

The Republican Road to Recovery



MARCH 2009

To the American People:

Many of our fellow citizens are hurting. Our economy continues to weather the worst storm since the 1970s. Far too many spend their work days worried that the next phone call will bring an end to a job only to go home and check the mail for further evidence that years of retirement savings or a children's college savings has dissipated. Such a financial strain threatens to split many families and communities and force even more to postpone the American dream.

The President calls for “A New Era of Responsibility,” as the title of his budget states. But a closer look at the Democrat budget reveals something far different—it spends too much, taxes too much, and borrows too much.

This year spending will equal 28.5 percent of the economy—the highest level since World War II. The budget contains \$1.9 trillion in tax increases, including a national energy tax that will cost every household up to \$3,128 in increased energy bills. And finally, the budget explodes the national debt with \$9.3 trillion in deficit spending over the next ten years, and causes the debt to rise to more than \$23 trillion in 2019. Foreign purchasers of our debt are balking, and the Federal Reserve is printing money to pay for these commitments. Hardly a new era of responsibility.

Republicans believe that there is a far better way—one that promises freedom and prosperity. Our economic plan curbs spending, creates jobs and lowers taxes, and controls the debt; and it will soon have our economy growing again.

OUR PROPOSAL:

CURBS SPENDING

- *Limits the Federal Budget from Growing Faster than Family Budgets*

Instead of spending money on wasteful programs under the guise of “stimulus” and “investments,” Republicans seek to ensure that the federal budget cannot grow faster than families’ ability to pay the bill.

- *Provides Universal Access to Health Care and Secures Entitlements*

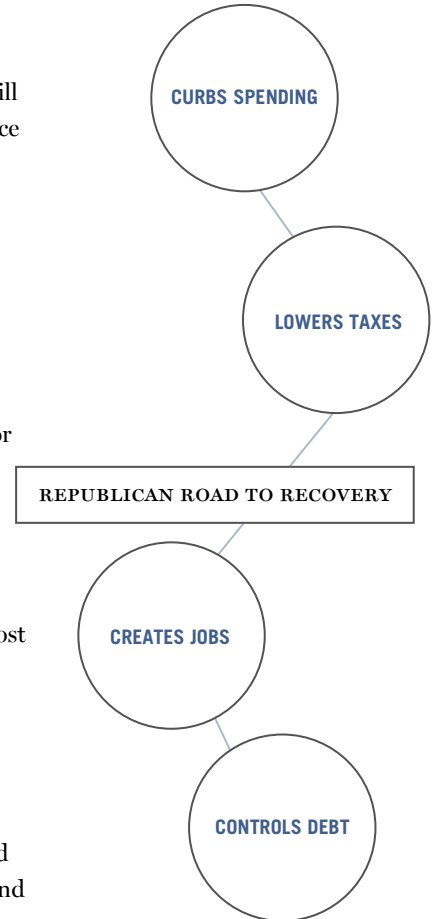
Instead of accelerating the demise of our nation’s large entitlement programs, such as Medicare and Medicaid, and creating new unsustainable entitlements, Republicans seek to provide universal access to affordable health care and to address our entitlements’ trillion dollar unfunded liabilities with common-sense reforms that ensure our children and grandchildren can secure future benefits.

CREATES JOBS AND LOWERS TAXES

- Lowers Taxes*
 Instead of raising taxes on all Americans in the midst of a recession, Republicans seek to reduce the tax burden on working families and small businesses, in order to create jobs and unlock private capital.
- Keeps Energy and Fuel Costs Low*
 Instead of taxing all energy users with a new national energy tax that will cost up to \$3,128 per household, Republicans want energy independence with increased development of all our natural resources, including renewable energy sources, such as wind and solar.

CONTROLS THE DEBT

- Ends the Bailouts and Reforms the Financial System*
 Instead of nationalizing our financial system and heaping trillions of dollars of debt on future generations, Republicans want to protect taxpayers and provide a transparent recovery process that does not favor those that have made unsound business decisions. We will ensure that this financial crisis can never occur again.
- Keeps the Cost of Living Low*
 Instead of returning to double digit levels of inflation and the failed economic policies of the 1970s, Republicans support maintaining the cost of living after witnessing the booms and busts triggered by loose monetary policy.



America stands again at a crossroads. The President’s budget would have us cast all of our cares and worries on a government we cannot afford while leaving our children and grandchildren crushing debt and exorbitant taxes. Many have called it the road to serfdom. Republicans choose a different path that offers freedom and prosperity for *this* generation and the next by allowing families to keep more of their own money to spend on their priorities. Our economic plan amounts to less government, lower taxes, and economic prosperity. We offer it for your consideration.

SINCERELY

 JOHN A. BOEHNER Republican Leader	 ERIC I. CANTOR Republican Whip	 MIKE PENCE Chairman Republican Conference	 THADDEUS MCCOTTER Chairman Republican Policy Committee
 CATHY MCMORRIS RODGERS Vice Chair Republican Conference	 JOHN R. CARTER Secretary Republican Conference	 PETE SESSIONS Chairman Congressional Committee	 KEVIN MCCARTHY Chief Deputy Republican Whip
 DAVID DREIER Ranking Member House Rules Committee	 ROY BLUNT Member of Congress		

MARCH 26, 2009

THE REPUBLICAN PLAN
CURBS *spending*

— **ONE** —

Republicans seek to ensure that the federal budget cannot grow faster than families' ability to pay the bill. Republicans also seek to provide universal access to affordable health care and offer common-sense reforms to address our entitlements and ensure that our children and grandchildren can secure future benefits.

LIMITS THE FEDERAL BUDGET FROM GROWING FASTER THAN FAMILY BUDGETS

THE PRESIDENT'S BUDGET

By any reasonable definition, the Democrat budget spends too much. In the current Fiscal Year, the federal government would spend over \$4 trillion or 28.5 percent of the economy—the highest level since World War II. The new budget is fresh off an eight percent increase in nondefense spending from the omnibus—the highest increase since the Carter administration, except immediately following the September 11th attacks—and a \$792 billion “stimulus” spending bill. The deficit for the current Fiscal Year is projected to be upwards of \$1.8 trillion, and over the next ten years, the deficit will total \$9.3 trillion by conservative estimates. Families simply cannot afford to pay for such levels of government.

