Critical Waste Issues *for the* 112th Congress

Citizens Against Government Waste

Table of Contents

Citizens Against Government Waste (CAGW) is a private, nonprofit, nonpartisan organization dedicated to educating the American public about waste, mismanagement, and inefficiency in government.

CAGW was founded in 1984 by the late industrialist J. Peter Grace and nationally-syndicated columnist Jack Anderson to build support for implementation of the Grace Commission recommendations and other waste-cutting proposals. Since its inception, CAGW has been at the forefront of the fight for efficiency, economy, and accountability in government. CAGW has more than one million members and supporters nationwide. In the past 27 years, CAGW has helped save taxpayers $1.08 trillion through the implementation of Grace Commission findings and other recommendations.

CAGW's official newsletter is *Government WasteWatch*, and the group produces reports that examine government waste and what citizens can do to stop it. CAGW is classified as a Section 501(c)(3) organization under the Internal Revenue Code of 1954 and is recognized as a publicly-supported organization described in Section 509(a)(1) and 170(b)(A)(vi) of the code. Individuals, corporations, companies, associations, and foundations are eligible to support the work of CAGW through tax-deductible gifts.

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Introduction

During last year's campaign season, politicians clamored to brag about how much they were going to cut spending. While some steps have been taken early in the 112th Congress to address the record $1.5 trillion deficit for fiscal year 2011 and the fast-growing $14 trillion-plus national debt, including a two-year earmark moratorium in the House and Senate, much more needs to be done before the nation descends into bankruptcy.

Excessive government spending results in greater involvement and interference in the economy and less personal freedom. Eliminating government waste would help transfer power from Washington bureaucrats back to the states and the people.

While Citizens Against Government Waste's (CAGW) *Congressional Pig Book* details pork-barrel spending and *Prime Cuts* identifies individual spending cuts, CAGW's *2011 Critical Waste Issues* cuts through the clutter to specifically outline some of the most important proposals for smaller and more efficient government. From agricultural subsidies to telecommunications reform, *Critical Waste Issues* details 10 policy areas that require immediate attention. Many of these recommendations have been considered in the past. But with greater concern than ever over the size and scope of the federal government, it is now time to have them implemented.

Elected officials have squandered the good will that used to exist between the government and the people. It is time to repair the damage done by years of runaway spending and government waste. The adoption of the recommendations in *Critical Waste Issues* will help restore effective and efficient government.

Since its inception in 1984 as the follow-on organization to President Reagan's Grace Commission, CAGW has been at the forefront of the fight for efficiency, economy, and accountability in government. CAGW is a private, nonprofit, nonpartisan organization with more than one million members and supporters, and is dedicated to educating the public about waste, mismanagement and inefficiency in the federal government.

CAGW's mission reflects the interests of taxpayers. All citizens benefit when government programs work cost-effectively, when deficit spending is reduced and government is held accountable. Not only will representative government benefit from the pursuit of these interests, but the country will prosper economically because government mismanagement, fiscal profligacy and chronic deficits soak up private savings and crowd out the private investment necessary for long-term growth.

The *2011 Critical Waste Issues* should be mandatory reading for taxpayers, the media, and all members of Congress as they tackle the biggest issues facing America.

Critical Waste Issue

Agriculture Subsidies

While agriculture has received federal support as far back as the Morrill Act of 1862, which established land grant colleges, the Agricultural Adjustment Act of 1933 and other New Deal programs dramatically expanded the number and cost of farm subsidies. Current programs include direct payments, counter-cyclical payments, government loans, disaster payments, crop insurance, export subsidies, and import tariffs. Direct payments were a temporary measure instituted in 1996 to help wean farmers off government subsidies; instead, farmers continue to receive payments independent of production or profits. Counter-cyclical payments and government loans aim to help struggling farmers in bad years by essentially creating a price floor for certain commodities. Instead, these payments are often made in bumper-crop years, when a large supply floods the market and drives down prices. However, farmers still make a profit from their crops, and average farm income far exceeds the median income for all taxpayers.

Many inherent problems exist in these subsidy programs. First, more than 90 percent of subsidies go to farmers of five crops – wheat, corn, soybeans, rice and cotton. Supporters claim that the payments are aimed at providing a safety net for small and medium-sized family farms, but 74 percent of the support goes to the wealthiest 10 percent of farmers, who received over the past 15 years an average of more than $445,000 annually, according to the Environmental Working Group. The bottom 80 percent received an average of $8,862, so subsidies provide little assistance to small farmers. Second, more than 60 percent of U.S. agricultural products do not receive any federal assistance. Farm subsidies are, therefore, inequitable, expensive, and unnecessary.

Citizens Against Government Waste (CAGW) has been calling for an end to farm subsidies since the organization was established in 1984. In addition to the unfair distribution of subsidies, other reasons to end the practice include damage to the U.S. economy and trade relations, adverse environmental impact, and evidence from other countries that ending farm subsidies improves the economy.

The dairy, ethanol, sugar, and peanut programs exemplify the problems of all agriculture subsidies.

Dairy

The U.S. dairy market is a complex tangle of subsidies and price supports. Through a series of federal Milk Marketing Orders, the government sets minimum prices that producers must pay for Grade A milk.

These orders, and the prices they impose, vary from region to region, and milk producers are forbidden to sell their product in another region. The prices are based historically on the distance from Eau Claire, Wisconsin, where the milk is produced. The government also has a Dairy Price Support program. Under this program, the government buys certain processed dairy products, like butter and cheese, to keep the market price above a certain level. In addition to these subsidies, the government runs a program called Milk Income Loss Compensation, which compensates dairy producers when domestic milk prices fall below a certain level.

All of these programs keep the price of milk in the U.S. higher than the world price, and, in essence, pay the dairy industry with taxpayer money. These programs cause unnecessary market distortions, cost taxpayers millions, and add unnecessary red tape and regulations.

Low milk prices throughout much of 2009 caused many dairy farmers, and some of their representatives in Congress, to suggest imposing government-mandated limits on milk supply. Senator Bernie Sanders (I-Vt.) and Representative Jim Costa (D-Calif.) introduced S. 3531 and H.R. 5288 to establish a new government program that would impose production quotas on dairy farmers based upon the projections of a dairy farmer-dominated board. A similar proposal from the National Milk Producers Federation (NMPF), called the Dairy Market Stabilization Program, would create a new USDA program to control milk supply by restricting milk payments when margins between farm milk prices and feed costs shrink.

CAGW has long opposed USDA's sugar supply control program because it imposes increased costs on consumers. Similarly, CAGW strongly opposes efforts, such as the Sanders/Costa bill or the NMPF stabilization program, to create supply controls or a quota system for the dairy industry. Milk production is already encumbered with several programs that distort markets; regulations should be eliminated, not increased. Experience in other countries, such as Canada, with supply controls proves that such programs restrict industry growth, add costs to consumers, impede innovation and encourage imports, yet are ineffective in saving small farms. Increased prices for dairy products will unnecessarily raise costs for government nutrition programs, will create a new and costly bureaucracy at the USDA, and, once in place, will be easy to amend to a more onerous program if less restrictive proposals do not satisfy proponents.

Reforming milk marketing orders and deregulating milk pricing would save taxpayers $1.2 billion in one year and $5.8 billion over five years.

Ethanol

The ethanol program benefits from a plethora of subsidies. They include a tax credit for ethanol blenders, a protectionist tariff

against foreign ethanol imports, and a Renewable Fuel Standard that creates an artificial market for the additive. The ethanol program should be on the chopping block as Congress and the administration seek to cut wasteful federal spending and reduce the deficit.

