PRINCIPLES & PRIORITIES

GROUP BUDGET EXERCISE

OPTIONS BOOK

THE CONCORD COALITION

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A NOTE ON ESTIMATES AND SOURCES:

Unless otherwise indicated, all cost estimates in this booklet are in billions of dollars over a 10-year period. For this exercise, cost estimates have been rounded to the nearest billion and in most cases do not take inflation into account.

Most of the policy descriptions and cost estimates in this booklet are from the Congressional Budget Office and its biannual publication, Budget Options. The most recent edition was published in December 2018. Some information and scoring is taken from older editions as well and can be seen at www.cbo.gov. Proposals not based on CBO materials are Concord Coalition estimates based on proposals from presidential budgets or members of Congress. (i.e. Option 1, from President's Budget 1/21/15)

Proponent and Opponent arguments reflect certain political perspectives and do not necessarily represent Concord's views.

The options in this exercise are only a sample of those that are available. This is neither a comprehensive list nor one that reflects Concord Coalition recommendations.

CATEGORY ONE:

Options to Adjust General Government Spending

Option 1: Expand access to child care program

Provide all lower-income and middle-income families with children under age three access to affordable child-care programs. Effect on deficit: +$78 billion.

Description

The Child Care and Development Fund (CCDF) provides subsidies to some families below 200 percent of the poverty line (approximately $40,000 for a family of four) to purchase affordable child care. States administer the program using state resources and federal funding. This option would expand it cover all eligible families who want the subsidy -- an additional 1 million children by 2028.

Supporters Say

- Investments in early childhood care are good for the economy in the long run because they set children up for success in later schooling and their careers.
- The existing CCDF lacks enough funding to cover all eligible families, denying child care to many lower-income families who should be entitled to receive it under current law.

Opponents Say

- It is not the federal government's responsibility to provide child care. That should be left to parents and state governments.
- Younger children are better off with a stay-at-home parent than in lower-quality child-care programs, which the government is ill-equipped to evaluate and identify.

Option 2: Establish a National Infrastructure Bank to support road improvement

Establish a National Infrastructure Bank that would provide loans and grants for infrastructure projects across the country. Effect on deficit: +$30 billion.

Description

The National Infrastructure Bank (I-Bank) would provide loans and grants to private entities to support individual projects. The politically independent board of directors would determine the worth of projects. The I-Bank would be data-driven in measuring which projects offer the biggest value.

Supporters Say

- ❏ The funding methodology would be a substantial improvement from current practice, which often results in the funding of projects solely because of a particular legislator's power in Congress or a state's population. The private sector would choose the projects for investment with the government just providing financial support.
- ❏ The I-Bank would improve the nation's economic competitiveness, create jobs across the country, and prioritize projects that would benefit more than just one state or congressional district.

Opponents Say

- ❏ The I-Bank would not prevent lawmakers from continuing to fund dubious projects such as the famed "Bridge to Nowhere."
- ❏ It is unclear whether states and localities or private companies could afford to pay back loans made by the I-Bank, bringing into question the overall cost-effectiveness of the program.

Option 3: Make two years of community college free for all Pell-eligible students

Fully pay the tuition of all students who are eligible for Pell grants and allow them to use those grants to fund living expenses, effectively providing them with two years of free community college. Effect on deficit: +$67 billion.

Description

Pell grants provide up to $5,920 of tuition assistance each year for lower-income and middle-income college students. This proposal would have the federal government fully finance two years of community college for students who are eligible for Pell grants by paying their tuition and allowing them to use their leftover Pell funding for living expenses.

Supporters Say

- ❏ A college degree is as important today as a high school degree was 50 years ago, so higher education should now be as universally accessible as high school.
- ❏ Investing in education provides workers with skills necessary to compete in the 21st-century economy and reduces their dependence on other forms of government assistance.

Opponents Say

- ❏ Many state and local governments already provide individuals with free community college. This sort of decision should remain within their purview and should not be a federal issue.
- ❏ A college degree increases a student’s income so he or she should be responsible for financing it. It is not fair to have a lower-earning worker who did not attend college subsidizing college students who will become higher-earning workers.

Option 4: Eliminate federal subsidies for AMTRAK and other intercity rail systems

Eliminate federal subsidies for AMTRAK and other intercity rail systems, including high-speed projects. Effect on deficit: -$20 billion.

Description

In 1970, when Amtrak was established, Congress anticipated providing subsidies for a limited time. But Congress continued to provide them and over the past 40 years Amtrak has received total federal subsidies of more than $40 billion. Eliminating federal subsidies for Amtrak and other intercity rail service, including high-speed rail, would produce savings of $20 billion over over ten years.

Amtrak received appropriations of about $1.9 billion in 2018 to subsidize intercity passenger rail services. That is more than Amtrak's capital spending (which totaled $1.6 billion) but substantially less than its operating expenses (which totaled $4.2 billion).

Supporters Say

❏ Federal funding subsidizes uneconomical services and routes (including sleeper-class service and many long-distance routes) that are not used extensively and provide little public benefit in terms of reducing emissions of greenhouse gases or reducing congestion on highways and in airports.
❏ Eliminating federal subsidies would force Amtrak in particular to become more efficient and profitable. For example, Amtrak could focus on services that have the most potential for profit, such as high-speed service between Washington and New York.

Opponents Say

❏ Rail subsidies should be viewed in the overall context of the U.S. transportation system. Highways and the airlines receive substantial federal support, while rail receives little by comparison.
❏ Continuing to subsidize Amtrak and intercity rail in general decreases highway and airport congestion, and provides critical transportation options in many parts of the county.

Option 5: Reduce Department of Energy funding for energy technology development

Cut spending by 25 percent over three years on research into new energy technologies. Effect on deficit: -$20 billion.

Description

Various Department of Energy (DOE) programs support research and development of new technologies in the areas of fossil fuels, nuclear power, and energy efficiency and renewable energy. This option would eliminate DOE's efforts to support the later stages of technology development and demonstration of commercial feasibility without touching the department's support of basic and early applied research.

Supporters Say

- These technology development programs are of questionable value and DOE should concentrate on basic research in those fields, which is less likely to be undertaken by the private sector.
- Direct market feedback to private investors has proven more cost-effective than relying on the judgment of government managers in selecting which technologies will be commercially successful.

Opponents Say

- Federal support is needed because the prices that businesses and consumers pay for energy do not reflect the large long-run costs of climate change and other environmental factors. Consequently, there is little incentive to manufacture or purchase products that reduce energy consumption or lower greenhouse gas emissions. Thus, DOE's programs fill a gap unmet by the private market by providing the resources and incentives to develop new technologies.
- Panels convened by the National Academy of Sciences have estimated that some of DOE's technology development programs, especially in energy efficiency, have provided substantial benefits that exceed their costs. In addition, energy is one of the many sectors in which people other than investors also benefit from the knowledge gained. Federal support helps ensure that adequate R&D takes place.

Option 6: Reduce subsidies in the crop insurance program

Reduce subsidies the federal government provides agricultural producers to help buy crop insurance. Effect on deficit: -$21 billion.

Description

The Federal Crop Insurance Program protects farmers from losses caused by low market prices, droughts, floods, pest infestations and other natural disasters. Farmers choose various amounts and types of insurance and the Department of Agriculture sets the premiums.

The government pays about 60 percent of total premiums while farmers cover about 40 percent. The government also reimburses private companies for their administrative costs in providing insurance policies. This option would reduce the federal government’s subsidy to 40 percent of the crop insurance premiums, on average. In addition, it would limit the federal reimbursement for administrative expenses to an average of those expenses from the last decade.

Supporters Say

- Increasing the farmers’ share of premiums will not discourage them from obtaining crop insurance because private business lenders often require it.
- The government covers too much risk for farmers and provides overly generous subsidies. The benefits flow primarily to wealthy, corporate agricultural producers. Why should farmers get such extensive subsidies when other businesses do not -- especially in an era of record profits from high commodity prices?

