

RESTORING FISCAL SANITY

A COMMON SENSE APPROACH

WHERE ARE WE? WHERE ARE WE HEADED? HOW CAN WE GET BACK ON COURSE?

DEBT

THE AUTHORS
March 2024

AUTHORS NOTE

Understanding humankind is fundamental to understanding what makes the world go round. And it is so simple we tend to overlook it. It is not magic; it is just Common Sense.

Human Nature 101

We are motivated to do what is in our own perceived best interest. That is and will always be true.

Economics 101

An economic system that properly incentivizes humans with desired results will work for the betterment of all people.

Civilization 101

In a civilized world, we must have our property and rights protected and respected. If true, others must have their property and rights protected and respected.

Government 101

Good government provides freedom for individuals to pursue their ends for their own sake and protects life, liberty, and property for all citizens.

These are simple truths that we all understand. So why is Our Ship of State headed for the proverbial iceberg?

Our fellow Citizens – Hear our Plea.

We have lost our way and forgotten the fundamentals.

The USS America, our Ship of State, is headed for the iceberg while we rearrange the deck chairs. It is not a speculation; it is a cold-blooded analysis of our past and projections for the future. This analysis is based on our government's data; it is not some fantasy. This brief pamphlet will explain why we say this and some conceptual ideas on how to change course to create a better future for America and Americans. A more detailed analysis can be found in our companion book, ***The Greatest Ponzi Scheme on Earth***.

This pamphlet and the companion book aim to **ALERT, ALARM, and ACTIVATE** the 'voting public' regarding the dangers we face and what must be done to get back on course, get back to fundamentals, and sail to smooth waters.

The only folks that can change our course are you, the voters in this country. We send the representatives to Washington, DC, and we can let them know we want the problems fixed before it is too late. They will only respond to public opinion and the realization that if they do not fix the problem, they will lose their jobs!

IF WE DO NOT FIX OUR LOOMING FINANCIAL DISASTER, AMERICA WILL CEASE TO EXIST AS WE KNOW IT.

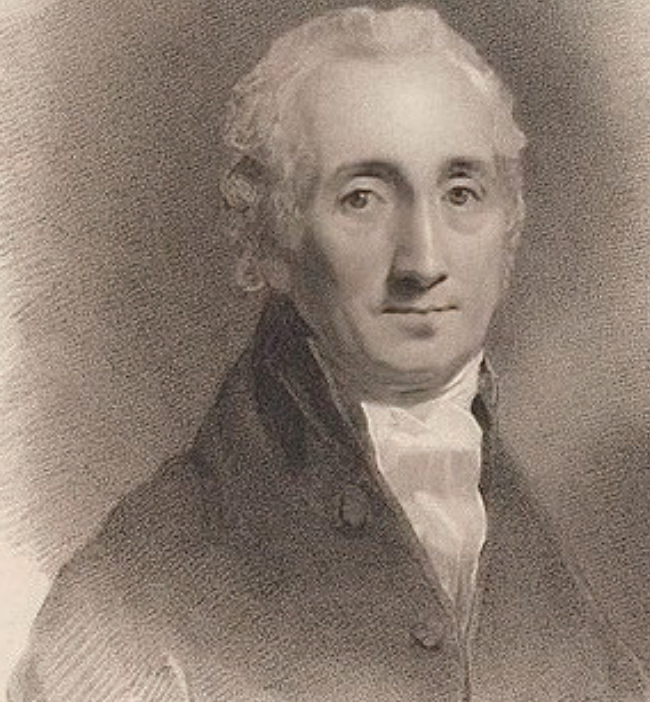
Please invest an hour to read this – then you will understand why we are so alarmed. The quote from history on the following page will help you better understand the challenges that we face.

The Authors are concerned Americans who love their country and family. The message is key - please hear our plea.

THE AUTHORS

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“A democracy cannot exist as a permanent form of government. It can only exist until the voters discover they can vote themselves largesse from the public treasury. From that moment on, the majority always votes for the candidates promising the most benefits from the public treasury, with the result that a democracy always collapses over loose fiscal policy, always followed by a dictatorship. The average age of the world’s greatest civilizations has been 200 years. These nations have progressed through this sequence: From bondage to spiritual faith, from spiritual faith to great courage, from courage to liberty, from liberty to abundance, from abundance to selfishness, from selfishness to apathy, from apathy to dependence, from dependence back into bondage.”

— Alexander Fraser Tytler

Alexander Tytler was a Scottish judge and historian, born in 1747 and died in 1813.

INTRODUCTION



Our Founding Fathers risked life, liberty, and property to throw off the yoke of tyranny from the British King. In developing our Founding Documents, they understood that vesting too much power in the Federal government would lead to the loss of liberty and freedom, as they had experienced under the British King. That is why the Revolution occurred.

They developed the Declaration of Independence to state their principles and guide their revolution. Later, they drafted the Constitution of the United States of America to govern in a Federal/State partnership in which specific duties were assigned to the Federal Government. As explicitly stated in Amendment 10, delegated all other duties to 'the states or the people'. It was not perfect and has been improved by Amendments over the years, but the guiding principles were clear. Those guiding principles were a limited but effective federal government, individual liberty and opportunity, the rule of law and equal justice under the law, fiscal responsibility, and inter-generational equity and stewardship. For many years, this formula was followed, and it worked well, causing America to become the envy of the world after World War II.

Our Founders sacrificed much to create a new country they invented, with a system designed to free up the human spirit and let its citizens grow to the extent of their ability. It has evolved and remains a model of human intellect that has stood the test of time for over 200 years.

But times are constantly changing, and although the principles of our Governing documents have not changed, implementing these over time has changed the nature of the Federal government and taken us in directions that are harming its citizens. It is essential to recognize and understand this.

It is not our purpose to provide a history lesson, although some history is needed to gain perspective. It is important to provide some background about the Founders' principles and how the implementation of these principles led to greatness. Finally, we must understand how we have strayed onto an unlighted path, away from our principles, which will lead to our downfall if we let that happen.

We inherited a country that had become the model of success and among the highest living standards known to man. Are we leaving for our kids and grandkids and all future generations a country that is still great or one that is broken and headed for decline and possible destruction? We think the latter is the case, absent a significant course correction, which is why this pamphlet was written.

We owe future generations the same or more opportunities than we had; that is part of what the American Dream is all about. Let us not rob future generations of that. To correct course, 'We the People' must take charge. We elect our representatives, and who we elect will determine our future.