Taxpayers have been fleeced by the ethanol program for years. Studies show that increased ethanol production does not improve energy independence or help the environment. A July 2009 Congressional Budget Office report confirmed that taxpayers lose $6 billion each year on the ethanol program. In 2009, the U.S. produced and sold about 11 billion gallons of biofuels, most of it made from corn. Fuel blenders receive a 45 cents per gallon tax credit, most of which flows back to domestic corn growers in the form of higher prices for their product. Even though the tax credit and the tariff were set to expire on December 31, 2010, Congress extended both the ethanol tax credits and tariff at the end of the lame duck session in 2010.

A November 27, 2010, *Wall Street Journal* article noted that former Vice President Al Gore, ethanol cheerleader and spiritual leader of the climate change movement, has backtracked on his support for the program, saying it was a "mistake," and that he really only supported it because he had a "certain fondness for the farmers in the state of Iowa" during his presidential run. Gore conceded, "It's hard once such a program is put in place to deal with the lobbies that keep it going."

Even as groups on both the left and right have exposed the program as a colossal waste, the Environmental Protection Agency announced in October that it would mandate an increase in the amount of ethanol in gasoline to as much as 15 percent, a move which constitutes yet another sop to the ethanol lobby, which has admitted that there are already "lots of gallons of ethanol chasing too few gallons of gasoline." Their mantra that using ethanol reduces the country's dependence on foreign oil and creates jobs has been debunked repeatedly.

Ending ethanol subsidies could save taxpayers $6 billion in one year and $30 billion over five years.

Sugar

Using a combination of price supports, marketing controls and import quotas, the federal government establishes a minimum price for sugar in the United States. The government sets a floor under market prices by offering sugar processors loans, with sugar serving as collateral. If processors are unable to sell their sugar on the open market at a price higher than the loan rate, they can repay the price support loan by forfeiting the sugar to the government.

The government also imposes marketing controls, which limit how much sugar processors are allowed to sell, by setting an overall allotment for the entire country, designating a portion of that amount to each processor, and prohibiting

processors from selling sugar in excess of their allotment.

These allotments are enforced and administered by a small cartel of sugar processors who function as the government's unofficial production control agents. It is impossible for a sugar producer to market a crop if the processors refuse to accept it.

The federal government also imposes a tariff-rate quota, limiting the amounts of raw and refined sugar that may be imported into the U.S. through the rigid allotment of country-by-country import quotas. A prohibitive tariff is imposed on any imports above the quota.

As part of the 2008 Farm Bill, taxpayers will purchase sugar from U.S. sugar producers and then sell it at a loss to ethanol plants. The program, known as the Feedstock Flexibility Program for Bioenergy Producers, is expected to cost $325 million from fiscal year (FY) 2008 to FY 2012. Although officials tout this program as making the sugar subsidy program a "net zero," in reality, no one benefits. The government still loses money on the venture, and most ethanol producers in the U.S. are set up to produce ethanol from corn and cannot process sugar. These programs have increased the U.S. price of sugar to two or three times the world price, and have also cost the U.S. at least 75,000 jobs in sugar-related industries such as candy, cereal, and baked goods manufacturers, in addition to decimating the U.S. sugar refining industry. The cost of this program to U.S. consumers is at least $1.9 billion annually when the higher prices of sugar are taken into account.

The elimination of the sugar program would save taxpayers $160 million in one year and $800 million over five years.

Peanuts

The peanut support programs have existed in some form since the early 1900s. Originally, peanuts were subsidized with a production quota; only those who owned or leased production quotas from the government were allowed to produce. Since these production quotas drove the cost of peanuts to nearly twice the world price, quota ownership rights were very valuable. When Congress passed the 2002 Farm Bill, which eliminated production quotas, members had to compensate farmers for removing this valuable "resource" of quota rights, which cost taxpayers $1.3 billion over five years.

The new peanut subsidy is an improvement, but that's not saying much. The new direct payments and counter-cyclical payments are available to "historic peanut producers," or those who grew peanuts from 1998-2001. Farmers so designated receive payments whether or not they currently produce peanuts. These programs still significantly distort the U.S. peanut market.

Eliminating the peanut subsidy would save taxpayers $140 million in one year and $700 million over five years.

Agricultural products should be grown and sold according to free market forces, not government intervention. Enforcement of quotas, import controls, and marketing restrictions distorts markets and increases the cost of food to taxpayers and consumers.

A safety net for small farmers might potentially be a worthy goal. However, the existing convoluted mess of subsidies is not a safety net because it pays out in good and bad times and disproportionately benefits wealthy farmers. In addition, the total paid by U.S. consumers and taxpayers in direct and indirect costs is higher than the benefits received by farmers. Congress must restructure existing U.S. agriculture subsidies or abolish them altogether.

Critical Waste Issue

Defense Procurement Reform

Wasteful spending at the Department of Defense (DOD) has a long and notorious history, including the $436 hammer, the $640 toilet seat, and 15 pages of instructions on how to bake chocolate chip cookies; all these were widely publicized by CAGW. Today, defense spending and procurement have become highly politicized, leading to controversial contract awards and a plethora of legal challenges. The Pentagon has become risk averse, which has led to consideration of simply renewing old contracts rather than taking the time necessary to engage in a new procurement.

Additional delays and expense are also caused by meddling by members of Congress, who have threatened to simply award a contract regardless of the outcome of a DOD review. These members have added tens of billions of dollars in earmarks since CAGW issued its first *Congressional Pig Book* in 1991. In a floor statement on May 27, 2010, Senator John McCain (R-Ariz.) aptly described the adverse impact of earmarks on national security when he said, "It's time for earmark addicted elected officials in Washington to make sacrifices and forgo their pork barrel projects and other special deals to help provide our troops with the support and equipment they need."

Two recent examples of procurement fiascoes – the Air Force's attempts to procure a new air refueling tanker and an alternate engine for the Joint Strike Fighter (JSF) – exemplify how pork and politics are complicating the procurement process and costing taxpayers billions of dollars.

Air Force Tankers

The Air Force's competition to procure new air refueling tankers is now in its third round of bidding. The first, in 2002, fell apart in a corruption scandal that sent a top Pentagon procurement officer and a senior Boeing official to prison. In the second round of bidding, the Air Force awarded the contract to the team of Northrop Grumman and The European Aeronautic Defense & Space Company (EADS) and its Airbus subsidiary. This set off a flurry of activity by those whose districts would have benefitted from a Boeing win. Sen. Patty Murray (D-Wash.), whose state is home

to several Boeing manufacturing plants, claims significant credit for helping Boeing contest the results. A Boeing official confirmed that Sen. Murray had played “a critical role” in helping Boeing contest the results.

A third round of bidding ended on July 9, 2010, when Boeing and EADS North America on its own submitted new bids under a new set of parameters. The Air Force announced on June 18, 2010, that it would make a decision in mid-November, after the midterm elections. That deadline has since been extended until February 2011. Whichever competitor wins, the tanker contract will greatly benefit a handful of states and create thousands of jobs. Airbus has said that if EADS North America is awarded the contract it would move its freighter assembly to Mobile, Alabama. According to a Boeing press release, the tanker contract would bring 7,500 jobs and $388 million to Kansas, while Arizona, California, Iowa, Michigan, Ohio, Texas, and Washington would gain hundreds of jobs each, and tens of millions of dollars. Predictably, the process has been mired in parochial political interests, pork-barrel spending, and congressional interference.

Further complicating the contest, on June 30, 2010, the World Trade Organization (WTO) released a report finding that EADS had received illegal subsidies from the European Union. Boeing’s supporters have been using the WTO’s findings to argue for the rejection of the EADS bid, or, alternatively, for adding the cost of the subsidies to the final submitted price.

