PRINCIPLES & PRIORITIES

GROUP BUDGET EXERCISE

OPTIONS BOOK

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CATEGORY ONE:

OPTIONS TO ADJUST GENERAL GOVERNMENT SPENDING

Option 1: Create a Universal Pre-K Program

This option would create a universal pre-kindergarten program for low to moderate-income families. Deficit Increase: $68 billion

DESCRIPTION

- Currently, about 80 percent of 4-year-olds attend preschools in the US, and about half of those attend public programs like state pre-K, federal Head Start, or special education, and the other half attend private programs.

- A federal-state partnership would provide free preschool for children in families with incomes below twice the federal poverty line, amounting to $46,000 a year for a family of four. The federal government would match dollar-for-dollar states' investments.

- No one would be required to attend a pre-K program.

PROPONENTS ARGUE

- Research based on the iconic 1960s preschool intervention program, the Perry Preschool Project, and other similar studies have found host of benefits linked to high-quality preschool attendance. Because the first few years of life are critical for development, every $1 invested can return between $4 and $17 in terms of improved intellectual and behavioral skills as well as heading off later problems among at-risk kids -- from dropout rates to teen pregnancy.

- This option can also help middle class families and single parents by providing low-cost child care -- paving the way for increased worker productivity and economic growth.

OPPONENTS ARGUE

- The great majority of American kids already attend preschool. Further, this issue isn't the highest priority for American families. Polls consistently show them to be concerned about the economy, the deficit, health care and gun policy.

- The seminal Perry Preschool study on the beneficial effects of pre-K education is more than 40 years old and required an investment in intensive and high-quality preschool for the most disadvantaged children. There is no compelling evidence that this type of pre-K programming applied universally can generate the same positive returns. Therefore, the investment should not be universal but rather targeted to those with the greatest need.

OPTION 2: ESTABLISH A NATIONAL INFRASTRUCTURE BANK TO SUPPORT ROAD IMPROVEMENT

This option would establish a National Infrastructure Bank that would provide a mix of loans and grants for infrastructure projects across the country. Deficit Increase: $30 billion over six years.

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.

PROPONENTS ARGUE

- 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. Here the private sector would be choosing 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 ARGUE

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

OPTION 3: REDUCE FUNDING FOR THE NATIONAL INSTITUTES OF HEALTH (NIH)

This option would cut NIH funding by 13 percent and then allow funding to grow with inflation. Deficit Decrease: -$35 billion

DESCRIPTION

- The National Institutes of Health (NIH) has 27 institutes and centers that fund research across a wide array of health-related topics. In addition, it is a major source of funding for academic biomedical research and supports more than 300,000 scientists and research personnel affiliated with more than 3,100 organizations worldwide.

- The NIH budget has grown significantly over the past 15 years, primarily because of the large increases in appropriations during the 1998–2003 period, when funding nearly doubled. In addition, NIH received $10 billion in supplemental funding from the 2009 stimulus bill.

- This option would cut funding back to 2003 levels and then have it keep pace with inflation.

PROPONENTS ARGUE

- Reducing NIH spending will encourage increased efficiencies and more focus on priorities that will provide the greatest benefits.

- With such a large recent increase in funding, inefficiencies and duplicative or wasteful efforts were likely. Thus, some costs could probably be reduced or eliminated without harming high-priority research.

OPPONENTS ARGUE

- More than 80 percent of NIH's funding supports research that is critical to improving the nation's health care, which accounts for a large and growing share of the economy. Adding to our health care knowledge will be crucial in cutting health care costs -- and critical to restoring fiscal sustainability. Cutting health care research seems "penny-wise and pound -foolish."

- It is difficult to know in advance which projects will yield the most useful results. As a result, large cuts to the NIH budget could discourage innovation in technologies that have the potential to improve people's health.

OPTION 4: REDUCE DEPARTMENT OF ENERGY FUNDING FOR TECHNOLOGY DEVELOPMENT

This option would cut spending by 25 percent over three years for research into new energy technologies. Deficit Decrease: -$10 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 (EERE).

- 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.

PROPONENTS ARGUE

- 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 ARGUE

- Federal support is needed because the prices businesses and consumers pay for energy do not reflect the large long-run costs of climate change and other environmental externalities. 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 the area of 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. Thus, federal support helps to ensure that adequate R&D takes place.

OPTION 5: REDUCE SUBSIDIES IN THE CROP INSURANCE PROGRAM

This option would reduce the subsidies the federal government provides agricultural producers to help buy crop insurance. Deficit Decrease: -$20 billion

DESCRIPTION

- The Federal Crop Insurance Program protects farmers from losses caused by low market prices, drought, floods, pest infestation and other natural disasters. Farmers choose various amounts and types of insurance and the Department of Agriculture sets the premiums to cover the expected loss payments.

- 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.

PROPONENTS ARGUE

- Reducing the federal subsidy and 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 ARGUE

- 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 6: REDUCE FUNDING FOR THE ARTS & HUMANITIES

Reduce funding by 25 percent then maintain constant nominal funding levels. Deficit Decrease: -$6 billion

DESCRIPTION

- In 2010, combined funding for arts and humanities programs (e.g., the Smithsonian Institution, Corporation for Public Broadcasting, National Public Radio, National Endowment for the Arts) totaled approximately $1.8 billion.

- This option would cut support for those programs by 25 percent and freeze future appropriations at the resulting levels.

PROPONENTS ARGUE

- Such programs may not provide public benefits equivalent to their costs. The government should not step into funding an area where private entities can be profitable and charitable giving is plentiful.

- Several of the programs could impose or increase fees to cover operating costs.

OPPONENTS ARGUE

- The arts and humanities are an integral part of the nation's culture and reducing public funding could limit production or discourage some individuals from entering the field.