Opponents Say

- Crop insurance subsidies help some smaller farms that otherwise would have substantial difficulties insuring against crop losses. Withdrawing federal support for buying crop insurance could bankrupt many of these farms or cause them to sell to larger agricultural producers.
- With lower premium subsidies, farmers would probably buy less insurance, making it more likely that Congress would enact special relief programs to help farmers deal with significant difficulties. That would offset some of the government’s savings from cutting the premium subsidies.

Option 7: Eliminate NASA's human space exploration program

Terminate NASA's human space exploration and space operations programs. Effect on deficit: -$93 billion.

Description

The human space exploration programs focus on developing systems and capabilities required to explore deep space while continuing operations in low Earth orbit. The exploration programs also provide technical and financial support to the commercial space industry. This option would terminate NASA's human space exploration and space operations programs except for those necessary to meet space communications needs (such as communication with the Hubble Space Telescope). Support for private space companies would likely be eliminated as well. The agency's science and aeronautics programs and robotic space missions would continue.

Supporters Say

❏ The scientific instruments used to gather knowledge in space no longer rely on nearby human operation. NASA and other federal agencies have increasingly used robots to perform missions and keeping humans out of harm's way. Resources might also be better spent on basic scientific research on earth.
❏ This option would decrease costs by reducing the weight and complexity of the vehicles needed for space missions.

Opponents Say

❏ Eliminating human space flight near Earth would end the technical progress necessary to prepare for desired human missions to Mars. There is also a scientific advantage to having humans at the International Space Station conduct experiments that could not be carried out in other ways.
❏ The still budding private space industry (Space X, Blue Origin, Orbital, etc.) would likely fail due to lack of capital infusions from NASA contracts.
❏ If robotic missions prove too limiting, human space efforts would have to be restarted -- which would be inefficient and likely stall progress.

Option 8: Reduce the federal workforce by not filling vacancies as workers retire

Reduce federal civilian employees at certain agencies by 10 percent by not filling most vacancies as workers retire. Effect on deficit: -$35 billion.

Description

In 2017 the federal government employed 2.1 million civilian workers, excluding Postal Service employees. About 43 percent work in the Department of Defense or the Department of Homeland Security. About 17 percent in the Department of Veterans Affairs. The rest work in agencies providing a variety of public services, investigating crimes, collecting taxes, administering programs for the elderly, poor and disabled, and more.

This option would reduce the number of federal civilian employees by 10 percent by allowing those agencies to hire no more than one employee for every three who retire. The president could exempt an agency under certain conditions such as a national security concern or an extraordinary emergency.

Supporters Say

- In many agencies the number of management and supervisory positions has increased as the workforce has aged. Research suggests that in some cases, the additional layers of management hamper performance. Without jeopardizing performance, agencies could reduce management while also eliminating services that are not cost-effective.
- Research also suggests that federal workers earn more in occupations that do not require a college diploma than do their counterparts in the private sector. If private-sector compensation is indicative of the value of those positions, then the savings from trimming that part of the workforce would exceed the value of the services that those jobs provide.

Opponents Say

- The federal civilian workforce is about the same size it was 20 years ago, although both the U.S. population and federal spending per capita have grown substantially since then. Cutting federal workers without cutting programs is very problematic.
- The federal workforce is already under strain from cost-cutting measures like sequestration and discretionary spending caps, which have reduced agency spending to its lowest level in 50 years. Further workforce reductions will impede the government's ability to fulfill its missions and would reduce the quality and quantity of services provided. The likelihood of fraud and abuse would increase.

Option 9: Limit Forgiveness of Graduate Student Loans

Increase the percentage of income included in loan payments and the length of time for repayment for those who borrow to pay for graduate school before loans are forgiven. Effect on deficit: -$32 billion.

Description

The federal government has plans that allow those who take out federal student loans to have their debt forgiven after making monthly payments related to their income level after leaving school. Those who borrow to attend graduate or professional school tend to borrow larger amounts than undergraduates. Currently about 55 percent of graduate students who take out loans enter a loan forgiveness plan.

This option would increase monthly payments from 10 percent of income to 15 percent of income (for income that falls over 150 percent of the poverty line). It would also extend the repayment period for those loans from 20 years to 25 years, after which time the graduate school loan is forgiven. These plans currently generate income for the federal government and this option would increase that income.

Under these alternatives, borrowers will likely reduce the amount of borrowing because the cost of repaying a loan could increase by 50 percent. Within 10 years, the volume of government loans is projected to decline by about 20 percent.

Supporters Say

- This option will reduce students' incentive to borrow and will encourage enrollment in graduate programs whose benefits justify the additional cost of schooling.
- Those who borrow for graduate school often have relatively higher incomes after graduating and are more likely to eventually pay off their loans relative to undergraduates.

Opponents Say

- This option increases the risk that some students will not be able to pay off their loans, which could lead students to forgo graduate education.
- This disproportionately reduces opportunities for prospective students of lower income. It would make them less likely to attend graduate school, or if they did, will lead to their being saddled with lower earnings or higher debts.

Option 10: Limit highway funding to expected revenues

Reduce federal funding for the highway system, starting in Fiscal 2021, by lowering spending obligations to match the revenues projected to go into the Highway Trust Fund. Effect on deficit: -$170 billion.

Description

The Federal-Aid Highway program provides grants to states for highway and other surface transportation projects. Historically, most of the funding for highway programs has come from the Highway Trust Fund, an accounting mechanism in the federal budget that is credited primarily with revenues from taxes on gasoline and diesel fuels.

This option would limit future spending to the revenues raised by these taxes. Since 2001, the revenues credited to the trust fund's "Highway Account" have consistently fallen short of its outlays. In 2016, for example, $45 billion was spent from the account while only $36 billion in revenues and interest was credited to it. Since 2008 lawmakers have addressed the funding shortfalls with several transfers, primarily from the Treasury's general fund.

Supporters Say

❏ Funding federal spending on highways with the current taxes on highway users, rather than from general taxes paid by all taxpayers, is fairer because those who benefit from the highways pay the costs. This approach can also promote a more efficient allocation of resources because the taxes give users some incentive to limit their travel and because as highway use increases, more revenue becomes available.

❏ It is fairer and more efficient to have local or state tax revenues pay for highway projects that primarily benefit people in a particular area and to reserve federal revenues for projects that have true interstate significance.

Opponents Say

❏ Reducing federal highway spending could increase the economic and social costs associated with aging roads and bridges and with increased traffic. In addition, the road network as a whole supports interstate commerce and thus strengthens the national economy.

❏ Some money from the Highway Account is spent on non-highway projects and purposes, such as public transit, sidewalks, bike paths, recreational trails, scenic beautification, and preservation of historic transportation structures. Consequently, transferring some general government revenue to the account may be justifiable.

Option 11: Eliminate or reduce funding for certain grants to state and local governments

Reduce or eliminate funding for a group of grants to states and localities. Effect on deficit: -$53 billion.

Description

Washington provided $675 billion in grants to state and local governments in 2017. Such grants redistribute resources among communities around the country, finance local projects that may have national benefits and encourage state and local policy experimentation. Although gran money goes to a wide variety of programs, the spending is concentrated in health care, income security, education and transportation. Some grant programs give state and local governments broad flexibility while other programs impose stringent conditions.

This option would phase in a 50 percent reduction in grants over a two-year period primarily in areas like education, the environment, housing and Department of Justice related programs.

Supporters Say

- These grant programs address primarily local concerns. Leaving the funding decisions to state and local governments will lead to a more efficient allocation of resources because they will weigh costs and benefits more carefully.
- State and local governments may reduce their own funding for certain programs when federal funds are available.

