



# AMERICA'S OPPORTUNITY FOR ALL

Matthew Spalding, Editor





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# Foreword

Edwin J. Feulner and Senator Jim DeMint

Ideas have consequences, but ideas alone are not enough. Ideas must have power behind them, for unless we turn our ideas into actions, they can accomplish nothing.

Every year, The Heritage Foundation is doing more to put the power of the American people behind the ideas needed to build an America where freedom, opportunity, prosperity, and civil society flourish. That is our vision and the cause of every Heritage member and associate.

Since its founding in 1973, The Heritage Foundation has focused on generating ideas that can advance conservative policies and on building national support for those ideas so that our leaders will translate them into public policy.

A big part of our mission has been the *Mandate for Leadership*. The first *Mandate*, published in 1980, was a how-to manual for the Reagan Administration. It is worth remembering that when President Reagan first came to Washington, there was not a very large contingent of conservatives in Washington. *Mandate* laid out a blueprint for the new Administration.

Our ideas worked and helped generate the economic growth that has come to define the Reagan years.

We have also worked to inspire conservatives outside Washington. As outgoing Heritage president, one of us has traveled hundreds of thousands of miles,

speaking to groups large and small about conservative ideas. The other decided to run for Congress after reading dozens of Heritage policy papers that explained the organization's ideas and principles.

There are no permanent victories in politics and no permanent defeats. The most recent presidential election returned a staunchly liberal leader to office. That presents a hurdle, but we don't believe it is an insurmountable one.

The problem in the 2012 elections was not that conservative ideas were voted down. It is that we did not do a good enough job of presenting our ideas to the American people.

That is why Heritage is proud to roll out our latest publication. *America's Opportunity for All* is an optimistic document, packed with ideas that will get the country back on the right course. We look forward to discussing it with opinion leaders, policymakers, and Americans everywhere.

*America's Opportunity for All* explains the problems facing the country in areas ranging from American exceptionalism to welfare. It highlights the principles that guide our thinking, and it provides commonsense policy answers to our national problems.

This publication is, as it should be, specific, targeted, and bold—an urgent and focused message for these challenging times. But *America's Opportunity for All* does not exist in a vacuum. It grows out of and expands upon the fiscal solution that Heritage first offered two years ago in *Saving the American Dream*, our comprehensive plan to fix the debt, cut spending, and restore prosperity by balancing the budget within a decade and restructuring entitlement programs to preserve them for future generations of Americans.

In recent years, federal lawmakers have lurched from spending crisis to spending crisis without ever solving the underlying fiscal problems. Despite a series of 11th-hour “solutions,” spending keeps rising, entitlement programs keep expanding, and the federal debt keeps climbing. It is time for a different approach, and that is what *America's Opportunity for All* outlines.

We can get spending under control, balance the budget, and shrink our debt. We can limit the size of government and set free once again the unlimited genius of Americans to create wealth and jobs. We can turn the tide and change our nation's course. We have been here before, and every time, the American people have risen to the occasion and seized the moment.

In 1776, we were told that no upstart colonists could defeat the strongest nation in the world, and we decided to change the course of history. In 1860,



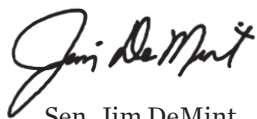
we were told that the Union could not hold and that America was over, and we brought forth a new birth of freedom. In 1980, we were told that the American century was at an end, and we launched a great economic expansion, rebuilt our military, and revived our national spirit. Beginning in 2013, we can begin to roll back the cronyism of the welfare state and reintroduce limited government.

Our ideas are truly in the ascendant because they work and liberal ideas don't. After you read *America's Opportunity for All*, we believe you will share that view. 📖

Onward!



Edwin Feulner  
President



Sen. Jim DeMint  
President-Elect



# AMERICA'S OPPORTUNITY FOR ALL

It is time to get to work.

Too many Americans are either out of work or have altogether given up looking for employment. Overall compensation is flat, and economic growth is anemic. Uncontrolled spending and a surging debt are driving America into bankruptcy. High taxes and the crushing weight of endless rules and regulations burden our economy.

Americans were told by the Obama Administration that prosperity requires more spending, more government, and more taxes. The country continues down this phony path even though most Americans think government does too much.

Important questions are unsettled, and our politics remain divided: The presidency and the Senate are in the hands of one party, and the House of Representatives and a majority of state legislatures and governorships are in the hands of the other.

Some argue that conservatives should accept all of this. They say we must be resigned to permanent economic stagnation, bureaucratic rule, and national decline.

We disagree. We believe this is the time to reaffirm the principles that guide us, to champion our ideas of opportunity and upward mobility, and to redouble our efforts to change America's course.

There are important lessons to be learned from the recent election and the current trends in American politics, to be sure. But the answer is not to change ideas based on election returns. It is to articulate more powerfully a compelling vision of a prosperous and secure nation in which the American Dream is within reach of everyone.

We propose bold reforms that meet the demands of the moment and address the magnitude of the challenges before us. We will fight wherever possible, constantly point out the failures of liberalism, be ready with conservative alternatives at every turn, and lay the ground for change to come.



And we will take our arguments to *all* Americans: to middle-class families struggling in a bad economy, to young people worried about their prospects, to those who are stuck in poverty and reaching out for the ladder of opportunity, to retirees worried about their grandchildren, to entrepreneurs and job creators seeking to expand prosperity.

## THE PROMISE OF AMERICA

America is the land of opportunity.

The American Dream grows directly out of our country's exceptional principles. That all are fundamentally equal and self-governing, and that government is limited to its core functions, means that we have the liberty and opportunity to live our lives, control our fate, and pursue our happiness. That each has a right to the rewards of his own labor—the promise that you can keep what you earn and that what you save and acquire is your property—creates a society in which every member can work hard, achieve success, and advance in life to the benefit of all.

The monumental achievement of America is that it makes comfort and general affluence, safety and security, self-government and the blessings of liberty—all traditionally the province of the privileged few—available to everyone.

Based on the principles proclaimed in the Declaration of Independence and guaranteed by the United States Constitution, generations of Americans have created a nation unlike any other. Our economy produces almost a quarter of the world's wealth; our military forces are the most powerful on the globe. The institutions of civil society—families, religious communities, and private associations—thrive in America. We are an independent people, among the most hard-working, generous, and forward-looking in the world.

It is the potent combination of liberty under the rule of law, the endless creativity of the marketplace, and the enduring moral character of the American people that assures opportunity for all and fuels the unlimited promise of America.

## LOST OPPORTUNITY?

Today, we face an unprecedented dilemma.

Intended to be a catalyst for opportunity, government has instead become the chief barrier to opportunity.

In recent years, the federal government has been on an unprecedented binge of spending, taxing, borrowing, and regulating that is making America economically moribund and more government-centric than ever. The general trend, aided and abetted by both major political parties, has been going on far too long.

Congress after Congress and President after President have made unwise and unaffordable promises. The federal government is bloated, is vastly overextended, and operates beyond its proper bounds. It is centralized and bureaucratic, and we are wrapped in its endless rules and regulations. The welfare state takes a toll on our finances, but worse, it ensnares an ever-larger share of the population in dependence. This trajectory is unsustainable, and it threatens to destroy the foundations of our economy and our civic culture and to steal the American Dream from our children.

It does not have to be this way. Nothing about today's conditions is inevitable or irreversible. We can reduce the size and scope of government and let the private sector restore economic productivity and opportunity. We can reform the core programs of government and provide assistance to those who need it because they have fallen on hard times.

All of this is possible if we make a concerted effort to change America's course, making clear the dire circumstances we face; building a consensus in favor of a new direction; and advancing a forward-looking reform agenda to strengthen free enterprise and eliminate cronyism, fire up the engines of opportunity and upward mobility, provide for our nation's defense and champion liberty, and rebuild constitutional self-government.

Consistent with *Saving the American Dream: The Heritage Plan to Fix the Debt, Cut Spending, and Restore Prosperity* and our other major policy publications, this is our opportunity agenda for America.

## FROM CRONY GOVERNMENT TO FREE ENTERPRISE

Free markets, private enterprise, and individual initiative will always lead to more opportunity and prosperity than income redistribution, central planning, and the cronyism they inevitably breed.

Today's governing elites think government should micromanage the economy and redistribute wealth to even out inequalities. But such policies simply do not work, instead restricting opportunity and impeding economic growth. The expanding size and scope of government that results and the growing class of so-called experts that oversee it produce pork-filled earmarks, a tax code



riddled with loopholes, and a regulatory regime that rigs the rules in favor of special interests. This approach to the nation's economic life is unfair, destroys economic competition, and has brought us to the brink of fiscal crisis.

Conservatives advocate a program of vigorous economic growth that will create prosperity across the board and expand opportunity for *all* Americans—not just those with friends in high places. Economic growth does not come from some master economic plan managed by government; it is the result of the decisions and actions of millions of people working, creating, spending, exchanging, and pursuing millions of different avenues of individual opportunity. The best policies are those that encourage work, savings, and investment; expand the economy; and lead to more jobs and higher earnings.

A growing economy puts more money in families' pocketbooks and charities' budgets, helps the poor and unemployed find jobs, and helps families save for retirement and their children's education. Rather than trying to guarantee economic outcomes, government should be a limited support structure for opportunity, economic growth, and human flourishing. It should remove arbitrary obstacles to economic markets, break down artificial structures that prevent competition, keep tax rates low, reduce government spending that crowds out private ventures and capital, and prevent the overregulation of private enterprise.

*America's Opportunity for All* is our plan to:

- Rein in uncontrolled bureaucracy.
- Empower America with affordable energy.
- Free America's workers from outdated labor laws.
- Overhaul financial regulation and remove barriers to investment.
- Conserve the environment through responsible stewardship.
- Reform taxes to spur economic growth and create jobs.
- Cut spending, fix the debt, and reform entitlements.

## FROM WELFARE STATE TO OPPORTUNITY SOCIETY

The American Dream promises a dynamic society in which everyone can advance without artificial barriers based on their talent and ability.

Our modern cradle-to-grave welfare state is structured in such a way that it hinders rather than boosts upward mobility. Despite a massive array of programs and colossal budgets, poverty rates remain high, our public education

system is failing us, and the family—whose importance for the future well-being of children cannot be overstated—is falling apart among poor and low-income Americans. The do-it-all federal government crowds out the very private activities and social institutions that provide the best support and make up society’s best safety net for the disadvantaged.

What conservatives propose is an agenda to encourage upward mobility, not just for poor and low-income Americans, but also for an anxious middle class concerned about health care and retirement security—indeed, for everyone on the economic ladder.

For those who cannot care for themselves or who stumble along the path, there should be a basic, temporary safety net formed with the active involvement and leadership of civil society supplemented with assistance at the appropriate level of government. In the end, however, cultural renewal—the habits of work and good character, strong families and vibrant social institutions, a robust ethic of self-improvement—depends on fundamentally restructuring the welfare state to secure basic commitments, introduce private choice and market incentives for earned success, and focus on upward mobility and opportunity, the most important elements of which are to be found outside and beyond government.

Those who are struggling to get ahead—the poor, minorities, immigrants—suffer the most when government controls the economy. The answer for everyone is to vigorously promote economic freedom and foster an environment in which we can all pursue the American Dream.

*America’s Opportunity for All* is our plan to:

- End Obamacare and finally fix health care.
- Preserve Social Security as real insurance.
- Make welfare work for the poor.
- Improve education by expanding options.
- Strengthen immigration through commonsense reform.
- Revitalize marriage, family, and civil society.

## **FROM MANAGED DECLINE TO CHAMPIONING LIBERTY**

In the Declaration of Independence, the people are said to possess the right to institute the government that “to them shall seem most likely to effect their Safety and Happiness.” Happiness is the ultimate objective, but safety comes first.

Today, while government spending is soaring, defense spending relative to the size of the economy is near historical lows. The Obama Administration plans to hollow the military even more in the years ahead. Such policies jeopardize our safety, our ability to secure our interests, and our legitimate role in the world.

Strategy should drive the budget, not the other way around: The mission of the United States military is determined by America's vital interests and an assessment of the threats to those interests. Yes, there is waste and inefficiency in the defense budget, but the core and undisputed responsibility of the United States government to provide for the nation's security must not be up for negotiation.

Conservatives believe America is an exceptional nation, conceived in liberty and committed to upholding the cause of liberty and constitutional self-government. The United States must have the will and the means to stay involved in the world, both to defend the nation and protect its citizens from freedom's adversaries. Just as it is naïve to think that we can rid the world of tyranny and remake other nations in our image, so it is foolish to claim that we can ignore threats to our sovereignty and independence. The best course is to defend America's vital national interests in the light of its principles, maintaining the United States' freedom of action while upholding liberty.

*America's Opportunity for All* is our plan to:

- Provide for the common defense and keep America safe.
- Secure America's interests and advance liberty in the world.

## FROM IMPERIAL RULE TO CONSTITUTIONAL GOVERNMENT

The purpose of the United States Constitution is to secure to the American people the rights and liberties promised in the Declaration of Independence. It provides an energetic national government of limited powers, focused on core functions, with the structural arrangements that preserve liberty and make the American experiment in republican government work.

Today, the federal government has acquired a nearly unquestioned dominance over virtually every area of American life. The scope and depth of its rules mean that the national government regulates more and more of our most basic activities, from how much water is in our toilets to what kind of light bulbs we can buy. This is a government that is increasingly unlimited, undemocratic, and damaging to popular self-government.



Restoring real limits on government will not occur all at once or across the board. Nor will it result from one judicial decision, presidential order, or comprehensive piece of legislation. Conservatives mean to focus government on its primary obligations, restore its responsibility and democratic accountability, and correct its worst excesses by defining and pursuing a strategic path that measurably reintroduces constitutional limits on a government that is increasingly out of control. And we look to the states and the vitality of federalism to check Washington's excess, model the successes of conservative ideas, and revive self-government.

*America's Opportunity for All* is our plan to:

- Rebuild limited government.

## AMERICA'S OPPORTUNITY FOR ALL

Guided by America's timeless truths and confident of its unlimited promise, The Heritage Foundation is advancing an opportunity agenda to change America's course. This is no time to despair, for there is much to be done.

We rededicate ourselves to our country and to advancing principled and innovative solutions to the problems confronting us. We will defend these principles and pursue these solutions tirelessly, deeply committed to this great nation, to conserving its great heritage, and to achieving its even greater future. 🇺🇸

—Matthew Spalding  
*Vice President, American Studies, and  
Director, B. Kenneth Simon Center for Principles and Politics*  
The Heritage Foundation



From **Crony Bureaucracy**  
to **Free Enterprise**





# Rein in Uncontrolled Bureaucracy

By design, our Constitution creates a republican form of government in which the powers of government are separated into three branches: legislative, executive, and judicial. Laws are made by the legislative branch and apply equally to all citizens.

Today, the federal government promulgates more “laws” than ever before. The problem is that most are enacted not by elected representatives in Congress but instead by unelected regulators in various federal agencies, bureaus, commissions, and departments. These unaccountable bureaucrats govern virtually every aspect of the economy and intrude into the personal lives of every American.

For decades now, Congress has routinely delegated its legislative powers by passing vague laws to be filled in by bureaucrats. Courts have rarely restrained these delegations, and Presidents have used the bureaucracy to pursue their political objectives. The resulting administrative state dominates modern politics and has done considerable damage to the principles of representative democracy based on the consent of the governed, the separation of powers, and the rule of law.

This fosters arbitrary governance because the bureaucrats who make these rules can also unmake them or reinterpret them at will, sometimes (as in the case of the employer mandates under Obamacare) by granting waivers or exemptions to politically favored people or companies. By circumventing the constitutional process for enacting laws, the administrative state is an invitation to well-connected big players to rig the game in their favor at the expense of the rest of us. Rule by bureaucrats and cronyism go hand-in-hand.

The reams of regulations emanating from the administrative state—some 50 commissions, bureaus, and departments enforce more than 150,000 pages of rules—also take a heavy toll on the economy, which in turn leads to fewer jobs being created. And fewer jobs mean fewer opportunities for those who most need jobs.

Beyond the lost jobs, there is the cost of complying with all of the red tape. One study pegged the total annual cost of federal regulation at \$1.75 trillion. These costs are, of course, passed on to consumers in the form of higher prices for goods and services. Regulatory compliance also increases the cost of labor, thereby discouraging employers from hiring and decreasing wages for those who do get hired. Finally, all of this red tape makes it harder to start and grow a business, which also means fewer jobs since most net new jobs come from start-up companies.

Americans do not choose to be ruled by bureaucrats. To protect self-government, assure the rule of law, and expand opportunity for all Americans, the out-of-control administrative state must be fundamentally changed to ease the burdens imposed on Americans and the economy.

## GUIDING PRINCIPLES

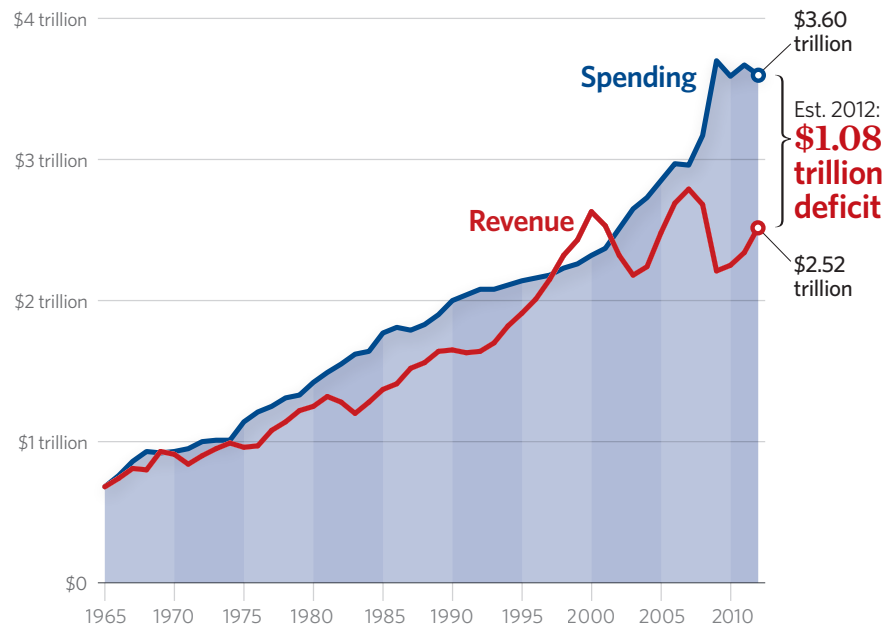
- **Only Congress has the power to make law.** Our Constitution vests the legislative power in Congress. Congress cannot in turn delegate the legislative power entrusted to it, because that power really belongs to the people, who are sovereign. Departments and agencies are created by Congress, and Congress should provide authority for and limitations on any rules and regulations issued by these departments and agencies. Regulators should promulgate rules only when authorized by law and under tight congressional oversight.
- **Laws should be specific, necessary, and carefully written.** Congress has fallen into the habit of passing sprawling and vague laws, filled with arcane cross-references that most Members of Congress neither read nor understand. This effectively turns lawmaking over to unaccountable staff and unelected bureaucrats. The provisions of many laws are vague, even aspirational, giving bureaucrats the authority to define terms and conditions. If the fundamental meaning or major provisions of a law are left open to broad interpretation by bureaucrats, then the law is too vague and should not be enacted.
- **Unchecked regulation naturally leads to cronyism.** The very nature of the administrative state—its reach, lack of transparency, and combining of the three functions of government—inevitably leads to the corruptions of cronyism. That can mean either regulatory exemptions granted to privileged players or, more perniciously, the enactment of costly regulations that drive out competition, since only the biggest companies can afford compliance.



## Federal Spending Exceeds Federal Revenue by More than \$1 Trillion

Since 1965, spending has risen constantly. While federal revenues are recovering from the recent recession, spending is growing sharply, resulting in four consecutive years of deficits exceeding \$1 trillion.

INFLATION-ADJUSTED DOLLARS (2012)



Source: Office of Management and Budget.

- Regulation should be imposed only when market solutions and voluntary action do not work.** Some regulations are justified. Many, in fact, are quite beneficial. For instance, most would agree on the need for airline safety rules or security rules to protect citizens against terrorism, although the extent and scope of those rules may be subject to debate. Yet all restrictions impose a cost and should be adopted only when clearly necessary. Specifically, policymakers should impose new restrictions only after determining that no marketplace solution is possible, that less costly alternatives are not available, and that the benefits of the new rule exceed its costs.

## THE WAY FORWARD

- Require congressional approval of major new regulations before they take effect.** Such a requirement would ensure both a congressional check on regulators and the accountability of Congress itself; Congress would no longer be able to pass vague legislation and disclaim further responsibility. One proposal to do this—known as the REINS (Regulations from the Executive in Need of Scrutiny) Act—was adopted by the House of Representatives

in the last Congress but failed to move in the Senate. New legislation, however, is not the only way to reassert congressional control. Under the 1996 Congressional Review Act, Congress can vote (under streamlined procedures) to block new rules. Congress should routinely use the CRA process to vote on every major new rule adopted by regulators, thereby taking responsibility for these actions.

- **Include sunset dates in all newly passed regulatory legislation.** Congress should ensure that all new burdens placed on the economy automatically expire if they are not affirmatively renewed by regulators. To do this, Congress should, in any new legislation adopted, place an “expiration date” on all regulations promulgated under its authority. The rules would be allowed to continue in force only if explicitly reaffirmed by the promulgating agency through a rulemaking process conducted under the Administrative Procedure Act. As with any such rulemaking decision, this re-adoption would be subject to review by the courts.
- **Ramp up review of existing regulations and eliminate those that are outdated or unnecessary.** It is not enough just to limit the number of new regulations. The total burden of regulation on American consumers should be reduced. To do this, policymakers must examine existing regulations and eliminate those that are no longer needed. The Obama Administration has touted its “lookback” initiative, under which agencies examine existing regulations and eliminate those that are no longer needed. That process, however, has only indentified a tiny number of rules to modify. The process should be expanded so that all outdated rules are identified.
- **Make clear that independent agencies are in the executive branch.** So-called independent agencies that are isolated from presidential authority are incompatible with the principle of democratic accountability. Congress should revise laws to make clear that these agencies are in the executive branch and subject to presidential authority. If Congress wants independent assessments of sensitive issues, it can always create temporary, bipartisan blue-ribbon commissions, panels, or task forces for the purpose of holding hearings, taking testimony, and issuing recommendations after objectively assessing difficult public problems. Congress and the President alike have done this in the past and can continue to do so.
- **Alternatively, subject “independent” agencies to Office of Management and Budget regulatory analysis and review procedures.** These agencies include some of the most active regulators in the government, such as the Securities and Exchange Commission, Consumer Financial Protection Bureau, and Federal Communications Commission. The President should assert his authority—and responsibility—to ensure that the rules

being adopted are necessary and effective. To do this, he should issue an executive order expanding the OMB review process to include independent agencies.

## ADDITIONAL RESOURCES

James L. Gattuso, “Taking the REINS on Regulation,” Heritage Foundation *WebMemo* No. 3394, October 13, 2011.

James L. Gattuso and Diane Katz, “Red Tape Rising: Obama-Era Regulation at the Three-Year Mark,” Heritage Foundation *Backgrounder* No. 2663, March 13, 2012.

Diane Katz, “Dodd–Frank: One Year Later,” Heritage Foundation *WebMemo* No. 3320, July 21, 2011.

Diane Katz, “Rolling Back Red Tape: 20 Regulations to Eliminate,” Heritage Foundation *Backgrounder* No. 2510, January 26, 2011.

Robert E. Moffit, “Why Congress Must Confront the Administrative State,” Heritage Foundation *Center for Policy Innovation Lecture* No. 5, April 2, 2012.

Joseph Postell, “From Administrative State to Constitutional Government,” Heritage Foundation *Special Report* No. 116, December 14, 2012.

Matthew Spalding, “The New Despotism of Bureaucracy,” Heritage Foundation *Commentary*, May 7, 2010.

## HERITAGE EXPERTS



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# IT'S A YARD, NOT A RIVER



**M**ike and Chantell Sackett didn't want to float a boat in their yard. They just wanted to build a house on land they owned in Idaho. But according to the Environmental Protection Agency, they couldn't.

Some five years ago, the Sacketts sought to build a home on an undeveloped lot in a subdivision. There are already houses on almost every other lot surrounding their property. The EPA issued an order stating that their property was a wetland and directing them both to cease further construction and to remedy the harm already done. Oh, and EPA said the Sacketts couldn't appeal its ruling. That made the agency judge and jury, and the fines it imposed were crushing: \$75,000 per day.

The Sacketts have won at least one victory. In a unanimous decision, the U.S. Supreme Court has ruled that they have the right to a judicial review of EPA's ruling. Still, we ought to be able to agree that private citizens should not be forced into bankruptcy as the penalty for pursuing their American dream.





# Empower America with Affordable Energy

This could be an energy golden age for the United States.

Just a few years ago, many thought the country might run out of domestic natural gas. Companies were building facilities to import liquefied supplies. Today, the technological one-two punch of horizontal drilling and hydraulic fracturing (fracking) has generated a remarkable energy boom, created hundreds of thousands of jobs in the U.S., and unlocked more than 100 years' worth of natural gas at current consumption rates and more crude oil as well. Lower natural gas prices are saving Americans money on their natural gas and electricity bills, as well as through lower product prices. Meanwhile, chemical and other manufacturing companies are making plans to expand domestically thanks to abundant feedstocks, as natural gas is a vital input for many businesses.

Oil companies are eager to drill off America's coasts and on more than the small percentage of public land available to them. Opening access would allow oil companies to create jobs and bring more oil to the market, which in turn would help to lower gasoline prices and raise government revenue without raising taxes. Then there is coal, the single largest electricity source in the United States. The 497 billion tons of recoverable coal in the United States—enough to provide electricity for 500 years at current consumption rates—could be an important resource long into the future. Finally, we have barely tapped the possibilities of nuclear power, which generates affordable, emissions-free electricity.