Please take the time to understand our warning. After considering our view, if you agree, then act. Act to change the course of this country and Keep America Great.



Secretary of the Treasury

BACKGROUND AND FOUNDING PRINCIPLES OF OUR GOVERNMENT

Our Founding Fathers set out to develop a governing approach for mankind that could stand the test of time. They conceived the unique Republic from the collected wisdom drawn from the knowledge of their intellectual predecessors - they stood on the shoulders of giants - the economists, philosophers, and thinkers that preceded them. They were heavily influenced by John Locke and Adam Smith and as far back as Aristotle. These are some preeminent thinkers about people, humanity, and incentives - the Founders understood human nature and what makes people do what they do. It is a basic understanding of humankind, indeed of mankind. They created a system that recognizes what drives people to act, one that would provide a foundation for governing for all time.

They realized that power could lead to corruption, and too much power concentrated in the hands of an all-powerful national government would ultimately be detrimental to its success in the future. It would lead to tyranny and loss of liberty, and they took pains to ensure the governing system they created was decentralized and had checks and balances to prevent such a concentration of power.

The key elements our Founders incorporated into the Founding Documents have stood the test of time for over 200 years. The United States of America grew into the greatest and most powerful nation in the world. We became the standard of the world, prosperous and free. Our dollar became the staple currency for the world.

As noted in the opening quote, democracies rarely last for 200 years. Ours is approaching 250 years since we declared our independence. Will we fall prey to human nature, which has devoured past successful civilizations?

To gain perspective and understanding, let's reflect on our Founding Documents

IN CONGRESS, JULY 4, 1776.

Unanimous Declaration of the thirteen united States of America,

When in the course of human events, it becomes necessary for one people to dissolve the political bands which have connected them with another, and to assume among the people of the world a separate and equal station to which the Laws of Nature and of Nature's God entitle them, a decent respect to the opinions of mankind requires that the reasons which justify their separation should be published. — We hold these truths to be self-evident, that all men are created equal, that they are endowed by their Creator with certain unalienable Rights, that among these are Life, Liberty and the pursuit of Happiness. — That to secure these rights, Governments are instituted among Men, deriving their just powers from the consent of the governed — That whenever any Form of Government becomes destructive of these ends, it is the Right of the People to alter or to abolish it, and to institute new Government, laying its foundation on such principles and organizing its powers in such form, as to them shall seem most likely to effect their Safety and Happiness. Prudence, indeed, dictates that Governments should not be changed for light and transient causes; and accordingly all experience hath shewn, that mankind are more disposed to suffer, while evils are sufferable, than to right themselves by abolishing the forms to which they are accustomed. But when a long train of abuses and usurpations, pursuing invariably the same Object

The Declaration of Independence

The Declaration of Independence was principally authored by Thomas Jefferson and received a unanimous vote by the Continental Congress on July 2, 1776, to dissolve the connection between “this country” and Great Britain, declaring the “United Colonies of North America” free and independent states. It was signed by our Founders on July 4, 1776. It contained the essential philosophy of freedom and individual rights that underpinned their determination to throw off the yoke of tyranny of the British King. Their undeniable yearning to be free led them to take this audacious and bold move. This burning desire for freedom did not come without pain – a bitter and costly Revolutionary War was fought for their right to freedom. But in the end, freedom prevailed.

In looking at where we are today, it is critically important to understand the precepts incorporated in this invaluable document. The document was meant to define the principles they believed in and explain why the political connection with Great Britain was ‘dissolved.’

This excerpt from the Declaration of Independence says it all:

“We hold these truths to be self-evident, that all men are created equal, that they are endowed by their Creator with certain unalienable Rights, that among these are Life, Liberty and the pursuit of Happiness. — That to secure these rights, Governments are instituted among Men, deriving their just powers from the consent of the governed —”

“That whenever any Form of Government becomes destructive of these ends, it is the Right of the People to alter or to abolish it, and to institute new Government, laying its foundation on such principles and organizing its powers in such form, as to them shall seem most likely to effect their Safety and Happiness.”

The tyranny of the King had usurped the people’s ‘unalienable rights,’ and this fledgling country was established to protect and preserve these rights for the people. After listing the grievances the occupants of the American colonies had against the Crown, the Declaration concluded by declaring the people’s right to be free and independent states and declared their independence.



The Constitution

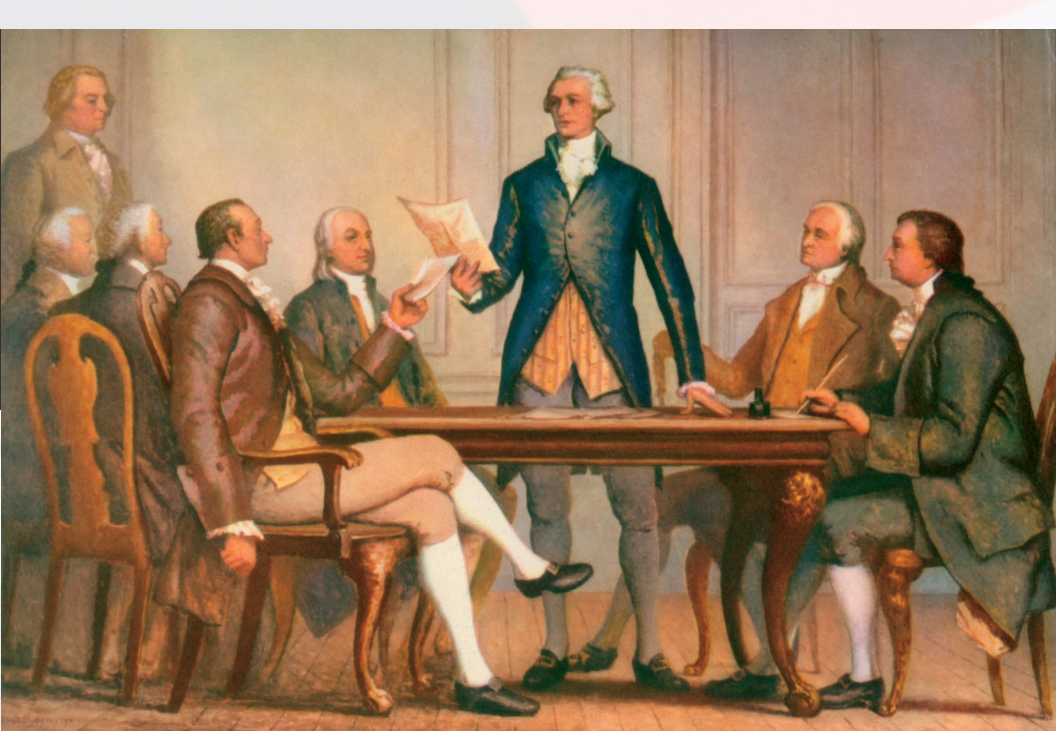
As amended over time, this document was produced in 1787 and ratified in 1789 after the American colonies failed experiment under the Articles of Confederation. It forms the fundamental 'law of the land.' It was a unique creation that formed a Federal form of government which has evolved over the years. However, the core principles remain intact.