However, on September 15, 2010, a second WTO panel released a report on a countersuit brought by the EU against the U. S. This report indicated that Boeing also received subsidies – validating a well-known fact that both manufacturers have received government support for decades. Boeing supporters argue that the company received far less assistance than EADS; nevertheless, both companies have violated WTO rules. The Pentagon has repeatedly stated that it will not consider trade disputes in the bidding process.

At this point, it is hard to predict the outcome. CAGW urges the Air Force to bring this lengthy and overwrought process to a conclusion that works best for taxpayers and the nation’s warfighters. The Air Force should, without regard to politics, choose the best, most cost-efficient design, and conduct future acquisitions in a manner more palatable to taxpayers.

Joint Strike Fighter (JSF) Alternate Engine

The JSF program was designed to create an affordable alternative for all branches of the military to the current fighters, which are starting to show their age in terms of wear and tear and competitive performance. The military predicts that the JSF, known as the F-35 Lightning II, will be without rival until 2040.

In 2001, Lockheed Martin’s design,

which included the F135 engine, won the contract for the JSF platform. Pratt & Whitney was awarded a 10-year, $4.8 billion contract to produce the engine.

A program to design and build the F136 alternate engine received support from the executive branch through fiscal year (FY) 2006. However, in FY 2007, the DOD proposed termination of the F136 program and did not include funding for it in its budget request. When asked to address the decision by the DOD to forgo funding for the F136, then-Secretary of Defense Donald Rumsfeld on February 16, 2006, replied, "any sole-source risk was modest and acceptable."

Despite opposition from the White House and Pentagon, members of Congress have earmarked more than $1.2 billion for the alternate engine since 2004. The program has been the subject of several comprehensive reports indicating that it is duplicative and unnecessary. According to an article on CBSNews.com on July 20, 2007, the Air Force and two independent panels concluded that the second engine is "not necessary and not affordable," and that the alleged savings from creating a mock competition "will never be achieved." A May 21, 2010, ABC News story labeled the alternate engine a "$3 Billion Government Boondoggle."

On April 27, 2010, in an effort to convince skeptics in Congress, the Pentagon, and the White House, F136 manufacturers GE and Rolls-Royce submitted a fixed-price offer for early-production engines purchased in 2012, and a reduced price for engines in 2013 and 2014, claiming they would assume all risks for cost overruns. According to the DOD, the cost in the fixed-price offer is dependent on a fixed configuration. Should the configuration change, the risk is transferred to the government, meaning taxpayers would be on the hook for any cost overruns.

Good news arrived from the Senate in September 2010, when both the Armed Services Committee and the Defense Appropriations Subcommittee refused to fund the alternate engine. This decision is in accordance with President Obama's stated opposition to funding the engine; both he and Defense Secretary Robert Gates have repeatedly threatened to veto any defense spending bill that contained funding for the second engine. The decision not to fund the engine was consistent with the Senate's vote of 38-59 on July 23, 2009, against an amendment to restore funding for the alternate engine into its version of the National Defense Authorization Act for FY 2010.

Unfortunately, the House has refused to excise funding for the extra engine. On May 27, 2010, the House voted 193-231 against an amendment to eliminate $465 million in funds earmarked for the engine from the FY 2011 Defense Authorization Act. This was the first House floor vote on the program,

and Republicans in particular failed miserably. Their promise in March 2010 not to request earmarks for FY 2011 clearly did not preclude them from voting for one. Fifty-seven Republicans voted in favor of the amendment, 116 against; on the other hand, 136 Democrats voted for the amendment and 115 voted against. Top Republican leaders, including Speaker-to-be John Boehner (R-Ohio), Majority Whip-in-waiting Eric Cantor (R-Va.), and several others, all voted against the amendment.

Because neither the House nor the Senate have passed any appropriations bills for FY 2011, the funding for the engine currently survives in the continuing resolution.

The tanker and the alternate engine show how the procurement process is broken. First, Congress's parochial squabbling has made the procurement process unnecessarily lengthy, complicated, and costly. The practice of funding defense projects and programs through earmarks must stop. Second, there must be more oversight and accountability for defense programs.

Finally, according to an op-ed co-authored by Robert A. Burton, a former deputy administrator of the Office of Federal Procurement Policy in the Executive Office of President George W. Bush, and Jerry W. Cox, a former Senate procurement counsel, "the administration can require top-level program managers to get a better grip on poorly-defined task orders and out-of-scope service agreements that drive program costs skyward. They also should comply with existing law more faithfully and stop paying 'incentive' fees that are not performance-based. Instead of continuing to award contracts to people who deliver runaway costs and interminable delays, he must demand excellent results."

In order for the American people to feel both fiscally and physically secure, the defense procurement process must be fixed. The consequences of failing to do so will be detrimental to those protecting our nation from harm.

Critical Waste Issue

$1 Coin

On April 21, 2010, the U.S. Treasury released its new version of the $100 bill. Featuring an updated portrait of Founding Father Benjamin Franklin, the bill boasts advanced measures to obstruct counterfeiters. However, while the federal government has modernized this large tender, more attention needs to be paid to the other end of the currency spectrum: the $1 bill and $1 coin.

In 1997, Congress authorized the Sacagawea $1 coin to replace the Susan B. Anthony $1 coin, as its supplies were thinning. Approximately 1 billion Sacagawea coins are presently in circulation and 250 million more remain in reserve. On December 22, 2005, former President George W. Bush signed the Presidential $1 Coin Act, creating coins to honor former U.S. Presidents. Four new coins are produced each year, depicting presidents in sequential order. The Native American $1 Coin Act, signed into law in September, 2007, created a rotating design on the Sacagawea coin celebrating the important contributions made by Indian tribes and individual Native Americans to the history and development of the United States.

The advantages of replacing the $1 bill with a $1 coin are obvious and substantial. According to an April 7, 2000 Government Accountability Office (GAO) report, that decision would save taxpayers $522.2 million per year. Most of the cost savings associated with coins comes from their comparative durability. The Bureau of Engraving and Printing produces approximately 3.4 billion $1 bills each year, each of which costs 4.2 cents to manufacture. Each bill has a lifespan of approximately 21 months. By comparison, the $1 coin costs slightly more to produce – 12 to 20 cents – but has a lifespan of 30 years or more.

Other benefits include savings on the processing of money by banks and businesses. Coins cost 30 cents per thousand pieces to process at Federal Reserve Banks, compared to 75 cents per thousand for $1 notes. Large-scale private sector users reap even more savings. Processing bills costs them more than 500 percent above processing coins. Coins are also much more difficult to counterfeit.

Switching to coins also provides an environmental benefit, as they are 100 percent recyclable. Old coins too damaged for use can be melted down and reprocessed into new coins. On the other hand, old $1 bills are shredded and are often placed in a landfill.

In part, the slow progress in introducing coins is related to the public's disdain for carrying around loose

change. However, a January 2011 poll conducted by the Tarrance Group in collaboration with Hart Research Associates found that public opinion shifts when respondents learn of the cost savings associated with a switch to coins. When initially asked whether they favored replacing $1 bills with $1 coins, 68 percent of participants were opposed. When informed that the switch to $1 coins would save American taxpayers $522 million each year, 65 percent of participants were in favor.

In a letter to the editor of *The Washington Post* which was published on May 1, 2010, Thomas McMahon, the senior vice president and chief counsel for the National Automatic Merchandising Association from 2002 to 2009, wrote that "Replacing $1 bills, which last about two years, with $1 coins, which last about 30 years, would save taxpayers at least $700 million a year in paper and printing costs. Eliminating the $1 bill would not remove George Washington from our money. His image appears on more than 40 billion quarters. Compared with trillion-dollar deficits, $700 million is a small sum. But it's a start, perhaps an important start on the road to improved government efficiency..."