And yet gasoline prices remain high, hydraulic fracturing is on the verge of being regulated out of existence, and we have not built a nuclear power plant in three decades.

The problem is that the federal government is holding the economy back by promoting policies and regulations that disfavor oil, nuclear, coal, and natural gas. Government regulations are significantly restricting the market's effectiveness in developing resources and responding to changes in energy prices, making it difficult for suppliers of all types of energy to produce energy and create jobs. This approach leads to higher prices at the pump and at home, fewer lucrative jobs in the energy sector, and diminished economic growth, which politicians then use to justify more failed big-government policies.

The ostensible purpose of these restrictive energy policies is to protect the environment. In fact, America's air and water have never been cleaner, and that is a good thing. Working to make our use of affordable energy sources cleaner and more efficient, based on sound science, is a good approach. Regrettably, however, government's approach to its environmental goals is all wrong. For one thing, liberals in Congress and the White House pushed for cap-and-trade policies to address climate change even though the Environmental Protection Agency's own administrator acknowledged that the program would have no discernible effect on global emissions levels and thus temperature. Now that cap-and-trade has been defeated in Congress, the EPA is pushing heavy-handed regulations on cars, power plants, and factories that will be costly to American families without delivering any real environmental benefit.

In a time of tight budgets, Washington is continuing to subsidize politically preferred energy sources such as wind and solar, often at a substantial loss to taxpayers. The problem is that almost all of these policies rely on outdated central planning to micromanage energy production, environmental protection, and natural resource management. That ends up reducing energy access, supplies, and innovation while increasing energy prices. Moreover, these policies deliver little in terms of tangible environmental protection and benefit. So we end up paying more for energy, and the environment is no better off for it.

When it comes to federal policies, the United States government has been on the wrong path concerning energy and the environment even as the private sector is on the cusp of an energy revolution. It is time for Washington to change. Americans want more energy that is more affordable and brings more sustainable jobs to the economy. They also want to maintain a clean and safe environment. Policymakers can deliver both by pursuing energy and environmental policies that are reasonable and market-based and that rely on private initiative and stewardship rather than heavy-handed government regulation and endless cash infusions from Washington. A plan for reliable, affordable, plentiful, and environmentally sound sources of domestic energy is set forth in the Heritage report *Environmental Conservation: Eight Principles of the American Conservation Ethic*.

## GUIDING PRINCIPLES

- **Energy subsidies are unfair and should be eliminated.** Although energy subsidies are a popular way to please special interests and pander to constituencies, they constitute a classic case of cronyism that wastes taxpayer dollars, thwarts technological innovations, reduces competitiveness, and offers few tangible environmental benefits. U.S. energy policy should rely on market forces and the private sector's innovative solutions to provide Americans with a diverse supply of affordable energy.
- **America should open access to its energy sources.** The United States is the only nation that routinely blocks development of its domestic energy sources. From public lands to offshore oil to natural gas fields to domestic coal and uranium mines, the U.S. has enough energy resources to power its economy for decades. Our country is expected to become a net energy exporter in the decades ahead, which will decrease the trade deficit and boost incomes in the energy sector. Meanwhile, our robust and competitive energy market can deliver traditional supplies and create new ones. Producers have repeatedly expressed interest in exploring and extracting resources that would expand energy supplies and create tens of thousands of jobs. Restrictive government policies, however, keep these resources off-limits.
- **International energy trade benefits the United States and foreign nations alike.** Trade is mutually beneficial, which is why people engage in it. Energy markets are no different. Importing energy for less than it costs to produce in the U.S. not only provides Americans with affordable energy, but also shifts labor and capital to more productive uses. Moreover, exporting energy and new technologies expands opportunities for domestic producers, incentivizes more production, and helps other countries to meet their energy needs. Creating international competition begets new technologies and innovations that improve the energy sector.
- **Energy industries are vastly overregulated.** A host of Environmental Protection Agency permit requirements have delayed construction of new coal plants, led to fuel switching (the use of natural gas instead of coal), or resulted in withdrawn permit applications. Despite remarkable improvements in coal mining operations and mining safety, both the permitting process for mining and regulations for worker safety have been costly and have failed to produce the desired effects. The EPA also is eager to regulate fracking, and needless regulations increase the cost of gasoline. Onerous and duplicative regulations as well as lawsuits pursued by environmental activists have kept over a hundred renewable energy projects from moving

forward. Even more traditional energy projects have also been stalled, thwarting hundreds of thousands of jobs and more than \$100 billion in economic benefits.

## THE WAY FORWARD

- **End all energy tariffs, subsidies, mandates, loan guarantees, and tax credits.** The President should allow all energy tariffs, subsidies, mandates, loan guarantees, and tax credits to expire according to their current authorizations. Expiration dates should be established for those that do not expire. The goal should be to end all energy subsidies by 2014. This will give ample time for industries currently receiving subsidies to adjust. Congress should develop expedited sunsets for subsidies that extend beyond 2013. Congress should also end the Department of Energy's loan guarantee program and eliminate spending in the Department of Energy's budget that extends well beyond basic research and development.
- **Open federal lands to responsible development.** A major step toward maximizing America's energy potential would be to open up the 85 percent of America's territorial waters that is currently off-limits to drilling for exploration and production. The President could do this simply by revising the Outer Continental Shelf lease plan. Further, Congress should immediately pass legislation that acknowledges the Department of State's environmental review as satisfactory for construction of the entire Keystone XL pipeline, increase the amount of federal lands open for responsible development, and open the limited area needed to drill in the Arctic National Wildlife Refuge (0.01 percent of the ANWR).
- **Expand state-based permitting for energy projects.** President Obama has largely resisted calls for the federal government to supersede state efforts to regulate fracking, and the results have been outstanding. Used safely in some one million wells in the United States for more than 60 years, fracking has been employed successfully to retrieve more than 7 billion barrels of oil and some 600 trillion cubic feet of natural gas: at our current rate of consumption, enough oil to power every car and truck on the road for a year and enough natural gas to fill our needs for 25 years. One of the reasons why hydraulic fracturing has been so successful in promoting oil and gas development while maintaining a strong environmental record is the state regulatory regimes. Each of the states in which fracturing takes place has comprehensive regulations to ensure that oil and gas companies operate safely and in an environmentally sensible manner, and the states administer reasonable fines and punitive measures to correct any wrongdoing. The President should build on this success and



give states more responsibility to oversee other types of energy development on federal, state, and private land.

- **Prevent the federal government from using the Clean Air Act and other statutes to regulate carbon dioxide and other greenhouse gas emissions.** Congress must prevent federal environmental agencies from regulating CO<sub>2</sub> and other so-called greenhouse gas emissions under the Clean Air Act and other ill-suited statutes. When possible, Congress should also seek opportunities to reverse CO<sub>2</sub> regulations that are already in place. This would not only prevent the EPA and all other agencies from using the Clean Air Act to regulate greenhouse gas emissions, but also remove other potential avenues for unwarranted regulation such as the Endangered Species Act, Clean Water Act, and National Environmental Policy Act.
- **Stop the war on coal.** Policymakers in Congress need to stop the EPA from implementing a host of regulations that would prematurely shut down coal-fired plants, including regulations covering cool water intake structures, coal combustion residuals, hazardous pollutants from power plants, and hazardous air pollutants from commercial and industrial boilers, as well as the Clean Air Transport Rule for sulfur dioxide and nitrogen oxides.
- **Develop a market-based nuclear energy policy.** Though two permits were issued in early 2012 to construct new nuclear plants, a broken regulatory process and the absence of any policy with respect to spent nuclear fuel management and disposal have caused new nuclear construction beyond projects recently permitted largely to stall. The private sector remains leery of making large investments without stable policy and regulatory structures that do not unfairly burden the nuclear industry. To reap the benefits of nuclear power while minimizing the risks, the United States must commit to reforms that allow for technological competition, modernize nuclear waste management, and promote global marketplace freedom. This will also require that Congress introduce market-based reform to nuclear waste management policy and direct the Nuclear Regulatory Commission by law to finish its review of the Yucca Mountain repository.

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## HERITAGE EXPERTS



NICK LORIS



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DAVID KREUTZER



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# POLITICAL POWER SAPS ENERGY JOBS



“**T**he loan to Solyndra will allow you to build a new manufacturing facility and with it almost immediately generate 3,000 new well paying construction jobs. And once your facility opens, there will be about 1,000 permanent new jobs here at Solyndra and in the surrounding business community and hundreds more to install your growing output of solar panels throughout the country,” Vice President Joe Biden announced in September 2009.

Not quite. Solyndra was supposedly going to make solar panels for American consumers. The Department of Energy thought so highly of the company’s plan that it provided some \$535 million in federal loan guarantees.

But Washington is notoriously bad at picking winners and losers. Just two years after Biden’s speech, the Solyndra plant closed and the promised jobs were long gone.

Government subsidies are invitations to political favoritism, of course. But more important, when it comes to job creation, they simply don’t work. Sure, the Administration’s “green jobs” program has led to allegations of corruption, but it has also failed even in its foremost task of creating jobs in an economy with a chronic unemployment problem.





# Free America's Workers from Outdated Labor Laws

Most of American labor law was written for another time.

While the Depression-era terms have been dropped—employers no longer seek a “straw man” to manage work sites or a “leg man” to deliver messages—the labor regulations themselves still reflect an era that no longer exists.

The U.S. once had a primarily industrial economy in which employees tended to work on assembly lines where specialized skills mattered less than the ability to repeat the same task over and over again. The laws that were written to govern this economy in the 1930s assumed that collective representation could adequately meet workers’ individual needs. They also assumed that workers, who at the time were mostly men whose wives stayed at home with the children, had little need for flexible working schedules.

The working world has changed dramatically over the past eight decades. Employees have become more mobile, often changing jobs several times over a lifetime. In our knowledge-based economy, far more people now do jobs that require specialized skills instead of following a simple routine. The workplace is safer than ever: In the past 40 years, workplace deaths and reported occupational injuries have dropped by more than 60 percent. Many don’t even go into an office. They work from home or a remote location, linking up with the office via computer or cell phone. At the same time, more people live in two-income or single-parent families. Many employees must handle the demands of work without having someone else at home to take care of their children. Balancing work and family life has become far more challenging than it was two generations ago.



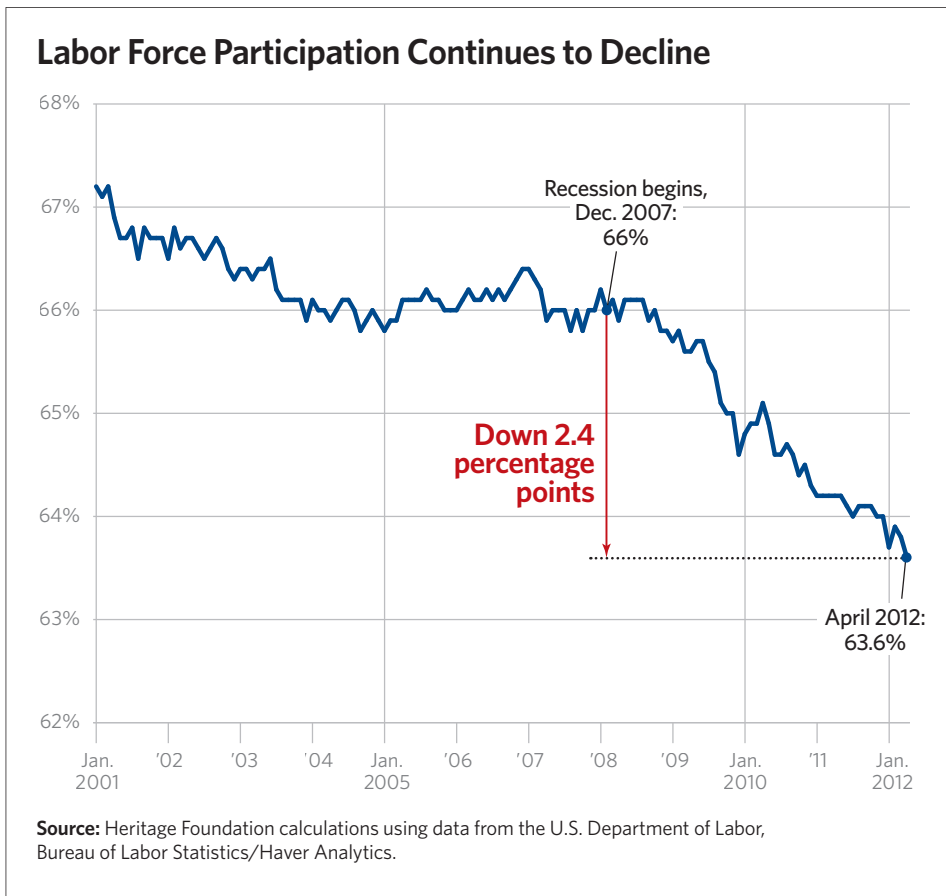
Yet Congress has done nothing in recent decades to update federal labor policy. Labor laws actually prevent employers from giving workers more flexible schedules and prohibit many workers from getting performance-based raises. These laws now operate less like workplace protections and more like shackles. Today's workers expect to be rewarded for their individual contributions. While workers want a voice on the job, one-size-fits-all union contracts have lost much of their appeal. Only in government does union membership remain widespread.

The union movement also remains stuck in the past. Unions have not changed their services to become more relevant to modern workers. Instead they have attempted to make it more difficult for workers to decline their services by getting rid of the secret ballot in union organizing elections. Workers increasingly need protection from union overreach. A recent union complaint against Boeing for creating non-union jobs in South Carolina is just one example of union aggressiveness. Government policy should not push workers into unions that do not serve their needs.

Americans no longer dance the jitterbug or gather around their radios to listen to fireside chats. Why, then, are our labor laws still stuck in the 1930s?

## GUIDING PRINCIPLES

- **Encourage people to work.** Too many adults either are out of work and looking for employment or have given up and dropped out of the labor force altogether. While the weak economy surely contributes to the high unemployment rate, government policies often create perverse incentives that essentially discourage people from working. For example, unemployment insurance (UI), while an important tool to help workers meet their bills while looking for a new job, should not be so generous that it allows workers to “take time off” from even looking for work. The aim should be to help workers find new jobs as quickly as possible. Similarly, federal welfare programs are designed so that benefits phase out as incomes rise, with the unintended result that many low-income workers face effective marginal tax rates of near (or above) 100 percent. We need to restructure programs and policies that are discouraging people from either working or working more.
- **Adopt policies that empower individual workers.** Current labor policy too often denies employee choice by subjecting workers to cumbersome regulations or union control. The Fair Labor Standards Act, for example, makes it impossible for employees to voluntarily collect compensatory time off instead of overtime pay. Many workers would like more flexibility on the job but cannot get it. Similarly, workers should get to choose whether they



want union representation. Only 7 percent of private-sector union members voted for the union that represents them; the rest either accepted union representation when a unionized firm hired them or were denied the right to vote through a “card-check” organizing campaign. Employees know their circumstances best. The government should not foist a union on workers who do not want one. Even worse, outdated labor laws prevent unionized companies from paying union members more than their contract calls for without their unions’ permission. Under the law, union contracts are not just a wage floor; they are also a wage ceiling. That harms employers and workers alike.

- **Free the labor market.** The labor market, like any other market, ought to be free. Regulations and barriers to entry should be kept to a minimum. People, as much as possible, should be free to work where they please, doing what they like and earning the highest wages they can obtain. For certain professions, of course, licenses are necessary, but too often, license requirements are hijacked by special interests and used to eliminate competition. While it is reasonable to require that truck drivers know how to operate their vehicles safely, there is no danger that an unskilled hair stylist or interior decorator will harm anyone seriously or permanently. Yet many states

require a license to cut hair or select paint colors. Examples of cronyism at the state and local levels abound. Likewise, minimum wage laws, though well-intentioned, reduce access to entry-level jobs by making it too expensive for employers to hire low-skill workers who are most in need of experience.

- **The private and public sectors are different.** Workers in the private sector have the right to bargain collectively if they so choose. The government is different. The government earns no profits. Government unions bargain against voters and taxpayers to get more tax dollars spent on their members. Their contracts often mean higher taxes and poorer public services. In national security agencies such as the Transportation Security Administration, union inefficiencies endanger lives. Government exists to serve the public good, not the narrow interests of unions (or other organizations). Collective bargaining does not belong in government, as even early leaders of the labor movement recognized, and ought to be repealed.

## THE WAY FORWARD

- **Encourage recipients of unemployment insurance to return to work.** While unemployment insurance helps to protect workers, it should also help to train them and encourage them to return to work as soon as possible. Congress should require workers receiving federal extended UI benefits to participate in training or skill improvement programs as a condition of getting benefits. With the rapid rise of online education, this can be done at little marginal cost to the taxpayer. Just as workfare helped welfare recipients to transition into full-time employment, studying new skills can help unemployed workers to find jobs more quickly.
- **Restructure benefit programs to avoid high implicit tax rates.** Federal policy should encourage people to work, not trap them into dependence on government support programs. Working a full-time job or earning a raise should raise workers' take-home pay. Congress should restructure federal benefit programs so that low-income workers do not face effective marginal tax rates above 35 percent. Workers should have incentives to work their way up the career ladder, not be encouraged to remain trapped on the bottom rung.
- **Modernize the Fair Labor Standards Act.** The FLSA was written to deal with challenges facing the manufacturing economy of the 1930s. The economy has changed dramatically since then, with more than four in five workers employed in the service sector. The FLSA should not prohibit employees from receiving compensatory time off instead of overtime

payments. However, electing to receive such compensatory time should be voluntary on the part of both employees and employers. Those directly involved should decide whether they want compensatory time or overtime payments without having a one-size-fits-all arrangement dictated by labor unions and federal law.

- **Reform the National Labor Relations Act.** The NLRA was also written for the industrial economy of the 1930s. Congress has not seriously amended the Act since 1947. It needs to be brought into the 21st century. Reformed laws should recognize that the line between workers and management has increasingly blurred and that most workers want a cooperative rather than an adversarial relationship with their employers. The Act's outdated prohibitions on work councils and employee involvement programs should be repealed. Similarly, the law should not prevent employees from earning higher pay. The NLRA should allow unionized employees to earn more than their union contract calls for through bonus and merit pay. Union contracts should be a floor—not a ceiling—on workers' pay.
- **Promote voluntary unionism.** Workers in the private sector should have the freedom to decide whether or not they want to join a union. The government should protect the use of the secret ballot in union organizing elections. Union election campaigns should give workers enough time to reflect on their decision after hearing both sides make their strongest cases. Congress should set a minimum 30-day standard between when the union files for a vote and election day. If a union wins the election, it should have to stand for re-election on a regular basis. Workers should get a regular opportunity to hold their unions accountable for their performance, just as voters regularly hold their political representatives accountable at the ballot box. Further, union dues should be voluntary. Unions should not be able to force workers to pay union dues or lose their jobs. For their part, states should pass right-to-work laws so that workers can have the choice to join or not. This will hold unions accountable for delivering good services.
- **Expand union transparency.** The Labor-Management Reporting and Disclosure Act of 1959 requires unions to disclose how they spend their members' dues, but the Obama Administration has rolled back a number of regulations that expanded union transparency and disclosure. The Department of Labor should reinstate union transparency regulations. This would deliver expanded transparency for union trust funds, including strike or job training funds, and for intermediate bodies of national unions. It would also mean making the basic disclosure forms more comprehensive and enhancing the conflict-of-interest reporting requirements. If the federal government does not act, state governments should fill the void. The Obama Administration exempted most local chapters of government unions from



financial transparency requirements. State legislatures should hold government unions to the same transparency standards that Congress applies to private-sector unions.

- **States should eliminate unnecessary licensing requirements.** Licensing should be used only to protect society, not to protect those in particular professions by keeping others from entering those professions. Too many licenses exist to restrict competition in the labor market. The state of Maryland licenses fortune tellers; Louisiana licenses florists. Licensing does nothing to increase the accuracy of predictions about the future, and an imperfect flower arrangement poses no risk to health or safety. These licenses only prevent jobless workers without licenses from looking for work in these sectors. States should sunset all licensing requirements and renew only those that are necessary to protect safety and health.
  
- **End collective bargaining in government.** The government exists to serve the common good. It should not be twisted to serve the narrow interests of its own employees at the expense of the public's welfare. State legislatures should eliminate collective bargaining in government. The voters' elected representatives should have the final say on how to spend tax dollars and implement public policy. Federal unions have comparatively fewer powers than most state or local government unions, but federal unions' work rules can disrupt operations. That is why Congress prohibits collective bargaining in national security agencies like the FBI, CIA, and Secret Service. However, the Obama Administration recently began collective bargaining at the Transportation Security Administration. To prevent labor disputes from endangering passengers, Congress should reverse this decision.
  
- **Reform federal pay.** Federal pay varies wildly from market rates in both directions. Some high-performing federal workers earn less, while many other federal workers get more than they would make in the private sector. This averages out to a 22 percent cash wage premium for federal workers. Federal employees also receive much more generous pension, health care, and paid leave benefits than private-sector workers receive. Adding these benefits raises the average federal compensation premium to 30 percent. Federal employees also enjoy job security guarantees unheard of in the private sector. Congress should bring federal compensation in line with the private sector. This would save taxpayers almost \$50 billion a year.
  
- **End union favoritism on federal projects.** The collapse of the housing bubble badly hurt construction employment. Two provisions of federal law needlessly reduce the availability of construction jobs and should be rescinded. The Davis–Bacon Act requires federal construction contractors

to pay “prevailing wage” rates that average 22 percent above market rates, essentially forcing the government to hire four construction workers for the price of five. Project Labor Agreement mandates also require federal construction contractors to sign collective bargaining agreements before starting a project, shutting out nonunion workers from the jobs. Both provisions should be repealed legislatively. This would save up to \$10 billion a year or support 150,000 new construction jobs.

- **Use the best data possible.** If Congress does not repeal the Davis–Bacon Act, the Department of Labor should at least transfer responsibility for conducting prevailing wage determinations to the Bureau of Labor Statistics. The Inspector General and the Government Accountability Office have repeatedly criticized the Department of Labor’s Wage and Hour Division for using unscientific and inaccurate methods to estimate Davis–Bacon prevailing wages. The Bureau of Labor Statistics (BLS) has expertise in scientifically estimating wage rates. Using BLS numbers would eliminate these flaws and produce much more accurate Davis–Bacon rates.

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## HERITAGE EXPERTS



JAMES SHERK



DERRICK MORGAN



JASON RICHWINE



DAVID JOHN



# NO RAISES FOR YOU!

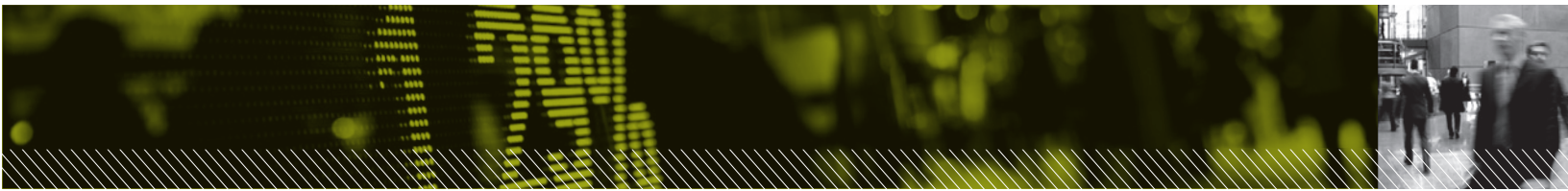


In early 2011, a Giant Eagle supermarket in Edinboro, Pennsylvania, wanted to give wage increases and higher starting wages to 25 employees. Too bad a union won't let it do so.

Why would a union object to a company wanting to pay higher wages? Because in this case, the increases went to “less senior” employees. The union went to arbitration and won a judgment that Giant Eagle cannot give raises “without first obtaining concurrence from the Union,” along with an order to rescind those increases that had already been given.

Today, some employees in Edinboro are earning less than their employer wants to pay them. Membership in a union has its privileges.





# Overhaul Financial Regulation to Remove Barriers to Investment

Americans can count on Congress to overreact to some problems while ignoring others.

In the wake of the financial crisis that rocked the U.S. economy in late 2007 and early 2008, Congress first enacted massive bailouts and then set out to remake the way financial institutions are regulated. The result was the Dodd–Frank Wall Street Reform and Consumer Protection Act, signed into law in the summer of 2010. Supporters argued that the new law would prevent future financial crises and eliminate the “too-big-to-fail” doctrine that led to the unpopular bailouts.

Dodd–Frank is a collection of unrelated policies and lacks any central focus or plan. Touted as a way to prevent future bailouts, it does little to meet that goal. Instead, it provides for a basket full of new rules that have little to do with preventing—and in some cases actually increase the risk of—a new financial crisis.

Administratively, the 2,300-page law has proved nightmarishly difficult to implement. Dodd–Frank is so sprawling that one law firm dubbed the tracker it created to monitor the implementation process “FrankNDodd.” As of December 3, only one-third of the nearly 400 rules required by the law had been completed, and another third had not yet even begun. Thus, tens of thousands of businesses do not know what the government will eventually demand they do differently or when they must do it. This is unfair to employers. With financial firms constrained by uncertainty, consumers and small businesses are finding it harder to obtain loans and are being charged higher fees for financial products.

But the flaws are deeper than slow implementation. The legislation imposed unprecedented governmental control of the financial sector. That will limit the ability of Americans to save and invest. Not only does it impose costly paperwork burdens that increase the cost of banking, but it distorts the marketplace, giving big firms an implicit guarantee, imposing price controls on key transactions, and limiting Americans' choice in consumer finance. These policies have also created a path for future bailouts and increased the risk of a new financial crisis.

