

National Small Business Network

Fiscal Policy Reform for Economic Sustainability

Policy Recommendations for the 115th Congress – September 2017

It is time to put aside political rhetoric and re-focus on realistic long-term solutions for our fiscal problems. These recommendations suggest a broad-based strategy for Congress to re-invent an efficient and logical federal budget process and re-build a sustainable American economy.

Even after the current four month CR, the most immediate need is for bi-partisan passage of an adequate long-term federal borrowing authorization to pay for programs and appropriations already approved by prior Congresses that will be adequate for at least a two year period. We cannot risk higher interest rates, and the loss of international confidence in the dollar, by not paying our obligations. Treasury estimated that the “extra-ordinary” short-term measures it took since the debt limit was reached in March, cost \$2.5Billion to \$3 Billion. This is over \$5,000,000 of tax payer money, per Member of Congress, wasted by political inaction, and may be repeated again in December.

The second need is for the Congress to swiftly pass reasonable FY2018 appropriation bills, within the existing budget resolutions, along with revenue legislation adequate to pay for the program costs.

The third need is for the Congress to develop an effective long-term system for timely setting and passing budgets and appropriations for necessary Federal services and for collecting adequate tax revenue to pay for them, which is it's primary responsibility in the Constitution. As the 2017 GAO Fiscal Health Report to the Congress states, “The current debt limit is not a control on the debt” and we need “alternative approaches that would better link decisions about borrowing...with decisions about spending and revenue at the time those decisions are made. Both CBO and GAO reports conclude that “the federal government’s current fiscal path is unsustainable.” This report suggests strategies for rebuilding the country’s fiscal health.

The Growing Fiscal Threat

After years of deficit spending, almost 10% of last year’s federal budget was spent just paying the interest on debt from past spending, even at today’s still historically low interest rates, poor fiscal management with too much spending and too little tax revenue has put a burden of over \$750,000 in Federal debt obligations on every American family. Federal spending is currently about 21% of GNP, estimated by CBO to rise to 23% by 2026, but tax revenue is only about 17.8%. Last year’s official deficit, alone, was over \$587 Billion, for a total current sovereign debt of over \$19.7 Trillion. This is over 77% of our annual Gross National Product, and is over 13 times total annual Federal Income Tax revenues. Even these amounts do not include the large unfunded future obligations for federal retirement benefits, veteran’s benefits, Social Security, Medicare, and Medicaid, which are currently estimated to be over \$127 Trillion, or over 57 times total current annual Federal tax revenues.

The status of the dollar as the world's reserve currency for international transactions, particularly for oil, is also being challenged, with potentially severe devaluation consequences if it loses that function. Our sovereign credit rating was downgraded by a major rating agency, with warnings from others. The IMF has approved China's currency for international reserve transactions. The only thing protecting us from significantly higher interest rates for our national debt is the current weak demand for capital and the fact that other major countries have similar debt and fiscal problems. If the Treasury average interest rate rises to only 5.5%, the annual interest on the current debt would be over \$970 Billion and could consume over 50% of all current Federal Income Tax revenue.

The broad "middle class" prosperity that drove our economy for the last 100 years is also disappearing as the "income gap" has widened and more of our national wealth is concentrated in the top 1% of the population. The top 1% of the population controls over 35% of total personal net worth and 43% of financial assets. From 1982 to 2011 the income of the top 1% of the population increased from 12.8% of total personal income to 21.3%. The top 20% of the population now earns 50% of total income and the bottom 20% earns only 3.4%. As an individual's income increases, they generally spend a progressively smaller percentage of their disposable income on consumption which reduces the economic multiplier of their income on the general economy. This decline of the nation's middle class is resulting in declining total consumption and a permanent decline in jobs that depend on that spending.