In addition, the U.S. is alone among industrialized countries in having such a low value for its paper money. The smallest denomination of countries using the Euro is 5 Euro, worth $6.92. In Britain, the 5-pound note, worth $7.95, is the smallest paper money. In Japan it is 1,000 yen, worth $12.02. The average value of the lowest note amongst the seven other countries in the G-8 is $6.76.

While the benefits of the $1 coin are evident, the Federal Reserve has obstructed the process of introducing larger numbers of $1 coins into circulation. Officials of the Federal Reserve have complained before Congress of the expenses associated with housing $1 coins. However, as of May 31, 2010 the Federal Reserve held 3.3 billion quarters and billions more of pennies, nickels, and dimes. Consequently, the protest regarding the cost of holding the $1 coins seems dubious at best. Further, the Federal Reserve requires banks to "special order" $1 coins, unlike other coins or $1 bills. Obviously, this policy obstructs businesses and banks from receiving $1 coins and impedes their circulation.

The U.S. Mint has been circulating the new $1 coins since 2000, but the federal government needs to do more to take steps now to replace the dollar bill with the dollar coin. Only then can taxpayers and businesses realize the great benefits that come from $1 coins.

Critical Waste Issue

Fannie Mae + Freddie Mac

On July 21, 2010, President Obama signed a massive financial reform bill into law, the Dodd-Frank Wall Street Reform and Consumer Protection Act. The President had declared that the country needed a "sweeping overhaul of the United States financial regulatory system, a transformation on a scale not seen since the reforms that followed the Great Depression." He and his allies touted this legislation as one of his seminal accomplishments during his first two years as President. While its impact remains to be seen, the bill establishes many new federal regulatory bodies and, by one private sector analysis, calls for the creation of 243 rules, requires 67 studies, and demands 22 periodic reports. However, the legislation maintained stubborn silence on one of the nation's most vital financial questions: what to do with Fannie Mae and Freddie Mac.

Fannie Mae and Freddie Mac are government-sponsored enterprises (GSEs), established by Congress in 1968 and 1970 respectively. They were granted special exemptions and benefits not accorded to private sector mortgage lenders. Although they operated as private corporate entities, they were given lines of credit through the U.S. Treasury and exemption from state and local income taxes, and were freed from Securities and Exchange Commission registration and oversight. Their most exclusive advantage was their "implicit" government guarantee; the financial markets priced GSE securities as if the companies were "too big to fail," and taxpayers would be forced to bail them out if they got into a financial morass.

In exchange, the GSEs were mandated to foster homeownership. They did this by purchasing mortgage loans made by private-sector commercial lenders, thus freeing up more of the banks' capital to make more loans. The two GSEs would then bundle and resell the mortgages to investors as mortgage-backed securities, spreading risk around. In other words, they were financial institutions with a social mission.

After the enactment of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, the GSEs began holding more of their own securities in their portfolios, rather than selling them. They leveraged their government benefits, one of which allowed them to borrow money from the Treasury at rates lower than those for commercial banks, to garner enormous profits to their bottom lines. Congress continued to further meddle by mandating that the GSEs meet certain "affordable housing" goals; Fannie and Freddie began to drive mortgage lenders to make reckless

loans to borrowers with lower credit standards. The unyielding requirements of the Community Reinvestment Act (CRA), and changes made in 1995 to encourage more flexible and innovative underwriting standards also contributed to the explosive growth in exotic, gimmicky loans to borrowers who could not afford to own homes.

In the early 2000s, a few members of Congress began to demand increased scrutiny of the GSEs' activities, fearing that their relentless pursuit of profits would incent recklessness. Reform bills were introduced, but Congress was ultimately deflected from taking necessary action. The GSEs spent millions of dollars on lobbying and essentially bought protection on both sides of the aisle from any significant reforms.

First Freddie Mac, then Fannie Mae succumbed to accounting scandals. Investigations revealed that Fannie Mae, for example, had misstated its earnings by $10.6 billion from 1998 through 2004 and had systematically manipulated its accounting activities in order to drive financial bonuses to its executives. In September 2008, both GSEs collapsed into the arms of the federal government under the weight of billions in sub-prime loans they had acquired. The two entities have been wholly taxpayer-owned and operated since that time, and there is no accepted plan to address their status.

In a disconcerting development, on December 25, 2009, the Department of the Treasury quietly moved to abolish the congressionally-mandated $400 billion cap on GSE bailout funds. So far, the two companies have received $151 billion in taxpayer funds and predictions on the ultimate price tag range from $220 billion on the low side to more than $450 billion on the high side. The ultimate price for congressional negligence and the absence of executive branch oversight of the GSEs will fall squarely and heavily on taxpayers' shoulders.

Even though Fannie and Freddie have been dwelling in government limbo since 2008, the companies now guarantee more than 90 percent of the nation's home mortgages, effectively nationalizing the mortgage market. The Dodd-Frank financial services overhaul bill could have provided a vehicle for GSE reform and several attempts were made, particularly in the Senate, to impose some changes to the GSEs. The McCain-Shelby-Gregg GSE amendment, which was not adopted, would have provided transparency to the conservatorships of the GSEs by establishing much-needed investigative oversight and required that funding for Fannie Mae and Freddie Mac be included in the federal budget as long as they are in conservatorship or receivership status.

Those attempts were thwarted. The Dodd-Frank bill was so fraught with controversy that it became obvious that any attempt to include complex and controversial GSE reforms would obliterate the fragile

political coalition which ultimately pushed the financial services reform bill through. The Dodd-Frank bill at least included language requiring the administration to tender in early 2011 a plan for the future of housing finance that must include how to deal with Fannie Mae and Freddie Mac.

GSE reform is expected to be among the first issues the new Congress takes up in 2011. Republicans and Democrats will attack the issue from very different perspectives. A December 10, 2010, *Mortgage News Daily* report quoted Rep. Scott Garrett (R-N.J.), who is now chairman of the House Subcommittee on Capital Markets, Insurance, and Government-Sponsored Enterprises, as stating, "while there will be a number of very important issues on the subcommittee's plate during the 112th Congress, winding down Fannie Mae and Freddie Mac will be priority No. 1. With the American taxpayers already on the hook for $150 billion and counting to bail them out, we need to be taking concrete steps to reduce the ongoing financial risk they pose to the country and eradicating the bailout culture of Capitol Hill."

In March 23, 2010, testimony before the House Financial Services Committee, Treasury Secretary Tim Geithner took a very different perspective, saying, "There is quite a strong economic case, quite a strong public policy case for preserving and designing some form of guarantee by the government to help facilitate a stable housing finance market... But it can't be the one we have today. It can't be the one we lived with over the last decade. It's going to be significantly different."

Brian Chappelle, a partner at Potomac Partners, said in a November 1, 2010, article in *American Banker,* "Democrats need to rebut the argument that they have let the GSE problem fester and if the Republicans do take control over the House and/or Senate, then they are going to assume some accountability so they are going to want to get a resolution, too."

Even Rep. Barney Frank (D-Mass.) over the last decade has reversed his hands-off approach, which has bordered on the sycophantic, to the GSEs. One of his more absurd comments came in the September 11, 2003, *New York Times,* when he said, "These two entities -- Fannie Mae and Freddie Mac -- are not facing any kind of financial crisis.... The more people exaggerate these problems, the more pressure there is on these companies, the less we will see in terms of affordable housing." On the August 24, 2010, edition of FOX News Channel's "Your World with Neil Cavuto," Frank said, "I hope by next year we'll have abolished Fannie and Freddie. It was a great mistake to push lower-income people into housing they couldn't afford and couldn't really handle once they had it. I had been too sanguine about Fannie and Freddie."