- Even if found, alternative sources of funding might not be sufficient to cover the loss of federal funding resulting in a net reduction of support for arts and humanities projects, which have proven important but not necessarily profitable endeavors.

OPTION 7: ELIMINATE HUMAN SPACE EXPLORATION

This option would terminate NASA's human space exploration and space operations programs. Deficit Decrease: -$77 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). The agency's science and aeronautics programs and robotic space missions would continue.

PROPONENTS ARGUE

- 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 ARGUE

- Eliminating human spaceflight near Earth would end the technical progress necessary to prepare for desired human missions to Mars. Additionally, there is a scientific advantage to having humans at the International Space Station conduct experiments in microgravity that could not be carried out in other ways.

- If robotic missions proved too limiting human space efforts would have to be restarted -- which would be inefficient and likely stall progress.

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OPTION 8: ELIMINATE SOME DEPARTMENT OF EDUCATION GRANTS FOR ELEMENTARY AND SECONDARY EDUCATION

This option would eliminate some grant programs for elementary and secondary institutions. Deficit Decrease: -$12 billion

DESCRIPTION

- The Department of Education distributes funding for more than 50 discretionary grant programs to state and local educational agencies. This option would eliminate 11 of those programs, which address the physical, emotional and social well-being of students both inside and outside of the school environment.

- These eliminated grants primarily go to states based on their number of poor students. States then distribute the money to local community agencies to offer educational services or opportunities outside normal classroom hours.

PROPONENTS ARGUE

- Traditionally, educating children has been the responsibility of state and local governments. Therefore, the federal government's involvement in elementary and secondary education should be minimal.

- An evaluation funded by the Department of Education concluded that programs funded by those grants had no significant impact on the academic achievement, parental involvement, or homework completion of participating students relative to similar students not participating in the program.

OPPONENTS ARGUE

- Federal funding is necessary to augment state and local efforts to educate children growing up in poor families; for those families, federal resources help compensate for a lack of resources in their home environment.

- Research compiled by the Harvard Family Research Project has shown that increasing the social, physical and emotional health of students helps them become higher achievers.

OPTION 9: ELIMINATE AMTRAK AND OTHER INTERCITY RAIL SUBSIDIES

This option would eliminate federal subsidies for AMTRAK and other intercity rail systems, including high-speed projects. Deficit Decrease: -$14 billion

DESCRIPTION

- Eliminating federal subsidies for Amtrak and other intercity rail service, including high-speed rail, would produce savings of $11 billion over the next 5 years and $30 billion over 10 years.

- 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 more than $40 billion cumulatively in federal subsidies.

PROPONENTS ARGUE

- 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 congestion or emissions of greenhouse gases.

- 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 ARGUE

- 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 congestion on highways and in airports, and also provides critical transportation options in many parts of the county.

Option 10: Reduce Size of Federal Workforce Through Attrition

This option would reduce the number of federal civilian employees at certain agencies by 10 percent by not filling most vacancies that occur due to retirement. Deficit Decrease: -$49 billion

DESCRIPTION

- In 2012, the federal government employed about 2.2 million civilian workers, excluding Postal Service employees. The rest of the civilian workforce worked in agencies providing a variety of public services, such as regulating businesses; investigating crimes; collecting taxes; and administering programs for the elderly, poor, and disabled.

- The largest costs incurred by the federal government for those employees were for salaries, health insurance, and pension benefits.

- This option would reduce the number of federal civilian employees at certain agencies by 10 percent by allowing those agencies to hire no more than one employee for every three workers who retire. The President would be allowed to exempt an agency from the requirement under certain conditions (such as a national security concern or an extraordinary emergency).

PROPONENTS ARGUE

- 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 that agencies would generate by trimming that part of the workforce would exceed the value of the services that those jobs produce.

OPPONENTS ARGUE

- The federal civilian workforce is about the same size it was 20 years ago, although both the number of people the government serves (as measured by the U.S. population) and federal spending per capita have grown substantially since that time. If the federal workforce is going to be reduced then federal programs should be similarly cut.

- 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 mission, reduce the quality and quantity of services provided, while increasing the likelihood of fraud and abuse in some programs.

OPTION 11A, B, C, OR D: SET OVERALL DEFENSE AND NON-DEFENSE DISCRETIONARY SPENDING LEVELS

These options maintain or alter the current caps on discretionary spending, which is controlled through the annual congressional appropriations process. These are exclusive options, meaning you can only **choose one**.

Option 11A would follow the current law and maintain the current spending caps and sequester. No Deficit Increase or Decrease

Option 11B would have discretionary spending grow with inflation. Deficit Increase: +$757 billion

Option 11C would have spending grow with the economy (GDP). Deficit Increase: +$1,644 billion (Concord Estimate)

Option 11D would freeze discretionary spending at 2016 levels. Deficit Decrease: -$746 billion

DESCRIPTION

- Annual appropriations by Congress cover one-third of all federal spending. Roughly half of this "discretionary" spending goes to defense. Debates in Washington most often center around these discretionary programs. Pork-barrel spending and congressional earmarks fall under this category but do not account for a large share of the budget. Earmarks comprise at most 1 percent of the budget.

- The 2011 the Budget Control Act, enacted as part of an agreement to lift the debt ceiling, established caps that would cut roughly $900 billion from discretionary spending compared to the levels it would reach if it were to increase with inflation over 10 years. The sequestration cuts from that act and partially altered in the October 2015 budget agreement would further reduce these caps over 10 years.

PROPONENTS OF CURRENT LAW ARGUE (OPTION 11A)

- Current law calls for the largest reduction in the discretionary budget in over 50 years. Further deficit reduction should focus on other areas of the federal budget -- specifically, the spending programs that are expected to grow the most and put the most strain on the federal budget.