Even the Administration's top budget officers admit that these spending levels are reckless. In 2004, the Office of Management and Budget Director, Peter Orszag, said, “Fiscal policy in the United States is on an unsustainable path. Under reasonable projections, the budget deficit is likely to amount to about 3.5 percent of Gross Domestic Product (GDP) in each year over the next decade.” Given that Congressional Budget Office estimates the Democrat budget would create a budget deficit equal to 13 percent of GDP in 2009, and 5.3 percent of GDP over the next ten years, how can this be a “responsible” proposal?

Who are the recipients of such largesse? International organizations and foreign aid recipients, including millions for reconstruction in the Hamas-controlled Gaza Strip. Labor union bosses participating in a new “green jobs” program. The National Endowment for the Arts, the Corporation for Public Broadcasting, Americorps, Title X Family Planning, and a host of spending programs that will do nothing to help our economy recover. And even community organizers, such as ACORN, performing “neighborhood stabilization.” Hundreds of programs deemed ineffective by prior Administrations are funded, despite promises from the President to go “line by line” to examine each program's effectiveness.

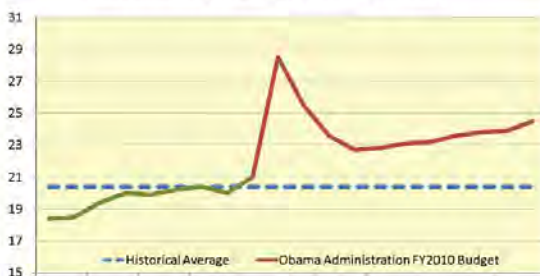
This sort of spending is not “an investment”—it is a reckless effort to grow government by taxing individuals who are already working over half the year to fund their share of government at various levels.

REPUBLICANS' SOLUTION

Instead of recklessly borrowing and spending money on wasteful programs under the guise of “stimulus” and “investments,” Republicans seek to ensure that the federal budget cannot grow faster than families' ability to pay the bill.

In addition to securing our nation's major entitlements, by enacting common-sense reforms and weeding out waste, fraud, and abuse, Republicans propose to undo the recent reckless and wasteful Democrat spending binge included in the so-called “stimulus” and omnibus bills. In addition, Republicans would cut overall nondefense spending by reforming or eliminating a host of wasteful programs deemed ineffective by various government entities. And Republicans would fully fund our ongoing commitments overseas while devoting the entirety of any savings from reduced fighting to deficit reduction, rebuilding our military, and funding our commitment to our veterans.

Expanding the Size of Government
(Government Spending as Percentage of GDP)



Source: CBO Estimate

PROVIDES UNIVERSAL ACCESS TO HEALTH CARE AND SECURES ENTITLEMENTS

Our health care system currently stands at a turning point between more quality, more affordability, and more freedom *or* inferior service, higher costs, and fewer choices. Our country's major entitlement programs—Social Security, Medicare, and Medicaid—are going bankrupt and will consume the *entirety* of today's budget by 2040, as they struggle to meet the cost of retiring Baby Boomers and the continued growth in cost of providing health care.

Already, states and the federal government pay nearly half of all U.S. health care dollars, and the percentage spent by government continues to grow. Despite hundreds of billions of dollars of government spending every year, the quality and affordability of health care in this country remains uneven at best and tragic at worst.

The Administration's budget proposal presents stark choices for the American people:

- *Should uninsured individuals receive incentives to obtain private coverage with access to doctors they choose, or will they be placed in a government-run health program?*
- *Will technological advances continue to spark cutting-edge medical treatments, or will price controls and federal regulation stifle innovation and prevent life-saving breakthroughs?*
- *Will doctors be able to decide the best treatments for their patients, or will government bureaucrats ration and restrict access to care in an arbitrary fashion?*
- *Will the federal government take action now to slow the growth of health costs and bring entitlement spending under control, or will expansive—and expensive—new government programs cripple future generations in an avalanche of debt?*

HEALTH CARE REFORM

Democrats propose nearly \$1 trillion in new spending on health care reform as a mere “down payment” for additional spending to come. The prime focus of their agenda is the establishment of a government-run health insurance plan, designed to “compete” against private health insurance.

However, independent analysis confirms that the government-run “option” would quickly become a de facto single-payer system. Actuaries at the Lewin Group estimated that nearly three in four Americans—119 million individuals—with employer-sponsored health insurance would lose their current coverage. These individuals would lose their coverage not because they made a voluntary choice to accept the government plan, but because their employers would save billions of dollars by ending their current coverage and dumping their employees into the government-run plan.

Democrats propose to finance nationalized health care by raising taxes on charitable giving and limiting mortgage deductions at a time when the housing market confronts a record downturn. The President has also proposed levying higher taxes on businesses not currently offering health insurance which would, according to one estimate, result in the loss of 1.6 million jobs and an economic contraction of \$200 billion.

Over time, the Democrat plan would result in a government-run health system. Those who like the health insurance they have now likely will not be able to keep it because their employers will stop providing coverage. New entitlement spending would add to the skyrocketing federal debt needed to fund the \$56 trillion in existing unfunded promises to current beneficiaries, and the higher taxes accompanying a new government-run and bureaucratic health care system would sap economic growth and prosperity.

