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A Return to Fiscal Responsibility

A Progressive Plan to Slash the Deficit

by Paul Weinstein Jr.

America's long-term economic health is at a crossroads. For the last three years, our political leaders have run up a huge tab by enacting excessive and unnecessary tax breaks for the wealthiest Americans and largest corporations, while increasing spending to levels not seen since World War II.[1] For example, the 7.6 percent average annual growth of the federal budget during the past two years is more than double the 3.4 percent average annual growth between 1993 and 2001 under President Clinton. As a result, the surpluses of the 1990s have turned overnight into the largest deficits in history and the size of the national debt is expected to double by the beginning of the next decade.[2]

Despite efforts by the Bush administration and the Republican congressional leadership to hide the true costs of these deficits with gimmicky accounting and budget tricks, the real story about America's deficit crisis is now coming to light. In November 2003, the Congressional Budget Office (CBO) offered a more realistic estimate of the size of the federal deficit. Under CBO's new estimates, deficits will total more than $4 trillion during the next 10 years rather than the $1.3 trillion the Bush administration assumed. Furthermore, according to CBO, the deficits will never drop below $374 billion, the historic high set in fiscal year (FY) 2003 and will rise to a new record of $494 billion this year.[3]

Yet even as the fiscal future of our government dramatically deteriorates, public perception of the seriousness of the problem is lagging. According to one recent poll, only 3 percent of voters listed the deficit as the most important issue facing the country.[4] And Republicans in the administration and Congress, who for decades called for balanced budgets, are now arguing that deficits aren't really important.

But deficits and the nation's rising debt *do* matter. If we do not address the structural deficits put into place by the Bush administration and the Republican Congress soon, American families will pay more in federal, state, and local taxes, higher mortgage and credit card rates, and higher fees on student loans.

This paper offers a progressive alternative to the administration's borrow-and-spend policies and the tax-and-spend policies of pre-Clinton Democrats. Included is a list of over 50 politically feasible and sound public policy proposals that will slash CBO's "realistic" projected 10-year deficit by close to $2 trillion. The list features a series of spending cuts, government reinvention proposals, budget reforms, and tax reforms that spread the pain of deficit reduction fairly. These savings are achieved in five major areas:

- Cutting the size of the government workforce and administrative costs, including reducing the size of the federal workforce, freezing federal travel, and slashing the number of consultants on the federal payroll;
- Rolling back the Bush tax giveaways to the wealthiest Americans while protecting the tax cuts for middle- and low-income families;
- Creating a commission to reduce corporate welfare expenditures, including both tax breaks and spending programs that aid companies that don't need or deserve the government subsidies;
- Reinventing and consolidating government programs and agencies; and
- Restoring real budget controls including stronger versions of PAYGO[5] and budget caps as well as establishing a constitutionally viable version of the "line-item veto."

Because the Bush administration and the Republican Congress have put us so deep into debt, this commonsense plan will not balance the budget by itself. However, this proposal is a start. If implemented, this plan will put America back on the road to fiscal responsibility, while not wreaking havoc with our economy; enable us to deal more effectively with the coming retirement of the baby-boom generation; and make government more efficient and responsive.

The Budget Outlook

When George Bush took office, the CBO estimated surpluses into the foreseeable future. According to CBO, the federal government was estimated to generate over $5 trillion in surpluses, enough to eliminate the publicly held federal debt by 2008. That meant federal interest payments on the debt, which were running about $200 billion a year when Bush arrived, were expected to dwindle to virtually nothing by the end of this decade.

Yet within three years, our fiscal situation has deteriorated to the point of catastrophe.

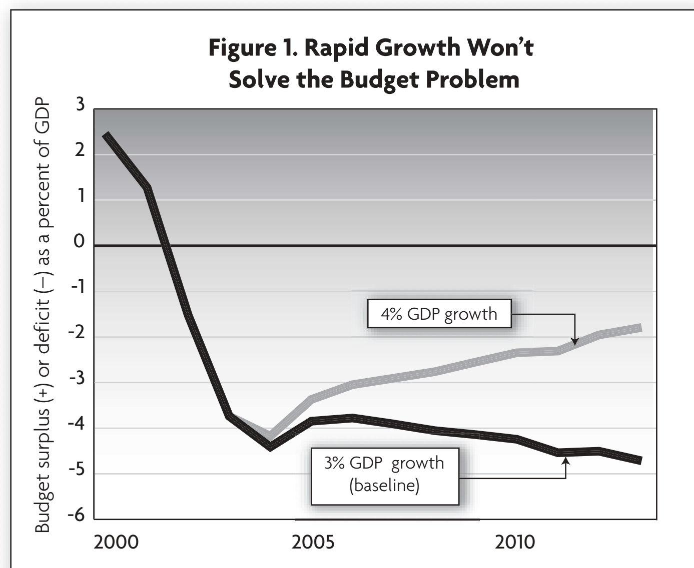
In October 2003, the CBO issued a new long-term budget projection. This realistic budget projection, which assumes—unlike the Bush administration—that the 2001, 2002, and 2003 tax cuts are permanent, that Congress will continue to fix the Alternative Minimum Tax, and that the Iraq conflict and reconstruction will not disappear like magic, concluded that America cannot simply grow its way out of debt. The country, in fact, faces a long-term, structural deficit of historic proportions.

According to CBO, the nation's debt will double in the next 10 years to $8.4 trillion, even using the optimistic growth figures contained in the administration's budget. Furthermore, the deficit, rather than disappearing as the president has asserted, will remain at roughly $400 billion, including a record $494 billion this fiscal year.

If these budget projections are borne out, the coming decade is likely to rank as the most fiscally irresponsible in our nation's history. Even assuming the economy fully recovers and the costs of the war on terrorism decline more than most experts project, the federal government is on track to run sustained deficits equal to about 3.4 percent of the size of the economy. With only one exception (during the Reagan era), the federal government has never run deficits of this size except during times of global depression or full-scale war.

Unfortunately, this budget deficit is not a self-correcting problem. The long-term deficits we face are of such magnitude that the economy cannot possibly "grow out of them," a message that comes across clearly in the reports of government agencies such as the General Accounting Office and the CBO, and nonpartisan institutions such as the Concord Coalition, Centrists.Org, and the Brookings Institution.

In fact, even if GDP growth averages 4 percent throughout the next decade (a 10-year growth rate that has not been achieved since the 1960s), the budget will remain in deficit.[6]



Source: Jeff Lemieux, Centrists.org.

Why Deficits Matter

It is often hard to grasp the enormous numbers associated with the current Bush administration's borrowing binges. We are currently facing annual federal budget deficits of one-half of $1 trillion. Few Americans ever have to deal with "trillions" of anything, so hearing such numbers may make the mind freeze.

But unfortunately, deficits and the national debt matter. Once you break down the impact of both on individuals and families, the dangers of our current fiscal recklessness to our nation becomes easier to understand.

The Bush Tax on Families

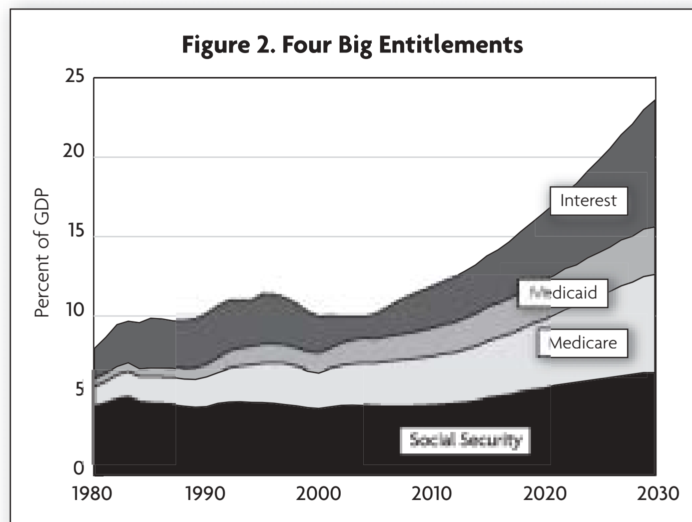
One way to express the cost of the deficit is to calculate the financial liability each of us has individually undertaken as a result of Washington's excess. According to the Citizens for Tax Justice (CTJ), once the impact of the Bush tax cuts is fully phased in, this amounts to a tax bill of $52,000 for each family.

