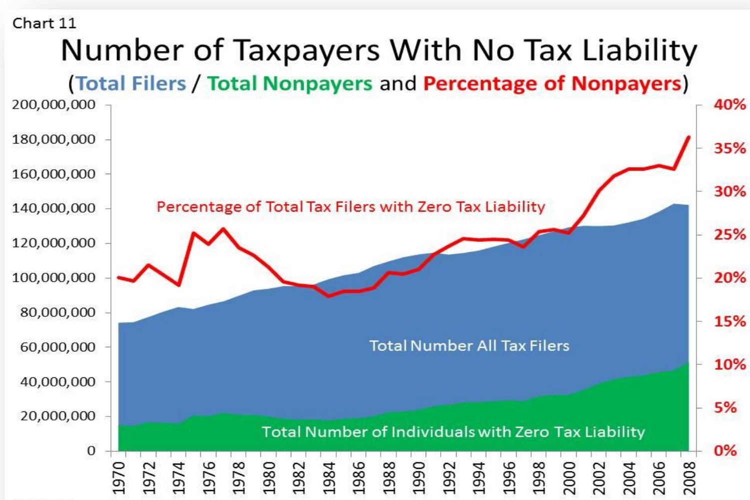
Department of Treasury

The Treasury Department has a number of responsibilities regarding the financial security of the U.S., from collecting taxes to managing and facilitating the government's finances. The department is also responsible for issuing and paying interest on the national debt, overseeing currency and coinage, and enforcing tax laws. In the modern era, the Treasury Department has also taken on the role of facilitating bailouts, both domestically and internationally.

Policy Proposal: *Prevent payments when earned income credit and child tax credit exceeds tax liability*

Since the passage of the 2001 and 2003 tax cuts, and with the increase in tax credits in President Obama's stimulus bill, the number of tax filers who have zero tax liability has grown substantially. From 2000 to 2008, the percentage of tax filers not paying any federal income taxes jumped from 25 percent to more than 36 percent.

The majority of the roughly 140 million taxpayers who file a tax return for income received the previous year have some tax liability and owe the government. Historically, nearly a quarter of all tax filers have had zero



tax liability, or in other words, 25 percent of tax filers meet requirements to forgo paying any federal income tax. Many times this is the result of the various tax refunds and credits available, such as the Earned Income Tax Credit and the Child Tax Credit.

A problem arises with these tax credits when they don't just lower a taxpayer's overall tax liability but directly redistribute wealth via payments from the Treasury. From FY2012 to FY2016, the outlay impact of these two tax credits will cost the government nearly $300 billion. It is understandable to alleviate the tax burden of families and individuals who need assistance; however the tax code should not be a vehicle to redistribute wealth.

Policy Proposal: *Sell equity interests in General Motors, Chrysler and AIG*

Through means provided by the Troubled Assets Relief Program (TARP) bailouts, the government purchased equity stakes in failing financial institutions, and also in GM, Chrysler, and AIG. The government currently owns 1.66 billion shares of AIG, and 10 and 33 percent of Chrysler's and GM's equity respectively. The ownership of these companies should be sold at market value and returned to the free market.

National Aeronautics and Space Administration

Policy Proposal: *Reduce NASA 25 percent from FY2008 levels*

With the presence of private industries involved in space exploration and space tourism, it is time for the National Aeronautics and Space Administration (NASA) to look at ways to reduce spending. NASA has consistently been flagged by organizations like Citizens Against Government Waste, which most recently highlighted NASA's multibillion-dollar Constellation Program, a project that focuses on the exploration of the moon and Mars. Despite spending more than $10 billion on this program, NASA has made very little progress since the program's inception.

Finally, since President Obama has determined to realign the goals of NASA away from human space exploration to science and "global warming" research, there is also a need to realign the agency's funding. Current funding levels are inconsistent with the goals of the past and provide the opportunity to support deficit reduction.

International Assistance Programs

The philanthropic nature of the American people is unmatched in comparison to any other country in the world. In fact, a recent study by the Hudson Institute suggests that private donations by Americans amount to an astounding $37 billion per year.

What makes this statistic important is the evidence that Americans are generous when left to their own devices without government intervention. And most of this philanthropy is not destined to iniquitous and corrupt leaders, to fund arms races throughout the world, or lost through government waste, fraud and abuse.

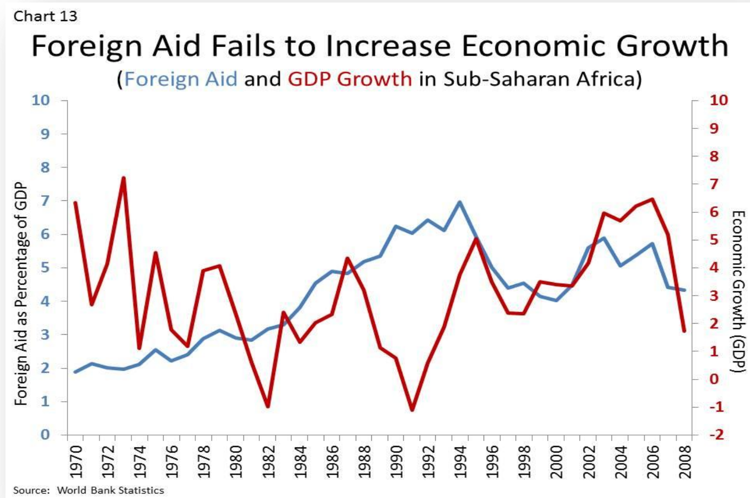
The U.S. currently provides 150 different countries around the world with some sort of foreign assistance, including many adversaries of the United States, such as North Korea, Cuba, Venezuela, and Zimbabwe. In addition, the United States has consistently provided foreign assistance to those the media routinely considers the "world's worst dictators."

Though a portion of aid is provided for foreign military assistance, the majority of it remains for humanitarian assistance. While the intention to lift poor nations out of poverty is benevolent, often the assistance is counterproductive to increasing economic prosperity, as well as liberty and freedom. For example, between 1970 and 2000, Africa received more than $715 billion in aid from countries around the world, yet economic growth has consistently declined and totalitarian rule has been the norm.1

[1] Lal, Deepak and Asrath Rajapatrirana, "A Marshall Plan for Sub-Saharan Africa?" American Enterprise Institute.

As chart 13 displays, economic and humanitarian aid to one of the poorest regions in the world, Sub-Saharan Africa, has done very little to increase economic growth or the standard of living.

In addition, as is often cited by international organizations such as the World Bank, the IMF, and think tanks such as the American Enterprise Institute, that foreign aid is consistently and continually provided without determining its effectiveness or tracking where the funds end up. They have often argued that this lack of oversight not only has assisted with corruption, but ultimately propped up failing governments.



According to statistics provided by the World Bank's International Corruption Perception Ratings of 47 Sub-Saharan African countries, 21 received a "very bad" score, 15 received a "bad" score and only 2 were rated as "average." When those same 47 countries were tested for governance ratings, all but 2 countries scored well below "average."

Stolen or Squandered Funds

Although it is difficult to find precise statistics on the amount of stolen or squandered foreign aid, there are plenty of examples of the United States providing foreign assistance to wealthy foreign leaders known to squander monies from their countries' pocketbooks. Notable examples of such leaders pillaging their government finances, amassing a fortune, and also receiving U.S. aid are listed in the table below:

Country	Leader	Net Worth (est)	U.S. Aid (000)
Thailand	King Bhumibol Adulyadej	$28 Billion	16,841
Pakistan	Asif Ali Zardari	$1.7 Billion	1,457,872
Oman	Sultan Qaboos	$650 Million	15,028
Swaziland	King Mswati	$100 Million	27,700
Cuba	Raul/Fidel Castro	$900 Million	20,000
Egypt	Hosni Mubarak	$70 Billion	1,295,700
Zimbabwe	Robert Mugabe	$10 Million	89,030
Ethiopia	Meles Zenawi	$1.2 Billion	533,225
Uganda	Yoweri Museveni	$15 Million	456,819

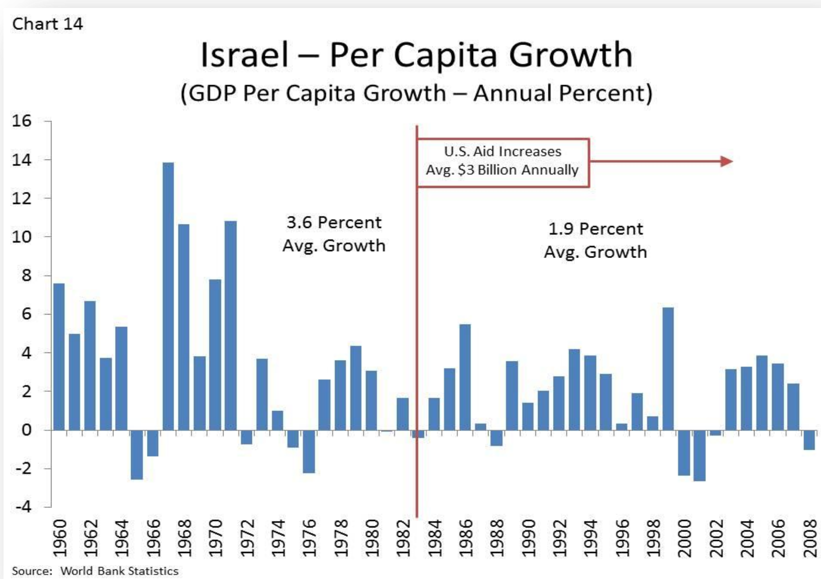
Although the facts are vague, it has been widely perceived that many corrupt world leaders have become rich from international assistance. Furthermore, when it's not the leader stealing the foreign aid, it is often syphoned off to various officials and bureaucrats.

Aid to Israel

"Free money is the scourge of Israel's Economy. It is the difference between a free, prosperous Israel and a statist, dependent Israel."

--Alvin Rabushka, Stanford Economist

While this budget proposal does eliminate foreign aid to Israel, it is not meant to hurt, negate, or single out one of America's most important allies. This proposal eliminates all foreign aid to all countries. Israel's ability to conduct foreign policy, regain economic dominance, and support itself without the heavy hand of U.S. interests and policies, will only strengthen the Israeli community.



The elimination of all foreign aid, including provisions to Israel, is not necessarily a new idea. In 1996, during an address before the U.S. Congress, Israeli Prime Minister Benjamin Netanyahu declared that his nation would eventually wean itself from dependence on U.S. foreign aid. Prominent Israeli politicians and economists alike have called for the end of foreign aid. Among them is economist Amon Gafney, who served as governor of the Bank of Israel from 1970 to1981. He pointed out that foreign aid has caused Israel to suffer from "Dutch Disease," a situation in which a generous gift brings short-term benefits but impairs a country's long-term competitiveness.

Policy Proposal: *Eliminate all international assistance*

Miscellaneous Policy Changes

Policy Proposal: *Collect delinquent taxes from federal employees*

Every year, the Internal Revenue Service (IRS) publishes the Federal Employee/Retiree Delinquency Initiative (FERDI). This summary report shows the amount of civilian, military, and retired federal employees who are delinquent in their federal income taxes. In 2008, the FERDI showed $3.04 billion in back taxes owed. The amount has grown to $3.31 billion in 2009.

Policy Proposal: *Freeze federal civilian pay*

While most Americans have been forced to cut back during this recession, the amount of spending by the federal government has drastically increased. Many Americans are without jobs and many more have had to forego pay raises. Federal employees already receive generous pay and benefits, have been relatively immune to the recession, and even President Obama has recently endorsed this proposal to freeze federal pay.

Policy Proposal: *Reduce the amount of travel by federal employees*

Since the implementation of the requirement that all federal employees use travel charge cards to pay for the expenses of official government travel, travel card transaction have increased from $4.39 billion in FY1999 to $8.93 billion in FY2009. Audits have found significant weaknesses in internal controls over travel card use, which cost the government millions this year alone.

Examples of card misuse by federal employees include unauthorized trips, premium seating, reimbursements for airline tickets never purchased, and even laser eye surgery. Auditors have also determined some federal agencies have not collected reimbursements for millions of dollars' worth of unused airline tickets.

With rapid and continuing improvements in communications technology, the need for face-to-face meetings has drastically been reduced and is not always necessary.

Policy Proposal: *Repeal the Davis-Bacon Prevailing Wage Law*

The Davis-Bacon Act requires employers to pay workers at least the locally prevailing wage and fringe benefits on federal construction projects of more than $2,000. The Department of Labor publishes Davis-Bacon prevailing wages in four types of construction: residential, building, highway, and heavy construction. In 2008, the Davis-Bacon prevailing wages rates for projects in metropolitan areas were 62.4 percent higher than the average hourly wages reported by the Occupational Employment Statistics (OES).