That assessment is shared by many financial services experts. Edward

Pinto, a consultant and former chief credit officer at Fannie Mae, who has written and testified extensively on housing policy, the mortgage industry, and the GSEs, observed, "The political and policy environments are very different today than a year or two ago... If Barney Frank can move a large distance on some of these issues, I would say, shouldn't housing interest groups re-examine their earlier positions based on the facts as we now know them? For example, is an explicit government guarantee of private mortgages a good idea?"

Paul Volcker, former Federal Reserve Chairman and special advisor to President Obama, has been uncompromising in his assessment that, going forward, Congress must reject government guarantees and avoid "hybrid" institutions that are "private when things are going well and public when things are going badly."

Any long-term reform of the GSEs must involve an orderly wind-down of Fannie Mae and Freddie Mac and a lowering of the conforming loans limits to rational levels. Right now, the GSES are permitted to purchase and securitize mortgage loans of up to $417,000 in average-cost areas and $729,750 in so-called high-cost areas (the homes themselves could be worth much more). Since the median home now sells for $177,000, the GSEs' exorbitant conventional conforming loan limits are completely out of whack with housing prices all over the country and must be brought back into line with reality.

The policy battle ahead will pit those who seem to have missed the point of the massive mortgage meltdown entirely, and are pushing for even more government involvement in the form of an explicit government guarantee, against those who fully comprehend that government shenanigans instigated the mess. The National Association of Realtors and the National Association of Homebuilders, among others, are thoroughly convinced that the home mortgage industry must not be forced to go it alone, without a substantial government guarantee.

As humorist Mark Twain quipped, "History may not repeat itself; but it does rhyme." *New York Times* columnist Gretchen Morgenson wrote on December 12, 2010, that Congress and policymakers would do well to start "pushing back against the growing chorus of groups arguing for an explicit government guarantee of all mortgages going forward. After what we have been through, isn't it incredible that anyone could argue for government guarantees of all mortgages? Yet that's just one of the many perverse 'solutions' that have been floated in the aftermath of the crisis."

It will be more important than ever for taxpayers' interests to be fully protected going forward. The goal must be to get the government out of the housing finance sector and allow the private sector to return.

Critical Waste Issue

Federal Salaries

At a time of record budget deficits, a national debt of more than $14 trillion, and a slow economic recovery, politicians around the country should be doing more to help taxpayers. With federal government and other public sector salaries outpacing private sector compensation, one way to lessen the burden taxpayers feel on their wallets is to bring public sector salaries in line with the private sector.

A March 8, 2010, *USA Today* story illustrated just how far the feds have gone in overpaying their employees: Average federal salaries exceed average private sector pay in 83 percent of comparable occupations. The article stated that the median annual salary for a typical federal worker is 20 percent more than a private sector worker in the same occupation. In one extreme example, a federally paid cook makes an average of $38,400, while a private sector cook makes $23,279, a taxpayer-funded difference of $15,121, or 65 percent.

The fact that federal pay outpaces private sector pay did not happen by accident. Federal workers receive automatic wage increases by statute, which provide them with both step-in-grade increases and cost-of-living adjustments. Federal employees have received pay raises that surpassed the rate of inflation for the past decade. This trend runs in stark contrast to the last few years during which private sector pay increases were virtually nonexistent and, in some instances, private sector workers took pay cuts.

To give credit where credit is due, on November 29, 2010, President Obama called for a two-year freeze on salaries for most federal workers, excluding the military. This is a first step in restoring some fiscal sanity in the practice of overpaying federal employees. While this move was long overdue, more can still be done.

According to a February 3, 2010, Thomson Reuters column by Martin Hutchinson, "Rolling federal employee pay back to where it was in 1998 relative to the private sector and shifting state and local government pay back to 2005 relative levels would save $116 billion annually from government costs."

The arguments for overpaying federal employees are not convincing. In a March 9, 2010, Government Executive.com article, former Office of Management and Budget Director Peter Orszag defended the salaries of federal employees by saying that the federal workforce is more highly

educated than the private sector workforce. He went on to say that federal workers have also been on the job longer and that, as people become more experienced, pay tends to increase.

This tortured logic ignores the fact that the federal government is not a private sector concern and does not reap “profits” it can use to pay its workers more money. The government must raise taxes from the hardworking public to pay these increases. Many businesses and individuals are paying less in taxes because they are not earning as much. With declining tax revenue, the federal government has fewer resources to pay its workers and must either borrow or tax even more to meet its payroll. It is clear to those who balance their checkbooks every month that the federal government cannot afford to waste any more money.

Congress and the Obama administration can cut back on spending by reducing all federal salaries by at least 10 percent. At a time when the private sector is cutting back and being forced to live within its means, the federal government should follow suit.

Critical Waste Issue

Institutional Reform

As the House changes hands, there are several opportunities for institutional reform that can provide greater accountability and transparency while also increasing efficiency and reducing the costs of governing. Although Senate Majority Leader Harry Reid (D-Nev.) has not indicated that he will entertain any changes in Senate rules and procedures, House Speaker John Boehner (R-Ohio) has already implemented changes in the way in which the House is managed.

CAGW suggests the following institutional reforms for the 112th Congress:

• President Obama will include a pay freeze for federal employees in his 2012 budget. Congress should do better than that, and provide a 10 percent pay cut for all legislative branch employees, along with equivalent cuts in the appropriations bills that will fund federal agencies.

• Return to fiscal year (FY) 2008 spending levels of $4 billion for the legislative branch, a 20 percent cut from the $5 billion spent in FY2010.

• Establish a full accounting of congressional perks on a searchable database, including retirement benefits, franking, healthcare, parking, television studios, and other benefits provided exclusively to members.

• Reduce by 25 percent the amount that can be spent on car leases, and require that any leftover member's representational allowance funds go to reduce the deficit, not back into the legislative branch budget.

• Eliminate or restrict franking. Franking made sense when the Pony Express was the only way to convey information to constituents. Taxpayers have more information available now than ever before through cable news coverage, blogs, local news sources, email, Facebook and Twitter. If a member of Congress wishes to get the word out about his or her accomplishments, it seems that there is always a microphone nearby, including the House and Senate television studios, which members can use at little cost. If the House retains franking, the leadership should adopt the Senate's $50,000 annual spending limit; all franking should be eliminated in election years. Finally, franked mail should be used only in response to constituent correspondence and should be limited to a single letter. That would end the practice of establishing databases of constituents interested in a certain issue and flooding them with unrequested letters.

• End the Green the Capitol Initiative, which was established by Speaker Nancy Pelosi (D-Calif.) in 2007. The FY2010 Legislative Branch Appropriations Act request included $10 million for "energy demonstration

grants," which should not be carried out by Congress, if at all.

• Eliminate commemorative legislation in both the House and Senate. The time could better be used addressing more significant issues than birthdays, anniversaries, and sports champions.

• Establish strict guidelines on oversight to eliminate or severely limit politically motivated investigations on both sides of the aisle. The following suggestions were made in a November 13, 2010, *New York Times* article: review the performance and efficiency of government workers and federal contractors; evaluate agency performance by examining reports that are required under the Government Performance and Results Act, and do a better job of reviewing defense spending.

