



August 11, 2011

The Honorable Jeb Hensarling, Co-Chair
The Honorable Patty Murray, Co-Chair
Joint Select Committee on Deficit Reduction
Congress of the United States
Washington, D.C. 20510

Dear Representative Hensarling and Senator Murray:

Consistent with the Budget Control Act of 2011 (Public Law 112-25), I have the honor to submit on behalf of The Heritage Foundation¹ the enclosed plan entitled *Saving the American Dream: The Heritage Plan to Fix the Debt, Cut Spending, and Restore Prosperity*. The Foundation urges the Joint Select Committee to adopt the Heritage plan's recommendations as the Committee develops proposals to meet its statutory goal "to reduce the deficit by at least \$1,500,000,000,000 over the period of fiscal years 2012 to 2021."

Balance the Budget Permanently Within Ten Years. Enactment of the recommendations in *Saving the American Dream* would drive spending down and achieve a balanced budget, reduce the public debt relative to the size of the economy, and preserve America's ability to protect the nation, without raising taxes. The recommendations cut non-security discretionary spending, fix entitlement programs, and establish a job-creating, pro-growth, single-tax system. The recommendations yield a balanced budget in 2021 and thereafter, holding federal spending and taxation down to no more than 18.5 percent the economy,² as opposed to the current 25 percent.³

¹ The Foundation is a District of Columbia nonprofit corporation that is recognized as exempt under section 501(c)(3) of the Internal Revenue Code, with the mission "to formulate and promote conservative public policies based on the principles of free enterprise, limited government, individual freedom, traditional American values, and a strong national defense." The Foundation submits these comments as permitted by law (see 26 CFR 56.4911-2(c)(1)(i),(ii) and (vi)).

² As used here, the term "economy" refers to the gross domestic product (GDP), which is the total value of the annual national output of goods and services.

³ Office of Management and Budget, *Historical Tables*, Table 1.3 accompanying the President's Budget for Fiscal Year 2012, at <http://www.whitehouse.gov/sites/default/files/omb/budget/fy2012/assets/hist01z3.xls> (outlays as a percentage of GDP in fiscal year 2010 were 23.8 percent of GDP and estimated outlays for fiscal year 2011 are 25.3 percent of GDP).

Move from Entitlement Principle to Insurance Principle and Control Spending. While cuts to non-security discretionary spending remain important, achievement of a balanced budget at no more than 18.5 percent of the economy depends in substantial part upon containing the cost of entitlement programs (Social Security, Medicare, Medicaid, and welfare). The Heritage plan redesigns, strengthens, and preserves those programs so that, with an appropriate transition, they will provide insurance against the risk of poverty rather than government-guaranteed income and payments. Under the Heritage plan, America would return to the principle of self-reliance, rather than reliance on government, for those in relatively favorable economic circumstances.

Move to Pro-Growth, Job-Creating Tax Policies. With the annual rate of growth in the economy at an anemic 1.3%,⁴ and with 9.1% of the American work force unemployed,⁵ the Congress must not enact anti-investment, job-killing tax hikes, which would make the economic situation worse. As Congress looks to the future, it should put into place new tax policies to encourage economic growth, investment, and job creation, improve federal finances through growth-generated revenues without tax increases, strengthen the economy against future economic shocks, and improve American competitiveness in the global economy. The new tax system proposed in *Saving the American Dream* accomplishes those goals. The Heritage plan abolishes the individual income tax, payroll tax, capital gains tax, dividends tax, estate tax and corporate income tax and instead imposes a simplified, single-rate tax on expenditures of individuals and a single tax on the domestic net cash flow⁶ of businesses. Thus, from an individual's income, the amount the individual spends would be taxed, but the amount the individual saves would not be. The universal principle of tax-free individual savings would create a strong incentive for pro-growth, job-creating savings and investment. Similarly, the reduction in business tax rates will spur investment, job creation, and competition.

Maintain a Strong National Defense. The nation must spend what it takes to protect America and its interests around the globe. Cutting defense spending to make more funds available for other parts of the federal budget is not a responsible solution to federal overspending and overborrowing. Weakening America's defenses in a dangerous world increases the likelihood of conflict, and, as Americans know all too well, winning conflicts costs the lives of Americans and lots of money.

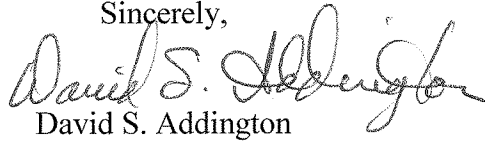
⁴ U.S. Bureau of Economic Analysis, Department of Commerce, "Gross Domestic Product: Second Quarter 2011 (Advance Estimate)" Release BEA 11-38 (July 29, 2011) ("Real gross domestic product -- the output of goods and services produced by labor and property located in the United States -- increased at an annual rate of 1.3 percent in the second quarter of 2011, (that is, from the first quarter to the second quarter), according to the 'advance' estimate released by the Bureau of Economic Analysis. In the first quarter, real GDP increased 0.4 percent.")

⁵ U.S. Bureau of Labor Statistics, Department of Commerce, "The Employment Situation -- July 2011," Release USDL-11-1151 (August 5, 2011) ("Total nonfarm payroll employment rose by 117,000 in July, and the unemployment rate was little changed at 9.1 percent, the U.S. Bureau of Labor Statistics reported today.")

⁶ As used here, the term "domestic net cash flow" means the business's annual cash receipts less cash payments for its activities within the United States.

As the Joint Select Committee develops its proposal for Congress to get federal spending and borrowing under control, The Heritage Foundation would appreciate the opportunity to present *Saving the American Dream* to the Joint Select Committee at a hearing or meeting, and we are pleased to answer questions on it at any time. We urge the Committee to adopt the recommendations in *Saving the American Dream* and thank you for your time and attention.

Sincerely,

A handwritten signature in dark ink, appearing to read "David S. Addington". The signature is fluid and cursive, with a large, stylized initial "D".

David S. Addington

Vice President for Domestic and Economic Policy

Enclosure as stated

cc: The Honorable Dave Camp
The Honorable Fred Upton
The Honorable James E. Clyburn
The Honorable Xavier Becerra
The Honorable Chris Van Hollen

The Honorable Max Baucus
The Honorable John Kerry
The Honorable Jon Kyl
The Honorable Pat Toomey
The Honorable Rob Portman