In a government-run health care system, bureaucrats would exercise increasing control over all health care decision-making and would resort to rationing of care as the sole means to control skyrocketing costs. Such rationing would import not only the policies of other countries, but their horror stories. Consider Ann Marie Rogers, who in 2006, filed a ground-breaking lawsuit in Britain, seeking to force her local health care bureaucrat to pay for the breast cancer drug Herceptin—“which has been shown to halt the spread of the cancer.” In a public interview, she expressed her outrage at the bureaucracy



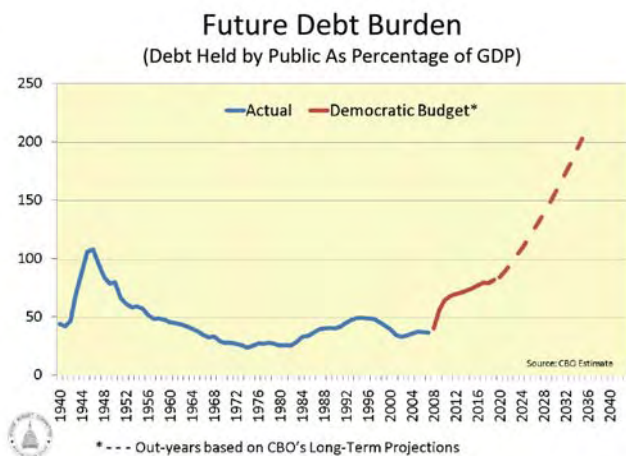
that forced her to file a lawsuit in order to access a life-saving treatment:

It makes me so angry that these trusts are playing God, saying 'you can't have this, you can't have that.' They've got no right to decide who can have this life-saving drug. This is not a poor country, after all. I have worked all my life and paid my taxes. It makes me sick to think a lot of women are in my position.

Or Ian Dobbin, a patient in Yorkshire, England, who faced a similar dilemma because a government bureaucrat refused to approve his life-saving cancer treatment. He said its decision:

Is a death sentence for me. I feel absolutely gutted because there is no way I can find that sort of money. My life is dependent on getting this drug and without it I will die...I've been paying my national insurance all my life and when it comes to the point that I need it to keep me alive, they are not prepared to help.

And while Democrats would encourage doctors not to prescribe treatments that could help their patients if a bureaucrat refused to approve it, their plan would do little to reform the skyrocketing medical liability costs that plague the American health care system. Physician malpractice premiums continue to rise, threatening doctors' ability to practice medicine. Government estimates suggest that defensive medical practices—ordering unnecessary tests and procedures for the primary purpose of avoiding legal liability—increase health spending by as much as \$120 billion per year.



ENTITLEMENT REFORM

Even as they pledge entitlement reform, the Democrat budget actually increases Medicare spending. Such new spending ignores the perilous state of existing federal entitlement obligations. According to the program's trustees, Medicare faces unfunded promises that total \$36 trillion. The Medicare Hospital Insurance Trust Fund is scheduled to be exhausted as soon as 2016—as millions more Baby Boomers retire. At the same time, government estimates indicate that Medicare fraud consumes at least tens of billions in federal spending per year, excluding fraudulent activity never detected.

Likewise, Medicaid represents a large and growing strain on state and federal budgets alike. The program is projected to nearly double in size over the next decade, and the Congressional Budget Office estimates nearly \$6 trillion in government spending over the same period. The nature of the state-federal match has led some states to undertake questionable accounting practices for the sole purpose of tapping additional federal resources. Yet the Democrat budget contains no substantive proposals to improve Medicaid's long-term financing—and nothing on how to improve quality of care for the program's low-income beneficiaries.

Despite significant spending by both states and the federal government, the quality of care provided to Medicaid beneficiaries often fails to match private health insurance coverage. Price controls and bureaucratic obstacles discourage providers from accepting Medicaid patients, resulting in long waits, particularly for specialist visits. Medicaid beneficiaries visit emergency rooms at twice the rate of uninsured patients—an indicator of poor and un-coordinated care. Consider 12-year-old Deamonte Driver who literally died in 2007 from a tooth infection—the result of months-long waits for care in Maryland's Medicaid program. House Energy and Commerce Committee Chairman Henry Waxman alluded to Medicaid's problems when he recently stated that, "it is highly unlikely you are going to find millionaires who would like to go on Medicaid." Republicans do not believe that a health care program which wealthy individuals would not "like to go on" is acceptable for 60 million poor and vulnerable Americans.

REPUBLICANS' SOLUTION

Instead of accelerating the demise of our nation's large entitlement programs and creating an unsustainable new government health care program, Republicans seek to provide universal access to affordable health care and to address Medicare and Medicaid's trillion dollar unfunded liabilities with common-sense reforms that ensure our children and grandchildren can secure benefits in the future.

Republicans support leveling the playing field through policies that will provide tax incentives for millions more working families and small business owners to obtain access to coverage.

Republicans also support breaking down the balkanized barriers within our current health insurance industry, allowing individuals to shop across state lines to purchase affordable policies that best meet their needs. Independent estimates suggest that as many as 12 million individuals could obtain access to health insurance through this approach alone—health insurance that would be more responsive to individual consumers' needs.

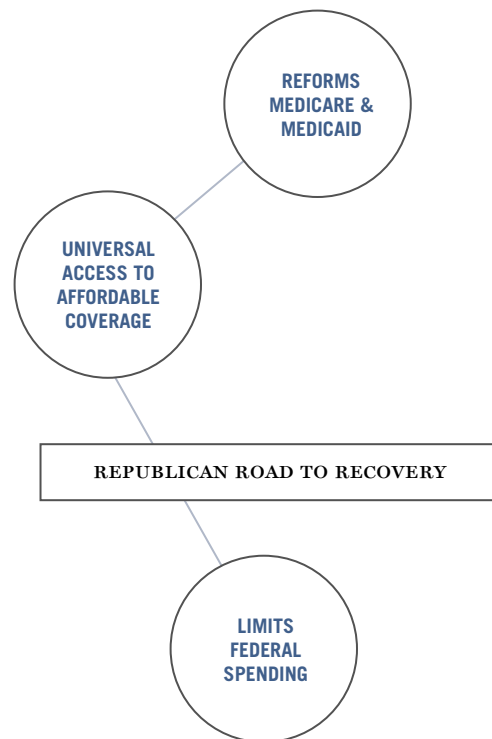
Republicans support reasonable limits on non-economic damages, along with penalties for trial lawyers who file frivolous lawsuits, among other reforms necessary to preserve patients' relationships with their physicians and end the unnecessary defensive medicine practices increasing costs for all Americans.