In fact, if current policies continue, interest on the public debt will rise to become the largest entitlement program in the U.S. budget, more than what we pay for Social Security, Medicare, or Medicaid. Currently, interest accounts for about 1.5 percent of GDP, down from a recent high of 3.3 percent in 1991. This was due in large part to the successful budget-cutting efforts of the Clinton-Gore administration in the 1990s and the budget reforms enacted by the first President Bush and the Democratic Congress in 1991. However, on the current budget trajectory, which includes large deficits and a dramatic buildup in the federal debt, interest would grow to a staggering 8 percent of GDP by 2030.[7]

If you listen to the Bush administration's rhetoric, you might think most Americans will get back most of the debt they have acquired in tax cuts, but unfortunately facts indicate otherwise. According to CTJ, the net negative impact of new public debt minus tax cuts amounts to $37,826 per family of four. And, when you look at the typical middle-class family, one with income in the middle 20 percent of the income distribution, the net negative impact through 2007 rises to $42,400, thanks to the targeting of tax cuts to high earners.[8] Furthermore, as the federal government continues to shift the burden for the environment, education, homeland security, and other governmental functions to the states and localities, state and property taxes will continue to rise. As a study by this author noted last spring, many Americans are already paying more in taxes and fees as a direct result of the debt-funded Bush tax cuts. Furthermore, since we can't afford the Bush tax cuts, the net effect is that we have simply shifted the tax burden to future generations.

The End of Progressive Government

If the federal deficits are not addressed, then progressive government will grind to a halt. And



Source: Jeff Lemieux, Centrists.org.

while some may rejoice at the thought of a government that cannot meet its most basic obligations, such as public safety, educating our children, and building roads, their hubris may be as misplaced as those who forced the government shutdown in 1995.

Imagine a time in the future when interest on the debt is the biggest expenditure in the budget, a future when we cannot afford to fight a war on terror or a war on drugs because we owe too much to foreign creditors. Think ahead to a place and time where government is cutting every basic service or raising taxes by almost 30 percent in order to meet interest payments.

This may sound preposterous, but it is not. Here is why. The Federal Reserve's aggressively low interest rates have kept federal interest outlays in check for now, but after FY 2005, interest payments are expected to rise rapidly—to $350 billion by the beginning of the next decade if we continue the status quo. By 2009 and thereafter, the government is likely to be spending more on interest on the debt than on all domestic discretionary programs—from education, to the environment, to law enforcement, to science, to transportation, to veterans.[9]

And how do you pay for this ever-growing interest burden? The politically easy answer is to simply borrow more. But at some point, the ability to borrow additional debt will become economically untenable, even for the U.S. Treasury. So at some date in the future, the government will have to balance its books. This of course means one of two things, or a combination of both, higher taxes or less spending—but by how much?

Recently, three groups tried to quantify just how much. According to the Committee for Economic Development (a group of business and education leaders), the Center on Budget and Policy Priorities (a liberal-leaning research and advocacy group), and the Concord Coalition (a bipartisan organization focused on sound fiscal policy), if we continue to ignore our growing deficits by maintaining current policies, balancing the budget by 2013 will require raising individual and corporate income taxes by 27 percent, cutting Social Security by 60 percent, cutting defense by 73 percent, or cutting all programs—except defense, homeland security, Social Security, and Medicare—by 40 percent.[10]

Unfortunately, the problem will only get worse after 2013, when the baby boom generation retires and our country is faced with $25 trillion in unfunded entitlement obligations.

Higher Interest Rates

Despite the Bush administration's campaign to the contrary, there is considerable evidence that long-term deficits do impact expected interest rates. A review of the deficit-interest rate literature by economists Peter Orszag and William Gale of the Brookings Institution found that 16 of the 17 academic studies that looked at the effect of expected deficits on interest rates found a clear and significant correlation.[11]

According to Orszag and Gale "a reasonable estimate is that a reduction in the projected budget surplus (or increase in the projected budget deficit) of one percent of GDP will raise long-term interest rates by between 50 and 100 basis points. These findings suggest that the costs of increased deficits are significant over the long run, and need to be compared carefully to the potential benefits of the tax and spending programs that result in larger long-term deficits."[12]

In addition, most of the world's top fiscal and economic experts, including Harvard's Martin Feldstein, Federal Reserve Chairman Alan Greenspan, and his predecessor Paul Volker, have all written that long-term deficits affect interest rates. This fundamental relationship is built into the economic models used for decades under both Democratic and Republican administrations at the Federal Reserve, the CBO, and the Office of Management and Budget.[13]

Private-sector economists have also noted the relationship between federal budget deficits and long-term rates. For example, a Goldman Sachs analysis in April 2000 said, "the swing in federal budget position from a deficit of $290 billion in 1992 to a surplus of $124 billion in 1999—roughly matching the improvement in the general government position—has lowered equilibrium bond yields by a full 200 basis points."[14]

Higher interest rates of course can have a huge impact on family budgets. An increase, for example, of long-term interest rates by more than

200 basis points would not only seriously discourage new business investment and reduce the value of the stock market, it would also mean a $3,000 increase in annual payments for a family holding a 30-year $200,000 mortgage.[15]

Long-term Damage to the Economy

Clearly, the current deficit spending path embarked on by the Bush administration and Congress has had some stimulative impact on the economy, but at what long-term economic costs? Many economists and well-respected financiers believe the current untenable budget situation is threatening the future of our economy.

For example, as the global economy recovers, U.S. deficits could cause a rise in inflation or a rapid decline in the value of the dollar. Higher interest rates, as discussed above, could stop business investment and consumer purchases of housing or cars in their tracks.[16]

Furthermore, even if shortfalls in U.S. saving are compensated by increased capital inflows from overseas investors, the proceeds of those foreign investments will have to be repaid in the future, with capital income flowing out of the United States instead of to domestic investors.[17]

In fact, the International Monetary Fund (IMF) recently released an alarming report that stated that the United States is racking up so much foreign debt that it is threatening the global economy. The IMF report warns that U.S. net financial obligations could rise to 40 percent of its total economy within a few years, an unprecedented level of debt for a industrial nation. This excessive borrowing could result in creating an unstable dollar and higher global interest rates.[18]

Exemplify "Politics as Usual" in Washington

There is a reason we are spending more today than we did three years ago: Politicians have given free range to special interests. Just look around. Wasteful and unnecessary spending has been littered on legislation of "national importance" such as the defense and homeland security appropriations bills, at the cost of hundreds of billions of dollars to the American taxpayer. Corporations and their lobbyists have been invited into the White House and the halls of Congress to write their "pork" projects and tax breaks into legislation. And competitive bidding, a hallmark of "good government," has been thrown aside in the name of national security.

In the omnibus spending bill enacted by the House of Representatives in December 2003, over 7,000 earmarks were placed into the legislation. Included in the list were $100,000 for street furniture and sidewalks in Laverne, Ala., $250,000 for technology upgrades at Chapman University in Orange County, Calif., and another $250,000 for a telecommunications center named after Sen. Conrad R. Burns (R-Mont.), an Appropriations Committee member, at Montana State University in Bozeman.

The relationship between higher deficits and rising special interest influence is an unhealthy cycle that can only be broken by leadership at the top and strong political will. Unfortunately, politicians in Washington seem to be in short supply of both. As long as politicians don't feel limited by spiraling debt, they will continue to spend on wasteful pork. Only if the public's rage is focused on Washington will Congress stop their irresponsible spending habits.

Putting Future Retirees at Risk

In the late 1990s, there was bipartisan support for the idea that we should save surpluses to meet the baby-boom retirement challenge without passing on the burden to the next generation. A key component of this generational responsibility movement was to adopt policies that increase savings to spur long-term productivity, so that a smaller number of workers can support a larger number of future retirees without oppressive tax increases or spending cuts. Another was to make sure that there are funds available to finance the transition costs required to make most Social Security reform plans more viable. Unfortunately, we have lost the bipartisan support for saving Social Security and Medicare, and have instead adopted consumption-oriented policies that will force huge financial sacrifices onto our children and their children.

How bad will it be? After the baby boom generation starts to retire in 2008, the combination of demographic pressures and rising health care costs will result in the costs of Medicare, Medicaid, and Social Security growing faster than the economy. The Concord Coalition has projected that by the time today's newborns reach 40 years of age, the cost of these three programs as a percentage of the economy will more than double—from 8.5 percent of GDP to over 17 percent. Combined, we are handing our children a $25 trillion unfunded liability.[19]

What Needs to Be Done?

The obvious answer to this question is to immediately put into place a credible deficit reduction plan. With a partial economic recovery in place and the Federal Reserve committed to low-interest rates over the short term, the arguments that we need to keep providing economic stimulus at current levels is no longer legitimate. Furthermore, the major costs associated with the war on terror are now embedded into the budget baseline. Therefore, politicians have no excuse not to pursue a strategy of aggressive deficit reduction.