Davis-Bacon forces government contractors to pay wages that are higher than they normally would. These wages increase the cost of the federal construction projects, without increasing the labor productivity, quality, or timeliness in completing the project.

Policy Proposal: *Sell all vacant or unused federal property or asset*

Currently, the government owns or leases 3.87 billion square feet of property. In addition to the property, the federal government owns or leases 55.7 million acres of land. For every 40 acres of land in the United States, 1 acre is owned by the government. Citizens Against Government Waste estimates these holdings to be worth $1.2 trillion.

Of that property, the Office of Management and Budget (OMB) claims more than 21,800 federal properties are abandoned assets, which could be sold for approximately $19 billion.

Policy Proposal: *Reduce the purchase and maintenance budget allocated for federal vehicles*

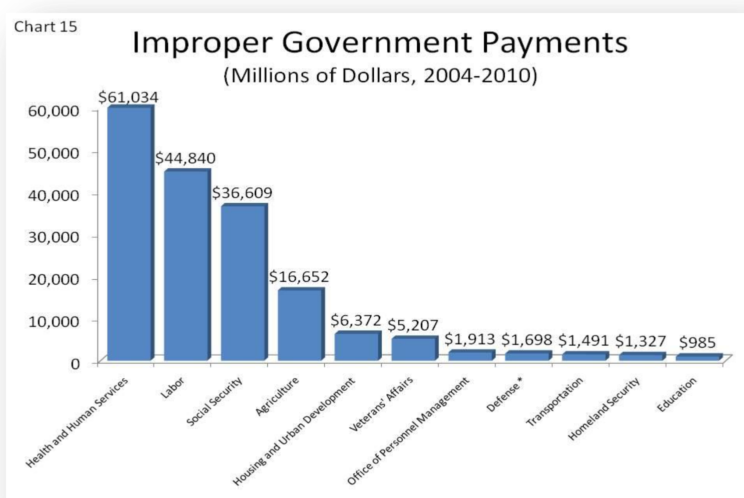
The federal government owns approximately 652,000 cars and trucks in their fleet of vehicles. General maintenance on these vehicles is an annual expense of $4 billion. Since 2006, the amount of vehicles owned by the government has increased by 20,000 and operating costs have increased by 5.4 percent.

It is not unreasonable to ask all agencies to slow down acquiring new vehicles and decrease the number of miles driven to help drive reduce cost of general maintenance.

Policy Proposal: *Sell federal lands*

The U.S. government currently owns more than 83 million acres of land within the national park system. This figure includes 51 million acres of national parks and 24 million acres of national preserves. The resources and funds necessary to provide for the upkeep and protection of these national treasures will be preserved. However, the federal government also possesses nearly 383 million acres of national forests; 146 million acres of which is timber land. On one hand, the federal government has struggled to protect and keep viable much of the national forest land. On the hand, the federal government continues to consume more and more of these lands—particularly national forests—at the detriment of the public due loss of access to a majority of these valuable and needed natural resources.

Policy Proposal: *Reform the implementation and oversight of government payments; reduce Improper Payments*



According to the White House's Office of Federal Financial Management Improper Payments, the government's total improper payments amounted to more than $125 billion in fiscal 2010 alone. The rising improper payments can be attributed to the increasing number of welfare recipients due to the economic recession, especially from programs like

Medicaid and food stamps, but also to numerous errors. President Obama's stimulus plan sent nearly 89,000 checks written for $250 each to dead or incarcerated individuals. The 2010 improper payment amount was $15 billion more than the previous year.

Policy Proposal: Open Arctic National Wildlife Refuge for Oil and Gas Exploration

The Arctic National Wildlife Refuge (ANWR) in Alaska is ranked among the most viable reserves of oil and gas in North America, holding as many as 10 billion barrels of oil or more. Leasing these lands is overwhelming supported by Alaskan residents and Native Americans in the region. By opening up these lands, the government would have the opportunity to pay down deficits and the debt with revenues received through royalties.

Revenue Assumptions

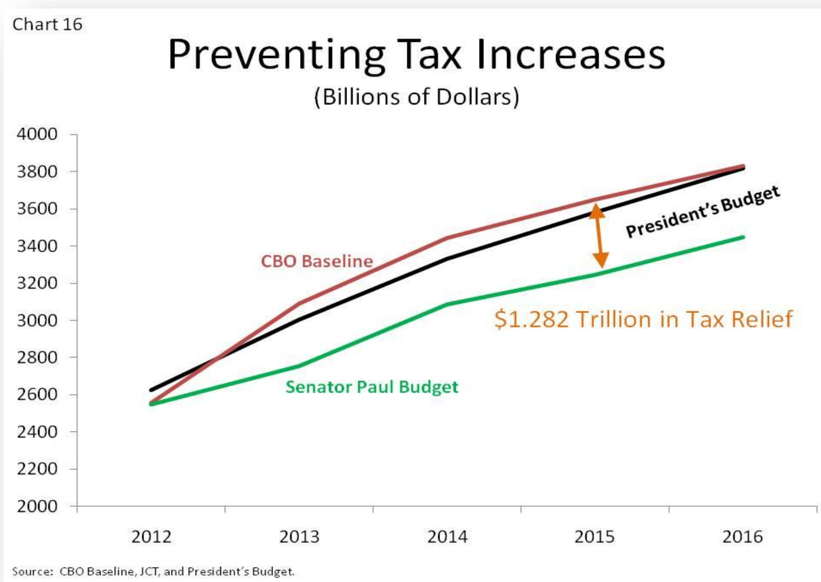
This budget makes three modifications to future revenue assumptions that are not currently accounted for in the CBO baseline:

1) It extends tax relief provided in 2001 and 2003;

2) It repeals and eliminates the nearly $600 billion in tax increases included in ObamaCare; and

3) It provides a permanent patch for the Alternative Minimum Tax (AMT).

These modifications are significant, because even with the loss of revenue, the budget still not only reduces the deficit, but actually achieves balance and even a surplus by FY2016 without raising taxes. Comparatively, the President's FY2012 budget never balances—in fact, it never produces a deficit that falls below $600 billion, and this isn't accomplished without $1.5 trillion in tax increases.



Fiscal Year	2011	2012	2013	2014	2015	2016	2012-2016
Extend '01 & '03 Tax Relief	0	0	-249	-250	-265	-270	-1034
Repeal ObamaCare	0	-8	-33	-45	-74	-86	-246
AMT Relief	0	0	-88	-99	-110	-122	-419
Total Revenues	**2,228**	**2,547**	**2,755**	**3,088**	**3,244**	**3,449**	**15,083**
On-Budget	1,662	1,887	2,393	2,713	2,882	3,072	12,947
Off-Budget	566	668	732	769	811	855	3,835

Budget Process Reform

"I wish it were possible to obtain a single amendment to our Constitution. I would be willing to depend on that alone for the reduction of the administration of our government to the genuine principles of its constitution; I mean an article taking from the Federal government the power of borrowing."

--Thomas Jefferson

Policy Proposal: *Adopt an amendment to the Constitution to balance the budget.*

The U.S. Constitution provides a mechanism to reflect changes in the nation—the amendment process. Over the years, it has been modified 27 times, and in some instances the changes have been designed to reverse prior modifications.

The intent of the U.S. Constitution was to create a government of limited powers, secure the rights of the people, and protect them from the very government it created. Among all the protections provided to us in the Constitution, they fail to address the ability of our government to bankrupt itself, destroying the people's standard-of-living and material net worth.

The budget would require a proposal to be submitted before the House of Representatives and the Senate to amend to the Constitution to protect the American people against the fiscal abuses committed on behalf of their government by way of a mandatory balanced budget.

Policy Proposal: *Rescind unspent and unobligated discretionary balances after 36 months*

When a program or agency is provided money, those funds in any particular year are usually not spent all in that fiscal year. Often, these the aggregate sum of these funds take more than a year to obligate, and even longer for them to actually be spent out of the individual government account. While it is necessary for contracting and project development to spend budgetary resources over time, this budget would automatically rescind any funds that are not obligated or spent after 36 months.

Long-Term Policy Instructions

Policy Proposal: *The budget proposal requests the relevant committees of jurisdiction to reform the Social Security Program to achieve solvency over the 75 year window. The committees should implement certain provisions including progressive indexing, indexing for longevity, and increasing the retirement age over time. The reform should emphasize the protection of benefits to those who currently rely on them.*

According to the 2010 Annual Report of the Board of Trustees of the Social Security Trust Fund, Social Security has a current unfunded liability of $5.4 trillion in present value (over 75 years) – or nearly $48,000 per household. This is a $100 billion increase over last year's estimate. This paints a financially dangerous picture of the portentous threat the Social Security System faces each year we fail to enact or address reform.

Based on the trustees' report on long-term projections, Social Security payments are expected to run a cash deficit beginning 2015, and continue on that trend for the remainder of the long-range period. The Social Security Trust Fund is expected to be completely exhausted, and thus, unable to pay scheduled benefits in full on a timely basis in 2037. As quoted by the 2010 Social Security Trustees' Report:

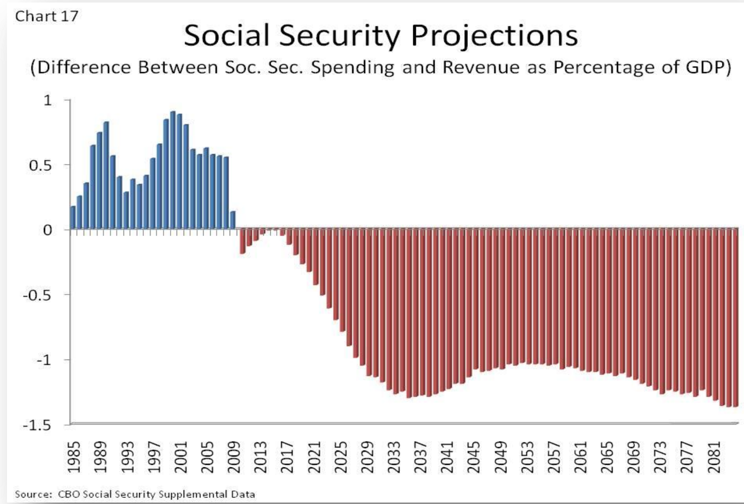
> The projected shortfalls should be addressed in a timely way so that necessary changes can be passed in gradually and workers can be given time to plan for them. Implementing changes sooner will allow the needed revenue increases or benefits reductions to be spread over more generations. Social Security plays a critical role in the lives of 54 million beneficiaries and 155 million covered workers and their families in 2010. With informed discussion, creative thinking, and timely legislative action, present and future Congresses and Presidents can ensure that Social Security continues to protect future generations.

If no substantial action is taken until the combined overall Social Security trust funds become exhausted in 2037, then changes necessary to make Social Security solvent over the next 75 years will be centered on fewer years and few generations. Such a scenario would result in benefits being slashed by as much as 22 percent at the point of trust fund exhaustion and reaching 25 percent in 2084.

Such a benefit reduction would result in the following:

Current Age (in 2011)	Age at Time of Trust Fund Exhaustion	First Years Expected Benefit Cut
55	81	$4,089
56	82	$4,082
57	83	$4,013
58	84	$3,939
59	85	$3,867
60	86	$3,815
61	87	$3,747
62	88	$3,709

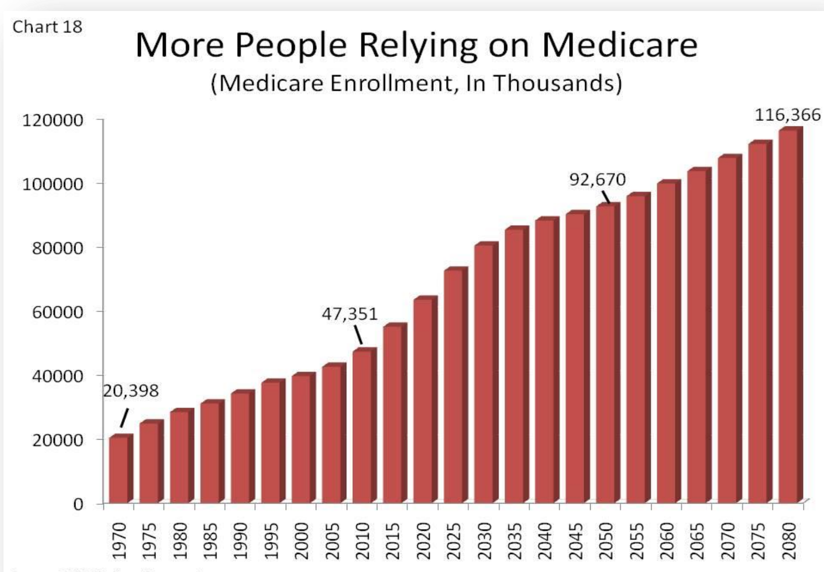
Source: House Budget Committee – Republican Staff; Social Security Administration 2010 Trustee's Report



While the Social Security Trustee Report does predict tax income to exceed annual costs from 2012 through 2014, new CBO projections suggest that due to current economic trends as well as the payroll tax reduction implemented in December of 2010, Social Security outlays will surpass Social Security revenues indefinitely.

