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Our Budget, Our Economy

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Options Workbook

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What Are Our Options?

MacArthur
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Our Budget, Our Economy

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America*Speaks* is a non-partisan, non-profit organization with the mission of providing Americans with a greater voice in the most important decisions that affect their lives. America*Speaks* has engaged more than 150,000 citizens across the country on such topics as shaping municipal budget priorities in Washington, D.C., creating regional plans for the greater Chicago and Cleveland regions, and developing rebuilding plans for the World Trade Center site in New York City and New Orleans following Hurricane Katrina.

For more information about America*Speaks*, visit us online at www.usabudgetdiscussion.org.

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About this Workbook

This workbook is designed to provide a wide array of revenue and spending options for reducing the federal budget deficit. These options represent the types of decisions facing policy makers and their implications for the American people, although they surely do not encompass all of the options that policymakers could consider. Participants in the national discussion will have the opportunity to add additional options as part of the process. The workbook is designed to accompany an additional document that provides an introduction to the fiscal challenges facing the country.

In order to ensure that the information in this workbook is as unbiased as possible, America*Speaks* has worked with a diverse National Advisory Committee (see inside cover) to solicit comments and feedback. We have made every effort to ensure that the presentation of information is as fair as possible and accurately reflects the challenges facing the nation.

America*Speaks* takes pride in its reputation as an honest and neutral advocate for public participation. We play a unique role in the policymaking process by serving as a non-partisan convener of forums that give the public an opportunity to make decisions about important issues without fear of manipulation or bias.

America*Speaks* does not take positions on policy issues. America*Speaks* strives to ensure that only a balanced and neutral presentation of facts is used to inform discussions on policy issues. We stand by these basic principles that protect the integrity of our process and the faith that participants and decision-makers place in our work.

A Note to Economists and Budget Experts

For this guide, America*Speaks* used budget projections (or the "baseline") of the Congressional Budget Office (CBO) while making the following adjustments:

On the spending side, we incorporated President Obama's fiscal year 2011 request for defense spending for the next five years and extended it for later years. On the tax side, we extended all of the 2001 and 2003 tax cuts as well as other expiring provisions of tax law (known as "the extenders") – all of which is considered "current policy." We assumed the temporary tax cuts of the 2009 American Recovery and Reinvestment Act are really temporary and, thus, will expire as mandated by law. We extended the 2009 levels of the Alternative Minimum Tax (AMT) and adjusted them for inflation in later years.

After 2020, the last year for which CBO has yearly figures, we assume, as CBO does, that spending and revenues grow at the same rate as the economy. We anticipate, however, that private health care costs will rise at the same rate as the costs of Medicare and Medicaid, rather than slowing to below the growth of Medicare and Medicaid as CBO projects. That results in slightly lower revenue, as individual taxpayers deduct their higher medical costs.

All figures in this guide come from CBO's projections, as adjusted per the description above, unless otherwise noted. The options described in this document draw heavily from *Budget Options: Volume 2,* Congressional Budget Office, August 2009. Other sources of information are noted elsewhere in this document.

Projections of the savings that each spending and revenue option would generate are based on the best available information. They do not, however, account for the interactions between them – that is, how one option (e.g., raising income tax rates) might affect another option (e.g., how much taxpayers can, or choose to, take certain deductions to reduce their tax obligations).

The 2025 Challenge

The Challenge...
Can you reduce the deficit by $1.2 trillion in the year 2025?

Once the economy recovers and the annual budget deficit initially falls below its current level, the deficit will begin to rise again and eventually reach unsustainable levels, driven largely by rising health care costs and an aging population. Presuming that current policies continue, the annual deficit will total 7% of our economy in 2020 (as measured by Gross Domestic Product, or GDP), 9% in 2025, and 22% in 2050.[1]

Each annual deficit adds to the total national debt, which by 2025 is projected to exceed the size of our nation's economy (114% of GDP) and to reach 316% of GDP by 2050. By way of comparison, today's debt is about 60% of GDP and debt has averaged about 40% over the last four decades.

Your challenge is to focus on the year 2025, when the annual deficit of 9% of GDP will translate into $2.46 trillion, and choose spending or revenue options, or both, to reduce it by $1.2 trillion. The year 2025 is a good one on which to focus – it is far enough into the future to show how much the gap between projected revenues and spending will widen, but not so far as to seem unthinkably far away.

While there is no magic number for the needed level of deficit reduction by 2025, meeting the target described above would begin to put the nation's budget on a sustainable course for the future. The debt would no longer be growing faster than the economy, greatly reducing the risks of an economic crisis of soaring debt, rising interest rates and inflation, and a collapse of the dollar on world markets (for more on the economic risks of our rising debt, see the accompanying workbook on the nation's fiscal challenges).

A Long-Term Challenge

Reducing our deficit to a sustainable level is a long-term challenge that will not take place all at once. When our nation last eliminated its annual deficits in the late 1990s (smaller than the deficits of today), our leaders had to repeatedly cut spending and raise taxes in order to turn those large deficits into record surpluses.

In that spirit, we will ask you to choose a series of policy changes that begin to take effect in a few years – after the economy has fully recovered from the recent recession – and that will significantly reduce the deficit by the year 2025.

Keep in mind that 2025 is a step along the road – not the end of the journey. The goal is not just to meet that target, but to do it in a way that ensures that we continue to reduce the deficit in the years after that. Some options that you will consider will make a big difference in the short term to help meet the 2025 goal. Others will reap larger savings in the years that follow. We encourage you to consider them both and make choices that reflect your values and the long-term interests of our nation.

An Added Bonus

Presuming that the deficit-reduction options that you choose – on the spending side, the revenue side, or both – begin to take effect in the next few years, lower deficits each year will mean lower interest payments on the debt each year. So, by adopting policy changes to save $1.2 trillion in the year 2025, you will actually reduce the deficit that year by far more. Depending on the particular spending or tax options that you choose, you could potentially reap total savings in the neighborhood of about $1.6 trillion.

Savings of $1.6 trillion would reduce the projected budget deficit of 2025 – $2.46 trillion, or 9% of GDP – to $860 billion, or 3.2% of GDP.

The Options

In crafting a plan to reach your target, you will consider four categories of spending options and four categories of revenue options[ii]:

Spending Options:

- Health Care (Medicare and Medicaid)
- Social Security
- All Other Non-Defense Programs
- Defense

Revenue Options:

- Raise Existing Taxes
- Reduce Deductions and Credits
- Reform the Tax Code
- Establish New Taxes

The chart below shows how much each of those categories will represent in 2025 if current policies continue.