With regard to entitlements, Republicans support the notion that wealthy seniors like Warren Buffett and George Soros can afford to pay \$2 per day more for their Medicare prescription drug coverage. But we would go further to save Medicare, by simplifying the current benefit structure in traditional Medicare to include a catastrophic cap on out-of-pocket expenses for the first time in the program's history. And Republicans plan vigorous efforts to combat waste, fraud, and abuse in order to make traditional Medicare more efficient.

Republicans also want to restore quality, care, and efficiency to the Medicaid program and will look to governors as the laboratories to improve and enhance the program. A more flexible financing structure will remove states' current incentive to engage in what one liberal advocacy group called "accounting arrangements... designed primarily to provide a windfall for state governments." More importantly, additional flexibility will allow states to design program improvements for beneficiaries—for instance, using state dollars to

supplement private health insurance coverage. Unlike Democrats who continue to block new state-level reforms in order to expand government-run programs, Republicans believe that providing beneficiaries with additional choices will improve quality of care while slowing health cost growth.

In short, as the United States debates health care reform in the months ahead, Republicans will be on the side of quality versus mediocrity, affordability versus unsustainable debt, and freedom of care versus bureaucrats in control. And we will be on the side of patients, doctors, and the American people.



THE REPUBLICAN PLAN
CREATES JOBS *& lowers taxes*

— TWO —

Republicans seek to reduce the tax burden on working families and small businesses, in order to create jobs and unlock private capital. Republicans also want energy independence with increased development of all our natural resources, including renewable energy sources, such as wind and solar.

LOWERS TAXES

THE PRESIDENT'S BUDGET

The Democrat budget calls for \$1.9 trillion in new taxes on energy consumers, small businesses, charitable giving, savings, investments, and family farmers. Tax increases will be used to fund an unprecedented expansion of the government, including restrictive new energy policies and a slush fund for new government-run health care. President Obama recently said, "[t]he fact that these guys are looking for bonuses... begs the question of, why were they making that much money beforehand, when nobody was criticizing them." In other words, the Democrat solution is to tax more, and this budget certainly taxes too much.

Though Democrats promise that only the most successful will bear more of this new shared "responsibility," the simple truth is that every household and business will pay more. The proposed national energy tax would raise the cost of energy by up to \$3,128 per household annually and cost 3-4 million jobs as manufacturers ship jobs overseas. The budget raises marginal tax rates on all taxpayers that earn more than \$200,000 individually (\$250,000 for couples). The majority of the burden for this \$637 billion tax increase will be borne by small businesses that pay taxes as individuals, but employ half of the private sector and created 80 percent of all new jobs in 2005. Capital gains and dividend taxes would increase for those with incomes over \$200,000 (\$250,000 for couples) from 15 to 20 percent. These taxes would directly affect investors and shareholders most impacted by the declining stock market and would further discourage investments during a time when new investments are essential to jumpstarting the economy. And the Obama budget reinstates the death tax scheduled to be fully repealed in 2010.

Tax increases, especially in the midst of a recession, are an assault on economic recovery and will impede growth, choke out new investment, and hinder job creation.

REPUBLICANS' SOLUTION

Instead of raising taxes on all Americans in the midst of a recession, Republicans seek to reduce the tax burden on working families and small businesses in order to create jobs and unlock private capital.

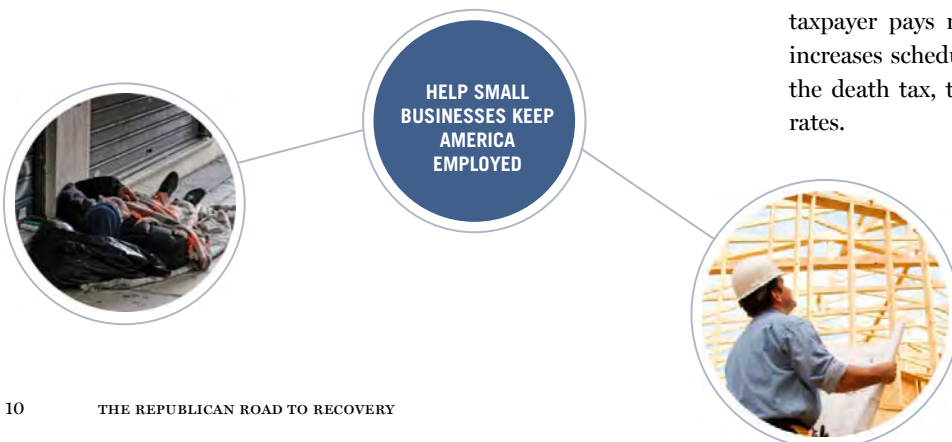
Republicans believe that future generations should not be burdened by mountains of debt for the misguided choices made by Democrats today. Instead, working families should be able to keep more of what they earn and pass those savings to future generations.

Republicans propose a simple and fair tax code with a marginal tax rate for income up to \$100,000 of 10 percent and 25 percent for any income thereafter, with a generous standard deduction and personal exemption. Republicans would allow any individual or family satisfied with their current tax structure to continue to pay those rates, while dropping the two lowest rates by 5 percent to provide every taxpayer with a tax cut. Republicans would also permanently fix the Alternative Minimum Tax (AMT) so that millions would no longer have to fear the possible imposition of a huge, new tax each year.

Republicans believe that the tax code should not penalize savings and thrift, especially in a period of economic turmoil. Our plan would lower the capital gains tax and loosen restrictions on various savings vehicles in order for individuals to catch up and replace losses from the market.

Republicans also propose a new tax deduction that allows businesses with less than 500 employees to take a tax deduction equal to 20 percent of their income, ensuring that these engines of growth will continue to fuel our economic recovery and companies can compete with their foreign counterparts, while keeping jobs here at home.

Last but not least, Republicans would ensure that no taxpayer pays more in taxes as a result of various tax increases scheduled to occur, whether it be the return of the death tax, the marriage penalty, or higher marginal rates.



