NATIONAL CENTER FOR POLICY ANALYSIS

Recommendations to the
Joint Select Committee on Deficit Reduction
from the National Center for Policy Analysis

I. Good Ideas We Should Adopt Even If the Economy Wasn't Hurting

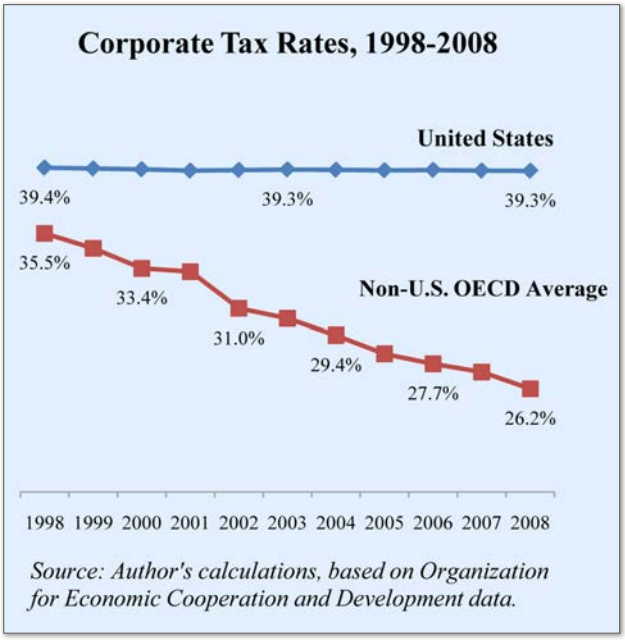
Permanently extend current tax policy. Predictable, consistent tax policy will eliminate needless uncertainty in the business sector.

Eliminate the Alternative Minimum Tax (AMT). The AMT needlessly threatens millions of middle-class taxpayers.

Extend immediate expensing of investment. Allowing businesses to deduct their equipment expenditures from current income will cause equipment spending to soar.

Cut corporate tax rates to 25% or lower. The average corporate tax rate among developed countries was 26.2% in 2008, and has fallen to 25.3% since. Our total rate is 39.2%, second highest in the world. Workers will be the biggest beneficiaries of a lower corporate tax rate. This should include repatriation of foreign income at a lower tax rate.

For more information see "A Pro-Growth Agenda for Congress" in this packet, or visit www.ncpa.org/super-committee to access this publication.



II. Health Care Reform in General and Medicare Reform in Particular

(If the Super Committee doesn't address health care and Medicare, all of their work will have been in vain!)

Repeal the destructive taxes and unworkable mandates in ObamaCare. Replace ObamaCare with a system that liberates the market, encouraging competition, fostering entrepreneurism, reducing cost, increasing quality and eliminating barriers to access.

Allow Medicare beneficiaries to control more of the money. This will create incentives for beneficiaries to avoid wasteful spending. Difficult decisions in health care spending should be made by the beneficiary, not a government bureaucracy.

Free Medicare providers to repackage and reprice their services. Any Medicare provider should be able to propose and obtain a different reimbursement arrangement, provided that:

1) the total cost to government does not increase,
2) patient quality of care does not decrease, and
3) the doctor proposes a method of measuring and assuring that (1) and (2) have been satisfied.

Allow workers to save for future health care needs. This will eliminate the current Ponzi-type scheme used to fund Medicare and replace it with a system where each generation pays for the bulk of its own post-retirement medical care.

For more information see "A Framework for Medicare Reform," "10 Steps to Free Our Health Care System" and "Saving Money, Saving Lives" in this packet, or visit www.ncpa.org/super-committee to access all publications.

III. Social Security & Retirement Reform

Entitlements can be reformed. The current entitlement system is unsustainable because Congress has made promises without paying for them. However, fixes to Social Security that would increase short-term revenues (such as raising the cap on taxable wages) would allow the government to spend more today to be paid for by increased borrowing in the future. Social Security reform can provide seniors with the benefits they have been promised, and allow younger workers to secure retirement incomes as good or better than previous generations.