- There is a great deal of wasteful government spending, and maintaining the belt-tightening that has already been put into law will be crucial in forcing government agencies to reduce waste.

PROPONENTS OF ALLOWING SPENDING TO GROW AT THE RATE OF INFLATION (OPTION 11B) OR GROW WITH THE ECONOMY (OPTION 11C) ARGUE

- Because the population, the economy and inflation grow, the current caps or a freeze of spending levels would mean an even larger cut to spending than this option seems to suggest. For example, if Congress gives money to school districts for tutoring weak students, that money could buy many more hours of tutoring in the first year than it would in the tenth year because the cost for tutors could rise and there might be more students at the school.

- Cutting investment in research or education -- key areas of domestic discretionary spending -- will hamstring economic growth in the long run and lead to an even worse fiscal environment. The current caps represent the largest reduction in the discretionary budget in 50 years, and the costs of these programs are dwarfed by the cost of Social Security, Medicare and other entitlement programs.

PROPONENTS OF FREEZING SPENDING AT 2016 LEVELS (OPTION 11D) ARGUE

- Many of the activities supported by discretionary funding could be provided more efficiently by the private sector. Since families are tightening their belts, it makes sense for the federal government to continue doing so.

- These cuts would counter the 60 percent increase in domestic spending from the past decade.

Category Two:

Options for Funding Homeland Security and The Military

OPTION 12: INCREASE FUNDING FOR FEMA

This option would increase funding for the Federal Emergency Management Agency (FEMA). Deficit Increase: +$8 billion

DESCRIPTION

- The Federal Emergency Management Agency (FEMA) is a division of the Department of Homeland Security whose role is to manage and provide relief funds for national security threats, man-made disasters, and natural disasters.

PROPONENTS ARGUE

- The number of disasters each year is increasing. FEMA, created in 1976 but building on a 200-year history of federal intervention in disaster mitigation, is the only entity capable of coordinating and supporting the public and private efforts in addressing a natural disaster or threat. By increasing FEMA funding, we could allow for more effective action to reduce human and financial consequences.

- Without increased FEMA funding citizens and communities struck by disaster will have to rely on an often sluggish Congress to enact emergency legislation -- which habitually includes unnecessary funding for pet projects or other activities unrelated to disaster relief. It would be better to enlarge the base budget of FEMA than to have Congress debate large appropriations packages ad hoc after a traumatic event.

OPPONENTS ARGUE

- The socialized insurance concept which underlies FEMA is deeply flawed, encouraging risk-taking -- such as building beachfront homes in hurricane-prone coastal areas -- that would be too expensive to consider if the sole source of disaster insurance were private-sector insurance purchased in the free market.

- FEMA has been continually mismanaged its affairs, and budget increases that are not tied to specific emergencies or needs would risk wasting scarce resources.

OPTION 13: CAP INCREASES IN BASIC PAY FOR MILITARY SERVICE MEMBERS

This option would cap basic pay raises for military service members at 0.5 percentage points below the increase in average wages and salaries of workers in the private sector. Deficit Decrease: -$24 billion

DESCRIPTION

- Compensation for active-duty military personnel includes basic pay and allowances for food and housing. Of those, basic pay accounts for about 70 percent. Between 2001 and 2012, in inflation-adjusted dollars, per capita spending on basic pay rose by 28 percent.

- Over the last decade military personnel have seen increases about 0.5 percent greater than private sector averages.

- This option would cap basic pay raises at 0.5 percentage points below the increase in private sector averages. The $25 billion in savings is compared to costs were basic pay to keep pace with the private sector. The CBO anticipates that the cap would have little effect on personnel retention -- which is at the highest level since 2000.

PROPONENTS ARGUE

- The Defense Department has consistently exceeded its goal of ensuring that average compensation for military personnel exceeds the wages and salaries received 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 90 percent of their civilian counterparts; the corresponding figure for officers is 83 percent.

OPPONENTS ARGUE

- Future military recruiting and retention could be compromised unless basic pay raises keep pace with the civilian workforce.

- Capping raises also would constrain the amount service members received in other benefits, such as the retirement annuities that are tied to the 36 highest months of basic pay over the course of a military career.

Option 14: Limit TRICARE Health Insurance Options for Working-Age Military Retirees and their Dependents

This option would limit TRICARE health insurance for working-age military retirees and their dependents to options that include less generous cost-sharing but at a level inline with private health insurance. Deficit Decrease: -$73 billion

DESCRIPTION

- The costs of that health care have been among the fastest-growing portions of the defense budget over the past decade, more than doubling in inflation-adjusted terms since 2001; the Department of Defense spent about $50 billion in 2012 for health care. About 30 percent of that total was spent on working-age retirees (in general, those who are under age 65 and thus not yet eligible for Medicare) and their family members -- a total of 3.5 million beneficiaries.

- TRICARE, the insurance program for military employees and retirees, has various program options with different levels of cost sharing. One option 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.

- As a result of such generous benefits, one-fourth of military retirees switched from private insurance to TRICARE between fiscal 2001 and fiscal 2012. TRICARE is a separate insurance product from traditional Veterans Administration care for service-related injuries.

- In this option, the Prime program would be discontinued; military retirees and their dependents would be restricted to TRICARE Standard and TRICARE Extra, which each have higher co-payments and deductibles. Enrollees would pay a monthly enrollment fee that would be set at 28 percent of the cost of providing benefits for that group, to be updated annually based on the average cost the group incurred in the previous year.

PROPONENTS ARGUE

- 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.

- This option would begin to curtail the growth in retiree health care costs, freeing those resources for other important uses.

OPPONENTS ARGUE

- Reduced retirement benefits could affect military enlistment or retention if members expect their benefits to be curtailed. Many signed up for military service expecting generous health benefits.