In the past, our technological innovation and high workforce skills increased individual productivity, and were a major factor in our manufacturing and economic growth. Today, that advantage is rapidly declining as first the production, then the engineering, and now the research and development, of new technologies has moved to other countries. The quality of our education system and the skills of our workforce are also declining in relation to other countries, particularly in key science and engineering areas. In addition, the world has become an open market for both consumers and investors. Much of our nation's individual and business investment is now being directed to stocks and bonds of foreign businesses that hire foreign workers and benefit foreign economies. Ironically, we continue to reward foreign investments with the same special income tax incentives on capital gains and dividends as direct investments made to start or grow an American business that hires American workers. Our corporate tax system makes American exports less competitive in world markets and encourages large multinational corporations to avoid US taxes through profit shifting and inversions.

Our current political process seems unable to confront and correct these fiscal problems, even though adequate information is available to recognize the problems and develop workable solutions. Although the scale is much larger, the government's problems of expense control, income generation, and maintaining credit worthiness are really no different than those faced everyday by America's businesses and families. If Americans can solve these problems as individuals, why can't we resolve our fiscal problem as a nation?

The following recommendations for action will not be politically easy to implement, but every year we fail to correct the problems, the consequences of inaction, and the costs of correction, grow larger. Collectively, these economic issues present just as much a risk to America, and our citizens' way of life, as any foreign military threat. Many members of the Congress served our country in the armed services. Overcoming these new economic threats will require the same patriotism, sacrifice, and a willingness to work together for the common good.

These policy recommendations are based on data from reports by the JCT, CRS, CBO, GAO, special Presidential Commissions, and other economic research organizations. Many of these background reports are available on the NSBN website at <http://www.NationalSmallBusiness.net/issues.htm>. This Policy Paper focuses on using the extensive information available to make logical, information driven, non-partisan, recommendations for re-inventing a sustainable federal budgetary process.

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Reform Objectives:

We share the general goals of the last Presidential Commission on Fiscal Responsibility and other deficit reduction research groups for progressively returning to a sustainable federal fiscal policy. Most have suggested an initial 10-year plan to progressively eliminate annual deficits and reduce the federal debt to 60% of GDP by 2025, and 40% of GDP by 2035, while keeping maximum total Federal tax revenues below 22% of GDP. We also share the conclusion of most other groups that deficit reduction will require both significant spending reductions and revenue increases. We believe that about 50% to 60% of deficit reduction could come from reductions over all areas of federal expenditures, including “entitlement” programs and military spending, with the remainder to come from additional tax revenue.

The recommendations which follow include both budget reform issues and broader policy decisions which have budget impacts, as well as related tax policy and revenue reforms. We believe that building sustainable economic growth and reducing the debt will require action by the Congress in all these areas.

Budget and Fiscal Policy Reform Recommendations:

1. Budgeted Program Expenditure Control

The purpose of government is to provide a stable structure in which people can live and work, and to provide important services collectively that individuals cannot effectively provide for themselves. Unfortunately, the federal budget has grown so large and complex that it is difficult for even the Congress to properly evaluate program effectiveness, or understand the long-term economic impacts of spending policies. Realistic budget decisions are also made more difficult by a lack of transparent and consistent accounting standards, as required of private sector organizations. This includes the tendency of both Congress and the Administration to present expenditure and revenue estimates

with time frames and baselines most favorable to their policy preferences. To assist Congress in making more realistic and sustainable budget decisions, we recommend these changes to the Federal budget process.