Dodd–Frank also does damage to the idea of representative democracy by entrusting unelected bureaucrats with vast powers. It created a Consumer Financial Protection Bureau that is ensconced within the Federal Reserve with an independent stream of funding and is almost completely unaccountable to either the President or Congress. Its authority is also vaguely defined: It has power to prevent “abusive” financial practices, a largely undefined term, which in effect grants bureau officials inordinate discretion. This not only increases uncertainty, but also leaves the CPFEB with no clear limits on its power. It is wrong to give unelected bureaucrats unchecked powers.

One of Dodd–Frank's greatest weaknesses is its complete failure to address Fannie Mae and Freddie Mac, two giant government-created and government-sponsored finance enterprises whose activities helped in part to create and worsen the financial crisis. Fannie Mae and Freddie Mac issued trillions of dollars in mortgage-backed securities and, responding in part to congressionally mandated purchase requirements, speculated in their own securities and those issued by others. To protect taxpayers from further such debacles, both Fannie Mae and Freddie Mac must be phased out and replaced by a real private-sector housing finance system.

The Dodd–Frank law is so extensively flawed that it would be best to repeal it entirely and replace it with new legislation that protects taxpayers from being on the hook for future bailouts, protects consumers from fraudulent financial practices, and removes government barriers to investment and economic growth. Beyond repeal of the law, there are some specific steps that can be taken to contain its damage.

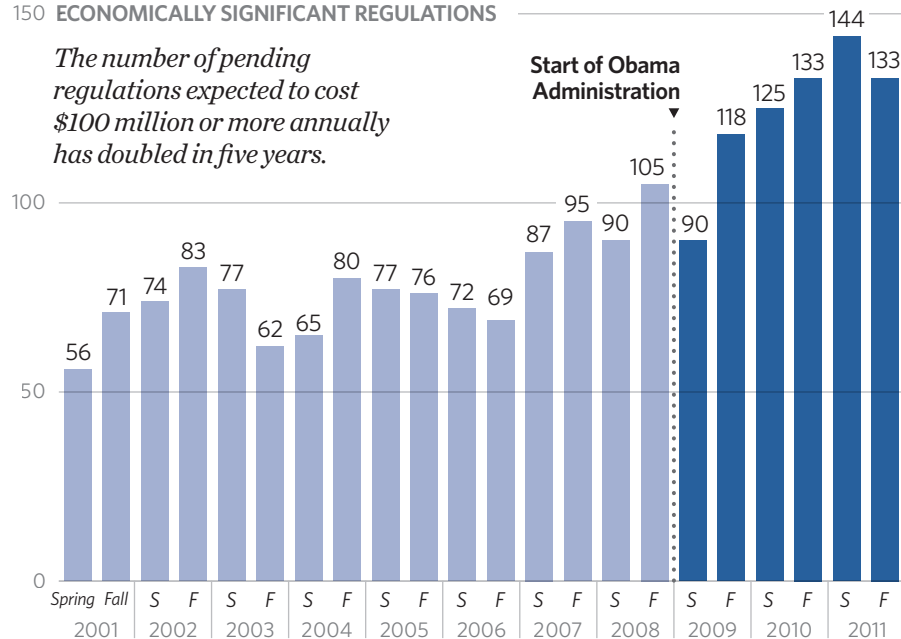
## GUIDING PRINCIPLES

- **Reject “too big to fail.”** Failure is an essential component of free enterprise. If a firm is not allowed to fail, not only will taxpayers be on the hook for future bailouts, but competition and innovation will be stunted. A mechanism for failure that is based on the rule of law, not the whim of regulators, is essential to a functioning marketplace.

## More Costly Regulations in the Pipeline

### 150 ECONOMICALLY SIGNIFICANT REGULATIONS

*The number of pending regulations expected to cost \$100 million or more annually has doubled in five years.*



**Source:** Data obtained from Office of Information and Regulatory Affairs, Office of Management and Budget.

- Ensure that regulators are accountable and limited.** The Constitution, for good reason, does not recognize regulators as an independent fourth branch of government. To ensure accountability to the people, regulators must have a clear and reviewable grant of authority and funding from Congress and clear responsibility within the executive branch.
- Let consumers decide.** The government should reduce barriers to consumer choice, not erect more of them. Regulation should protect, not displace, decision-making by consumers in the financial marketplace. It should focus on expanding consumer options and ensuring that investor decisions are respected.

## THE WAY FORWARD

- Create a bankruptcy-based process that allows failures of even the largest financial institutions to occur without undue systemic harm or cost to taxpayers while respecting property rights.** Dodd-Frank attempts to address the problem of “too big to fail” by imposing additional controls on firms that regulators deem “systemically important,” i.e., “too big to fail.” Rather than resolve the problem, the law merely strengthens the perception that certain firms are too big to fail, thereby distorting markets

and increasing the chances of future bailouts. Of course, some financial rules, such as capital standards, should vary based on the size or complexity of the firm. But, given that regulators are not all-knowing, more regulation will not ensure an end to financial crises.

- **Ultimately, the key to ending the danger of “too big to fail” lies not in regulation, but in making market failure itself an option.** Here again, Dodd–Frank falls short. While it does create an expedited mechanism for managing the liquidation of failing institutions, the process is initiated and controlled by regulators without firm rules or protection of rights. Any system consistent with the rule of law must be based on bankruptcy and supervised by the courts rather than being subject to bureaucratic or political caprice.
- **Reform the Consumer Financial Protection Bureau.** The CFPB, an agency created by Dodd–Frank, is almost completely unaccountable to either the President or Congress. It is formally part of the Federal Reserve Board, although even the Fed has no direct control over it. Under Dodd–Frank, the CFPB is given a guaranteed percentage of the Fed’s revenue, bypassing the congressional appropriations process. The CFPB’s authority is also vaguely defined. For instance, it has power to prevent “abusive” financial practices, a vague term that Congress has never fully defined. These flaws must be fixed. Congress should act to place the CFPB under the congressional appropriations process. It is wrong for a government bureaucracy to control its own source of funding; that is Congress’s job. Also, lawmakers should eliminate the term “abusive” from CFPB’s statutory powers.
- **Repeal the Volcker Rule mandate.** The regulations proposed by the Federal Reserve Board under Dodd–Frank’s Volcker Rule would effectively bar banks from investing their own funds. The resulting lower earnings would then undoubtedly force the banks to increase service fees paid by consumers. Congress should revisit this ill-conceived mandate and repeal the Volcker Rule.
- **Do not impose price controls on debit and credit cards.** The “Durbin Amendment” slipped into Dodd–Frank directed the Federal Reserve to regulate the fees that financial institutions may charge retailers for processing debit-card purchases. Similar limits have been suggested for credit cards. Such price controls are economically harmful, and the cost of implementing them is invariably passed on to consumers. Already, the loss of revenue from price controls on debit-card processing is prompting financial institutions to hike fees on a variety of other credit instruments, and consumers face higher banking fees and reduced credit options. Rather than compound its error by regulating credit cards, Congress should roll back its limits on debit cards.



- **Phase out Fannie Mae and Freddie Mac and replace them with a genuine private-sector mortgage finance system.** These government-sponsored enterprises played a big role in artificially pumping up the housing bubble. They should be wound down, along with other programs that interfere in the housing markets, and a competitive, private housing finance market should be allowed to take their place.

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## HERITAGE EXPERTS



JAMES GATTUSO



DAVID JOHN



DIANE KATZ



# HERE A CHARGE, THERE A CHARGE

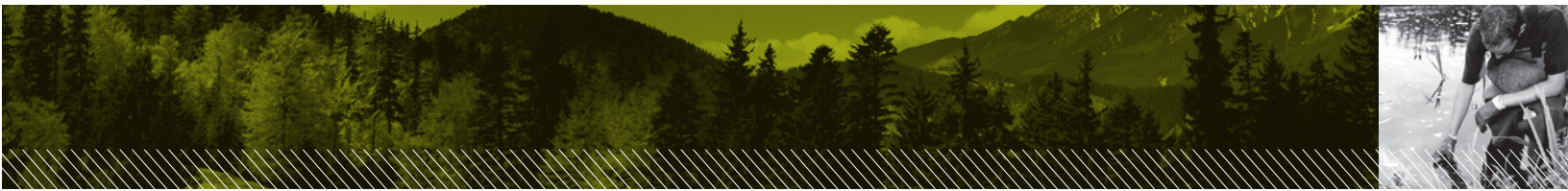


“ If you put \$1,000 in a checking account and don’t do anything with it, it will be hard to get [free checking,]” warned a banking analyst in 2010.

The jump in service fees is not surprising, as new regulations cost banks billions of dollars annually. The regulatory culprits include restrictions on overdraft fees and price controls on the fees that banks are allowed to charge retailers to process debit card transactions. The onslaught of hundreds of other Dodd-Frank regulations is also taking a toll, and these costs have to be made up somehow. Consumer overdraft charges and fees for using out-of-network automated teller machines have also increased: Use of an out-of-network ATM now costs an average of \$4.07 per transaction.

Although sold as “consumer-friendly,” the Dodd-Frank statute and other regulations on financial services are actually thinning the wallets of consumers. The loss of free checking is just one more of the many problems created by this ill-conceived regulation.





# Conserve the Environment Through Responsible Stewardship

Conserving our environment requires tapping resources for the well-being of people today and ensuring that resources are here for the benefit of future generations.

All people aspire to have a cleaner, healthier, safer environment, and everyone should be able to appreciate all of America’s natural treasures.

One of our nation’s most popular Presidents expressed it this way: “I believe in a sound, strong environmental policy that protects the health of our people and a wise stewardship of our nation’s natural resources.” “We want to protect and conserve the land on which we live—our countryside, our rivers and mountains, our plains and meadows and forests,” President Ronald Reagan affirmed. “This is our patrimony. This is what we leave to our children. And our great moral responsibility is to leave it to them either as we found it or better than we found it.”

Yet while all Americans want to pass on a clean, safer, and beautiful environment to the next generation, many are rightfully put off by the apocalyptic rhetoric and heavy-handed bureaucratic mindset that characterizes modern environmentalism. Americans care about their environment, but they also understand that human civilization is the solution, not the problem, and that stewardship yields better results than centralized, top-down regulation.

America must have a conservation ethic that puts people first, advances property rights, unleashes the power of free markets, and fully embraces the principles of limited government and federalism that undergird our Constitution.



The following principles are the foundation of Heritage’s report *Environmental Conservation: Eight Principles of the American Conservation Ethic*.

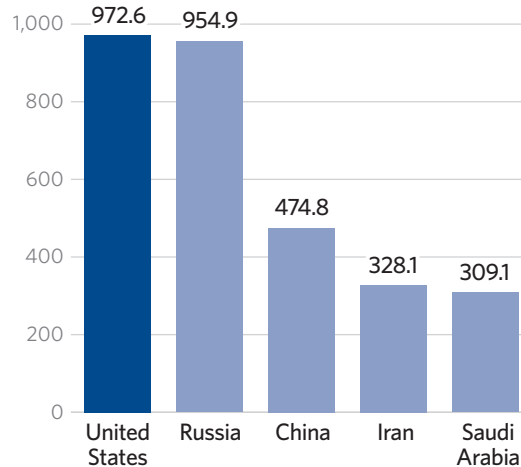
## GUIDING PRINCIPLES

- **People are the most important, unique, and precious resource.** Human well-being, which incorporates such measures as health and safety, is the foremost measure of the quality of the environment. Simply put, a policy cannot be good for the environment if it is bad for people. The people who are affected by a policy are the best judges of whether or not it is desirable.
- **Renewable natural resources are resilient and dynamic and respond positively to wise management.** These resources and populations are continually regenerated and replenished through growth, reproduction, and other naturally occurring processes. They are not fragile and static but resilient and dynamic. If they are used in a wise and responsible manner, there is no reason to fear that they will be lost forever.
- **Private property protections and free markets provide the most promising new opportunities for environmental improvements.** Private ownership inspires stewardship. Property rights create incentives that reward good stewardship and empower individuals to protect their property from the harmful effects of others. Where property rights are absent, they should generally be extended.
- **Efforts to reduce, control, and remediate pollution should achieve real environmental benefits.** Science provides invaluable tools to do just that. One is risk assessment, through which we may rationally weigh risks to human health or assess and measure other environmental impacts. Another is cost and benefit analysis, through which we may measure actions designed to reduce, control, and remediate pollution or other environmental impacts so that we can have a cleaner, healthier, and safer environment. Tools such as these, not the “precautionary principle,” are most likely to help us achieve real environmental benefits.
- **As we accumulate scientific, technological, and artistic knowledge, we learn how to get more from less.** The reality is that technology promotes efficiency, and through efficiency we substitute information for other resources, resulting in more output from less input. Technological advancement confers environmental benefits like more miles per gallon, more board-feet per acre of timber, a higher agricultural yield per cultivated acre, and more GDP per unit of energy. As economics writer Warren Brookes used to say, “the learning curve is green.”

## U.S. Has Largest Fossil Fuel Reserves

TOP FIVE NATIONS, IN BILLIONS OF BARRELS EQUIVALENT

Source: Congressional Research Service, "U.S. Fossil Fuel Resources: Terminology, Reporting, and Summary," November 30, 2010, Table 5, p. 16, [http://epw.senate.gov/public/index.cfm?FuseAction=Files.view&FileStore\\_id=04212e22-c1b3-41f2-b0ba-0da5eaead952](http://epw.senate.gov/public/index.cfm?FuseAction=Files.view&FileStore_id=04212e22-c1b3-41f2-b0ba-0da5eaead952) (accessed August 2, 2012).



- **Management of natural resources should be conducted on a site- and situation-specific basis.** With a few exceptions, most environmental issues are local and specific and will vary over time. In most cases, uniform, one-size-fits-all policies should be eschewed in favor of location- and situation-specific policies that take advantage of the fact that those who are closest to a resource are also those who are best able to manage it and have the greatest stake in its preservation.
- **Science should be employed as one tool to guide public policy.** Scientific data and modeling, produced with integrity, help us understand our environment and measure the consequences of various courses of action, thereby allowing policymakers to assess risk and weigh costs against benefits. Science by itself is incapable of dictating which policies to adopt. All major policy decisions should therefore be made by the elected representatives of the people, drawing from the expertise of science, and not delegated to experts and scientists in the bureaucracy.
- **The most successful environmental policies emanate from liberty.** Environmental policies must be consistent with our most cherished principle: liberty. Choosing policies that emanate from liberty is consistent with holding human well-being as the most important measure of environmental policies. Freedom unleashes the forces most needed to improve our environment. It fosters scientific inquiry, technological innovation, entrepreneurship, rapid information exchange, accuracy, and flexibility. The reality is that there is a strong and statistically demonstrable positive correlation between economic freedom and environmental performance.

## THE WAY FORWARD

- **Require legislative approval to enact major regulations at both the state and federal levels.** No regulation having an annual economic impact of \$100 million or more on the American economy should take effect without congressional approval. Such approval would be required by the Regulations from the Executive in Need of Scrutiny (REINS) Act. States should consider passing their own versions of the REINS Act to govern their regulatory activity, thereby giving their legislatures, after deliberation, the chance for an up-or-down vote on regulations with large and potentially negative economic effects. This approach would shift political power away from unaccountable bureaucrats and back to lawmakers who are directly accountable to the American people.
- **Ensure that costs of environmental regulations do not outweigh benefits.** Congress and the states (when the states are exercising non-federally delegated regulatory authority) should clarify that no regulation may be issued without an administrative finding that the costs do not outweigh the benefits. Regulators must be directed not only to consider the intended benefit, but also to explain whether the regulation will destroy jobs, infringe on personal property rights, or vastly increase the costs of goods and services.
- **Establish a mechanism to compensate landowners for regulatory takings.** Congress should provide greater protections for property rights and other civil rights than even the Constitution requires (or the Supreme Court says it requires). It is unfair for the government to take your property without paying for it. Congress could establish a simple mechanism for compensation of regulatory takings that, among other things, would define the “trigger” mechanism that will determine whether a regulatory taking is compensable and require that regulatory agencies specifically define what they will and will not allow on regulated properties. The Clean Water Act and the Endangered Species Act in particular are two laws that would be obvious candidates for incorporation of such a provision.
- **Clearly define federal jurisdiction under the Clean Water Act.** Under the CWA, the Army Corps of Engineers and the Environmental Protection Agency assert jurisdiction over virtually all waters in the United States. As a result of its broad reach, as well as the severity of its penalties, the CWA presents an unparalleled risk to individual freedom and economic growth. A delineation of which waters are covered will remove regulatory uncertainty and reduce enforcement costs. For such reform to be successful, federal officials must acknowledge that there are limits to federal power and that relying on state and local governments to protect local waters (including

wetlands) is not only sufficient, but legally required to protect America's natural resources.

- **Explicitly deny the EPA authority to regulate CO<sub>2</sub> under the Clean Air Act.** Regulation of CO<sub>2</sub> imposes high costs on both the economy and the environment. Proposals to restrict CO<sub>2</sub> emissions lead to higher energy costs and fewer jobs. The Clean Air Act, which was designed to limit toxic emissions, is unsuitable for CO<sub>2</sub> regulation. When applied to CO<sub>2</sub>, the extraordinarily broad scope of the CAA could place millions of additional businesses under costly and time-consuming EPA regulations—with little or no accompanying environmental benefit.
- **Rescind the National Environmental Policy Act.** NEPA's intended goal of environmental stewardship is thwarted by the project delays and higher costs imposed by its regulatory regime, as well as by the politicization of science and the influence of special interests. Ultimately, NEPA should be rescinded. Short of doing so, Congress should mitigate the harm it causes by limiting NEPA reviews to major environmental issues that are not dealt with by any other regulatory or permitting process, mandating time limits, and limiting the alternatives studied to projects that involve multiple agencies.
- **Shift as much responsibility for the protection of endangered species as possible to the states.** The Endangered Species Act, as currently implemented, is not working: Regulatory costs are immense and growing, and its record of saving endangered species is weak. Shifting as much species management as possible to the states is the most preferable course of action; any remaining federal endangered species program must be altered to fundamentally change agency behavior and program focus while ensuring protections for property owners.
- **Open access to federal lands and natural resources for development.** The federal government owns nearly one-third of the United States, and access to this public land is becoming more difficult because of a flawed system of restrictions, regulations, and litigation. Much of this land is not suitable for parks, wildlife refuges, and the like and is home to some of our nation's richest natural resources. Congress should return responsibility for many of our federal lands to states and private owners. Such a reform would give responsibility for managing the lands to those with the most knowledge of the land and the most to gain from its productivity. Short of devolution, the federal government should make some of its lands available for wise use and defend those who use it properly from special-interest groups that would bar such development. This would provide direct economic benefits to citizens and the government and result in better-managed assets.



- **Preserve and defend the treaty process.** Environmental advocates have long been frustrated by the inability of various international environmental agreements to pass Senate muster, so they advocate avoiding the supermajority requirement by substituting executive agreements. This ploy undermines the system of checks and balances in the U.S. government and mocks constitutional intent. By entering into treaty commitments, the U.S. government cedes some level of sovereignty, as well as the checks and balances of the U.S. constitutional system. Thus, pursuing treaties is a serious responsibility, a fact further evidenced by the Founding Fathers' requirement that two-thirds of the Senate must consent to a treaty prior to ratification.

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## HERITAGE EXPERTS



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DAVID KREUTZER



DIANE KATZ



BRETT SCHAEFER



DERRICK MORGAN



BECKY NORTON DUNLOP



# BETTER DEAD THAN BRED



Each year, ranchers in Texas provide guided hunts that kill off no more than 10 percent of their African scimitar-horned oryx herd, and the proceeds they collect from these hunts allow the ranchers to keep breeding the animals.

Conservationist Pat Condy estimates that there is now a population anywhere between 6,000 and 10,000 of the scimitar-horned oryx in Texas. That's sustainable. But for the "animal rights activist" group Friends of Animals, the motto seems to be "better dead than bred."

That group, which does not allow hunting, has a reserve in Senegal with about 175 of these antelopes. These numbers illustrate how the economic and recreational benefits that arise from hunting provide the necessary incentives to preserve and grow this population of endangered species. Private ownership inspires stewardship for conservation and growth.

Friends of Animals recently won a case that will force ranchers to comply with the Endangered Species Act, a decision that will make owning the animals more expensive. One rancher estimates that the total population of these species will begin to sharply decline over the next decade.

With "friends" like these, animals may prefer their enemies.





# Reform Taxes to Spur Economic Growth and Create Jobs

Nothing is paralyzing the U.S. economy as much as the unsettled question of taxes.

Taxation is a chief cause of the uncertainty that is stalling business expansion, capital investment, and—most important—job creation. A lineup of new tax increases looms. Then there is the stifling, cronyist tax code that is littered with politically motivated credits, deductions, and exemptions that only serve to further inhibit economic growth. All of this drags down an already stagnant economy.

To make matters worse, tax rates on individuals, families, businesses, investors, and entrepreneurs are too high. High taxes discourage work and investment, which leads to less take-home pay, fewer jobs, and slower overall economic growth—just what is largely missing from the economy today.

In order to fuel growth in the overall economy and provide more jobs and greater prosperity for ourselves and our children, America needs to overhaul its tax code to expand opportunity for all of those who want to work hard, earn, save, invest, and create wealth. To achieve this objective, we must hold down taxes and reform our needlessly complex, burdensome, and anti-growth tax system to sharpen incentives, level the playing field for all, and stop punishing saving and investment. This will ignite America's economic powerhouse by re-energizing workers and entrepreneurs who are struggling to pursue opportunity and build a better and more secure future.

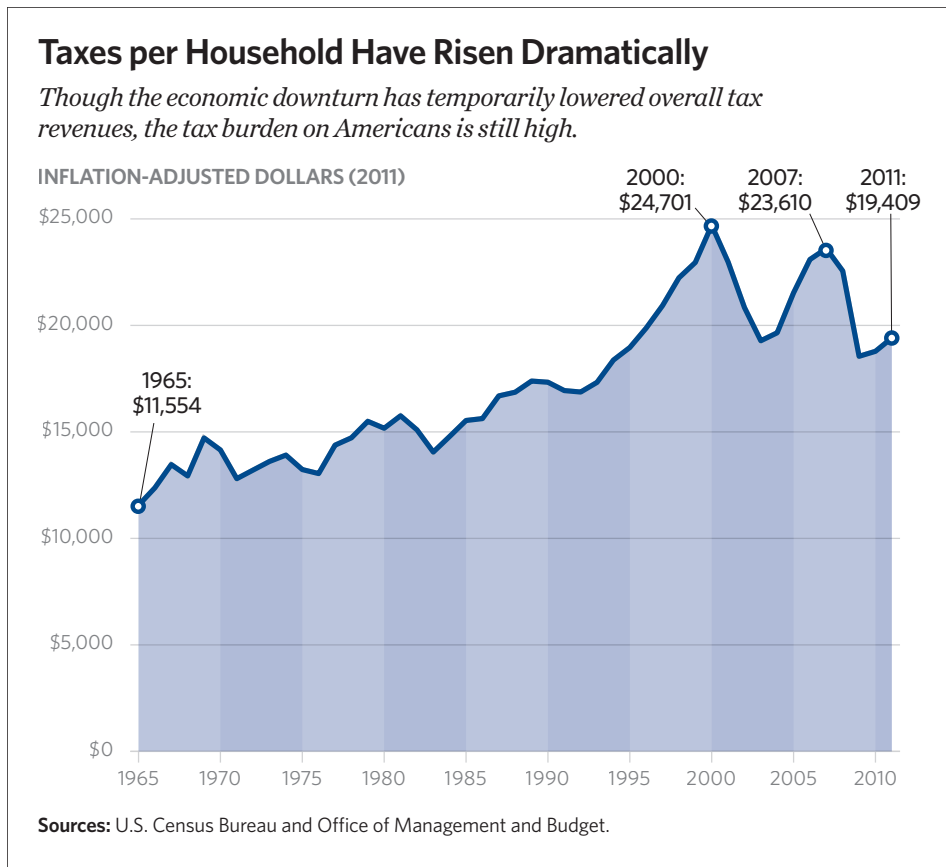
Unfortunately, despite the weak condition of the economy and the terrible burden America's tax system puts on its economy, misguided proposals to raise



taxes remain the centerpiece of President Obama’s economic agenda. Congress should not yield to his economy-damaging approach and should make the case that tax reform is vital to economic recovery.

## GUIDING PRINCIPLES

- **Taxes are necessary to fund the legitimate operations of government.**  
The core functions of government, such as providing for the common defense and upholding the rule of law, cost money, and taxes exist to raise revenues to fund these legitimate activities. Thus, Alexander Hamilton, in *Federalist* No. 30, recognizes the taxing power as “as an indispensable ingredient in every constitution.”
- **Taxes are *not* a tool to achieve a “fairer redistribution of income.”**  
The point of our tax system is not to “level the playing field” by redistributing money from one group to another. To be clear, at issue here is not whether all should pay the same amount of taxes. Even under a flat tax system like the one supported by Heritage in our *Saving the American Dream* plan, the wealthiest Americans would still bear the heaviest share of the fiscal burden. No one is arguing that all should pay the same *amount* of taxes or denying that the wealthy bear a heavier burden. But it is clear that using the tax code to spread the wealth around is unfair and leads to disastrous economic results and leaves us all worse off in the long run.
- **The tax system should be simple and growth-oriented, with the same low rate for all and as few deductions as possible.** Millions of people making decisions about their own lives yields better social and economic outcomes for everyone than a few politicians trying to engineer everyone else’s lives. The tax code should not drive the economic decisions of families, businesses, investors, and entrepreneurs with special-interest tax preferences that breed cronyism. The proliferation of exemptions creates irresistible incentives for big players to rig the tax code in their favor at the expense of smaller players and the common good of the country. Ultimately, tax reform would result in a simplified tax system with a low, flat rate that would increase the incentives for engaging in the productive activities that generate economic growth and jobs and deal a serious blow to cronyism. Nobody should need to hire high-priced lawyers and accountants or spend hundreds of hours each year just to file federal income tax returns.
- **Don’t tax income more than once.** Double taxation—like capital gains taxes, dividends taxes, and the death tax, all of which apply to income that has already been taxed—is unfair. It also increases the tax code’s distortion of economic activity and slows growth. Eliminating double taxation is the



right thing to do. Likewise, the U.S. is the only developed country that taxes its businesses on the income they earn after they have already paid taxes on it in other countries. That hurts our competitiveness and needs to change.

