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Budget Puzzle: You Fix the Budget

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DOMESTIC PROGRAMS AND FOREIGN AID	Projected Savings to Deficit in: 2015	2030
Cut foreign aid in half At a time when the United States is facing large deficits, some budget analysts argue that the country should significantly reduce the money it spends helping other countries. Others say that foreign aid already represents a smaller share of the budget here than in other rich countries and that it expands American influence.	**$17 billion**	**$17 billion**
Eliminate earmarks Earmarks are lawmaker-directed spending items, often to finance local projects favored by a member of Congress.	**$14 billion**	**$14 billion**
Eliminate farm subsidies Many economists argue that farm subsidies distort the workings of the market and largely flow to big agricultural businesses. As the Congressional Budget Office has noted, advocates of reducing the subsidies argue that doing so "could help small farms indirectly, slowing the rate" of consolidation. Supporters argue that the subsidies help preserve the American agriculture industry.	**$14 billion**	**$14 billion**
Cut pay of civilian federal workers by 5 percent "During the Great Recession, most private-sector employees have seen their wages frozen, and some have even watched wages decline," the chairmen of the deficit panel wrote. "In contrast, federal workers have seen their wages increase." This option would be a one-time 5 percent cut in federal civilian workers' pay; the chairmen called for a three-year freeze on pay, which would have a similar effect.	**$14 billion**	**$17 billion**
Reduce the federal workforce by 10 percent This proposal would reduce the size of the federal work force by 200,000, from its current level of more than 2 million. The chairmen of the fiscal commission noted that the federal work force peaked at about 2.3 million in the late 1960s and fell to a low of 1.8 million in 2000. "Under this proposal, the government could hire two new workers for every three who leave service," the chairmen said. The proposal would not take effect until 2012.	**$12 billion**	**$15 billion**
Cut 250,000 government contractors In the past decade, both the number of federal employees and the number of contractors rose. Recent estimates suggest that contractors outnumber federal employees by millions. The chairmen wrote, "While contractors provide useful services — sometimes at a lower cost than the federal government — their numbers are simply too high in light of the current budget deficit."	**$17 billion**	**$17 billion**
Other cuts to the federal government The chairmen called for a series of smaller cuts, including eliminating some agencies, cutting research	**$30 billion**	**$30 billion**

funds for fossil fuels, reducing funds for the Smithsonian and the National Park Service, eliminating certain regional subsidies, and eliminating the Office of Safe and Drug-Free Schools.

	Option	2015	2030
	Cut aid to states by 5 percent In the past decade, even before the stimulus bill, state aid rose significantly, as a share of the economy. In 2005, it equaled 3.4 percent of gross domestic product, compared with 2.3 percent in 1990 and 3.3 percent in 1980. Cutting state aid, advocates say, would persuade states to spend more efficiently and reduce waste. Opponents worry about the effects on education, poverty and public safety.	**$29 billion**	**$42 billion**