Policy Proposal: *The budget proposal requests the relevant committees of jurisdiction to reform the Medicare Program to achieve solvency over the 75 year window. The committees should implement certain provisions including, but not limited to, the fundamentals of free-market based health care, individual and family based health plans, and interstate commerce competition*.

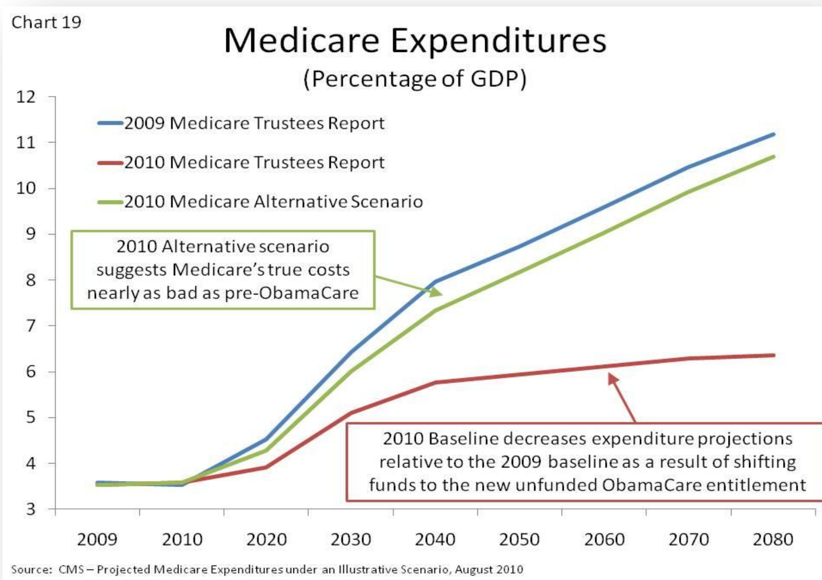
Medicare is a government program that subsidized medical insurance for people generally at the age of 65 or older or two years after they qualify for Social Security disability benefits. The program is divided up into three parts: Part A —hospital insurance, Part B — medical insurance, and Part D — outpatient prescription drugs. Last year, Medicare provided benefits to about 47 million individuals, a number that is expected to grow by 3 percent per year over the next 10 years, eventually reaching 64 million beneficiaries by 2021.



The Congressional Budget Office (CBO) estimates that spending on Medicare Part A and Part B will grow by 30 percent per beneficiary over the next decade, while spending on Medicare Part D will more than double. The significant growth will lead to Medicare spending 4.3 percent of GDP in 2021, up from 3.6 percent of GDP in 2012. The 2021 date is important, as Medicare will have surpassed a $1 trillion year spending mark.

Although Obamacare did shift a large amount of Medicare savings into a brand new unfunded entitlement program, it still did very little to solve Medicare's unfunded liability. Based on the 2010 Medicare's Trustee Report, the program will still have a $30 trillion unfunded liability – a $263,157 liability burden per household.

In August 2010, in an unprecedented fashion, the Medicare Trustees' report also released an accompanying document providing an alternative scenario to Medicare's financial standing – a document that factored in higher costs for Medicare Part A and Part B, including the increased costs to Part B caused by the elimination of the sustainable growth rate (SGR) formula. Under this more likely scenario, Medicare expenditures are projected to increase significantly, signifying that the real unfunded liability is much larger.



Summary Tables

Reconciliation Note

The authorizing committees with jurisdiction over the programs mentioned in these functions would make final determinations about the program changes needed to meet the spending levels indicated, instructed through the reconciliation process.

Discretionary Totals

Fiscal Year		2011	2012	2013	2014	2015	2016	(2012 - 2016)
National Defense (050)								
BA		709,526	630,123	566,904	528,150	539,712	547,110	2,811,999
OT		711,950	635,607	579,346	548,090	540,116	541,581	2,844,740
International Asst. (150)								
BA		54,883	8,187	8,331	8,481	8,651	8,841	42,491
OT		51,713	20,062	12,265	9,795	7,913	8,079	58,114
Gen. Science, Space, Tech (250)								
BA		30,970	19,486	19,798	20,154	20,557	21,009	101,004
OT		31,627	19,348	19,300	19,600	19,750	19,015	97,013
Energy (270)								
BA		5,257	708	719	732	747	763	3,669
OT		12,514	1,880	1,110	864	683	697	5,234
Nat. Resources/Environ (300)								
BA		36,424	20,863	21,197	21,578	22,001	22,494	108,133
OT		43,442	21,646	20,998	21,106	20,128	20,553	104,431
Agriculture (350)								
BA		6,872	4,733	4,809	4,895	4,993	5,103	24,533
OT		6,855	4,514	4,626	4,736	4,567	4,663	23,106
Commerce/Housing (370)	(on-budget)							
BA		1,463	2,901	2,947	3,000	3,060	3,196	15,104
OT		3,621	1,566	2,418	2,747	2,799	2,894	12,424
Transportation (400)								
BA		35,768	36,337	31,326	37,922	38,777	39,738	184,100
OT		91,272	82,195	76,901	75,031	75,267	75,118	384,512
Comm/Regional Devel. (450)								
BA		15,844	11,799	12,011	12,252	12,251	12,796	61,109
OT		24,063	10,887	11,417	11,793	11,296	11,614	57,007
Education/Training Employ (500)								
BA		94,976	37,750	38,429	39,198	40,060	40,941	196,378
OT		120,008	47,453	40,913	39,370	36,608	37,405	201,749
Health (550)								
BA		58,065	41,414	42,159	43,003	43,948	44,915	215,439
OT		66,675	38,912	40,317	41,485	40,161	41,036	201,911
Medicare (570)								
BA		5,898	6,181	6,486	6,813	7,148	7,514	34,142
OT		5,864	6,130	6,437	6,759	7,094	7,455	33,875
Income Security (600)								
BA		65,207	18,233	18,525	18,858	19,235	19,658	94,509
OT		71,177	26,394	20,948	19,416	17,595	17,964	102,317
Social Security (650)	(on-budget)							
BA		50	0	0	0	0	0	0
OT		50	185	160	124	0	0	469
	(off-budget)							
BA		5,811	5,927	6,071	6,230	6,400	6,588	31,216
OT		5,786	5,914	6,043	6,199	6,365	6,551	31,072
Veterans' Benefits (700)								
BA		57,382	58,436	59,770	61,245	62,802	64,522	306,775
OT		55,703	57,732	59,846	61,313	57,285	58,803	294,979
Justice (750)								
BA		51,685	41,187	41,846	42,599	43,451	44,407	213,490
OT		52,930	36,971	39,451	40,919	39,747	40,580	197,668
General Govt (800)								
BA		18,593	17,108	17,382	17,542	17,753	17,958	87,743
OT		19,986	14,742	16,102	16,808	16,306	16,493	80,451
Total Discretionary								
BA		**1,254,674**	**961,373**	**898,710**	**872,652**	**891,546**	**907,553**	**4,531,834**
OT		**1,375,236**	**1,032,138**	**958,598**	**926,155**	**903,680**	**910,501**	**4,731,072**

Mandatory Totals

Fiscal Year		2011	2012	2013	2014	2015	2016	(2012-2016)
National Defense (050)								
BA		5,878	6,287	6,428	6,621	6,710	6,782	32,828
OT		5,878	6,237	6,337	6,607	6,749	6,819	32,749
International Asst. (150)								
BA		2,757	-853	-3,674	-4,878	-4,568	-3,480	-17,453
OT		-2,970	-2,777	-2,156	-1,338	-458	-128	-6,857
Gen. Science, Space, Tech (250)								
BA		115	119	125	125	125	125	619
OT		122	123	128	125	125	125	626
Energy (270)								
BA		4,086	5,234	3,967	2,988	1,580	997	14,766
OT		2,545	4,214	2,856	2,087	738	196	10,091
Nat. Resources/Environ (300)								
BA		2,765	3,413	2,675	2,874	2,547	2,775	14,284
OT		2,469	3,137	2,862	2,921	2,698	2,912	14,530
Agriculture (350)								
BA		18,813	14,387	15,065	15,509	14,855	15,006	74,822
OT		15,655	11,987	16,077	15,070	14,279	14,462	71,875
Commerce/Housing (370)								
BA		-2,636	18,681	14,315	11,921	11,816	11,722	68,455
OT		-565	81	21,933	-2,981	-3,149	-5,951	9,933
Transportation (400)								
BA		57,725	54,178	48,403	45,807	44,752	43,611	236,751
OT		2,125	2,286	2,543	2,558	2,706	2,764	12,857
Comm/Regional Devel. (450)								
BA		1,627	248	134	76	40	156	654
OT		1,026	959	1,247	911	-39	51	3,129
Education/Training Employ (500)								
BA		9,757	6,206	6,499	4,422	3,792	3,790	24,709
OT		12,578	6,213	6,391	4,353	4,300	3,923	25,180
Health (550)								
BA		316,394	282,852	285,286	265,848	298,272	283,936	1,416,194
OT		310,606	279,361	277,180	279,835	284,986	287,935	1,409,297
Medicare (570)								
BA		491,894	467,428	516,138	578,218	613,235	674,236	2,849,255
OT		491,594	467,426	516,465	578,227	613,042	674,656	2,849,816
Income Security (600)								
BA		533,752	343,803	329,152	331,112	332,642	339,621	1,676,330
OT		536,620	337,652	326,196	327,926	329,894	341,455	1,663,123
Social Security (650)	(on-budget)							
BA		106,639	54,439	29,096	32,701	36,261	40,171	192,668
OT		106,624	54,439	29,096	32,701	36,261	40,171	192,668
	(off-budget)							
BA		623,741	709,986	773,830	813,311	856,761	904,363	4,058,251
OT		620,841	706,786	770,280	809,411	852,461	899,663	4,038,601
Veterans' Benefits (700)								
BA		76,939	63,418	69,169	71,344	73,342	80,490	357,763
OT		76,883	63,320	69,091	71,286	73,298	80,461	357,456
Justice (750)								
BA		1,651	7,529	2,170	1,929	1,760	3,844	17,232
OT		1,881	2,435	2,870	3,208	2,855	4,843	16,211
General Govt (800)								
BA		11,220	6,947	6,430	6,488	6,562	6,579	33,006
OT		8,740	7,874	6,686	6,949	6,997	7,053	35,559
Allowances (920)								
BA		0	-43,100	-51,696	-65,706	-73,630	-176,769	-410,901
OT		0	-43,100	-51,696	-65,706	-73,630	-176,769	-410,901
Offsetting Receipts (950)								
BA		-84,383	-91,066	-95,337	-98,817	-104,737	-114,106	-504,063
OT		-84,383	-91,066	-95,337	-98,817	-104,737	-114,106	-504,063
Net Interest	(On-Budget)							
BA		342,207	373,877	420,720	477,536	527,654	575,723	
OT		342,207	380,726	440,943	511,652	580,167	653,681	
	(Off-Budget)							
BA		-117500	-116700	-116000	-117500	-121000	-126500	
OT		-117500	-116700	-116000	-117500	-121000	-126500	
	Total							
BA		224,707	250,328	284,497	325,920	406,639	449,223	1,716,607
OT		224,707	250,328	284,497	325,920	406,639	449,223	1,716,607
Total Mandatory								
BA		**2,403,441**	**2,160,464**	**2,242,672**	**2,347,813**	**2,528,756**	**2,573,072**	**11,852,777**
OT		**2,332,976**	**2,067,915**	**2,193,546**	**2,301,253**	**2,456,015**	**2,519,758**	**11,538,487**