Opponents Say

- These grants support programs that state and local governments may lack the incentive or funding to promote to the extent desirable from a national perspective. In fact, many state and local governments face fiscal constraints that might make it difficult for them to compensate for the loss of federal funds.
- Reducing funding for grants that redistribute resources across jurisdictions could lead to more persistent inequities among communities or individuals. Less federal support could also limit Washington’s ability to encourage experimentation and innovation at the state and local levels and to learn from those different approaches.

CATEGORY TWO:

Options to Adjust National Security and Defense Spending

Option 12: Reduce funding for naval ship construction to historical levels

Decrease spending on ship construction to the 30-year average, reducing the number of ships that the Navy is scheduled to purchase over the next 30 years. Effect on deficit: -$75 billion.

Description

The Navy's Fiscal 2019 shipbuilding plan calls for 301 new ships over the next 30 years at an average cost of $27 billion per year in 2018 dollars. Including the costs of all activities funded by the Navy's shipbuilding account, such as refueling nuclear-powered aircraft carriers and outfitting new ships, the average annual cost of the plan is $29 billion. That is well above the average of $16 billion per year (in 2018 dollars) that the Navy has spent on shipbuilding over the past 30 years.

Supporters Say

- Even with this spending decrease, the Navy would still have a powerful fleet in 2028 and beyond. Because ships take a long time to build, and then are in the fleet for 25 to 50 years, the fleet would grow by nearly the same amount through 2026 under this option as it would under the 2019 plan.
- Today the fleet numbers 285 ships. Under the Navy's 30-year plan, the fleet would grow to 313 ships by 2028 and 335 ships in 2048. Under the reduced spending option, the fleet would still grow to 308 ships in 2028, and then steadily decline to 228 ships in 2048.

Opponents Say

- Since 1987, the number of ships in the fleet has already fallen from 568 to 285.
- Decreasing funding for shipbuilding and substantially reducing the size of the fleet would, over the long run, result in the Navy's having fewer ships than it says it needs to protect U.S. interests overseas in the event of a conflict with another major power.

Option 13: Cancel purchase of F-35s, and purchase F-16s and F/A-18s instead

Halt production of the F-35 fighter and instead purchase the most advanced versions of older, non-stealth fighter aircraft that are still in production. Effect on deficit: -$16 billion.

Description

The F-35 Joint Strike Fighter program is the military's largest aircraft development program. The F-35 is a stealth aircraft -- one that is difficult for adversaries to detect by radar and other air-defense sensors. Through 2019, a total of 542 F-35s had been purchased for the U.S. military. Current plans call for purchasing 1,914 more F-35s through 2044. The Department of Defense has estimated that the remaining cost of those purchases, including the cost to complete development, will amount to $253 billion. This option would cancel these additional purchases and replace them with the most advanced version of non-stealth aircraft in production.

Supporters Say

- This option would reduce the cost of replacing older aircraft while still providing new fighters with improved capabilities that would be able to defeat most threats that the United States is likely to face.
- The F-35s that have already been purchased can still augment the stealthy B-2 bombers and F-22 fighters that are currently in the force; the military has successfully operated a mix of stealthy and non-stealthy aircraft since the 1980s.

Opponents Say

- A mixed force of stealth and non-stealth aircraft would be less flexible against advanced enemy air-defense systems. An inability to neutralize such defenses in the early stages of a conflict might preclude the use of F-16s and F/A-18s, reducing the number of fighters that the United States would have at its disposal.
- Operating more types of aircraft instead of concentrating on a smaller number of types is a problem. For example, F-16s would remain in the Air Force's inventory longer than currently planned, and the Marine Corps might need to field new F/A-18s to augment its F-35Bs. The added costs of maintaining mixed fleets of fighters for a longer period could offset some of the projected savings under this option.

Option 14: Defer development of a new long-range bomber for the Air Force

Delay the development of a new long-range bomber for the Air Force until after 2028. Effect on deficit: -$45 billion.

Description

The Air Force is in the early stages of development of a new long-range bomber the military wants to begin using in the middle of the next decade. These bombers would replace the current fleet of long-range bombers, which estimates say should be able to keep flying until the early 2040s.

Supporters Say

- Delaying production on a new bomber would free up budgetary resources for other priorities during the coming decade.
- Waiting to develop a new bomber could make it possible to take advantage of general advances in aerospace technology during that time. This could be particularly valuable for weapon systems that are expected to be in use for several decades.
- Even with a 10-year delay, a new bomber would still be available when today's bombers near the end of their service lives.

Opponents Say

- Waiting to develop a new bomber would run the risk that it would not be available if some of the bombers currently in service need to be retired sooner than expected.
- Delaying the new bomber could negatively impact the military's recent shift of strategic focus to the Pacific Ocean. That region, with its long distances and limited basing options, would make long-range aircraft particularly important should a conflict arise there. Lack of such aircraft would be a disadvantage in a conflict in that region.

Option 15: Cap increases in basic pay for military service members

Cap basic pay raises for military service members at half a percentage point below the increase in average wages and salaries in the private sector. Effect on deficit: -$18 billion.

Description

Compensation for active-duty military personnel includes basic pay and allowances for food and housing. Of those, basic pay accounts for about 60 percent. Between 2006 and 2017, per capita spending on basic pay rose by 10 percent in inflation-adjusted dollars. Over the last decade military personnel have generally seen increases that were slightly greater than private sector averages.

While overall pay for personnel will still increase under this option, it would cap the basic pay raises at half a percentage point below the increase in private-sector averages. The Congressional Budget Office estimates that the cap would have little effect on personnel retention, which is at its highest level since 2000.

Supporters Say

- The Defense Department has consistently surpassed its goal of average compensation for military personnel exceeding wages and salaries earned by 70 percent of civilians with comparable education and work experience.
- According to the department's most recent analysis, cash compensation for enlisted personnel is greater than the wages and salaries of 84 percent of their civilian counterparts; the corresponding figure for officers is 77 percent.

Opponents Say

- Future military recruiting and retention could be compromised unless basic pay raises keep pace with the civilian workforce.
- Capping raises also would constrain what service members receive in other benefits, such as retirement annuities that are tied to the 36 highest months of basic pay over the course of a military career.

Option 16: Modify TRICARE fees, cost sharing, and out-of-pocket requirements

Reform TRICARE health insurance products for some military families and military retirees to bring cost sharing more in line with private-sector health insurance. Effect on deficit: -$51 billion.

Description

TRICARE is the health insurance program for military employees, military retirees and their dependents. It is separate from traditional Veterans Administration care for service-related injuries.

TRICARE has program options with different levels of cost sharing. About 9 million are eligible for health care, one-third of whom are on active duty or their dependants, one-third of whom are working-age retirees and their dependents (in general, those who are under age 65 and thus not yet eligible for Medicare), and a little less than one-third are retirees eligible for Medicare but also receive TRICARE.

Health care has been one of the fastest-growing portions of the defense budget over the past 15 years, more than doubling in inflation-adjusted terms since 2001. The Department of Defense spent about $50 billion in 2017 for health care.

Most Tricare plans provide more generous insurance benefits and lower cost sharing than private-sector employers offer. One plan in particular, TRICARE Prime, has very little cost sharing: retirees have no deductible, and co-payments only average around $12 for doctor and hospital visits. Another option, TRICARE for Life, pays nearly all medical costs not covered by Medicare and requires few out-of-pocket fees. As a result of such generous benefits, one-fourth of military retirees switched from private insurance to TRICARE between Fiscal 2001 and Fiscal 2012.

Under this reform option, TRICARE's premiums, deductibles, and copayments for working-age military retirees would increase to align with the private sector: For instance, Co-pays will go from $12 to $30. For the first time, retired beneficiaries in TRICARE Standard or Extra would have to enroll and pay $100 for individual or $200 for family coverage for a year. TRICARE for Life would introduce minimum out-of-pocket requirements and would not cover any of the first $750 of an enrollee's cost-sharing payments under Medicare and would cover only 50 percent of the next $6,750 in such payments.