MILITARY

	MILITARY	Projected Savings to Deficit in: 2015	2030
X	**Reduce nuclear arsenal and space spending** Would reduce number of nuclear warheads to 1,050, from 1,968. Would also reduce the number of Minuteman missiles and funding for nuclear research and development, missile development and space-based missile defense.	**$19 billion**	**$38 billion**
X	**Reduce military to pre-Iraq War size and further reduce troops in Asia and Europe** “This option,” according to the bipartisan Sustainable Defense Task Force, “would cap routine U.S. military presence in Europe and Asia at 100,000 personnel, which is 26 percent below the current level and 33 percent below the level planned for the future. All told, 50,000 personnel would be withdrawn.” The option would also reduce the standing size of the military as the wars in Iraq and Afghanistan wind down.	**$25 billion**	**$49 billion**
X	**Reduce Navy and Air Force fleets** Under this option, the Navy would build 48 fewer ships and retire 37 more ships than now scheduled. Overall, the battle fleet would shrink to 230 ships, from 286. In addition, the Air Force would retire two tactical fighter wings and reduce the number of fighter jets it planned to purchase.	**$19 billion**	**$24 billion**
X	**Cancel or delay some weapons programs** This option would cancel the purchase of some expensive equipment, like the F35 fighter jet and MV-22 Osprey, with less expensive equipment that the bipartisan Sustainable Defense Task Force judged to have similar capability. It would delay other purchases. Research and development spending, which the task force considered a relic of the cold war arms race, would be reduced.	**$19 billion**	**$18 billion**
X	**Reduce noncombat military compensation and overhead** Would change health-care plan for veterans who had not been wounded in battle. Premiums, which have not risen in a decade, would rise. More veterans would receive health insurance from employer. This option would also take some benefits, like housing allowances, into account when tying military raises to civilian pay raises. Currently, increases in those benefits come on top of pay raises. The military would also reduce the length and frequency of combat tours. No unit or person will be sent to a combat zone for longer than a year, and they will not be sent back involuntarily without spending at least two years at home.	**$23 billion**	**$51 billion**
	FOREIGN TROOP LEVELS: CHOOSE ONE OR NONE		
	Reduce the number of troops in Iraq and Afghanistan to 60,000 by 2015 Reduce the number of troops in Iraq and Afghanistan to 60,000 by 2015 Today, the United States military has 100,000 troops in Afghanistan and 50,000 in Iraq. The Obama Administration plans to reduce these numbers in coming years but has not specified troop levels. Defense and budget experts say this 60,000 option would be faster than what is now planned. The savings is the difference between the administration's projected spending and the spending under this option.	**$51 billion**	**$149 billion**
X	**Reduce the number of troops in Iraq and Afghanistan to 30,000 by 2013** Reducing troops by to 30,000 from 60,000 could save an additional $20 billion by 2030.	**$86 billion**	**$169 billion**

HEALTH CARE

	HEALTH CARE	Projected Savings to Deficit in: 2015	2030
X	**Enact medical malpractice reform** Many doctors believe so-called defensive medicine – ordering tests and procedures to avoid lawsuits – is a major reason health costs are so high. This option would begin to reduce the chances of large malpractice verdicts, and supporters believe, also reduce rising medical costs. Opponents say it could reduce doctors’ incentives to avoid errors. The savings estimate comes from the Congressional Budget Office.	**$8 billion**	**$13 billion**
	MEDICARE COSTS: CHOOSE ONE OR NONE		
	Increase the Medicare eligibility age to 68 Those who favor raising the eligibility age for Medicare often say that Americans are living longer and should work longer. And, some say, the new health-care bill will allow people in their late 60s without employer-provided insurance to buy a policy through an exchange. Opponents say that low-income workers	**$8 billion**	**$56 billion**

		2015	2030
	have experienced the lowest increases in longevity, and they need Medicare the most.		
X	**Increase the Medicare eligibility age to 70** This option would save nearly $50 billion more than increasing the age to 68 would.	$8 billion	$104 billion
X	**Reduce the tax break for employer-provided health insurance** This option would reduce the tax break for employer-provided health insurance, by slowly adjusting the cap, so that it increases at the rate of economic growth, rather than the growth in health costs – which tends to be significantly faster. Over time, more employer spending on health insurance would be taxed.	$41 billion	$157 billion
X	**Cap Medicare growth starting in 2013** This option would cap the Medicare growth at G.D.P. growth plus 1 percentage point, starting in 2013. Among other things, this would crack down on many hospitals and doctors with the highest costs.	$29 billion	$562 billion

SOCIAL SECURITY

Projected Savings to Deficit in:

		2015	2030
	CHANGING THE RETIREMENT AGE: CHOOSE ONE OR NONE		
	Raise the Social Security retirement age to 68 The increase in longevity has caused some to favor higher eligibility ages for Social Security. This option would gradually raise the age from the currently planned 67 to 68. Supporters say that the change would go a long way toward fixing Social Security's shortfall, by reducing benefits and by encouraging people to work (and thus pay payroll taxes) for longer. Opponents say that longevity increases have been smallest among low-income workers, who need Social Security the most.	$13 billion	$71 billion
X	**Raise the Social Security retirement age to 70** This option would gradually raise the age to 70, potentially saving an additional $175 billion.	$13 billion	$247 billion
X	**Reduce Social Security benefits for those with high incomes** "Currently, initial Social Security benefits are determined in a way that allows them to grow with economy-wide wage growth," says the Committee for a Responsible Federal Budget, a private group in Washington. Under this option, workers below the 60th percentile of the lifetime earnings distribution would continue to have their retirement benefits grow over time with average wage increases. But the benefits of top earners would grow more slowly – with inflation – while benefits for workers just above the 60th percentile would grow at a rate between inflation and wage growth.	$6 billion	$54 billion
	Tighten eligibility for disability The costs of the disability insurance program, which is administrated by the Social Security Administration, have been rising rapidly. This option would cut disability spending by 5 percent by focusing on states with the loosest standards. Supporters note that growing numbers of workers are classified as disabled, though the average job is less physically taxing. Opponents worry that injured or ill workers with few good job prospects would be harmed.	$9 billion	$17 billion
	Use an alternate measure for inflation Some economists believe that the Consumer Price Index overstates inflation, giving Social Security recipients larger cost-of-living increases than necessary. This option would use a different, lower inflation measure both for Social Security and in the tax code (thus pushing more households into higher brackets over time). Supporters say the lower measure is more accurate. Opponents say it is less accurate for the elderly, who buy a different mix of goods and services than other households.	$21 billion	$82 billion

EXISTING TAXES

Projected Savings to Deficit in:

		2015	2030
	MODIFYING ESTATE TAXES: CHOOSE ONE OR NONE		
	The Lincoln-Kyl proposal For the first time since early in the 20th century, there is no estate tax in 2010 – a feature of the 2001 Bush tax cut. (The tax is scheduled to return in 2011, but this exercise assumes the cut will continue.) A proposal by Senators Jon Kyl, an Arizona Republican, and Blanche Lincoln, an Arkansas Democrat, is the most moderate of the estate-tax options here. It would exempt the first $5 million from any taxable estate and index this level to inflation over time. Any estate value above $5 million would be taxed at a 35 percent rate.	$12 billion	$20 billion
	President Obama's proposal President Obama's proposal is more agressive than Kyl-Lincoln, but would still cut the estate tax when compared to the Clinton years. The Obama plan would exempt the first $3.5 million from any taxable estate. Any estate above $3.5 million would be taxed at a 45 percent rate. These are the same provisions that applied in 2009, as part of the 2001 Bush tax cut.	$24 billion	$45 billion

		2015	2030
X	**Return the estate tax to Clinton-era levels** Under President Bill Clinton, the estate tax exempted $1 million from any taxable estate. This level would not grow with inflation over time, subjecting more estates to the tax. The rate would start at 18 percent and climb to 55 percent, as it did in the 1990s. The 55 percent rate would begin at $3 million. If Congress takes no action, this would become law on Jan. 1, 2011.	**$50 billion**	**$104 billion**
	INVESTMENT TAXES: CHOOSE ONE OR NONE		
	President Obama's proposal Capital gains and dividends are now untaxed for couples with incomes below $68,000. For everyone else, the tax rate is 15 percent. This option, proposed by President Obama, would raise the rate to 20 percent for households making roughly $250,000 a year and above.	**$10 billion**	**$24 billion**
X	**Return rates to Clinton-era levels** This option would return rates to their level under President Bill Clinton: 10 percent on capital gains for low-income households and 20 percent for everyone else, while dividends would again be taxed at the same rate as ordinary income.	**$32 billion**	**$46 billion**
	THE BUSH TAX CUTS		
X	**Allow expiration for income above $250,000 a year** This option would allow the expiration, on Jan. 1, of the Bush tax cuts for the top 2 percent or so of households on the income distribution – those making $250,000 or more. On average, the change would equal about 2 percent of a given household's pretax income.	**$54 billion**	**$115 billion**
	Allow expiration for income below $250,000 a year This option would allow the expiration, on Jan. 1, of the Bush tax cuts for the bottom 98 percent or so of households on the income distribution – those making $250,000 or less. On average, the change would equal about 2 percent of a given household's pretax income.	**$172 billion**	**$252 billion**
X	**Payroll tax: Subject some incomes above $106,000 to tax** When the payroll tax – which finances Social Security and Medicare – was created, it covered 90 percent of all income. Today, with a ceiling at $106,800, it covers closer to 80 percent. This option would gradually raise the ceiling, until 90 percent of income was again subject to the tax.	**$50 billion**	**$100 billion**