- Higher co-payments could discourage patients (particularly low-income patients) from seeking necessary medical care.

OPTION 15: REPLACE SOME MILITARY PERSONNEL WITH CIVILIAN EMPLOYEES

This option would use civilian employees to replace some uniformed military personnel performing "commercial" support work. Deficit Decrease: -$20 billion

DESCRIPTION

- According to data from the Department of Defense, thousands of military workers are employed in support or "commercial" jobs that could be performed by civilians. The jobs are done in military units that do not deploy overseas for combat, and they do not involve functions that could raise concerns about personal safety or national security.

- Under this option, over four years the Defense Department would replace 70,000 of the more than 500,000 uniformed military personnel in commercial jobs with 47,000 civilian employees.

- Costs are reduced primarily because fewer civilians would be needed to replace a given number of military personnel (civilians have fewer collateral duties and do not generally rotate among positions as rapidly as military personnel do) and because the cost of employing a civilian is, on average, less than that for a military service member.

PROPONENTS ARGUE

- Replacing military with civilian personnel would increase efficiency as fewer workers could provide services of the same quantity and quality due to the fact that civilians are not expected to perform other collateral duties or rotate.

- Civilians require less job-specific training over their careers because they are not subject to the frequent transfers that military personnel are.

OPPONENTS ARGUE

- Even though many service members might spend part of their careers in jobs that could be performed by civilians, most are trained soldiers who could be deployed quickly in the event of a military threat or other national crisis.

- Moreover, despite the potential cost savings, the military tries to avoid converting certain types of positions because of possible reductions in effectiveness or low morale.

OPTION 16: DEFER DEVELOPMENT OF A NEW LONG-RANGE BOMBER

This option would delay the development of a new long-range bomber for the Air Force until after 2023. Deficit Decrease: -$26 billion

DESCRIPTION

- The Air Force in in the early stages of development of a new long-range bomber the military wants to begin using in the middle of next decade.

- These bombers would replace the current fleet of long-range bombers, which current estimates say should be retired by the mid-2030s.

PROPONENTS ARGUE

- Delaying production on a new bomber would free up budgetary resources for other priorities during the coming decade, including constructing new F-35 fighters and refueling aircraft.

- Waiting to develop a new bomber until ten years from now could be advantageous because it might be able to take advantage of general advances in aerospace technology that might be made in the coming years. Taking advantage of future technological developments can 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 are nearing the end of their service life.

OPPONENTS ARGUE

- 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. The region, with its long distances and limited basing option, will make long-range aircraft particularly important should a conflict arise in that region Lack of such aircraft would be a disadvantage in a conflict in that region.

Option 17: Reduce the Number of Ballistic Missile Submarines

This option would gradually reduce the number of nuclear armed submarines. Deficit Decrease: -$15 billion

DESCRIPTION

- The Navy maintains a force of 14 ballistic missile submarines collectively carrying 336 nuclear-armed missiles, which is about half of the deployed warheads in the U.S. arsenal. Over the next two decades, the Ohio class submarines will reach the end of their service life. The Navy plans to replace those submarines with 12 new submarines.

- This option would alter the Navy replacement plan and instead reduce the Navy's force to eight submarines by retiring one a year. During the 2030s, this option would save an additional $30 billion by avoiding the purchase of replacement submarines.

PROPONENTS ARGUE

- Even with a reduction to eight submarines the Navy still maintains a robust strategic deterrent at sea. Although the force would carry a smaller complement of missiles, the option would not dramatically reduce the total number of warheads that could be deployed at sea -- especially since the number of warheads is already scheduled to drop slightly under the most recent U.S. -- Russian arms treaty.

- By phasing in the reduction and by delaying the purchase of replacements, the Navy would preserve the ability to build more submarines if the future security environment changed.

OPPONENTS ARGUE

- This reduction in submarines renders the Navy's nuclear forces less effective and somewhat more vulnerable. With a force of 8 subs instead of 12 in the Navy's current plan, the Navy would have fewer boats at sea and available for quick deployment in a crisis. Fewer submarines would give the Navy a smaller area in which to operate, thus making it more difficult to be sure that a sufficient number of warheads were in position to implement a war plan.

- Fewer submarines would also make it easier for a potential adversary to track and target U.S. forces; the operating areas for those submarines would be more predictable because missiles must fly a certain trajectory to hit key targets.

Category Three:

Changes in Health Care and Social Security

OPTION 18: ELIMINATE AFFORDABLE CARE ACT EXCHANGE SUBSIDIES FOR PEOPLE WITH INCOME OVER 300 PERCENT OF POVERTY

This option would eliminate health exchange subsidies for people with income between 300 and 400 percent of the federal poverty guidelines.
Deficit Decrease: -$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 2013, 300 percent of the poverty level represented an income of $34,470 for an individual, $46,530 for a couple, and $70,650 for a family of four. This option would cap the income level at which premium subsidies were available at 300 percent of the federal poverty level and the cap for cost-sharing subsidies at 250 percent of the poverty level.

PROPONENTS ARGUE

- Capping exchange subsidies like this would reduce the deficit without increasing the number of people without health insurance 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 ARGUE

- Losing a premium subsidy right around 300 percent of poverty level represents a substantial loss -- around $1,600. This likely will reduce the incentive for people with income near the threshold to work more and would lead to greater efforts to reduce their reported taxable income in other ways as well.

- Most family policyholders who would lose exchange subsidies would receive much smaller tax benefits for obtaining employment-based health insurance instead – and that is assuming they are lucky enough to work for a company who provides health insurance. That difference would be about $1,500 for a family of four with income at 350 percent of the poverty level.