Supporters Say

- ❏ Currently these health care expenses come directly out of the defense budget. If left unrestrained, the costs will swamp the ability of the Defense Department to perform its main task: defending the country.

- Greater cost sharing would increase beneficiaries' awareness of the cost of health care and promote more thoughtful use of medical services. Research has generally shown that modest cost sharing can reduce medical expenditures without causing measurable adverse health outcomes for most people.

Opponents Say

- Reduced benefits could affect military enlistment and retention. Many people signed up for military service expecting generous health benefits.
- This budget option could discourage some patients -- particularly those with low incomes -- from seeking preventive medical care and from managing their chronic conditions under close medical supervision.

Option 17: Reduce spending on international affairs ("foreign aid")

Reduce funding for international affairs programs by 25 percent. Effect on deficit: -$145 billion.

Description

The budget for international affairs funds diplomatic and consular programs, global health initiatives, security assistance, and other programs. In 2017, those programs cost an estimated $51 billion, including $12 billion for international security assistance, $8 billion for diplomatic and consular programs, $8 billion for global health programs, and $3 billion for international disaster assistance. Much smaller amounts go to activities like refugee assistance, development assistance, peacekeeping efforts, and anti-drug enforcement. Most funding for international affairs is administered by the Department of State or the Agency for International Development but the Department of Defense administers funding as well.

This option would reduce the international affairs budget by 25 percent.

Supporters Say

- If we are going to reduce spending it makes sense to start with programs that primarily benefit other countries rather than our own.
- The private sector will step up its foreign assistance, especially in areas like health if the government steps back. The private sector might also be more effective and better at targeting where resources should go than the government.

Opponents Say

- Reducing aid will make our country less safe because as we pull back aid we will harm cooperation with foreign governments that we depend on for a host of security arrangements, including counter-terrorism and global health monitoring.
- Our relationships also contribute to increased economic opportunities in the United States and promote humanitarian and environmental efforts worldwide.

CATEGORY THREE:

Options to Adjust Health Care and Social Security Spending

Option 18: Eliminate Affordable Care Act (Obamacare) subsidies for those earning between 300 and 400 percent of the federal poverty level

Eliminate health exchange subsidies for people with incomes between 300 and 400 percent of the federal poverty level. Effect on deficit: -$109 billion.

Description

The Affordable Care Act (ACA or Obamacare) allows individuals and families to purchase private health insurance coverage through health insurance exchanges or "marketplaces." Those with certain income levels (roughly between 130 percent of the federal poverty level and 400 percent) are eligible for tax credits to cover portions of their premiums, and they can receive additional subsidies to reduce out-of-pocket cost sharing expenses. In 2018, the poverty level represented incomes of $12,140 for an individual, 16,460 for a couple, and $25,100 for a family of four.

This option would cap the income level at which premium subsidies are available at 300 percent of the federal poverty level instead of the current 400 percent. That would eliminate eligibility for subsidies from individuals in the income range between $36,420-$48,560. This option would also cap cost-sharing subsidies at 250 percent of the poverty level ($30,350).

Supporters Say

- Capping exchange subsidies like this would reduce the deficit without necessarily increasing the number of uninsured as long as employers offer insurance. Because good insurance plans can help attract and retain workers, employers will offer them better alternatives than the options available on the exchanges.

Opponents Say

- Losing a premium subsidy at 300 percent of the poverty level represents a substantial loss -- around $1,600 for an individual making just over $36,000 a year. This likely would reduce the incentive to work more for people with incomes near the threshold. It would lead many of them to reduce their reported taxable incomes in other ways as well.

Option 19: Add a “public plan” to the Affordable Care Act health insurance exchanges

Add a “public plan” to the ACA’s health insurance exchanges. Effect on deficit: -$158 billion.

Description

The exchanges, which began operation in 2014, are marketplaces where individuals who cannot obtain health insurance through their employers can shop for private insurance plans and receive subsidies from the government to help reduce their costs if their incomes are below a certain amount. An insurance plan, run by the Department of Health and Human Services, would compete with private plans on the federal and state insurance exchanges. The public plan would charge premiums to fully offset its costs. The plan’s payments to providers would be about 5 percent higher than Medicare pays but lower than what private insurance plans often pay. This will allow the federal plan to charge lower premiums and thus reduce government spending on insurance subsidies.

Supporters Say

- A public plan, not driven by a profit motive, would force other insurers to compete honestly and increase their efficiency. The Congressional Budget Office estimates this would lower premiums and encourage more than 1.5 million additional people to join the exchanges.
- The Affordable Care Act added some tested, cost-saving reforms to Medicare. A public plan tied to Medicare could bring some of these reforms into the exchanges and the private sector, lowering overall U.S. health costs.

Opponents Say

- Tying the public plan’s payment rates to Medicare would squeeze providers and force them to raise the prices they charge private insurers, to reduce the quality of services, or to stop seeing patients who have public insurance.
- If the public plan is mismanaged or enrolls a sicker population, the federal government might have to bail it out, decreasing any deficit reduction from this option.

Option 20: Provide seniors with “premium support” to purchase private health insurance

This “premium support” option would restructure the Medicare program to one that provides seniors with money to purchase private insurance. Effect on deficit: -$419 billion.

Description

In this option, people who turn 65 could leave traditional fee-for-service Medicare and receive a fixed dollar amount to purchase private health insurance on an insurance exchange. Overall, beneficiaries’ total payments for benefits from Medicare Parts A and B would be about 11 percent higher than under the current fee-for-service system. Net federal spending for Medicare combined with beneficiaries’ total payments would be about 5 percent lower than under current law.

Savings would arise because the federal contribution would be smaller, which would increase competitive pressure, resulting in lower bids by private plans and causing a larger share of beneficiaries to enroll in low-bidding plans. The federal government’s contribution would be determined based on the second-lowest bid from participating health plans. The contribution would therefore be sufficient in future years for beneficiaries to buy coverage from at least one health plan in each region that had a similar cost for coverage.

Supporters Say

- Medicare and Medicaid are on unsustainable paths and their spending must be reined in soon. This proposal would reduce the federal government’s overall commitment to health care and allow seniors more flexibility than under Medicare today.
- The marketplace would increase competition among health plans and lower costs.

Opponents Say

- Beneficiaries would face higher health care costs because of declining government assistance. The risk of health care inflation will be transferred to individuals instead of spread across the entire nation and the federal budget, where dramatic shifts are more easily absorbed.
- Beneficiaries would also face higher premiums in the private health insurance market than in a government-subsidized market since Medicare is more administratively efficient than the private insurance market. Furthermore, beneficiaries could face loss of their health plans in any given year since government support gets re-adjusted based on new insurance products each year.

Option 21: “Bundle” Medicare’s payments to health care providers

Convert Medicare from fee-for-service payments to episode-based “bundled payments.” Effect on deficit: -$47 billion.

Description

Medicare payments are made primarily through a fee-for-service method with separate payments for each office visit, lab test and surgical procedure involving doctors, hospitals and other providers. Fee-for-service tends to create incentives for providers to deliver more services at greater expense, but not to coordinate patient care.

Under an episode-based bundled payment method, a payment includes services delivered by a range of individuals and organizations during the course of a patient’s treatment over a defined period. This budget option covers both hospital care and care within 90 days of a hospital discharge. The payments would depend on the health problem and average treatment costs. Spending targets would be 5 percent lower than Medicare’s projected average payments per episode under current law. By including post-acute care to inpatient and physician services, the option provides more opportunities for providers to economize spending.

Supporters Say

- Under bundling, payments would not vary with the number or mix of services provided to a patient. This would encourage providers to hold down costs and coordinate care to avoid complications.
- Bundling can help reduce the significant variations in Medicare’s costs for similar medical situations. Fewer services would not necessarily compromise patient outcomes.