Budget Totals

Fiscal Year		2011	2012	2013	2014	2015	2016	(2012-2016)
			(Billions of Dollars)					
Outlays								
	Mandatory Spending	2,108	1,818	1,909	1,975	2,049	2,070	9,821
	Discretionary Spending	1,375	1,032	959	926	904	911	4,732
	Net Interest	225	250	284	326	407	449	1,716
	Total Outlays	**3,708**	**3,100**	**3,152**	**3,227**	**3,360**	**3,430**	**16,269**
Revenue								
	Extend '01 & '03 Tax Relief			-249	-250	-265	-270	-1,034
	Eliminate ObamaCare Taxes		-8	-33	-45	-74	-86	-246
	Permanent AMT Patch			-88	-99	-110	-122	-419
	Adjusted Baseline	2,228	2,555	3,125	3,482	3,693	3,927	16,782
	Total Revenues	**2,228**	**2,547**	**2,755**	**3,088**	**3,244**	**3,449**	**15,083**
Deficit (-) / Surplus		**-1,480**	**-553**	**-397**	**-139**	**-116**	**19**	**-1,186**
Debt Held by the Public		10,430	11,051	11,532	11,748	11,942	11,997	n.a.
			(Percentage of Gross Domestic Product)					
Outlays								
	Mandatory Spending	14.0%	11.6%	11.6%	11.4%	11.3%	10.8%	11.2%
	Discretionary Spending	9.1%	6.6%	5.8%	5.4%	5.0%	4.8%	5.5%
	Net Interest	1.5%	1.6%	1.7%	1.9%	2.2%	2.3%	2.0%
	Total Outlays	**24.7%**	**19.8%**	**19.2%**	**18.7%**	**18.5%**	**17.9%**	**18.7%**
Revenue								
	Total Revenue	**14.8%**	**16.2%**	**16.8%**	**17.9%**	**17.8%**	**18.0%**	**17.4%**
Deficit (-) / Surplus		**-9.8%**	**-3.5%**	**-2.4%**	**-0.8%**	**-0.6%**	**0.1%**	**-1.3%**
Debt Held by Public		69.4%	70.4%	70.3%	68.1%	65.6%	62.7%	n.a.
Memorandum:								
Gross Domestic Product		15,034	15,693	16,400	17,258	18,195	19,141	86,687

Budget Comparisons

Fiscal Year	2011	2012	2013	2014	2015	2016	(2012-2016)
			(Billions of Dollars)				
President's FY2012 Budget							
Revenues	2,174	2,627	3,003	3,333	3,583	3,819	16,365
Outlays	3,819	3,729	3,771	3,977	4,190	4,468	20,135
Deficit (-) / Surplus	-1,645	-1,102	-768	-644	-607	-649	-3,770
CBO Baseline							
Revenues	2,228	2,555	3,090	3,442	3,651	3,832	16,570
Outlays	3,708	3,655	3,794	3,975	4,202	4,491	20,117
Deficit (-) / Surplus	-1,480	-1,100	-704	-533	-551	-659	-3,547
Senator Paul Budget							
Revenues	2,228	2,547	2,755	3,088	3,244	3,449	15,083
Outlays	3,708	3,100	3,152	3,227	3,360	3,430	16,269
Deficit (-) / Surplus	-1,480	-553	-397	-139	-116	19	-1,186

Difference Between Senator Paul Budget, CBO Baseline, and President's FY2012 Budget

Senator Paul Budget vs. CBO Baseline							
Revenues	na	-8	-335	-354	-407	-383	-1,487
Outlays	na	-555	-642	-748	-842	-1,061	-3,848
Total Deficit	na	-547	-307	-394	-435	-678	-2,361
Senator Paul Budget vs. Presidents FY2012							
Revenue	na	-80	-248	-245	-339	-370	-1,282
Outlays	na	-629	-619	-750	-830	-1,038	-3,866
Total Deficit	na	-549	-371	-505	-491	-668	-2,584

Total Deficit as Percentage of GDP							
President's FY2012 Budget	0	-7.0%	-4.7%	-3.7%	-3.3%	-3.4%	-4.4%
CBO Baseline	0	-7.0%	-4.3%	-3.1%	-3.0%	-3.4%	-4.2%
Senator Paul Budget	0	-3.5%	-2.4%	-0.8%	-0.6%	0.1%	-1.3%
Memorandum:							
Gross Domestic Product	15,034	15,693	16,400	17,258	18,195	19,141	86,687

Major Categories

Fiscal Year	2011	2012	2013	2014	2015	2016	(2012-2016)
Major Policy Outlays							
		(Billions of Dollars)					
Mandatory Programs							
Medicare	572	556	609	674	714	780	3,333
Medicaid/SCHIP	282	265	269	274	280	286	1,374
Social Security	733	767	805	848	895	946	4,231
Other Spending	712	441	448	409	400	307	2,005
Off-Setting Receipts	-191	-211	-222	-230	-240	-249	-1,152
Total:	2,108	1,818	1,909	1,975	2,049	2,070	9,791
Discretionary Programs							
Defense	553	519	530	548	540	542	2,679
OCO / War funding	159	117	50	0	0	0	167
Pell Grants	34	17	17	18	18	18	88
Other Spending	629	379	362	360	345	351	1,797
Total:	1,375	1,032	959	926	903	911	4,731
Net Interest	225	250	284	326	407	449	1,716
Total Spending:	3,708	3,100	3,152	3,227	3,359	3,430	16,238
		(Percent Change)					
Mandatory Programs							
Medicare		-2.8%	9.5%	10.7%	5.9%	9.2%	na
Medicaid/SCHIP		-6.0%	1.5%	1.9%	2.2%	2.1%	na
Social Security		4.6%	5.0%	5.3%	5.5%	5.7%	na
Other Spending		-38.1%	1.6%	-8.7%	-2.2%	-23.3%	na
Off-Setting Receipts		10.5%	5.2%	3.6%	4.3%	3.8%	na
Total:		31.8%	-22.8%	-12.8%	-15.8%	2.4%	
Discretionary Programs							
Defense		-6.1%	2.1%	3.4%	-1.5%	0.4%	na
OCO / War funding		-26.4%	-57.3%	-100.0%	-100.0%	-100.0%	na
Pell Grants		-50.0%	0.0%	5.9%	0.0%	0.0%	na
Other Spending		-39.7%	-4.5%	-0.6%	-4.2%	1.7%	na
Total:		-24.9%	-7.1%	-3.4%	-2.5%	0.9%	na
Net Interest		11.1%	13.6%	14.8%	24.8%	10.3%	na
Total Spending:		-16.4%	1.7%	2.4%	4.1%	2.1%	na

* numbers may not add due to rounding

Brief Policy Explanation

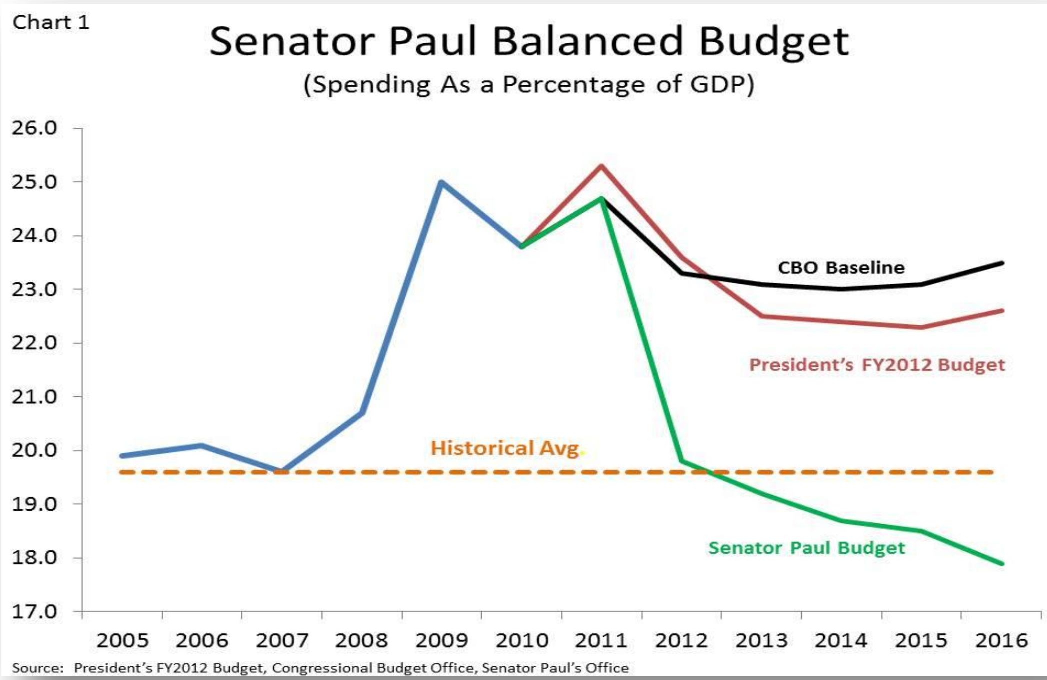
Program	Budgetary Change
Legislative Branch	Reduced to FY2008 Levels (Discretionary Only)
Government Printing Office	Eliminated
Judicial Branch	Reduced to FY2008 Levels (Discretionary Only)
Agriculture	Reduced to FY2008 Levels (Discretionary Only)
Agriculture Research Service	Elminated
National Inst.of Food and Agric.	Eliminated
Natural Resources Conservation Service	Eliminated
Foreign Agricultural Service	Eliminated
Forest Service	Reduce 20% from FY2008 levels
Commodity Payments to Wealth Farmers	Means Tested
Food Stamps	Block Grant @ FY2008 levels - Grow at CPI
Child Nutrition Program	Block Grant @ FY2008 levels - Grow at CPI
Commerce	Department Eliminated
NOAA	Transfer NOAA to NSF
Patent and Trademark Office	Transfer to Dept. of Justice
International Trade Admin	Transfer to USTR
Defense	
Military Personnel	Reduce 10% From Baseline
Military Procurement	Reduce 10% From Baseline
Military Operations and Maintenance	Reduce 10% From Baseline
Research and Development	Reduce 10% From Baseline
War Funding / Emergencies	Based on President's Request
Dept. of Energy	Reduced to FY2008 Levels (Discretionary Only)
U.S. Coast Guard	Preserved
Strategic Petroleum Reserve	Preserved
Education	Department Eliminated
Pell Grants	Presever at FY2008 Levels- Grow at CPI and Population
Energy	Department Eliminated
Atomic Energy Programs	Transferred to DoD

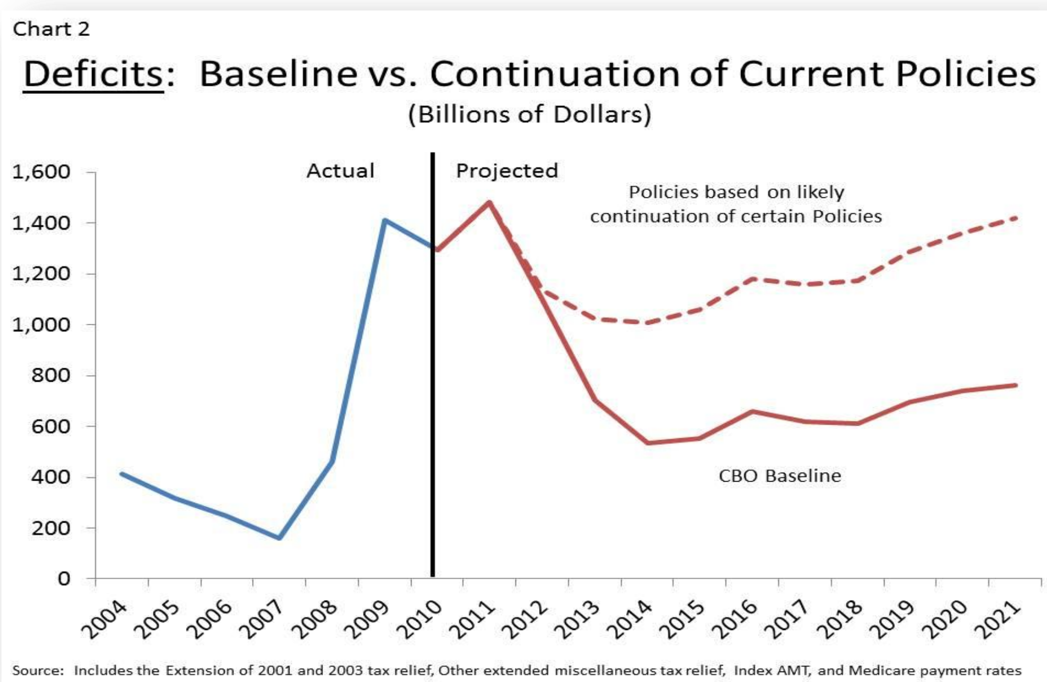
Health and Human Services	Reduce to FY2008 Levels (Discretionary Only)
Food and Drug	Reduce 20% from FY2008 levels
Health Resources and Services Administration	Reduce 20% from FY2008 levels
Indian Health Service	Reduce 20% from FY2008 levels
CDC	Reduce 20% from FY2008 levels
National Institute Of Health	Reduce 20% from FY2008 levels
Substance Abuse and Mental Health	Reduce 20% from FY2008 levels
Block Grant SCHIP and Medicaid	Block Grant @ FY2008 levels - Grow at CPI and Population
LIHEAP	Eliminate
Homeland Security	Reduced to FY2008 Levels (Discretionary Only)
TSA	Reduce 20% from FY2008 levels
Homeland Security Grants	Eliminate
Housing and Urban Development	Department Eliminated
Interior	Reduced to FY2008 Levels (Discretionary Only)
Land and Mineral Management	Reduce 50% from FY2008 levels
Bureau of Reclamation	Eliminate
U.S. Geological Survey	Reduce 20% from FY2008 levels
National Park Service	Reduce 30% from FY2008 levels
Bureau of Indian Affairs	Eliminate
Justice	Reduced to FY2008 Levels (Discretionary Only)
Office of Justice Programs	Eliminated
Labor	Reduced to FY2008 Levels (Discretionary Only)
Unemployment Compensation	
Workers Programs	Preserved
State	Reduce to FY2008 Levels (Discretionary Only)
International Organizations and Conf	Eliminated
International Commissions	Eliminated
Other State Programs	Eliminated
Transportation	
Fund @ Gas Tax Levels:	
Federal Highway Admin	Fund at Gas Tax Levels
Federal Transit Admin	Fund At Gas Tax Levels
Amtrak subsidies	Eliminated