OPTION 19: ADD A PUBLIC PLAN ON THE HEALTH INSURANCE EXCHANGES

This option would add a "public plan" to the ACA's health insurance exchanges. Deficit Decrease: -$158 billion

DESCRIPTION

- The exchanges, which began operation in 2014, are marketplaces where individuals who cannot obtain health insurance through their employer will be able to shop for private insurance plans and receive subsidies from the government to help reduce their costs if they make below a certain amount of income.
- An insurance plan, run by the Department of Health and Human Services (HHS), 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.

PROPONENTS ARGUE

- A public plan, not driven by a profit motive, would force other insurers to compete honestly and increase their efficiency. The CBO 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 ARGUE

- Tying the public plan's payment rates to Medicare would squeeze providers and force them to raise the prices they charge private insurers, reduce the quality of services, or 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: REFORM MEDICARE AND PROVIDE SENIORS FINANCIAL 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. Deficit Decrease: -$61 billion

DESCRIPTION

- In this option, people who turn 65 in four years or later could leave traditional fee-for-service Medicare receive a fixed dollar amount to purchase private health insurance on an insurance exchange.

- Overall, beneficiaries' total payments for benefits from 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 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 will 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.

PROPONENTS ARGUE

- 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 ARGUE

- 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 plan in any given year since government support gets re-pegged each year.

OPTION 21: BUNDLE MEDICARE'S PAYMENTS TO HEALTH CARE PROVIDERS

This option would convert Medicare from fee-for-service payments to bundled, episodic payments. Deficit Decrease: -$47 billion

DESCRIPTION

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

- Under an episode-based bundled payment method, the payment includes services delivered by a range of individuals and organizations during the course of a patient's treatment over a defined period. This option covers both hospital care and care within 90 days of hospital discharge. The payments would depend on the disease and average treatment costs.

- Spending targets would be five 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.

PROPONENTS ARGUE

- 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 ARGUE

- 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 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: TIE BASIC PREMIUMS FOR MEDICARE PART B & D TO 35 PERCENT OF THE PROGRAM'S COSTS

This option would raise the basic Medicare Part B and Part D premiums to 35 percent of each program's costs phased-in over a five-year period. Deficit Decrease: -$299 billion

DESCRIPTION

- Medicare Part B's Supplementary Medicare Insurance Program (SMI) offers coverage for physicians' services 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 fund the rest.

- Although the SMI premium was initially intended to cover 50 percent of the cost of benefits, that share declined between 1975 and 1983 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, which began in 2006, was set so that premiums cover about 25.5 percent of per-capita costs.

- Over five years, this option would raise the premiums that enrollees pay to 35 percent of the programs' costs. The estimate assumes a continuation of the hold-harmless provision, which protects SMI enrollees from a drop in their monthly net Social Security benefits when the premium increase exceeds Social Security's COLA.

PROPONENTS ARGUE

- 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 originally intended when the programs began.

- Linking premiums to income levels is a fiscally responsible step that could help to 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 budget are being forced to fight for every last dime.

OPPONENTS ARGUE

- This option simply 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 a fixed income already 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 23: CONVERT THE FEDERAL SHARE OF MEDICAID PAYMENTS INTO A BLOCK GRANT

This option would provide a fixed annual block from the federal government to the states for Medicaid. Deficit Decrease: -$450 billion

DESCRIPTION

- Currently, the federal government and state governments 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 57 percent of program costs, on average. But that will increase because those newly enrolled in the ACA's Medicaid expansion will be covered almost entirely by the federal government.

- Under current law, almost all of the federal funding is provided on an open-ended basis, meaning that increases in the number of enrollees or in costs per enrollee automatically generate more federal payments to states.

- This option will create a block grant to states for their Medicaid spending and the grant would increase over time to keep up with the economy-wide inflation rate as opposed to the growth in health care costs and the number of enrollees. The block grant would not apply to those newly covered by the ACA's Medicaid expansion.

PROPONENTS ARGUE

- A block grant would provide states with greater predictability for federal spending.

- Block grants also allow states more flexibility in how they design their Medicaid programs and such flexibility can allow them try out innovative and efficient designs for their Medicaid programs.

OPPONENTS ARGUE

- A block grant system with caps that don't keep up with eligibility or health care inflation can only save money by kicking the most vulnerable in the population out of this crucial safety net program. There is no way to achieve savings of the magnitude required 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, doctors and hospitals will be squeezed by massive reimbursement cuts. They, in turn, would sharply restrict the number of Medicaid patients they treat.

OPTION 24: LIMIT MALPRACTICE LAWSUITS

This option imposes caps on some medical malpractice lawsuits. Limits include caps on non-economic damages ("pain and suffering").
Deficit Decrease: -$60 billion

DESCRIPTION

- Currently, 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 option imposes nationwide standards on malpractice lawsuits.
- Non-economic ("pain and suffering") damages are limited to $250,000. Punitive damages are 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).

PROPONENTS ARGUE

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

OPPONENTS ARGUE

- 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" from the injuries inflicted by medical injuries.

OPTION 25: RAISE SOCIAL SECURITY'S NORMAL RETIREMENT AGE

This option would raise the normal retirement age for Social Security gradually (roughly two months per year) until it reaches age 70, around 2038. Deficit Decrease: -$35 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. For workers born between 1939 and 1959, the age slowly increases up to 67 -- the age at which people born after 1960 are eligible for full benefits.

- At 62 workers can claim early retirement benefits, which are permanently reduced relative to what their full retirement benefits would have been.

- This 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 1976). The early retirement age would still be 62, with the option to take reduced benefits.

PROPONENTS ARGUE

- Raising the retirement age will help to adjust 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 17.3 years for men and 19.7 for women, and is expect 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.

OPPONENTS ARGUE

- 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 option's cut in benefits is a poorly targeted at those who depend on them the most.