Opponents Say

- Bundling payments gives providers an incentive to skimp on needed care and could systematically encourage providers to overlook medically beneficial care in the first place.
- It isn’t known whether bundling payments will ultimately achieve its goals. Demonstration projects have shown only mixed success and the projects initiated under Obamacare rely on voluntary participation, which could cause positive research findings to be overstated. Furthermore, providers are not be ready to undertake such a risky shift in payment policy, particularly when it could reduce their payments at a time when doctors feel they are already bearing an outsized burden from recent budget cuts and Obamacare pressures.

Option 22: Reduce Medicare Advantage quality bonus payments to private insurance plans

Eliminate “double quality bonuses” paid to Medicare private insurance plans in certain urban counties. Effect on deficit: -$18 billion.

Description

Around one-third of Medicare beneficiaries are enrolled in private insurance plans through a program called Medicare Advantage. In traditional fee-for-service Medicare, providers are paid directly by the government for each discrete service rendered. In Medicare Advantage, private insurers receive a fixed per-person payment from the government and then they take responsibility for administering and paying for patient care. The fixed payment is determined in part by a bidding process in which insurers offer benefits for an amount relative to a benchmark. If they bid under the benchmark, insurers can use the difference to provide extra benefits or reduce the amount beneficiaries pay in cost-sharing. This helps make Medicare Advantage plans more attractive to Medicare recipients.

Advantage plans can receive additional payments from the government in the form of quality bonuses based on ratings that take into account a host of factors like customer satisfaction and health outcomes. Plans in certain urban counties that tend to have higher Medicare Advantage enrollment are eligible for double quality bonuses. This option eliminates those double bonuses.

Supporters Say

- Eliminating double bonuses will reduce geographical variation in Medicare Advantage payments that is unrelated to the actual quality of plans.
- Quality bonuses themselves are suspect because measurements of quality are imperfect and might actually measure things like the characteristics of the patient population in terms of income or location as opposed to health outcomes.

Opponents Say

- This option could lead to a reduction in plan options in counties that previously offered double bonuses while doing little to change some of the broader problems with quality bonuses and quality measurement.

Option 23: Raise premiums for Medicare Parts B and D to cover 35 percent of program costs

Raise the basic Medicare Part B and Part D premiums to 35 percent of each program's costs, phased in over five years. Effect on deficit: -$389 billion.

Description

Medicare Part B's Supplementary Medicare Insurance Program offers coverage for physician and hospital outpatient services. Part D offers prescription drug coverage. Benefits for the programs are partially funded from monthly premiums paid by enrollees. General federal revenues pay for the rest.

Although the Part B premium was initially intended to cover 50 percent of the cost of benefits, that share has greatly declined because premiums were not allowed to increase at the same rate as benefits. Currently, beneficiaries pay only 25 percent of Part B program costs. Part D was set so that premiums cover about 25.5 percent of per-capita costs. Over five years, this budget option would raise the premiums that enrollees pay to 35 percent of the programs' costs.

Supporters Say

- This option would ease budgetary pressures posed by rising Medicare costs, which will accelerate as the baby-boomer generation ages. Even under this option, the public subsidy for most beneficiaries would be greater than intended when the programs began.
- Linking premiums to income levels is a fiscally responsible step that could help prepare the Medicare program for more retiring baby boomers. Federal subsidies should not be going to the well-off, particularly when Medicare is facing strong fiscal challenges and other programs in the federal budget are being forced to fight for every dime.

Opponents Say

- This option reduces disposable income for most Medicare enrollees, who are being singled out to pay more out-of-pocket to reduce the federal budget deficit. Most of these seniors, on fixed incomes, loose disposable income every year to increasing health costs.
- State budgets would suffer under this option because Medicaid programs would face higher costs for low-income Medicare enrollees whose premiums are paid by Medicaid, such as enrollees in the Part D low-income subsidy program (22 percent of Medicare beneficiaries) and Part B enrollees with limited assets (about 17 percent of Medicare beneficiaries).

Option 24: Cap the federal Medicaid contribution to states

Provide a fixed amount from the federal government to the states for Medicaid based on spending per enrollee (per-capita cap). Effect on deficit: -$703 billion.

Description

Washington and state governments currently share the costs of the Medicaid program, which provides health insurance primarily to low-income families with dependent children, the elderly and the disabled. For enrollees, the federal government has been paying about 62 percent of program costs, on average. The range is from 50 percent to 80 percent, depending on state income and how many individuals got coverage from the Medicaid expansion under the Affordable Care Act. Under current law, almost all of the federal funding is provided on an open-ended basis. This means that increases in the number of enrollees or in costs per enrollee automatically generate more federal payments to states.

This option would cap the amount a state would get. States would get more support if enrollees increased, while the amount per-person would go up every year to keep pace with overall inflation in the economy instead of going up each year to keep pace with medical costs. Since medical costs tend to increase faster than general inflation, this would lead to much less federal financial support over time.

Supporters Say

- ❏ Capping federal spending would give states more responsibility for managing health spending.
- ❏ States would get more flexibility in how they design their Medicaid programs, allowing them to try innovative and efficient designs for their Medicaid programs.

Opponents Say

- ❏ A capped system with federal support that doesn't keep up with health care inflation would only save money by kicking the most vulnerable people out of this crucial safety-net program. There is no way to achieve sufficient savings by running the program more efficiently, since Medicaid is already the most efficient health insurance program in the country.
- ❏ In addition to severe limitations on the number of beneficiaries with insurance, this option would squeeze doctors and hospitals through massive reimbursement cuts. They, in turn, would sharply restrict the number of Medicaid patients they treat.

Option 25: Limit malpractice awards

Impose caps on some medical malpractice lawsuits. Limits include caps on non-economic ("pain and suffering") damages. Effect on deficit: -$64 billion.

Description

States treat malpractice lawsuits in a variety of ways. Some states impose strict caps on damage awards while others have enacted virtually no limits at all. This budget option would impose nationwide standards on malpractice lawsuits.

Following the states, this option limits non-economic ("pain and suffering") damages to $250,000. Punitive damages would be limited to $500,000 or twice the amount of the economic damages incurred, whichever is greater. The statute of limitations on malpractice lawsuits would be one year for adults and three years for children (from the date of discovery of injuries).

Supporters Say

- ❏ Limiting malpractice lawsuits would reduce the overall cost of health care, a major driver of projected deficits in the coming decades.
- ❏ Doctors would face lower malpractice insurance premiums, resulting in lower prices for patients. Some doctors might also use fewer treatments than they would otherwise use to protect against malpractice lawsuits. Fewer treatments would further lower total health care expenditures.

Opponents Say

- ❏ Capping liability for doctors could result in a higher level of medical injuries due to negligence, as some doctors would be less cautious than they are today.
- ❏ Patients who have suffered injuries from serious malpractice might not obtain the full compensation required to make them "whole."

Option 26: Gradually raise Social Security's full retirement age to 70

Raise the full retirement age for Social Security by roughly two months a year until it reaches age 70, which would be around 2038. Effect on deficit: -$28 billion.

Description

The age at which workers become eligible for full Social Security benefits depends on their year of birth. For workers born before 1938, that age is 65. Under current law, for workers born between 1939 and 1959, the full retirement age slowly increases to 67. That is the age at which people born after 1960 are eligible for full benefits.

Starting at age 62, however, workers can claim early retirement benefits. These are permanently reduced from what their full retirement benefits would have been.

This budget option would speed up the rate at which the full retirement age becomes 67 and then raises it by two months per year until it reaches 70. (e.g., those born in 1955 would have 67 as their full retirement age while it would be 70 for workers born in or after 1978). The early retirement age with reduced benefits would still be 62.

Supporters Say

- Raising the retirement age will help to adjust Social Security for gains in life expectancy. Life expectancy at age 65 in 1940 was 11.9 years for men and 13.4 for women. It is now 18.2 years for men and 20.7 for women, and is expected to continue rising for decades. Thus, Social Security costs will increase as people collect benefits over longer lifetimes.
- Workers in physically taxing jobs will still be able to receive early (reduced) benefits at age 62 or apply for disability benefits.
- While this option to raise the retirement age would not save a lot of money in the first 10 years, over time it would save a more substantial amount (0.5% of GDP) and would help put Social Security on a more sustainable course.