The article appropriately called for a review of how Congress itself is structured, as "more than 100 committees and subcommittees oversee the Department of Homeland Security." Hearings should be coordinated among committees and between the House and Senate so that agency officials do not go to dozens of hearings on the same subject matter. The bipartisan proposal to provide agency inspectors general with more subpoena power should be adopted. Members of Congress should make it clear why a particular program is or is not effective before they propose that it should be reformed or eliminated.

Critical Waste Issue

Repeal ObamaCare

Over the past two years, taxpayers have watched the national debt climb to a frightening $14 trillion as Congress and President Obama massively enlarged the size and scope of the federal government against the will of the people. Americans have simply had enough of the bailouts, tax hikes, earmarks, onerous regulations, and the seemingly endless number of "jobs" bills. The passage of President Obama's landmark healthcare legislation, however, was perhaps the most fiscally dangerous piece of legislation and is most illustrative of Washington's reckless and profligate behavior.

On December 24, 2009, Senate Democrats managed to strong-arm enough members with giveaways such as the "Cornhusker Kickback" and "Louisiana Purchase" to pass Senate Majority Leader Harry Reid's (D-Nev.) healthcare bill, H.R. 3590, the Patient Protection and Affordable Care Act. This $2.5 trillion legislation, packed with tax increases, insurance mandates, Medicare cuts, and unfunded Medicaid expansions, was rammed through the House on March 21, 2010, in a 219-212 vote.

The Obama administration may have won the healthcare battle, but an ongoing war is being waged over its legitimacy and tremendous cost. There are currently more than 20 active legal cases challenging the healthcare overhaul on the grounds that the law is an unprecedented overreach of federal power and contravenes the Constitution. Additionally, many Democratic legislators lost their seats on November 2 in large part as a result of their support of ObamaCare and its massive new spending requirements.

Beginning in 2014 under the new law, individuals will either have to purchase health insurance or pay a financial penalty to the government. The Obama administration contends that the Constitution's Commerce Clause, which gives Congress the power of taxation, provides the authority to levy this fee.

The problem with the individual mandate is two-fold. First, when the Obama administration pushed for passage of the healthcare bill, it vehemently denied the non-compliance penalty was a tax. Appearing on the September 20, 2009, edition of ABC's "This Week" with George Stephanopoulos, President Obama stubbornly refused to agree that the individual mandate is a tax increase, stating, "…for us to say that you've got to take a responsibility to get health insurance is absolutely not a tax increase." Now that it finds itself in hot water, the administration claims that the fee is, in fact, a tax and, therefore, legal under the

Commerce Clause. This is an admission that President Obama tried to deceive the American people in order to gain support for his healthcare bill. Any way you slice it, the President is clearly trying to have his cake and eat it too.

The second major issue is that this individual mandate opens the door to boundless government intervention. Forcing Americans to buy health insurance just by virtue of being alive creates an extremely slippery slope for other federal mandates. What's to stop the government from requiring residents to buy a car, pay for gym membership, or eat broccoli? The power of the individual mandate is simply unprecedented.

The new healthcare law not only challenges the Constitution, it also forces Americans to shoulder the heavy burden of new taxes, penalties, and higher insurance premiums. Seniors will see their Medicare benefits significantly reduced, resulting in limited choices and higher costs. While Medicare will soon experience cuts, Medicaid will be expanded, despite the fact that the program is going broke and states are struggling to fund their share of the massive program, even before federal matching programs expire. Imposing an unfunded mandate will only make Medicaid's problems worse. Small businesses hindered by stringent regulations and taxes that will ultimately force them to slash jobs.

The bill is crammed with sloppily written and onerous provisions the impact of which is only now being fully realized. For example, Section 9006 of the Patient Protection and Affordable Care Act requires every business, charity, and local and state government entity to file a Form 1099 with the Internal Revenue Service (IRS) for each supplier or service provider to whom payments exceed $600 in a single year. These requirements will burden an estimated 40 million businesses and other organizations, driving up their costs, forcing them to fill out more paperwork and tax forms, and causing them to devote more time and resources to dealing with bureaucratic red tape instead focusing on job creation.

A December 9, 2010, *New York Times* article reported that children's hospitals around the country are being notified that the discounts they previously received from pharmaceutical companies for expensive drugs to treat rare medical conditions will be discontinued as a result of Obamacare. *The Times* quotes Joshua D. Greenberg, vice president of Children's Hospital Boston, saying that the loss of the discounts "jeopardizes our ability to care for some of the sickest children with the most complex health care needs." And the administration has been forced to issue 222 special waivers so far to unions, companies, and insurers that have claimed that the new rules on reducing administrative expenses are so draconian that they would be forced to lay off large numbers of employees due to increased costs.

Despite the positive and encouraging rhetoric being pumped from the

administration, a January 31, 2011 Rasmussen poll showed 58 percent of likely voters at least somewhat favor repeal of the health care law, including 47 percent who strongly favor repeal. Thirty-eight percent oppose repeal, with 29 percent who are strongly opposed. Support for repeal has ranged from 50 percent to 63 percent in weekly tracking since the law was passed in March of last year.

On December 13, 2010, U.S. District Court Judge Henry Hudson of Virginia became the first judge to rule that the individual mandate prescribed in the Patient Protection and Affordable Care Act is unconstitutional. Judge Hudson found that, "Neither the Supreme Court nor any federal circuit court of appeals has extended Commerce Clause powers to compel an individual to involuntarily enter the stream of commerce by purchasing a commodity in the private market." On the heels of this major decision, H.R. 2, the Repealing the Job-Killing Health Care Law Act, was passed in the House on January 19, 2011 in a 245-189 vote.

On January 31, 2011, U.S. District Court Judge Roger Vinson of Florida also found the individual mandate to be unconstitutional, writing, "If Congress can penalize a passive individual for failing to engage in commerce, the enumeration of powers in the Constitution would have been in vain for it would be 'difficult to perceive any limitation on federal power' and we would have a Constitution in name only." While other court cases still hang in the balance, the Virginia and Florida rulings are important first steps toward a hearing by the Supreme Court of the case against ObamaCare's unprecedented overreach of power.

On February 2, 2011, Senate Minority Leader Mitch McConnell (R-Ky.) offered Amendment #13 to S. 223, the FAA Air Transportation Modernization and Safety Improvement Act. This amendment, derived directly from H.R. 2, would have repealed the job-killing healthcare law and healthcare-related provisions in the Health Care and Education Reconciliation Act of 2010. Unfortunately, the amendment failed in a 47-51 party line vote.

Americans anxiously await further court decisions; the Supreme Court is likely to hear the case in the spring of 2012. In the interim, the 112th Congress will continue to consider legislation to repeal and reform this enormously expensive and intrusive healthcare law. Fiscally responsible reforms include allowing individuals to shop across state borders for better-value health insurance plans and use Health Savings Account funds to pay insurance premiums. States could also be given more control to develop innovative models that ensure affordable coverage for Americans with pre-existing health conditions.

Congress must address predatory and frivolous malpractice lawsuits, a major expense that causes thousands of physicians and hospitals to close their doors each year. The Congressional Budget Office

estimates that tort reform could save taxpayers $54 billion over ten years. Lawmakers should also promote transparency in the healthcare marketplace so that Americans can make informed decisions about their care.

Americans should have the ability to access and own the health insurance that best meets their individual needs, without government interference. There are many problems with the nation's current healthcare system that can be rectified through medical liability reform, pooling health insurance, offering tax incentives, allowing states to customize programs, and reforming insurance regulations. The ongoing government takeover of healthcare will not solve America's healthcare problems, and it will ruin the nation's economic health.