Treasury	
Payment where earned income credit exceeds tax liability	Eliminated
Payment where child tax credit exceeds tax liability	Eliminated
Veterans' Affairs	Preserved
Medicare	
Repeal ObamaCare	
Fight Waste Fraud and Abuse	Reduce $25 billion per year
EPA	Reduced to FY2008 Levels (Discretionary Only)
International Aid	Eliminated
NASA	Reduce 25% from FY2008 levels
Social Security Admin	Preserved
Other Independent Agencies	
Affordable Housing Program	Eliminated
Commission on Fine Art	Eliminated
Consumer Product Safety Commission	Eliminated
Corp. of Public Broadcasting	Eliminated
NEA	Eliminated
NEH	Eliminated
Privatize Smithsonian	Eliminated
State Justice Institute	Eliminated
Misc	
Freeze Federal Pay	
Reduce Federal Travel	
Repeal Davis Bacon	
Ban Union Labor Project Agreements	
Sell Unused Federal Assets	
Reduce Federal Vehicle Budget	
Sell Excess Federal Lands	
Sell Equity Stake in GM, Chrysler, & AIG	
Rescind all unspent Budget Authority after 36 months	
Net Interest Savings	
Proposed Budget	Reduced deficit/debt
Offsetting Receipts:	
Open ANWR and other Coastal Areas to Drilling	(Royalties)
Collect Delinquent Taxes from Fed Employes	

* All discretionary programs not listed returned back to FY2008 funding levels

Charts and Graphs





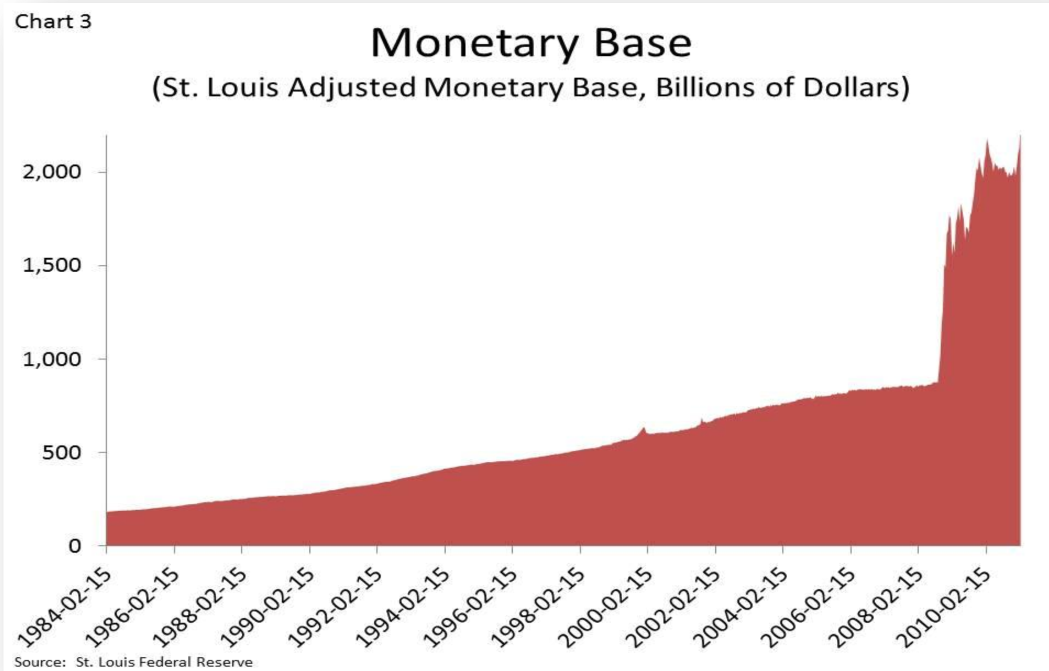


Chart 3
Monetary Base
(St. Louis Adjusted Monetary Base, Billions of Dollars)
2,000
1,500
1,000
500
0
1984-02-15
1986-02-15
1988-02-15
1990-02-15
1992-02-15
1994-02-15
1996-02-15
1998-02-15
2000-02-15
2002-02-15
2004-02-15
2006-02-15
2008-02-15
2010-02-15
Source: St. Louis Federal Reserve

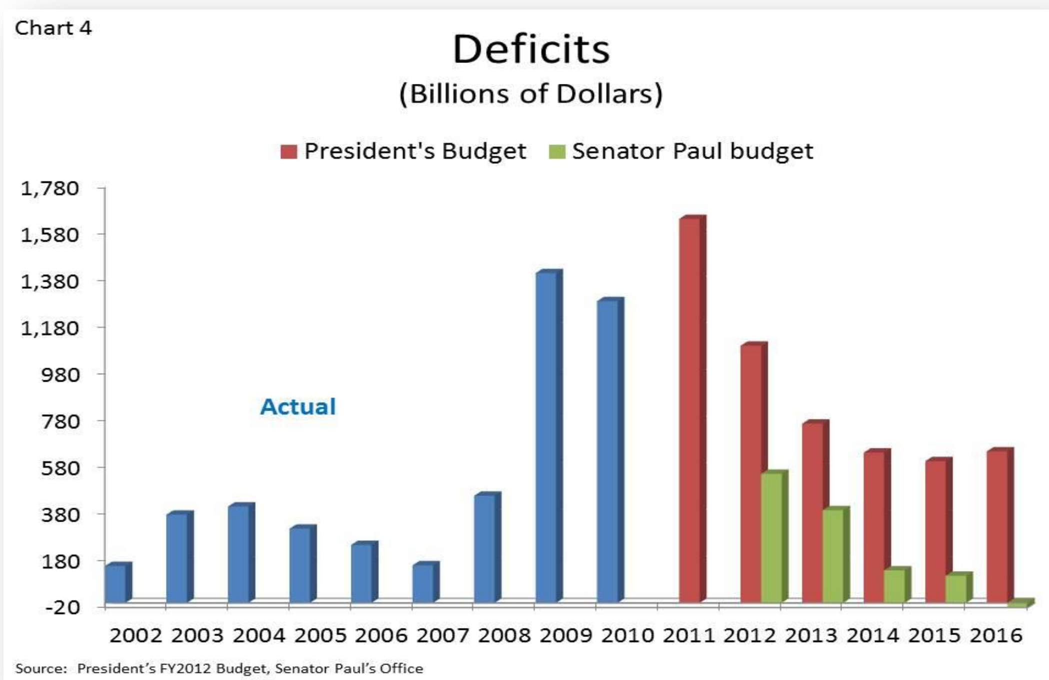


Chart 4
Deficits
(Billions of Dollars)
President's Budget
Senator Paul budget
1,780
1,580
1,380
1,180
980
780
580
380
180
-20
Actual
2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016
Source: President's FY2012 Budget, Senator Paul's Office

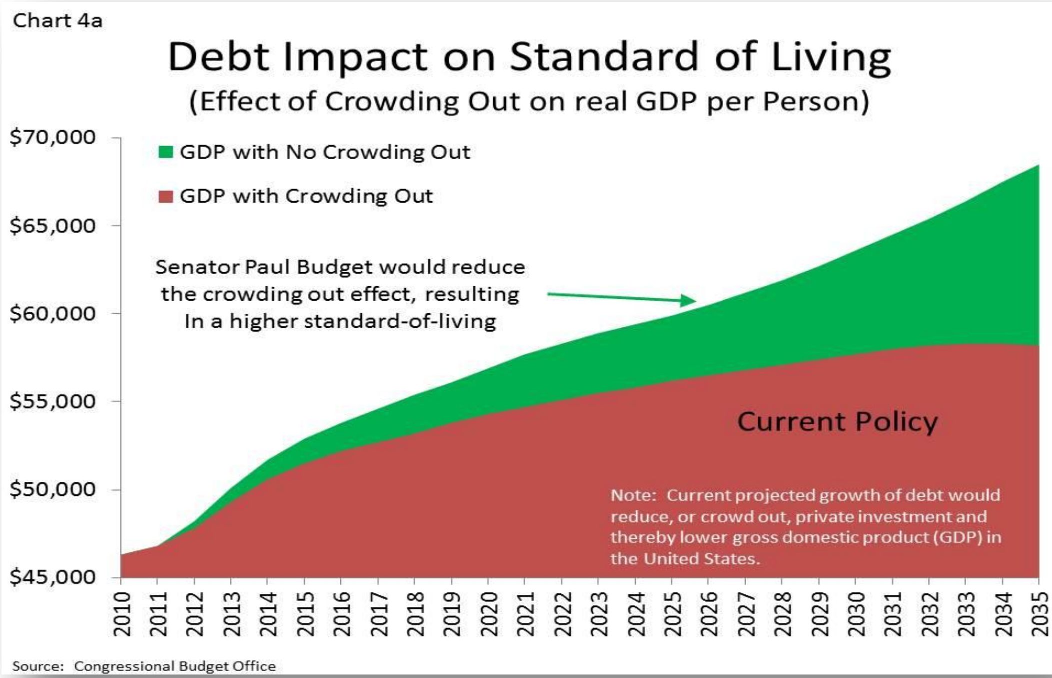


Chart 4a
Debt Impact on Standard of Living
(Effect of Crowding Out on real GDP per Person)
$70,000
$65,000
$60,000
$55,000
$50,000
$45,000
GDP with No Crowding Out
GDP with Crowding Out
Senator Paul Budget would reduce the crowding out effect, resulting In a higher standard-of-living
Current Policy
Note: Current projected growth of debt would reduce, or crowd out, private investment and thereby lower gross domestic product (GDP) in the United States.
2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022 2023 2024 2025 2026 2027 2028 2029 2030 2031 2032 2033 2034 2035
Source: Congressional Budget Office

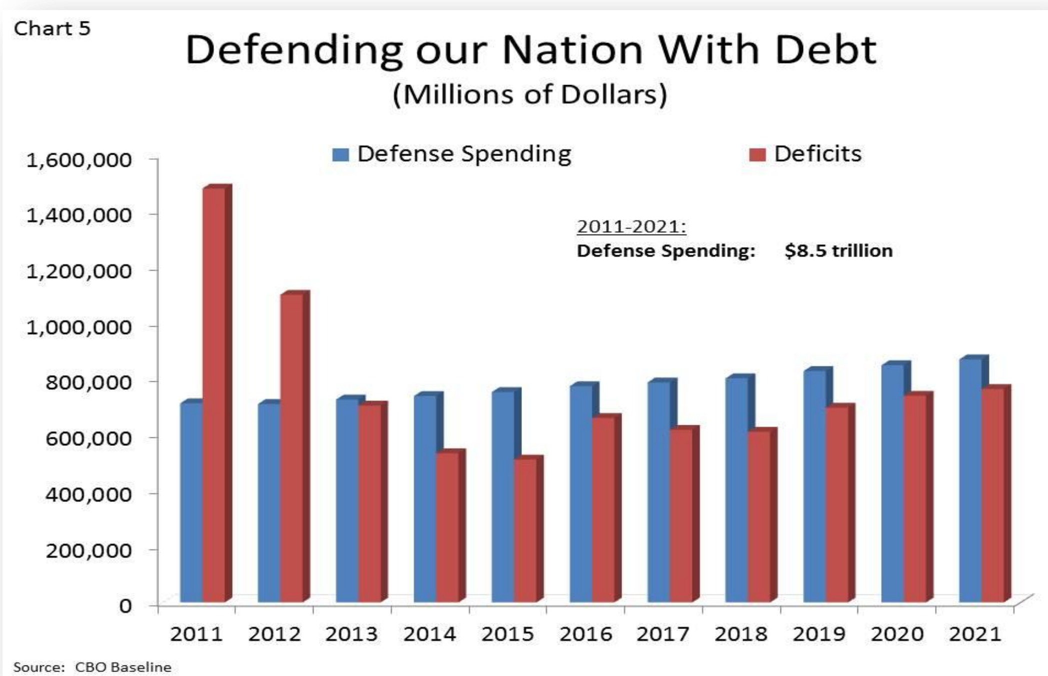


Chart 5
Defending our Nation With Debt
(Millions of Dollars)
Defense Spending
Deficits
1,600,000
1,400,000
1,200,000
1,000,000
800,000
600,000
400,000
200,000
0
2011-2021:
Defense Spending: $8.5 trillion
2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021
Source: CBO Baseline