Opponents Say

- ❏ Individuals in jobs that require physical labor will have a difficult time working until age 70. They are more likely to claim early retirement benefits and consequently will receive less throughout the rest of their lives than if they had been able to work until the full retirement age.
- ❏ Because life expectancy has not increased as much for low-income individuals as for higher-earners, this budget option's cut in benefits is poorly targeted at those who depend on benefits the most.

Option 27: Increase the maximum taxable earnings cap on the Social Security payroll tax

Raise Social Security's maximum taxable amount of wages to $285,000 a year, increasing the share of total earnings in the country subject to the system's payroll tax to 90 percent. Effect on deficit: -$785 billion.

Description

Social Security is largely financed by a payroll tax on employees, employers and the self-employed. Only earnings up to a specified maximum, however, are subject to the tax. That maximum, which was $128,400 in 2018, automatically increases each year by the growth of average wages in the economy. Despite that indexing, the overall percentage of earnings in the country subject to the payroll tax has slipped in the past decade because earnings for the highest-paid workers have grown faster than the average. Thus, in 2018, 83 percent of wages fell below the maximum taxable amount. This option would increase that figure to 90 percent -- where it was set in 1983.

Supporters Say

- Increasing the maximum taxable earnings for the payroll tax improves Social Security's long-term financial outlook.
- This option would make the payroll tax less regressive. Because individuals are not taxed on any earnings above the ceiling, expanding the wages subject to the tax asks higher income individuals to pay more to help make Social Security sustainable.

Opponents Say

- Raising the earnings cap could weaken the link between the taxes that workers pay into the system and the benefits they receive. That link has been an important aspect of the Social Security system since its inception, but the increase in benefits under this option is modest relative to the increase in taxes.
- This option would reduce the rewards of working for people with earnings above the current maximum. As a result, many such earners may work less -- or push for more fringe benefits that are not subject to the payroll tax.

Option 28: Use “chained CPI” to determine COLAs in Social Security and other programs

This option would base cost-of-living adjustments (COLAs) for Social Security benefits and other “mandatory spending” programs on what economists consider a more realistic measure of inflation. Effect on deficit: -$202 billion.

Description

Each year the Social Security Administration adjusts monthly benefits by the increase in the Consumer Price Index (CPI). Other “mandatory spending” programs that do not require annual congressional approval -- such as federal retirement benefits and some aspects of government health care programs -- also adjust based on inflation. The CPI is designed to track price changes for consumer goods. Over the years, however, evidence has suggested that it overstates inflation.

This option would primarily affect the growth of Social Security -- but would also lower spending in other mandatory programs -- by using an alternative measure of inflation. Many economists consider this measure, called the “chained CPI,” to be more realistic because it reflects changes in consumer behavior. For example, when the price of apples goes up, some people will buy other fruit instead. The Congressional Budget Office estimates that the chained CPI is likely to grow annually a fourth of a percentage point more slowly than the standard CPI.

Supporters Say

- CPI is not the only available index to adjust for changes in the cost of living. Beneficiaries should not receive larger benefit increases than are necessary to protect them against inflation.
- This proposal would help restrain the long-term costs of Social Security, and its effects would grow with time, providing more and more savings. It could be a responsible step towards making the program fiscally sustainable while calling for a relatively small sacrifice from individual beneficiaries.

Opponents Say

- The CPI isn't perfect, but beneficiaries should not suffer a benefit cut in disguise. This change would have a disproportionate effect on low-income Social Security recipients who need COLAs as currently calculated to keep from slipping into poverty. Compared to the population as a whole, they buy things that are likely to rise faster in price.
- The whole purpose of automatic inflation adjustments was to take politics out of benefit increases. This option would reintroduce politics into the process, which could result in future irresponsible adjustments.

Option 29: Change calculation linking Social Security benefits to wages (“progressive price indexing”)

Change the way initial Social Security benefits are calculated, tying them to inflation instead of wage growth for all but the lowest-earners. Effect on deficit: -$77 billion.

Description

The initial levels of an individual’s Social Security benefits are designed to keep up with economy-wide wage growth. This makes benefits more generous than if they were set to simply keep up with economy-wide inflation. That’s because wages tend to rise faster than inflation. Future beneficiaries are also scheduled to receive more benefits because of increasing longevity.

Under “progressive price indexing,” benefits for the lowest-earning third of workers would continue to be indexed to wage growth. For the middle third, benefits would be determined by a blend of wage indexing and price indexing based on inflation. For the highest third of earners, benefits would be set based only on price indexing relative to inflation. Such changes would save more money over time and could solve over 70 percent of Social Security’s long-term funding shortfall.

Supporters Say

- Social Security has a long-term funding problem and this is a way to correct that problem while holding harmless those most dependent on benefits.
- Benefits for all but the top earners would still provide beneficiaries the ability to buy more goods and services in the future than beneficiaries do today.

Opponents Say

- This proposal would rely too heavily on benefit reductions to deal with Social Security’s shortfall. Furthermore, despite appearances that this is “progressive,” the cuts still fall on the backs of the middle class. Beneficiaries making around $35,000 would be right in the middle of the income distribution, and would be facing benefit cuts. The high-earning third, with the largest cuts, have income starting around $90,000.
- For an average wage earner who is 25 years old today and will retire at age 67, benefits will be 16 percent lower than the system currently promises. For someone retiring in 2075, the benefit reduction would be 28 percent. These are large cuts to a system that already does not provide very generous benefits.

Option 30: Increase the special minimum Social Security benefit and index it to wage growth

Set Social Security's special minimum benefit to equal 125 percent of the monthly poverty level and index it to wage growth. Effect on deficit: +$27 billion.

Description

Social Security has a "special minimum benefit" designed to provide a boost for retirees who worked full careers but at low wages, thus receiving low Social Security retirement benefits. When created, however, the minimum benefit was indexed to inflation while the basic benefit formula in Social Security is indexed to wage growth, which has historically been higher than inflation. Because of past wage growth, there are no longer full-career retirees eligible for the special minimum benefit.

This option would bring back the special minimum benefit for individuals with incomes at 125 percent of the federal poverty level (about $1,256 per month in 2017) and then index the minimum benefit to wage growth to match growth in the basic benefit going forward.

Supporters Say

- Anybody who has worked a full career should be entitled to a retirement income above the federal poverty level regardless of their past earnings.
- Many Americans have inadequate retirement savings and thus need more government assistance.

Opponents Say

- Social Security was not designed to be the sole source of income in retirement; workers should be saving to supplement Social Security, not depending on it for all of their retirement income.
- Social Security's finances are already unsustainable and running permanent cash deficits. Instead of increasing benefits, policymakers should be reducing them to shore up the system's financial situation.

CATEGORY FOUR:

Options for Cutting Taxes and for Raising Revenue

Option 31: Eliminate taxes on capital gains and dividends

Exempt income from capital gains and dividends from taxation. Effect on deficit: +$1,896 billion.

Description

A capital gain is income from selling an asset for more than one paid for it. A dividend is income received during ownership of (primarily) corporate stock. The tax code currently gives a preference, in the form of a lower tax rate of 15 percent, to capital gains and dividend income. Under this option, the tax would be eliminated entirely.

Supporters Say

- Removing such taxes will increase savings and investment because they will no longer be penalized relative to consumption, which is taxed very little at the federal level. This change will increase economic growth by encouraging more investment and entrepreneurial risk-taking.
- Making it easier to shift money from investment to investment will increase economic growth because money could move more efficiently from poor investments to good ones.