Critical Waste Issue
Privacy

Privacy may mean different things to different people, but at a certain level everybody wants his or her privacy protected. The advent and growth of the Internet has greatly amplified privacy issues.

As with every other subject that comes to the forefront of the American psyche, Congress is gearing up to offer legislation to "protect privacy." As usual, this means Congress could do more harm than good.

Rep. Rick Boucher (D-Va.), who was defeated for re-election on November 2, 2010, had a draft of a privacy bill with the following provisions:

• Everything is to be enforced by the Federal Trade Commission (FTC). All penalties for those who don't comply with the Act are covered under the FTC Act.

• State attorneys general can bring civil actions against companies that do not comply with the act, but cannot act against individuals.

• Companies/websites cannot collect user information unless they have a privacy policy posted "clearly and conspicuously" on their websites detailing the kind of information they collect, how they use it, and how they store it.

• Companies must post changes to their privacy policy, unless the information was collected in person.

• People should always have the option to opt out, and opting out should be easy.

• Personalized ads on websites must link to a page that explains what prompted showing the advertisement. Also, individuals should be able to see their entire "preference profile," or all of the information the company has about them, and be able to opt out of any or all of it.

• Sensitive personal information, like name, sexual orientation, religion, and geographic location, is opt-in only.

Rep. Bobby Rush (D-Ill.) introduced H.R. 5777 in the 111th Congress, known as the BEST PRACTICES Act, which is an acronym for Building Effective Strategies to Promote Responsibility Accountability Choice Transparency Innovation Consumer Expectations and Safeguards Act. It has the following provisions:

• A company's privacy policy must contain a hyperlink to or the toll-free number of the FTC's consumer complaint form/consumer response center.

• General information is opt-out, as long as companies make it easy to opt-out; this would be permanent unless otherwise specified.

• Companies cannot monitor "all or substantially all" Internet use unless they have the user's express permission, or are only monitoring it to give the data back to the user.

- A long list of exceptions to the information collection policy includes: if the information is necessary to "protect or defend the rights or property" of the company against fraud; if the collection of information is necessary to protect the individual from imminent danger; and, if the information is publicly available.

- A detailed process is outlined that would allow individuals to dispute the information that a company has collected about them.

- The Act would take precedence over all existing state laws concerning online information privacy.

Both bills sound harmless and look like a step forward in "protecting privacy," but there are problems, not least of which would be an undetermined cost to taxpayers to pay for bureaucrats to "monitor" activities.

In addition, the bills attempt to solve a problem that does not exist, and they do so with an intrusive and overbearing regulatory scheme. Jim Harper, Director of Information Studies at the Cato Institute, has highlighted problems with Rep. Rush's bill, calling its substance "concerning, to say the least. The bill's scope is massive: Just about every person or business that systematically collects information would be subject to a new federal regulatory regime governing information practices. By systematic, I mean: If you get a lot of emails or run a website that collects IP addresses (and they all do), you're governed by the bill. There's one exception to that: The bill specifically exempts the government. What chutzpah our government has to point the finger at us while its sprawling administrative data collection and surveillance infrastructure spiral out of control."

A list of new rules to tell individuals and businesses what they can and cannot do is not an effective way of spurring innovation. An over-regulated Internet is a boring, static Internet.

Ultimately, the most fundamental problem with any privacy legislation is that it may not even be needed because the private sector is already responding to the demands of consumers by offering enhanced privacy policies and user settings.

Google privacy lawyer Peter Fleisher has acknowledged, "The Internet is driving a need to think about these things globally," but also recognized the difficulty in accomplishing this when he stated, "It can't be done in a vacuum." Fleisher also noted that, in Germany, "there has been intensive political debate about Street View over recent months and it hasn't even launched yet. And yet, in neighboring countries like Denmark and the Netherlands there's been no debate whatsoever...no controversy."

The lack of a current global standard for privacy may be a blessing in disguise because every website has a different purpose and Internet service providers, content providers, and consumers benefit from that flexibility. It is not necessary for government at any level to intercede and establish rules that would inevitably stifle innovation and unduly increase the costs of communications and commerce on the Internet.

Critical Waste Issue

Social Security

Congress can no longer wait to make serious reforms to the nation's entitlement programs. Social Security is headed toward insolvency; expenditures exceeded tax receipts in 2010 for the first time since 1983. Reducing the future burdens of Social Security in the long run is critical to promoting a sustainable budget. Reforms will entail making sacrifices and tough choices, no matter how politically unpopular, but changes must be made in order to avoid an even bigger financial crisis.

Inherent problems with Social Security's structure must be addressed in order to make the system financially stable. When the Social Security program was first enacted in 1935, there was a high ratio of workers to retirees and, therefore, beneficiaries received a high return on their small investments. Over time, however, the nation's demographics have shifted. The ratio of workers to retirees has declined, decreasing the retirement funds available on a per capita basis and causing trust fund liabilities to grow. The result is the creation of inter-generational inequities.

The 2010 Annual Report by the Social Security Board of Trustees confirms that the system's costs are unsustainable under current program parameters. The 2010 projected deficit of $41 billion is expected to shrink in 2011 and return to small surpluses for 2012-2014, due to the improving economy. After 2014, however, deficits are expected to grow rapidly as the baby boom generation's retirement causes the number of beneficiaries to grow substantially more rapidly than the number of workers paying into the fund. Trust fund reserves will be exhausted in 2037, at which point FICA tax income will be sufficient to pay only three-fourths of scheduled benefits through 2084. This, unfortunately, is the best-case scenario.

It is imperative that Congress immediately correct the inherent problems in the system's current structure and begin to dig taxpayers out of this deep financial hole. Social Security can be salvaged by making some modest changes in retirement age and benefit structure, and by offering individuals more options and incentives to save for retirement.

Those who retire at age 62 still have on average close to two decades, or around one-third of their adult lives, left to live. As medical science and technology advance, the average lifespan will continue to lengthen. Social Security's retirement age, therefore, must be raised. People

who work even one or two years longer will earn additional income, pay additional taxes, and increase their own living standards in retirement. An immediate increase in the retirement age to 67, followed by a continued increase of one month every two years until the retirement age reaches 70, could reduce the long-range actuarial deficit by one-third.

Congress must also eliminate the indexing of Social Security benefits to wage levels. This form of indexing prevents the United States from outgrowing its Social Security problems with increases in productivity. Under the current system, as productivity rises so do wages, thereby increasing benefit levels. If Congress eliminates wage indexing and replaces it with price indexing, it may be able to significantly reduce unfunded liabilities.

A price indexing system would trim Social Security's liabilities while ensuring that the relative living standard of retirees is not eroded. Progressive Price Indexing (PPI), supported by Rep. Paul Ryan (R-Wis.) and The Heritage Foundation, has been floated as a viable alternative to wage indexing. PPI would index initial benefit levels for middle-income and upper-income families to price inflation rather than wage growth, eliminating much of the increased Social Security cost driven by higher benefits.

The idea was originally proposed by Robert Pozen, a Democrat who has persuaded many conservatives, including Mitt Romney and President George W. Bush, to support the concept. PPI is structured to target more benefit growth to lower-income retirees. Individuals making less than a certain threshold level would continue to receive initial benefits based on wage indexing, while the initial benefits of higher-income individuals would be adjusted by price indexing, also adjusted for inflation. Beneficiaries in the middle would experience a blend of wage and price indexation. PPI could save taxpayers trillions of dollars and help ensure Social Security's stability and solvency in the long run.