Government is necessary because of the imperfection of human nature. If men were angels, no government would be required.

But Human nature is such that human beings need to be governed. We need a government if we are not to descend into anarchy. But since human beings will make up the government, it must be limited or become tyrannical. Just as those outside the government must be governed, those inside the government must be governed. And that must be strictly arranged because those inside the government need, and will have, a lot of power. With no oversight of government, unrestrained power will lead to tyranny.

The Constitution contains three fundamental arrangements: representation, which is the direct or indirect basis of the three branches of government described in the first three articles of the Constitution; separation of powers, as embodied in those three branches; and limited government, which is evident in the Constitution's doctrine of enumerated powers—there is a list of things that Congress can do in Article I, Section 8, of the Constitution, and the things that are not listed it should not do. All three of these fundamental arrangements are wholly consistent with the Declaration of Independence and are commanded by it.

The importance of our Constitution cannot be overstated, both by what it says the Federal government should be and do, as well as what it says it should not do, those things being left to the 'States, or the people' as noted in Amendment 10 to the Constitution.



These Founding Principles Led to Greatness

Throughout our history, we have grown into a model for the world, with great wealth and one of the highest standards of living in the world.

However, we have strayed from many Founding principles and allowed our government to grow to extremes, with an insidious loss of our liberty. Our government was intended to be limited by design, but it has become a bloated bureaucracy that must be tamed. The separation of duties between the Federal government and the 'States or the people' clearly stated in the Constitution has been ignored. As you will see in the next section, we are now on the edge of failure because of our out-of-control spending and Federal overreach in our country.

It is incumbent on us, We the People, to understand what made us great and how we have faltered. Only then can we return to the system that made us great and can keep us great.



TODAY

34

000,000,000,000
Trillion Dollars

\$34 Trillion Dollars. That is our interest-bearing debt as of December 2023. That is a bit hard for most of us to comprehend, so think about it this way. Envision you had a one-million-dollar bill. That is 1,000-thousand-dollar bills. To get to one trillion, you would need 1,000,000-million-dollar bills. It is hard to imagine, but multiply that by thirty-four, and you get to our interest-bearing debt today. WOW!

It gets worse...

128

000,000,000,000
Trillion Dollars

\$128 Trillion Dollars. That is the total liabilities and unfunded obligations of the U.S. Federal Government as of September 30, 2023. This larger figure includes the unfunded obligations of Social Security and Medicare as well as all interest bearing debt. Unfunded obligations represent the shortfall between the benefits to be paid for Social Security and Medicare and the income available to pay them over the next 75 years in current dollar terms.



Trillion

Dollar

Debt

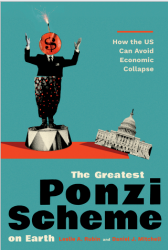
The numbers are mind-boggling and incomprehensible. Yet that is the debt we leave future generations to care for. Is that even possible? How did we get here? Can we keep going? Are we making any progress toward paying our debts?

That is what this pamphlet is all about. It is meant as a wake-up call to the citizens of this great country. If we do nothing and continue to spend recklessly, it will be certain doom for the United States as we know it. It is no longer a question of 'if' we will fail; it is a question of 'when' we will fail if we stay on our present course. And what will failure look like?

As you will see in the next section, inertia in our government spending has set in, and there is no effort to control its spending and debt. Our future is being mortgaged, and it is projected to get worse.

Are our Representatives idiots? No. They are humans but are professional politicians now, not statesmen as our Founding Fathers were. Professional politicians have a job, and they want to keep it; we cannot blame them for that. They are doing what is in their best interests, doing what it takes to keep their job, just as you and we do. That is human nature at work.





SO HOW DID WE GET HERE?

We got here because voters sent them to Congress. They keep their job by offering goodies to the people and special interests; people like the goodies and vote for them. So, they offer more, people vote for them again, and so it goes. Our country is in a vicious cycle with no safeguard to protect us from the consequences of the irresponsible behavior that has led us to the brink of destruction of our world as we know it. Very few of us realize that this is the case.

We blindly go on as if all is ok. IT IS NOT OK. We voters are the only safeguard. And we exercise this power by sending representatives to Congress who will do what is in the best interests of the Country, not the special interests.

We inherited a country that was great and was working; shame on us if we leave to our kids, grandkids, and all future generations a country that is broken.

We are concerned citizens who realize the dangers lurking ahead. We need to get all citizens ALERTED to this monumental problem. You need to be ALARMED. If you are not alarmed and assume this will all be ok because 'it always works out,' then you are not paying attention and facing reality. If we do not change course and fix this mess, you will witness the destruction of a once-great country. Shame on you if you sit there and do nothing.

Complacency will destroy us. **The Greatest Ponzi Scheme on Earth** is a companion book that will give you more details if you want them. This pamphlet gives you all the basics to understand the problems we are facing. If you do not get it, invest a few hours reading the book; it will give you the full picture.

What can one person do? If twenty million or more people speak up and tell our representatives to 'FIX THIS MESS,' they will listen. And they must know that you will vote for someone to replace them if they do not fix it. That is what will get their attention.

So, get up and speak out; do not just sit there. There are many avenues you can take: call your representatives, write them, speak out in public hearings, or go to **mainstreeteconomics.org**, our companion website with a link to **Contact Congress**. Invest 1 minute of your time, and they will see that the citizens of this country care and want the mess fixed.

happen tomorrow² /

The current situation is dire, as described above. What does the future look like? Are we moving in the right direction?

The CBO, Congressional Budget Office, a non-partisan agency of our federal government, has projected the revenues and expenses over the next 30 years, assuming that the current laws and level of government are maintained and no new programs are added. The only deviation is that they assume that Social Security and Medicare benefits are maintained, even though current law would curtail them when the trust funds (from which benefits are paid) are depleted in 10 years.