- A. Develop a performance based budgeting process** similar to successful businesses and several state governments which have "re-invented" their budget processes. Congress should regularly re-evaluate program expenditures and agency budgets in relation to the value and efficiency of the services delivered. This approach rewards the program's current importance to citizens, rather than historical expenditure levels. Multi-level prioritization based on clearly defined performance measures should occur at the program level, the agency level and finally between agencies. The process should focus on minimizing "non-value-added costs" that do not significantly improve service delivery, and on identifying programs that provide the greatest benefit to taxpayers in relation to their cost. Prior to each appropriation cycle, agencies should be asked for detailed recommendations on how they can achieve their objectives with less funding. Current service level, "use it or lose it" budgeting, or "across the board" percentage reductions such as sequestration, often waste resources on in-efficient or unneeded programs, and under-fund more beneficial programs.
- B. Convert to a biennial appropriations process to allow better evaluation of agency programs and appropriations.** It has been more than 20 years since the Congress has completed the appropriations process prior to the start of the fiscal year. This means decisions are often rushed and agencies often don't know what their budget is until well into the program year. Changing to a biennial process would allow more time to review agency programs over an 18-month period and still have time to complete the adoption process prior to the start of the next fiscal period.
- C. Put a greater emphasis on analyzing the broader long-term economic impacts of all legislation and budget allocations** prior to adoption. Too often legislation is crafted to look revenue positive during the 10-year scoring period without considering longer term revenue consequences. A perfect example was Congress using the short-term tax revenue from allowing the conversion of taxable IRAs to Roth IRAs to "pay for" the Bush era tax cuts, without considering the long-term loss of tax revenue. Revenue scoring also often focuses only on estimated federal tax revenue changes, without adequate consideration of the direct governmental program and administrative costs and additional private sector compliance costs which reduce economic productivity. We support legislation that also requires analysis of long-term 20 -40-year budget impacts on major tax and expenditure legislation.
- D. Develop a stronger and more detailed 10 year running budget and revenue plan** for the federal government with a congressionally adopted policy to keep expenditures below projected revenues over the 10-year period. The goal should be to reduce the national debt below 60% of GDP by 2025. This is a better way to control expenditures than "Balanced budget Amendments" that restrict recovery options in true economic emergencies.
- E. Using the 10-year budget plan as a base, assure that budgets and appropriations are evaluated by the Congress and approved prior to the start of each fiscal year.** This would allow agencies to more efficiently make transitions needed for future funding and program changes and prevent future government shutdowns. Doing this will require catching up on the budgeting and appropriations process and making it a top priority at the start of every congressional session.

The recent failure to pass agency budgets until well after the start of a budget year demonstrates a basic lack of proper control over the budget and expenditure process, and encourages wasteful spending and program disruption. The government should also search for and reclaim unused prior year grants and revenue sharing expenditures and reapply the funds in current budgets.

- F. When short-term economic stimulus or “emergency” deficit spending is needed to help the economy through cyclical downturns, wars, or natural disasters, Congress should provide a source of offsetting revenue later in the 10-year budget planning period.** The focus of any short term economic stimulus incentives should also be on creating long-term jobs that are likely to continue beyond the funding period.
- G. Develop a bi-partisan strategic National Economic Growth Plan** identifying the best potentials for future domestic and international traded sector economic growth. Identify, and invest in, the kinds of education and training programs needed to develop the workforce skills to successfully compete with other countries in the future. This will also reduce the need for foreign workers to provide needed skills. We will also need to maintain and improve our economic infrastructure and develop sustainable energy programs that will be needed to reduce the use of fossil fuels. The Congress should then support government programs, regulatory policies, and tax policies to encourage and support future economic growth in these key economic sectors, within the legal limits of international trade agreements.
- H. Expand the roles of the Office of Management and Budget (OMB), the Congressional Budget Office (CBO), and the Government Accountability Office (GAO), to help the Congress better evaluate the comparative performance and cost efficiency of agencies and programs.** Detailed and unbiased evaluations of program performance and value are necessary for a successful performance based budgeting process.
- I. Replace, intergovernmental and private contractor “cost plus” reimbursement agreements, which reward inefficiency, with fixed price contracts that reward cost reduction** and have penalties for poor performance. All joint Federal–State programs should require participating states to use standardized, jointly developed, reporting and data exchange software programs for administration and reporting to take advantage of economies of scale in development, and facilitate easy exchange of program data.