What is an appropriate amount of deficit reduction? That is a difficult question to answer. Considering we have shifted from approximately $5 trillion in projected surpluses to $4 trillion in projected deficits within a period of three years, it is more than reasonable to assume we could cut the current projected deficit in one-half over the next 10 years—as long as the savings are focused on the right areas of the budget.

Which items in the budget are the right ones to find savings? Those areas that have most contributed to the recent increase in the deficit: 1) the increase in the government workforce and administrative expenses; 2) the explosion of pork and wasteful spending; 3) the enactment of unnecessary tax cuts for wealthiest Americans; 4) the proliferation of tax breaks for corporations and special interests; and 5) the elimination of budget rules and accountability.

Table 1 provides a list of 55 different budget savings that, combined with net interest savings, would cut the 10-year projected deficit by $1.85 trillion. The savings achieved in this are almost equally divided between spending cuts, government reinvention, budget reforms, and tax reforms. Specifically, the savings are broken down as follows:

Spending Cuts	($164,855,000,000)
Government Reinvention	($156,786,000,000)
Budget Reform	($481,700,000,000)
Tax Reform	($641,300,000,000)
Net Savings	($417,000,000,000)
Total Savings	($1,861,623,000,000)

The spending cuts are targeted heavily toward trimming the government workforce (both federal workers and government consultants/contractors), administration, and cutting wasteful spending. Some of these cuts are small, some are large, but all are both good public policy and smart politics.

The government reinvention is aimed at consolidating agencies, programs, policies, and procedures that are duplicative.

The budget reforms would restore and strengthen many of the key budget controls (PAYGO, budget caps) put into place in the early 1990s, which contributed to the strong fiscal position of the United States prior to the current administration.

The tax reforms would only impact the wealthiest 2 percent of Americans and close corporate loopholes on those companies that are not paying their fair share.

America has a choice. We can take responsibility now for our excessive spending and tax giveaways, or we can pass that responsibility onto our children and their children. The following list of suggested cutbacks and reorganization of funds is a step in the right direction. Unfortunately, it is only a start. If we are to finish the job, we will have to tighten our belts even more and challenge our leaders to be courageous. However, due to the severity of this issue, we must begin somewhere. Below, Table 1 provides an overview of proposals to start this process, followed by detailed explanations of each proposed reform.

Table 1

Spending Cuts	10-Year Savings
Cut the Number of Political Appointees	770
Cut Congressional Staff by 10%	1,700
Cut the Non-Defense/Homeland Security Workforce by 10%	39,000
Freeze the Federal Travel Budget at $8 Billion per Year	10,000
Reduce the Number of Consultants Employed by the Federal Government by 150,000	67,000
Suspend the Acquisition of New Federal Office Space	6,000
Trim the Federal Vehicle Budget by 5%	1,000
Cut Funding For Pork Highway Projects By 50%	8,800
Cut Essential Air Service by 50%	584
Reactivate Military BaseClosing Commission	24,000
Cut the Economic Development Administration Budget By 50% and Require a State/Local Match	2,600
Eliminate Taxpayer Support for Cruise Ship Building Industry	1,100
Eliminate Funding for the National Sheep Industry Improvement Center	10
Eliminate Subsidies for Special Agricultural Products—Apple Loans Program	10
Eliminate Subsidies for Special Agricultural Products—Emergency Boll Weevil Loan Program	10
Eliminate Subsidies for Special Agricultural Products—Mandatory Spending for Onion Producers	100
Eliminate Subsidies for Special Agricultural Products—Support for Wool and Mohair	187
Eliminate Subsidies for Special Agricultural Products—Loan Program for Dry Peas and Lentils	150
Eliminate Subsidies for Special Agricultural Products—Honey Support Program	101
End Payments to Wealthy Farmers	1,654
Eliminate Exchanges with Historic Whaling and Trading Partners Program	9
End "Nuclear Power 2010"	70
Subtotal	**164,855**
Government Reinvention	
Require the Departments of Defense and Veterans Affairs to Purchase Prescription Drugs Jointly	1,777
Repeal Pork in Medicare Drug Bill	19,900
Reform Graduate Medical Education	5,250
Create Centers of Excellence for Medicare Patients	1,500
Adjust Capital Payments to Hospitals Under Medicare	6,900
Reform Private, Supplemental Insurance for Medicare Beneficiaries	36,500
Consolidate Statistical Agencies	50
Merge the Office of Thrift Supervision and Comptroller of the Currency	120
Charge Federal Employees Commercial Rates for Parking	1,540
Merge National Endowment for the Arts and National Endowment for Humanities and Encourage Efficiencies	142
Combine the Overseas Private Investment Corporation and Export-Import Bank and Encourage Efficiencies	321
Finance the Food Safety and Inspection Service Through User Fees	7,900
End Corporate Giveaways to Commodities Industry	620
Shift Responsibilities of Foreign Agricultural Service Attachés to State Department	354
Improve the Performance of the Senior Executive Service	68
Reduce Erroneous Payments	15,000
Consolidate Non-military International Broadcasting	242
Change Pricing Structure for Military Depot Repairs	1,252
Consolidate Military Personnel Costs into a Single Appropriation	15,000
Consolidate and Encourage Efficiencies in Military Exchanges	1,750
Apply Technology to Reduce the Cost of Operating Equipment	4,600
Switch to Direct Student Loans	36,000
Subtotal	**156,786**
Budget Reform	
Restore “Real” PAYGO Rules	111,700
Enact a Constitutionally Viable Line-Item Veto (Super Rescission)	5,000
Impose Discretionary Budget Caps (assumes spending is held to rate of inflation as specified by Deficit Control Act)	90,000
Enact a Corporate Subsidy Reform Commission	275,000
Subtotal	**481,700**
Tax Reform	
Close the CEO Pay Loophole	2,000
Reinstate Superfund Taxes	15,300
Increase Estate Tax Exemption to $7 million but Forego Complete Repeal	107,000
Eliminate Bush Rate Cuts For Families Making More than $200,000	315,000
Curb the Bermuda Tax Loophole	5,000
Require Companies to Explain the Differences Between the Profits They Report to Investors and Those They Report to the IRS	150,000
Curtail Tax Shelters (Grassley/Baucus)	47,000
Subtotal	**641,300**
Deficit Reduction (excluding net interest savings)	1,444,623
Net Interest Savings	417,000
TOTAL DEFICIT REDUCTION	**1,861,623**

Figures in millions.

Explanation of Budget Savings

Spending Cuts

Cut the Number of Political Appointees

10-Year Savings of $707 Million

The term "political appointee" generally refers to employees of the federal government who are appointed by the president, some with and some without Senate confirmation, and to certain policy advisers hired at lower levels. In this option, the term refers to Cabinet secretaries, agency heads, and other Executive Schedule employees at the very top ranks of government; top managers and supervisors who are non-career members of the Senior Executive Service; and confidential aides and policy advisers referred to as Schedule C employees. The total number of employees in such positions, according to the CBO's projections, will average about 2,800 over the next 10 years. If the government instead capped the number of political appointees at 2,200, savings over the next 10 years would total more than $700 million. The current average salary for the political appointees most likely to be affected is $93,000, CBO estimates.[20]

Reports from several groups, including the National Commission on the Public Service and the Twentieth Century Fund, have called for cuts in the number of political appointees. The National Commission on the Public Service, also known as the Volcker Commission, called for setting a limit similar to the one described here. In addition to the problem of excessive organizational layering, the Volcker Commission expressed concerns about many appointees' lack of expertise in government operations and programs.

Cut Congressional Staff by 10 Percent

10-Year Savings of $1.7 billion

In the 1990s, the executive branch cut its workforce by approximately 370,000 full-time employees (FTE). This reduction saved U.S. taxpayers billions of dollars. Yet, while the executive branch dramatically reduced the size of its workforce, Congress' continued to grow. With burgeoning deficits, Congress should share the pain of future reductions in the federal workforce. This proposal would cut congressional staff by 10 percent over the next 10 years.[21]

Cut the Non-Defense/Homeland Security Workforce by 10 Percent

10-Year Savings of $39 Billion[22]

President Clinton cut the number of civilian employees by over 100,000. President Bush's budget allows an 8 percent increase. Some of it is related to homeland security, and it should remain. But a lot of the increases we have seen in the last three years are in agencies that have no role in the war against terrorism. Through smart workforce planning, we can cut the number of government employees outside defense and homeland security by 10 percent over the next 10 years.