The projection for the next ten years shows that our situation is only going to get worse. We will have an estimated \$20 trillion more in deficits and debt, bringing our total interest-bearing debt to over \$50 trillion dollars. Within 10 years, the Social Security and Medicare trust funds will be depleted, and maintaining 'expected' benefits will require even more borrowing. (The present law provides that when the trust funds are exhausted, benefits must be cut so they match the income available to pay them. That would require an estimated 20% cut in Social Security and a 10% cut in Medicare Hospital Insurance benefits if these programs are not reformed.)

And if you look further to 30 years, the debts grow to \$172 trillion dollars.

This is mind boggling and disastrous for our country.

The audited financial statements for the US government are provided as of September 30 each year. In it, there is a statement every year,

'The current fiscal policy is unsustainable.'

Folks, they are not kidding; look at the numbers. Our irresponsible spending and fiscal policy is destroying the country. No one can predict when that will happen, but we can predict, with certainty, that it will happen if we do not change course.

Most people alive in this country today will witness this; the fate our own CBO is predicting it is not that far away.

These CBO projections assume that all of the Trump tax cuts of 2017 will expire at the end of 2025 and that the fiscal constraints in the Fiscal Responsibility Act of 2023 will be maintained. History says these are not realistic assumptions.

WHAT DOES THIS MEAN AND HOW DOES IT HAPPEN?



The Future

The US debt is a Ponzi Scheme. On the current course, the only way we can service the debt and the interest on it is to borrow more money. One major credit rating agency (Fitch) recently lowered our credit rating from the highest bracket (AAA) to AA+ in 2023. Standard and Poors lowered our rating to AA+ back in 2011. Despite this, we can still borrow on our credit card. Another central credit rating agency (Moody's) recently reduced the outlook on our credit rating to negative, meaning further reductions in our credit ratings are likely if we do not address our problems. At some point, investors will stop buying our debt at reasonable interest rates, and that will be the beginning of the end for us. Several major historical investors in our debt have already curbed their appetite for buying US debt, including China and Japan, our 2 biggest foreign creditors.

If we cannot fund our maturing debt and deficits through private investors, the only choice is to print money or default. If we print money in large amounts necessary, it leads to hyperinflation – think Venezuela. If we still do not correct the problem, it will eventually lead to default and the destruction of this country as we know it. In time, we could devolve into chaos. If we do, the whole world will decline with us.

It is in our power if 'We the People' have the will and discipline to demand our representatives change course and fix this mess – it is up to us citizens to do so before it is too late.

SOLUTIONS



Solutions

You now know the current situation and projected outlook; it is not pretty. There are solutions to our problems - if we understand them correctly and are willing to deal with them realistically. The solutions will involve some tradeoffs, and not all of them will be popular. The changes required are significant but result from failing to deal with the issues for many years. The pain will worsen if we do not act and wait for a major crisis. On the other hand, if we act soon, we can avoid a major crisis, make fewer changes, and have more transition time to implement needed changes.

There is no single solution— there are many possibilities. We present below illustrative reforms that have previously achieved super-majority support from representative groups of voters. They do not necessarily represent our views; other options can and should be considered. As we discuss later, the solutions need broad public support and bi-partisan support in Congress to be adopted and sustained over time.

ILLUSTRATIVE REFORMS

new trees on (land
re·for·est·a·tion n.
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FORM] 1 to make
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behave better —

Illustrative Reforms

Hopefully, the prior sections of this booklet have helped you realize that the federal government is on an irresponsible and unsustainable fiscal path that threatens our collective future. Failure to restore fiscal sanity will have serious adverse economic, diplomatic, national security, and domestic tranquility consequences over time. Therefore, the real questions now are what should we do, and how do we get it done? This section offers some ideas about what we should do; the following section will deal with how to get it done.

In seeking sensible solutions, it is important to recognize that the American people are ahead of the politicians. They understand that you cannot continue to spend more than you make and continuously add to your debt burdens without having a day of reckoning. While the federal government is different from a household, it is not exempt from the laws of prudent finance.

Unfortunately, our federal political system today is divided, polarized and dysfunctional. Most of our elected federal representatives are members of one of two major political parties that only comprise a little over 50% of voters and shrinking. In addition, too many of those elected representatives do not reflect the views of "mainstream America" and are reluctant to compromise in addressing key challenges facing our nation. These factors must be considered in considering what needs to be done and how to get it done regarding our nation's growing fiscal challenge.

GOALS & VALUES

When seeking solutions, it is important to recognize the need for a specific goal. As discussed previously, arguably the best fiscal sustainability metric is total federal debt/GDP (our total interest-bearing debt divided by the Gross Domestic Product). In September 2023, this was about 120%). Therefore, a reasonable goal would be to achieve a stated and lower level of debt/GDP (e.g., no more than 90%) by a year certain (e.g., 2035) in a manner that can be sustained over time.

To reach the goal, it is important to agree on the scope of needed reforms. Given the magnitude of our federal financial hole, everything needs to be “on the table,” but not everything is equal. We cannot just grow our way out, cut our way out, or tax our way out. The math does not work. Therefore, mandatory spending, including social insurance programs; discretionary spending programs, including defense; and revenues, including taxes, need to be considered.

It is also advisable to agree on principles and values that will bring people together rather than divide them apart in considering potential reforms. Some illustrative principles and values that have achieved super-majority support from representative groups of voters in the past are:

Pro-growth means that if we grow the denominator (GDP) faster than the numerator (debt), we are still making progress. Growing the economy means a higher standard of living for all.

Socially equitable - We need a solvent, sustainable, and secure social safety net for those who are truly in need. This needs to be accomplished in a targeted and non-discriminatory fashion.

Culturally acceptable - We are not a socialist nation, and there is a limit regarding how much taxation we should have to assure our competitiveness and promote economic growth.

Mathematical integrity - Assumptions must be realistic, the math needs to work, and there should be no “creative accounting.”

Politically feasible - The reform package must be passed by the House and Senate and signed by the President.

Meaningful bipartisan support - There needs to be a meaningful degree of bipartisan support (e.g., at least 20-25% of the minority party), or the voters will not deem it fair, and it will not be sustainable over time.

GOALS & VALUES



It is critically important to seek input from the American people and for any proposals explained to gain public understanding and acceptance. Without public support, nothing will be accomplished. This includes recognizing that needed reforms should be considered in packages rather than individual elements. Tough choices are required, and trade-offs will be needed. Polling and other actions that ask people how they feel about individual reform elements standing alone without providing context are inappropriate and counter-productive to achieving constructive compromises and needed action.