SPENDING AND REVENUE, 2025[iii]

Medicare and Medicaid:	$2.0 trillion
Social Security:	$1.48 trillion
All Other Non-Defense:	$1.36 trillion
Defense:	$0.88 trillion
Interest on the Debt:	$1.49 trillion
Total Spending:	$7.22 trillion
Total Revenues:	$4.76 trillion
Deficit:	$2.46 trillion

Health Care

Medicare and Medicaid:	$2.0 trillion
Social Security:	$1.48 trillion
All Other Non-Defense:	$1.36 trillion
Defense:	$0.88 trillion
Interest on the Debt:	$1.49 trillion
Total Spending:	$7.22 trillion
Total Revenues:	$4.76 trillion
Deficit:	$2.46 trillion

Americans get their health care in a variety of ways. About 61% of the non-elderly who have health insurance receive it from their employer as a fringe benefit. Many other Americans receive health coverage through Medicare, Medicaid, and other federal insurance programs for veterans and civilian and military personnel. Other Americans buy insurance for themselves, are insured through another entity like a union, or are uninsured.

Medicare is a federal program that provides health insurance to 46 million Americans, most of them elderly. Medicaid is a federal-state program that provides health insurance for 58 million elderly and low-income Americans. They are two of the largest federal programs and, together, will represent $2 trillion in spending – 35% of federal program-related (that is, non-interest) spending – in 2025.

How does Medicare work?

Medicare has four parts:

- The Part A Hospital Insurance program, which is financed through Medicare payroll taxes on employers and employees, helps cover inpatient care in hospitals, skilled nursing care, hospice care, and some home health care.

- The Part B Medical Insurance program, financed mostly by general revenues but also by a monthly premium that beneficiaries pay, helps cover doctor services and outpatient care and also covers some services that Part A does not.

- The Part C (Medicare Advantage) program enables beneficiaries to receive all of their health care through private insurance, which provides required services and may offer extra services for a monthly fee.

- The Prescription Drug program, for which most beneficiaries pay a monthly premium, is an insurance program through which beneficiaries choose a drug plan and private companies provide the coverage.

Medicare covers about 65% of the health care costs of its beneficiaries. It provides good coverage in some ways, but its deductibles are larger than those common to good private insurance and its co-payments can prove costly over time. In addition, it lacks a feature that's increasingly found in

private coverage – a dollar limit (say, $5,000) beyond which insurance fully covers a beneficiary's costs. It also imposes limits on services, such as total days in a hospital or nursing care facility, so that people may be on their own to pay for truly catastrophic events. As a result, most beneficiaries buy or receive supplementary coverage. That coverage, however, is becoming less available.

Health care spending has been rising faster than income for a long time and will continue to do so for the foreseeable future. Out-of-pocket costs for Medicare beneficiaries will grow faster than their incomes for two reasons: (1) those out-of-pocket costs will grow as total health care costs grow, and (2) supplementary insurance that is provided by former employers is shrinking.

The new health reform law financed its coverage expansions by reducing payments to health care providers who treat Medicare patients, such as doctors and hospitals, and raising Medicare payroll taxes on individuals making over $200,000 a year (and couples over $250,000) to 3.8%, up from the 2.9% that everyone else pays.

How does Medicaid work?

The federal government shares the costs of Medicaid with the states; the federal share ranges from 50% to nearly 75%. Each state sets its own guidelines for eligibility and services, subject to minimum standards that are set by the federal government.

The new health reform law will extend Medicaid coverage to about 15 million more people starting in 2014, and the federal government will assume almost all of the costs of doing so. There are no limits on federal payments for Medicaid – once the state sets its rules for eligibility and services, the federal government pays all of its costs based on the federal share with that state.

Medicaid will grow more slowly than Medicare because most of its spending does not go for acute care for rapidly growing populations, like the disabled or those with low incomes.

In most states, Medicaid pays much less to providers than Medicare (and Medicare usually pays less than private insurers). In fact, Medicaid payments are so low in some states that some beneficiaries find it increasingly hard to find providers to serve them. This problem will likely get worse in 2014 when, as noted above, health reform makes 15 million more people eligible for Medicaid.

Rising Health Care Costs

Medicare and Medicaid provide health insurance coverage for an estimated 104 million people or almost a third of the population. Federal spending for the two programs represents about 32% of national health care spending. Because the programs are so large, federal policies towards Medicare and Medicaid can have a significant impact on the overall health care payment and delivery system.

Health care costs across society – private and public – have risen far faster than the economy for many years, and they are expected to continue doing so. Meanwhile, Americans are growing proportionately older and are living longer, which increases federal spending on health care because more people receive federal health benefits over a longer period of time. Taken together, rising health care costs and the aging of the population will greatly drive up federal spending on Medicare and, to a lesser extent, on Medicaid. Under current projections, these programs, which together measure about 5.1% of the economy today, could rise to 7.5% by 2025 and nearly 13% by 2050.[iv]

Federal health care costs are closely tied to cost trends in the overall health system, so the key to controlling federal health care spending over the long term is to bring overall health care costs under control. The new health care reform law includes measures that could help move in the direction. In this exercise, however, we are not asking that you reopen or revise that law. Instead, we ask that you focus on how to reduce Medicare and Medicaid spending. Some of the options outlined below hold the promise of encouraging wider reforms across the health care system that could help to tame overall health spending. Others may reduce federal costs but increase private costs.

Health Reform

The new health reform law will extend health coverage to a projected 34 million Americans by 2019 through premium subsidies, new health insurance exchanges, and expanded eligibility for Medicaid; reform the private insurance market to make coverage more accessible; take steps that its proponents believe will begin to slow the rate of growth in costs throughout the health care system (in both private insurance and public programs); and – if implemented and maintained over time as designed – generate budget savings that reduce deficits more and more over time.[vi] The Congressional Budget Office estimates that the law will save about $140 billion over the next 10 years, and as much as about $1.3 trillion over the following decade.

Experts disagree on whether the law will generate the estimated savings. Some think the savings will be smaller or that the law might actually increase future deficits because policymakers will not enforce its cost-saving measures. Others think that the savings will be larger than estimated because provisions in the law to make the delivery of health care more efficient will spread faster across the health care system than assumed.

Nevertheless, even if health reform produces the estimated savings, most experts believe that overall health care spending will continue to rise faster than the economy. As a result, policymakers will need to take additional steps in the future either to further slow the growth of health care spending or to raise revenues to pay for added services. Those steps may prove very large, significantly changing the quality and accessibility of health services, the costs of obtaining those services, or both.

Approaches to Changing the Health Care System

Generally, the nation could fundamentally change the health care system in at least three basic ways. Each of them could slow the growth of health care spending, but none of them is guaranteed to do so. First, we could replace the current system of employer-provided coverage and public programs with one known as premium support – in which the federal government gives Americans a certain amount of money each year to cover their health care costs, but allows them to choose their insurance coverage from carriers that meet minimum federal requirements. Second, we could replace the current system with one known as single payer – in which the federal government pays for health care in a similar fashion to which it currently runs Medicare. Third, we could maintain the current system but achieve savings through more regulation – relying on policymakers to achieve savings by regulating the system more heavily.