- **Higher taxes weaken the economy.** The healthiest and most powerful force for near-term deficit reduction is a strong economy generating more revenues organically, but higher taxes are almost sure to blunt economic growth. In fact, recent evidence strongly accords with intuition that higher taxes and higher tax rates impede economic growth, while lower taxes and lower tax rates encourage economic growth. In 1993, for example, President Clinton ushered through a major tax hike just as the economic recovery was gaining steam. The result was a period of subpar growth. Then, in 1997, Republicans in Congress pushed through a tax cut, and the famous late-1990s economic boom was launched. Again, in 2003, Congress accelerated the Bush tax cuts, enacted in 2001 but initially phased in over many years, and added substantial reductions of the tax barriers to saving and investment. The result was a marked and nearly instant acceleration of the economy and a rapid, sustained reduction in the unemployment rate. And a stronger economy means a larger pie for all Americans. It means higher take-home pay, lower unemployment, and higher tax revenue—without the job-killing tax hikes on small businesses or investors.

- **Tax reform should boost the economy, not raise taxes.** The purpose of tax reform is to reduce the role of government in market decisions to encourage dynamism and growth in the economy. It is not to raise more revenue for Washington to spend. Eliminating tax preferences while failing to lower rates in a way that fully offsets the increased revenue from eliminating those preferences—or, worse, raising rates at the same time—is not tax reform. It is raising taxes.

## THE WAY FORWARD

- **Reject tax increases.** The fiscal mess we are in today is the result not of too little taxing, but of way too much spending. We must get a handle on our reckless spending instead of encouraging the growth of government by increasing taxes. America needs job-creating economic growth, and increasing taxes will hurt, not help, the effort to achieve this important goal. Policymakers should reject any suggestion of higher taxes. Higher taxes—whether from raising tax rates or from eliminating tax preferences without accompanying pro-growth changes like lowering rates—are unacceptable.
- **End the death tax.** The estate tax—better known as the death tax—contradicts one of the central promises of the American Dream: the promise that if you work hard, save, and live prudently, you will be assured the enjoyment of your earned success and can leave the fruits of your labor to your children. Taxing a lifetime of savings, on which Americans have already paid taxes when they earned it, is reprehensible. The death tax also takes a toll on the economy as it amounts to a tax on capital that destroys jobs, slows growth, and lowers wages. It hits family-owned businesses hardest, as they rarely have enough liquid assets to pay an untimely estate tax bill. The death tax should be permanently repealed.
- **Pursue improvements in the tax code.** Today’s enormously complex and increasingly burdensome tax system must be seriously reformed to eliminate its countless unfair loopholes and unleash the productive potential of the U.S. economy. Congress must therefore make the popular case for tax reform by explaining to the American people what is wrong with the tax code and how tax reform benefits *all* Americans—not just the wealthy. The congressional committees most important for tax reform, the House Ways and Means Committee and the Senate Finance Committee, have held hearings on tax reform over the past year. They must hold more such hearings with greater regularity to educate Members of Congress and the public about the details of tax reform, and they should pass fundamental tax reform packages to demonstrate how they would change the tax code.

- **Congress can make even greater strides toward tax reform by showing how it could help the economy and workers by eliminating the tax preferences that do the most economic harm and constitute the most egregious cases of cronyism in the tax code.** For instance, preferences for certain types of energy production and use, or for the purchase of certain so-called energy-efficient products, create distortions in the market that give some industries an unfair edge over the competition. Congress should eliminate these policies and offset the revenue increase that would result with pro-growth changes in taxes: for example, lowering marginal tax rates or making it easier to save without tax consequences. These would be “mini tax reforms” that would help pave the way for the full-scale version of reform down the road.
- **Lower the corporate income tax rate.** The U.S. has the highest corporate income tax rate in the industrialized world: almost 40 percent when combining the federal rate with the average rate added by the states, making it the least competitive developed country for businesses that wish to make new investments and create jobs. To revive the competitiveness of U.S. businesses in the global marketplace, the rate must come down to the average of other industrialized countries. The U.S. corporate tax rate should be set at (or ideally below) the Organisation for Economic Co-operation and Development average of 25 percent to eliminate the incentive to locate businesses and jobs overseas instead of in the U.S. Congress should seize on bipartisan agreement about the need for corporate tax reform and put together a plan that lowers the rate below the OECD average.
- **Be fair to small businesses.** Small businesses usually pay taxes through their owners’ individual tax returns. This generally subjects them to the high rates their owners pay, which were increased in January 2013. As part of corporate tax reform, Congress should change how it taxes small businesses so that they pay at the entity level and set the top small-business rate equal to the new, lower top corporate rate. A lower rate for small businesses would have the added benefit of encouraging growth by sharply increasing their incentives to invest and take on the kinds of risk that can pay off and lead to new jobs.
- **Shift to a territorial tax system.** Should Congress take up corporate tax reform, it would also be wise to switch to a “territorial system” that taxes businesses only on the income earned within U.S. borders. This would improve U.S. competitiveness abroad and in turn spur job creation. It would represent a move away from the so-called worldwide system the U.S. has now. A territorial system is in line with the tax policies of America’s economic competitors and is neutral to investment. The current worldwide system discourages investment that would create jobs here in the U.S.



because it adds a second layer of taxation that businesses' foreign competitors do not face. Eliminating this extra tax would put U.S. businesses on an equal footing with their foreign counterparts.

- **Eliminate the alternative minimum tax.** The alternative minimum tax (AMT) is a complicated secondary income tax system originally designed to raise taxes on higher-income earners by taking away certain deductions. Because Congress never indexed its income threshold to grow with inflation, the AMT now threatens to ensnare millions of middle-income families. Eliminating the AMT would reduce complexity and prevent unintended tax hikes on the middle class.
- **Build on existing work.** As it works toward tax reform in the future, Congress should keep in mind that a reformed tax code should accomplish all of the goals listed above *and* apply a dramatically lower and flat rate to a proper tax base that is not eroded by an overabundance of exemptions, credits, and deductions. There are numerous existing tax reform plans from a variety of sources, so Congress need not start from scratch. The Heritage Foundation has crafted such a plan as part of its comprehensive fiscal plan *Saving the American Dream*. It minimizes deductions and tax credits and establishes a single rate (between 25 percent and 28 percent) on income that is not saved; removes caps on how much money can be saved for retirement; and eliminates payroll taxes, the AMT, nearly all excise taxes, capital gains taxes, dividends taxes, and the death tax. As a result, it is revenue-neutral. Policymakers should follow this model as a guide for tax reform.

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## HERITAGE EXPERTS



CURTIS DUBAY



J.D. FOSTER



DERRICK MORGAN



REA HEDERMAN



ALISON FRASER



# DEATH BY TAXES



**D**eath and taxes are the only things certain in life. But the former shouldn't lead to the latter.

The death tax, assessed on an estate when the owner passes on, prevents families from building wealth and extending it from one generation to another.

Consider Grande Harvest Wine, a 40-year-old family-owned wine retailer operating in Grand Central Terminal in New York City. The goal of owner Bruce Nevins, like many other entrepreneurs and business owners, is to have his children work alongside him and one day to pass the business on to them.

But he's worried the death tax will prevent that from happening because his son very likely won't be able to afford all the tax liabilities that will be passed to him when his father dies and leaves him the business. And that means the family could lose the business altogether. So, instead of investing in growing his operation, hiring more workers, and paying higher wages, Nevins is spending money on expensive life insurance policies. He pays tens of thousands of dollars each year in the hope these policies will pay his heirs enough to cover the death tax liability when he dies.

Full repeal of the death tax would have an enormous positive effect on the economy, and would provide relief to countless family-owned businesses like Grande Harvest Wine. That would be good for owners, and for the millions of unemployed Americans who are looking to get back to work.





# Cut Spending, Fix the Debt, and Reform Entitlements

**B**y focusing almost exclusively on tax increases, the recent “fiscal cliff” debate missed the key point: The source of the country’s very serious fiscal challenges is *spending*.

The fiscal cliff skirted the very serious fiscal challenges that the country faces. When it comes to the federal government’s finances, forget the fiscal cliff analogy: We are heading straight toward the fiscal abyss. Federal spending per household has grown by 29 percent since 2002, to \$29,691. The gross national debt has cracked the \$16 trillion mark, and Medicare and Social Security face more than \$48 trillion in long-term unfunded obligations. This reckless spending and stubborn refusal to reform entitlements is mortgaging our children’s future.

Spending is how government does what it does. It is the reason government taxes and borrows and is therefore the root cause of all other fiscal consequences. Because all spending gets paid for eventually through taxing or borrowing (later to be repaid in taxes), it is the best measure of the government’s burden on the economy. Equally important, it reflects the extent to which government imposes on, commands, and smothers the primary institutions of America’s civil society—families, communities, civic associations, religious organizations, and so on—through which Americans live their lives and find their happiness. For these institutions to flourish, the size and scope of government must be restrained—and that starts with limiting spending.

This, however, is not happening. Federal spending is out of control. Its relentless growth, which reached nearly \$3.6 trillion in fiscal year 2012,



commandeers nearly one-fourth of the economy's total output and has produced four straight years of trillion-dollar budget deficits. Spending today is more than three times the peak level in World War II. On its present course, this spending will push publicly held debt to nearly twice the size of the entire U.S. economy in the next 25 years.

This spending path is unsustainable. Left unchanged, government will continue to absorb an ever-greater share of the economy, suffocating prosperity and threatening personal freedom. Past a certain level of indebtedness, it will no longer make sense to speak of the American Dream of opportunity and prosperity.

While some of this spending was a temporary result of the recession and financial crisis, the fact is that the Obama Administration seized every opportunity—from using TARP funds to take over Detroit to massive stimulus spending to Obamacare—to establish permanently higher spending, new programs, and an expanded role for government wherever possible. The past four years have offered a powerful reminder of the root problem: For too long, politicians from both political parties have promised expensive services and benefits without regard to cost, efficiency, or—most important—the proper size and role of government.

The greatest threat comes from entitlements. The three major entitlement programs—Social Security, Medicare, and Medicaid—account for 44 percent of all federal spending. (Defense spending, by comparison, accounts for less than 20 percent.) In the coming decade, each of these three programs is set to expand much faster than inflation and more rapidly than the entire economy. Without reform, the full cost of promised benefits for just Social Security and Medicare would require the government to set aside and invest more than \$48 trillion of Americans' tax dollars *today* to cover the long-term shortfall. Obamacare will add another \$1.7 trillion in new spending in just the next 10 years. In just 13 years, these programs, plus interest on the debt, are projected to swallow *all* federal tax revenue so that every dollar spent on other programs—from defense to infrastructure to welfare—will have to be borrowed.

A divided Congress is no excuse for lawmakers to neglect their fundamental obligation to enact a budget for the federal government. Nor does it reduce the imperative to rein in spending. Congress must act soon to correct the government's disastrous fiscal course. The only way to do that is to take control of federal spending so that it does not control, and perhaps destroy, the nation's future.

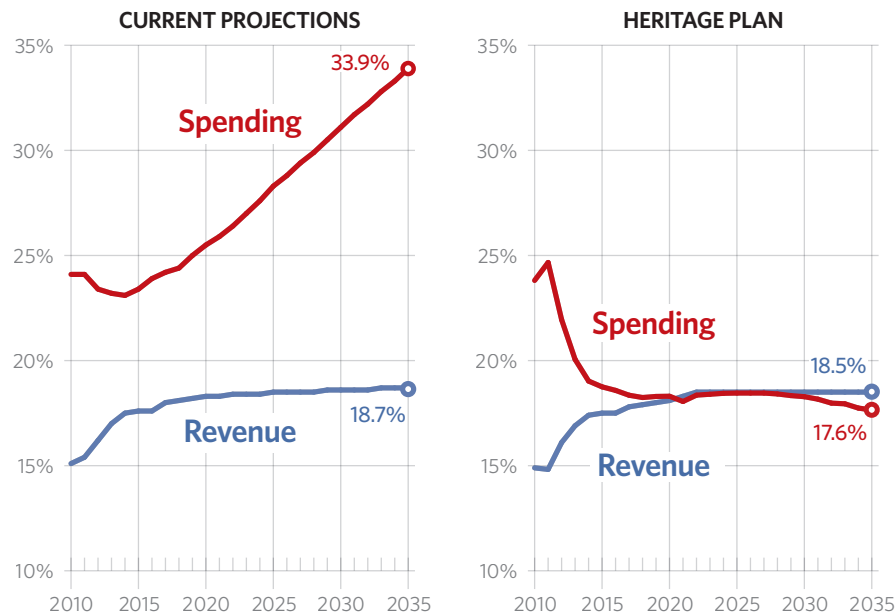
## GUIDING PRINCIPLES

- **The federal government is too big and does too much.** A government intended to be a limited framework for securing fundamental rights and

## Cut Spending, Fix the Debt, and Restore Prosperity

*By rapidly lowering total federal spending, Saving the American Dream: The Heritage Plan to Fix the Debt, Cut Spending, and Restore Prosperity would balance the budget by 2021 and keep it balanced permanently, without raising taxes.*

PERCENTAGE OF GDP



**Sources:** Current projections: Congressional Budget Office (Alternative Fiscal Scenario). Heritage Plan: Calculations by the Center for Data Analysis based on data provided by the Peter G. Peterson Foundation. For more information, go to [savingthedream.org](http://savingthedream.org).

the blessings of liberty has become highly centralized, heavily bureaucratic, and increasingly intrusive and domineering. It increasingly encroaches on civil society, business enterprises, and the proper roles of state and local governments. Instead of demanding that it perform so many questionable functions poorly, policymakers should focus on the federal government's core responsibilities. Beyond that, as many activities as possible should be restored to states or to the people. Outdated and ineffective programs should be eliminated, and as many government functions as possible should be handled by the private sector and a strong civil society.

- Government spending does not generate economic growth.** Every dollar spent by Washington must be taxed or borrowed out of the productive economy. Government only seizes control of economic resources and redirects them inefficiently. This is especially true today, as the majority of government spending consists of transfer payments. President Obama's signature stimulus plan of 2009 failed to generate growth. Instead, it boosted government spending and debt with little discernible benefit. Policymakers

should reject such failed fiscal strategies and pursue policies that support investment-based, sustainable long-term growth.

- **Entitlement programs must be reformed so that they do not bankrupt the nation.** Policymakers must take control of entitlement spending and reform Social Security, Medicare, and Medicaid. The entitlement mentality lures Americans into ever-greater dependence on government, and these programs are fiscally unsustainable. The unchecked growth of entitlements threatens to smother the economy and impose huge tax increases on future generations. To be preserved, these programs must be fundamentally restructured to generate real economic security for seniors in retirement and target benefits to those who are most in need. Delay will only make the needed changes more wrenching. These programs must be addressed now so that orderly reforms can curb their growth while maintaining a reasonable safety net.
- **The federal government should drive toward a balanced budget by reducing spending.** Spending reflects the size of government's burden on the economy because every dollar government spends is a dollar taken from the nation's economy. A firm commitment to holding spending within the government's means provides an ongoing check against expansion of the public sector and prevents heaping even more debt on future generations. The point of balancing the budget is to reinforce spending control and limited government, and less government spending also is a key to sustained, long-term prosperity.
- **A properly limited federal government can be achieved only through sound, regular budgeting.** Though the House has passed budgets each of the past two years, Congress as a body has not passed a budget in three years. Congress still spends money, of course, but on an ad hoc basis. The collapse of congressional budgeting has occurred at the worst possible time—with runaway spending and deficits reaching crisis proportions—and raises serious doubt about whether Congress is even capable of managing fiscal policy. Equally important, the breakdown reflects a failure in governing itself, weakening Congress as the policymaking branch. The regular, responsible, and orderly practice of budgeting will focus lawmakers on the true long-term costs of programs, the limits on total spending, and the necessity of making real choices among priorities.

## THE WAY FORWARD

- **Take steps to bring Medicare and Social Security under control in the debt ceiling debate.** Because Washington has failed to use its time wisely to fix our spending problems, Congress and the President often find themselves

putting together last-minute deals and avoid addressing our real problems. These deals are often not good for responsible government because the reforms we ultimately need take time to be structured correctly. However, Congress could quickly pass reforms that have bipartisan support: raising the Social Security eligibility age to match increases in longevity, correcting the Social Security cost-of-living adjustment to reflect a more accurate measure of inflation, raising the Medicare eligibility age to match Social Security, reducing Medicare subsidies for upper-income beneficiaries, reducing Social Security benefits for upper-income beneficiaries, and consolidating Medicare's various programs with a single premium. These important reforms should be part of any agreement to raise the debt ceiling. They would significantly improve our finances and serve as an important down payment toward larger reforms to strengthen and improve these programs.

- **Reject tax increases.** America's fiscal woes are not the result of the wealthy somehow avoiding to pay their "fair share" of taxes: The top 10 percent of earners currently pay 71 percent of all federal income taxes. (By way of comparison, the bottom 50 percent pay only 2 percent.) The federal government does not have a revenue problem. It has a spending problem. While government revenues are projected to return to their historical average level of 18.5 percent of GDP as the economy resumes growth, spending is projected to climb well in excess of 30 percent of GDP in the long term. By easing the pressure to bring spending under control, raising taxes will only feed more spending.
- **Cut and cap spending.** Congress should immediately roll back non-defense discretionary spending to a level that, when combined with entitlement reforms, gets to a balanced budget within 10 years. At the very least, such spending should be reduced by 0.5 percent of GDP in 2014 and 2015. By the end of the decade, this spending should be reduced to 2 percent of GDP and then allowed to grow at no more than the rate of inflation, with a cap of 2 percent in place from there forward. Cuts in this area should not only rein in spending, but also set firm priorities, such as reducing the size of the federal bureaucracy and consolidating duplicative functions. Adequate funding should be ensured for priorities such as national defense and other security programs, while other, lower-priority spending, such as subsidies to public broadcasting, AmeriCorps, and the National Endowment for the Arts, should be left to the private sector.
- **Fully fund national defense.** Although Congress must make substantial cuts in current and future spending, it must not compromise its first constitutional responsibility to provide for the nation's defense. Defense expenditures are not driving America's spending problem. As Heritage's *Saving the American Dream* fiscal plan shows, it is possible to fully fund the nation's



defense against threats today and in the future while balancing the budget and without raising taxes.

- **Reform health care entitlements.** Ultimately, Obamacare should be ended however possible, and federal health programs should move to patient-centered, market-based health care. Medicare and Medicaid must be made fiscally sustainable, consistent with the principles and objectives of health care reform, and that can be done as part of reforming health care policy.
- **Restore Social Security to its original purpose as insurance against seniors living in poverty.** By transitioning to a flat benefit and by targeting benefits to those who are most in need, Social Security can fulfill its original purpose—keeping seniors out of poverty—without placing unbearable financial burdens on younger generations.
- **Put entitlements on a budget.** Spending levels for Social Security, Medicare, and Medicaid are not set or even debated by Congress. Lawmakers must take these programs off autopilot and set a long-term budget for each major entitlement with an obligation to adjust the programs as necessary to keep each within budget and protected from insolvency. Congress should also disclose the projected cost of any proposed policy or funding level for major entitlement programs over a long-term horizon so that lawmakers can ensure that policies are sustainable and affordable.
- **Balance the federal budget and keep it balanced.** Americans have made it very clear to Washington over many decades and through a variety of tax regimes that there are limits to how much they will pay in taxes (as a percentage of the economy). The budget should be balanced within five to 10 years and kept in balance thereafter as Congress caps total spending at the historical average level of tax revenues. This will help stabilize and reduce government debt. One way to accomplish this goal is provided in detail in *Saving the American Dream*. A sound Balanced Budget Amendment (BBA) could be important to help bring long-term fiscal responsibility to America's future, but it is more important for Congress to cut spending now to address the current overspending crisis. An effective BBA would control spending, taxation, and borrowing; enforce the requirement to balance the budget; and ensure the defense of America while protecting against judicial overreach.
- **Stabilize and reduce the debt.** Publicly held debt was \$11.3 trillion at the end of FY 2012, which is nearly 73 percent of GDP, and is on track to reach roughly twice the size of the entire economy in 25 years. Congress must reduce and stabilize the debt-to-GDP ratio by cutting spending. A lower debt burden will remove the threat of financial crisis and restore the confidence of investors and lenders. It will also sharply reduce the burden on future

generations, relieve the pressure on interest rates, and be more conducive to growth and future prosperity.

- **Restore and strengthen congressional budgeting.** Budgeting has all but collapsed in recent years, reflecting an erosion of both fiscal policy and Congress's ability to govern. Process reforms should focus first on compelling Congress to budget regularly in a systematic and responsible way. Enforcement procedures should be strengthened to ensure spending discipline. Finally, the process should incorporate realistic projections of fiscal outcomes. For example, lawmakers should estimate and publish the projected cost over 75 years of any proposed policy or funding level for each major federal program, especially entitlements. Any major policy change should also be evaluated over a long-term horizon. In addition to calculating the costs of proposed congressional actions without regard to the economy's response to those actions (known as "static" scoring), the government should require a parallel calculation that takes that response into account (known as "dynamic" scoring) to make more practical and useful fiscal information available to Congress when it decides whether to pursue certain actions.
- **Reject earmarks.** Congress should assert its authority to determine how federal dollars are spent by setting the rules, eligibility, and benefit criteria for federal programs. However, lawmakers should focus spending on responsibilities intrinsic to the national government and not merely redistribute funds to support purely parochial state and local interests. Congress should enact a permanent prohibition against legislation that specifies which particular businesses, organizations, and locations will receive federal dollars, especially grant awards.
- **Privatize assets and operations to limit government.** The federal government owns huge swaths of land that could be commercially useful as well as power-generation facilities, valuable parts of the electromagnetic spectrum, underused buildings, and other assets. It also operates many programs that are better run by the private sector. As an integral part of returning to limited government, and with the added benefit of closing deficits, Congress should conduct an aggressive program of privatization.

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## HERITAGE EXPERTS



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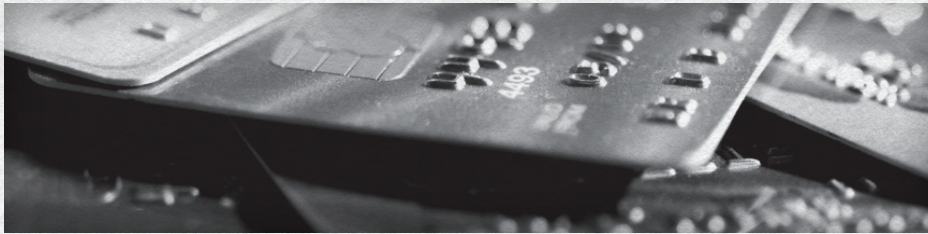
STUART BUTLER



J.D. FOSTER



# OUR FUTURE, ON A CREDIT CARD



**W**hat if your family handled its finances the way the federal government does? It's a silly question, of course: Washington bureaucrats would never allow you to get away with such shoddy accounting practices.

But if a typical family followed the federal government's lead, it would spend \$73,319 each year even though it earned only \$51,360. That means it would be putting 30 cents of every dollar it spent on a credit card. Over the years, this family would have racked up \$325,781 in credit card debt—more than the average mortgage, only without the house.

No credit card company would continue lending money to this family. Think of that as lawmakers discuss their plans to increase the debt ceiling—the amount the government is allowed to owe.





From **Welfare State**  
to **Opportunity Society**





# End Obamacare and Finally Fix Health Care

If Americans want to preserve the greatest health care system in the world, our health care *policies* must be changed.

The country faces very real health policy problems. Health care costs are rising at an alarming rate—more than three times the rate of inflation—while individuals and families have less control over their health care dollars or decisions. Millions of Americans do not have access to affordable quality coverage, face gaps in their coverage, or risk losing coverage.

By the end of the next decade, almost half of all health care spending will be controlled by the government. More government control over the financing of health care means that government will control more of our health care decisions.

The rising costs of health care are also further straining the government's finances. The major health care entitlement programs on which millions of Americans already depend have far surpassed their original cost estimates and face trillions of dollars in unfunded long-term promises. Demographic, structural, and fiscal challenges make certain that these programs cannot survive on their current path.

Meanwhile, in the private sector, federal tax policy almost exclusively favors individuals who get health insurance through their jobs. It discriminates against people who do not have job-based coverage and discourages people who want to buy their own health insurance. The unlimited tax break offered to employees also creates the wrong incentives, encouraging workers to receive more in health benefits than they otherwise would have.

This is a recipe for disaster. And yet, instead of enacting sensible reforms, the Obama Administration and a partisan Congress made these problems much worse. The Patient Protection and Affordable Care Act, colloquially known as Obamacare, moves America's health care system in the wrong direction. The law leads to price controls and one-size-fits-all regulations that misallocate resources and cause headaches for doctors and problems for patients who are trying to access health care.