Given these fundamental elements, we can now explore illustrative reforms in several major areas that have previously achieved super-majority support from representative groups of voters.

BUDGETING

Our current federal budget and appropriations process is broken. Congress has only passed all the annual appropriations bills before the beginning of the fiscal year (i.e., 10/1) four times since 1951. That is an F- in performance! Failure to pass them typically results in the passage of a Continuing Resolution (CR) and often results in the threat of a government shutdown. Shutdowns disrupt government operations and result in additional costs to American taxpayers. Believe it or not, Members of Congress are the only federal workers who continue to get paid if the federal government shuts down, even though their failure to do their job on time under the Constitution is the reason for the government shutdown!

Treasurer of the United States

Given the above, the following illustrative reforms were supported by a past super majority of representative groups of voters in swing states.

Adopt a “No Budget, No Pay” law whereby Members of Congress will not get paid if they fail to pass all appropriations bills by the beginning of the fiscal year and there would be no retro-active pay. During the interim period, there would be an automatic CR at prior year spending levels, excluding any non-recurring spending items.

Subject all portions of the federal budget except Social Security and interest to an annual spending cap. This would help to restore control over federal spending while retaining Congress’ ability to pass supplemental spending bills if it is deemed to be both necessary and appropriate.

Restore “Pay-As-You-Go Rules” whereby any new spending increases or tax cuts must be paid for with offsetting expenditure cuts and very limited exceptions that achieve a super-majority vote in both Houses of Congress and the signature of the President.

Repeal and replace the Debt Ceiling with a Constitutional Fiscal Responsibility Amendment that would place a limit on the amount of debt/GDP the federal government can incur absent a formal Declaration of War, or very limited and unexpected emergencies with a super-majority vote in both Houses of Congress and the signature of the President.

SOCIAL SECURITY

Before exploring potential solutions, it is important to recognize that if we do nothing, current law provides that Social Security benefits will be cut by 20% or more across-the-board no later than 2034 when the combined Social Security Trust funds are depleted. Therefore, any potential reform package needs to be considered as compared to this “do nothing” alternative.

It is also important to recognize that it is possible to achieve Social Security reforms that will exceed the expectations of all generations. Why? Because retirees think their benefits will be cut significantly and young people think they will not receive Social Security benefits. They are both wrong.

It is also important for the reform package to be designed to make Social Security solvent, sustainable, and secure indefinitely, including known demographic trends. The 1983 reforms failed to meet this test.

The following package of illustrative reforms achieved super-majority support from representative groups of voters in the past.

Gradually raise the normal retirement age by two years over the next 20-30 years for people aged fifty-five or younger. A similar reform was adopted as part of the last major Social Security reform package in 1983.

Significantly raise the taxable wage base cap to equal 90% of all wages but do not increase the tax rate. This type of reform was also part of the 1983 reform package.

Increase benefits for persons near the poverty level and decrease benefits for higher income persons who retire after a future date.

Revise the cost-of-living formula to better reflect purchasing patterns for seniors.

Add a supplemental automatic and individual savings account with pooled participant directed invested options for persons who do not have access to an employer sponsored retirement plan.

Allow additional investment options beyond U.S. Government securities for Social Security Trust Fund assets.

HEALTHCARE MEDICARE/MEDICAID

As you learned earlier, the fastest growing expense in the federal budget is interest for which we get nothing! The second fastest growing expense is health care. Shockingly, while we spend by far the highest percentage of GDP on health care of any nation (almost 20%), we achieve below average results in many areas (e.g., infant mortality, life expectancy, medical error rates). Given these facts, it is clear that our health care system is in need of fundamental reform.

It has become clear that to achieve sustainable success in connection with any system, three factors must be addressed. First, there needs to be properly designed incentives that encourage people to do the right thing and discourage them from doing the wrong thing. Second, there needs to be adequate transparency (e.g., cost and quality), which will encourage people to do the right thing and discourage them from doing the wrong thing. Finally, there needs to be appropriate accountability to reward people who do the right thing and penalize people who do the wrong thing. Unfortunately, our current health care system fails all three of these tests. That is called a “strike-out” in baseball.

It is also important to note several key points about the federal Medicare and Medicaid programs. First, the Medicare Hospital Insurance (Part A) Trust Fund will be exhausted in 2031. Therefore, under current law, if nothing is done, the Part A program will only be able to pay about 89% of projected costs and decline after that date. Second, most of the costs of Medicare’s Supplemental Medical Insurance programs (Parts B, C, and D) are funded by general tax revenues and not individual premiums. At present, premiums cover less than 30% of the total cost of these programs. Finally, Medicaid is for the poor, and it is the only federal social insurance program that covers the cost of long-term care.



HealthCare

Healthcare Continued

Given the above, a super-majority of representative groups of voters have supported the following illustrative reforms:

Impose an annual budget for federal health care spending. No other major country issues a “blank check” for health care spending because they know it fuels health care costs and can bankrupt their country.

Raise Medicare Part B and D premiums for high income individuals.

Provide “block grants” to states to for Medicaid costs rather than paying 50% or more of actual costs. Then let the States run their own program with a minimum federal standard and a uniform federal grant payment formula.

Prohibit advertising of prescription drugs. Very few nations allow advertising for prescription drugs because they fuel demand in ways that can be inappropriate, unaffordable, and unsustainable.

Expand the ability of the federal government to negotiate prescription drug costs beyond the Veterans Administration. The federal government has recently expanded its ability to negotiate for Medicare, but the scope needs to be expanded and the timing needs to be accelerated.

Adopt federal medical malpractice reform to provide a “safe harbor” for physicians who effectively follow standards of practice determined by qualified physicians and endorsed by the government. This will help to reduce costs due to “defensive medicine” practices and healthcare litigation.

Revise government health care payment practices to be more evidence-based. The practices and payment amounts would be determined through a process like the medical malpractice reform method noted above.

Phase-out the tax exclusion for employer provided and paid health care coverage. Currently, individuals do not pay income tax or social insurance taxes on employer provided and paid health care no matter how generous and expensive the coverage may be. Health care coverage is an integral part of employee compensation for most employers. This exclusion is one of the single largest tax preferences (expenditure) in the Internal Revenue Code. It serves to fuel health care costs, undercuts health care cost transparency, and results in hundreds of billions in annual revenue losses to the federal government.