Opponents Say

- This option would dramatically increase deficits for benefits that will flow almost entirely to the most well-off. Many wealthy people would be able to avoid any federal taxes since most of their income is from capital gains.
- There is little real-world evidence that frictionless movement of capital actually increases economic growth and living standards. In fact, reducing capital gains taxes and dividends in 2003 did not create a vibrant economy -- and might have encouraged excessive risk-taking and speculation that preceded the financial collapse in 2008.

Option 32: Eliminate estate taxes

Eliminate the federal tax on estates over $11 million. Effect on deficit: +$265 billion.

Description

The federal estate tax is a tax of up to 40 percent on inherited income over $11 million per person or $22 million for a married couple. The 2017 tax law doubled those thresholds from the previous $4.5 and $11 million respectively. The tax only applies to the value of an individual's inheritance over the exemption threshold. Of the roughly 2.7 million estates in the United States, only around 1,800 will be subject to taxation in a given year.

Supporters Say

- The estate tax is unfair double taxation, taxing the same income both when it is earned and when it is passed on to an inheritor.
- When estates that consist primarily of assets that aren't easily divisible are subject to the estate tax, it can force inheritors to sell family farms and small businesses to pay large tax bills.

Opponents Say

- Very few small businesses and family farms are subject to the estate tax: they account for around 30 estates out of 2.7 million in a given year.
- Repealing the estate tax would only benefit the wealthiest who can amass such large estates. Repeal would do nothing to incentivize work or other activities that promote economic growth.

Options 33 & 34: Extend or repeal the cuts to the Individual Income Tax from the 2017 tax law

Extend the cuts in the Individual Income Tax that are set to expire at the end of 2025. Effect on deficit: +$650 billion.
OR Repeal the tax cuts. Effect on deficit: -$1,169.

Description

In December 2017, Congress and the president passed large tax cuts into law. The changes to the tax code reduced individual income tax rates, corporate income tax rates, and made numerous alterations in defining what counts as taxable income for individuals and corporations. The changes to the individual income tax code were set to expire at the end of 2025, at which point tax law will revert to the rates and definitions in place in 2017.

This collection of options allows you to either extend the individual income tax changes permanently or repeal them entirely to take effect immediately.

Supporters for Extending the Tax Cuts Say

- Unless these tax cuts are extended, Americans will face higher tax bills when these tax cuts expire.
- If not corrected, the sunset provisions in the tax code will needlessly complicate the lives of taxpayers and make it difficult for them to take advantage of the tax cuts. By making it difficult for citizens to plan for the future without an army of accountants, the sunset provisions could impair the very economic growth that the bill was supposed to create.

Supporters for Repealing the Tax Cuts Say

- The tax cuts were already fiscally irresponsible. Permanently extending them would simply make the situation worse, while repealing them would help decrease large projected deficits.
- The individual income tax cuts, such as marginal rate reductions and lowering the estate and gift tax, overwhelmingly benefit the wealthy. At a time of increasing income inequality, repealing the cuts will at least slightly reduce that trend.

Option 35: Increase funding for Internal Revenue Service enforcement

Increase appropriations for IRS enforcement initiatives by 35 percent by the end of the decade. Effect on deficit: -$35 billion.

Description

The Internal Revenue Service (IRS) receives annual appropriations that in 2018 totaled $11.4 billion. Of that, about 43 percent went to enforcement initiatives like audits and collection activities designed to improve compliance with the tax code. Since 2010, IRS funding has dropped by 20 percent and as a result audits have dropped by over 50 percent.

This option would immediately increase IRS funding for enforcement by $500 million annually for five years and then stabilize it. By the end of 10 years funding will be 35 percent higher. The CBO estimates this higher funding will lead to increased revenue as a result of the IRS hiring and training new staff and improving their computer systems and thus increase collections and compliance with the tax code.

Supporters Say

- The easiest and most economically efficient way to increase revenue and reduce the deficit is to get individuals to pay the taxes they owe.

Opponents Say

- Increasing the number of audits imposes burdens on compliant taxpayers as well as non-compliant taxpayers. This can especially increase the burden, financially and psychologically, on those who earn less income and who lack the resources and time to pay for tax advice.

Option 36: Limit the amount of tax-free employer contributions for health care

This option would limit the exemption for employer-provided health care contributions from an employee's income for tax purposes. Effect on deficit: -$256 billion.

Description

Most employees' health care benefits are a major component of their compensation, yet health insurance premiums are exempted from income and payroll taxes. Furthermore, large health benefits tend to reduce employee salaries and other taxable benefits -- an outcome that is often hidden from employees. As health care costs grow and consume larger portions of employees' compensation, the amount of income that goes untaxed grows, resulting in substantial revenue loss to the federal government. Employee cash wages also shrink, as more compensation is paid in the form of health insurance. Finally, more health insurance leads to faster growth of health care costs for the nation as a whole.

This option would impose a tax-free limit at the level under which 75 percent of health insurance premiums in the country fit. That equals about $9,800 a year for individual coverage and $28,000 for family coverage on employer-paid health insurance premiums and contributions. This option also replaces the high-cost insurance tax from the Affordable Care Act because this option acts as a greater limit on the tax deduction than did the "Cadillac tax."

Supporters Say

- The exclusion of health benefits distorts the health care market by encouraging higher levels of spending on health care. The higher spending, in turn, contributes to health care inflation -- a serious long-term budget dilemma for the federal government. Taxing employer-provided benefits would generate substantial revenues and encourage lower levels of health care spending -- two necessary steps on the road to the nation's fiscal sustainability.
- The tax exclusion also encourages the tie between employers and the provision of health insurance, which is a system that doesn't make sense because it locks individuals into jobs because they fear losing insurance. It also means that luck plays a role in whether someone gets offered employer insurance, because it is often a historical accident whether one industry or another provides insurance.

Opponents Say

- ❏ Taxing health care benefits will reduce overall health care spending because it decreases the generosity of one's health insurance plan. The flip side of the reduction in insurance is an increase in individuals' out-of-pocket costs for health care. As a result, sick individuals who utilize more health care services disproportionately suffer from this burden.
- ❏ This option represents a substantial middle-class tax increase and is no 'silver bullet' for containing health care costs: if individuals avoid consuming health care because of prohibitive costs, they might get sicker and more expensive to treat, defeating the money-saving goal of the option.

Option 37: Limit the tax deduction for charitable contributions

Charitable deductions will be allowed only if contributions are a large enough percentage (2 percent) of one’s income. Effect on deficit: -$176 billion.

Description

Current law allows taxpayers to deduct their contributions to charitable organizations. By lowering the after-tax cost of donating to charities, the deduction provides an incentive for such donations.

Only taxpayers who itemize their deductions (less than 25 percent of all taxpayers in 2016) can benefit from this provision in the tax code. The number of itemizers is projected to decline by 60 percent after the 2017 tax cuts. In 2016, donations accounted for 3 percent of Adjusted Gross Income (AGI) -- the term for taxable income when determining one’s taxes).

This option would limit the deduction for charitable donations -- while still preserving a tax incentive -- by allowing taxpayers to deduct only contributions that exceed 2 percent of their AGI. The CBO estimates that this would likely reduce contributions among those giving less than 2 percent of their incomes but would probably not reduce contributions of those donating above 2 percent by very much.

Supporters Say

- ❏ A significant share of donations to charity would be made even without a deduction. Allowing taxpayers to deduct contributions is economically inefficient because it results in a large subsidy for a very small increase in charitable giving.
- ❏ Smaller contributions are apt to be a source of abuse among taxpayers, some of whom overstate their charitable donations.

Opponents Say

- ❏ Total charitable giving would still decline. Without a tax incentive, smaller donors would reduce their contributions and eventually the federal government may need to financially support struggling institutions.
- ❏ This option encourages taxpayers to lump their donations together in one tax year to qualify for the deduction instead of spreading the gifts over several years.

Option 38: Eliminate some tax preferences for educational expenses

Eliminate the American Opportunity Tax Credit and Lifetime Learning tax credit and gradually eliminate the tax deduction for student loan interest. Effect on deficit: -$188 billion.