2. Off- Budget Expenditure Control:

- A. There should be no continuing off budget expenditures,** for military activity, disaster assistance, or any other purpose. There is no value to having a budget for fiscal control unless all significant expenditures are included. Congress should review and approve supplemental budget authorizations for any non-budgeted expenditures at least every year, including adjustments to other budget items, or providing additional revenue if necessary. Recurring “emergency” spending needs, such as disaster assistance, should be budgeted for based on average expected expenditures.
- B. Congress must also prevent the growth of unfunded future budget commitments** such as federal employee retirement benefits, veteran’s benefits, or other programs, by properly accounting for estimated future liabilities and providing adequate reserves in current program budgets for the

future payments. For example, the VA indicates that almost 45% of the 1.6 million veterans from the Iraq and Afghanistan wars have sought disability compensation. When possible, convert new federal employee and military retirement benefits from defined benefit programs to currently funded defined contribution plans which will automatically prevent the growth of unfunded pension obligations.

3. Regulatory Agency Cost Control:

Regulatory programs are an important function of government, but also result in both regulatory agency expense, and significant non-value-added compliance costs for businesses and individuals. The Federal government should expand, and make part of the regulatory process, an ongoing "Regulatory Efficiency Initiative" building on prior efforts by multiple Administrations and Congresses. Much of the non-value-added cost of the current regulatory structure results from poor regulatory design and poor coordination of new regulatory legislation with the existing regulatory processes of other Federal agencies, and with state regulatory processes. The result is overlapping regulatory responsibilities and duplicate administrative costs, as well as duplicate reporting and compliance costs for businesses. Unfortunately, regulatory agencies, like other organizations, inherently seek to enlarge their responsibilities, personnel, and budgets. Without careful Congressional oversight, regulatory programs can grow beyond their original need, adding to governmental cost and private sector burden.

- A. When budgeting for regulatory agencies, Congress should demand increasingly efficient performance results.** Program funding, and state government, or private sector cost reimbursements, should be based on the use of the most efficient administrative processes and technologies. This should include improving economies of scale by combining existing agencies and administrative processes when possible and closely coordinating with state regulatory programs. State government program partners and private service providers to federal programs should also be required to use standardized electronic reporting and accounting software to reduce duplicate development costs and improve program accountability. The non-value-added cost impacts on the private sector, on state governments, and on the economy, must also be considered in evaluating the need for, and performance of, all regulatory programs.
- B. Develop a more coordinated and economically efficient Federal-State regulatory structure.** The process should also include continuation and expansion of initiatives to work more directly with the states to coordinate taxation and regulatory programs, and share reporting information and regulatory overhead costs.

4. Health Care System Reform and Cost Control:

After many years of bipartisan discussions about rising health care costs and lack of health insurance coverage for a significant percentage of the population, in 2010 Congress passed the Affordable Care Act. The ACA was never intended to be the final version of health care reform. Some provisions of the reform legislation were experimental, and many logical cost control measures were not included in the initial reform provisions. Some provisions such as the elimination of coverage limits on pre-existing conditions and life time cost limits, actually added to health insurance costs. Although the ACA has increased insurance coverage to 91% of the population through mandates and significant

public subsidies for low income individuals, it has not adequately reduced the growing total cost for health care. The US still spends almost 17% of GDP on health care compared to the second highest country, Switzerland at 11.5%, yet ranks well below the median of all OECD countries on life expectancy, infant mortality, obesity, and the percentage of population living beyond age 65. This is due to higher health care delivery system costs and unequal access of low income individuals to basic health services. Further changes are needed to make basic health care more affordable and accessible.