- **Premium Support (Progressive Voucher or Consumer Choice)**

  This option would replace the current system of employer-provided health care and federal and state programs with a new system in which the federal government would give all Americans, including Medicare and Medicaid recipients, a certain amount of money each year to shop among private insurance or managed care plans. This new system would eliminate current public programs like Medicare and Medicaid. Rather than provide the same amount of money to every American, policymakers presumably would adjust the amounts provided based on peoples' income or health needs. Also presumably, beneficiaries could supplement what they receive from the government with their own money – if they are able – to buy better coverage in the private insurance market.

- **Single Payer**

  This option would replace the current system with one that's paid for entirely by the federal government, similar to how government runs Medicare today. This system would replace private insurance plans with public plans. Federal policymakers would make the major decisions about the health care services that Americas would receive and how those services are distributed among people of different ages, incomes, and so on.

- **More Regulation Under the Current System**

  This option would retain the structure of America's current health care system with many Americans receiving health care through their employer, many others through Medicare and Medicaid, and still others through other means. Policymakers would regulate the system much more, with government boards providing stricter rules on the service doctors, hospitals, and drug companies must deliver and how much they can charge.

The three approaches outlined above would differ somewhat in terms of how the cuts in federal health care spending affected them. The impacts are impossible to predict with any real precision. Under any approach, however, increases in out-of-pocket spending, waiting times, and other limits would depend largely on the severity of the cuts imposed. The effects from imposing more regulations under the current system would depend on the nature of those regulations.

At the moment, the nation does not seem prepared to consider fundamental reform of the kind suggested in the first two approaches above – premium support or single payer. As a result, the options outlined below would enable you to achieve savings through changes within the existing system.

Menu to Achieve Savings in Current System

Below is a list of reforms that could help achieve major reductions in Medicare and Medicaid spending within the current system – and the kinds of reforms in federal health spending that could help generate the savings required by the options on the next two pages.

1. **Raise the Medicare premium for higher-income beneficiaries.**

   The standard premium in 2010 is $104 per month for beneficiaries with incomes below $85,000 (for single filers) or $170,000 (for couples filing jointly). Beneficiaries with higher incomes pay as much as $333 per month. To achieve savings, you could increase the standard premium, the maximum premium, or both.

2. **Raise deductibles, or coinsurance, or both for Medicare beneficiaries.**

   Medicare beneficiaries in 2010 pay a deductible for admission to a hospital of $1,112 for a spell of illness. They also pay a Part B deductible of $146 for outpatient services, as well as various other copayments for covered services. To achieve savings, you could raise the deductibles, the coinsurance, or both.

3. **Increase the Medicare eligibility age.**

   Most beneficiaries become eligible for Medicare at age 65. You could raise that age to, say, 67 over the next decade, and even increase it more as average life expectancy improves.

4. **Replace the Medicare program with a voucher for beneficiaries to buy insurance.**

   A voucher would allow Medicare beneficiaries to buy a basic benefit plan and would limit federal spending. Individuals could use their own money to pay higher premiums for better coverage. Anyone wishing to enroll in traditional Medicare could do so, but would face very high premiums.

5. **Limit eligibility for Medicaid.**

   The federal government shares the costs of Medicaid with the states. Health reform expands Medicaid eligibility to anyone with incomes up to 133% of poverty (or about $14,000 for an individual and $30,000 for a family of four in 2010). You could guarantee federal support to the states only for Medicaid recipients with incomes up to the poverty line. States would pay the full cost of Medicaid for anyone above that level, or they could reduce eligibility to 100% of poverty.

6. **Federal block grants to states for Medicaid.**

   The federal government provides matching money to states for Medicaid, which reduces the incentive for states to control program costs. You could provide the states with fixed payments that are lower than current federal subsidies to Medicaid.

Options

You may choose to reduce Medicare and Medicaid spending by 5%, 10%, or 15% or not at all. The menu of reforms on the previous page illustrates the kinds of changes required to meet these targets. The higher your target, the more you would have to do among and within these particular options to achieve those savings. So, for instance, you would have to raise Medicare premiums more to help achieve savings of 10% than to achieve savings of 5%.

Those changes would affect all Americans – not just those on Medicare or Medicaid – although we cannot predict with any precision what those effects would be. Inevitably, lower spending means fewer health care procedures and services. Americans could have less access to doctors and more to less-highly-trained personnel, longer waits for non-emergency appointments, less intensive care for routine colds and minor fevers, and fewer tests and procedures. Health care costs could be much more visible to consumers. Americans could face higher premiums and have to pay out-of-pocket costs for routine visits and services. Across the system, there may be fewer doctors and nurses, fewer health facilities, and – as demand for expensive services falls – less medical innovation.

Most developed nations spend much less of their national income on health care than the United States and achieve better outcomes. Whether we can allocate fewer resources on health care and achieve better outcomes, however, is an open question. But if we cannot do so, the continued rise in health care costs will depress the growth of wages and salaries, will leave fewer resources for the nation's non-health needs (including education, transportation, and defense) and could ultimately impair our overall economic performance and competitiveness.

OPTION 1 **Reduce federal health spending by 5%**

Savings in 2025: $100 billion

OPTION 2 **Reduce federal health spending by 10%**

Savings in 2025: $201 billion

OPTION 3 **Reduce federal health spending by 15%**

Savings in 2025: $301 billion

OPTION 4 **Make no changes**

Savings in 2025: $0

Arguments For and Against Reductions in Spending

ARGUMENTS FOR:

- Rising health care costs are the most important factor in the projected rise in deficits and debt, with Medicare and Medicaid alone projected to rise as a share of our economy from about 5.1% today to 7.5% by 2025 and nearly 13% by 2050. The more constraint in the growth in Medicare and Medicaid costs, the better the outlook for the budget and the economy.

- Letting health care costs rise as projected will greatly increase the burden of deficit reduction on all other federal spending and revenues – threatening our ability to invest in education, science, and other priorities, provide services for the disadvantaged, and find the needed funds for defense. Rising health care costs also harm the economy, forcing businesses and families to devote more resources to health care and fewer to other purposes.

- Most developed nations spend much less of their national income on health care than the United States and achieve better outcomes by using different structures for delivering health care (see the discussion of different approaches, above). We should seek to reduce health care spending while maintaining or even improving health care.

ARGUMENTS AGAINST:

- Many Americans, especially the elderly, would pay more for their health care coverage and they would receive less in services. This could lead to poorer health outcomes, a sicker population, and more preventable deaths.

- The visible costs of health care could increase as Americans pay more in health insurance premiums and out-of-pocket for routine visits and services, while having less access to doctors and more to less-highly-trained personnel for routine care, longer waits for non-emergency appointments, less reliance on expensive treatments for common colds and minor fevers, fewer tests and procedures, and longer waits for elective surgery.

- With lower reimbursements for their services, doctors, hospitals, and other providers may find it harder to make a profit, leading to fewer doctors and nurses, fewer health facilities, and, therefore, more limited patient choice and less medical innovation as the demand for more new technology falls.

- Rising health care costs may be a price that Americans are willing to pay in order to have access to the newest technologies and latest treatments.