Savings in the workforce could also be achieved by committing to transform traditional government functions and services to e-government more quickly and thoroughly. In the private sector, information technology (IT) has been shown to yield dramatic cost savings. Substituting electronic processes for paper, telephone, or face-to-face processes have saved organizations from large corporations to small businesses billions of dollars on their bottom line. For example, e-banking is approximately 20-times cheaper than using checks or tellers. While the private sector is moving rapidly ahead with such systems—indeed, this is one reason why productivity growth has been so robust—government continues to lag behind. Although it is hard to estimate the exact savings that could be achieved by moving to e-government, some estimate that as many as 370,000 federal jobs—including occupations such as miscellaneous administration (57,000 jobs) and general claims examining (3,800)—could be impacted. Assuming that 33 percent of the jobs could be automated, with savings of 60 percent per job, the total annual cost savings would exceed $5.6 billion annually.[23]

Freeze the Federal Travel Budget at $8 Billion per Year

10-Year Savings of $10 Billion

One of the first things companies cut when faced with budget problems is travel. Yet, despite our record deficits, the government has not yet been able to reign in excessive travel. For example, in FY 2000, federal agencies spent more than $9 billion on travel for mission-related business around the world.[24] This figure was 6.3 percent higher than the previous year.[25] Year in and year

out, agencies spend more on travel than they project. This proposal would create a hard cap on travel, and would freeze the travel budget at $8 billion per year with no exceptions.

Reduce the Number of Consultants Employed by the Federal Government by 150,000

10-Year Savings of $67 Billion[26]

During the Clinton-Gore administration, the federal workforce was reduced by over 370,000 full-time employees (FTE). While this cut in the federal workforce saved the taxpayers billions, some of the savings were not fully realized because contractors and consultants were often hired to replace the government employees. For example, between 1995 and 2000, the Veterans Health Administration hired 43,000 contract employees to staff new community health clinics, a centerpiece of the department's effort to make health care more accessible to veterans. During the same period, the VHA cut its federal workforce by almost 21,000 positions. Veterans Affairs (VA) officials believed they had followed the spirit, if not the letter, of competitive sourcing.

Many other agencies made similar cutbacks. In 1999, the most recent year for which data is available, the government relied on a contract workforce of 5.6 million employees, according to Paul C. Light, a senior fellow at the Brookings Institution. With 1.9 million civilian employees in government, federal agencies had more than three contract employees for every civil servant before competitive sourcing even got started.[27]

While contractors and consultants provide useful services at a lower cost than the federal government, their prices are too high in light of the current budget deficit. Not only should the federal government continue to downsize its workforce, but it should ensure that these savings are completely realized. As such, the number of consultants should be reduced by 200,000 over the next 10 years.

Suspend the Acquisition of New Federal Office Space

10-Year Savings of $4 billion

If we continue to reduce the size of the federal workforce, there is no reason to continue to purchase or lease new office space. In fact, there may be growing opportunities to cut back on the total number of offices controlled by the federal government.

Under this proposal, the General Services Administration (GSA) would place an immediate hold on GSA's acquisition—through construction, purchase, or lease, of net new office space—as well as do a survey of existing space that can be eliminated due to expected declines in the federal workforce.[28]

Trim the Federal Vehicle Budget by 5 Percent

10-Year Savings of $1 Billion

The government owns more than one-half of 1 million cars and trucks and spends over $2 billion annually to operate them.[29] And unfortunately, this number is only getting bigger. For example, the U.S. Department of Justice has projected a 9 percent increase by 2004, while the U.S. Department of Homeland Security is estimating a whopping 21 percent.[30] While some of these increases may be justified as part of the war on terrorism, others are not. Experience from the private sector underscores that there is always waste in administrative expenditures, and savings can always be found, even when new needs arise. The federal government should follow the lead of states like Michigan, which recognized they had too many automobiles for government use and trimmed their vehicle budget by 5 percent.

Cut Funding for Pork Highway Projects by 50 Percent

10-Year Savings of $8.8 Billion[31]

Every year Congress increasingly assigns hundreds of specific projects that must be funded in the highway program, rather than through the traditional procedures whereby states decide the use of federal highway grants subject to rules and categories established by law. These high-priority projects (as Congress likes to describe them) are nothing more than pork projects. For example, in authorizing $171 billion in funding for the Federal-Aid Highway program over the 1998-2003 period, the Transportation Equity Act for the 21st Century (TEA-21) designated nearly $9.4 billion for 1,851 high-priority projects. For those projects, in 2002

the Congress provided nearly $1.8 billion in TEA-21 funding. Because Congress will always pass a certain amount of pork no matter what the rules are, the goal of this proposal is for the leaders of the House and Senate to add a cap that reduces the amount of highway pork by 50 percent. This would be enforced by the leadership through the budget and reconciliation processes.

Cut Essential Air Service by 50 Percent

10-Year Savings of $166 Million[32]

The Essential Air Service (EAS) program was created by the Airline Deregulation Act of 1978 to continue air service to communities that had received federally mandated air service before deregulation. The program provides subsidies to air carriers serving small communities that meet certain criteria. (Subsidies are available for service to communities only if they are 70 miles or more from a large or medium-sized hub airport, except in Alaska and Hawaii.) In 2002, subsidies supported air service to 114 U.S. communities, including 31 in Alaska (for which separate rules apply). The number of passengers served annually has fluctuated in recent years, as has the subsidy per passenger, which has ranged from $6 to $400. The Congress has directed that such subsidies not exceed $200 per passenger unless the community is more than 210 miles from the nearest large or medium-sized hub airport. This option would reduce the EAS program by 50 percent, saving $584 million in mandatory outlays over 10 years.[33]

The EAS subsidies are excessive, providing air transportation at a high cost per passenger. The program was intended to be transitional, and the time has come to begin phasing it out. If states or communities derive benefits from service to small communities, the states or communities could provide the subsidies themselves.

Reactivate Military Base Closing Commission

10-Year Savings of $24 Billion[34]

Since the Cold War ended, U.S. military forces have shrunk by more than one-third, yet domestic base capacity has been reduced by only 20 percent.[35] It has been roughly a decade since the last round of military base closings, and the time has come again for another go around. Dozens of bases could be on the chopping block given that the nation now has about 450 major bases and the previous four rounds of closings hit an average of two dozen each. It has been estimated that once base capacity has been reduced, annual savings of $3 billion to $4 billion could accrue. This proposal assumes the quick establishment of a base closing commission and a vote on its recommendations by 2005.[36]

Cut the Economic Development Administration's Budget by 50 Percent and Require a State/Local Match

10-Year Savings of $2.6 Billion[37]

Originally established to help provide assistance to distressed communities, the Economic Development Administration (EDA) long ago became one the best agencies with which to funnel pork monies to projects of interest to Members of Congress. One of the best examples of this is an award of $500,000 to Wofford College in Spartanburg, S.C., for an athletic stadium that was used for training by the Carolina Panthers football team.[38]

This proposal would cut EDA's budget by 50 percent and require a state and/or local match of an equal amount for future grants. This state/local match would help ensure that new EDA grants are both needed and supported by the communities receiving the grants. By leveraging state and local resources, the program should improve in quality and impact while saving federal taxpayer money.

Eliminate Taxpayer Support for the Cruise Ship Building Industry

10-Year Savings of $1.1 Billion[39]

One of the worst forms of corporate welfare is the Maritime Guarantee Loan Subsidy Program. This program provides government guarantees for cruise ship building loans to major corporations. Even more unfortunate, many of these firms have defaulted on these loans. Sen. John McCain (R-Ariz.) has noted that the Title XI maritime loan guarantee program has experienced several defaults since February 2000,

which have resulted in federal payouts totaling more than $441 million.

Eliminate Funding for the National Sheep Industry Improvement Center

10-Year Savings of $10 Million[40]

The National Sheep Industry Improvement Center (NSIIC) was established as a revolving fund by the 1996 Farm Bill to replace the wool and mohair subsidy. The program, like the wool and mohair subsidy, is not necessary since these industries are competitive and profitable. Furthermore, taxpayers should not have to subsidize the cost of angora sweaters or wool suits.