It appears that the new President and 115th Congress will try to repeal or significantly change the existing PPACA legislation. Before eliminating the current system, the Congress should take the time needed to adequately consider evidence based changes to further reduce non-value-added costs and improve the health care system. Any successful reform of the health care system should at least include these elements:

- A. Research, Identify and quantify all the “non-value-added” costs** of the current health care delivery system, which add expense, but do not significantly improve the quality of health outcomes. This includes factors such as marketing costs by competing service providers or drug companies; high malpractice insurance costs and un-necessary diagnostic costs to protect against liability; and very high cost “end of life” treatments with little effect on length or quality of life.
- B. Evaluate the real-world cost vs. benefit experience of different health care systems in other nations** and US states to identify best practices that could be incorporated into a national system, including negotiated pricing on drugs and services and utilization of economies of scale.
- C. Encourage disintermediation of health care services to lower cost providers who can provide appropriate care.** This may include greater use nurses, pharmacists, immediate care clinics, and managed care organizations in the health care system. More use can also be made of automated technology for early diagnosis of problems and long-term treatment monitoring.
- D. Evaluate conversion from our current system of employer supplied, or individually purchased health insurance, to basic universal public health insurance,** like Medicare, that covers, trauma care, preventative care, and basic care for longer term conditions. Coverage of services should be based on value of the service in extending the life, or quality of life, of the individual or reducing long-term patient costs. Optional private insurance should then be encouraged for higher coverages or longer-term care similar to existing Medicare Supplemental Plans.
- E. Use balanced, non-political, expert advisory groups to develop logical and comprehensive proposals** for reducing or eliminating each area of non-value-added cost based on actual data, so new legislation does not become politicized. Based on these recommendations, Congress should pass incremental legislation targeted at the highest potential cost reduction areas before taking more controversial actions or creating irreversible entitlements.
- F. Help consumers control system costs by making certain that all costs in the health care system are transparent** and that all recipients of health care have to pay some level of cost in

relation to their income. As an incentive for cost control, patients should pay more for optional premium services, low health value services, and treatment of conditions caused by the patient's lifestyle.

- G. Make sure that the system is national, and not state based, and provides uniform funding, benefits and administrative systems nationwide.** If federal funding is used to support healthcare, it should be a uniform national program, such as Medicare, that allows citizens to receive equal benefits in all states, and provides the greatest opportunities for efficiency and cost reduction. A national program removes duplicate non-value -added overhead costs, eliminates wasted administrative costs due to state variations, and provides uniform record keeping to improve treatment and prevent abuse.
- H. Control cost by funding the program with specific budgetary allocations after which the benefit coverages would be determined annually based funding available and the health value in relation to cost of treatments provided.** Emphasis should be placed on preventative services, early treatment, and managed care programs. Given the unlimited potential for healthcare costs with modern technologies, the program should not be allowed to become an unlimited entitlement program. People wanting higher levels of health service coverages should continue to get supplemental private insurance coverage, similar to Medicare supplement programs.

5. Social Insurance Programs:

The funding deficits for our social insurance programs, Social Security and Medicare, deserve separate evaluation, because they are dedicated programs with a separate payroll tax funding source. Both programs are currently underfunded for their projected future benefit payout and have a negative cash flow. This is a result of rapid growth in benefits paid out for the large number of "baby boomers" now retiring with substantially increased life expectancies, and a declining growth in the working population and average taxable wage base. To compound the problems, the recent economic slowdown and re-structuring of many businesses to reduce employment, at least in the US, will reduce payroll tax revenues in relation to GDP growth. Chronic under-employment is also increasing the number of citizens relying on benefit programs such as Medicaid and many have to start Social Security at 62 because of involuntary "retirement".

Making these programs sustainable is technically simple, as any insurance actuary knows, and should have been done years ago. There are only 3 options to restoring stability – increase the payroll tax rate or maximum wage limit; further limit benefits to those most in need; or provide additional funding for the programs from other revenue sources. In selecting a balanced solution from those alternatives, it is important to remember that the programs were originally intended to be "social insurance" safety nets for those who need them most, not pre-paid benefit programs for every citizen. People buy many kinds of insurance every year; even though most never collect any actual benefit from them. If current benefit levels are going to be continued with projected participant levels, payroll taxes would have to increase on current wage earners, with potential negative economic impacts. The current payroll tax base limits for social security are also regressive by limiting the tax contributions from higher income wage earners while taxing all the wages of lower income workers.