Worse is the form of governance that Obamacare represents. Something that at first seems merely to be bad health care policy actually becomes a vast intrusion into some of the most important aspects of our daily lives. Beyond its unprecedented mandates, new taxes, massive entitlement expansion, unworkable and costly insurance provisions, and failure to control costs, the law concentrates enormous power in the Department of Health and Human Services (HHS). It creates a giant network for the federal micromanagement of health plans, benefits, and insurance markets and unprecedented intervention into the details of health care financing and the delivery of medical care, transferring to unelected bureaucrats many decisions that should be in the hands of patients and their families.

The early result is a veritable flood of controversial rules and regulations, administrative decisions, and guidelines directly affecting the lives of millions of Americans. This regulatory regime is even more onerous because of the hastily enacted legislation's fundamental flaws, including undefined provisions and unrealistic timelines. Those with knowledge, access, and influence with the Administration are more likely to obtain exemptions than those who are not so fortunate. In many cases, the new law gives the Secretary of HHS broad discretion to apply the provisions of the law and to enforce it, thus replacing the rule of law with the rule of political appointees.

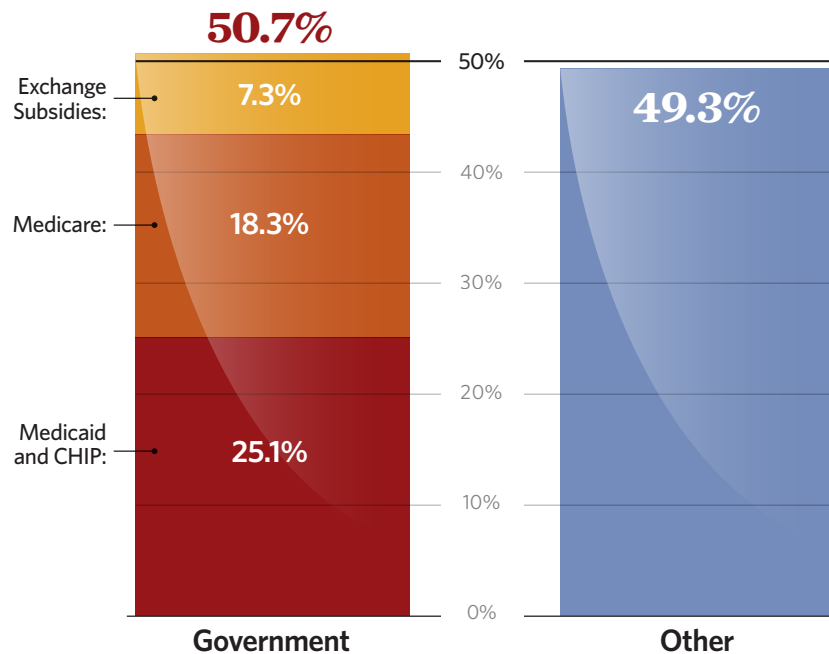
Obamacare is still unsettled law. It remains unpopular with the public, is unworkable from a technical standpoint, and is unsustainable on a fiscal front. For these reasons and more, the law is vulnerable. The full and complete repeal of Obamacare is necessary to get health care reform back on track. Congress at the same time must prevent the law from taking root and bring consumer-choice, market-based solutions back to the forefront. The states, too, have a critical role in preventing bad federal policy from taking root in the states. Most urgently, states should reject the establishment of exchanges and the massive Medicaid expansion.

If this is done correctly, Congress can advance positive health reforms that would address some of the most pressing and difficult problems faced by millions of Americans by bringing down costs, expanding access, and giving people control of their health care decisions while alleviating genuine

## Obamacare Expands Dependence on Government Health Care

*Obamacare dumps millions into Medicaid and creates new federal subsidies for government-approved coverage. As a result, by the end of the decade most Americans will receive health coverage through government programs.*

SHARE OF HEALTH CARE ENROLLMENT IN 2020



Source: Centers for Medicare and Medicaid Services, Office of the Actuary, January 2012 report.

concerns about the long-term solvability of Medicare and Medicaid's problems through entitlement reform. The ultimate objective is to maximize value for individuals and families so that they receive better benefits and higher quality care at lower costs.

Real solutions require real reforms that will empower patients, not bureaucrats; expand choice, not restrict options; increase competition, not drive insurers and providers out of the market; encourage innovation, not penalize it; and protect future generations instead of shackling them with crushing debt.

## GUIDING PRINCIPLES

- Individuals and families, not government or employers, should control health care decisions.** With greater control of their health care dollars and decisions, individuals and families would be able to buy the kind of plans they want, buy the kind of benefits they want, and choose doctors and other medical professionals for the services *they* want at a price *they* wish



to pay. Today, the terms and conditions of health insurance are set almost exclusively by employers, insurance executives, or government officials instead of being determined by individuals and families in a consumer-driven health insurance market.

- **Individuals and families should control their health care dollars.** To control their health care decisions, individuals and families need to control their health care dollars. This would enable individuals to buy their own health insurance policies, just as they do with their auto, life, and homeowners' policies, and take them from job to job without a tax or regulatory penalty. In other words, they would have a property right in their policies. Today, the vast majority of people risk losing their health coverage when they lose or change their jobs. Personal ownership would allow people to stay covered regardless of their job or job status. This kind of portability in health insurance hardly exists anywhere in America today.
- **Robust competition is the only way to drive down costs while improving quality.** Giving control of the dollars and decisions to the individual would make health plans, doctors, and other medical professionals directly accountable to the patient. Instead of allowing the government or employers to pick winners and losers as is the case today, a consumer-based market would drive these players to compete based on price and quality. A clean and clear level playing field for health providers and plans would inevitably lower costs and improve the quality of health care, as it does in every other consumer sector of the economy.
- **Government centralization violates liberty.** The federal government has acquired an all but unquestioned dominance over many areas of American life. The scope and depth of its rules means that the federal government increasingly regulates more and more of our most basic activities. Obamacare is a clear example of this problem on a massive scale: It establishes the intrusive rule of appointed and tenured "experts"—operating through a maze of boards, panels, and commissions—who enforce their notions of what is good for us through detailed rules and regulations. This centralized approach is not only inefficient and stultifying, but also incompatible with the rule of law and self-government.
- **Health care must not violate religious liberty.** Health care necessarily deals with intimate and personal medical questions of great ethical and religious import. Any government programs or reforms, even the most minimal and least intrusive, must respect religious liberty. No American taxpayer should be coerced into financing abortion, for example, or physician-assisted suicide. Centralized health policy will inevitably

collide with the rights of conscience because it puts the moral compass for such decisions in the hands of bureaucrats. Health care policy must be fundamentally reformed to allow Americans to choose plans and care that meet their personal needs consistent with their religious and moral convictions.

- **The constitutional resolution of Obamacare was not settled by the Supreme Court.** The Supreme Court’s decision that there *are* limits to what Congress may do under the Commerce Clause even though the Obamacare mandate to purchase insurance could stand under the power to tax essentially threw the matter back to the popularly elected branches of government. At the same time, there are other important challenges making their way through the courts, and more are likely to follow as new details of the law become known.
- **States have a crucial role to play in reform.** The 50 state governments are deeply involved in health care policy from regulating insurance products to administering health programs. States can and should challenge the implementation of Obamacare at every stage. They should also take the lead in health care reform by identifying the key health care challenges facing their citizens, structuring a consumer-based marketplace for health insurance, and expanding affordable health care options for their citizens. Such state-led reforms can help guide and promote larger and appropriate federal reforms.

## THE WAY FORWARD

- **Prevent Obamacare from taking effect.** Obamacare was a major step in the wrong direction. Congress should vote on its full repeal as soon as possible to reinforce opposition, especially in the House of Representatives. At the same time, with less than one year before the major provisions of the law take effect, Congress should focus on stopping, scaling back, and delaying provisions of the law; limiting its funding; and conducting rigorous oversight over its implementation. A new Congress provides numerous opportunities to strike at Obamacare and push the alternative reforms back to the forefront.
- **In addition to stand-alone legislation, Congress must be prepared to include measures to block Obamacare in other must-pass legislative vehicles.** For example, debate over entitlement spending should include Obamacare—specifically, defunding the exchange subsidies and the Medicaid expansion, the two most costly spending provisions in the new law. Other legislative opportunities may arise, and Congress must be ready to act.

- **Offer a clear alternative vision focused on driving down costs and expanding access.** Health care reform that preserves American liberty is essential and more important than ever. To achieve a health care system that puts patients first, policymakers must not only firmly reject the flawed and failed policies in Obamacare, but also continue to articulate to the American people a positive, alternative vision for the future of health care: a promising future in which individuals have access to high-quality care at lower cost without heavy-handed government intrusion into personal health care matters. Congress should lay out a path to that future. The Heritage Foundation’s *Saving the American Dream* plan would put the United States on a course toward a truly consumer-centered, market-based health care system. These basic reforms include protecting and improving Medicare and Medicaid for those who need it, removing the inequities in the tax code, and bringing commonsense insurance reforms to the market.
- **Pursue health care reform through the regular legislative process.** Major legislation should be designed and considered in ways that are deliberative and democratic. Congress pushed Obamacare through in the end with too much haste and closed-door deliberation. Future health care reforms should be pursued through the normal legislative process and the legitimate use of regular procedures—including authorization, appropriations, and reconciliation as appropriate—to ensure thorough consideration and debate in each house of Congress.
- **Reform health care entitlements.** The real challenges facing Medicare and Medicaid, the government programs for seniors and the poor, are unavoidable. Over 80 million seniors are set to retire and enroll in Medicare, and one in four people are expected to be on Medicaid by 2020. Structurally, 90 percent of seniors carry supplemental coverage to fill in the gaps left by traditional Medicare, and fewer doctors are willing to see Medicaid patients. The fiscal future is also troubling with Medicare facing \$37 trillion in unfunded obligations. Medicaid spending at the state level is consuming greater portions of state budgets and squeezing out other important state priorities. Federal spending on these two programs is slated to consume 6.8 percent of GDP (gross domestic product, or the annual output of goods and services by the U.S. economy) within 10 years. These programs, established in 1960, need serious reform, not more of the same.
- **Restructure the tax treatment of health insurance.** The way the tax code treats health insurance is also outdated and unsustainable. The tax code provides unlimited tax relief for those who obtain their health insurance through their workplaces, but there is no comparable tax relief for those who obtain health insurance on their own. This may have made sense when a worker in 1950 used to get a job at age 18 and stay with the same company

until retirement, but today's workforce is far more mobile. The tax code also encourages more spending, and employers ultimately remain in control of the dollars and decisions. The tax code should reflect the changing times and be restructured to allow individuals to own and control their health care.

- **Refine insurance market regulations.** The current health insurance market for individuals is small (and temporary for many), so it is no wonder that the marketplace for individual-based health insurance is sparse. Throughout a lifetime, individuals can churn through the maze of government programs, employer-based coverage, and the individual market and even go without insurance. Therefore, some judicious insurance market reforms—such as extending long-standing protections to the individual market, creating a pathway to coverage for the uninsured, and expanding access to coverage, such as allowing individuals to pool together and enabling individuals to purchase coverage across state lines—should accompany the financial changes in order to achieve true portability in a consumer-choice, market-based model.
- **Promote federal–state partnerships.** A one-size-fits-all national solution cannot accommodate the unique and diverse health care challenges facing the states. Similar to the highly successful reform of welfare, there are many areas in which states can lead the way. Most immediately, states should resist accommodating Obamacare's state exchange and Medicaid expansion. Continued uncertainty and new cost burdens make this a risky proposition. States would be better suited to focusing on developing a viable, consumer-based alternative to Obamacare. States can begin now to enact consumer-centered, market-based reforms that are consistent with the overall vision for health reform. These efforts can provide the groundwork to spur federal reforms.



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## HERITAGE EXPERTS



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# SAVING PATIENTS, FROM BUREAUCRACY



“I never imagined that I would have to become politically active to take good care of my patients,” says Martha Boone of Atlanta. “That’s added a whole other element to the life of being a doctor.” She is speaking out against health care reform that’s bad for her patients.

“In one day, I had three patients in the office whose primary care cardiologists had stopped taking Medicare, and all three of these patients had to go to the emergency room,” Boone says. “This is absolutely a travesty.”

Boone is concerned that things will only get worse as Obamacare moves forward. “It’s getting to the point where the bottom line is coming up and we’re just not able to sustain what we’ve done in the past,” she warns.





# Preserve Social Security as Real Insurance

Social Security has provided retirement, survivors, and other benefits to millions of Americans for over 70 years, yet most Americans still do not understand how the program operates.

For instance, a significant number of Americans believe that the taxes and premiums they pay into Social Security have been saved and invested in their name so that they can be used to pay promised future benefits. They think the money is set aside, as it is with an IRA, and saved up for their later use.

This is not the case. In reality, Social Security is a pay-as-you-go program: Today's retirees are being supported by today's workers.

That worked well enough in earlier days when there was a relatively small number of retirees compared to workers paying the taxes that funded their benefits. In 1950, for example, there were 16 workers for each retiree. But this ratio declined over time as people began living longer, retiring earlier, and having fewer children. By 1965, there were just four workers supporting each retiree. By 2009, that was down to just three workers per retiree, and it will continue to shrink in the years ahead.

Since 1935, Social Security has expanded in ways that its founders never anticipated. Today, it provides (1) retirement income to workers and their spouses, (2) survivors benefits to the eligible family members of deceased workers, and (3) disability benefits for workers who have been injured and are unable to work and to the families of those workers.

As Social Security has grown, so has its tax bite. At the dawn of the program, workers were taxed 2 percent on the first \$3,000 they made, and nobody paid

more than \$60 per year. Today, of course, Social Security costs workers and their employers an amount equal to 12.4 percent, one-eighth of their annual earnings, and even that isn't enough. Since 2010, Social Security has run growing deficits that its professional actuaries say will never end.

Social Security does have a \$2.7 trillion trust fund from the surpluses that it collected between 1983 and 2009—but there is no money to back it up. Rather than build up real assets in a real trust fund, Congress spent that money on everything from roads to corporate welfare and issued IOU's to the trust fund.

What is left is all trust and no fund. Social Security ended up with a pile of special-issue Treasury bonds that the U.S. Treasury will have to repay to finance Social Security's deficits. Unfortunately, the money to repay those bonds comes from general revenue taxes. The government will have to cut back other spending, borrow still more money, or raise taxes to pay for them.

The only way to save Social Security is to transform it. Instead of being an “income replacement” system that pays benefits to every retiree, Social Security should return to its original mission: an insurance program that keeps all seniors out of poverty and assures that everyone can enjoy a decent retirement income.

## GUIDING PRINCIPLES

- **Social Security must be reformed if we want to save it.** The Social Security program has promised to pay \$11.3 trillion more in benefits than it will receive in payroll taxes over the next 75 years. The only way that future retirees can collect all of the benefits promised to them is to make their children and grandchildren pay massive amounts of additional taxes. This would be unfair to our children and grandchildren.
- **Social Security should become a true insurance program.** In order to ensure the program's survival, Social Security benefits must evolve over time into a flat payment to those who work a full career. This flat payment should be sufficient to keep them out of poverty throughout their retirement. This means that retirees with higher amounts of income from sources other than Social Security would receive a smaller check, and very affluent seniors would receive no check.
- **Benefits should be based on realistic assumptions.** The current cost of living adjustment (COLA) overstates the annual increase in living expenses and causes benefits to climb faster than inflation. In addition, the current retirement age is too low and does not reflect increases in life expectancy. Both of these problems can and should be corrected with simple reforms.



- **It should be easier for Americans to save for their own retirement.** In order to have a comfortable retirement, almost everyone needs to supplement their Social Security benefits with individual retirement savings. Policymakers should change the tax code to encourage saving and create simple ways to allow all Americans to save for retirement.

## THE WAY FORWARD

- **Increase retirement ages to reflect increases in life spans.** Over the next 10 years, the age for full benefits should rise to 68 for workers born in or after 1959. Over the next 18 years, the early retirement age should rise to 65 for workers born in or after 1964. After that, both early and normal retirement ages should be indexed to longevity, which will add about one month every two years according to current projections. Those nearing retirement now would be affected only slightly by this change.
- **Improve the accuracy of the annual COLA adjustment.** The cost of living adjustment is intended to protect against inflation's reducing the purchasing power of Social Security benefits. The current index that is used to calculate the annual benefit adjustment is inaccurate and should be replaced by an alternative, such as the "chained" Consumer Price Index, that reflects the way that people adjust their spending to changes in prices. An improved index could easily be substituted for the less accurate measure.
- **Limit Social Security to those who most need it.** Rather than place substantial burdens on younger generations through higher taxes or more borrowing, Social Security should be returned to a true insurance program by focusing benefits on those who need them most and limiting benefits for those who are better off. This should work in parallel with similar changes in Medicare that reduce the government subsidy for Medicare premiums. Using a transparent mechanism, retirees with substantial non-Social Security retirement income would receive a lower benefit on a sliding scale that gradually reduces Social Security checks to zero for those with the very highest non-Social Security incomes.

The simple sliding-scale approach would be a major improvement on today's complex and confusing system that adjusts Social Security benefits and taxes according to income. Meanwhile, benefits would be protected for the truly needy. Real insurance also protects seniors from poverty if their financial situation changes. Retirees who suffer a sudden drop in non-Social Security retirement income would find their benefits rapidly restored.

- **Guarantee retirees a flat benefit high enough to ensure that no senior falls into poverty.** As the Social Security reforms like those recommended above are implemented, current retirees and those who are close to retirement would see only a minimal change in the basic design of their benefits. Those with a significantly longer time before retirement, who have more flexibility in planning their future, would see larger changes in their benefits.

Workers born after 1985 should come under a new flat Social Security benefit system when they retire. As described in *Saving the American Dream*, such a flat benefit would be the equivalent of about \$1,200 per month in 2010 dollars when the reform is complete. This is both higher than today's average Social Security retirement benefit payment (\$1,164 per month) and well above the 2009 poverty level for a single adult over age 65 (\$857 per month). To ensure that future retirees do not slip back into poverty, the flat benefit level should be indexed for wage growth. The flat benefit will also be income adjusted for retirees with significant amounts of non-Social Security income.

- **Provide an incentive to work later in life.** Individuals who choose to continue to work past their full retirement age and delay receiving their Social Security benefits should receive a special tax incentive that would increase their income.
- **Enable more Americans to save for retirement.** As Social Security is reformed to provide a guaranteed benefit to keep seniors out of poverty, it is important to make it easier for Americans to save for their own retirement. Today, less than half of employed Americans can use regular payroll deductions, the most effective method to save for retirement. A simple, low-cost mechanism that combines payroll deduction with automatic enrollment could increase that proportion to about 90 percent. Such a private retirement savings system—employer-sponsored and owned by individual workers who could decline to participate in the program—could give all Americans another tool with which to improve their retirement standard of living. Americans are already familiar with such investment tools: savings could be invested through an improved version of the IRA/401(k) employment-based retirement savings system, and the money put into these savings accounts would remain completely free of taxation until it is actually spent. And as benefit reforms drive the costs of Social Security below the level of taxes collected, the additional savings from those reforms could also go into the workers' accounts.

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DAVID C. JOHN



ALISON FRASER



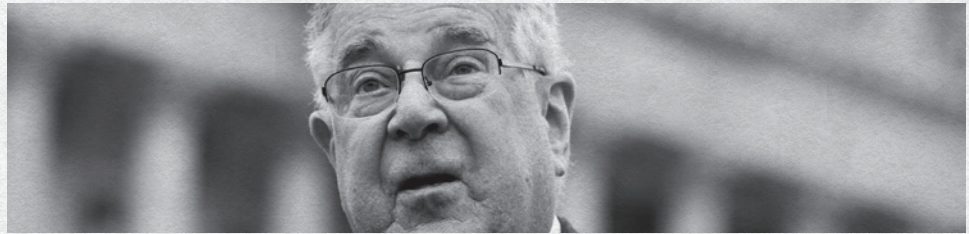
STUART BUTLER



J.D. FOSTER



# INSURANCE MEANS SECURITY



**R**epresentative Pete Stark (D-CA) earns \$174,000 a year as a Member of Congress. He has a personal fortune of about \$27 million. And three of his children get Social Security checks. Stark is doing nothing illegal or untoward: That's just the way today's Social Security works.

Benefits for children and spouses were created back in 1939, when in most families, only the husband was employed. When he stopped work, the family had no more income other than a small Social Security check. Children's benefits were intended to allow them to stay in school rather than go to work to support the family. No one expected these benefits to go to a millionaire's kids, yet today they do.

Social Security should be reimagined as a real insurance program. That is the only way it can survive.





# Make Welfare Work for the Poor

When President Lyndon B. Johnson declared a national “War on Poverty” in 1964, he explained that welfare programs were not intended to produce and support long-term dependence but rather to “prevent” and “cure” poverty once and for all.

Since then, the U.S has spent \$20 trillion on welfare programs to help the poor. In 2011 alone, government spent more than \$927 billion on 79 such programs—nearly \$9,000 per year for each poor and low-income American. Means-tested welfare, or government aid to poor and low-income persons, is now the third most expensive government function. Even before the current recession, one out of every seven dollars in total federal, state, and local government spending went to means-tested welfare.

Despite such major expenditures, poverty rates have remained virtually unchanged since the 1960s, and the welfare system continues to grow. Even worse, our government’s massive spending on welfare has ended up hurting many of those it was intended to help. The current welfare system fails to promote self-sufficiency and often traps people into poverty by discouraging work and marriage. For example, in 1964, just 7 percent of children in the United States were born to unwed mothers. Today, more than 40 percent of all births in the nation occur outside of marriage. Among black Americans, seven out of 10 children are born to unmarried mothers.

Ironically, annual means-tested welfare spending is more than sufficient to eliminate poverty in the United States. Total means-tested spending is roughly five times the amount necessary to pull every single poor person out of poverty.

Why, then, has the U.S. welfare system failed to lift the poor out of poverty and deliver on its promise of prosperous self-sufficiency? The answer is that the nation's welfare policy is based on a misdiagnosis of the nature of poverty. Most poverty in America is not primarily the result of a lack of material goods. The typical poor household in the U.S. today has a standard of living that is higher than the public imagines. Some of America's poor do, of course, face significant hardships, but these individuals are a small minority.

While the U.S. welfare system may have succeeded in boosting living standards of the poor, it has tragically failed to promote self-sufficiency. Sound anti-poverty policy must address the causes, not merely the symptoms, of poverty. The two greatest drivers of poverty today are the rise of unwed childbearing and the culture of dependence that discourages work. Policy should focus on strengthening marriages in low-income communities and helping able-bodied welfare recipients to work or prepare for work as a condition of receiving aid.

It is time to reform welfare and make it work *for* the poor and not against them. Too many Americans remain trapped in a system of government dependence, unable to rise and pursue the American Dream. The way to change course, and the key to truly helping those in need, is to point the way to upward mobility.

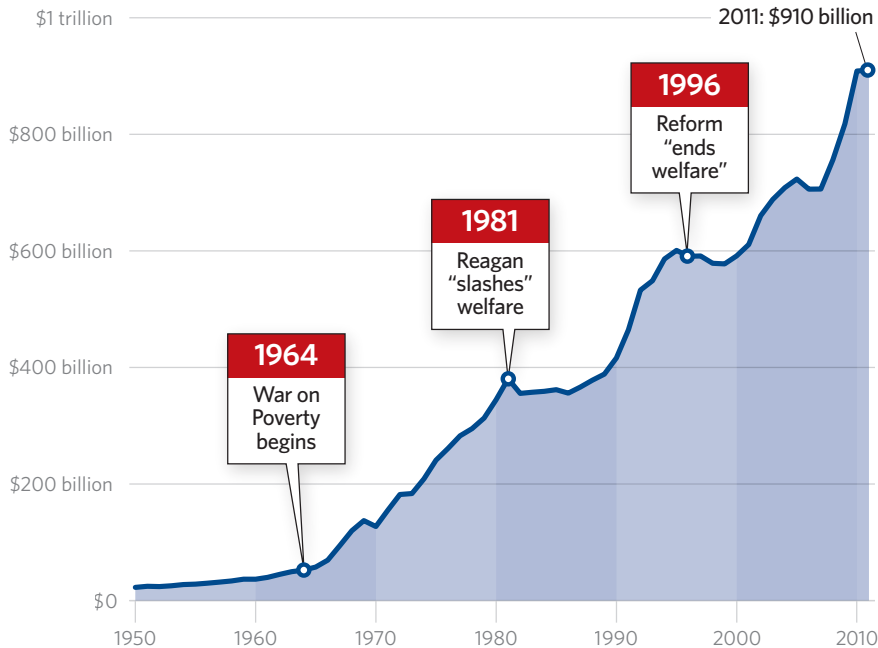
## GUIDING PRINCIPLES

- **Welfare should promote work, not dependence on government.** Welfare “gives” the poor many things, from cash to subsidized housing, but it also takes away a crucial ingredient of happiness: the incentive to work, to save, to improve oneself. Its no-strings-attached benefits constitute what the wise Benjamin Franklin would have denounced as “a premium for the encouragement of idleness.” Programs should be reformed to encourage work. The 1996 welfare reforms, for example, inserted work requirements into the largest government cash assistance welfare program. As a result, welfare rolls dropped by half, and child poverty plummeted. Building on the successful 1996 model, welfare reform today should continue to promote personal responsibility by encouraging work. Examples of how to promote work include work requirements for benefits under food stamps and public housing programs.
- **Welfare programs should not penalize work.** For many poor Americans, a job or working more hours will translate into less disposable income at the end of the month once you factor in taxes and the loss of particular benefits. In other words, because of the perverse incentives created by welfare

## Total Welfare Spending Is Rising Despite Attempts at Reform

*Total means-tested welfare spending (cash, food, housing, medical care, and social services to the poor) has increased more than 17-fold since the beginning of Lyndon Johnson's War on Poverty in 1964. Though the current trend is unsustainable, the Obama Administration would increase future welfare spending rather than enact true policy reforms.*

INFLATION-ADJUSTED DOLLARS (2011)



**Source:** Heritage Foundation calculations based on data from current and previous Office of Management and Budget documents and other official government sources.

programs, many poor Americans essentially have no short-term financial incentive to find a job or work more. Policymakers should reform programs so that they do not discourage additional work. This is particularly true for many programs enacted during the economic downturn such as unemployment benefits that exceed a year and other programs that penalize workers for trying to earn more.