OPTION 26: INCREASE THE MAXIMUM TAXABLE EARNINGS FOR THE SOCIAL SECURITY PAYROLL TAX

This option would increase the share of total earnings subject to the Social Security payroll tax to 90 percent by raising the maximum taxable amount to $177,500. Deficit Decrease: -$672 billion

DESCRIPTION

- Social Security is financed by a payroll tax on employees, employers and the self-employed. Only earnings up to a specified maximum are subject to the tax. That maximum, which was $113,700 in 2013, automatically increases each year by the growth of average wages in the economy.

- Despite that indexing, the overall percentage of earnings 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 2011, 83 percent of wages fell below the maximum taxable amount. This option would increase that share to 90 percent coverage -- where it was set in 1983.

PROPONENTS ARGUE

- 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. Individuals are not taxed on any earnings above the ceiling. Thus, the tax is a smaller percentage of total income than individuals whose earnings are beneath the ceiling.

OPPONENTS ARGUE

- Since the Social Security benefits that retirees receive are tied to the amount they pay into the system, some of the increases in revenues from this option would be offset by the additional retirement benefits that Social Security would later pay out. The projected revenue gains do not reflect those outlays.

- Raising the earnings cap could weaken the link between the taxes that workers pay into the system and the benefits they receive, which has been an important aspect of the Social Security system since its inception. Moreover, this option would reduce the rewards of working for people with earnings above the current maximum. As a result, such earners may work less or take more fringe benefits not subject to the tax.

OPTION 27: BASE COLAS FOR SOCIAL SECURITY AND OTHER PROGRAMS ON AN ALTERNATIVE MEASURE OF INFLATION

This option would base cost-of-living adjustments (COLAs) for Social Security benefits and other mandatory spending programs on an alternative measure of inflation. Deficit Decrease: -$182 billion

DESCRIPTION

- Each year, the Social Security Administration adjusts monthly Social Security benefits by the increase in the Consumer Price Index (CPI). Other mandatory spending programs, like federal retirement benefits, some aspects of government health care programs, food stamps, etc. also adjust based on inflation. The Consumer Price Index is a measure designed to track price changes for consumer goods. Over the years, there has been evidence suggesting the CPI 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. Some consider this measure, called the "chained CPI," to be more realistic because it reflects changes in consumer behavior. (When the price of apples goes up, some people will buy other fruit that has not increased in price.)

- CBO estimates the chained CPI is likely to grow 0.3 percentage points more slowly than the standard CPI, annually.

PROPONENTS ARGUE

- CPI is not the only available index to adjust for changes in the cost of living. Beneficiaries should not be receiving larger benefit increases than necessary to protect them against inflation.

- This proposal would help restrain the long-term costs of Social Security, and its effects grow with time providing more-and-more savings. Thus, it could be a responsible first step in the process of making the program fiscally sustainable. Yet, it calls for a relatively small sacrifice from individual beneficiaries.

OPPONENTS ARGUE

- 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 back 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 28: IMPLEMENT "PROGRESSIVE PRICE INDEXING" FOR SOCIAL SECURITY BENEFITS

This option would change the way initial benefits are calculated (tying them to inflation instead of wage growth) for all but the lowest earners.
Deficit Decrease: -$53 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 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. Future beneficiaries are also scheduled to receive more benefits because of increasing longevity.

- Such changes would save more money over time and could solve over 70 percent of Social Security's long-term funding shortfall.

PROPONENTS ARGUE

- 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 will still provide beneficiaries the ability to buy more goods and services in the future than beneficiaries do today.

OPPONENTS ARGUE

- 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 retires 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.

CATEGORY FOUR:

OPTIONS FOR CUTTING TAXES AND RAISING REVENUE

OPTION 29: COMPREHENSIVE TAX REFORM

Option A would eliminate all tax deductions, credits and tax preferences, and lower rates without increasing revenue. No Deficit Increase or Decrease Option B would add 1.5% to each of the brackets from Option A in order to raise revenue. Deficit Decrease: -$1,200 billion

YOU CAN ONLY CHOOSE ONE OPTION; IF YOU DO --
PROCEED TO OPTION 35 (because the options in between would be duplicative)

DESCRIPTION

- The current U.S. tax code contains numerous special deductions, credits and preferences that are similar in many respects to spending programs. These "tax expenditures" are estimated to reduce government revenue by more than $1 trillion a year -- roughly the size of the entire federal deficit for 2012.

- Tax expenditures require higher tax rates to compensate for the lost revenue, and they greatly increase the complexity of the tax code.

- Tax deductions lower how much income is subject to the income tax. Most popular deductions -- like ones for home mortgage interest or charitable donations -- can only be taken if taxpayers are willing to "itemize" these financial transactions on an extra tax form. The more money you earn, the more you benefit from tax deductions.

- Credits, like the child credit or those for purchasing energy efficient products, lower the actual amount of taxes one is required to pay. Sometimes credits provide monetary refunds to individuals who don't owe income tax but pay other taxes (like payroll taxes). Tax preferences are lower tax rates for certain types of income (e.g., capital gains).

- This budget proposal, based on the "zero plan" produced by the bi-partisan Simpson-Bowles commission on fiscal reform, would dramatically simplify the tax code by eliminating all tax expenditures and reducing both tax rates and the number of tax brackets. This table shows how the rates and brackets would change:

Income Level (household)	0 - $72,500	72,500 – 223,050	223,050+
Current Rates	10% - 15%	25%, 28%	33%, 35%, 39.6
New Rates under 29A (revenue neutral)	7.5%	13.5%	22.5%
New Rates under 29B (revenue raising)	9%	15%	24%

NOTE ON THE DIFFERENCE BETWEEN OPTION 29A AND 29B

Some people think tax reform should be “revenue-neutral.” This means that while many parts of the tax code might be changed, the overall amount of incoming government revenue would remain the same. **Option 29A** reflects this approach by using all of the savings to lower tax rates. Others believe at least some of the savings should be used to raise federal revenue for deficit reduction. **Option 29B** reflects this approach by adding 1.5 percentage points to each of the three new tax brackets, with the additional income used to reduce government borrowing.