- A. Increase the Social Security early retirement, and full retirement, ages** to better reflect current life spans and working patterns. Revise the Cost of Living Adjustment formula.
- B. Continue the current method of taxing Social Security benefits to reduce the net after tax benefit** to those with other income. The estimated value of the taxes paid on social security benefits should be credited from general revenues to the Social Security program.
- C. Remove the Social Security taxable wage limitation so it matches the Medicare program provisions** to increase contributions from higher income individuals.
- D. Investigate and reduce fraudulent Medicare reimbursement billings and invalid claims against the Medicare disability system and other government disability programs.** Require states or other agencies who administer federal programs to use the same reporting software and communication systems to process claims to help enable rapid detection of duplicate or fraudulent claims. Eliminate government payments to private attorneys who promote fraudulent claims.

6. Workforce Education and Population:

The root cause of any long term governmental deficit is a cost of governmental services that exceeds the economic productivity and tax revenue contribution of its citizens. As a result, an important factor in restoring economic sustainability is the composition and average economic productivity of the US population. Two hundred years ago we had a vast continent, with seemingly unlimited resources and a great need for people to develop it. In the last century, most businesses were highly labor intensive and economic growth depended on a growing population.

We now face a different world where technology advances in agriculture, manufacturing, and most other types of businesses, have reduced our need for human labor in relation to our GDP. This has been compounded by a “flatter world” which has caused many of our lower skill middle income manufacturing jobs to be “out sourced” to lower cost foreign workers in foreign economies. This reduces the domestic economic multiplier effect of our domestic consumption expenditures. Machines have replaced manual labor, computers have replaced administrative and managerial employees, and now intelligent robots are replacing many remaining domestic manufacturing and distribution jobs. The standard unemployment statistics greatly understate the true level of under-employment and long-term un-employment.

The percentage of our population, who are unemployed, under-employed, unemployable, or prematurely “retired”, continues to grow. It is now estimated that over 40% of our total working age population is not employed. Many citizens simply do not have the skills needed for higher skill, higher economic value, jobs. This results in lower per capita productivity and personal income, and a greater need for governmental social program subsidies, but with less income tax and payroll tax revenue to pay for the government programs. Efforts to shift increased benefit costs onto employers, such as in the PPACA health care requirements, only increased the incentive to eliminate jobs wherever possible, and replace low skill, high benefit cost, employees with technology, robotic machines, off-shore production, or increased use of part-time workers. This would further compound the long term under employment problem

A. Develop a more comprehensive national economic and workforce redevelopment plan. Target Federal tax incentives and education programs toward workforce skill areas needed in the economy, and that will be needed for the US to compete in the future world economy. Reduce federal programs and incentives which promote population growth, and provide support for individual family planning decisions.

B. Provide stronger incentives, in unemployment and social welfare programs to get more recipients into retraining and work experience programs. Partner with private businesses, trade groups, colleges and state employment departments to develop training programs to match specific regional workforce needs.

C. Provide significant, coordinated, and consistent incentives for businesses to hire and train military veterans, the disabled, the under educated, and other displaced workers.

D. Adopt strategic, 21st century immigration policy reforms. Review and update US immigration laws to resolve long standing issues such as the quantities and skills of both permanent immigrants and short-term “guest workers” who are truly needed for the current economy, and the process for admitting them. Resolve the status and citizenship options of existing long-term illegal alien residents and their children.

7. The Environmental Deficit:

Just as borrowing against the future is bad fiscal policy, compromising the country’s physical environment and future economy for short term gain is bad national policy. Failure to protect the environment and climate would not only be a failure of our responsibility to future generations, but could also present a very real treat to our economy and the lives of our citizens. Our current culture and governmental policies have created an “Environmental Cost Deficit” which is growing year after year. Unless we act soon to identify and reduce potential damage, the long-term costs of paying off our “Environmental Deficit” may be even greater and more economically damaging than the consequences of our Fiscal Deficit.