Social Security

Medicare and Medicaid:	$2.0 trillion
Social Security:	**$1.48 trillion**
All Other Non-Defense:	$1.36 trillion
Defense:	$0.88 trillion
Interest on the Debt:	$1.49 trillion
Total Spending:	$7.22 trillion
Total Revenues:	$4.76 trillion
Deficit:	$2.46 trillion

What is Social Security?

Social Security, which President Franklin Roosevelt and Congress created in 1935, currently provides retirement, survivor, and disability benefits this year to about 53 million Americans – one out of every six of us. Social Security beneficiaries include about 37 million Americans aged 65 or older, nine million below that age who are disabled, and more than seven million others, such as early retirees or children whose parents are deceased, disabled, or retired.

The program is financed largely through payroll taxes on employers and employees. Currently, an employer and employee each pay half, or 6.2%, of the 12.4% Social Security tax on the wages of that employee up to $106,800 of income (with wages above that level free from payroll taxes). That wage limit rises each year to keep pace with average earnings.

The payroll taxes of today's workers largely go to pay the benefits of today's retirees. Currently, there are three workers to each retiree. By 2025, that ratio is projected to fall to 2.3 to one. As the population ages, the share of workers will fall while the share of retirees grows, creating larger and larger imbalances in the program's financing.

Who Receives Benefits from Social Security?

The government distributes benefits under a formula that ties benefits to a recipient's lifetime earnings, pays proportionately larger benefits to low earners than high earners, and increases starting benefits for successive groups of new beneficiaries to keep pace with increases in average wages across society. After a beneficiary claims his or her benefits, those benefits are adjusted annually to keep pace with inflation.

Social Security, which provides average retirement benefits of about $14,000 a year, is an extremely important source of income for many Americans. It provides at least half of total income for just over half of Americans 65 or older in the families that receive benefits. It is especially important to women and minorities. In families that received benefits in 2007, Social Security provided at least 90% of total income for 47% of elderly unmarried women, 57% of unmarried elderly African Americans, and 63% of elderly unmarried Hispanics.[v] Some 6.5 million children live in families which rely on Social Security for part of their income.[vi]

How Has Social Security Changed Over Time?

Social Security's spending has grown over the years – partly as the population has grown and aged and more Americans became eligible for it, partly due to the increases in earnings on which benefits are based, and partly due to program expansions, notably the creation of Disability Insurance in 1957.

In 1983, with Social Security facing a financial crisis in which it would soon lack the funds to fully pay benefits, President Reagan and Congress raised payroll taxes, subjected more Social Security benefits to taxation, gradually raised the age at which recipients could receive full benefits, and took other steps to strengthen the system financially.

Social Security Solvency

The surpluses that Social Security has been generating over the past two decades have been invested in Special Issue Treasury Bonds. The bonds represent the debt that the United States owes to its citizens and which it must pay back, with interest, when the funds are needed to pay benefits. Although the bonds cannot be sold on the open market, they are backed by the full faith and credit of the United States, just like bonds sold to private investors.

As the baby boom generation begins to retire, Social Security will need to redeem the bonds in order to pay benefits. Because the government is spending more than it brings in from revenue, policymakers will need to find the money by raising new revenue, reducing benefits, or borrowing more, which will add to the deficit. Ensuring the solvency of the system is the core challenge of Social Security reform.

Options

Our options are to reduce spending on Social Security benefits, increase revenues, or do both. Spending options include reducing benefits by further raising the age for receiving full benefits or in other ways, or by reducing the annual benefit increases that beneficiaries get to offset inflation. Revenue options include raising the payroll taxes that workers pay to finance Social Security and raising the amount of a worker's earnings subject to that tax. Another option would be to restructure the program through private accounts.

Option 5

For future beneficiaries, gradually raise the age for receiving full benefits to 69 by 2028

Savings in 2025: $37 billion

Currently, workers can elect to start receiving benefits at any age between 62 and 70. If workers start receiving benefits before age 66, the benefits they receive are reduced. If they retire after 66, the benefits they receive are increased. Social Security recipients can receive full benefits at age 66. Between 2017 and 2022, the age for full benefits will rise gradually to 67. This option would go further by gradually raising the age of full benefits, at the same pace, to the age of 69.

ARGUMENTS FOR:

- Although the savings under this option would start slowly, they would grow rapidly in the decades after 2025 – helping to strengthen Social Security and reduce deficits in the ensuing decades.
- Recipients who become eligible for Social Security today, on average, live up to 5 years longer than those who became eligible in 1940. From that alone, today's new recipients get up to 40% more from Social Security over their lifetimes. As life expectancy continues rising, future retirees will receive even more.
- Raising the age for receiving full benefits would entice some elderly Americans to remain in the work force longer, during which they will pay more income as well as payroll taxes. Because this option would phase in over time, future retirees would have time to adjust their retirement plans and savings behavior.

ARGUMENTS AGAINST:

- Social Security today provides average retirement benefits of $14,000 a year, and those benefits provide at least half of the income for just over half of Americans 65 or older in families that receive benefits (and some get almost all of their income from Social Security) – so, delaying benefits can significantly affect the well-being of millions of Americans.
- Lower-income senior citizens may find it harder to work longer. They may have worked in more physically demanding or stressful jobs, making it difficult for them to work another year. Due to their job skills and qualifications, they also may find it harder to stay employed or find new work in their mid-to-late 60s. Further, lower-income seniors and some minority groups are not living much longer than they did 35 years ago, so they would lose the most from this change.
- Life expectancy at 65 has risen by just two years since 1983, and the gradual increase in the retirement age from 65 to 67 under current law will more than offset this increase because it freezes the number of years that a person receives Social Security benefits while increasing that person's working years.

Option 6 — For future beneficiaries, limit increases in starting benefits for all but the lowest earners

Savings in 2025: $25 billion

The starting benefit for a new Social Security recipient rises each year based on increases in average wages across society. That is, the starting benefit for someone who begins receiving Social Security this year is higher, based on the increase in average wages, than someone who began receiving it last year.

Average wages tend to rise faster than inflation. So, to generate savings, this option would limit increases in starting benefits to increases in inflation. To ensure that low-income retirees are not adversely affected by this option, new beneficiaries in the bottom 30% of wage earners would be exempted, allowing their starting benefits to continue rising with average wages.

ARGUMENTS FOR:

- This option would generate savings for the federal government while still protecting the value of Social Security benefits for lower-income workers against the effects of inflation.
- The real value of benefits would still increase for all but the highest-earning beneficiaries, and it is those beneficiaries who should contribute more to ensuring the solvency of Social Security than those who have been less fortunate.
- Recipients who become eligible for Social Security today, on average, live up to 5 years longer than those who became eligible in 1940. That alone provides today's new recipients up to 40% more from Social Security over their lifetimes and, as life expectancy continues rising, future retirees will receive even more.