Eliminate Subsidies for Special Agricultural Products

10-Year Savings of $458 Million

Despite efforts to kill them on numerous occasions, subsidies for wool, mohair, honey, and other specialty crops continue. For example, the Honey Loan program was terminated in 1996 after a long battle by the Clinton administration to end the subsidy. Yet, the 2002 Farm Law creates a marketing assistance loan program for honey similar to that provided to other commodities. Assistance for wool and mohair is another example of the fact that no unnecessary program goes away quietly. Of greater concern is that the 2002 farm legislation made a laundry list of other specialty agriculture crops for federal assistance. For example, the lentil program is one of many subsidies and benefits sprinkled through the 2002 farm bill. Under the program for lentils and chickpeas, if market prices fall below levels specified in the new law ($11.94 for 100 pounds of lentils and $7.56 for 100 pounds of chickpeas), the government will make up the difference.

With these "deficiency payments," farmers are assured of a certain income and can obtain the loans they need to stay in business. In the past, many lenders discouraged farmers from growing lentils and chickpeas because the government provided no price supports for them.[41] It is time for the federal government to stop subsidizing products such as angora sweaters and lentil soup.

End Payments to Wealthy Farmers

10-Year Savings of $1.6 Billion[42]

A report by the General Accounting Office highlighted the egregious disparity in farm benefits, demonstrating that over 80 percent of farm payments primarily benefited large and medium-sized farms. Other studies by the Environmental Working Group[43] similarly found that, in evaluating U.S. Department of Agriculture data, the top 10 percent of big farmers and agribusinesses consumed about 80 percent of farm benefits, leaving small farmers out in the cold. Agricultural subsidies should be targeted to small and family farms, not corporate farms.

This option would limit total fixed and countercyclical payments for individuals to $75,000 per year, compared with the current effective limit of $210,000 per person. Under this option, payments would go only to individuals and would be denied to other entities in which an individual participated. Finally, this option would impose an actual limit of $150,000 per individual per year on commodity loan program benefits.

Eliminate Exchanges with Historic Whaling and Trading Partners Program

10-Year Savings of $9 Million[44]

This program funds cultural and educational organizations with experience in developing or operating programs that illustrate and interpret the contributions of the whaling industry. It also provides earmark grants to a variety of museums dedicated to the history of the whaling industry, such as the New Bedford Whaling Museum and the New Bedford Oceanarium in New Bedford, Mass.

While respecting our history and culture is important, funding programs such as these are inappropriate during a fiscal crisis and should instead be supported by foundations and the private sector.

End "Nuclear Power 2010"

10-Year Savings of $70 Million

The Bush administration's Nuclear Power 2010 program mandates the construction of new commercial reactors by 2010. The program promotes the nuclear industry's goal of adding

50,000 megawatts of nuclear generating capacity—i.e., 50 new reactors—by 2020. However, as U.S. Department of Energy advisors have stated, "economic viability for a nuclear plant is difficult to demonstrate."[45] So, the government is planning to subsidize this effort with tax dollars from the General Fund.[46] Our proposal is to end this public subsidy for the construction of private nuclear power plants.

Government Reinvention

Require the U.S. Departments of Defense and Veterans Affairs to Purchase Prescription Drugs Jointly

10-Year Savings of $1.773 Billion

In 2002, the U.S. Departments of Defense (DOD) and Veterans Affairs (VA) together spent about $4.7 billion on pharmaceuticals. Nationwide, spending on prescription drugs has grown roughly twice as fast in recent years as total national spending on health care. Constraining such cost growth is an important goal for DOD and VA. This option would consolidate the agencies' purchases of pharmaceutical products, as the Congressional Commission on Service members and Veterans Transition Assistance recommended in 1999.

Specifically, this would require the two agencies to organize a joint procurement office and develop a common clinically based formulary, or a list of prescription drugs that both agencies' health plans would agree to provide. Formularies can save money by encouraging providers to substitute generic versions for brand-name drugs or by including only preferred brand-name drugs within a therapeutic class. The joint formulary would apply throughout the VA health system, to mail-order pharmacy services, and at military hospitals and clinics. Once in place, it would allow the agencies to enter into more "committed volume" contracts with pharmaceutical manufacturers, which generally lead to lower drug prices. In addition, this option would merge the two agencies' mail-order pharmacy services. Those changes would save DOD and VA a total of $1.773 billion over 10 years.[47]

Repeal Pork in Medicare Drug Bill

10-Year Savings of $19.9 Billion[48]

Older Americans are not the only ones who stand to benefit from the new Medicare drug legislation signed into law at the end of 2003. In fact, a number of special interests will be able to cash in on the new law, at least in the near term.

For example, the bill also calls for huge payments to insurers, rural hospitals, and employers. Those payments go a long way toward explaining how, after several failed attempts, the Republican architects of the bill have put together a coalition that appears on the verge of passing legislation that would establish the first prescription benefit under Medicare.

The bill would increase payments to rural hospitals by $19.9 billion over the next 10 years, locking in support from rural legislators.[49] This proposal has nothing to do with providing prescription drugs, and it is questionable whether this money was provided based on real need or simply political expediency to enact a very expensive piece of legislation.

Reform Graduate Medical Education

10-Year Savings of $5.25 Billion

Medicare currently pays not only the salaries of medical school graduates who are in training, but also all the related expenses of the hospitals where they train. The nation has an interest in ensuring an adequate supply of well-trained doctors, but it should not have to foot the entire bill. Moreover, the nation cannot afford to keep the current training system isolated from the day-to-day problem of delivering better value for each health care dollar.

This proposal would enable the nation's teaching hospitals to transform themselves into leaders in value-based health care delivery. Instead of being burdened by Medicare's regulatory regime, they would sign performance-based contracts with Medicare for both health care delivery and medical training. Teaching hospitals would have five years to negotiate new sources of revenue for training from large multi-specialty doctor groups, health

plans, and others who are currently paying significant amounts for both training and continuing education of doctors. After five years, Medicare's graduate medical training payments would be limited to salaries and benefits. In addition, the large variation in payments to teaching hospitals would be eliminated.[50]

Create Centers of Excellence for Medicare Patients

10-Year Savings of $1.5 Billion[51]

Medicare currently pays doctors and hospitals separately when patients are hospitalized. This payment system discourages doctors and hospitals from joining forces to deliver higher quality, lower cost care. Numerous studies have proven that doctors and hospitals together can become a center of excellence for specific procedures (e.g., heart bypass surgery, cataract surgery, and heart valve replacement) by doing a high volume of surgeries and continually improving their processes.

This proposal would create a Center of Excellence payment within Medicare for designated procedures. The payment would be lower than the cost of paying for the services separately, but would allow the doctors and hospitals to keep the financial benefit of becoming more efficient. The Centers of Excellence would be required to disclose their performance in order to establish benchmarks for the quality of care and to prevent cream-skimming of patients who are healthier, and therefore, less expensive to treat.

Adjust Capital Payments to Hospitals Under Medicare

10-Year Savings of $6.9 Billion[52]

This proposal would make a long overdue change to the formula used to account for capital expenditures in Medicare payments to hospitals. When first established in 1992, the hospital payment system was based on estimates of capital expenditures that subsequently turned out to be too high. This mistake was partly corrected by Congress in 1997, but the portion that was unchanged remains substantial.

Reform Private, Supplemental Insurance for Medicare Beneficiaries

10-Year Savings of $36.5 Billion

Medicare beneficiaries generally have supplemental insurance coverage because Medicare only pays for about 60 percent of their costs. The private, supplemental insurance that Medicare beneficiaries must purchase themselves if they do not have retirement health benefits is flawed in two key respects. First, under the new prescription drug benefit, beneficiaries must purchase a policy just for their drugs, separate from the traditional supplemental policy. This stand-alone drug benefit is confusing, duplicative, and potentially unstable because it encourages seniors to wait until they need drugs to buy the coverage. (There are penalties for waiting, but it is not clear how well they will work.)

The second major flaw is that supplemental insurance encourages Medicare beneficiaries to use more health care than may be necessary. That is because the supplemental insurance significantly lowers or eliminates Medicare's deductibles and co-payments, and makes health care services nearly free. In contrast, insurance policies for people under 65 have a low or no deductible only when there are other cost controls in place, such as an HMO. As a result, Medicare's costs are 25 higher for beneficiaries who have supplemental insurance.

This proposal would reform supplemental insurance policies. First, it would allow supplemental policies to include the new prescription drug benefit. This change would likely lower beneficiaries' costs somewhat by eliminating the extra cost of a stand-alone drug policy and by creating a stable insurance market where insurers would compete to sign up beneficiaries before they needed drugs or other heath care services. Second, it would require insurance companies selling supplemental policies to either offer higher deductible policies or pay a surcharge on lower deductible policies to offset Medicare's increased costs. This second change would increase some beneficiaries costs if they choose to keep their current coverage, but many would be able to switch to an HMO without paying extra.[53]

Consolidate Statistical Agencies

10-Year Savings of $50 Million[54]

Today, at least 70 different federal agencies engage in statistical activities. The division of labor between these statistical agencies often makes little sense. Experts have concluded that consolidation of the major economic statistical agencies would produce better data at a lower cost. This proposal would consolidate the principal statistical agencies—including the Bureau of the Census and the Bureau of Labor Statistics—into a single agency.