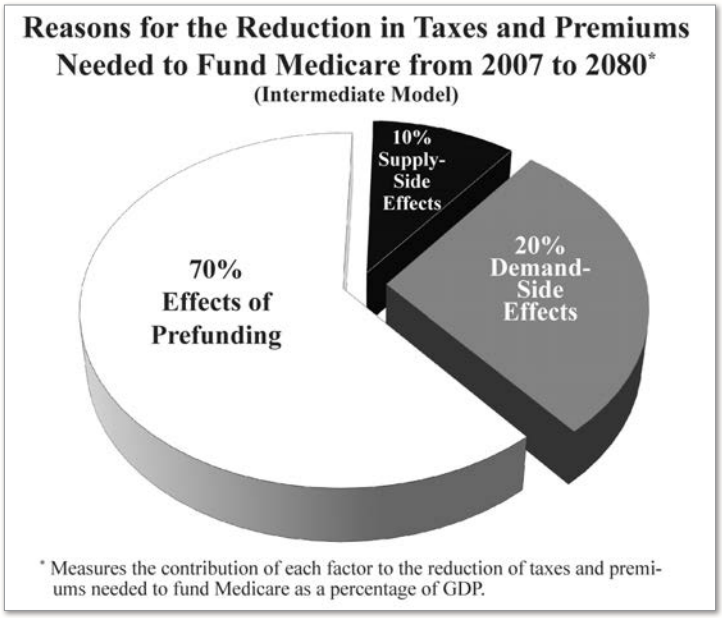
Put a portion of payroll taxes in personal retirement accounts. Temporary payroll tax reductions just increase future debts. Using those taxes to fund retirement accounts could reduce future government debts.

Transition toward a funded system. Allow workers and employers to set aside part of their payroll taxes and workers' wages in personal retirement accounts. As balances grow over time, they will replace the government's unfunded promises.

Wise investments. Workers and employers will not be left to themselves to invest their retirement funds. Instead, the funds will be invested in approved, diversified funds managed according to strict accounting and financial standards.

Reducing risk. Everyone age 55 or older today will receive all promised Social Security benefits. Younger workers could be guaranteed a minimum benefit level. If any qualifying worker's total benefit falls below the minimum, the federal government will supplement it.

For more information see "Social Security Reform without Illusion" and "How Health Reform Affects Current and Future Retirees" in this packet, or visit www.ncpa.org/super-committee to access all publications.



IV. Tax Reform

Tax consumption, not savings. Tax reform should lowers rates, simplify the code, fairly distribute the tax burden, and grow GDP. A pure flat-rate income or sales tax would tax what people take out of society (consumption) not what they contribute to society (savings).

A low flat, broad-based tax rate. Replacing the current system with a low flat tax-rate would create incentives to earn, save, invest and become more productive. The lower the marginal rate, the stronger the incentives.

A tax that does not punish saving. Replacing the current system with a system that taxes only income spent and not income saved and invested, would increase the size of the capital stock. A larger capital stock means higher productivity and that means everyone can have more income for the same amount of work.

Simplicity, consistency and fairness. An uncomplicated system that taxes consumed income only once at a low rate would be progressive if some of the funds are contributed to accounts that enable low income individuals to save for health, retirement and other needs.

For more information see "A Kinder, Gentler Flat Tax," "Tax and Social Security Reform" and Robert McTeer testimony in this packet, or visit www.ncpa.org/super-committee to access all publications.

V. Control Congressional Appetite for Spending

Control Congress' spending of taxpayer dollars. The usual checks and balances that control Congress (federalism, separation of powers, etc.) have not been able to control the Congressional spending spree of the last decade.

Limit government spending to a fixed percentage of GDP. Whether enacted through statute or Constitutional amendment, limiting government spending to 20% of GDP would grow GDP. As government grows beyond 20% of GDP, the levels of taxation needed to pay for government services inhibit economic growth.

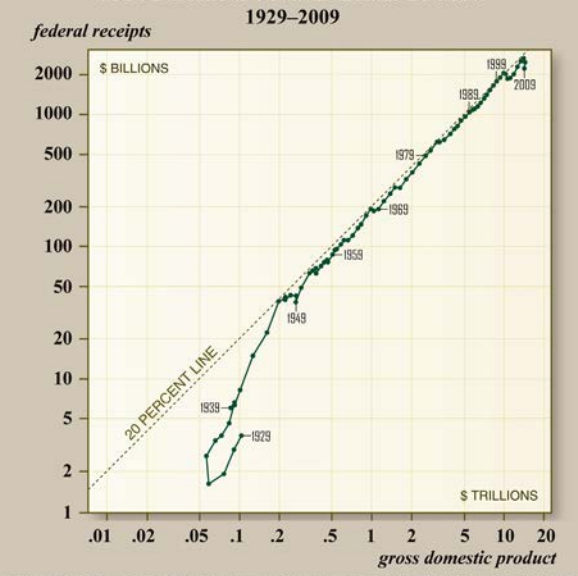
No more deficit spending to "stimulate" the economy. President Obama assumed that for every $1 of deficit "stimulus" spending, the GDP would increase $1.50. His own economic adviser found that $1 dollar of tax cuts is much more stimulative than government spending. After the $787 billion stimulus bill failed to revive the economy, Congress should quit digging deeper into the deficit hole.