Unfortunately, the problem with our “Environmental Deficit” is that there is no agreed, or comprehensive, accounting system to measure the growing future economic costs of our short term environmental decisions. We see some small pieces of the eventual cost in the costs of environmental cleanups, crop failures, abnormal storms, floods, and droughts, but there are no standard long-term cost projections to guide public policy decisions.

The greatest potential long term economic costs could result from climate changes and rising sea levels caused by continued growth of atmospheric levels of carbon dioxide (CO₂), methane, and other greenhouse gases. There is clear long term scientific research to know that increased greenhouse gases will warm the earth and result in significant climate changes. The US alone emits about 1.5 Billion metric tons of CO₂ per year, or about 19 metric tons per capita. There may still be some debate about how much of the increasing greenhouse gas levels result from human activity, versus natural emissions which are estimated at about 4% of the total, but the issue is really moot, since the only CO₂ emissions we can realistically hope to reduce are the man-made ones.

A Department of Defense Report concluded that climate change will result in a very real national security threat and high public costs. The report states that “rising global temperatures, changing precipitation patterns, climbing sea levels and more extreme weather events will intensify the challenges of global instability, hunger, poverty, and conflict. They will likely lead to food and water shortages, pandemic disease, disputes over refugees and resources, and destruction by natural disasters in regions across the globe.” The Defense Department calls climate change “a threat multiplier, because it has the potential to exacerbate many of the challenges we are dealing with today...”

To help consumers make better long-term environmental decisions, Congress should enact a revenue neutral Carbon Emission Adjustment (CEA) fee on all fossil fuels produced or imported into the United States, to provide a simple market based economic incentive for reducing carbon emissions.

If greenhouse gases were red, instead of colorless and odorless, so that we could see the millions of tons we are releasing into the atmosphere every year, we would probably have found ways to replace most carbon fuel use long ago. The problem is that we also can’t “see” the true economic cost of fossil fuel use, because none of the long-term public or private costs of the environmental consequences are currently included in the market price of fuel and energy.

The Carbon Emission Adjustment fee would be collected from all producers or importers of fossil fuels at the time of domestic extraction or importation, based on the carbon content of the specific fuel. It is estimated that this would affect less than 2500 large businesses and would have little administrative cost since it could be combined with existing reporting and fee collection programs for coal extraction and petroleum production and importing. The cost effect of the adjustment would then pass throughout the rest of the economy without any administrative cost other than providing a potential fee offset for non-fuel uses, such as petrochemicals, or for other types of significant carbon sequestration. The collection of the CEA fee should be kept as simple as possible, particularly in the early years when the adjustment amount is smaller. Carbon emission content varies by the type of fuel, but standard conversion lists already exist for most fuels and different units of measurement. The adjustment fee, based on the amount of Carbon Dioxide (CO₂) emitted when the fuel is burned, would provide a market based incentive for reduced use of high carbon content fuels and conversion to lower carbon fuels or alternative energy sources. By more accurately reflecting the hidden costs of carbon emission impacts, the CEA would give consumers more accurate information when making energy choices. The fee also continues the political tradition of expecting those who cause public expenses such, as using public infrastructure, to pay part of the cost.

To reduce any initial economic or political issues we suggest the CEA fee start at only \$10 per metric ton of CO₂ (\$36/ton of carbon) emission content, and increase by \$5 per ton each year for at least 5 years, to a level typical of other countries emission taxes. This initially equates to a price impact of about \$.09/ gallon of gasoline; \$.10/ gallon of diesel, jet, or heating fuel; \$.58 /1000 cu.ft. of natural gas; or \$.012/ kWh of electricity generated from coal. US per capita CO₂ emissions are about 19 tons per year, so the total initial CEA cost impact would only be about \$190 per person, for both personal and workplace fuel use and total fee revenue would be only about \$15 Billion. In coordination with other nations we should also support development of international carbon emission adjustment standards, along with provisions for crediting foreign carbon taxes already paid on imported fuels.

