TIM PHILLIPS &
PHIL KERPEN

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Cut, Cap, and Balance

A path to fiscal responsibility

We enthusiastically support the "Cut, Cap, and Balance" framework for debt-ceiling negotiations and are committed to opposing any deal that fails to follow it: substantially cutting spending immediately, capping it going forward, and adopting a balanced-budget amendment with strict tax and spending limitations. But for the cuts to go beyond a blip on the otherwise relentlessly upward march of government spending (or worse, amount to accounting gimmicks), they must be based on specific, structural, permanent reforms to grow the economy while lowering the trajectory of federal spending. Moreover, without those reforms, caps will prove unenforceable when they get overwhelmed by entitlement promises, or when the political pendulum swings back toward tax-and-spenders.

First, spending cuts should be deepest where there is the most bang for the buck in terms of enhanced economic growth, productivity, and job creation. We can't balance the budget or tackle any of the other problems the country faces without robust economic growth. That means taking not a scalpel but a meat cleaver to the budgets of federal regulatory agencies.

There are simply no greater job destroyers than rogue agencies such as the Environmental Protection Agency, which is hell-bent on imposing job-crushing energy restrictions that Congress already rejected; the National Labor Relations Board (staffed by Obama appointees who avoided Senate confirmation), which is launching an all-out assault on the right to work; and the Federal Communications Commission, which is ignoring the courts, Congress, and the American people to regulate the Internet in the name of net neutrality.

Looking at 50 years of empirical data, Phoenix Center economists found a strong relationship between spending cuts in the budgets of regulatory agencies and economic growth. They further found that each federal employee in a regulatory agency now destroys 98 private-sector jobs per year, and that a budget cut of 16 percent for regulatory agencies would create an astonishing 3.75 million private-sector jobs. These cuts should be paired with language specifically de-funding the most egregious regulations.

Second, while Paul Ryan's proposed Medicare reforms have provoked a firestorm of distortion and demagoguery — even including one of the dirtiest political ads of all time, featuring a woman in a wheelchair being thrown off a cliff — the media has largely ignored the impending disaster for seniors under Obama's health-care law: the so-called Independent Payment Advisory Board (IPAB). IPAB is exactly the wrong way to contain costs in Medicare, giving power over medical decisions to unelected federal bureaucrats. A broad coalition of 272 groups, representing near-unanimity in the health-care sector, recently signed a letter calling for IPAB repeal. Repeal would refocus the national debate on the reality that, in a world of limited resources, the real question we face is whether government bureaucrats will decide what health care we can have, or whether we will own and control our health-care dollars and health-care choices.

Third, while broader Medicare reform is, unfortunately, stymied for now by Democratic obstinacy, reforming Medic*aid* is probably the biggest genuinely achievable spending reform that could be made part of the debt-ceiling negotiations. Democrats have failed to score any political points against Ryan's commonsense proposal to reform Medicaid by block-granting it to the states, cutting the strings, and allowing states to run their own programs. Even deep-blue Washington State is now on board a version of this idea; its Democratic state legislature unanimously passed, and its Democratic governor signed, a request for a modified block-grant waiver for Medicaid. Rhode Island already has a block-grant waiver, and Texas also just passed legislation calling for one.

Any state legislator or governor who would oppose the block-grant plan will have a difficult time explaining to voters how elected federal welfare bureaucrats can do a better job administering a health-care program than states can. If the states unite, even a Democratic president will be hard-pressed to defy them. In 1996, Bill Clinton vetoed the block-grant approach to reforming the old Aid to Families with Dependent Children twice. The third time, Congress revised it to match what the states were calling for; Clinton relented and signed it, and of course it has been a remarkable success.

Ryan's plan, "Welfare Reform, Part II," would block-grant Medicaid and food stamps. We urge Congress to go farther, as Peter Ferrara suggests in his provocative new book *America's Ticking Bankruptcy Bomb*,taking the entire $700 billion a year in federal welfare spending, including the refundable portion of tax credits, cutting it back to pre-Obama levels, and sending it to the states in a finite block grant.

Fourth, there must be genuine program terminations. Not just small programs, but programs big enough to move the needle on overall federal spending. Ronald Reagan famously said at the 1964 convention: "A government bureau is the nearest thing to eternal life we'll ever see on this earth." Republicans have long promised lengthy lists of program terminations, including whole cabinet departments, but it never seems to happen. At the very least the $200 billion of duplicative and unnecessary programs identified by the Government Accountability Office in March should be ended.

The next few weeks present a historic opportunity to address our fiscal crisis and put the country on the path to prosperity again. These specifics can help make cutting, capping, and balancing the federal budget achievable.

— *Tim Phillips is president of Americans for Prosperity. Phil Kerpen is its vice president for policy and author of* Democracy Denied: How Obama is Ignoring You and Bypassing Congress to Radically Transform America – and How to Stop Him *(BenBella Books, October 2011).*