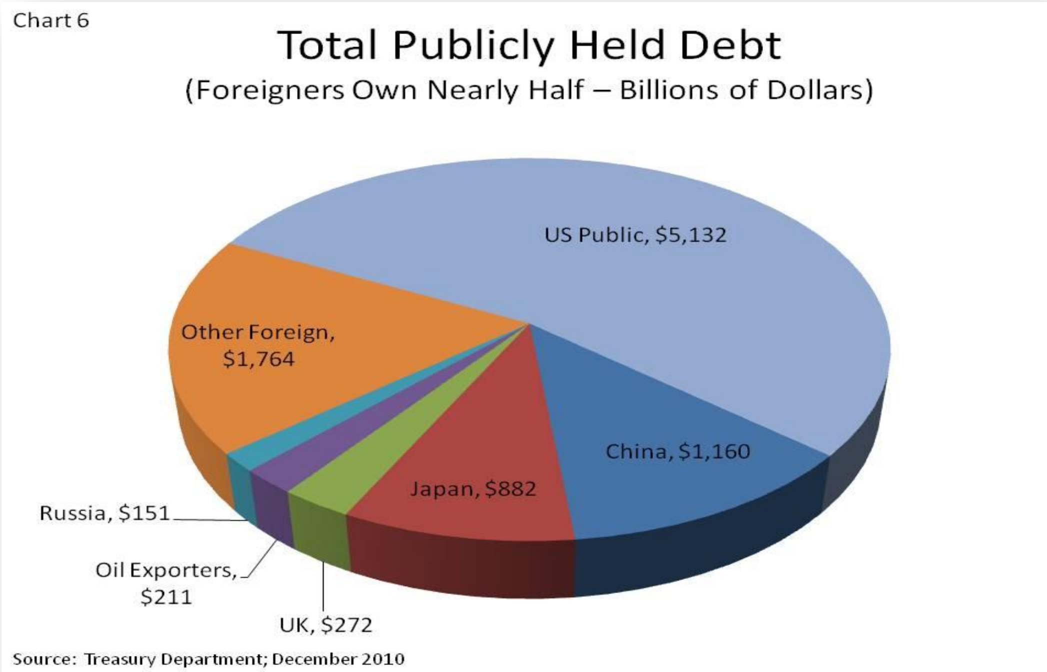


Chart 6
Total Publicly Held Debt
(Foreigners Own Nearly Half – Billions of Dollars)
US Public, $5,132
Other Foreign, $1,764
China, $1,160
Japan, $882
Russia, $151
Oil Exporters, $211
UK, $272
Source: Treasury Department; December 2010

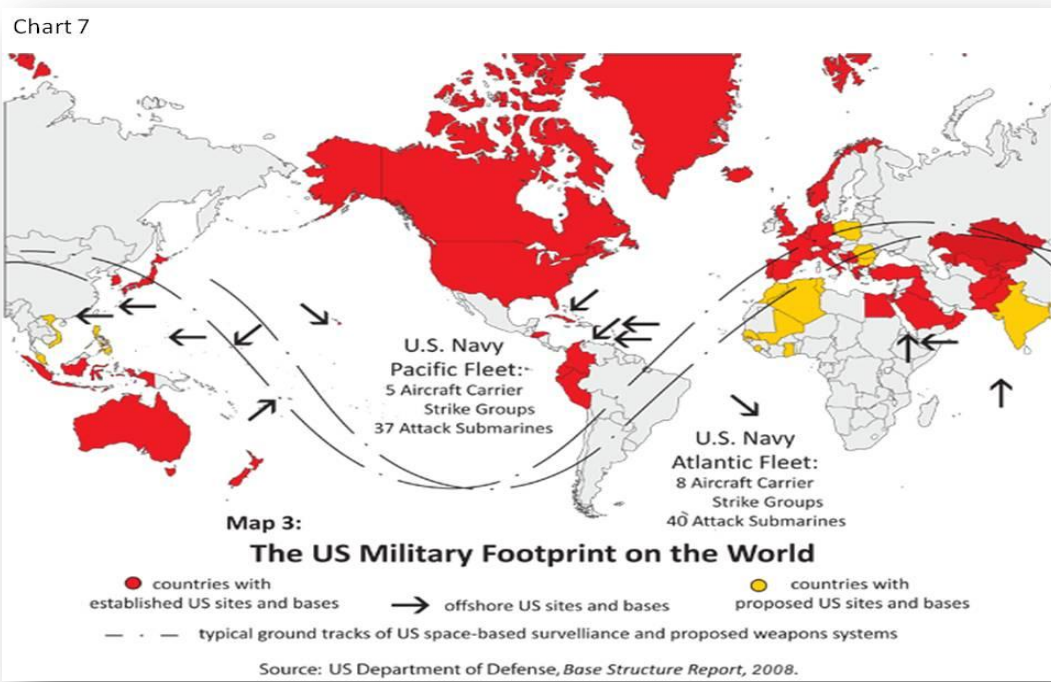


Chart 7
U.S. Navy
Pacific Fleet:
5 Aircraft Carrier
Strike Groups
37 Attack Submarines
U.S. Navy
Atlantic Fleet:
8 Aircraft Carrier
Strike Groups
40 Attack Submarines
Map 3:
The US Military Footprint on the World
countries with established US sites and bases
offshore US sites and bases
countries with proposed US sites and bases
typical ground tracks of US space-based survelliance and proposed weapons systems
Source: US Department of Defense, Base Structure Report, 2008.

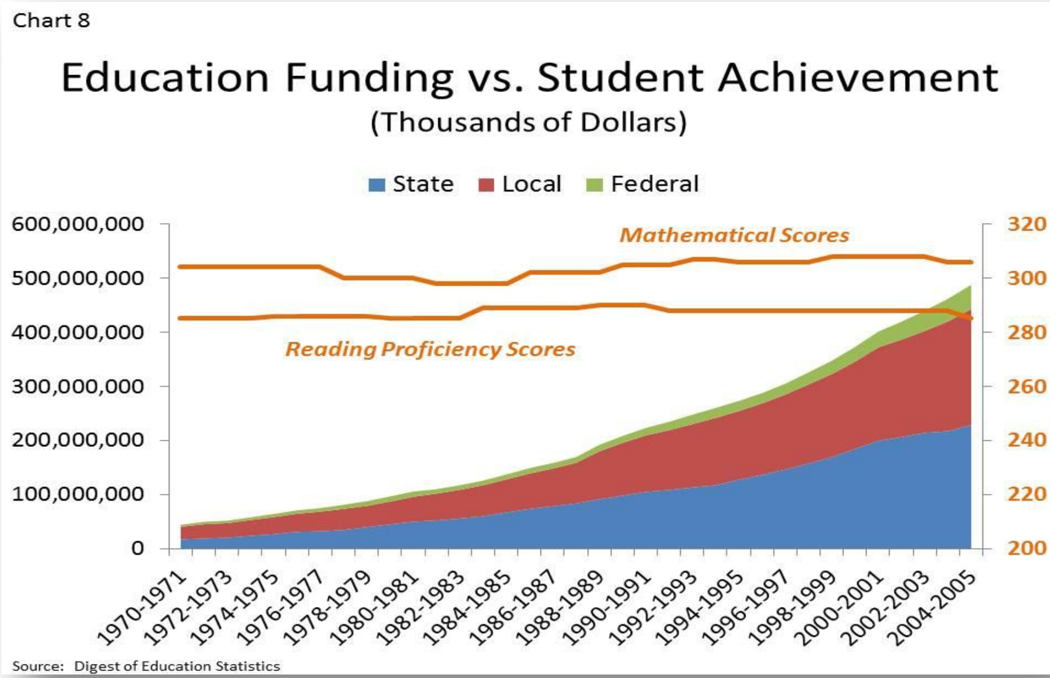


Chart 8
Education Funding vs. Student Achievement
(Thousands of Dollars)
State
Local
Federal
Mathematical Scores
Reading Proficiency Scores
600,000,000
500,000,000
400,000,000
300,000,000
200,000,000
100,000,000
0
320
300
280
260
240
220
200
1970-1971
1972-1973
1974-1975
1976-1977
1978-1979
1980-1981
1982-1983
1984-1985
1986-1987
1988-1989
1990-1991
1992-1993
1994-1995
1996-1997
1998-1999
2000-2001
2002-2003
2004-2005
Source: Digest of Education Statistics

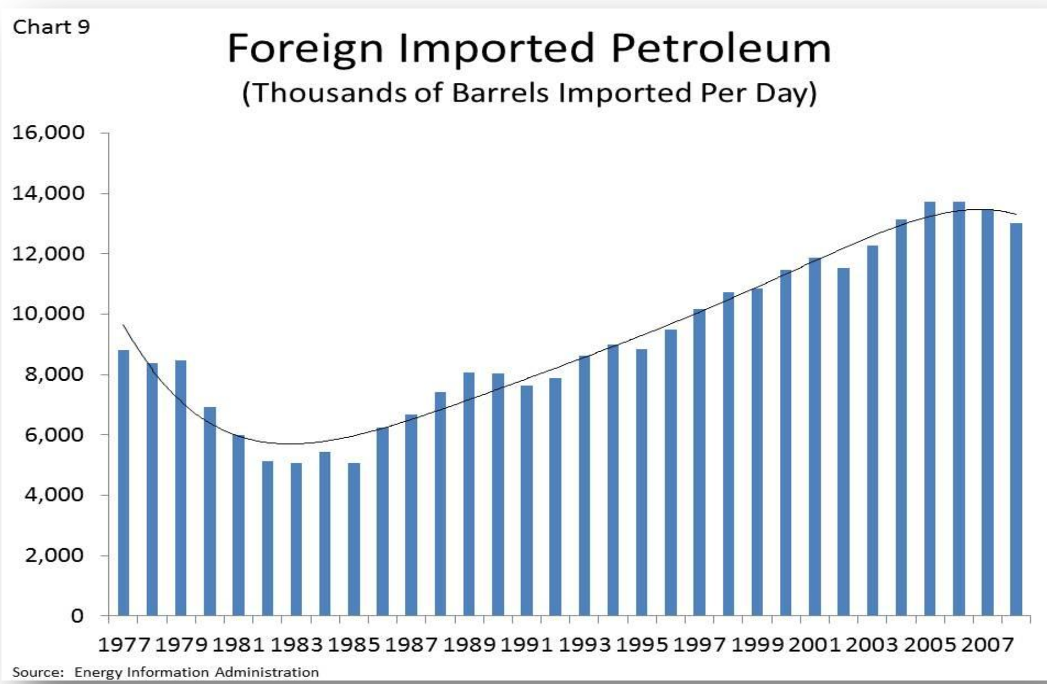


Chart 9
Foreign Imported Petroleum
(Thousands of Barrels Imported Per Day)
16,000
14,000
12,000
10,000
8,000
6,000
4,000
2,000
0
1977
1979
1981
1983
1985
1987
1989
1991
1993
1995
1997
1999
2001
2003
2005
2007
Source: Energy Information Administration

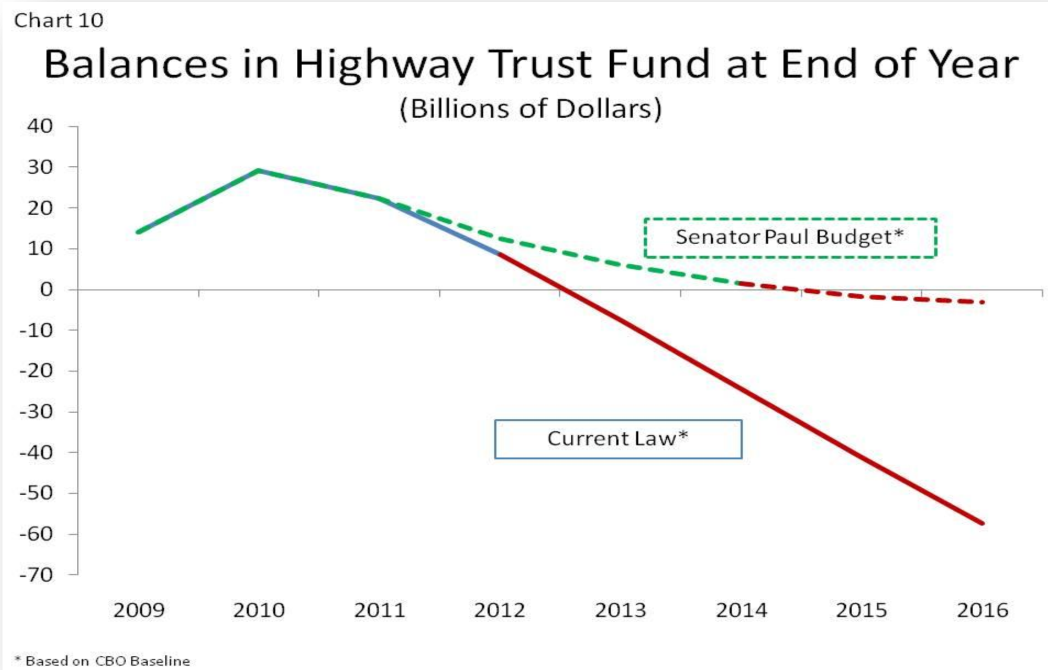


Chart 10
Balances in Highway Trust Fund at End of Year
(Billions of Dollars)
40
30
20
10
0
-10
-20
-30
-40
-50
-60
-70
2009
2010
2011
2012
2013
2014
2015
2016
Senator Paul Budget*
Current Law*
* Based on CBO Baseline