PROPONENTS OF COMPREHENSIVE REFORM ARGUE

- The current tax code is so confusing and complicated it impedes economic growth. It also forces Americans to spend large amounts of money on tax preparation. Further, it favors some taxpayers and businesses over others. Revamping the current system would reduce taxpayer frustration and lead to dramatic increases in economic efficiency and growth.

- Although the loss of deductions -- such as the one for home mortgage interest -- may seem like it could harm the middle class, tax deductions are actually regressive because people in the highest tax bracket receive the largest benefit. This option shows that you can dramatically lower tax rates and eliminate deductions and still maintain progressivity in the tax code.

OPPONENTS OF COMPREHENSIVE TAX REFORM ARGUE

- While tax simplification is a worthy goal, this plan reduces tax rates by far too much -- giving a large reduction to the wealthiest in society while placing more of the burden for deficit reduction on spending cuts to necessary programs in the discretionary budget, or to Medicare and Social Security.

- Eliminating the mortgage interest deduction would harm the housing industry, which is still recovering after years of turmoil and which is an essential part of the economy. Eliminating the charitable deduction would badly hurt the non-profit sector, especially churches and educational institutions that depend heavily on donations from wealthy individuals who would give less without the current tax incentives.

OPTION 30: ELIMINATE TAXES ON CAPITAL GAINS AND DIVIDENDS

This option would exempt income from capital gains or dividends from taxation. Deficit Increase: +$1,371 billion over 10 years

DESCRIPTION

- Capital gains and dividends are types of income earned from investments and savings. The tax code currently gives a preference, in the form of a lower tax rate of 15 percent, to such income.

- Under this option, capital gains would be tax-free.

PROPONENTS ARGUE

- Removing such taxes will increase savings and investment because they will no longer be penalized relative to consumption (which is taxed very little). 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 efficiently from poor investments to good investments.

OPPONENTS ARGUE

- This option would dramatically increase deficits for benefits that will flow almost entirely to the most well-off. Many of the wealthy would be able to avoid any federal taxes since most of their income is in the form of capital gains.

- There is little real-world evidence that frictionless movement of capital actually increases economic growth and living standards. In fact, not only didn't reducing capital gains taxes and dividends in 2003 create a vibrant economy -- it might have encouraged excessive risk-taking and speculation in the run-up to the financial collapse in 2008.

OPTION 31: IMPLEMENT NEW MINIMUM TAX ON ADJUSTED GROSS INCOME

This option would impose a new 30 percent minimum tax for taxpayers earning over $1 million. Deficit Decrease: -$66 billion

DESCRIPTION

- Under the current tax code, high-income earners are subject to tax rates of up to 39.6 percent on ordinary income and an additional tax of 3.8 percent on investment earnings. However, high-income earners usually pay less in taxes than those rates imply because capital gains and dividends -- often a substantial source of income for the wealthy -- are subject to income tax rates of 20 percent or less. In addition, people with higher incomes can claim exemptions and deductions to reduce their tax liability.

- While some taxpayers are liable for the alternative minimum tax (AMT) -- which was intended to insure that at least some taxes are paid by high-income individuals who make heavy use of tax preferences -- the AMT does not affect most highest-income taxpayers. That is because the highest statutory rate under the AMT is only 28 percent (well below the income tax rates for those in upper-income levels,) and many deductions allowed under the regular income tax are still allowed under the AMT.

- This option would impose a new minimum tax equal to 30 percent of adjusted gross income that phases in between incomes of $1 million and $2 million. Affected taxpayers could use just one credit equal to 28 percent of their charitable contributions. Ultimately, high-income taxpayers would pay whichever was higher: the new minimum tax or the sum of individual income taxes owed by the taxpayer and the portion of payroll taxes he or she paid as an employee.

PROPONENTS ARGUE

- This option would increase the progressivity of the tax system overall. The current system's complex and costly exclusions, deductions, credits and preferential tax rates on certain income often allows wealthier individuals to pay smaller shares of their incomes in taxes that many lower-income taxpayers.

- By allowing just one tax credit and no deductions, the new minimum tax will increase the share of income paid in taxes by some higher-income taxpayers.

OPPONENTS ARGUE

- Imposing a second AMT increases the complexity of the tax code relative to more straightforward means of increasing revenue such as increasing the top rates or eliminating or limiting certain deductions or exclusions.

- Eliminating or limiting tax preferences alters taxpayers' incentives to undertake certain activities, which can result in unintended consequences and perhaps less revenue than expected. For example, higher marginal rates on most capital gains and dividends and on earnings would reduce the incentive to save and to work, respectively.

OPTION 32: CONVERT THE MORTGAGE INTEREST DEDUCTION TO A 15% TAX CREDIT

This option would gradually convert the tax deduction for home mortgage interest into a tax credit. Decrease Deficit: -$113 billion

DESCRIPTION

- The tax code helps homeowners by giving them a tax deduction for mortgage interest payments. In addition, most capital gains from home sales are tax-exempt.

- Deductions lower the amount of income that is subject to the income tax. Most popular deductions can only be taken if taxpayers document them by filling out extra tax forms ("itemizing"). Those who would not benefit by this who do not want to do it can simply take a "standard deduction" (in 2013 this deduction equaled $6,100 for single taxpayers and $12,200 for married couples filing jointly). About 70 percent of taxpayers take the standard deduction.