Transition federal health care systems to providing universal coverage for basic and essential health care (e.g., wellness, preventative, and catastrophic care) for the entire population as of a future date certain. The federal government would continue to provide additional health care for veterans, the poor, and disabled. In addition, employers, unions, professional/trade associations, and other appropriate groups could provide supplemental coverage as they deem appropriate. This would represent a major transformational change to the U.S. health care system and would take years to be fully implemented.

DEFENSE

One of the most important functions of the federal government that cannot be delegated to the states or contracted out to the private sector is national security. While national security is a federal responsibility, it is achieved through the combined efforts of military personnel, civilian employees, and government contractors. Alliances with like-minded nations are also important in these times of changing threats and alliances.

Unfortunately, too many politicians focus on the total resources allocated to the Defense Department as the metric of whether you are strong or weak on defense. That is both superficial and inappropriate. The truth is defense cannot be exempt from spending reductions and we can accomplish them without compromising our national security.

Given changes in alliances and the overall global security environment, the all-volunteer force is probably not sustainable over time. In addition, significant changes are needed to improve the economy, efficiency, and effectiveness of the Department of Defense (DoD). The following reforms are consistent with these concepts and have been supported by a super-majority of representative groups of voters:

Rationalize current footprint (e.g., bases), weapons systems, military force, and DoD overhead structures to recognize current and future versus past threats, including much more use of unmanned systems and a significant reduction in the bureaucracy and related overhead costs.

Strengthen alliances and make our partners pay their fair share in connection with joint security initiatives (e.g., NATO, Ukraine).

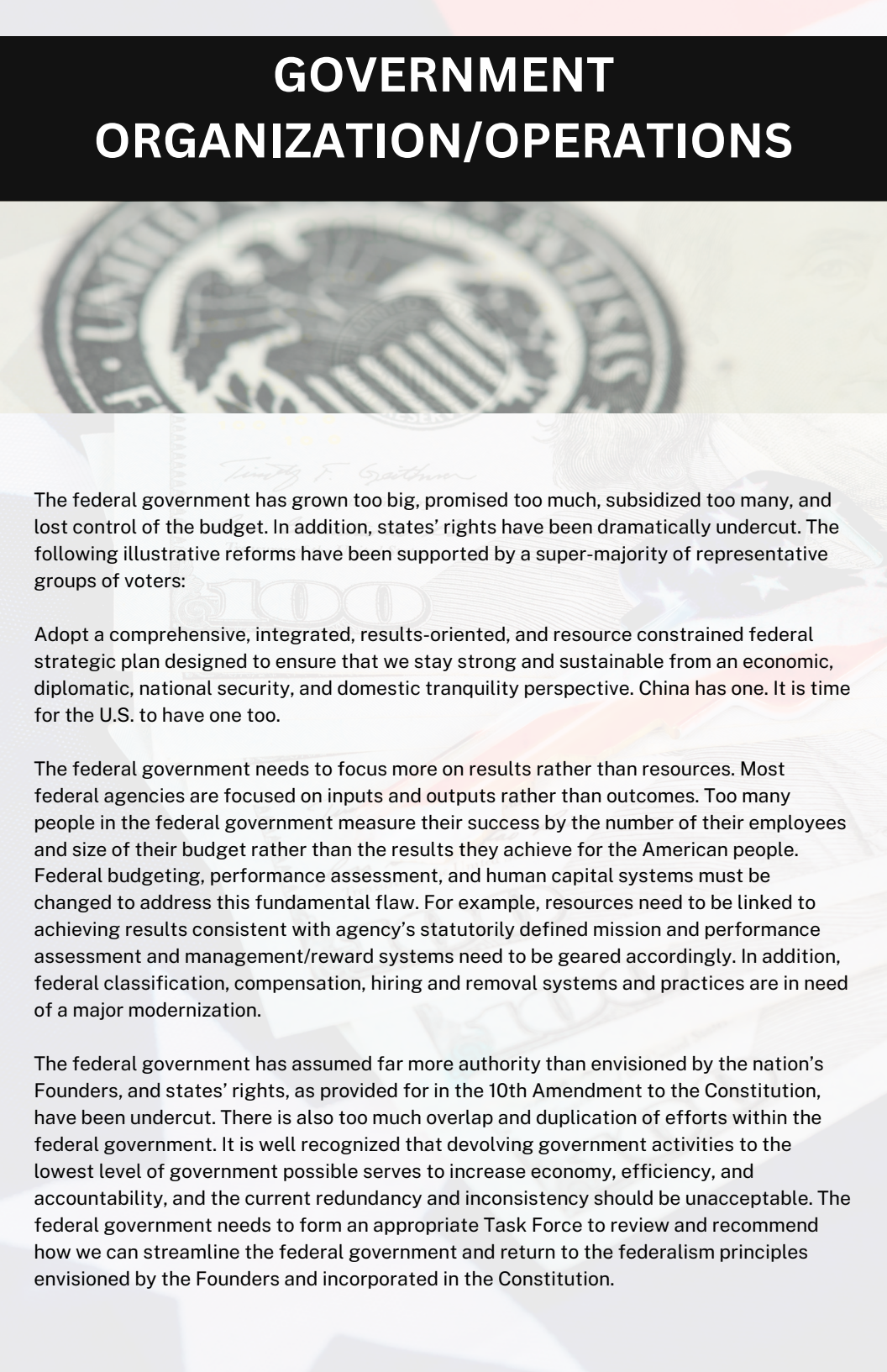
Reform the acquisition system to reduce post-acquisition change orders and increase both cost and risk sharing with contractors.

Rationalize the total compensation structure for military personnel to make it more realistic, affordable and sustainable.

Pursue mandatory public service for which the military would be an option with a reduced time commitment.

Add a high level senior executive within the DoD who would be focused full-time on business transformation with the DoD. This person should have a term appointment (e.g., 5 years) with a performance contract to provide continuity and accountability both within and between Administrations.

GOVERNMENT ORGANIZATION/OPERATIONS



The federal government has grown too big, promised too much, subsidized too many, and lost control of the budget. In addition, states' rights have been dramatically undercut. The following illustrative reforms have been supported by a super-majority of representative groups of voters:

Adopt a comprehensive, integrated, results-oriented, and resource constrained federal strategic plan designed to ensure that we stay strong and sustainable from an economic, diplomatic, national security, and domestic tranquility perspective. China has one. It is time for the U.S. to have one too.