- **Marriage is America's greatest antidote to child poverty.** When it comes to poverty, the family is not a tangential social or religious issue; it is a crucial economic one that is deeply intertwined with standards of living and upward mobility. Marriage reduces a child's probability of living in poverty by about 82 percent. The poverty rate for single parents with children in the United States in 2009 was 37.1 percent, compared to 6.8 percent for married couples with children. The federal government should eliminate tax penalties for married couples and ensure that existing programs promote marriage.

## THE WAY FORWARD

- **Strengthen existing welfare programs by inserting work requirements.** All able-bodied adult recipients of welfare should be required to work or prepare for work to be eligible for welfare. Work requirements in Temporary Assistance for Needy Families (TANF) should be restored and strengthened. Work requirements should be added to food stamps and public housing assistance programs.
- **Promote marriage as an antipoverty tool.** The collapse of the family is a deep-seated cultural problem. As such, it admits of no simple policy solutions. But public policy must not be neutral: Policymakers and program managers should promote pro-marriage messaging in existing government programs and eliminate marriage penalties in welfare and tax policies.
- **Use loans, not grants.** Granting welfare to able-bodied adults creates a potential moral hazard because it can lead to an increase in the behaviors that generate the need for aid in the first place. A reformed welfare policy can reduce this moral hazard by treating a portion of welfare aid as a loan to be repaid rather than as an outright grant from the taxpayer.
- **Demand an accurate accounting of government spending on anti-poverty programs.** Policymakers and the American people deserve to know how much taxpayer money is spent every year on welfare. The welfare system consists of about 80 programs housed in over a dozen federal agencies. Nowhere in the budget is total welfare spending outlined. The President's annual budget should detail current and future aggregate federal means-tested welfare spending and provide estimates of state contributions to federal welfare programs.
- **Call attention to the price tag of aggregate welfare spending and cap its growth.** Controlling the explosive growth in welfare spending is crucial. Once the economy recovers, or by 2017 at the latest, aggregate welfare funding should be capped at pre-recession (FY 2007) levels, accounting for inflation. Total federal welfare spending should grow no faster than inflation in the following years. This would require Congress to determine which of the government's approximately 80 welfare programs further the goal of alleviating poverty. The spending cap would save taxpayers \$2.7 trillion during its first decade.



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## HERITAGE EXPERTS



ROBERT RECTOR



JENNIFER MARSHALL



KATHERINE BRADLEY



RACHEL SHEFFIELD



# FIGHTING POVERTY FROM THE NEIGHBORHOOD UP

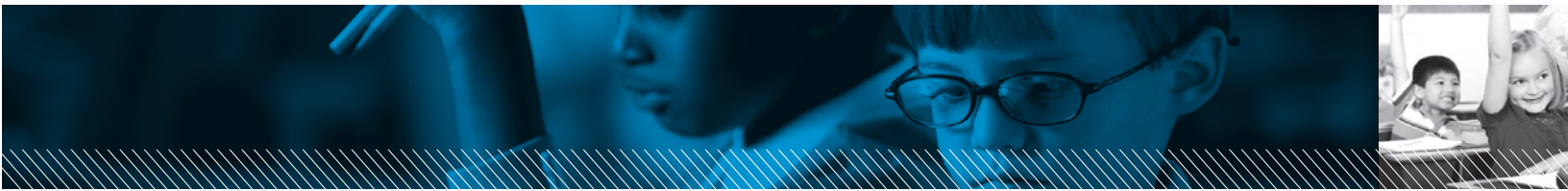


Jubal Garcia is director of “Outcry in the Barrio” ministries. The program was launched by his parents more than 40 years ago when they turned their humble one-bedroom home into a safe haven for drug addicts and alcoholics. The program has expanded to 100 sites in five countries, including a \$3.6 million rehabilitation center in its home base of San Antonio.

Over the decades, thousands of men and women have reclaimed and renewed their lives through the ministry. Although the outreach has grown in scope and scale, the essential principles of Outcry in the Barrio have not changed. In their journey to recovery, addicts and alcoholics are immersed in the supportive, understanding environment of a group home with house parents who, like the Garcias, provide unconditional, consistent care.

The lesson is simple: The government safety net may be able to provide temporary material support for those with nowhere else to turn, but the poverty problem in America is much more complex. That’s where the relational work of Outcry in the Barrio and similar groups can have dramatic effects where the War on Poverty has failed. When it comes to fighting poverty, big government can’t hold a candle to individual efforts.





# Improve Education by Expanding Options

For generations, Americans have correctly understood that a good education is key to pursuing the American Dream.

Look no further than the unemployment rates. In November 2012, the Bureau of Labor Statistics reported that the unemployment rate for those without a high school diploma was 12.2 percent. For high school graduates, the rate dropped to 8.1 percent, and those who have earned a bachelor's degree or higher have just a 3.8 percent unemployment rate. Moreover, Americans with a bachelor's degree earn on average 70 percent more each year than those with just a high school diploma. But despite the central importance of education, our schools, colleges, and universities are underperforming and failing thousands of students across the country every year.

Consider the underwhelming performance of our K–12 system. The average SAT reading (verbal) score is down 34 points since 1972. Graduation rates have been stagnant since the 1970s: One in four students do not graduate from high school. In addition, reading and math achievement has been virtually flat over the same time period, and American students still rank in the middle of the pack compared to their international peers. Even more alarming are the disparities between rich and poor and whites and Asians compared to other minorities. Clearly, our public schools, particularly those with a higher proportion that are poor and minority, are not doing a good job.

For years, political leaders from both parties have offered the same solution: Spend more on education and increase the number of federal programs. According to the U.S. Department of Education, the average annual per-pupil expenditure in public schools is more than \$11,000—double the amount it was in 1970 (in constant dollars). Some of the highest-spending school districts

also have the worst-performing students. Take Detroit (\$15,000 per pupil) or Chicago (\$13,000 per pupil) for example: Only 6 percent of Detroit 4th graders and 15 percent of Chicago children are functionally literate. Governments in the United States spend more than half a trillion dollars a year on public elementary and secondary education, or about 4 percent of GDP. Federal per-pupil expenditures have nearly tripled since the 1960s, and taxpayers have spent more than \$2 trillion on federal K–12 education programs alone.

If spending was the solution, the problems plaguing our education system would have been solved long ago. So what does work?

*First*, policymakers should limit federal intervention in education. A better path forward includes allowing states to consolidate funding from the programs under No Child Left Behind, opt out of the many federal requirements associated with those programs, and use those funds in ways that best meet the needs of local students.

*Second*, state and local leaders should empower parents with control over their share of education funding by allowing them to select the right school for their children. In too many districts, children are assigned to their local public school based on their parents' zip code. Lack of competition means that public schools have little incentive to improve, which contributes to lackluster academic performance across the country.

*Third*, innovative leaders in higher education have been developing new business models and incorporating new technology that is bringing down the potential cost sharply while tailoring courses to student learning styles and economic needs. But obstacles like accreditation and federal rules governing loans are slowing the spread of new ideas. State and federal leaders need to remove these obstacles and give a green light to innovation in school and college education.

School choice, by contrast, allows parents to spend their education dollars on options that best fit the needs of their child. School choice operates under the concept that education dollars should not fund institutions, but should fund the child instead, following a child to any school of choice: public, charter, private, virtual, homeschooling, or a combination of educational options. Although these options are proliferating, millions of children across the country are still trapped in government schools that fail to meet their needs, fail to provide them with a quality education, and in some cases even fail to provide for their safety.

For children who do graduate from high school, college is an expensive proposition of increasingly questionable value. Tuition has been increasing at more than four times the rate of inflation; the average college student leaves school with more than \$25,000 in debt; only a third or so of incoming



freshmen graduate with four years (after six years, less than 60 percent have earned a diploma); and employers complain that graduates lack the skills they are looking for.

Change is coming, though, at all levels of education. For instance, customization and online learning is changing the relationship between student and teacher, rapidly in higher education but steadily at K–12; it enables information to be transferred and student performance to be monitored at a fraction of conventional costs. It also allows students to learn when and where they choose, so they can remain employed while taking classes in their spare time, thereby increasing the likelihood that they will complete their diplomas. And it democratizes access to some of the world’s best professors and highest-quality content. This offers the prospect of a fundamental restructuring of higher education with a sharp reduction in costs—a revolution that would be a boon to students seeking to acquire the skills they need in today’s economy. The issue is whether resistance from teacher unions and college faculty, helped by accreditation rules designed for another era, will hurt young Americans by slowing needed change.

Simply put, choice, innovation, and competition will improve education and lower costs for all students, bringing more and better opportunity—if they are allowed to do so.

## GUIDING PRINCIPLES

- **One size does not fit all when it comes to K–12 education policy.** Nationalizing the content taught in America’s schools by imposing national standards and tests on classrooms across the country is not the way to improve education for America’s students. Real reform will empower parents and recognize that there are many ways to teach and many ways to learn. Local control allows schools to tailor their programs to their students and ensures that parents are at the table for important discussions about what is taught in the classroom.
- **K–12 education reform should put parents and schools in charge.** Decision-making authority should be restored to those who know each child’s name and educational needs—principals, teachers, and especially *parents*—not left in the hands of Washington bureaucrats.
- **More choice, not more funding, is crucial.** For years, federal spending on K–12 education has skyrocketed as graduation rates and test scores have barely budged. By contrast, school choice boosts parental satisfaction, improves students’ academic achievement, and improves the efficiency and performance of the traditional public school system by promoting healthy

competition. While more than a dozen states now offer private school choice options, millions of American children are still assigned to their nearest public school, regardless of whether it meets their learning needs.

- **Higher education reform should focus on unleashing innovation to reduce costs while improving quality, accessibility, and graduation rates.** Too many college students are not getting what they are paying so much for or not getting access to less expensive and customized education. The national six-year graduate rate is less than 60 percent, and those who do obtain a diploma often lack the skills and knowledge they need to succeed. True reform must focus on bringing down costs, boosting graduation rates, and strengthening curricula.

## THE WAY FORWARD

- **Empower parents by expanding school choice and limiting federal intervention in education.** School choice significantly increases the likelihood that a child will graduate from high school. Federal policymakers should advance parental choice in education by expanding the successful pilot D.C. Opportunity Scholarship Program to include more students in the nation's capital. Other federal education programs should empower parents by allowing states to let federal funding follow a student to a school of the family's choice. Congress should reverse the federal encroachment represented in No Child Left Behind and the Common Core national standards initiative, which cede parents' and other citizens' authority over local school and curriculum decisions to a distant bureaucracy.
- **Avoid standardization.** Bureaucrats in Washington are eager to impose their view across the entire country. They have used the "Race to the Top" competitive grant program, for example, to entice states to adopt the K-12 standards developed by a joint project of the National Governors Association and the Council of Chief State School Officers. Under a program known as "Common Core," all will be required to teach to a national set of standards and a corresponding national test.

Common Core national standards are costly in terms of dollars for states but costlier still in terms of liberty lost. And the standards' requirement that 50 percent of English materials be derived from informational texts like "Executive Order 13423: Strengthening Federal Environmental, Energy, and Transportation Management," which is recommended reading on the national standards list, places fiction and classic literature in jeopardy. State policymakers should reject one-size-fits-all national standards and tests and work instead to strengthen existing state standards and tests.

- **Encourage competition and innovation throughout education.** Innovators are designing exciting new ways to deliver education less expensively and more effectively, from “blended” learning in the classroom to new forms of college with sharply lower costs. Research shows that school choice options are a powerful way to foster innovation by sparking healthy competitive pressure on surrounding public schools, creating an education tide that lifts all boats. In a Florida study, for example, as more and more private schools began participating in the voucher program that was designed for disabled students, students with disabilities in surrounding public schools made statistically significant improvements in reading and math: Not only did the children receiving a voucher make academic gains, but their peers who remained in the public system did as well. State and local policymakers should work to enact or expand school choice options, including but not limited to vouchers, tax credits and deductions, education savings accounts, online learning, and charter schools.
- **Overhaul accreditation.** Accreditation is said to be a “seal of approval” granted to institutions of higher education and is intended to assure students that colleges and universities meet certain standards of quality, but it is fast becoming a barrier to change rather than a system of quality measurement. For example, it favors existing expensive business models for higher education, thereby making it difficult for new models to emerge. And it rates entire institutions—rather than specific courses—and, as a result, is a poor indicator of the skills acquired by students or the quality of specific courses.

Voluntary accreditation by private entities, especially in conjunction with employers, could carry with it weight and value that is absent from the current, mandatory, federally sanctioned accreditation process. It would also make it more likely that future students will be equipped with the right skills for employment. Moreover, decoupling federal financing (student loans) from accreditation would give students more power to use college loans and grants at innovative online providers, enabling them to customize their higher education experience.

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## HERITAGE EXPERTS



LINDSEY BURKE



STUART BUTLER



RACHEL SHEFFIELD



DAVID MUHLHAUSEN



JASON RICHWINE



JENNIFER MARSHALL



# OPPORTUNITY IS FOR EVERYONE



“I must go to college!” insists eight-year-old Pierre William. Such planning may seem unusual in a second grader, but Pierre is lucky. He’s attending a private school in the District of Columbia using funds from the D.C. Opportunity Scholarship program, and that has opened his eyes to the possibilities that only a college education can provide.

His older brother, 15-year-old Fransoir, is also benefitting from the program. “He could have taken the wrong path” in his public school, his mother, Patricia, says. She believes the Opportunity Scholarship Program saved Fransoir’s life. In addition, Patricia William says the program has taught her how to be a better parent and to be involved in her children’s education.

She insists that she will remain involved, even though the Obama Administration has said that it wants to end the Opportunity Scholarships. “I try to stay focused and not get discouraged,” William says. “I’m going to continue fighting.” That matters for her children—and for the other 1,600 benefitting from the scholarships.





# Strengthen Immigration Through Commonsense Reforms

**M**ore than any other nation in history, the United States has made itself a welcome home for immigrants in search of a better life. It embraces those who come to this country honestly, armed with their work ethic, in search of the promises and opportunities of the American Dream.

The key to the uniquely successful story of American immigration is both its commitment to universal principles of the American Founding and its deliberate and self-confident policy of patriotic assimilation: America welcomes newcomers while insisting that they learn and embrace its civic culture and political institutions, thereby forming and forging a single nation from many peoples. Thus the inscription *e pluribus unum* on the official seal of the United States: out of many, one.

Over the past several decades, however, immigration policy has become confused, unfocused, and dysfunctional. America lacks a simple system to attract the qualified immigrants who can help our economy. Millions of unlawfully present immigrants belie the core principle of the rule of law and belittle the legal naturalization process, and continued large-scale immigration without effective assimilation threatens social cohesion and America's civic culture and common identity, especially if immigrants are assimilated into the welfare state rather than into a society of opportunity. It is high time for an immigration policy that serves immigrants and citizens alike.

We must, however, recognize that the popular “easy button” solutions will not improve our immigration system. A “comprehensive” amnesty bill that

would grant blanket legal status to those who are here illegally has been tried before and only made matters worse. In 1986, Congress passed a massive amnesty bill, and 20 years later, the number of people here illegally had increased fourfold. History also shows that big bills designed to solve everything wind up creating as many problems as they address. They become loaded with payoffs for special interests and often introduce measures that work at cross purposes.

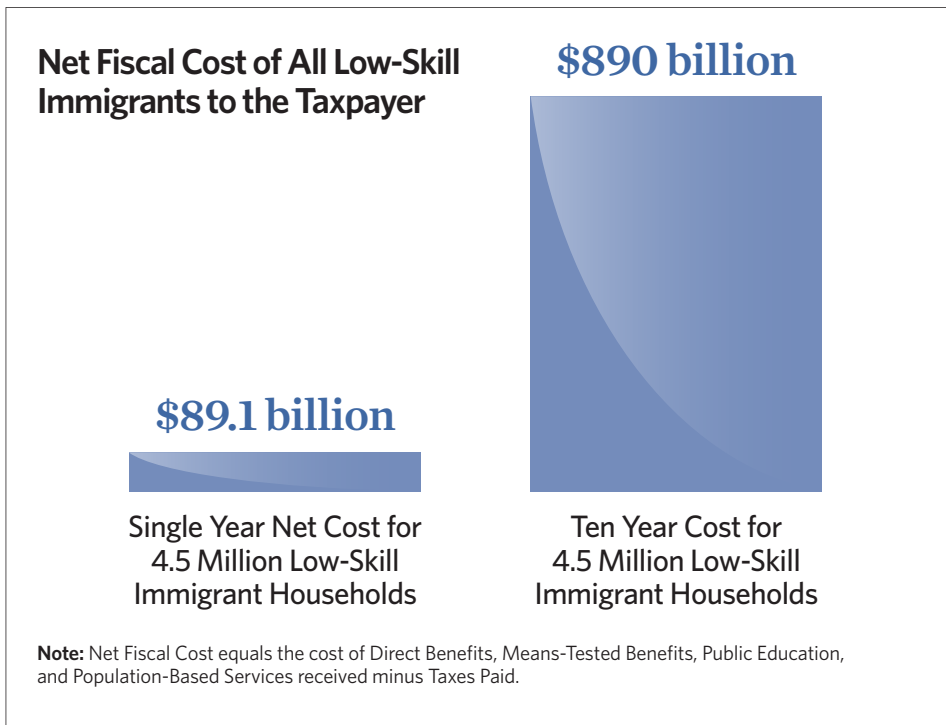
President Obama has never laid out an alternative path; in four years, he introduced no major legislation to address our immigration problems. When he does discuss solutions, he offers up only old ideas that have failed. At the same time, the President's policies have been a mixture of often conflicting measures. If anything, they have made the prospects for meaningful reform worse with unilateral actions that undermine trust and confidence that our nation's leaders can find common ground for sensible solutions.

We deserve better—all of us. Employers deserve better than having to sift through falsified credentials or risk breaking the law. Families in communities burdened by the impacts of illegal immigration deserve better. Those living in the shadows of society deserve better as well. In fact, all who cherish a society that is committed to keeping America both a nation of immigrants and a country that respects its laws deserve better.

Immigration reform can move forward on many fronts at the same time, focusing on some commonsense initiatives that begin to address the practical challenges of our immigration system. The key is to begin by working on the solutions upon which we can all agree rather than insisting on a comprehensive approach that divides us.

## GUIDING PRINCIPLES

- **America has been good for immigrants, and immigrants have been good for America.** All of those who love liberty and seek opportunity admire our nation's principles and its system of equal justice and economic freedom. Immigrants strengthen our culture, deepen our national patriotism, and expand our general economy. Ours is a nation of immigrants, but it is more accurate to say that it is a nation where immigrants become Americans, sharing the benefits, responsibilities, and attachments of citizenship. A successful immigration policy is possible only through a deliberate and self-confident policy to assimilate immigrants; assure their English proficiency; and educate them about this country's political principles, history, institutions, and civic culture.



- **America's immigration system must be a national strength, not a national burden or strategic vulnerability.** America is indeed a nation of immigrants, but no one has a right to immigrate to America. The people of America should determine which immigration policy best serves their interests. We should focus on attracting individuals and families who are seeking political and economic freedom, bringing with them the values and work ethic to climb the ladder of opportunity. Unlike in previous generations, however, a generous welfare, education, and health system with generous eligibility often draws poor and low-skill immigrants into the ranks of the underclass rather than encouraging self-reliance and financial independence.

Within a redistributionist state, immigrants without a college education impose a significant and unavoidable fiscal burden on taxpayers and become part of a dependent or fiscal recipient class. Policymakers must ensure that the interaction of social services and immigration policy does not expand the welfare state and impose significant costs on American society. America also has, like every country in the world, the right to secure its borders and ports of entry and thereby control the goods and persons coming into its territory. Secure borders, especially in a time of terrorist threat, are crucial to American national security.

- **Existing laws must be enforced.** The rule of law requires the consistent enforcement of the law, and immigration is no exception. Failure to enforce immigration laws disadvantages those who obey the law and go through the



regulatory and administrative requirements to enter the country legally. Condoning or encouraging illegal entry—especially granting a blanket amnesty for those who break immigration laws—causes a general disrespect for the law and encourages further illegal conduct.

- **Congress, not the President, must take the lead on immigration reform.** The Constitution entrusts to Congress the power to “establish a uniform rule of naturalization.” While the President has an important role to play in enforcing existing immigration laws, Congress must develop legislative solutions to fix our immigration system. The Obama Administration abused its “prosecutorial discretion” when it stopped enforcing parts of the immigration laws and implemented by regulation what several previous Congresses have chosen not to legislate. The Administration should defer to Congress to determine long-term solutions that are appropriately tailored and clearly targeted toward the cases to be addressed. Likewise, welfare, education, and social policies should be structured to develop the human capital provided by immigration, not to dump individuals into a welfare society with little upward mobility.
- **Illegal immigrants are not a monolithic bloc.** When it comes to those who are currently in the country illegally, it is important to recognize that they do not constitute a single monolithic group and that there is not one comprehensive policy to deal with them all at once. Gang members and those that commit additional crimes while illegally in the United States should be deported immediately. Those that are here illegally for employment also can be incentivized through the marketplace by making it easier for employers to know whether they are hiring legal residents and creating more legal options to work temporarily in the United States. A smaller portion of these individuals will present hard cases that will need to be addressed prudently by appropriate legislation as those issues arise.

## THE WAY FORWARD

- **Reform the immigration process to attract immigrants.** The process by which individuals enter the country legally must be fair, orderly, and efficient, welcoming those who abide by immigration laws and denying entry and advantages to those who violate the law. The integrity of this process is important to protecting and encouraging a meaningful immigration, naturalization, and citizenship process.

The U.S. Bureau of Citizenship and Immigration Services (USCIS) needs to do a better job of providing the immigration services that the nation needs. Reforms should include an entirely new funding model, a

comprehensive overhaul of the agency’s service support enterprise, and better integration of USCIS programs with immigration enforcement and border control efforts. USCIS and the Department of State need to streamline existing visa programs, such as those for temporary or seasonal agricultural workers, and Congress should review visa programs to emphasize and ease entry for skilled workers and those who are educated in the United States.

- **Make it easier to work legally and temporarily in the United States.** Policymakers should consider options for those who want to come to the United States for employment, not as a solution to the existing illegal population but as a flexible program to provide employment as the market demands. A targeted and well-constructed temporary-worker program that allows for a market-driven source of labor provided by a rotating temporary workforce would diminish the incentives for illegal immigration by providing an additional option for legal entry.
- **Make practical immigration solutions the priority.** The way forward is not to repeat the failures of the past but to pursue an incremental strategy of real reforms. The solution to the challenges of immigration reform does not necessitate—and will not result from—“comprehensive” legislation or “grand bargains” that compromise on principle and security. The challenge is to answer the big questions first so that the others fall into place or are susceptible to later resolution. Indeed, working to implement existing laws and with a handful of new initiatives, Congress and the Administration could achieve serious reform in a reasonable amount of time. Over time, the disincentives and the incentives of law enforcement and the market will alter the benefits of illegal immigration and, along with pro-legal immigration policies, decrease illegal immigration and replace it with the renewed and vibrant legal immigration system that Americans want.
- **Enforce existing laws.** There are already numerous laws that, if enforced in a targeted manner, would discourage illegal immigration. One way is to target those who hire illegal immigrants through interior enforcement measures, such as notifying employers when they have hired workers whose personal information did not match Social Security records, conducting random workplace inspections and checks of I-9 forms, and ensuring that E-Verify programs are used and properly implemented. The policies of the Obama Administration have undermined efforts to deter illegal immigration, essentially sending the message that once here, it is easy to find employment and stay indefinitely. To ensure a comprehensive approach to illegal immigration, the Administration must commit to enforcing and encourage the states to enforce existing immigration laws.

- **Maintain and increase efforts to enhance border security.** The federal government should define a variety of solutions capable of responding to the multiple threats faced at the border, ranging from illicit drugs to illegal migration. These should include secure fencing where appropriate and investments in technologies such as unmanned aerial vehicles (UAVs) and cameras/sensors that would give the Border Patrol enhanced monitoring and detection capabilities. Cooperation between U.S. and Mexican law enforcement through Border Enforcement Security Task Forces and related Merida Initiative programs is essential. Congress and the Administration should also ensure that the U.S. Coast Guard has adequate vessels and personnel to fulfill its missions and intercept would-be illegal immigrants at sea.
- **Work with the states.** State and local governments can and should play a significant role in immigration policy, both through their own laws and law enforcement and by working with the federal government. The federal government should work with state governments to promote individual state policies to address common concerns. A good place to start is to revitalize and expand the successful 287(g) program, which allows Immigration and Customs Enforcement to train state and local police to implement and enforce federal immigration laws. States should also be encouraged to require proof of citizenship to register to vote, obtain driver's licenses and motor vehicle tags, and professional licenses.

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## HERITAGE EXPERTS



JAMES CARAFANO



JESSICA ZUCKERMAN



ROBERT RECTOR



MATTHEW SPALDING



CHARLES STIMSON



HANS VON SPAKOVSKY



# BUILDING AN AMERICAN DREAM



Everyone knows that Jeremy Lin of the Houston Rockets—millionaire, NBA star, Harvard graduate—is living the American Dream, but before he could do so, his parents had to earn it.