Merge the Office of Thrift Supervision and Comptroller of the Currency

10-Year Savings of $120 Million[55]

There would be substantial cost savings to taxpayers from eliminating duplication and consolidating operations. The Office of Thrift Supervision's (OTS) five regional offices in Jersey City, Atlanta, Chicago, Dallas, and San Francisco are virtually identical to the Office of Comptroller of the Currency's (OCC) six regional offices in New York City, Atlanta, Chicago, Dallas, San Francisco, and Kansas City. Thus, there would be considerable opportunity for office consolidation without the attendant employee relocation costs and family disruptions.

Charge Federal Employees Commercial Rates for Parking

10-Year Savings of $1.29 Billion

The federal government leases and owns more than 200,000 parking spaces, which it allocates to its employees—in most cases without charge. Requiring federal government employees to pay commercial rates for their parking could yield receipts of $1.29 billion over 10 years.[56]

Federal workers in the largest metropolitan areas would bear most of the new charges. Those in the Washington, D.C., metropolitan area would pay about 75 percent of the total charge. (Federal employees in less commercially developed areas, where charging for parking is uncommon, would not face new parking charges.) Employees who continued to use federally owned or managed parking would, on average, pay about $125 per month; employees who currently use free or heavily subsidized parking could choose alternative means of transportation, such as public transportation or carpooling, to avoid the charge.

Charging commercial rates for parking would encourage federal employees to use alternative transportation. That shift would also reduce the flow of cars into urban areas, cutting down on energy consumption, air pollution, and congestion.

Merge the National Endowment for the Arts and the National Endowment for the Humanities and Encourage Efficiencies

10-Year Savings of $142 Million[57]

The National Endowment for the Arts (NEA) and the National Endowment for the Humanities (NEH) were founded in 1965 to support and provide recognition to the arts and humanities. Both entities have supported important projects, such as the Ken Burns documentary on the civil war and broadcasting classical music on public television. Often, the projects they support overlap. For example, the funding of the museum tour of the "Treasures of Tutankhamen"—the blockbuster exhibition seen by more than 1.5 million people—could have been funded by either organization under their congressional mandate. And the creation of both organizations by the same piece of congressional legislation—the National Foundation on the Arts and Humanities Act of 1965—underscores the shared and mutually supporting missions of the agencies. In order to take advantage of the symmetries of both agencies and to raise the profile of the arts and humanities in America, this proposal would merge the entities into a single "National Endowment for the Arts and Humanities" and use the administrative savings to provide additional grants and to reduce the deficit.

Combine the Overseas Private Investment Corporation and Export-Import Bank and Encourage Efficiencies

10-Year Savings of $321 Million[58]

Throughout the 1990s, there was significant consolidation in the financial services industry. Insurance firms and banks merged in order to promote economic efficiencies and improve the

bottom line. The best-known example was the merger between CitiCorp and Travelers. In similar fashion, the Export-Import Bank (Ex-Im Bank) and the Overseas Private Investment Corporation (OPIC) should be combined into a single government corporation.

The Ex-Im Bank and OPIC promote U.S. exports and overseas investment by providing a range of services to U.S. companies wishing to do business abroad. The Ex-Im Bank offers subsidized direct loans, guarantees of private loans, and export credit insurance; OPIC provides investment financing and insurance against political risks. Appropriations in 2003 for Ex-Im Bank and OPIC are $578 million and $64 million respectively.

Both these programs would benefit by merging their functions, eliminating duplication, and promoting greater efficiencies.

Finance the Food Safety and Inspection Service through User Fees

10-Year Savings of $7.9 Billion[59]

Sometimes government regulation can actually benefit business. For example, without the stamp of approval of the U.S. Department of Agriculture (USDA), consumers would be more reluctant to purchase fresh meats or poultry. Federal inspections benefit both producers and consumers of meat and poultry products because they prevent diseased animals from being sold as food. But the meat and poultry industries benefit in other ways as well: For example, they can advertise their products as having been inspected by the USDA, which may enhance the quality of those products in the eyes of consumers. Yet currently, the meat and poultry industry only pays for inspections by the Food Safety and Inspection Service (FSIS), an agency in the USDA, when its plants are operating on holiday or overtime hours.

The FSIS employs about 10,000 inspectors, one or more of whom must be present at all times when a meat or poultry slaughtering plant is operating. Inspectors monitor processing plants daily for adherence to federal standards (for sanitary conditions, ingredient levels, and packaging), and sample and test processed meat and poultry products. Recently, the FSIS has also been charged with protecting the nation's meat and poultry products from bioterrorism. The agency gets most of its funding through annual appropriations—which totaled $731 million in 2002.

This option would finance all federal meat and poultry inspection activities through user fees paid by meat and poultry slaughtering and processing firms.[60]

End Corporate Giveaways to the Commodities Industry

10-Year Savings of $620 Million

The purpose of the Commodities Futures Trading Commission (CFTC) is to allow markets to operate more efficiently by ensuring the integrity of futures markets and protecting participants from abusive and fraudulent trade practices. A fee on transactions overseen by the CFTC could cover the agency's operating costs. Such a fee would be similar to one now imposed on securities exchanges to cover the operating costs of the Securities and Exchange Commission (SEC) and the Office of the Comptroller of the Currency (OCC). A per-contract transaction fee could be imposed and remitted quarterly and adjusted periodically so that the money collected equals the CFTC's cost of operation. These expenses totaled $620 million over the 2001-2010 period, and their coverage would require a nominal fee of around 10 cents per contract, assuming that the number of contracts traded annually over the period remains near the number traded in 1999.[61]

Shift Responsibilities of Foreign Agricultural Service Attachés to State Department

10-Year Savings of $364 Million

The U.S. agricultural attachés, located at 97 offices worldwide, provide U.S. agricultural producers and traders with information on foreign government policies, supply and demand conditions, commercial trade relationships, and market opportunities. That information is an integral part of the market forecasting and analysis system of the USDA. The attachés, employed by the Foreign Agricultural Service of the USDA, also represent that department in disputes and negotiations with foreign governments on agricultural issues. The attaché positions were developed to promote U.S. commodities and to help farmers, processors, distributors, and exporters adjust their operations and practices to

meet world conditions. This option would shift the responsibilities of the attachés to existing U.S. State Department personnel and eliminate the attaché positions.[62]

Improve the Performance of the Senior Executive Service

10-Year Savings of $68 million

The Senior Executive Service (SES) includes most managerial, supervisory, and policy positions classified above General Schedule (GS) grade 15 or equivalent positions in the Executive Branch of the federal government. There are roughly 7,744 SES permanent positions. Pay for SES employees is designed to allow agencies to factor performance into their pay-setting decisions. Median annual SES pay is $123,700 (not including locality pay). The SES was designed to bring a more performance-based approach to the civil service. However, while individuals can be removed from the SES, they are not fired, but rather reassigned to another position at a lower grade level.

To improve SES performance, we should adopt a practice utilized at General Electric. Employees of SES should be required to rotate and transfer to a new position each year, either at their current agency or a new one. If they are unable to find a new assignment based on their record of accomplishment, they would be required to leave the civil service. This approach eliminates any politicization of the civil service while providing real performance incentives and penalties.

Reduce Erroneous Payments

10-Year Savings of $15 Billion

It is estimated that erroneous payments by agencies cost the taxpayer $30 billion per year.[63] While it is unreasonable to think the federal government can completely eradicate mistaken payments to states, localities, and individuals, tough fiscal times require tough medicine. To save money, the federal government should increase penalties, strengthen financial accountability, and improve program integrity. The Office of Management and Budget should coordinate a "budget buster" team to investigate and secure the restitution of erroneous payments. Together, these efforts could cut mistaken payments by 5 percent.

Consolidate Non-military International Broadcasting

10-Year Savings of $242 Million[64]

United States overseas broadcasting is provided by several entities. Radio Free Europe and Radio Liberty broadcast country-specific news to Eastern Europe and the former Soviet Union, respectively. The Voice of America (VOA) oversees radio broadcasts that provide news and U.S.-related information to audiences worldwide. The United States Information Agency (USIA) oversees television broadcasting services similar to the radio broadcasts of VOA and also manages a broadcasting service to Cuba.