KEEPS ENERGY & FUEL COSTS LOW

As recently as last summer, Americans paid over four dollars a gallon for gasoline whenever they filled up their tank to get to work, school, or take a family vacation. Just months ago, seniors and working families struggled to afford home heating oil during an especially cold winter. High electricity costs crush middle class family budgets, forcing parents to make painful decisions about college, retirement, and even putting food on the table. High fuel costs make police departments cut down on car patrols, and school districts shorten the school week and cancel bus routes. Small businesses lay off loyal employees due to rising transportation costs that squeeze their operating margins.

DEPENDENCE ON FOREIGN OIL

These high energy costs are the direct result of our nation's failure to break its dependence on foreign oil. Today, for every three barrels of oil the U.S. consumes, more than two are imported from other nations—including unfriendly and unstable regimes in the Middle East and South America. Our inability to formulate an *American* energy policy is breaking local budgets, hampering our economy, undercutting U.S. foreign policy, and compromising our economic freedom. Unfortunately, Democrats—with an entire energy agenda aimed at keeping energy and fuel prices as high as possible—continue to block using our abundant natural resources to chart a clean and prosperous future for energy in the U.S.

Democrats continue to restrict the exploration of alternative energy sources. For example, the Administration has already taken steps to hinder the leasing of the Outer Continental Shelf (OCS), which is estimated to hold at least 19 billion barrels of oil, and Democrats have long championed the prohibition on drilling in the Arctic Coastal Plain—which is estimated to hold 10.4 billion barrels of oil. Furthermore, Democrats continue to block the procurement of advanced alternative fuels from sources such as oil shale, tar sands, and coal-to-liquid technology. U.S. oil shale alone could provide about 2.5 million barrels of oil per day.



ANTI-ENERGY ALTERNATIVES

While Democrats claim to support all forms of clean renewable energy, the rhetoric just doesn't match reality. President Obama pledges to "ensure ten percent of our electricity comes from renewable sources by 2012, and 25 percent by 2025." On the campaign trail, he even said:

We should be building windmills all across the country. We're so far behind some of the European countries in producing wind energy. Why is that? Well, it's because the oil companies and the gas companies haven't wanted to encourage it, and so they've blocked progress on these issues.

But facts are stubborn things. Rather than oil and gas companies "blocking" wind power, Democrats have a track record of playing "not-in-my-backyard" politics with these renewable energy projects. Senators Ted Kennedy and John Kerry, for example, have long fought a renewable wind project in waters off of Massachusetts. The project, Cape Wind, would provide 75 percent of the electricity demand for Cape Cod, Martha's Vineyard, and Nantucket island. According to Senator Kennedy's campaign website, the project would undermine "the ecology of the Sound and will jeopardize the public interest." The Senator once remarked, "Don't you realize — that's where I sail!" The Senator's son, Rep. Patrick Kennedy, opposes another wind farm off the coast of Rhode Island that would generate up to 15 percent of the electricity used in the state. Rep. Kennedy thinks the energy project would negatively affect "tourism, the fishing industry and everything else."

And despite expert agreement that nuclear power is reliable, clean, and affordable without producing air pollution or greenhouse gases, Democrats continue to block its development. The federal government has not approved a new nuclear power plant since the late 1970s, and the President's budget calls for halting development of the planned Yucca Mountain repository, which would move nuclear energy forward.

INCREASED ENERGY TAXES

Not content with the status quo of high energy prices, Democrats support a deepened energy crisis with increased taxes. The President's budget singles out domestic oil and gas companies for a \$31 billion tax increase, further discouraging exploration and encouraging U.S. refining and chemical manufacturing jobs to move overseas. But taxing energy exploration is

not enough, Democrats are intent on implementing an energy tax that would cap greenhouse gas emissions from regulated entities and require businesses to purchase permits or “allowances” for their emissions—an effective tax on all energy consumption. According to a study by researchers at Massachusetts Institute of Technology, this tax will cost the average American household up to \$3,128 per year in increased energy costs. The cost of home heating oil and natural gas would nearly double, with electricity costs increasing by 73 percent and gasoline prices spiking by 60 percent. And according to the National Association of Manufacturers, it would cost 3-4 million workers their jobs. Democrats are well aware of these consequences. Then-candidate Barack Obama told a San Francisco editorial board last year, “Under my plan of a cap and trade system electricity rates would necessarily skyrocket...that will cost money. They will pass that money on to consumers...” Similarly, Speaker Pelosi emphasized the importance of passing an energy tax, “We have to because we see that as a source of revenue.” In other words, Democrats want to spend taxpayers’ money on their pet projects. Sadly, in the midst of a severe economic recession, Democrats’ energy policy is not simply to keep energy and fuel prices high, but to increase them even higher.