ARGUMENTS AGAINST:

- Today, Social Security provides average retirement benefits of $14,000 a year, and those benefits provide at least half of the income for just over half of Americans 65 or older in families that receive benefits (and some get almost all of their income from Social Security) – so, any drop in benefits can significantly affect the well-being of millions of Americans.
- Over time, Social Security would become significantly less meaningful to affected workers because starting benefits would replace an increasingly smaller portion of pre-retirement wages.
- Only workers with incomes less than about $25,000 a year would be protected from the lower benefit formula. Yet retirees with incomes of more than $25,000 also rely heavily on Social Security.

Option 7

For current beneficiaries, change the formula for raising benefits each year to reflect a lower measurement of inflation

Savings in 2025: $48 billion

Social Security recipients receive what's known as cost-of-living adjustments, or COLAs, each year to offset the effects of inflation. Some experts believe the formula for increasing benefits each year overstates the actual rate of inflation, giving recipients more than necessary to offset inflation. Other experts believe the current formula understates the rate of inflation because seniors spend higher proportions of their income on health care, giving recipients less than necessary to keep pace with the rising cost of health care. This option would reduce spending and limit benefit increases by changing the formula.

ARGUMENTS FOR:

- This option would maintain the cost-of-living adjustment but would reflect what some experts believe is a more accurate measurement of actual increases in inflation.
- These experts believe that current inflation estimates overstate the true increase in the cost of living because households often react to increased prices by shifting to cheaper products. Such behavior is not captured in government inflation statistics.
- This option would contribute to making the Social Security system solvent by reducing spending on benefits.

ARGUMENTS AGAINST:

- Senior citizens spend more of their income on health care costs, which tend to rise faster than overall inflation, so the argument for a smaller (or "more accurate") measure of inflation is irrelevant in this case.
- Today, Social Security provides average retirement benefits of $14,000 a year, and those benefits provide at least half of the income for just over half of Americans 65 or older in families that receive benefits (and three out of every ten seniors get almost all of their income from Social Security) – so, any drop in benefits can significantly affect the well-being of millions of Americans.
- The impact of this change would grow over time, falling most heavily on senior citizens who live the longest and, over time, are likelier to exhaust all of their financial assets other than Social Security. This is particularly true in the case of women, who are likely to outlive their husbands and also less likely to have other sources of retirement income to rely on.

Option 8

Raise the 12.4% payroll tax gradually to 13.4% by 2025

Revenue increase in 2025: $100 billion

Option 9

Raise the 12.4% payroll tax gradually to 14.4% by 2025

Revenue increase in 2025: $210 billion

Social Security is financed through payroll taxes on employers and employees. Currently, an employer and employee each pay half, or 6.2%, of the 12.4% Social Security tax on the wages of that employee up to $106,800 of income. Either of these options would raise significant revenues by raising the tax rate to 13.4% or 14.4% with employer and employee each continuing to pay half.

ARGUMENTS FOR:

- Today's workers, who pay the payroll tax, should help strengthen Social Security because they will benefit from the program when they retire.
- Projected increases in life expectancies and average wage growth mean that current workers will enjoy greater lifetime benefits than today's retirees.

ARGUMENTS AGAINST:

- Middle- and lower-income Americans have experienced stagnant living standards in recent decades, and an increase in payroll taxes will further constrain their family budgets.
- Higher payroll taxes also could reduce the number of jobs that employers can offer to prospective workers.

Option 10

Raise the limit on taxable earnings, so it covers 90% of total earnings in America

Revenue increase in 2025: $67 billion

When Social Security was established, about 92% of all earnings were subject to the payroll tax. As incomes rose over time, that figure gradually fell until, in 1977, Congress changed the law in order to restore taxable earnings back to about 90%. More recently, as incomes for those at the top have risen rapidly, the share of total earnings subject to the payroll tax had fallen to about 80% by 2007.[vii]

ARGUMENTS FOR:

- The share of total income subject to payroll taxes has shrunk in recent years because earnings for those at the top are rising faster than the limit on taxable earnings has been rising. Raising the taxable limit will help ensure that those at the top contribute more to the system.
- Currently, people with incomes above the taxable limit pay no taxes on some or most of their income, which means that lower income workers pay a greater share of their income in payroll taxes than those with higher incomes.
- Life expectancy has been rising much faster for high-income workers than for low-income workers, so tax increases to strengthen the Social Security system should focus on these workers.

ARGUMENTS AGAINST:

- The higher income earners who would pay more in payroll taxes would be eligible for higher retirement benefits, thus reducing the saving under this option over the long term.
- Those who earn higher incomes are the most likely to make investments that will create jobs. Increasing taxes on these individuals will reduce their ability to make these investments and hurt job growth.
- The option would reduce incentives for work, and increase incentives to replace higher wages with tax-free fringe benefits, for those with earnings above the current limit that would be subject to payroll taxes for the first time.

Option 11 — Create personal savings accounts within the system

Revenues in 2025: -$61 billion (Will *increase* deficit in 2025)

Rather than require workers to contribute the full 6.2% payroll tax to Social Security, this option would allow – but not force – them to put a share of their payroll taxes into a personal retirement account whose balances could be invested in a limited number of government-approved funds. A beneficiary's future Social Security benefits would be reduced in proportion to the reduction in his or her payroll taxes into the Social Security system, protecting the solvency of Social Security over time.

Under one current proposal by a member of Congress,[viii] workers under age 55 could invest 2% of their first $10,000 of earnings into such an account, and another 1% of the amount between $10,000 and their total earnings subject to payroll taxes. The $10,000 level would rise each year with inflation. The initial rates of 2% and 1% would rise to 4% and 2% after 10 years, 6% and 3% after 10 more years, and to 8% and 4% by 2042.

The proposal, however, carries significant up-front costs because payroll tax payments of current workers into the system are reduced at the same time that current beneficiaries are still receiving full benefits.

ARGUMENTS FOR:

- Workers would have the option to gain more control over their investments, and they could potentially enjoy a return on their personal accounts that would exceed the benefits they would receive from Social Security.
- This option is designed to make the Social Security system solvent by gradually reducing payments to beneficiaries who choose to put some of their payroll taxes into private accounts.
- Proponents argue that this is like paying extra points now to refinance your mortgage at a lower rate – in the short run, you pay more up front; but in the long run, you pay less in finance charges.

ARGUMENTS AGAINST:

- Workers would lose the certainty of monthly benefits that they could count on and plan around and that offset the effects of inflation.
- Workers would face the risk of earning less from these accounts than they have received from traditional benefits – depending on the performance of their investments at any one time.
- Rather than producing savings by 2025, this option would make the deficit worse in the coming decades because some current workers could opt to reduce their level of payroll taxes that are going into the system while all current beneficiaries are still receiving full benefits.

Option 12 — Make no changes

Savings in 2025: $0

All Other Non-Defense Spending

Medicare and Medicaid:	$2.0 trillion
Social Security:	$1.48 trillion
All Other Non-Defense:	**$1.36 trillion**
Defense:	$0.88 trillion
Interest on the Debt:	$1.49 trillion
Total Spending:	$7.22 trillion
Total Revenues:	$4.76 trillion
Deficit:	$2.46 trillion

What is in the Budget Beyond Medicare, Medicaid, Social Security and Defense?