Critics of overseas broadcasting claim the current structure is a relic of the Cold War. Furthermore, with the advent of satellite television broadcasting, most nations can receive world and U.S. news from private broadcasters, such as the Cable News Network (CNN). Furthermore, foreigners may distrust the accuracy of broadcasts sponsored by the U.S. government. Finally, it would be more effective to utilize these resources to help fight the war on terror.

This option would consolidate all overseas broadcasting entities into one government overseas broadcasting corporation. As part of this consolidation, savings of 5 percent would be mandated.

Change Pricing Structure for Military Depot Repairs

10-Year Savings of $1.2 Billion

Unit commanders can repair many components of weapon systems, such as transmissions and radars, in their own local repair facilities or pay to have the components repaired in centralized maintenance depots. Under current policies, however, the prices that the depots charge units for repairing such components (known as depot-level reparables) exceed the actual cost of making the repairs. Those pricing policies raise total costs to the DOD because they discourage commanders from relying on the depots even when doing so would be less costly for DOD as a whole. For example, one avionics sensor used by the Army costs $16,000 to repair at a local facility and $12,000 to repair at a depot. Nevertheless, under the current pricing structure, the depot charges

$71,000 to repair the sensor—creating an incentive for unit commanders to use their local facilities even though the actual cost of the repair is less at the depot.[65]

This option would change depots' pricing policies so that depots would charge only the actual cost of repairs. By encouraging unit commanders to choose the most cost-effective source of repair, the new pricing policy could lower the annual cost of repairs by a total of more than $1.2 billion over the next 10 years.

Consolidate Military Personnel Costs into a Single Appropriation

10-Year Savings of $15 Billion

According to CBO, more than 20 percent of the federal government's costs to recruit and retain military personnel fall outside the DOD's military personnel appropriation. The DOD pays for many personnel benefits—for example, commissaries, some medical care, DOD schools, and on-base family housing—from other appropriations. The U.S. Department of Veterans Affairs (VA) pays some additional benefits, such as ones under the Montgomery GI bill and veterans' disability payments.

Under this option, the DOD-funded personnel-support costs mentioned above would become part of the military personnel appropriation. Some VA programs might also be funded in the defense budget as well. That realignment of funding would have two related goals: to provide information about how much money is being allocated to support military personnel more accurately and to give DOD managers a greater incentive to use resources wisely. The potential savings from better management are substantial. Savings of just 1 percent, for example, would equal about $1 billion annually.[66]

Consolidate and Encourage Efficiencies in Military Exchanges

10-Year Savings of $1.75 Billion

The DOD operates three chains of military exchanges. Those chains, which provide a wide array of retail goods and consumer services at military bases, have combined annual sales of about $10 billion.

This option would consolidate the three systems into one single organization. In addition, it would introduce incentives for more efficient operations by requiring the combined system to pay all of its operating costs out of its own sales revenue, rather than relying on the DOD to provide some services free of charge. Those changes would save about $200 million annually after a three-year phase-in period.[67]

Apply Technology to Reduce the Cost of Operating Equipment

10-Year Savings of $4.6 Billion

This option would provide an additional $600 million a year to invest in technologies to reduce the operation and maintenance (O&M) costs of weapon systems. The funds would go into "technology insertion accounts" that would be applied to equipment already used by military units in the field—for example, to support the research, development, procurement, and installation of reliable digital compasses in place of antiquated analog versions, or to replace universal joints on truck axles with constant-velocity joints, which reduce a fleet's tire wear by one-third. Such investments can lessen the need to repair or replace failed components, freeing up maintenance workers and ultimately reducing the costs of operating equipment. Similar opportunities to save on O&M costs without sacrificing performance exist for all of the Services' aging weapon systems. The CBO has estimated that over 10 years, the $6 billion investment in this option could produce $10.6 billion in savings—for net savings of $4.6 billion through 2010.[68]

The Armed Services currently spend relatively little on technology insertion. Of the $38 billion spent each year on maintaining weapon systems, only about $600 million is devoted to technology insertion to reduce costs. As an extreme example, the program manager for the M1A1 Abrams tank—the Army's second largest weapon system—received only $1.2 million for research and development on ways to reduce the system's $2.9 billion annual operating costs. Studies conducted for the DOD by the Logistics Management Institute and others have concluded that funding for technology insertion is inadequate.[69]

Switch to Direct Student Loans

10-Year Savings of $36 Billion

Each year, taxpayers spend billions of dollars subsidizing banks to make student loans guaranteed against default. Under this proposal, the federal government would engage in direct lending to would-be college students instead of maintaining the current approach, which mostly uses federal dollars to subsidize loans extended at less-than-market cost by private banks. With direct lending, we eliminate the middleman and save billions of dollars in administrative costs and foregone profits.

Many education finance experts consider the direct-loan program more efficient than Federal Family Education Loan (FFEL) loan program. Simply put, direct loans cut lenders out of the picture. Instead of paying subsidies to banks for making loans, the government earns the profits. Government figures show that direct loans typically bring in 22 cents for every $100 borrowed, after deducting for administrative expenses. Meanwhile, FFEL costs the Treasury $12.80 for every $100 borrowed. According to *U.S. News and World Report*, "dozens of colleges and universities are abandoning the Department of Education's direct-loan plan, lured by the promise of a quick buck from banks and state lending agencies. … In all, 62 colleges and universities have dropped out of the Education Department's direct-loan program since 2000, and the list is growing."[70]

Budget Reform

Restore "Real" PAYGO Rules

10-Year Savings of $111.7 Billion

In 1990, Congress enacted the Budget Enforcement Act (BEA) with specific dollar limits on discretionary spending—amounts provided in annual appropriations acts—and a PAYGO requirement for all other legislation. The PAYGO requirement prohibits decreases in a surplus resulting from enactment of new laws that change mandatory spending. Under this provision, legislation to create or expand an entitlement program (such as unemployment benefits) or to reduce taxes would have to be offset by other legislation to reduce mandatory spending or increase receipts. From 1990 until 1998, these budget enforcement mechanisms provided an effective means of restraining the growth in federal spending.

With the arrival of budget surpluses in 1998, however, Congress began to skirt these budget enforcement mechanisms. Since the PAYGO enforcement mechanism was anchored to whether a proposal was deficit neutral, the mechanism proved to be toothless in the brief era of surpluses. For example, the 2001 tax cuts were enacted without PAYGO restrictions due to the estimated surplus at the time.

Now, PAYGO has expired, giving policymakers the opportunity to restore the law and toughen the rules to require a "super majority" (for example, a two-thirds vote requirement) to waive PAYGO for tax cuts or new entitlements.

Of course, it is hard to estimate how much PAYGO will save taxpayers over the next 10 years. These types of rules are often more effective in the beginning before politicians figure how to game the system. Furthermore, since PAYGO impacts proposals not yet law, CBO and OMB would not be able to include estimated savings in its budget projections. However, looking back at the past year gives us an idea of the types of savings could be achieved with a strong PAYGO rule.

In 2003, Congress and the president enacted into law $745 billion in new entitlement and tax relief with less then a 60 vote majority in the Senate, including both the Medicare drug legislation and the Jobs and Growth Tax Relief Reconciliation Act. While we cannot assume that PAYGO would have completely stopped either bill, it is safe to say that a real PAYGO rule would have at least ensured some savings over these amounts—because members would have had to identify some offsets or reduce the size of these bills (such as cutting the tax cut) to attract a larger number of votes. If PAYGO had forced members to trim 15 percent from these proposals, savings of $111.7 billion would have accrued.[71]

Enact a Constitutionally Viable Line-Item Veto (Super Rescission)

10-Year Savings of $5 Billion

Under current law, a rescission allows the president to request that Congress eliminate unnecessary spending. However, Congress can

simply ignore the president's request by choosing not to vote. Proposals for super rescission would require that Congress vote up or down on a president's request to eliminate wasteful spending and to consider the proposals more quickly. Some would require the president to submit rescission proposals within a specified number of days after signing an appropriations act into law. The House passed expedited rescission proposals in the 102nd and 103rd Congresses.

Unlike the line-item veto, super rescission would not require a constitutional amendment, because this proposal would not create a new veto authority, but only require Congress to vote on rescissions from the president that can now be ignored. Budgetary savings would be achieved because once Members of Congress are forced to vote on a particular piece of pork spending, they would be more likely to approve such requests than risk being portrayed as voting down a presidential proposal to cancel wasteful spending.