Description

There are numerous deductions, credits and tax-advantaged savings accounts for education expenses in the tax code. Some of the largest are:

- The American Opportunity Tax Credit (AOTC), which covers up to $2,500 in postsecondary education expenses and is phased out for family incomes over $180,000. It is also refundable, meaning those with lower incomes paying less than the credit in taxes can still receive payment.
- The Lifetime Learning tax credit, which can be used by multiple family members and for educational opportunities beyond postsecondary education. However, only one credit per household tax return is allowed in any given year and the $2,000 credit is non-refundable. It is phased out for families with incomes above $134,000.
- Households can also deduct up to $2,500 in interest payments on student loans from their income, and can do so even if they don't itemize on their tax returns. This deduction is phased out for incomes above $165,000.

Over 10 million taxpayers claimed a total of $18 billion in AOTC and Lifetime Learning tax credits on their 2016 tax returns. About 12 million taxpayers deducted a combined $13 billion of student loan interest. This option would eliminate the two credits and phase out the deduction for student loan interest slowly so as to not dramatically affect current loan-holders.

Supporters Say

- ❏ The current credits and deductions do not target their benefits to households that need assistance the most. Most low-income families do not have enough income tax liability to benefit from these provisions.
- ❏ Providing education benefits as tax expenditures instead of spending programs also adds complexity to the process of figuring out financial needs for education and fails to provide assistance at the time the money is needed -- during enrollment.

Opponents Say

- ❏ This option, especially if not combined with an increase in other forms of assistance, would increase the financial burden for education for those middle-class families that make too much income to qualify for current educational aid spending programs.

Option 39: Eliminate rule that allows capital gains to escape taxation when inherited

Eliminate the “step-upped basis” for determining capital gains taxes when inherited assets are sold. Effect on deficit: -$105 billion.

Description

When an asset -- a business, property, stock, etc. -- is sold, you generally pay capital gains taxes on the amount the asset appreciated in value, or its “gain.” The “basis” of the asset is its price when initially purchased. The gain is income to the holder of the asset, but our tax code uses a different, and often lower rate for gains than it does traditional income.

However, if you sell an asset you inherited, you are allowed to calculate its gain based on its value at the time of the owner’s death, not its basis when it was initially purchased. This “step-up” in the cost basis allows the appreciation to be exempt from capital gains taxes.

This option would eliminate the step-up rule, and heirs would be responsible for paying the entire gain on an asset when it is eventually sold.

Supporters Say

- The original justification for the “step-up” was that heirs found it difficult to determine the original price paid for assets. In the digital age, such concerns are now overblown, if not moot.
- This option would increase productive investments during people’s lifetimes instead of incentivizing people to hold onto assets longer than they would otherwise simply to take advantage of this tax preference. It would also cut down on wasted resources devoted to tax planning because many tax shelters exist as way of using step-up rules to avoid taxes.

Opponents Say

- Heirs will find it difficult to determine the original value of an asset if the decedent did not keep good records.

Option 40: Impose tax on financial transactions

Impose a 0.1 percent tax on the purchase of stocks and bonds, and derivative transactions. Effect on deficit: -$777 billion.

Description

The United States has large financial markets with $30 trillion in stock value and $42 trillion in bond market debt. On a typical business day more than $1 trillion of stocks and bonds are traded and there are also trillions in derivative contracts traded. (Derivatives are contracts where the price is determined by fluctuations in the value of an observable asset.)

This option would phase in a financial transactions tax and the related regulations and reporting systems over a three-year period. The 0.1 percent tax would apply to all trading, but not on the initial issuance of stock or debt. It would be imposed on all transactions that occur in the United States and on overseas transactions involving a U.S. taxpayer.

Supporters Say

- This tax would reduce short-term speculation and computer trading. That type of trading is less productive than longer-term trading and can destabilize markets -- even leading to crashes that can potentially damage the economy.
- Even though the tax is small, it can generate a lot of revenue and increase the progressivity of the tax code since the major beneficiaries of high-frequency trading are wealthier individuals and corporations.

Opponents Say

- The tax would discourage all short-term trading, not just speculation -- including some transactions by traders that help to stabilize markets by establishing efficient prices that reflect the fundamental value of assets. Evidence suggests that a transaction tax could make asset prices less stable.
- This tax could lead to traders developing alternative securities to avoid the tax or even cause them to move trading to another country. Even though some members of the European Union have similar taxes, there will always be places where trading could be set up to avoid taxation.

Option 41: Increase taxes on alcoholic beverages to equalize treatment of different types of alcohol

This option would standardize taxes on all types of alcoholic beverages to $16 per proof gallon. Effect on deficit: -$83 billion.

Description

Current federal excise taxes treat alcoholic beverages in different ways. Taxes are much lower on beer and wine than on distilled spirits and are figured based on different liquid measures. Distilled spirits are measured in proof gallons and taxed at a rate of $13.50 per proof gallon, which translates to a tax of about $.21 per ounce of alcohol. Beer is measured by the barrel and is taxed at a rate of $18 per barrel, which on average is about $.10 per ounce of alcohol. Wine is currently taxed at a rate of $1.07 per gallon and results in a tax of a $.06 per ounce of alcohol. In 2017, the government collected about $11 billion in excise taxes on alcoholic beverages.

This option would standardize the tax on alcoholic beverages by using the proof gallon (a standard measure of a liquid's alcohol content) as the measure for taxation. It would also increase the tax to $16 per proof gallon and then increase the tax relative to inflation in the future. On average, this would raise the tax on a 750 milliliter bottle of distilled spirits from about $2.14 to $2.54, the tax on a six-pack of beer from $.33 to $.81, and the tax on a 750 milliliter bottle of table wine from $.21 to $.82.

Supporters Say

- Alcohol consumption creates costs to society that are not currently reflected in the price of an alcoholic beverage. Examples include increased health care expenditures by the government, lost worker productivity, and loss of life and property in alcohol-related accidents. This tax increase would reduce these costs and require consumers of alcohol to pay a larger share of the expenses.
- Raising the price of alcohol by increasing taxes will lead to lower consumption and less abuse of alcohol, which will promote healthier lifestyles among the general public.

Opponents Say

- Taxes on alcohol are regressive. When compared with total family income, taxes on alcohol take up a greater percentage of earnings for low-income families than for middle- and upper-income families.
- These taxes will punish not only heavy drinkers, but moderate drinkers whose use of alcohol imposes little or no costs on society.

Option 42: Increase the gas tax by 35 cents and index it to inflation

Increase the federal excise tax for motor fuels by 35 cents and index it to inflation. Effect on deficit: -$515 billion.

Description

Revenues from federal taxes on motor fuels are credited to the Highway Trust Fund, which finances highway construction and maintenance. Those federal taxes, set in 1993, are currently 18.4 cents on each gallon of gasoline purchased and 24.4 cents on each gallon of diesel fuel. With state and local excise taxes included, total average tax rates nationwide are 40 cents per gallon for gasoline and 46.5 cents per gallon for diesel fuel.

If the fuel taxes had been indexed to inflation, they would be around 15 cents higher than they are now. In addition to not having kept pace with inflation, fuel taxes have been lower than Highway spending every year since 2000.

This option would raise federal taxes by 35 cents per gallon (to total 53.4 cents for gasoline) and then index them to inflation.

Supporters Say

- The Highway Trust Fund is in deficit and the government is running out of money to maintain and repair roads, let alone build new ones. This increase would help deal with huge infrastructure needs, which would increase economic growth.
- Higher taxes on motor fuels would have environmental benefits as well. Fuel efficiency would increase, people would drive less and carbon dioxide emissions would be reduced.

Opponents Say

- An increase in the gas tax would harm economic growth and there are better ways to address congestion, such as tolls and congestion fees.
- Higher fuel prices mean higher prices for transported goods. This would impose a disproportionate cost on rural households while the benefits from the additional government revenue would mainly be felt in urban areas.