The federal budget includes a wide range of programs outside of Medicare, Medicaid, Social Security and defense. Some of them, like Supplemental Security Income, unemployment compensation, child nutrition, and the Supplemental Nutrition Assistance Program (formerly called food stamps), provide income and other support for low-income and unemployed Americans. Others fund core operations of government such as education, transportation, housing, science, space, natural resources programs, and foreign aid.

The President and Congress fund some of these programs each year through annual bills, while others continue from year to year under the law unless policymakers pass subsequent laws to change them.

The categories of programs include the following:[ix]

- ***Administration of Justice.***

  This area includes federal law enforcement programs, litigation and judicial activities, federal prison operations, and state and local justice assistance. Agencies that are funded include the FBI, Drug Enforcement Administration, Bureau of Alcohol, Tobacco, Firearms and Explosives, U.S. Attorneys, Justice Department's legal divisions, Legal Services Corporation, federal Judiciary, the Federal Bureau of Prisons, and several parts of the Department of Homeland Security, including border and transportation security.

  2025 Budget: $71 billion

- ***Agriculture***

  This area includes farm commodity programs, crop insurance, and certain farm loans that are designed to ensure farmers' incomes. It also includes research and education programs, economics and statistics services, meat and poultry inspection, and part of the international food aid program.

  2025 Budget: $20 billion

- ***Commerce and Housing Credit.***

  This area includes mortgage credit, the Postal Service, and federal deposit insurance. Mortgage credit includes housing assistance through the Federal Housing Administration, the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac), and the Government National Mortgage Association (Ginnie Mae), rural housing programs of the Agriculture Department, and oversight of the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac). It also includes funding for most of the Commerce Department and funding for such independent agencies such as the Securities and Exchange Commission, the Commodity Futures Trading Commission, the Federal Trade Commission, the Federal Communications Commission, and most of the Small Business Administration.

  2025 Budget: $6 billion

- ***Community and Regional Development.***

  This area includes programs to improve community economic conditions, promote rural development, and assist in federal preparations for and response to disasters. It funds the Community Development Block Grant and community development-related programs, the Agriculture Department's rural development programs, the Bureau of Indian Affairs, Federal Emergency Management Agency, other disaster mitigation and community development-related programs, and the federal flood insurance program.

  2025 Budget: $21 billion

- ***Education, Training, Employment, and Social Services***

  This area includes Education Department programs, the Health and Human Services Department's social service programs for children, the aged, and families, and the Labor Department's employment and training programs. Education Department programs include education for the disadvantaged, special education for students with disabilities, school improvement, vocational and adult education, higher education, and student financial assistance. Also funded in this area are the Library of Congress and independent research and art agencies.

  2025 Budget: $159 billion

- ***Energy***

  This area includes the Energy Department's civilian energy and environmental programs, the Agriculture Department's Rural Utilities Service, the Tennessee Valley Authority, Federal Energy Regulatory Commission, and Nuclear Regulatory Commission. Energy Department programs support energy efficiency and renewable energy, research and development on nuclear energy, and the supply of oil, gas and coal.

  2025 Budget: $3 billion

- ***General Government***

  This area funds the White House and Executive Office of the President, Congress, the Treasury Department, Internal Revenue Service, Office of Personnel Management, General Services Administration, Government Printing Office, and other agencies that perform the government's legislative and administrative responsibilities.

  2025: $39 billion

- ***General Science, Space, and Technology.***

  This area function includes space flight, research, and supporting activities largely at NASA, National Science Foundation programs, and the Energy Department's science programs.

  2025: $42 billion

- ***Health (not including Medicare and Medicaid)***

  This area includes the Children's Health Insurance Program (CHIP), federal employee and retiree health benefits, health services for under-served populations (such as Native Americans), disease control, anti-bioterrorism activities, national biomedical research, training for the health care workforce, substance abuse and mental health services, public health and social services, and food safety and inspection. Funded agencies include the National Institutes of Health (NIH), Centers for Disease Control and Prevention, Health Resources and Services Administration, and the Food and Drug Administration.

  2025 Budget: $44 billion

- ***Income Security***

  This area includes a range of programs that provide cash or other assistance to low-income Americans, civilian and military retirees, persons with disabilities, and the unemployed. Programs specifically for low-income or needy Americans include the Supplemental Nutrition Assistance Program (formerly called food stamps) for poor families, Unemployment Insurance for the jobless, Supplemental Security Income for poor elderly, blind, or disabled Americans, Temporary Assistance for Needy Families, foster care for children, housing assistance for low-income Americans, and trade adjustment assistance for workers who have lost their jobs due to trade.

  2025 Budget: $552 billion

- ***International Affairs***

This area includes funding for all U.S. international activities, including the operating of U.S. embassies and consulates around the world; military assistance to allies; aid for developing nations; economic assistance to fledgling democracies; U.S. export promotion; U.S. payments to international organizations; international peacekeeping efforts; and programs in global health, agricultural and development assistance, refugee and other humanitarian assistance, and international drug control and enforcement. The programs in this area are run by the Departments of Agriculture, State, and the Treasury; the United States Agency for International Development; and the Millennium Challenge Corporation.

2025: $68 billion

- ***Natural Resources and Environment***

This area includes programs to protect and enhance the environment as well as recreation and wildlife areas, and to develop and manage public land, water, and mineral resources. The programs are run by the Environmental Protection Agency, Army Corps of Engineers, Bureau of Public Lands, Bureau of Reclamation, Fish and Wildlife Service, Forest Service, National Oceanic and Atmospheric Administration, United States Geological Service, and other agencies.

2025 Budget: $37 billion

- ***Transportation***

This area includes programs for ground transportation (highways, mass transit, and railroads), air transportation (airports, airways, and air safety), and water transportation (marine safety and ocean shipping). Although most of the programs are run by the Transportation Department, this area also includes programs of the Coast Guard, Transportation Security Administration, and several small transportation-related programs of NASA.

2025 Budget: $117 billion

- ***Veterans' Benefits and Services***

This area includes such services for veterans as health care, compensation and pensions, education and rehabilitation, and housing, all run by the Department of Veterans Affairs. It also includes the Labor Department's Veterans' Employment and Training Service, United States Court of Appeals for Veterans Claims, and American Battle Monuments Commission.

2025 Budget: $180 billion

Options

The following options include reductions in spending of 5%, 10%, or 15% or no reductions at all. For each of the first three options, you could assume either across-the-board cuts (e.g., every program is cut by the same percentage) or that cuts will fall primarily on a smaller number of programs. If the latter, spending on other programs could either stay the same or even increase (though, of course, by smaller amounts than the overall cut). By targeting the reductions, policymakers could preserve funding for higher-priority programs. But they also would have to choose more carefully where to spend fewer dollars and look for ways to meet their goals more efficiently. The deeper the cuts (5%, 10%, or 15%), the more likely that policymakers would have to eliminate some lower-priority programs altogether.