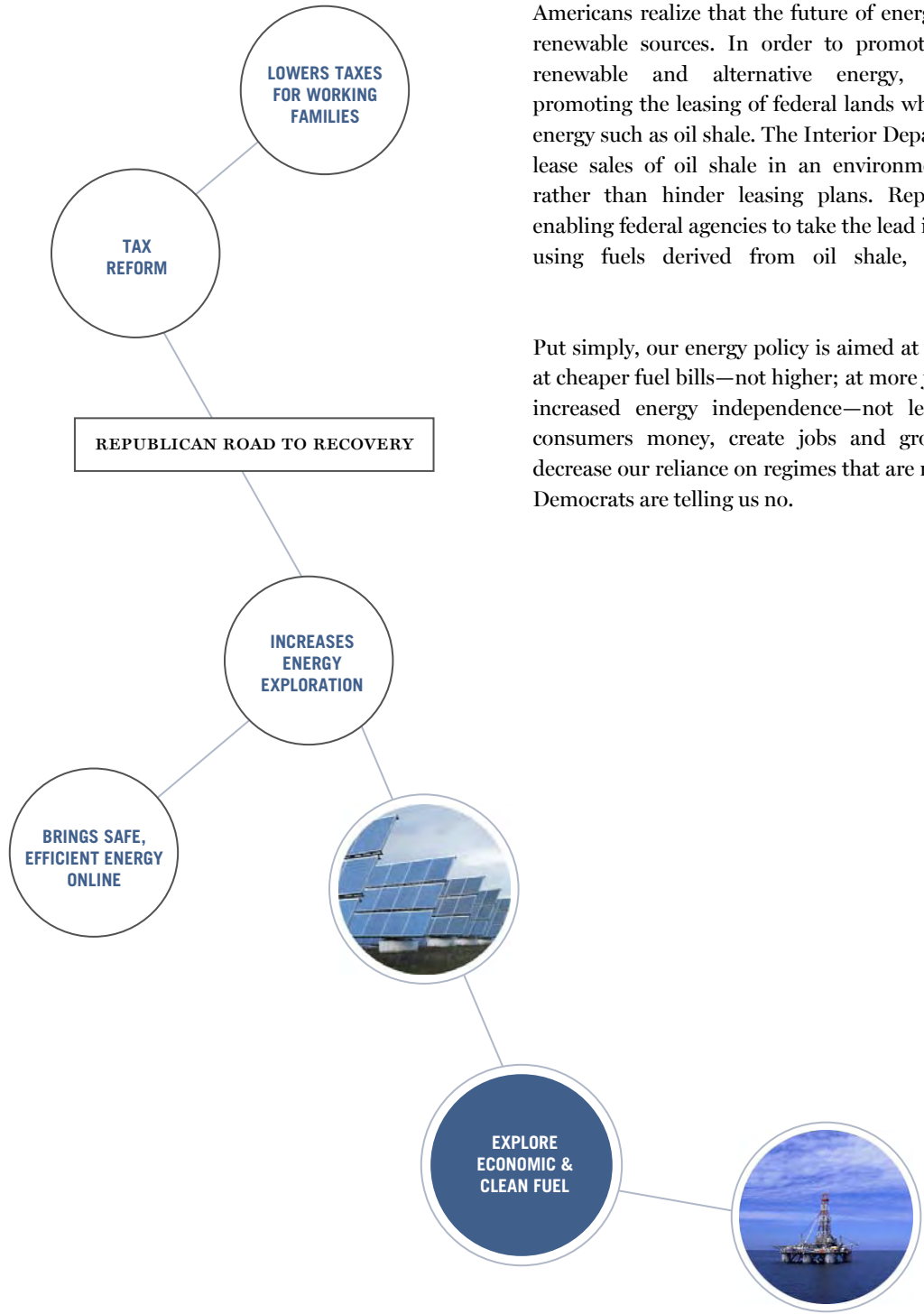
REPUBLICANS’ SOLUTION

Instead of taxing all energy users with a new energy tax that will cost up to \$3,128 per household, Republicans want energy independence with increased exploration and the development of new renewable energy sources, such as wind and solar.

Republicans realize that there are better solutions to restore freedom and security in our energy market. Republicans recognize the importance of exploring for American oil and gas in an environmentally-sound manner and support immediately leasing oil and gas resources in the OCS through an expedited and streamlined procedure. The Secretary of Interior should be required to offer new leases in the OCS, and ensure royalty revenues from OCS development are shared with coastal states in an effort to incentivize energy development. To further the investment in renewable energy, a portion of the federal share of royalty revenues would be put into a Renewable Energy Trust Fund to pay for renewable, alternative, and advanced energy programs—creating jobs and increased energy independence in the future.

Republicans also support opening the Arctic Coastal Plain to energy exploration and development and intend to carry out exploration in an environmentally safe manner, utilizing a small geographic footprint. Republicans propose streamlining the leasing process and mandating a first lease by the Interior Department within a few years. In addition, Republicans support expediting judicial review of energy development by making the Court of Appeals for the District of Columbia the sole venue for review and limiting complaints to a finite period—reducing frivolous anti-energy litigation.

In order to bring online a safe, inexpensive, and clean American energy source quickly, Republicans support removing government barriers to new nuclear reactors as long as they meet strict security and safety criteria. Efforts to streamline the hearing and judicial review process for nuclear permitting to place reasonable limits on arduous anti-energy litigation would be pursued as well.



Americans realize that the future of energy is in alternative and renewable sources. In order to promote the development of renewable and alternative energy, Republicans support promoting the leasing of federal lands which contain alternative energy such as oil shale. The Interior Department should provide lease sales of oil shale in an environmentally-sound manner, rather than hinder leasing plans. Republicans also support enabling federal agencies to take the lead in spurring a market by using fuels derived from oil shale, tar sands, and coal.

Put simply, our energy policy is aimed at more energy—not less; at cheaper fuel bills—not higher; at more jobs—not fewer; and at increased energy independence—not less. We want to save consumers money, create jobs and grow the economy, and decrease our reliance on regimes that are not our friends, and the Democrats are telling us no.

THE REPUBLICAN PLAN
controls the debt

———— **THREE** ————

Republicans want to end the bailouts, protect taxpayers,
and provide a transparent recovery process.
Republicans support maintaining the cost of living after witnessing the booms
and busts triggered by loose monetary policy.

ENDS THE BAILOUTS AND REFORMS THE FINANCIAL SYSTEM

Prosperity will not return to the United States until Americans regain confidence in the struggling financial system and firms begin to lend and invest again. Trillions of dollars have now been spent trying to restore the system to order, and our government's capacity to borrow has been stretched to the breaking point. Though well-intentioned, these rescue attempts have failed because they reward failure and punish success. It is now time to move beyond bailouts and fix the financial system. To do so requires not just the right ideas and principles, but the right assessment of what went wrong.

Democrats assume that the free-market system has failed and that a more robust federal government must now rescue the nation. The American people reject that notion and know, as Republicans do, that *government* has failed and that this financial crisis is the result of decades of misguided government policies that interfered with the free-market. In addition to a loose monetary policy by the Federal Reserve that fueled a housing boom, government-sponsored enterprises (GSEs), Fannie Mae and Freddie Mac, and federal mandates that weakened lending standards contributed to a perfect storm of government-induced failure.