Based on the experience with the line-item veto in the 1990s, super rescission savings might provide an additional $5 billion in savings over 10 years.

Impose Discretionary Budget Caps

10-Year Savings of $90 Billion[72]

The Budget Enforcement Act (BEA) established caps on discretionary spending. By helping to constrain fiscal policy, these budget enforcement mechanisms made a direct contribution to the more favorable budget outlook that developed by the end of the 1990s.

According to CBO data, total discretionary spending was $45 billion less in 1995 than in 1991.[73] Further exemplifying the role budget caps, as well as PAYGO rules, played in slowing outlay growth the 1990s, total outlays fell from a level of 21.2 percent of GDP in 1989 fell to 18.7 percent of GDP in 1999—a level not seen since 1974.[74] Although these savings disappeared in later years, this was primarily due to a spending spree unleashed by the growing budget surpluses and the expiration of the budget rules in the early part of this decade.

The lesson to be learned from the overall success of the BEA is that the budget process can be an important tool in achieving strategic long-term goals. These mechanisms helped Congress manage the political pressures inherent in our competitive political system, in which the rewards for reducing taxes and delivering helpful benefits are more immediate and direct than the distant, diffuse, and indirect rewards for prudent financial stewardship.

The statutory enforcement mechanism of the 1990 BEA has now expired. Congress needs a set of new rules to help enforce any plan it may adopt to rebalance the budget. Under this proposal, a new set of caps would be set in place that would hold discretionary spending to the rate of inflation. The caps would be similar to the ones set by the BEA, but would be strengthened to include emergency spending unless waived by a super majority, as suggested by Charles Schultze of the Brookings Institution.[75]

Enact a Corporate Subsidy Reform Commission

10-Year Savings of $200 Billion

Depending on who you listen to, federal subsidies to private businesses cost taxpayers anywhere from $60 billion to $87 billion per year.[76] And of course, one person's corporate welfare is another's strategic program or tax incentive. Yet, most budget experts believe that corporate welfare is a growing presence in the budget. According to the Cato Institute, corporate welfare grew 30 percent from 1997 to 2001, and this year's omnibus spending bill is riddled with 7,000 earmarks for special interests.[77]

Senator John McCain (R-Ariz.) and Representative Dick Gephardt (D-Mo.) have suggested the creation of a corporate welfare commission modeled on the military base closing commission legislation in the 1990s. This proposal is based on the original idea for a corporate subsidy reform commission first suggested by then-Progressive Policy Institute vice president Rob Shapiro. Under the proposal, a bipartisan commission would recommend a list of corporate welfare—both on the programmatic and tax side of the budget—to eliminate, which Congress would have to vote on within a specific timeframe, with limited ability to debate and amend. Such an approach would force Congress to vote on the whole package of cuts rather than on individual items. This would increase the likelihood of enactment.

The commission idea is based on the recognition that there are legitimate differences of opinion as to what constitutes a "corporate subsidy" in the budget or tax code—not to mention powerful pressures on members of Congress to defend subsidies with a special impact on their states or districts. Like the highly successful Defense Base Closing Commission, the Corporate Subsidy Reform Commission would be an independent body required to submit a package of budget and tax subsidies to be eliminated, after presidential and congressional committee review, on an up-or-down vote in Congress.

In essence, the commission approach would provide political "cover," and an opportunity for involvement, for the many members of Congress who oppose all subsidies in principle but support some subsidies in practice.

How much would a corporate welfare commission save the American taxpayer? That is a difficult number to estimate. However, a reasonable amount of savings that could be achieved if a commission were "fully" empowered would be around $250 billion over 10 years.

Tax Reform

Close the CEO Pay Loophole

10-Year Savings of $2 Billion

The Internal Revenue Service (IRS) currently allows public corporations to deduct executive compensation of more than $1 million from corporate income taxes, if the compensation is "performance based" and is decided by a compensation committee made up solely of independent directors. Unfortunately, the IRS definitions of performance-based compensation and director independence have been abused, and the American taxpayer is subsidizing the multi-million dollar salaries of corporate CEOs. The marketplace should determine what CEOs make, not taxpayer monies. This proposal will close the loophole that allows companies to deduct executive compensation that exceeds $1 million.

Reinstate the Superfund Tax

10-Year Savings of $15.3 Billion

Since 1981, the Superfund program of the Environmental Protection Agency (EPA) has been charged with cleaning up the nation's most hazardous waste sites. Money to pay for those EPA-led cleanups and other program costs comes from an annual appropriation. Traditionally, Congress has designated two sources of funds in the appropriation: the general fund and balances in the Superfund trust fund (formally, the Hazardous Substance Superfund). Revenues credited to the trust fund have come primarily from taxes on petroleum and various industrial chemicals as well as from a corporate environmental income tax. However, authorization for the taxes expired in December 1995, and the fund's balance has declined every year since 1997.[78]

Reauthorizing the Superfund tax is consistent with the "polluter-pays" principle. For example, petroleum products and various chemical feed-stocks and derivatives are common sources of contamination at Superfund sites, and therefore producers and users of such substances, as well as corporations more broadly, should foot much of the bill for the cleanup program.[79]

Increase Estate Tax Exemption to $7 Million but Forego Complete Repeal

10-Year Savings of $107 Billion[80]

This proposal would cancel the repeal of the Estate Tax placed into law by the 2001 tax cuts, but increase the tax exemption for families to $7 million. Unlike complete repeal, an increase in the exemption is consistent with the 1986 Tax Reform Act. Raising the exemption would reduce the number of people paying the tax—while still taxing the wealthiest—and would chip away at the concentration of wealth. It would also help smaller family-owned businesses, while avoiding the complications and inequities associated with preferential treatment for business assets.

Eliminate Bush Rate Cuts for Families Making More Than $200,000

10-Year Savings of $315 Billion[81]

Americans deserve a tax system that ensures they are not paying more than they should and makes certain that no one games the system.

Unfortunately, the Bush tax cuts have made the U.S. tax code less fair and more complicated, all in an effort to put more money in the hands of those who need it the least. For example, the 2003 Bush tax cut gave an average tax cut of $20,000 to the wealthiest 1 percent of Americans—29 percent of the total benefits—while the bottom 60 percent got an average relief of only $85 per year.[82] Furthermore, to date, 8 million low-income and middle-class families have gotten no tax cut whatsoever.

This proposal would restore progressivity and fairness by recapturing the revenue from the provisions of the 2001 and 2003 Bush tax cuts that go to the wealthiest 2 percent of families. It would alter the top two rates on income to their pre-2001 levels and the new rates on income from dividends and capital. Only those earning about $190,000 or more would be affected by the income rate changes in this proposal, while repealing the dividend and capital gains rates enacted in 2003—which are regressive and provide an unnecessary windfall to wealthy Americans—will raise $39 billion on its own by 2014.[83]

Curb the Bermuda Loophole

10-Year Savings of $5 Billion[84]

There are many steps that could be taken to curb our current array of wasteful, if not perverse, tax subsidies for multinational corporations. As Robert McIntyre of the Citizens for Tax Justice has stated, "we don't have to let a mail drop in Bermuda turn an American company into a foreign corporation."[85] Rather, we could follow the example of countries such as Germany, Japan, and the United Kingdom, and treat any ostensibly "foreign" corporation whose shares are mostly owned by Americans as American. Another way to crack down on these "unpatriotic" firms would be to prohibit companies that repatriate overseas to avoid U.S. taxes from receiving federal government contracts.

Require Companies to Explain the Differences Between the Profits They Report to Investors and Those They Report to the IRS

10-Year Savings of $150 Billion

While most companies play by the rules, some do not. Greater disclosure is one way to ensure that "bad actors" don't game the system and that everyone plays by the same set of rules. Annual reports undervalue benefits, bonuses, and perks, and do not clearly report deferred compensation. By requiring companies to tell shareholders what they pay top executives, including all pay and perks, and compare it to what they pay average workers, we can increase the likelihood that companies pay their fair share of taxes.

Curtail Tax Shelters

10-Year Savings of $47 Billion

Bipartisan legislation offered by Sens. Charles Grassley (R-Iowa) and Max Baucus (D-Mont.) (S.1637) includes a number of provisions to clamp down on corporate tax shelters, as well as provide new incentives for business. Under this proposal, the corporate tax breaks would be dropped, but a variety of proposals to curtail corporate tax shelters, eliminate of a number of Enron-related tax shelters, clamp down on abuses of corporate governance, and some other suggested offsets in the legislation would be enacted.[86]

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[81] Thanks to Sam Elkin for his help with this estimate.
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