Option 13 — Reduce overall spending in this category by 5%

Savings in 2025: $68 billion

What Could a 5% Reduction Look Like?

If imposed across a host of areas, reductions of this size could result in slower road construction or fewer road projects, fewer inspections for environmental violations, growing backlogs in processing veterans benefit claims, cuts in federal aid to state and local governments, a smaller federal workforce, no extension of unemployment benefits during periods of high unemployment, and fewer student loans.

To get a sense of the scale of cuts that would be made, the savings under this option equal about what the federal government will spend on law enforcement and justice-related programs; or about twice what it will spend to protect our natural resources and the environment; or nearly twice what it will spend for space flight, science, and technology programs.

Option 14 — Reduce overall spending in this category by 10%

Savings in 2025: $136 billion

What Could a 10% Reduction Look Like?

If imposed across a host of areas, reductions of this size could result in things like smaller unemployment payments; an end to inflation-related increases in retirement and other benefit programs; cuts in the number of food safety inspections; longer approval time for new drugs; cuts in research, student loans, and support for education; cuts in federal aid to state and local governments; and a smaller federal workforce.

To get a sense of the scale of cuts that would be made, the savings under this option equal about 85% of what the federal government will spend in 2025 for education, training, employment, and

social services, or more than it will spend for ground, air, and water transportation, or about twice what it will spend on law enforcement and justice-related programs, or more than three times what it will spend on space flight, science, and technology programs.

Option 15 — Reduce overall spending in this category by 15%

Savings in 2025: $204 billion

What Could a 15% Reduction Look Like?
If imposed across a host of areas, reductions of this size could prompt cuts in things like benefit payments for low income people, retirees, and the unemployed; deep cuts in transportation improvements and repairs; much longer lines at airports due to fewer airport security personnel and slower modernization of the air traffic management system; a much smaller federal workforce; much less federal research; less federal aid to local school districts; less medical care at VA facilities for all but low-income veterans; fewer law enforcement activities such as border control, drug enforcement, and support for local law enforcement; and less U.S. humanitarian and military aid around the world.

To get a sense of the scale of cuts that would be made, the savings under this option equal about three times what the federal government will spend in 2025 for all of its international programs, or significantly more than it will spend in 2025 for education, training, employment, and social services, or nearly three times what it will spend for law enforcement and justice-related programs, or five times what it will spend for space flight, science, and technology programs.

Option 16 — Make no changes

Savings in 2025: $0

Arguments For and Against Reductions in Spending

ARGUMENTS FOR:

- This category will represent nearly 19% of all federal spending in 2025, and the deficit challenge is too big for such a large category of spending not to contribute savings to help address it.
- Some of the programs in this category provide benefits to tens of millions of Americans who are neither poor nor otherwise disadvantaged, or provide services that arguably could or should be provided and financed at the state or local level, or represent lower priorities given other pressing needs.
- Policymakers have reduced spending in this category as part of deficit-reduction laws in the 1980s and 1990s, and the savings played a key role in helping to move the budget from deficits to surpluses during that period. Policymakers were forced to set priorities and make trade-offs.

ARGUMENTS AGAINST:

- This category includes programs in key investment areas that will strengthen the economy in the future – such as education, transportation, science, and research – leading to more jobs and higher living standards.
- This category has not been growing as a share of the economy, so it is not contributing to the deficit problem.
- Some programs in this category, such as the Supplemental Nutrition Assistance Program (formerly called food stamps), Unemployment Insurance, and Supplemental Security Income, provide essential supports to some of the neediest Americans. Across-the-board cuts in this category would disproportionately affect poor children and families, people with disabilities, and the unemployed.

Defense

Medicare and Medicaid:	$2.0 trillion
Social Security:	$1.48 trillion
All Other Non-Defense:	$1.36 trillion
Defense:	**$0.88 trillion**
Interest on the Debt:	$1.49 trillion
Total Spending:	$7.22 trillion
Total Revenues:	$4.76 trillion
Deficit:	$2.46 trillion

What is Defense Spending?

The defense budget is dominated by three categories: operating and maintaining the equipment; paying for the people; and buying the weapons. The rest goes for research and development, military construction and family housing, atomic energy activities, and other defense-related programs.

Defense spending has ebbed and flowed dramatically over the years, largely due to whether the nation was at war, where defense ranked as a national priority, and other factors. Over the last half-century, defense spending has fallen as a share of the budget more or less gradually from nearly 50% to today's 19%. As a share of the economy, it has ranged from nearly 10% to 3% around the year 2000. Today, boosted by the wars in Afghanistan and Iraq, defense stands just below 5% of the economy, although it will fall in the coming years as those wars end.

Current Approach to Defense

The United States is by far the world's predominant military power. It plays the lead role in maintaining global peace, ensuring commerce on the world's waterways, protecting our allies, and confronting our adversaries when necessary. It leads an international alliance system of some 70 countries. It also will likely face a host of challenges in the coming years, which include possible conflicts in several parts of the world.

At the moment, however, some experts believe that defense spending suffers from a gap between what the nation must spend to maintain its capabilities and what President Obama proposes to spend in the coming years. The President proposed to maintain defense spending for the next five years at current levels. Some experts, however, believe that the nation must spend at least 2% more a year in inflation-adjusted dollars in order to maintain our current approach and ensure that our military personnel are skilled and trained, that they receive high-quality health care and other benefits, that we purchase the most sophisticated equipment to meet our challenges, and that we maintain our equipment. Other experts, however, believe that it is possible to cut billions of dollars from military spending unrelated to our current wars without compromising national security.

Options

The following options include reductions in defense spending in 2025 by 5%, 10% or 15% or none at all. By making no reduction, you would be adopting the President's defense spending path, which, as explained above, may fall short of what's needed to maintain the nation's defense posture around the world.

Option 17 — Reduce overall spending in this category by 5%

Savings in 2025: $44 billion

What Could a 5% Reduction Look Like?
These cuts would mean a reduced U.S. leadership role around the world, with the nation concentrating more on defending the homeland and the nearby seas. We would focus on multilateralism, on sharing the burden of maintaining the peace with our allies, and on using non-military tools of foreign policy far more and military tools far less. We would also focus sharply on reducing spending on weapons systems that are considered outmoded or ineffective. Defense cuts also would mean lower benefits and less training for the troops and less effective weapons and other equipment with which to fight. That, in turn, could mean a reduced U.S. capacity to achieve its goals around the world, a less effective military force, and a reduced appeal of military service as a career for young men and women.

Option 18 — Reduce overall spending in this category by 10%

Savings in 2025: $88 billion

What Could a 10% Reduction Look Like?
Compared to a 5% cut, these cuts would mean an even more reduced U.S. leadership role around the world, with the nation concentrating more on defending the homeland and the nearby seas. We would focus on multilateralism, on sharing the burden of maintaining the peace with our allies, and on using non-military tools of foreign policy far more and military tools far less. We would focus ever-more sharply on reducing spending on weapons systems that are considered outmoded or ineffective. Defense cuts of this size also would mean even lower benefits and less training for the troops and less effective weapons and other equipment with which to fight. That, in turn, could mean a reduced U.S. capacity to achieve its goals around the world, a less effective military force, and a reduced appeal of military service as a career for young men and women.