FANNIE AND FREDDIE

For decades, Fannie and Freddie purchased mortgages from lenders and infused liquidity in the secondary mortgage markets with an implicit backing by the federal government that allowed them to borrow funds at lower rates than their private sector competitors. However, rather than acting as responsible stewards, the GSEs built multi-trillion dollar investment portfolios, pursuing shareholder profits and management bonuses at the expense of taxpayers who were exposed to the risk.

Democrats blocked attempts to meaningfully reform Fannie and Freddie for years, ignoring warnings that in the event of a downturn in mortgage markets, because of their size and scope, the risks to taxpayers were real and the liabilities potentially enormous.

In 2003, Rep. Barney Frank stated at a hearing that, "I believe there has been more alarm raised about potential [GSE] un-safety and unsoundness than, in fact, exists...I do not want the same kind of focus on safety and soundness that we have in OCC and OTS. I want to roll the dice a little bit more in this situation towards subsidized housing." In 2004, Senator Chris Dodd called Fannie and Freddie, "one of the great success stories of all time," and in 2005 Senator Chuck Schumer confessed

that perhaps, "Fannie and Freddie need some changes, but I don't think they need dramatic restructuring in terms of their mission." Taxpayers are now picking up the trillion dollar bill.

FEDERAL POLICIES THAT WEAKENED LENDING STANDARDS

Our current financial crisis has many causes, and many individuals made unwise decisions. But the failure of government policy and the market distortions it caused are the seeds of the crisis. Although well-intended, the federal government unintentionally contributed to the housing bubble by promoting home ownership for people that could not afford it through the Community Reinvestment Act (CRA). CRA was enacted in 1977 to encourage banks and thrifts to help meet the credit needs of their communities, including low- and moderate-income neighborhoods. But CRA has encouraged banks to make risky loans, contributing to the record foreclosures that have roiled mortgage markets and the larger economy.

THE RISE OF BAILOUTS

Last year, with the economy on the brink of collapse and panic beginning to spread, the Administration requested broad new authority to calm financial markets and purchase illiquid mortgage-related assets from various financial institutions, and Congress soon passed the \$700 billion Troubled Asset Relief Program (TARP). In addition, the Fed and the FDIC have each pledged billions in rescue activities aimed at stabilizing the economy.

No one would argue that the decision to bail out these firms has been an easy one. Financial markets have clearly been in turmoil, and some large financial firms — firms that many believed were healthy and would last forever—have failed. Many experts and news reports also warned that without some federal action to bolster market confidence, capital markets would continue to stagnate, lending between banks and to corporations and consumers would grind to a halt, or—in the worst case—a run on all depository institutions could happen as depositors and counterparties lost confidence in the financial system. No one wanted to see those fears realized.

The blunt truth is that the federal government can no longer afford to continue to be the automatic savior for *every* company facing financial peril. Thus far, literally *trillions* of taxpayer dollars have been committed by

various federal arms of government to shore up the economy.

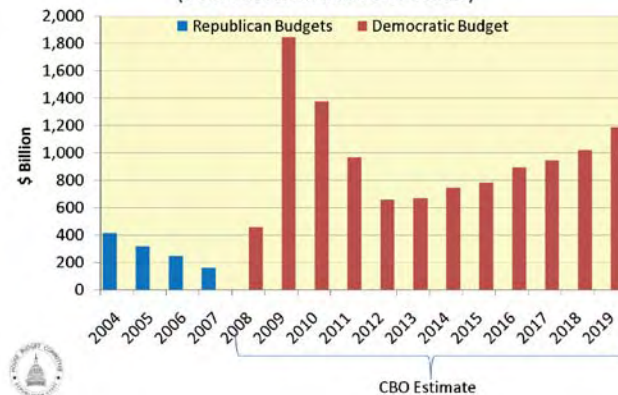
These bailouts are not just costly to the taxpayers. The federal government has now become an owner in numerous private businesses, and a majority owner in a few, with government officials privy to boardroom discussions, business strategies, and pay package decisions. This is not a free-market approach to managing our economy. Instead, it looks more like a command-and-control regime that rewards failure, socializes losses and privatizes gains. It runs counter to the reasons our Founders demanded their independence: respecting the sanctity of private property and the pursuit of liberty.

It is evident that no one wants to say “no” to a rescue plan when there is so much at stake. But the reality is that actions like federal bailouts taken to delay short-term financial pain often end up producing long-term damage to our entire economy. Already, the Chinese Central Bank has proposed replacing the U.S. dollar as the international reserve currency—a clear sign that China, the largest holder of U.S. dollar financial assets, fears that the massive outlays required by the American bailouts will result in inflation. And one need only look to Japan and the banking crisis that led to its “Lost Decade” of recession and stagnant economic growth from which it has still failed to recover. The International Monetary Fund has called those economic problems “a failure to deal proactively with the impact of the collapse in asset prices” that has led to real GDP growth only averaging 1 percent a year over the past decade.

In sum, the message with bailouts of this magnitude is that your profits will be private but your losses socialized. But the system often does not work that way, at least not for long. If losses are socialized, it is likely that profits will soon be as well, meaning Americans will no longer be free, not just to fail, but to succeed.



Deficit Under Democratic Budgets
(Deficit Levels in Billions of Dollars)



REPUBLICANS’ SOLUTION

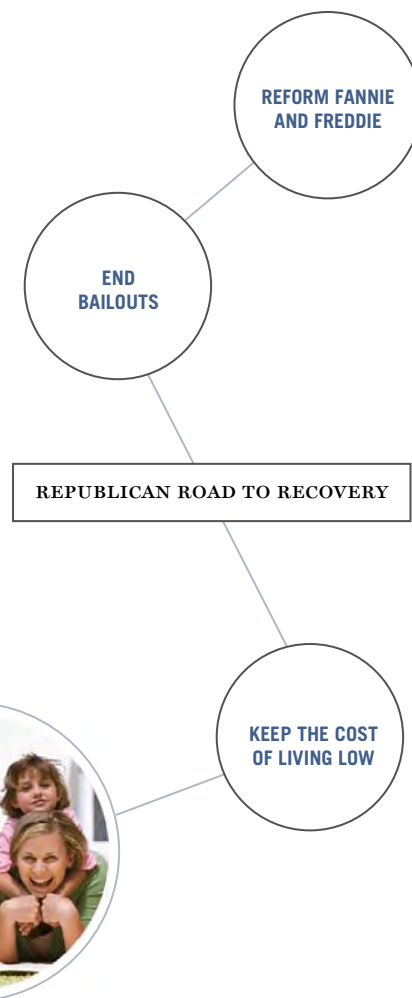
Instead of continuing to bail out Wall Street and nationalizing the financial system, Republicans want to ensure that this crisis never occurs again, protect taxpayers and provide a transparent recovery process that does not favor those that have made unsound business decisions.