Congress should also consider offering an automatic individual savings account that could be used to supplement retirement income. The Thrift Savings Plan offered to federal employees could be used as a model for this new system. The plan keeps costs in check through economies of scale, charges low fees, and provides a range of options and information that allows employees to make personal decisions about their retirement. The individual accounts should be structured with death benefits, so any remaining funds could be passed on to heirs. This type of system would encourage Americans to work longer and save more.

Currently, only about 50 percent of the full-time workforce has the opportunity to participate in a pension plan. Individual savings accounts, however, could be made available to everyone. This would provide an ad-

ditional safety net for hardworking individuals to ensure a comfortable and sustainable retirement.

Rep. Ryan's "Roadmap for America's Future" allows individuals 55 and older to remain in the current system and receive the benefits they have been promised throughout their working years. The plan grants all other workers a choice to stay in the current system or begin contributing to personal accounts. Those who choose the personal account option would have the opportunity to begin investing a significant portion of their payroll taxes into a series of funds.

The Congressional Budget Office estimates that Rep. Ryan's plan would be solvent with permanent and growing surpluses by 2069, without requiring general fund transfers. These surpluses may even make it possible to reduce the regressive payroll tax in the future.

Acting sooner rather than later would allow small changes to the system to be phased in gradually, avoiding a crisis overhaul that would inevitably include drastic benefit cuts and major tax increases. Unfortunately, there has already been too much procrastination. The 112th Congress must address Social Security's problems now.

Critical Waste Issue

Telecommunications

A brief glance at the morning news demonstrates that the 112th Congress will face many urgent issues. One subject that gets short shrift in the mainstream media, but which is nonetheless crucial to the economy, is telecommunications. There are four major areas of concern that should be addressed sooner rather than later.

Net Neutrality

The notion of equality on the Internet may sound reasonable, but net neutrality is instead an attack on private-sector business models. Proponents of net neutrality want the online world to be forced "open" at the expense of successful Internet providers, but fail to recognize the many tradeoffs to "openness" such as increased spam, fewer privacy controls, slower service and, perhaps most importantly, decreased incentives for investment and innovation. In 2008, AT&T's U.S. capital investments totaled $18 billion, the highest of any company.

The looming threat to limit what telecom companies can charge and to whom those charges will apply will undoubtedly discourage the large investments that have helped the Internet expand so rapidly. Forcing wireless carriers to open their networks to data-heavy applications (such as streaming video, graphic-rich games, and movie and music downloads) would only exacerbate the problem, slowing service and potentially causing other disruptions for customers.

The Internet has flourished thus far largely due to the lack of government interference. Telecom companies have been able to manage Internet traffic to ensure that certain applications do not hog too much bandwidth, slowing access for users. However, in 2008, Comcast was censured by the Federal Communications Commission (FCC) for violating the agency's net neutrality principles when it slowed traffic for some subscribers who were downloading big files that clogged the network.

The net neutrality debate stems from the ongoing battle between content providers and service providers. Companies like Google create applications for the web and want customers to have easy access to their products. As a result, network owners such as AT&T and Comcast now find themselves constantly defending their traditional business models.

On December 21, 2010, the nation took a technological step backwards when the Federal Communications Commission (FCC) voted to institute

net neutrality rules on the Internet. Opponents of net neutrality commented that the regulations were excessive and would lead to control of the Internet by the government; while proponents claimed the regulations did not go far enough to prevent control of the Internet by large cable and telecommunications companies. The FCC's decision was on a party-line vote, and House Republicans have indicated they will hold oversight hearings on the decision.

While there was disagreement on the regulations, both sides of the debate on net neutrality are opposed to the establishment of a "kill switch" that would allow the government to shut off the Internet in response to an "emergency." That may be defined as it was by Egypt's government when the Internet was shut down in response to demonstrations or as it is in China where content is limited; or it could be confined to an attack on key government web infrastructure or threats to national security. For the first time, it would give the U.S. government the ability to control the entire Internet – not just content as would occur with net neutrality – and contravene basic rights and freedoms that make the United States quite different from Egypt and China. Sens. Joseph Lieberman (I-Conn.) and Susan Collins (R-Maine) plan to reintroduce their "kill switch" bill in the new Congress.

Whether it is net neutrality or the ability to pull the plug on the entire Internet, Congress and the FCC should tread lightly and consider the impact of such policies on the broadband industry; otherwise, one of the bright lights of the American economy could be switched off.

Government Broadband

A November 8, 2010, report by the Department of Commerce's Office of the Inspector General criticized the stimulus broadband program managed by the National Telecommunications and Information Administration (NTIA). The report found chronic oversight and management flaws. The NTIA is responsible for managing the Broadband Technology Opportunities Program (BTOP), a multi-billion dollar stimulus program for broadband expansion.

According to a November 8, 2010, article in *Politico,* "A government report released Monday found flaws in the stimulus program that's putting roughly $4 billion towards rolling out broadband networks across the country.... The National Telecommunications and Information Administration, the agency that has been managing the program, isn't doing enough to monitor how grantees are spending the stimulus money, the report finds. The Inspector General also pointed out flaws with the program's internal processes."

The NTIA is awaiting congressional approval of $24 million in additional funding for the program so it can continue to keep tabs on grantees. Unfortunately, this program's oversight process has been defective

from the start, and it seems that no amount of money will help. The Government Accountability Office expressed concerns in August 2010 about NTIA's inability to correctly track previously granted awards. The elimination of BTOP would save taxpayers $4.7 billion over a five-year period.

Retransmission

In 1992, Congress amended the Communications Act of 1934 to give broadcasters the upper hand in negotiations with monopoly cable providers, granting broadcasters the right to choose between guaranteed carriage or insisting that multichannel video programming distributors (MVPD) obtain and pay for a station's consent to retransmit the station to local subscribers. The law allows broadcasters to make a new election between these two options every three years. However, the marketplace has greatly evolved since 1992. Broadcasters no longer deal with a cable monopoly; on the contrary, broadcasters can often choose among multiple providers, ranging from cable to satellite to new fiber optic networks. As a result, broadcasters now brandish enormous negotiating power under old retransmission consent rules. This power has led to service disruptions and increases in the cost of service for consumers.

Recent negotiations by the "Big Four" networks have led to interruptions in local signals. In October 2010, Cablevision customers in the New York area experienced a 16-day blackout of Fox programming due to stalled negotiations. In March, those customers lost their ABC station in the hours leading up to the Oscars. Viewers missed the first 15 minutes of the awards show before Cablevision and the Walt Disney Company reached a tentative deal. Consumers should not be victims of a system that allows broadcasters to pit one MVPD against another, threatening to withhold consent for its signal if demands are not met. Old government policies have inhibited the market by granting enormous leverage to broadcasters over providers.

Government rules and regulations should drive businesses into the 21st century, not hold them back. Lawmakers should work toward a solution that revises old retransmission consent rules and the entire framework of broadcaster regulatory benefits in order to reflect the modern marketplace and limit government involvement in private negotiations.

Universal Service

The federal Universal Service fee is a hidden tax that subscribers to telephone services find in their monthly bill. This fee collects approximately $7.7 billion annually for the Universal Service Fund (USF), which contributes to infrastructure for communications services links for low-income residents in areas that are considered underserved.

As is usually the case with such programs, peculiarities exist within the distribution of funds. Although 96.2 percent of Americans have

the ability to access phone service, companies that provide "high-cost" wire-line service receive in excess of $4 billion annually. This subsidy exists despite the fact that wireless service could more efficiently provide service. Even in the most remote regions, satellite phones can provide cheaper coverage to anyone with a clear view of the sky. Further, the E-Rate program, designed to equip the nation's classrooms with the Internet, receives $2 billion annually through the USF. However, the private sector is more than capable of this function, and wireless Internet service would be a better call.

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