- This option would gradually convert the tax deduction for mortgage interest to a 15 percent nonrefundable tax credit. Over four years the maximum amount of the mortgage deduction would be reduced by $100,000 each year. Then, in later years, the deduction would be replaced by a 15 percent credit. The maximum amount of mortgage debt that could be included in the credit calculation would be $500,000, and the credit could be applied only to interest on debt incurred to buy, build, or improve a first home.

PROPONENTS ARGUE

- Currently renters, including many with lower incomes, currently subsidize homeowners who are often wealthier. In addition, a tax deduction favors the wealthy more than a credit would. Wealthier households are more likely to itemize their tax returns while middle and lower income households are more likely to take the standard deduction. Taxpayers in a higher tax bracket also benefit more from each dollar deducted; a taxpayer in the top tax bracket saves 40 cents for every dollar deducted, for example, while someone in the second lowest tax bracket only saves 15 cents.

- The current law encourages excessive borrowing that may have adverse economic effects in the future. The current deduction encourages homebuyers to buy bigger houses than they otherwise would. As a result, large homeowner investments reduce investments in other sectors of the economy that could increase American productivity.

OPPONENTS ARGUE

- The tax deduction encourages people to become homeowners, which helps create stable communities and stronger interest in neighborhoods and local government. Changing the home mortgage interest deduction is unfair to those who have already made financial decisions based on it.

- Many middle-class homeowners in high-cost parts of the country depend heavily on the mortgage interest deduction. Reducing this tax subsidy could hurt home values, home construction, and mortgage lending.

OPTION 33: LIMIT THE TAX EXCLUSION FOR EMPLOYMENT-BASED HEALTH CARE BENEFITS

This option would limit the exemption for employer-provided health care contributions from an employee's income for tax purposes. Deficit Decrease: -$77 billion (with significantly more deficit reduction in later decades)

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 instead of cash. Finally, more health insurance leads to faster growing health care costs for the nation as a whole.

- This option would impose a tax-free limit of $6,420 a year for individual coverage and $15,620 for family coverage on employer-paid health insurance premiums and contributions. It would also replace the high-cost insurance tax from the Affordable Care Act as this option places further limits on tax-free health insurance than that so-called "Cadillac tax."

PROPONENTS ARGUE

- 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 conditions 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 ARGUE

- 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 an individual's out-of-pocket cost for health care. As a result, sick individuals who utilize more health care services disproportionally suffer from this burden.

- This represents a substantial middle-class tax increase and is no panacea 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 purpose of the option.

OPTION 34: LIMIT THE DEDUCTION FOR CHARITABLE GIVING

This option would limit the deduction for charitable donations by allowing taxpayers to deduct only contributions that exceed 2 percent of their Adjusted Gross Income. Deficit Decrease: -$212 billion

DESCRIPTION

- Current law allows taxpayers to deduct their contributions to charitable organizations. This is allowable for up to 50 percent of their Adjusted Gross Income (AGI). By lowering the after-tax cost of donating to charities, the deduction provides an added incentive for such donations.

- In 2011, taxpayers claimed $174 billion in charitable contributions on 38 million tax returns. This proposal 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.

PROPONENTS ARGUE

- A significant share of these donations would be made even without a deduction. In that case, 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 ARGUE

- Total charitable giving would 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 35: ELIMINATE TAX SUBSIDIES FOR THE OIL AND GAS INDUSTRY

This option would eliminate the tax preference that allows oil and gas companies to more quickly deduct the costs of exploration and development from their taxable income. Deficit Decrease: -$47 billion

DESCRIPTION

- Current tax law provides exploration incentives for companies to find new sources of oil, gas and other minerals. A major incentive is the provision in the tax code that allows companies to "expense" the costs of exploration. Expensing allows the oil and gas industry to immediately deduct exploration costs as opposed to waiting for any income generated by exploration before deducting costs.

PROPONENTS ARGUE

- While over the short-run more oil and gas extraction in America could lower prices and make the U.S. less reliant on foreign energy sources, in the longer run, faster extraction would make the U.S. *more* reliant on foreign energy (because it will have used its own domestic resources more quickly).

- With the specter of global warming, we need to be making all fossil fuels more expensive in order to encourage alternative clean and renewable energy sources.

OPPONENTS ARGUE

- Tax incentives are necessary to encourage energy producers to engage in more exploration, which is important to the country's energy security. Should a company explore an area that turns out not to be productive, allowing the company to expense the cost of exploration reduces the relative risk of seeking out new energy resources.

- The oil and gas industry supports a substantial amount of economic activity and millions of jobs. Increasing their taxes might harm economic growth.

OPTION 36: INCREASE GAS TAX

This option would increase the federal excise tax for motor fuels by 35 cents and index it to inflation. Deficit Decrease: -$469 billion

DESCRIPTION

- Revenues from federal taxes on motor fuels are credited to the Highway Trust Fund, which finances highway construction and maintenance. Those taxes are currently 18.4 cents on each gallon of gasoline produced 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.

- This option would raise those federal taxes by 35 cents per gallon, then index them to inflation.

- The highway trust fund has had periods of deficits since 2008, where general revenue was required to make sure it could fulfill its obligations. It is estimated that the highway account faces $125 billion in deficits over the next 10 years.

PROPONENTS ARGUE

- 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, and a better infrastructure 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 ARGUE

- An increase in the gas tax would harm economic growth and there are better ways to address congestion, such as tolls or congestion fees.

- Higher fuel prices mean higher prices for transported goods. This would impose a disproportionate cost on rural households while the benefits would mainly be felt in urban areas.

A NOTE ON SOURCES:

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 November 2013, with scores partially updated in November 2014 and is available from the CBO's Publications Office or at www.cbo.gov. Proposals not based on CBO materials are Concord Coalition estimates based on ideas and bills that members of Congress are considering. Unless otherwise indicated, all cost estimates 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.

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

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