Republicans believe the best antidote for market turmoil is certainty and economic growth. We oppose the trend toward national ownership and control of financial institutions. The government’s interventions to date have generated market uncertainty and an aversion to private lending and investment. The government’s strategy needs to minimize government interference in the management of companies and provide a clear exit strategy.

The Republican budget ends this failed bailout strategy by refusing to assume additional spending for bailouts. In addition, our plan supports a process to address insolvent institutions that stops throwing good money after bad into failing institutions and places insolvent ones into temporary receivership. Our plan would first perform a thorough stress test to determine whether a financial institution is healthy, troubled, or insolvent. For troubled firms, some portion of the firm’s toxic assets would be insured, but such insurance would be self-financed by the industry itself in the form of premiums. For insolvent firms, either the FDIC or a Resolution Trust Corporation-type entity would restructure these firms in receivership by selling off their assets and liabilities, reappointing private management, while protecting depositors—a process that builds off of Washington Mutual’s arranged sale last year.

Republicans also want to ensure that the damage the GSEs have inflicted on our economy and our financial system will never be wrought again. Our plan phases out the GSEs' government charter and privatizes them over a reasonable time, following a model similar to that of the successful Sallie Mae privatization a decade ago. These firms can and should compete in the financial service marketplace, without implicit or explicit taxpayer guarantees. And finally, Republicans support *modifying* any federal law—including CRA—that encourages loans to high-risk individuals to clarify that lending standards should not be compromised to meet political goals.

To be sure, our financial recovery plan will not be painless, but it will be swift and help restore an American principle that people and firms are responsible for their bad decisions in as much as they are free to succeed. And it will ensure that our country experiences dramatic growth sooner and avoids the “lost decade” that history promises for nations unwilling to make the hard economic choices.



KEEPS THE COST OF LIVING LOW

The numbers are staggering. The Democrats' plan projects deficits of \$9.3 *trillion* over ten years. The debt held by the public will exceed 50 percent of GDP this year and increase to 82 percent of GDP ten years from now. History tells us what governments do with such levels of debt and what happens to their citizens. In order to avoid the political pain of reducing spending or retiring debt, they simply "monetize" the debt, meaning they print money to pay it off. But this "solution" triggers massive inflation in every instance.

In the U.S., the government printing presses are already in full gear. On March 18, 2008, the Federal Reserve announced a new plan to purchase \$300 billion in Treasury bonds in an effort to prevent deflation and increase the supply of credit. Such efforts may be needed in a financial crisis such as this, but they will come at a steep cost. The Fed is printing *trillions* to make these and other purchases, and inflation is inevitable. According to the Wall Street Journal, as the market learned of the Fed's latest rescue plan, the euro rose against the dollar from \$1.30 to \$1.34—the largest one day gain since its inception in 1999. The Fed is taking extraordinary actions to avoid deflation, but it will be difficult for it to time the winding down of the extraordinary steps it is taking. Combined with huge increases in the debt, we face a serious risk of high inflation as the country pulls out of this recession.

In the midst of a recession with a proposed new national energy tax on the horizon, rising inflation is the last thing families and entrepreneurs need. Inflation acts as a silent tax on the cost of living, particularly heavy on the poor and those living on fixed incomes. It devalues every dollar earned and unfairly penalizes savings and thrift. It will cause interest rates to spike dramatically, stalling any nascent economic recovery by increasing the cost of borrowing for a home or business. Interest rates will also be driven upwards by the massive costs of what is borrowed to pay for other Democrat spending and bailout initiatives as private lending is further "crowded out." And if inflation is high enough, it inevitably leads to calls for wage and price controls. This *is* the narrative of the 1970s, and it is upon us again.

One of the major risks for central bankers who print money to pay for the spending agenda of politicians is that the public begins to doubt the bank's independence from the government in power. The current Fed risks this perception at a time when the nation's confidence in it has already been shaken. Economists have consistently

identified the Fed's accommodative monetary policy as one of the main causes of the current financial crisis. It began lowering interest rates in early 2001 to cushion the economic blow from the burst of the high-tech bubble in 2000, and maintained this policy to help grow the economy after the September 11th terrorist attacks. But maintained too long, this policy unleashed a wave of cheap credit that fueled a housing boom. Lenders and investors all came to assume that no matter the credit history or the borrower, money could be made, even in default, on the ever-rising price of housing. The last year has proved that they were wrong—but the Fed's role in distorting such private decision-making cannot be overlooked.

REPUBLICANS' SOLUTION

Instead of returning to double digit levels of inflation and the failed economic policies of the 1970s, Republicans support maintaining the cost of living after witnessing the booms and busts triggered by loose monetary policy.

Republicans believe it is important to provide families and entrepreneurs certainty against the fear of long-term runaway inflation and support a requirement that the Fed establish some numerical definition for price stability and maintain that policy. This would ensure that the Fed would still have the power to deal with short-term deflation concerns, while restoring confidence that the Fed is committed to maintaining the cost of living later on, by reducing the money supply when the economy begins to grow.

In addition, Republicans support amending the Humphrey-Hawkins Full Employment Act, which currently diverts the Fed's attention from long-term price stability to short-term economic growth. In an effort to fuel the economy, this additional mandate has encouraged the Fed to keep rates artificially low, contributing to the present crisis and a loss in public confidence of the institution.