The federal government needs to focus more on results rather than resources. Most federal agencies are focused on inputs and outputs rather than outcomes. Too many people in the federal government measure their success by the number of their employees and size of their budget rather than the results they achieve for the American people. Federal budgeting, performance assessment, and human capital systems must be changed to address this fundamental flaw. For example, resources need to be linked to achieving results consistent with agency's statutorily defined mission and performance assessment and management/reward systems need to be geared accordingly. In addition, federal classification, compensation, hiring and removal systems and practices are in need of a major modernization.

The federal government has assumed far more authority than envisioned by the nation's Founders, and states' rights, as provided for in the 10th Amendment to the Constitution, have been undercut. There is also too much overlap and duplication of efforts within the federal government. It is well recognized that devolving government activities to the lowest level of government possible serves to increase economy, efficiency, and accountability, and the current redundancy and inconsistency should be unacceptable. The federal government needs to form an appropriate Task Force to review and recommend how we can streamline the federal government and return to the federalism principles envisioned by the Founders and incorporated in the Constitution.

TAXES

Nobody likes to pay taxes, but taxes are necessary to finance government activities. While our fiscal imbalance is primarily attributable to excessive spending, additional revenues will be necessary to achieve fiscal sustainability.

Believe it or not, the federal government loses about \$1.7 trillion a year in revenues due to various tax preferences (e.g., deductions, exemptions, credits, and exclusions). The wealthy disproportionately benefit from these tax preferences. They are essentially “back door” spending (via loss of revenue) and must be reviewed, reconsidered, and rationalized just like direct spending.

Our corporate taxes must be competitive since companies will move their headquarters to lower their tax bill if they are not. Importantly, a vast majority of federal revenues come from payroll taxes and individual income taxes, and only around 8% come from corporate taxes.

Shockingly, under our current system, about 45% of individual income tax filers do not pay any income tax and about 20% receive refunds attributable to tax credits for things like the Earned Income and Childcare tax credits.

Given the above, a super-majority of representative groups of voters have supported the following reforms:

Lower the corporate tax rate to no more than 25% (it was lowered to 21% in 2021), taxing only U.S. versus global profits, only allowing tax credits for basic versus applied research, and allowing deductions for dividends distributed to shareholders to eliminate double taxation.

Adopt dramatic reductions in the number of tax preferences for individuals and corporations (e.g., deductions, exemptions, exclusions, and credits) to broaden the tax base, simplify the tax code, and enhance enforceability. They agreed that preferences should be retained for certain items (e.g., charitable contributions, retirement savings, primary home mortgage).

Reduce the number of tax rates to no more than four with the top tax rate being set at 28%.

Tax long-term capital gains (currently taxed at 15%-20% depending on your taxable income and filing status) at the same rate as ordinary income if the top tax rate is reduced to 28%. Importantly, capital gains and other investment income are not subject to social insurance (payroll) taxes, while wages and earned income amounts are. In addition, the income of most wealthy people is attributable to investment income rather than wages or other types of earned income.

A WAY FORWARD

While it is important to explore illustrative reform proposals, it is also important to consider how to achieve needed reforms in a successful and sustainable manner.

History tells us two key things. First, it is unrealistic to expect that Congress will make the needed transformational reforms in a piecemeal fashion through the regular legislative process. Therefore, a special process is needed (i.e., a statutory Fiscal Sustainability Commission). Second, past statutory approaches, including the debt ceiling, have failed to constrain mounting debt burdens and one Congress cannot bind future Congresses. Therefore, we need a Fiscal Responsibility Constitutional Amendment to achieve sustainable success.

Regarding a special process, we need to learn lessons from past commissions that have been successful (e.g., Greenspan Social Security Commission) and those that have not (e.g., Simpson-Bowles Commission). These include making sure the commission is properly comprised (e.g., capable, credible and non-conflicted individuals with appropriate expertise and diversity), has a proper scope and clear objective (e.g., everything is on the table in an effort to achieve specific and sustainable level of debt/GDP by a year certain), has adequate time to conduct significant citizen education and engagement activities and its follow-on work (e.g., at least a year), has an appropriate threshold for voting on a reform package (e.g., no more than 60%), and is guaranteed an up-or-down vote in Congress on the entire package if that threshold is met. If it is not met, Congress should still consider its recommendations with the ability to make amendments that do not compromise the objective. In addition, consideration should be given to allowing a separate vote on the proposed Social Security reforms as a stand-alone package if the threshold on its recommendations is met and the entire package is not adopted.

Regarding a Constitutional amendment, the only way to bind both current and future Congresses is through a Constitutional Amendment. There are two ways to achieve such an Amendment under Article V of the Constitution. The first, which has been the only option that has been used to date, is to have two-thirds of the House and the Senate to pass a proposed amendment and then send it to the states. If three-quarters of the states (currently thirty-eight of the fifty states) ratify the proposed amendment, it becomes part of the Constitution.

The second method is designed to provide the states with an equal right to propose an amendment. It provides that if two-thirds of the states (currently thirty-four of the fifty states) file an Application for a Convention of States to propose one or more Constitutional amendments, the Congress shall call the Convention. If a majority of the states agree on a proposed amendment (currently 26 of 50 states under a one-state one-vote method) at the Convention, the proposed amendment is sent to the states for ratification by three-quarters of the states.

Shockingly, recent research discovered that thirty-nine states had active applications for a Convention of States to propose a Fiscal Responsibility Amendment in 1979 and for many years thereafter and yet Congress failed to act. Since 1979, federal debt has grown from less than one trillion dollars to over \$34 trillion, and the value of the dollar has declined by about 80%! This wrong needs to be rectified!

CONCLUSION

Hopefully, this booklet has helped you to understand the nature and magnitude of our fiscal challenge and the need to defuse our ticking debt bomb sooner versus later. It should also help you to understand that there are sensible solutions that the American people will support. While our elected officials will have to take the decisions regarding which reforms to adopt, it is “We the People” who ultimately are responsible for what they do or fail to do in our republic.

It is also important to learn lessons from history and others in connection with our challenge. Regarding history, the Roman Empire was one of the greatest superpowers in history, but it no longer exists. It fell for several reasons: fiscal irresponsibility, political incivility, moral decline, over extended military, and inability to control its borders. Does this sound familiar?

George Washington gave us four warnings in his farewell address. They were: avoid excessive debt, avoid foreign wars, avoid regionalism, and avoid factionalism (political parties). How are we doing?