To prevent overall economic effects, the CEA should also be revenue neutral, at least initially, by rebating about the same amount that is collected to individuals and businesses on a per capita or business size basis.

It is also important that the CEA adjustment, or any US carbon reduction program, be done at the federal level, not by individual states, to prevent wasted duplication of administrative costs, and disruption of free interstate commerce. A CEA adjustment on imported fuels is also practical to collect only at the US customs port of entry, not after fuels are distributed throughout the states. A predictable and transparent carbon content adjustment fee is also likely to be more effective, and more equitable, than carbon emission trading schemes that encourage speculation and reward the large existing carbon polluters, not energy consumers.

Why should the United States adopt a carbon price adjustment system now, when global warming effects the entire earth and many other nations have not yet acted? We are the world's largest economy and largest CO2 emitter on a per capita basis. We also think of ourselves as one of the world's leaders in doing what is "right", as we have proven in many wars. The need to prevent climate related economic damage from increased carbon pollution is just as serious as a war, and just as threatening to our nation's future.

8. The Infrastructure Deficit:

Much of the infrastructure needed to sustain and grow our economy, such as roads, bridges, ports, the electrical grid, and other transportation systems is not being adequately maintained and improved. The Federal government, in coordination with the states, needs to develop a prioritized program of infrastructure repairs, replacements, and improvements along with long-term sustainable funding programs to pay for them.

The 2015 Transportation system funding bill did not provide an adequate or sustainable long-term funding solution for roads, bridges and public transit. The Congress should instead pass an inflationary adjustment to the fuel tax on gasoline of at least 30 cents per gallon, with comparable rate increases for diesel fuel and other fuel alternatives. This would not be a new tax, or a tax increase, it is just a much overdue inflation adjustment. The current decline in oil prices provides any opportunity for a needed correction now, without significant economic or political hardship.

With new vehicle technology, and decreased fuel use, we will eventually need a new transportation infrastructure funding system, but any new system will probably take at least 10 years for technical testing, administrative development, and approval by 50 state legislatures and 2 branches of the Congress. Higher fuel taxes will also provide an immediate market place incentive to remove old low gas mileage, high carbon emission, and increasingly unsafe, vehicles from the road.

Similar user fee based fees or excise taxes need to be increased or developed to adequately fund maintenance and improvement to our ports, air transportation system, and electrical and data networks.

9. Monetary Policy:

The last option to reduce the national debt burden would be to use the government's ability to simply print more money to pay our debt. It is the simplest alternative, and one we have been using for the past 8 years, but it is also one of the worst long-term strategies. Monetary policy decisions are made by the Federal Reserve, not the Congress, but are influenced by the political process. Since 2009, the Federal Reserve has increased the M1 monetary supply by over 85%. This is far beyond the growth rate of the US or world economy. Much of this monetary expansion has been used to "purchase" Treasury notes to fund the deficit in an accounting maneuver that would be illegal in the private sector. When the money supply is increased significantly beyond the growth rate of an economy, the potential for future inflation and devaluing of the currency increases.

Much of the US money supply is currently absorbed by its role as a world "reserve" currency for international transactions and foreign bank reserves. If we increase the money supply or our national debt to a level which foreign and domestic holders see as excessive, they may abandon the dollar and move to other currencies or exchange systems resulting in a rapid excess supply of dollars and devaluation of the dollar. If excessive growth in the money supply results in higher inflation, the true value of every American's savings and investments will be reduced and the cost of basic necessities such as food and energy will increase.

This Policy Paper was prepared for the National Small Business Network by:

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For our companion recommendations on tax reform see our Policy Paper on "Tax Reform for Economic Growth" on our website at www.NationalSmallBusiness.net