Gie-Ming Lin came to the United States from Taiwan in 1977. He struggled with English but was an excellent student while serving as a research assistant at Old Dominion University. His future wife, Shirley Wu, had also emigrated from Taiwan to study at ODU. The Lin family moved several times, to Indiana, Florida, and California, as Jeremy's father earned a doctorate and launched a career. Gie-Ming taught Jeremy to play basketball at the local YMCA, and his mom made sure his game did not interfere with his academics.

The Lins' three sons, born and raised in the United States, are American citizens by birth. But it's the parents, who came here seeking opportunity, studied and worked hard, and built a family and a future, who reveal the real promise of the American Dream.





# Revitalize Marriage, Family, and Civil Society

Cynicism about politics runs deep, especially after a long presidential election season.

The truth is that politics extends well past the presidency and far beyond Congress. It does not stop at statehouses, county seats, or city halls. It is in the Rotary Club, the condo association, and the babysitting co-op. It reaches right down to the church pew and the dinner table.

That's because politics is not only about casting a ballot once every few years. More fundamentally, it is about ordering our lives together. It is the way we figure out how to meet everyday needs, how we solve problems and sort out our differences, how we harmonize diverse interests and build consensus on what is worth pursuing as a society. We work out pressing issues in all kinds of forums, from family room to boardroom, each with its own authority structure exercising roles and responsibilities. It is in the family, for instance, that an individual first encounters the give-and-take of living in community and begins the lifelong process of reconciling one's own needs and desires with those of others.

In other words, the vibrant realm of civil society—all in life that is not about politics in the way we typically think of the term—is where Americans learn how to exercise their freedoms and become self-governing citizens of a republic.

In his classic *Democracy in America*, Alexis de Tocqueville observes that “the whole moral and intellectual condition” of the American people—not just the institutions of government—is critical to maintaining the republican form of government instituted by the Constitution. That is why Tocqueville places such an emphasis on America's vibrant religious traditions

in his account of the success of the American experiment in ordered liberty. He understands the crucial role that religious congregations play in shaping Americans morally and socially. Tocqueville famously concludes that religion “must be regarded as the first of their political institutions” because it teaches Americans how to exercise our freedom.

Family, religion, community groups, and all of the other associations that constitute our civil society play a significant role in the self-governing system the United States was designed to be. By contrast, elected officials play an important but much more limited role. Relegating all forms of governing to electoral politics—particularly national politics—damages the wider, personalized process of ordering our lives together. When elected officials overreach their designated authority, it erodes the roles and responsibilities of other institutions in society, including family and church.

A well-ordered society depends on mutual respect among a variety of institutional authorities. This idea has a rich heritage. It is at the heart of the Founders’ argument for a *limited* government. The concept of “sphere sovereignty” in Protestant social thought teaches that family, church, government, and other institutions have their own proper authority within respective boundaries. Similarly, the principle of “subsidiarity” in Catholic tradition teaches that higher authorities should refrain from interfering in affairs for which subordinate authorities are responsible and capable.

In practical terms, the best way to meet individual needs is not to outsource the problem to a distant, impersonal government. A welfare check sent to a single mother is not nearly as effective as personal relationships in helping her overcome daily challenges. Much less can that anonymous check provide her children with a substitute for an absent father. Civil society provides more holistic answers to immediate needs than centralized government can and is better able to prevent future ones.

In defending the “togetherness” ostensibly created by government, liberals caricature conservative opposition to centralization as leaving every man, woman, and child to fend for themselves. In reality, of course, the conservative critique of big government goes hand in hand with a strong defense of civil society: that vibrant realm of family, religious congregations, and community associations that exists between the individual and the state. In trying to rein in limitless liberalism, conservatives want to strengthen the real robust ties that bind us to one another rather than relying on impersonal government services to provide the true security, meaning, and purpose of life. The real choice is not between the togetherness of government and radical individualism, but rather between government dependence and the civic interdependence that comes through personal relationships.

Revitalizing civil society means cultivating an environment in which the permanent institutions of family and religion, along with private associations and educational communities, can flourish and fulfill their role in cultivating and maintaining ordered liberty in America. Will we restore the rightful place of civil society in ordering our lives together, or will we continue to centralize more and more decisions in Washington?

## GUIDING PRINCIPLES

- **The family centered on marriage is the core institution of society.** Deeply embedded in Western civilization and the worldview of America's Founders, the family—built on the intimate and natural bond of husband and wife and parent and child—must be defended and preserved as the core natural (i.e., pre-political) institution of free society. The family is the critical link between the private moral and religious instruction that restrains the passions and nourishes good character on the one hand and the inculcation of the public virtue required for republican government on the other. By creating and maintaining a learning environment for children that no other institution can fully replicate, the family, more than anything else, makes the child into the self-governing citizen.
- **Marriage and family are necessary for limited government.** By encouraging the norms of marriage, the state is strengthening a healthy civil society and thereby *reducing* its own role. Strong marriages and intact families serve the ends of limited government more effectively, less intrusively, and at less cost than picking up the pieces from a shattered marriage culture. Government steps in more when it is compelled to provide (more or less directly) for the well-being and upbringing of those who are affected by the collapse of marriage and family.
- **Intact married families are good for children and parents.** Available research strongly supports the consensus that the intact married-parent family—husband, wife, and children living together—is the best setting for the optimal development of the child and provides the best insurance for the future welfare of the nation. Children tend to fare best on every indicator of well-being and life outcomes when raised by their married mother and father. A child born and raised outside marriage is five times more likely to experience poverty than a child in an intact family, and the negative economic consequences of divorce tend to hurt women and children most. Not only do married families tend to earn more money, but they also have greater savings and higher net worth. Children raised in intact families are less likely to display delinquent or antisocial behavior and less likely to be victimized. Marriage could lift a substantial portion of poor, even unemployed, single mothers out of poverty.



- **Religious liberty is not just a right; it is good for America.** Americans remain a deeply religious people. Religious individuals and institutions should be free to exercise their religious belief in private as well as to engage publicly on the basis of their faith. This freedom has suffered erosion in recent years. America must return to a more reasonable and historically accurate understanding of religious liberty such as the one espoused by the Founders, which upholds religious and moral conscience as an invaluable support for healthy republican government and human flourishing. This requires that government respect the role of religious institutions and fulfill its duty to protect religious liberty and the freedom of private association. Restoring a strong and stable society of individual and political self-government in which religious and faith-based institutions have a central place in our civic and public life is the task of us all.
- **Civil society institutions are the building blocks of a healthy society.** Family, religious, and community groups provide the practical, personal connections and interactions of daily life and are equipped to meet the social problems of the day in a more holistic manner than government programs. While the federal safety net may be able to provide for temporary material needs of those with nowhere else to turn, religious and other private institutions are better suited to the long-term challenge of transforming lives and communities. Just as policymakers must urgently address the runaway spending that threatens the governmental safety net, policymakers and all citizens have a responsibility for restoring the relational network of civil society that provides the best security and opportunity. As federal policymakers seek to secure the safety net for those who are truly in need, they should do so with special care to respect the roles and responsibilities of civil society institutions. Federal welfare programs have been counterproductive in this regard, undermining marriage and discouraging work. Welfare reform must reverse this incentive structure to promote work and encourage marriage.

## THE WAY FORWARD

- **Make as much room as possible for the exercise of religious liberty.** Americans engaged in the free exercise of religion participate actively in charitable giving and volunteerism, including through organized volunteering and informal acts of compassion. By providing education, health care, and countless social services, religious groups contribute mightily to the health of society. As a matter of right and good policy, government should protect the religious freedom of these groups to hire, work, and serve in accordance with their deeply held beliefs.

- **Recognize and uphold the conscience rights of parents, patients, and practitioners.** The rights of Americans to believe and act according to deeply held moral and religious beliefs are increasingly coming under assault. The Patient Protection and Affordable Care Act (Obamacare), for example, weakens family choice of coverage, undermines parental participation in minor children's health care decisions, penalizes married couples, and undercuts religious liberty. For instance, the Department of Health and Human Services anti-conscience mandate issued under Obamacare forces nearly all employers to pay for coverage of abortion-inducing drugs, contraception, and sterilization—regardless of objections based on sincere moral or religious beliefs. Public policy must move to a patient-centered, market-based health care system that provides coverage choices that are consistent with patients' moral and religious beliefs. Policymakers should enact permanent and comprehensive conscience protections for health care providers and replace the current patchwork of federal statutes and annual abortion riders on spending bills with a permanent, government-wide policy protecting unborn children.
- **Eliminate financial disincentives to marriage in the tax and welfare codes.** The decision to marry is economically beneficial to husbands and wives and any children they may have. Any form of financial penalty in tax policy that masks or subverts this reality and deters marriage should be eliminated. Government assistance programs that create disincentives to marriage can have unintended, harmful consequences. Regrettably, the incentive structure of many welfare programs discourages single mothers from marrying the employed fathers of their children. Discouraging men and women from enjoying the financial and emotional supports of marriage in order to keep a monthly government check not only hurts these impoverished adults, but also adversely affects their children, who are more likely to continue the cycle of poverty for another generation.
- **Recognize marriage as the union of one man and one woman.** In 1996, as judicial activists sought to redefine marriage, an overwhelming bipartisan majority in Congress protected marriage at the federal level through the Defense of Marriage Act (DOMA), signed into law by President Bill Clinton. DOMA has been repeatedly undermined by the Obama Administration, which refuses to defend the law from attacks in federal court. Congress should continue to recognize the institution of marriage when it authorizes federal programs, and the President should enforce DOMA. Throughout the course of their work, policymakers should seek opportunities to advance marriage and take all steps necessary to protect marriage as the union of one man and one woman.
- **Promote the intact married family as a key institution of society.** Laws and regulations should continue to protect and promote intact married family life as the basis of a prosperous society. Welfare policies should reinforce

this conclusion and help to point the next generation toward replicating such stability rather than undermining or penalizing marriage. This same principle should guide our actions in international social policy discussions and in determining how we give aid to foreign governments and international bodies.

- **Encourage pro-marriage messaging in existing government programs and other already available resources.** Pro-marriage messages are among the allowable uses of funds in many programs. Given how critical marriage is to every indicator of individual well-being—including employment and earnings, avoidance of delinquency, school dropout, and abuse—marriage promotion should be a routine public policy. The importance of marriage should become part of “what everyone knows,” much as the unhealthy effects of smoking and obesity are almost universally understood.
- **Advance parental choice in education and reverse the decades-long trend of centralizing education control.** Policy should recognize the right and responsibility of parents to oversee the education and upbringing of their children. Federal policymakers should advance parental choice in education by expanding the successful pilot D.C. Opportunity Scholarship Program to include more students in the nation’s capital, over which the federal government has a special constitutional responsibility. Current federal education programs should further empower parents by allowing states to make federal funding follow a student to the school of the family’s choice. Congress should reverse the federal encroachment represented in the No Child Left Behind Act and the Common Core national standards initiative, which cede parents’ and other citizens’ authority over local school and curriculum decisions to a distant bureaucracy.
- **Eliminate taxpayer funding of abortion and Planned Parenthood.** The integrity of the family requires laws that respect human life. The long-standing broad consensus that federal taxpayer funds should not be used for abortions should guide policymakers to make existing funding prohibitions, like the Hyde Amendment, permanent. That should include eliminating hundreds of millions of tax dollars in annual funding for abortion providers like Planned Parenthood, which performs one out of every four abortions in the country. Planned Parenthood has the freedom to exist self-sufficiently, but policymakers in general should not entangle federal taxpayer dollars with abortion providers. The President should reinstate the executive order prohibiting federal funding of stem cell research that destroys human embryos, and Congress should enact permanent prohibitions on such funding. Lawmakers should likewise supersede the back-and-forth over the Mexico City policy, which prohibits federal aid to international abortion providers, and enact a permanent prohibition on taxpayer funding of overseas abortions.

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## HERITAGE EXPERTS



JENNIFER MARSHALL



MATTHEW SPALDING



RYAN ANDERSON



CHRISTINE KIM



LINDSEY BURKE



RACHEL SHEFFIELD



# MARRIAGE MATTERS



**J**ames and Angela Woods met through Bishop Shirley Holloway’s “House of Help/City of Hope” programs. These programs do an impressive job of promoting successful marriages: Of 100 couples who have been through the program, 97 are still married.

A widow, Angela came to the ministry addicted to drugs and, in her words, “on the street with my two children in a stroller made for one” and “in the depth of despair.” James was a military vet who had drifted back to the ways of old friends when he saw that their drug-sales profits dwarfed his humble paycheck as a truck driver. He came to the House of Help after serving two and a half years of a 20-year prison term.

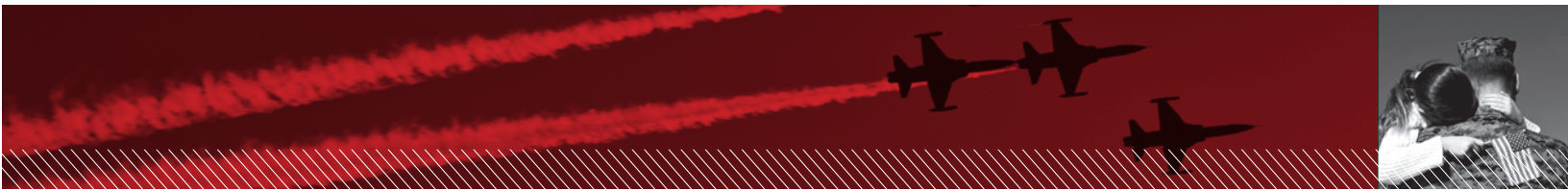
James and Angela began to put their lives back together after they met through the ministry. They married in 2000. Their union benefited from pre-marriage counseling and financial guidance at the House of Help. Today, the Woodses have five children and four grandchildren and are proud homeowners. They are proof that marriage works. Governments at all levels should support policies to promote and strengthen marriage while also making certain that they don’t hinder the work of grassroots leaders.





From **Managed Decline**  
to **Championing Liberty**





# Provide for the Common Defense and Protect the Nation

America's armed forces are the safeguard of our nation's liberties and instruments of freedom and security, providing for the common defense of the United States by protecting the homeland and securing America's interests abroad.

Any discussion of the future of our armed forces and the military budget should begin with a clear understanding of our national interests and an honest assessment of the threats we face.

The way politicians think about defense policy is backwards. National security challenges should drive force structure requirements and spending, not the other way around. Every taxpayer dollar must be spent wisely, which is why we must stop wasteful spending and pursue efficiency in our defense programs. We should spend whatever it takes for our military to keep America safe and protect our vital interests. No less—and no more.

We need a military that can protect America's territory, borders, and airspace as well as sea-lanes, space, and cyberspace. This includes maintaining access to resources that are essential to long-term U.S. national security and the U.S. economy. And we need a military that can meet these commitments in the long term; hence the need to continually modernize our forces.

How much other countries, whether individually or combined, spend on defense should not determine how much we need to spend to secure our strategic interests and counter the threats directed at us. We have global

interests—including keeping sea-lanes of commerce open and contributing to the security of our allies—that no other country has. Nor can we count on any other country to ensure the safety of the American people.

In recent years, even as it has spent more than ever before on things it should not be doing, the federal government has been doing less and less to fulfill its core responsibility to provide for national defense. The root of the problem lies in decisions made in the 1990s. In order to give the American people a “peace dividend” after the collapse of the Soviet Union, the Clinton Administration reduced the entire military—its forces and equipment—by fully one-third. The utopian assumption was that the end of the Cold War would lead to a “lasting peace.” When our homeland was attacked on September 11, 2001, the government passed a series of temporary defense budget increases, but that money has been mostly consumed by the wars in Iraq and Afghanistan and other military activities worldwide.

The ongoing need to invest in and modernize the force—new planes, ships, weapon systems, and equipment—remains and is growing more urgent. The bipartisan Quadrennial Defense Review Independent Panel warned in 2010 that “the aging of the inventories and equipment used by the services, the decline in the size of the Navy, escalating personnel entitlements, overhead and procurement costs, and the growing stress on the force means that a train wreck is coming in the areas of personnel, acquisition, and force structure.” This “train wreck” is happening, and it threatens to undermine America’s ability to defend itself and protect its vital national interests at a time when threats to its security are increasing.

Bloated government spending and constitutional overreach must be on the chopping block. But the core and undisputed responsibility of the United States government to provide for the nation’s security should not be up for negotiation. The American people want policymakers to protect and defend the United States and its cause of liberty.

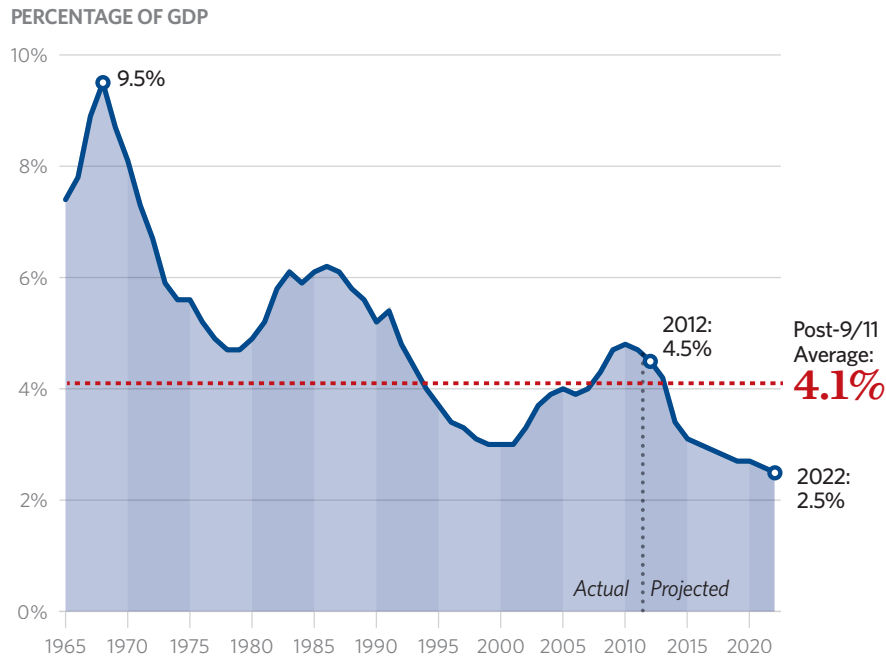
## GUIDING PRINCIPLES

- **Provide for the common defense.** It is the constitutional duty of the federal government to provide for the common defense. We cannot rely on civil society, the states, or the international community to protect America and its people and secure American interests around the globe. This responsibility falls squarely on the shoulders of the federal government.
- **Strategy should drive the budget, not the other way around.** The mission of the United States military is determined by America’s vital interests and an assessment of the threats to those interests. This drives force



## National Defense Spending Would Plummet Under Obama's Budget

*President Obama's "lean defense" strategy would create a hollow force and exacerbate today's readiness crisis. Decreases in funding for the core defense program mean losing capabilities that are crucial for the military to fulfill its constitutional duty to provide for the common defense.*



structure requirements: how many brigades, wings, carrier groups, and other military assets are needed; where they are deployed; and how they are used. Force requirements and capabilities in service to the military's overall strategic mission should determine the budget and spending needs for national defense.

- **Give them the tools to do the job.** To protect and defend America's vital national interests, the U.S. military must have the tools it needs to deter attacks and enhance diplomatic efforts. Also, when diplomacy and deterrence fail, it must be able to fight and win conflicts. Combat victory requires a force that is adequately equipped to defend the U.S. and its allies against strategic attacks, to prevail in traditional and asymmetrical warfare, to defeat terrorist organizations, and to respond to threats that emanate from failed states.
- **Cutting defense will not solve the fiscal crisis.** Some claim that excessive defense spending is responsible for our government's fiscal crisis. This is simply false. Today, we spend a total of about 4.5 percent of gross domestic

product (GDP) on defense. By comparison, spending on Social Security, Medicare, and Medicaid has grown from 2.5 percent of GDP in 1965 to roughly 10 percent today—and these entitlements are projected to absorb all federal revenue by 2045. President Obama’s defense cuts, even when coupled with the automatic defense spending cuts required by the 2011 Budget Control Act, would *not* solve America’s fiscal crisis. They would, however, drastically reduce America’s ability to deter aggression around the world.

## THE WAY FORWARD

- **Fully fund defense.** To ensure that the nation’s military forces have what they need, the core defense budget should be fully funded at a level that would enable the U.S. to maintain stable troop levels in an all-volunteer force, provide sufficient readiness funds, and ensure adequate funding for research and development and procurement in order to modernize America’s conventional and strategic forces. Such a spending plan is outlined in the Heritage report *A Strong National Defense: The Armed Forces America Needs and What They Will Cost*. Defense expenditures are not driving America’s spending problem. As Heritage’s *Saving the American Dream* fiscal plan shows, it is possible to fully fund the nation’s defense against threats today and in the future while balancing the budget and without raising taxes.
- **Oppose indiscriminate defense cuts.** The across-the-board, automatic cuts to America’s defenses in the 2011 debt deal would undercut every defense program, from the Pentagon’s already meager weapon-modernization plans to the number of people in uniform, readiness and training, overseas base facilities, and infrastructure. The cost to the nation’s security would be severe. The present international situation demands greater investment in defense. Congress should go back to the drawing board before accepting such forced defense cuts. Indiscriminate defense cuts should be replaced with real spending cuts that do not harm our national security.
- **Pursue efficiency, eliminate waste, and reinvest savings back into defense.** Congress must pursue efficiency and reform efforts and work to eliminate waste in the defense budget. Some \$100 billion in savings can be achieved in the near term simply by continuing and expanding select efficiency initiatives that are already underway. These savings should be reinvested in defense for the modernization of the forces, not spent on domestic programs.
- **Modernize the forces.** The U.S. needs a modernized force structure that matches both America’s security commitments and the security threats that it faces. This will require a procurement spending level of at least 1.5

times the current amount spent on research and development. Spending should focus on the modernization of key programs and weapons systems as well as the development of new assets and next-generation capabilities.

- **Pursue missile defense.** The growing threat from long-range nuclear missiles endangers the lives of millions of Americans and upsets regional and global stability. America needs a comprehensive ballistic missile defense capability that employs a multilayered system of sea, ground, air, and space-based systems. To protect Americans effectively against rogue attacks in the near future, a rigorous program of testing, development, and deployment of missile defenses must be adequately funded.
- **Rebuild the Navy.** A blue-water Navy is the one real mark of a superpower. Only a Navy can keep the sea-lanes open to commerce, patrol the regions that are vital to America's interests, and quickly respond to crises wherever they may arise. Today, America's Navy is shrinking, and what remains is rapidly aging. We now have about 285 ships, many of which need to be either replaced or modernized. While we still have an advantage, it is slipping, as the Chinese Navy in particular grows more capable and larger. If sequestration cuts take effect, that will leave us with some 235 ships. Most experts estimate we need a fleet of at least 300 ships. The rebuilding process must begin now if there is to be any hope of having the Navy that will be needed when the next unexpected event occurs.
- **Develop cyber security.** Cyber security is a critical part of U.S. national and economic security. Many experts and policymakers are worried about the potential for devastating cyber attacks against U.S. military targets or critical infrastructure such as nuclear power plants and the financial sector. Additionally, U.S. businesses are losing \$250 billion a year to cyber criminals and spies, according to some estimates. The solution to our cyber security woes is not more top-down, costly regulation that is too slow to keep up with the rapidly changing cyber realm. Instead, the U.S. should be pursuing market-based and flexible solutions such as voluntary information sharing and cyber security insurance, always bearing in mind that any cyber security proposals must properly balance national security with the protection of civil liberties.

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## HERITAGE EXPERTS



JAMES CARAFANO



STEVE BUCCI



BAKER SPRING



MICHAELA BENDIKOVA



CHARLES STIMSON



# AMERICA AT RISK



In some families, a father will proudly pass a car he's driven for many years along to his son, but Air Force pilot David A. Deptula has gone even further. He earned his wings and flew an F-15 for the first time in 1977. Thirty years later, his son, Lieutenant David A. Deptula II, flew the exact same jet at Kadena Air Force Base in Japan.

"We have really flown these aircraft well beyond what originally would be believed as their replacement lifetime," the elder Deptula, a retired lieutenant general, says of the F-15s. The fighter was originally designed for a 4,000-hour service life. That was later extended to 8,000 hours. "And now, because of some of the fiscal constraints that are being imposed on the Department of Defense, there is consideration being given to extending the lifetime even further."

Instead of simply repairing aging planes, the Air Force needs enough funding so it can invest in the next-generation jets that can maintain American supremacy in the skies.





# Secure America's Interests and Advance Liberty in the World

Despite the grave fiscal challenge we face, we must remain vigilant in a dangerous world, defending ourselves, securing our independence, and strengthening the cause of liberty.

In the realm of national defense, the current Administration has pursued a policy of managed decline, significantly reducing our military's operational capacity. At the root of this strategy is deep pessimism about America and its role in the world. Such doubts about America's purpose and liberty's obligations undermine America's security and leadership in the world.

Without American leadership, the world is a more dangerous place for Americans, and the cause of freedom is imperiled. Transnational terrorism, rampant anti-Americanism, unaccountable international institutions, nuclear proliferation, and regional conflict all represent threats to our security, our liberties, our prosperity, and our principles. The ability of rogue nations and hostile non-state actors to use weapons of mass destruction against the United States creates a new and compelling reason for America to defend itself actively. A weak America, at home or abroad, endangers the peaceful and productive future of this country, as well as that of its friends and allies.

The United States must have the will and the means to stay involved in the world, not only to protect the nation and its citizens from freedom's adversaries, but also to defend its principles, policies, and vital interests wherever they may be threatened. Because our guiding principles have universal meaning, the United States has a special role in upholding the cause of liberty. This responsibility, of course, does not imply a *duty* to end tyranny everywhere or

to spread the ideas of liberty by waging wars that are detrimental to America's interests and security, but it does mean that America cannot be indifferent to the fate of liberty. In the course of defending its policies and interests, the United States welcomes legitimate opportunities to support the principles and practice of liberty in the world.