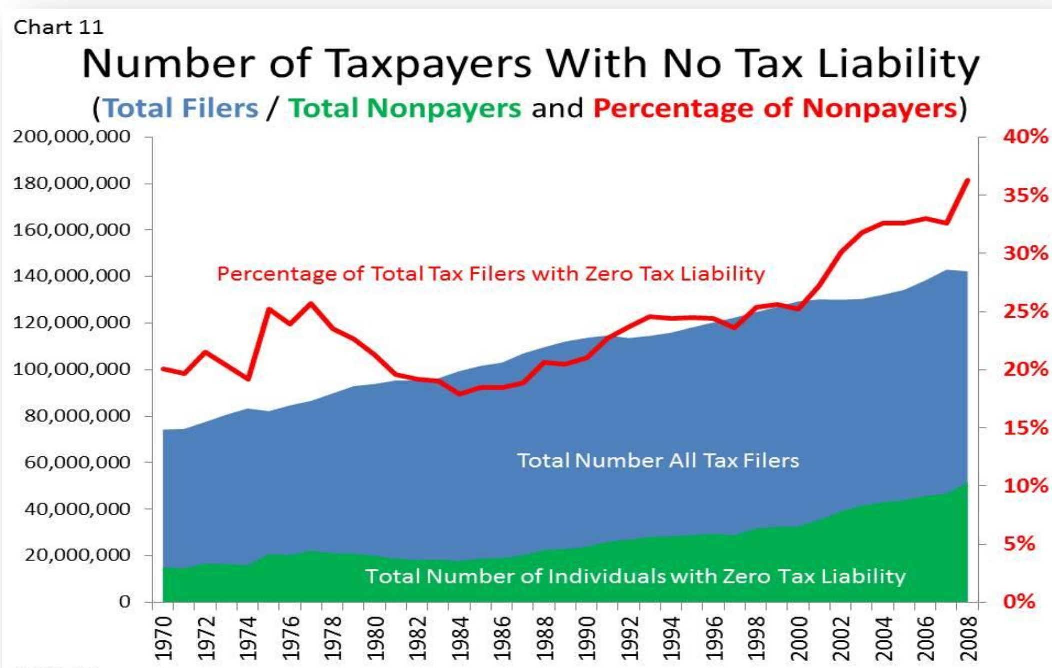
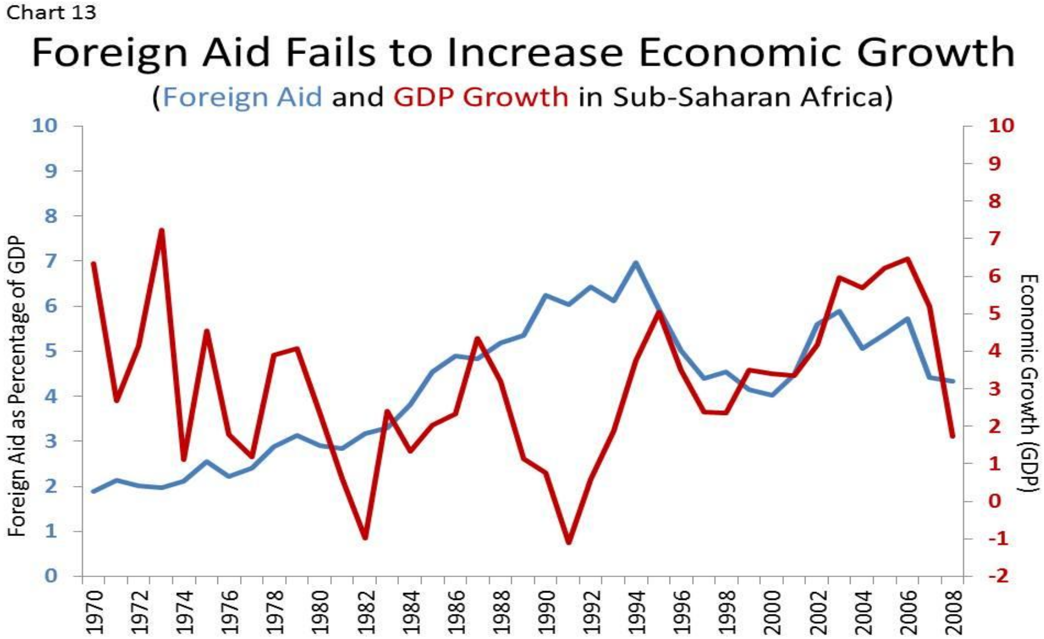


Chart 11
Number of Taxpayers With No Tax Liability
(Total Filers / Total Nonpayers and Percentage of Nonpayers)
200,000,000
180,000,000
160,000,000
140,000,000
120,000,000
100,000,000
80,000,000
60,000,000
40,000,000
20,000,000
0
40%
35%
30%
25%
20%
15%
10%
5%
0%
Percentage of Total Tax Filers with Zero Tax Liability
Total Number All Tax Filers
Total Number of Individuals with Zero Tax Liability
1970
1972
1974
1976
1978
1980
1982
1984
1986
1988
1990
1992
1994
1996
1998
2000
2002
2004
2006
2008
Source: IRS

Chart 12

Source: Department of State, FY2010. * = Designated as a state sponsor of terrorism by State Dept.

Chart 13



Source: World Bank Statistics

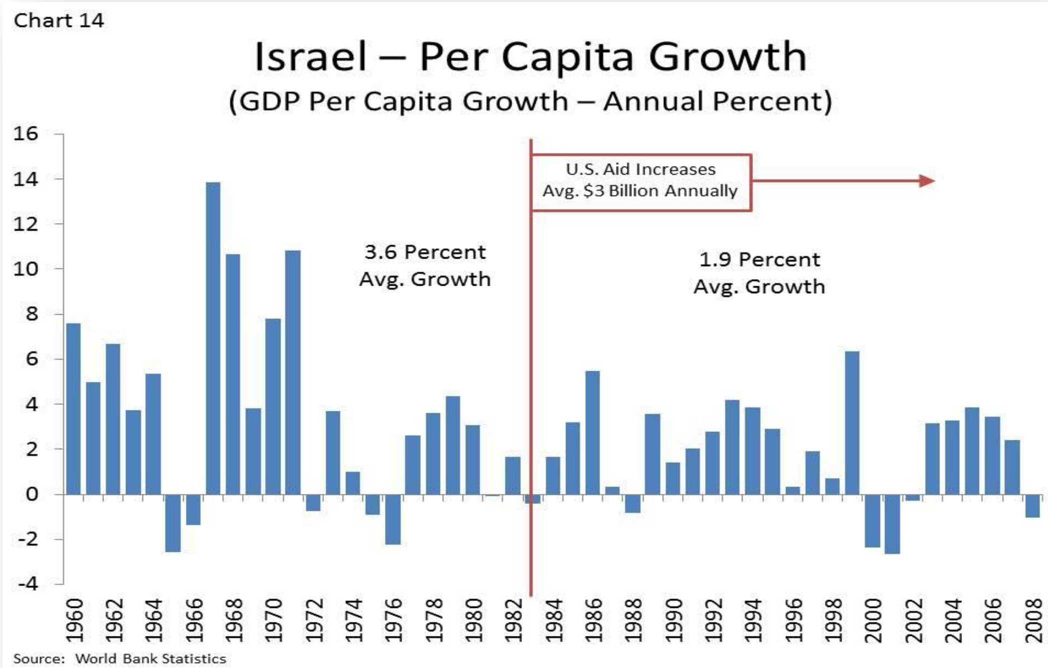


Chart 14
Israel – Per Capita Growth
(GDP Per Capita Growth – Annual Percent)
U.S. Aid Increases
Avg. $3 Billion Annually
3.6 Percent
Avg. Growth
1.9 Percent
Avg. Growth
16
14
12
10
8
6
4
2
0
-2
-4
1960
1962
1964
1966
1968
1970
1972
1974
1976
1978
1980
1982
1984
1986
1988
1990
1992
1994
1996
1998
2000
2002
2004
2006
2008
Source: World Bank Statistics

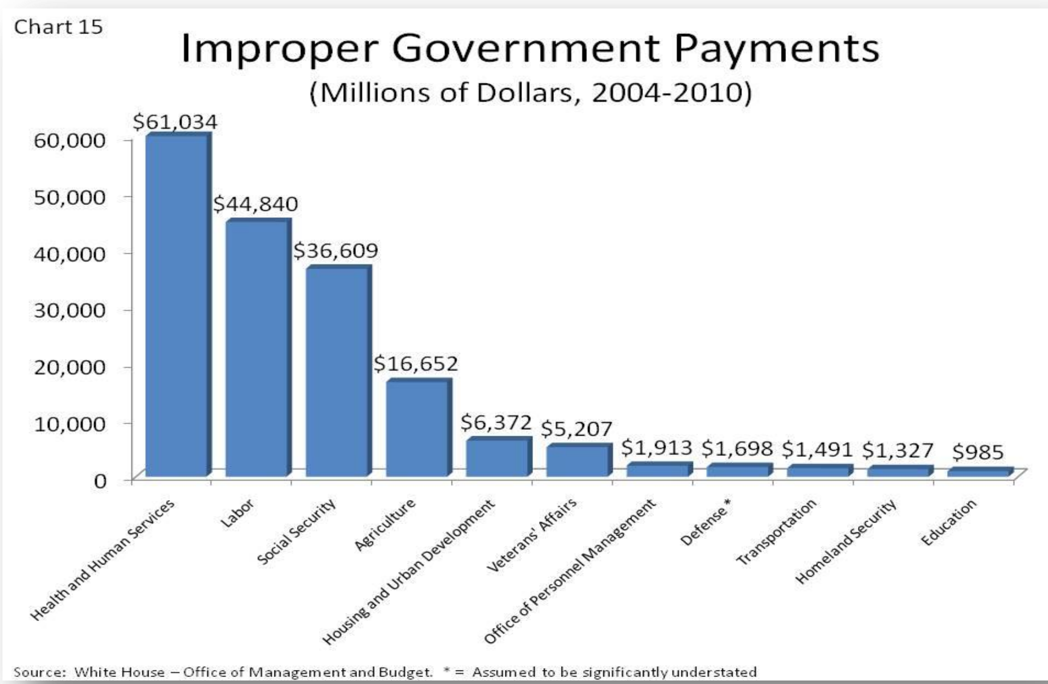


Chart 15
Improper Government Payments
(Millions of Dollars, 2004-2010)
60,000
50,000
40,000
30,000
20,000
10,000
0
$61,034
$44,840
$36,609
$16,652
$6,372
$5,207
$1,913
$1,698
$1,491
$1,327
$985
Health and Human Services
Labor
Social Security
Agriculture
Housing and Urban Development
Veterans' Affairs
Office of Personnel Management
Defense*
Transportation
Homeland Security
Education
Source: White House – Office of Management and Budget. * = Assumed to be significantly understated

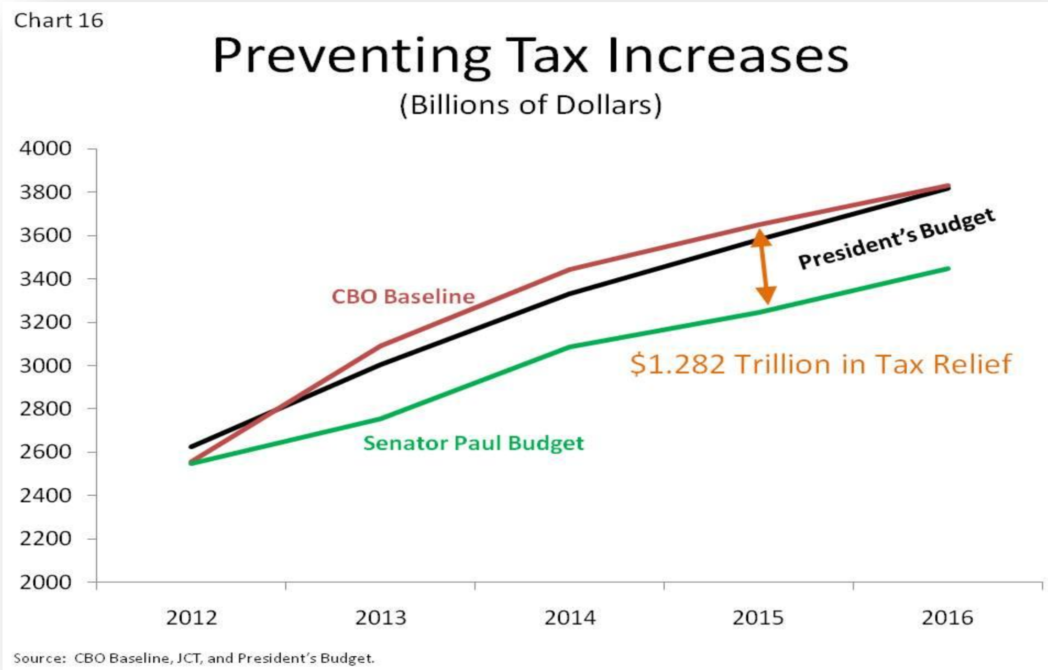


Chart 16
Preventing Tax Increases
(Billions of Dollars)
4000
3800
3600
3400
3200
3000
2800
2600
2400
2200
2000
2012
2013
2014
2015
2016
CBO Baseline
President's Budget
$1.282 Trillion in Tax Relief
Senator Paul Budget
Source: CBO Baseline, JCT, and President's Budget.