NEW TAXES AND TAX REFORM

		Projected Savings to Deficit in: 2015	2030
X	**Millionaire's tax on income above $1 million** Currently, the top tax brackets starts at about $375,000. In past decades, it started at much higher income level, after inflation is taken into account. This option – which the House passed last year but the Senate did not – would create a new 5.4 percent surtax on income above $1 million.	**$50 billion**	**$95 billion**
	CLOSING TAX LOOPHOLES: CHOOSE ONE OR NONE		
	Eliminate loopholes, reduce rates (Bowles-Simpson plan) The deficit commission proposed a series of tax overhaul plans. Each one would reduce tax breaks for companies and individuals, while lowering tax rates. On the whole, the plans would raise revenue. One plan would cut all tax breaks other than the child and earned-income tax credits and those for mortgages, health and retirement benefits. The corporate tax would then be cut to 28 percent, from 35 percent, while individual tax rates would be cut for all brackets too.	**$75 billion**	**$175 billion**
X	**Eliminate loopholes, but keep taxes slightly higher** This option is the same as the previous one – except that tax rates would be cut less, raising more revenue to reduce the deficit.	**$136 billion**	**$315 billion**
X	**Reduce mortgage deduction and others for high-income households** The benefits of the mortgage-interest deduction (and several other tax breaks) flow mostly to high-income households – because they tend to have larger mortgages and have marginal income-tax rates. This option would reduce the value of some of those breaks to high-income households.	**$25 billion**	**$54 billion**
	National sales tax Nearly every other rich country has a tax on consumption, also known as a value-added tax or national sales tax. This option would impose a 5 percent consumption tax, exempting education, housing and charitable giving.	**$41 billion**	**$281 billion**
	Carbon tax This option would tax carbon emissions, starting at $23 per ton of CO_2. The tax rate would increase at a constant annual rate of 5.8 percent, from 2012 through 2050.	**$40 billion**	**$71 billion**

Bank Tax This option would tax banks based on the size of their holdings and the perceived riskiness of those holdings. Larger, riskier banks would pay more tax, both to discourage them from taking big risks and to help cover the costs of future financial crises.	**$73 billion**	**$103 billion**

Notes: These suggested cuts would need to be implemented gradually over the next 20 years, some taking effect well before 2030 in order to keep the deficit, and thus interest payments on the national debt, at a manageable level between now and 2030. All figures are adjusted for projected inflation and expressed in terms of 2010 dollars. The baseline for this exercise assumes that all current policies continue, even those scheduled to expire, like the Bush tax cuts.

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Sources: New York Times analysis of data provided by Alan Auerbach and William Gale; Committee for a Responsible Federal Budget; Tax Policy Center; Congressional Budget Office; Sustainable Defense Task Force; Cato Institute; Economic Policy Institute; National Commission on Fiscal Responsibility and Reform; Joint Committee on Taxation; Centers for Medicare and Medicaid Services; Social Security Administration

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