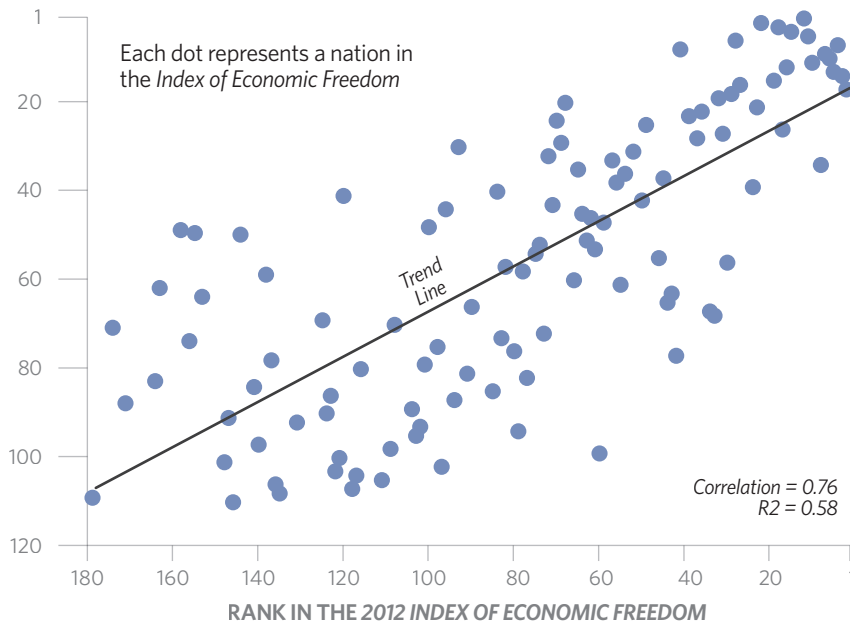
The United States is indeed an exceptional nation, conceived in liberty and committed to the cause of constitutional self-government. America's foreign and defense policies must reflect these principles. Anything less would be to deny our own birthright and undermine our moral standing in the world.

## GUIDING PRINCIPLES

- **Protect America's vital national interests.** Just as it is naïve to think that we can rid the world of tyranny and remake other nations in our image, it is foolish to claim that we can ignore threats to our sovereignty and independence. The course consistent with constitutional government, under which elected leaders have an obligation to act in the best interests of the people they represent and on whose behalf they exercise power, is to defend America's vital national interests in the light of its principles, maintaining the United States' freedom of action while upholding liberty.
- **Sovereignty should be at the center of our nation's policies toward the world.** As opposed to the dangerous argument of postnationalists that we are merely "citizens of the world," sovereignty demands that we not only defend our nation and advance its principles and interests, but also uphold and respect the rightful claim of other legitimate governments to sovereign status. We should never allow policies undertaken to protect America to be subject to the approval of international organizations or other nations. Likewise, the United States must reject outright the claims of any international groups, organizations, or courts that claim jurisdiction over our legal system or subvert the Constitution of the United States.
- **Liberty is America's cause.** At the heart of the claim of American exceptionalism lies the universal principle that all human beings are born free and equal and are endowed with certain fundamental rights. In a world that for the most part either rejects these truths or ignores them, the United States should encourage the recognition of individual rights and the institutions of constitutional government to protect those rights. Defending liberty should be an organizing principle for the nation's actions, alliances, and agreements. America's role as leader of the free world will not endure unless others know that the United States stands for liberty and justice for all.

## Economic Freedom Propels Entrepreneurial Dynamism

RANK IN THE LEGATUM ENTREPRENEURSHIP AND OPPORTUNITY SUB-INDEX



Sources: The Heritage Foundation, *2012 Index of Economic Freedom*, <http://www.heritage.org/index>, and *2011 Legatum Prosperity Index*.

- **Advance economic freedom.** Free trade policies create economic dynamism, which engenders continual innovation and leads to better products, lower prices, new markets, greater investment, and more jobs. Countries that have the lowest trade barriers also have the strongest economies, the lowest poverty rates, and the highest average levels of per-capita income. As explained in the *Index of Economic Freedom*, published annually by The Heritage Foundation and *The Wall Street Journal*, economies with broad levels of economic freedom also tend to embrace political liberty and the rule of law—two essential ingredients of international peace and stability.
- **Conviction matters.** A confident defense of America's principles is a reaffirmation of what we hold to be self-evident. Rather than apologize for our ideas, the way to prevail in the ideological challenges against us, from radical Islamic terrorism to resurgent transnationalism and other anti-American forces, is to explain and advocate America's principles and unique concept of ordered liberty. We should promote these ideas not only as good and just in and of themselves, but also as a signal to other nations about what we believe as a nation.



## THE WAY FORWARD

- **Maintain the fight against terrorism.** The war on terrorism is not over. America must continue to adapt to ever-changing terrorist threats by preserving existing counterterrorism and intelligence tools, holding countries accountable for their support of terrorists, and addressing the threat posed by state-sponsored terrorism.
- **Remain vigilant in dealing with strategic threats.** A policy of engagement which assumes that the United States must appease the anxieties of dictatorial states and international institutions does not work. Iran, Russia, China, and North Korea all have become *more* aggressive in the past four years. Pushing back against the Iranian regime is the only way to counter Tehran's quest for regional dominance and weaken the regime's hold on its people. The U.S. should not only pursue tough sanctions and other actions to prevent Iran from obtaining nuclear weapons, but also rally international condemnation of Iran's human rights abuses.
- **In addition, we must lead the effort to fully implement U.N.** sanctions and prevent North Korea from procuring or exporting any component of a weapon of mass destruction. America must remain economically engaged with China and encourage free-market cooperation but also develop and maintain a strong, comprehensive response to bad Chinese behavior, forge and maintain closer relations with the other nations in East Asia, and maintain a strong U.S. military presence in the region. Likewise, the United States should neither tolerate Russian geopolitical mischief nor shy away from articulating its priorities and values to Russia.
- **Reduce U.S. trade barriers and pursue new trade and investment agreements.** Lowering U.S. tariffs promotes mutually beneficial trade and growth, and such policies should be expanded to include more categories of imports and extended on a long-term basis. Now that the free trade agreements with Colombia, Panama, and South Korea have finally been concluded, the United States should pursue new economic opportunities through the Trans-Pacific Partnership and exploration of free trade agreements with groups of countries in Europe and Latin America.
- **Re-evaluate foreign aid.** Congress and the Obama Administration should re-evaluate all U.S. assistance programs. Traditional development assistance relies on a government-to-government model that tends to promote statist approaches that increase control of the market by those in power, create distortions in the economy and new opportunities for corruption, and reinforce policies that undermine U.S. interests. Genuine and lasting development

comes from private sector–led economic growth through trade and investment, strong protection of property rights, and the rule of law.

Therefore, USAID and State Department funding for development assistance to Europe, Eurasia, and Central Asia should be phased out, along with other legacy programs such as the Capital Investment Fund, Complex Crises Fund, and Development Credit Authority. In the meantime, aid should be channeled through more modern and focused delivery systems such as the Millennium Challenge Corporation, using a model that encourages the rule of law and economic freedom. In general, the U.S. should seek to expand economic relations with large and friendly emerging economies through free trade agreements and other trade deals.

- **Revive public diplomacy to promote liberty.** Public diplomacy—in the form of communications and activities by the United States government—teaches international audiences about America's ideas and political culture. As we defend America's interests in the world, for instance, we must also promote religious liberty in the Middle East, democracy and the rule of law in Russia and the post-Communist world, national sovereignty in Europe, and government by popular consent everywhere. This goes beyond public relations or an explanation of specific policies to other nations. Public diplomacy must have real, substantive content, be informed by our principles, be shaped by our experience of constitutional government, and be operationally structured to circumvent bureaucratic barriers.
- **Avoid agreements that do not serve America.** The United States must be very careful not to sign any treaty or obligation that undermines its interests, regardless of the level of international support. The treaties and conventions favored by the Obama Administration—including the ratified “New START” treaty on nuclear weapons with Russia and as-yet-unratified pacts including the United Nations Convention on the Law of the Sea (UNCLOS or LOST); the U.N. Convention on the Rights of the Child; the Convention on Persons with Disabilities; the Convention on the Elimination of All Forms of Discrimination Against Women; and the Comprehensive Nuclear Test Ban Treaty (CTBT)—undermine U.S. sovereignty and interests. The United States should participate in negotiations on treaties and in international institutions as appropriate, but that participation should always be understood as a means to an end and not as an end in itself.
- **Undertake responsible arms control.** Instead of focusing on Cold War–style arms control, the United States should adopt a defensive strategic posture based on a “protect and defend” strategy that would employ offensive and defensive forces, both conventional and nuclear, to defeat any strategic attack on the U.S. and its allies. Such a strategy would offer opportunities for

mutually beneficial cooperation with Russia and allow the U.S. and Russia to reduce their operationally deployed strategic nuclear warheads without constraining missile defenses.

- **Insist on significant U.N. reforms.** Created in 1945 to maintain international security and promote basic human rights, the United Nations has often failed to fulfill its primary responsibilities. Continued failure to implement reform of the U.N. system is particularly disturbing for the United States, which is the U.N.'s largest financial contributor. The U.S. must use the tools available, including financial withholding, to bring bold reforms to the U.N. These reforms include shifting toward voluntary funding of international organizations to support activities the U.S. deems worthwhile and defunding those it does not deem worthwhile; unfettered member-state access to all audits, internal documents, and other relevant information on the U.N. and its agencies; increased internal oversight and accountability; a reconstituted Mandate Review to eliminate outdated, irrelevant, or duplicative activities; fewer U.N. peace enforcement operations, which generally have been unsuccessful; and real efforts to improve the capacity of the U.N. and member states to investigate allegations of corruption and inappropriate behavior.
- **Strengthen alliances and re-evaluate international organizations.** International partnerships will fall short if the countries with which we align share neither our values nor our goals. The problem is that many of the institutions created in the aftermath of World War II are outdated and unable to respond to today's challenges. The United States must honestly reassess its participation in international organizations to determine whether such organizations work as they were intended, whether their mission is focused and attainable, and whether they advance U.S. interests. This should include an end to funding for those, including the U.N. Human Rights Council, that are irredeemably ineffective or work against U.S. interests. As an alternative and in order to spur economic development, respect for human rights, and protect our nation's security, the U.S. should take the lead in creating new and more effective arrangements that will enhance strong bilateral cooperation among like-minded nations.
- **Review pending treaties.** Under the Constitution, treaties are concluded by presidential signature, followed by the advice and consent of the United States Senate. Customary international law, however, requires that the U.S. refrain from acts that defeat the "object and purpose" of a treaty that it has signed, even if the Senate has not ratified it. There are many treaties and agreements in this limbo category that nevertheless bind the United States. This problem needs to be resolved because in some important cases (such as the Comprehensive Test Ban Treaty), it is not in the U.S. national interest either to be bound by or to ratify the pending treaty.

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## HERITAGE EXPERTS



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# GETTING THE MESSAGE OUT



“The Moscow bureau [of Radio Liberty] no longer exists,” fired journalist Mumin Shakirov says. This broadcaster, funded by the U.S. government, has spent decades providing accurate information to listeners behind the old Iron Curtain.

During the bad old days of the Cold War, Americans wouldn't have been surprised to read that a group of Moscow-based journalists had been locked out of their offices, escorted to an official's desk, and compelled to sign away their jobs. But this happened not in the U.S.S.R., but in modern-day Russia, and it was the U.S. government that did the firing.

This action against the journalists by the management of Radio Liberty/Radio Free Europe (RL/RFE), a U.S.-funded international broadcaster, reflects terribly on the U.S. as a nation that respects human rights and free expression. The Broadcasting Board of Governors should reverse the firings without delay and issue a strong reprimand to the leadership of RL/RFE. Our leaders should also explain that the U.S. will continue its decades-long support for human rights in Russia and all around the world.





# From **Imperial Rule** to **Constitutional Government**





# Rebuild Constitutional Self-Government

America is unique in its dedication to the principles of liberty and constitutional government.

The United States stands for the proposition—proclaimed in the Declaration of Independence and embodied in the Constitution—that all are created equal and endowed by their Creator with unalienable rights to life, liberty, and the pursuit of happiness. Government exists to secure these God-given rights, deriving its just powers from the consent of the governed.

Our Constitution is intended to limit the power of government under the rule of law, creating a framework for a vibrant civil society in which opportunity flourishes. The principles of limited government and representative democracy are woven throughout the Constitution.

Today, however, the federal government has acquired an all but unquestioned dominance over many areas of American life, acting almost without constitutional limits and restricted only by expediency and political will. The breadth and depth of its rules mean that the federal government increasingly regulates more and more of our most basic activities, such as how much water is in our toilets and what kind of light bulbs we can buy.

To make matters worse, most of these expanded functions are carried out by various agencies, bureaus, and departments outside of the democratic process. Unshackled from the cumbersome constraints of elections and the separation of powers, bureaucrats operate on autopilot, largely unaffected by what happens in the political branches, free to enact and enforce regulations and even adjudicate their own rules.

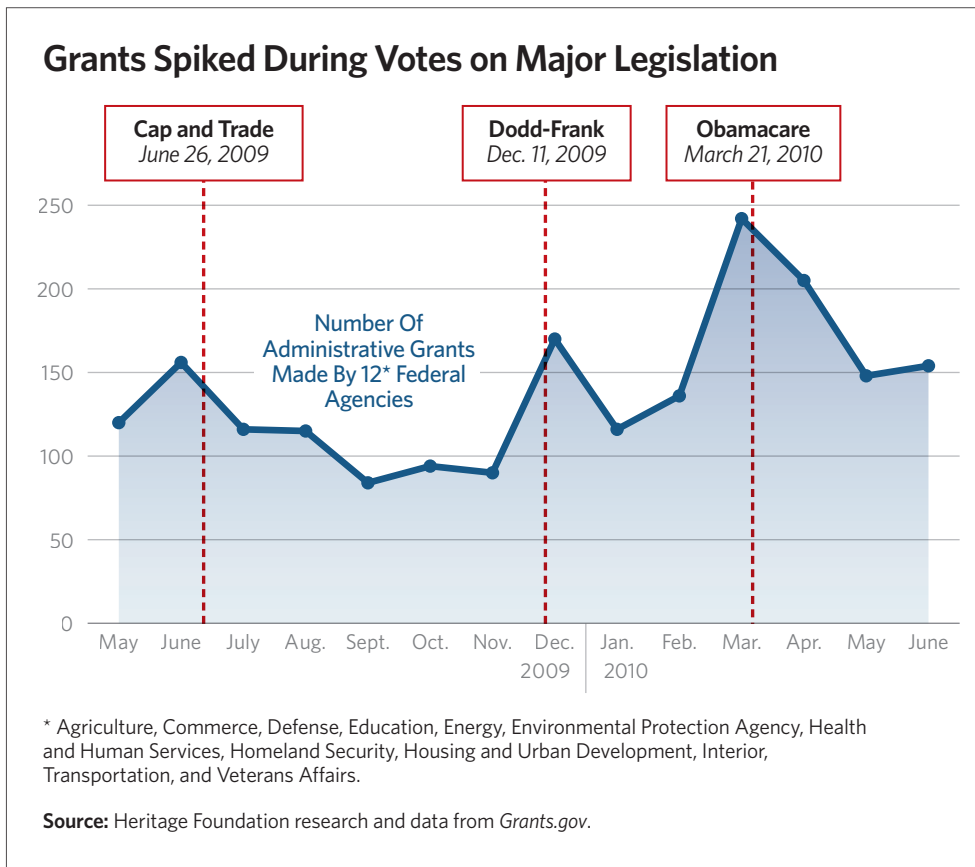
To get government under control, refocus it on its core functions, and reinvigorate our democracy, we must strengthen the still-widespread public sentiment against an expanded reach of the state into a settled and enduring political opinion about the nature and purpose of constitutional government.

The administrative state is deeply entrenched, and unraveling today’s regulatory government will be extremely difficult. Nevertheless, and however far we have strayed from our principles, the objective remains clear: to restore limits on a government that is out of control and increasingly oblivious of constitutional restraint. We must recommit ourselves as a nation to the principles and policies of American constitutionalism.

## GUIDING PRINCIPLES

- **All elected officials have a duty to uphold the Constitution.** Contrary to a common misconception, the responsibility to uphold the Constitution is not the exclusive prerogative of the Supreme Court, but rather of *all* government officials *at both the state and federal levels*. The Constitution clearly stipulates that “The Senators and Representatives before mentioned, and the Members of the several State Legislatures, and all executive and judicial Officers, both of the United States and of the several States, shall be bound by Oath or Affirmation, to support this Constitution.” Those who make, interpret, and enforce the law are required to follow the Constitution above ordinary legislation. For the elected branches of government to turn their authority over to the courts—or for Congress to give its legislative powers to bureaucrats—is an abdication of both constitutional responsibility and popular consent. Just as the Supreme Court must be faithful to the Constitution in interpreting the laws in cases before it, so Congress in making laws and the President in signing and then executing laws must do the same in the exercise of their functions.
- **Congress is the key to cutting off the powers of bureaucrats.** Although the legislative powers granted by the Constitution are vested in Congress, the majority of “laws” are actually promulgated by agencies and bureaucracies in the guise of “regulations” to implement laws. Key policy decisions that previously were the constitutional responsibility of elected legislators have effectively been delegated to executive branch administrators whose rules have the full force and effect of laws passed by Congress.
- **It is the job of the President to faithfully execute the law.** Indeed, the President takes a unique oath to “faithfully execute the Office of President of the United States” and “preserve, protect and defend the Constitution of the United States.” The President has unique and powerful responsibilities in our constitutional system as chief executive officer, head of state, and





commander in chief, but those powers do not include the authority to make laws or to decide which laws to enforce and which to ignore.

- **Judges must take the Constitution seriously.** The rise of unlimited government is most familiar and most prominent in the form of judicial activism. The Founders thought the judiciary would be the “least dangerous branch,” but progressive judges have usurped the functions of the other two branches and transformed the courts into policymaking bodies that wield wide-ranging power. Judges should take the Constitution seriously and follow it faithfully. A constitutionalist judge interprets the Constitution and statutes as they are written, regardless of whether he or she personally approves of the laws or would prefer a different outcome in a particular case.
- **Constitutional structure is crucial to limited government.** The purpose of the United States Constitution is to secure the rights and liberties promised in the Declaration of Independence through an energetic national government of limited powers, focused on core functions. The scope of the federal government should be limited to the exercise of its core functions as assigned in the Constitution and to duties and responsibilities that are consistent with constitutional principles. A key mechanism for limiting government is the vertical separation of power provided by active states

checking the federal government and competing with each other within the constitutional structure. Legitimate government functions that are not within the purview of the federal government should be lodged with state governments or localities.

- **Law must not encroach on the vast realm of liberty.** True self-government requires more than merely shifting bureaucratic authority to states that are themselves often bureaucratic and increasingly dependent on federal largesse. Vast areas of policymaking that are now usurped by the federal government must be returned to states but also to local communities, neighborhoods, families, and individual citizens. Responsibilities and activities that are not inherently governmental should remain the domain of private individuals, free markets, and civil society. Any government function that can also be found in the yellow pages should be a candidate for privatization.

## THE WAY FORWARD

- **Dismantle the administrative state.** The Constitution creates three branches of government, yet administrative agencies and vast bureaucracies operate in practice as a headless fourth branch. Rather than micro-managing the bureaucracy through oversight, Congress should reassert its authority as the nation's legislature by refusing to delegate its power to bureaucrats and taking responsibility for all the laws (and regulations) that govern us.
- **Legislate clearly and openly.** For too long, Congress has passed massive laws written behind closed doors and filled with arcane cross-references that most Members of Congress neither read nor understand. Each house of Congress should adopt a rule requiring the public posting of the text of each bill and major amendment not less than 72 hours before floor debate on that bill or amendment. In addition, for the sake of clarity and accountability, all language in proposed legislation should be accompanied by a document clearly marking all changes and deletions from existing law, as is now often done for committee-reported bills.
- **Reverse the explosion of federal criminal law.** Federal criminal law originally focused on inherently wrongful conduct that involved crimes against the national government or were interstate or international in scope: treason, murder, counterfeiting, and the like. Today, an unimaginably broad range of conduct is criminalized by scores of federal departments and agencies. The Congressional Research Service estimates these offenses to be in the "tens of thousands." Congress must halt this federal overcriminalization rampage,

especially laws that criminalize conduct of individuals who act without criminal intent or criminalize matters that should be left to the states.

- **Repeal unconstitutional provisions.** Rather than deferring to courts, Congress can and should repeal unconstitutional legislation enacted by previous Congresses, consider the constitutionality of pending bills, and assert constitutional limits on the size and scope of government. A good place to begin is with Obamacare and its vast delegations of power to unelected bureaucrats and its mandate requiring all Americans to maintain or buy health insurance.
- **Pursue a path rather than a silver bullet.** The restoration of constitutional government will not occur all at once or across the board. Nor will it result from one judicial decision, presidential order, or comprehensive piece of legislation. We must think strategically, defining and pursuing a realistic path that measurably reintroduces constitutional limits by focusing government on its primary obligations, restoring its responsibility and democratic accountability, and correcting its worst excesses. Those who are committed to the task of rebuilding limited constitutional government should not be distracted by illusory silver-bullet solutions that do not solve problems. Rather, they should focus on concrete reforms that move substantially toward constitutional government.
- **Execute the law rather than make it up.** The President takes an oath to preserve, protect and defend the Constitution. President Obama has taken actions disregarding the powers of the legislative branch in favor of administrative decision-making without, and often in spite of, congressional action. This violates the spirit—and potentially the letter—of the Constitution’s separation of legislative powers and the executive power. Presidents should defend and vigorously exert legitimate executive powers, but they should also recognize that those powers are not arbitrary or unlimited and are distinct from the legislative authority vested in Congress. And Congress should do its duty and take all appropriate actions as necessary to check executive overreach of its constitutional limits.
- **Appoint and confirm constitutionally faithful judges.** Rather than fulfilling their duty to interpret the Constitution and laws as they are written, judges often seek to impose their own policy preferences on the nation. Candidates and officeholders should promote robust debate regarding the importance of approving constitutionalist judges. Judicial appointments and confirmations are important opportunities for Presidents, nominees, and the Senate to advance and explain the proper role of judges and the legitimate parameters of constitutional interpretation. Most important, the President should appoint, and the Senate should use its advice and consent role to confirm, only constitutionally faithful judges.

- **Encourage the dynamism of federalism.** Structural federalism cannot be revived without a decided reversal of administrative centralization in the United States. Instead of performing so many functions poorly, Congress should focus on the limited set of functions intrinsic to the federal government's responsibilities. Multiple federal programs should be returned to the states. The best way forward for Congress starts with practical but significant reforms that will change the federal–state dynamic in key policy matters such as health care, education, transportation, criminal law enforcement, and homeland security—all issues that in recent decades have increasingly become federal concerns but are better dealt with at the state and local levels of government. The states, meanwhile, should individually and in coordination challenge federal government policies in court and through legislative action and otherwise continue to serve as proving grounds for successful conservative innovation and policy implementation.
  
- **Build a public consensus favoring limited government.** One of the most important tasks of public officials is to articulate how the principles and limits of their constitutional responsibilities inform and guide their actions and the public-policy choices they make. Senators and Representatives should do this in committee deliberations and floor debates on proposed legislation; judges in their written opinions interpreting the real meaning of the Constitution in the cases before them; and Presidents in executive orders, in any statements upon signing legislation, and especially in official addresses. State and local officials should also articulate the principles of ordered liberty whenever appropriate. This will foster and build a new public understanding of and consensus favoring limited government, reforming and reshaping public policy to reflect a constitutional framework of limited government.



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## HERITAGE EXPERTS



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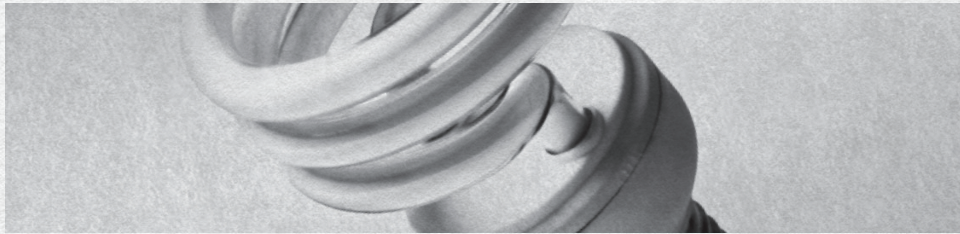
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JOHN MALCOM



# THE LIGHT BULB STORY



**H**ow many bureaucrats does it take to change a broken light bulb? The answer depends on whether it was an incandescent bulb (now being phased out by the government) or a mercury-laden compact fluorescent (CFL) bulb, one of those the federal government is forcing consumers to switch to.

You can change a broken incandescent bulb in moments: Twist it out (using half a potato can help get the metal base out of the socket) and replace it. If you happen to break a CFL bulb, the Environmental Protection Agency recommends taking 14 steps to protect yourself. They include:

- Open a window or door to the outdoors and leave the room for five to 10 minutes.
- Shut off the central forced-air heating/air conditioning system (H&AC), if you have one.
- Carefully scoop up glass fragments and powder using stiff paper or cardboard and place debris and paper/cardboard in a glass jar with a metal lid. If a glass jar is not available, use a sealable plastic bag. (NOTE: Since a plastic bag will not prevent the mercury vapor from escaping, remove the plastic bag(s) from the home after cleanup.)
- Check with your local or state government about disposal requirements in your area. Some states and communities require that fluorescent bulbs (broken or unbroken) be taken to a local recycling center.

Of course, there is also a much simpler remedy: The government could just repeal its ban on incandescent bulbs.





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