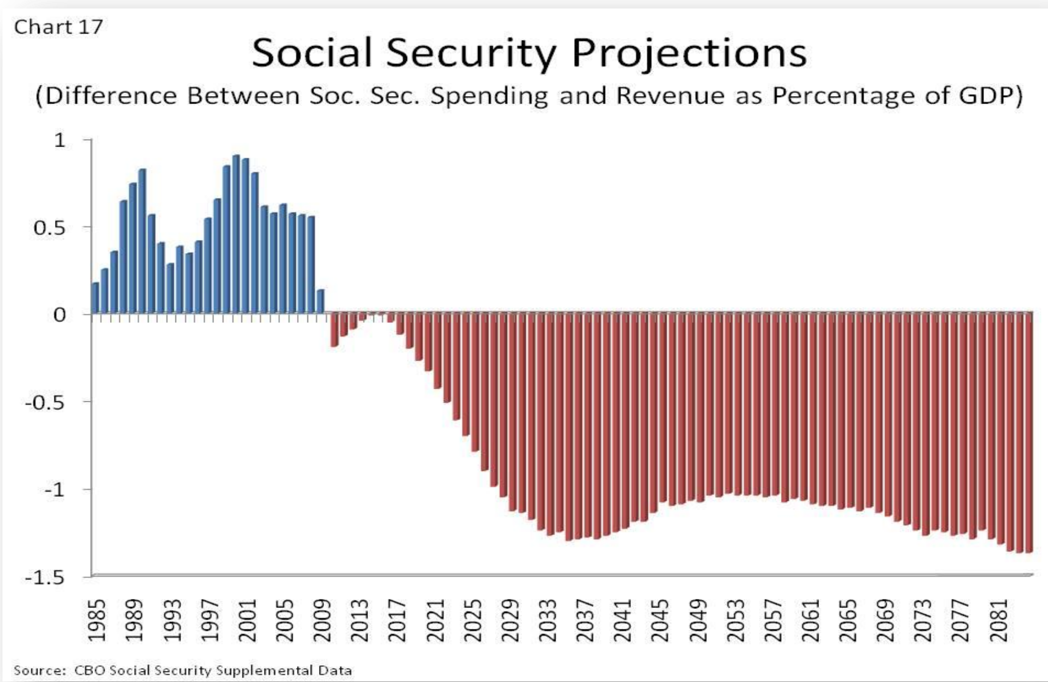


Chart 17
Social Security Projections
(Difference Between Soc. Sec. Spending and Revenue as Percentage of GDP)
1
0.5
0
-0.5
-1
-1.5
1985
1989
1993
1997
2001
2005
2009
2013
2017
2021
2025
2029
2033
2037
2041
2045
2049
2053
2057
2061
2065
2069
2073
2077
2081
Source: CBO Social Security Supplemental Data

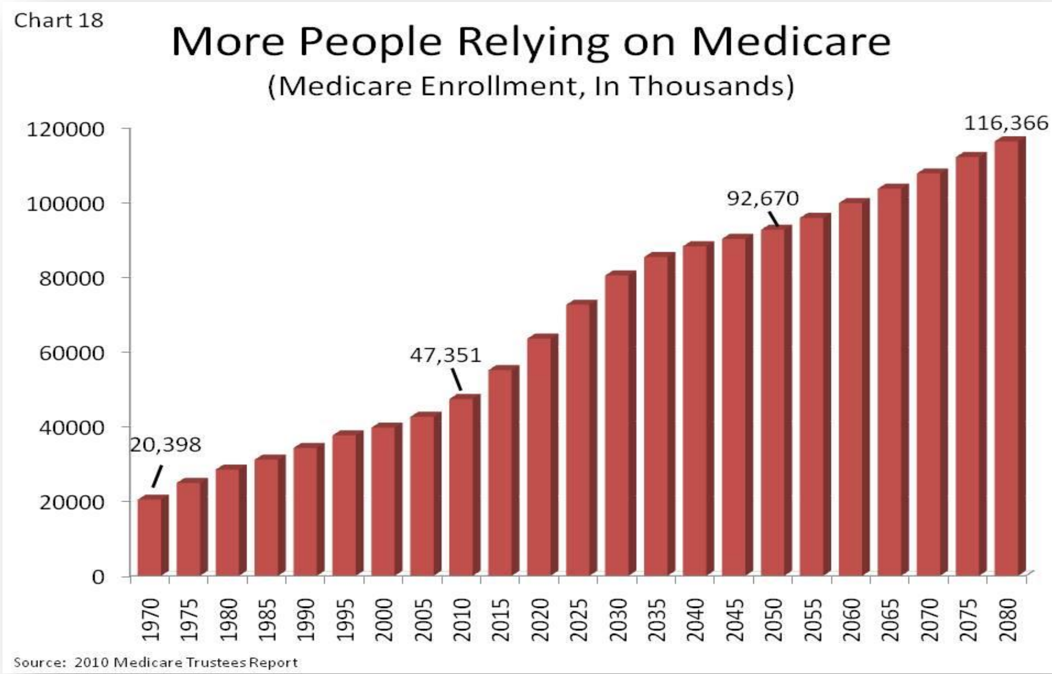


Chart 18
More People Relying on Medicare
(Medicare Enrollment, In Thousands)
120000
100000
80000
60000
40000
20000
0
20,398
47,351
92,670
116,366
1970
1975
1980
1985
1990
1995
2000
2005
2010
2015
2020
2025
2030
2035
2040
2045
2050
2055
2060
2065
2070
2075
2080
Source: 2010 Medicare Trustees Report

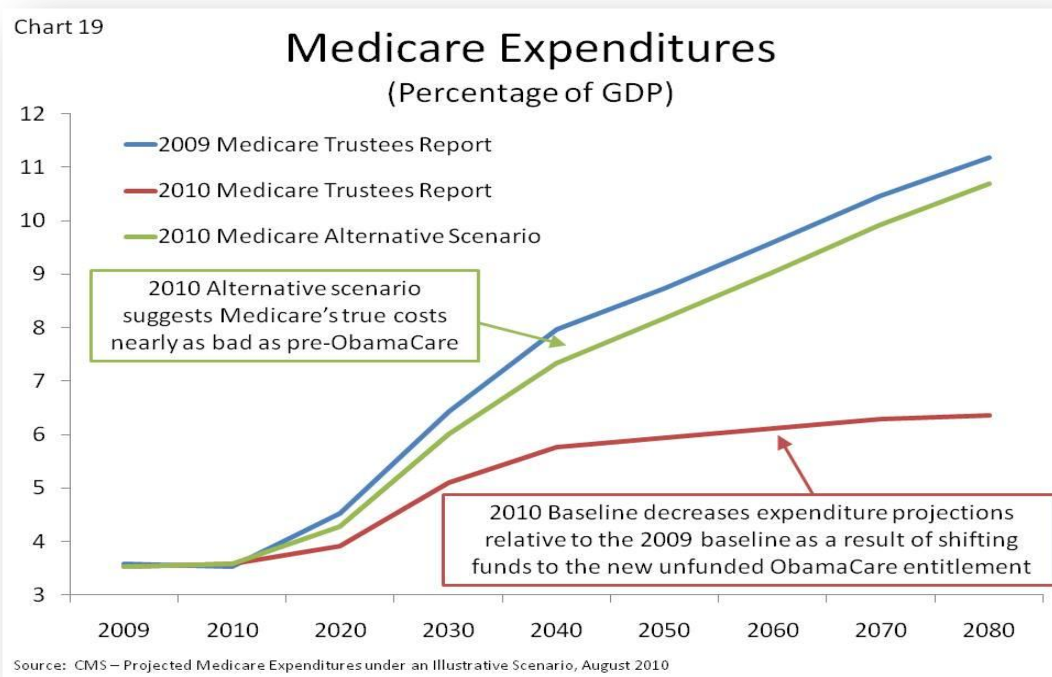


Chart 19
Medicare Expenditures
(Percentage of GDP)
12
11
10
9
8
7
6
5
4
3
2009 Medicare Trustees Report
2010 Medicare Trustees Report
2010 Medicare Alternative Scenario
2010 Alternative scenario suggests Medicare's true costs nearly as bad as pre-ObamaCare
2010 Baseline decreases expenditure projections relative to the 2009 baseline as a result of shifting funds to the new unfunded ObamaCare entitlement
2009
2010
2020
2030
2040
2050
2060
2070
2080
Source: CMS – Projected Medicare Expenditures under an Illustrative Scenario, August 2010

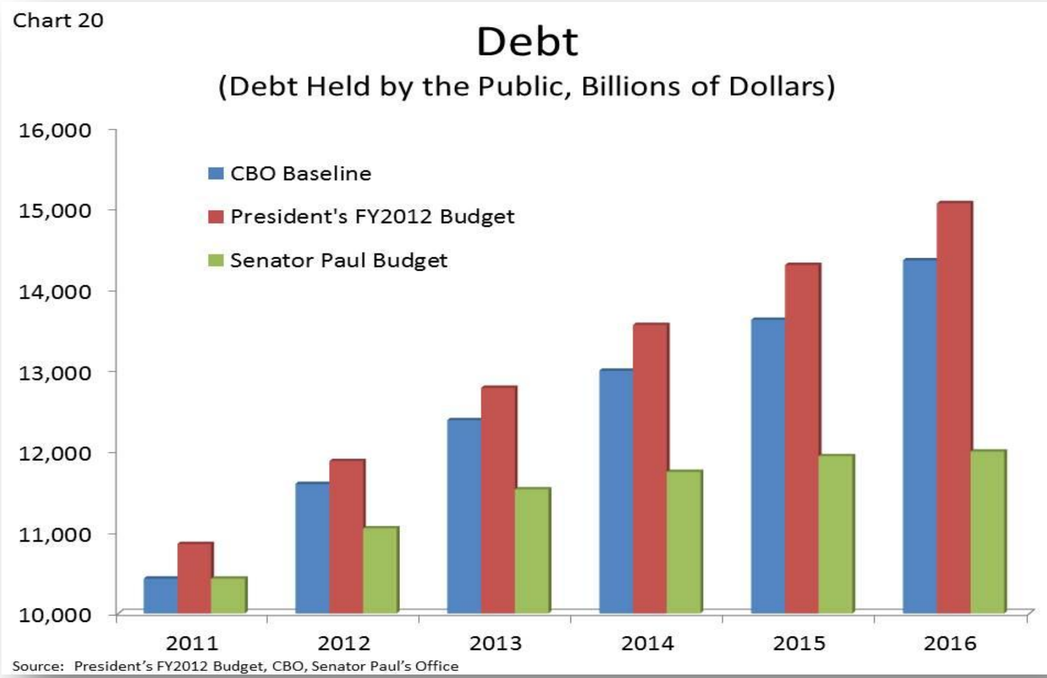


Chart 20
Debt
(Debt Held by the Public, Billions of Dollars)
16,000
15,000
14,000
13,000
12,000
11,000
10,000
CBO Baseline
President's FY2012 Budget
Senator Paul Budget
2011
2012
2013
2014
2015
2016
Source: President's FY2012 Budget, CBO, Senator Paul's Office