On the other hand, Switzerland provides a positive example of how fiscal sustainability can be effectively addressed. About 20 years ago Switzerland adopted a Constitutional Amendment that limits the growth of the federal government and constrains debt/GDP to reasonable and sustainable levels. It achieved 85% support from Swiss voters. The results have been dramatic. Switzerland is now on a sustainable path, has among the highest incomes per capita, standards of living, a strong currency, and the best credit rating of any country. Switzerland also has a strong federalist system and is viewed as one of the best managed and most participative countries in the world.

Defusing our debt bomb is not just numbers. We are currently mortgaging our future as well as the future of our children, grandchildren, and future generations of Americans when they will face much tougher competition in an increasingly inter-connected and inter-dependent world. That is irresponsible, inequitable, and immoral and it must stop.

We can restore fiscal sanity and stewardship in this country, but it will take all of us pushing our elected officials to do so. Congress will only act if there is public support. That must come from us, ‘We the People.’ We must become informed and demand that Congress ‘fix this mess’ before it becomes our undoing as a nation. You can find out more regarding our challenge and how you can help at www.mainstreeteconomics.org.

In closing, we are committed to doing our part to help save the future for our country, our children, our grandchildren, and future generations of Americans. All that we ask is that you do your part!

THE AUTHORS

About the Authors



David M. Walker

Dave is a nationally and internationally recognized fiscal responsibility, government transformation/ accountability, and retirement security expert. He is a non-practicing CPA with over 40 years of executive level experience in the public, private and non-profit sectors, including heading three federal agencies (two ERISA agencies), two non-profits, and leading a global service line for Arthur Andersen LLP. His most recent full-time federal position was as the seventh Comptroller General of the United States and CEO of the U.S. Government Accountability Office (GAO) for almost 10 years. This was one of his three Presidential appointments by Presidents from both political parties, with unanimous Senate confirmation each time. Dave also served as one of two Public Trustees for Social Security and Medicare from 1990-1995. He is a member of various boards and advisory groups, including the Defense Business Board, and the Federal Fiscal Sustainability Foundation.

Most recently, Dave served as the Distinguished Visiting Professor and Crowe Chair at the U.S. Naval Academy where he taught the Economics of National Security. He is also a periodic speaker, writer and media commentator and has appeared in many major programs and documentaries, including being the primary subject in a 60 Minutes segment and the critically acclaimed documentary I.O.U.S.A. .

He has authored four books, the latest is entitled “America in 2040: Still a Superpower (A Pathway to Success)” initially published by AuthorHouse in October of 2020 with an updated version scheduled to be released in March 2024. His most recent previous book was entitled “Comeback America: Turning the Country Around and Restoring Fiscal Responsibility“ (2010), which achieved National Bestseller status.

Dave has a Bachelors Degree in Accounting from Jacksonville University, an SMG Certificate from the JFK School at Harvard, a CAPSTONE Certificate from the National Defense University, and four Honorary Doctorate Degrees. He has received numerous professional and leadership awards, including the AICPA Gold Medal, and is in four Halls of Fame, including both the International Accounting and Auditing Halls of Fame.

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Leslie A. Rubin

Leslie A. Rubin is a professional accountant, entrepreneur, philanthropist, and real estate developer. He has studied economics for over forty years and been heavily involved with economic education locally, working with schools, writing articles, and commissioning sculptures on economic themes for his real estate developments, which allowed him to gain a clear understanding of what makes economic systems work and the power of incentives.

Rubin's passion for economics and economic education inspired him to create Main Street Economics Inc., a nonpartisan, nonprofit organization that provides the average person on "Main Street" the opportunity to learn about economic systems without going back to school.

Les graduated from University of North Carolina at Chapel Hill in accounting and was elected to Phi Beta Kappa and Beta Gamma Sigma honorary societies. For ten years he was a practicing CPA/controller and has been the owner and president of his own commercial real estate development company, Rubin Development Corporation, for almost fifty years.



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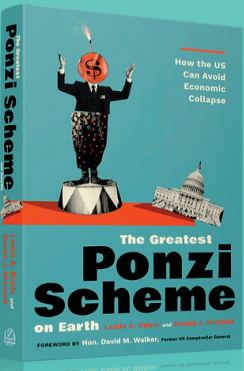
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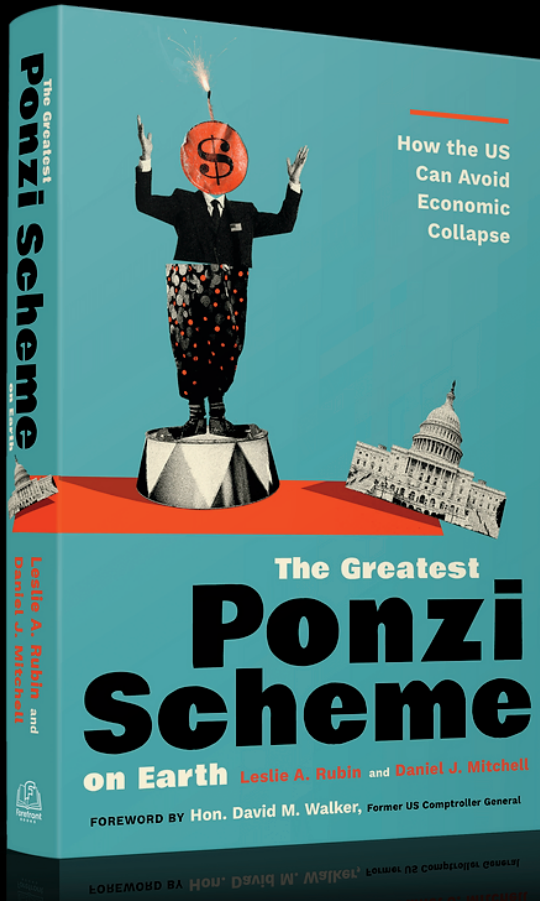


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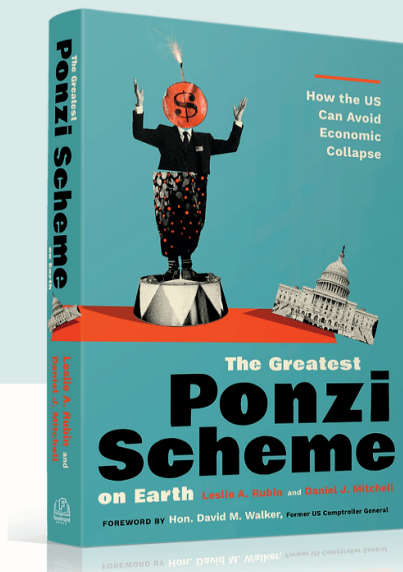
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