Change in Living Standards under Social Security Reform and a Consumption Tax[1]

	Income Class		
Birth Year	1	2	3
1910	1.6%	-3.6%	-1.8%
1920	1.5%	-2.7%	-1.2%
1930	1.3%	-2.9%	-1.3%
1940	1.9%	-3.2%	-1.3%
1950	0.6%	-4.2%	-1.1%
1960	2.4%	-3.4%	0.0%
1970	6.8%	-1.4%	2.2%
1980	12.8%	0.6%	2.9%
1990	20.8%	5.7%	4.5%
2000	30.9%	12.3%	6.5%
2010	40.5%	18.7%	8.2%
2020	48.1%	23.7%	9.5%
2030	53.9%	27.4%	10.5%

[1] Indicates percentage change in standard of living. The lowest-income class is Number 1; the highest is Number 3.

Hauser's Law: Federal Tax Receipts Will Always Fall Short of 20 Percent of Gross Domestic Product 1929–2009



Note: These data derive from the national income accounting (NIA) system, which is quite different from the cash-based system used by the Congressional Budget Office and the Office of Management and Budget. NIA receipts generally exceed budget revenues by two to three percent.

Source: Calendar-year gross domestic product and current receipts of the federal government from the Bureau of Economic Analysis.

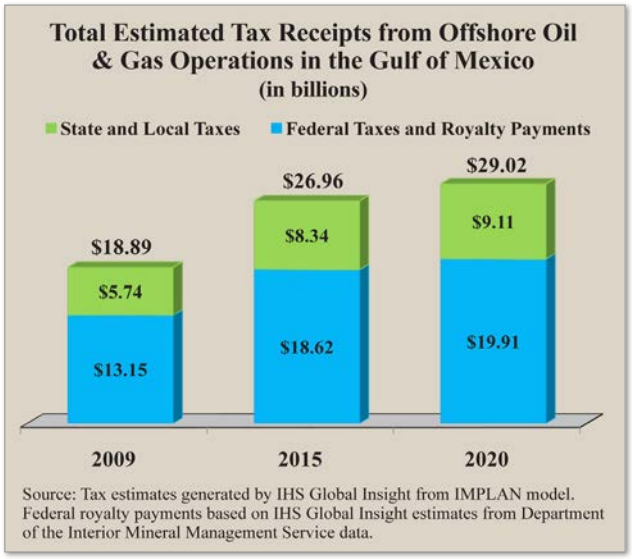
Spending cuts. With more than $14 trillion in debt, Congress needs to seriously consider how much government the American people can afford. If we want a large, bloated, inefficient federal government, Congress will need to pay for it with high taxes. But if we want a limited government focused on core functions, Congress should cut back on those areas of government that are not essential.

For more information see "Optimal Taxation, Economic Growth and Income Inequality in the United States" and "Fiscal Policy and Economic Recovery" in this packet, or visit www.ncpa.org/super-committee to access all publications.

VI. End Energy Grants & Loan Guarantees

The U.S. government should cease picking energy winners and losers. Government funding for so-called "green" energy projects has increased substantially over the past few years under the guise of simultaneously creating "green" jobs, improving energy security and improving the environment. Green job efforts in the U.S. have been a costly boondoggle. The Solyndra bankruptcy, costing American taxpayers more than $535 million, is only the latest of a number of green energy failures despite generous infusions of taxpayer cash. Investors' Business Daily has calculated that just those green energy loans approved this week would cost $23 million for every job created.

Expedite domestic oil and gas production. Income from new lease sales, rents and royalties would be substantial. Those three components — royalties, leases and rent — make up a sizable amount of revenue each year. The economic forecasting firm IHS Global Insight estimates that royalties, lease bids and rent payments amounted to more than $6 billion in 2009. Federal, state and local taxes related to the offshore oil and gas operations in the Gulf totaled $13 billion, all of which could contribute to deficit reduction.



Even more revenue could be realized if the federal government opened areas currently closed to exploration and production, such as the eastern Gulf of Mexico, portions of the Rocky Mountains, the Arctic National Wildlife Refuge, and the Atlantic and Pacific coasts. A recent study by Wood Mackenzie for the American Petroleum Institute estimates that increased access to those areas would bring $150 billion into federal coffers by 2025. The immediate impact of opening the Gulf of Mexico, alone, is forecast to produce revenues in excess of $4.7 million per day.

For more information see "The Fiscal Impact of the Offshore Drilling Moratorium" and "Solar Power Prospects" included in this packet, or visit www.ncpa.org/super-committee to access all publications.

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About the NCPA

The National Center for Policy Analysis (NCPA) is a nonprofit, nonpartisan public policy research organization, established in 1983. Our goal is to develop and promote private, free-market alternatives to government regulation and control, solving problems by relying on the strength of the competitive, entrepreneurial private sector.

We bring together the best and brightest minds to tackle the country's most difficult public policy problems — in health care, taxes, retirement, small business, and the environment. In doing so, we propose reforms that liberate consumers, workers, entrepreneurs and the power of the marketplace.

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