Option 19

Reduce overall spending in this category by 15%

Savings in 2025: $132 billion

What Could a 15% Reduction Look Like?

Compared to a 10% cut, these cuts would mean an even more reduced U.S. leadership role around the world, with the nation concentrating more on defending the homeland and the nearby seas. We would focus on multilateralism, on sharing the burden of maintaining the peace with our allies, and on using non-military tools of foreign policy far more and military tools far less. We would focus more sharply still on reducing spending on weapons systems that are considered outmoded or ineffective. Defense cuts of this size also would mean even lower benefits and less training for the troops and less effective weapons and other equipment with which to fight. That, in turn, could mean a reduced U.S. capacity to achieve its goals around the world, a less effective military force, and a reduced appeal of military service as a career for young men and women.

Option 20

Make no changes

Savings in 2025: $0

Arguments For and Against Reductions in Spending

ARGUMENTS FOR:

- We can no longer afford to maintain our current military posture, and we should rely more on multilateral approaches to global problems.
- Defense spending will be 12% of the budget in 2025, and exempting defense from spending cuts will increase the size of the cuts we must make in other programs or the taxes that we must raise.
- Most major Western powers spend significantly less on their armed forces – although many of them reside in much more unsettled parts of the world – and they should bear more of the burden of their own defense.
- Thanks to our relative geographic isolation, a stable Canada to the north and a non-hostile Mexico to the south, the United States could achieve significant savings if it reduced its global role.
- Previous U.S. interventions around the world have not always gone well, costing the United States dearly in money and lost lives and leaving behind serious problems for the nation in which we intervened.
- By cutting ineffective or outmoded weapons systems, we can save billions of dollars that would reduce our need to make cuts in other areas without compromising our national security.

ARGUMENTS AGAINST:

- Lower defense spending will mean a lower U.S. capacity to achieve its goals around the world – with a less skilled and trained military force and less effective weapons and other equipment with which to fight.
- The world remains a dangerous and unpredictable place, and the United States needs to maintain its military dominance to protect its interests.
- Previous efforts to convince our allies to share the costs of maintaining global peace have proven unsuccessful, and we have no reason to believe that will change.
- Earlier periods of U.S. disengagement, such as the 1920s and 1930s, have provided openings for our adversaries to exploit, forcing us to quickly rearm and to wage wars at great expense.
- The United States faces a host of challenges around the world for which multilateralism and burden sharing may prove inadequate.

Revenues

Medicare and Medicaid:	$2.0 trillion
Social Security:	$1.48 trillion
All Other Non-Defense:	$1.36 trillion
Defense:	$0.88 trillion
Interest on the Debt:	$1.49 trillion
Total Spending:	$7.22 trillion
Total Revenues:	**$4.76 trillion**
Deficit:	$2.46 trillion

The tax code is supposed to raise enough revenue to finance government spending in a way that is simple and fair and that helps to promote economic growth – or at least does as little as possible to hinder it.

Many experts believe that the current tax code is seriously flawed. Tax revenue as a share of GDP is about as low as it has ever been since World War II, due to both the economic recession and the large tax cuts that President Bush and Congress enacted in 2001 and 2003. Even after the economy fully recovers from the recession, revenues won't rise to a level anywhere near current spending. Given the government's rising future obligations, policymakers may need to raise more revenues. The tax code also has grown increasingly complicated, with seemingly arbitrary rules for different taxpayers, and many provisions detract from economic growth.

The federal government raises revenues from a variety of sources. This year, of the estimated $2.17 trillion in total revenues, the federal government will collect 43.2% from individual income taxes, 40.4% from payroll taxes, 7.2% from corporate income taxes, 3.4% from excise taxes, and 5.7% from a variety of other taxes.

The tax code also provides more than $1 trillion a year in deductions and credits, which are designed to provide incentives for individuals and businesses to undertake particular activities. The total tax benefits for individuals are far larger than those for corporations. For instance, the tax code encourages home ownership by allowing individuals to deduct the interest they pay on their mortgages. It encourages charitable giving by allowing individuals who itemize their deductions to deduct contributions to charities, religious groups, and certain other non-profit institutions.

Taxpayers tend to focus on income taxes, but most people pay more in payroll taxes than income taxes. That's especially true because most experts believe that, while employers and employees each pay half of payroll taxes per employee, employees bear the burden of the entire tax because employers make up the cost by paying lower wages and salaries or by limiting other employee benefits. While tens of millions of Americans earn too little to pay federal income taxes, virtually all workers pay payroll taxes.

There are at least four general approaches to raising revenues that are explored in the following pages. First, policymakers could raise rates on existing taxes. Second, they could eliminate or reduce many current deductions and credits. Third, they could eliminate enough deductions, credits, and exclusions to generate enough revenue not only to reduce the deficit, but also to lower income tax rates. Finally, they could establish new taxes.

Raise Existing Taxes

President Bush and Congress enacted large individual income tax cuts in 2001 and 2003 and – although they are due to expire at the end of 2010 – their continuation is considered the "current policy" of the federal government. The projections in this guide on deficits and debt in coming decades are based on that current policy, and the options outlined below for raising taxes would be applied to the current tax structure.

The tax code has several tax brackets for both individuals and businesses, depending on their annual earnings. Individuals pay tax rates of 10%, 15%, 25%, 28%, 33%, or 35%. The top tax rate that an individual faces is called his or her "marginal" rate. As illustrated on the accompanying chart, the more that taxpayers earn, the higher their tax rates. The same holds true for businesses, with rates that range from 15% on the first $50,000 of income to 35% for income above $10 million.

Individuals and businesses can claim various deductions and credits to lower their actual, or "effective," tax rate. For instance, individuals can claim exemptions for themselves, their spouses, and dependents, and many Americans can deduct the interest they pay on their mortgages and other personal expenses. Many businesses often claim various credits, cutting their effective tax rates to far below 35%.

INDIVIDUAL INCOME TAX BRACKETS

Tax Year 2010

Married Couples

TAXABLE INCOME	TAX
Up to $16,750	10%
$16,750 to $68,000	$1,675 plus 15% of what's over $16,750
$68,000 to $137,300	$3,962.50 plus 25% of what's over $68,000
$137,300 to $209,250	$26,687.50 plus 28% of what's over $137,300
$209,250 to $373,650	$46,833.50 plus 33% of what's over $209,250
Over $373,650	$101,085.50 plus 35% of what's over $373,650

Options

Tax increases within the existing tax structure are easy to implement, but they place a heavier burden on those who already pay such taxes. Options for raising taxes include across-the-board increases for all or most taxpayers and taxes targeted at specific groups like upper-income individuals or corporations.

Option 21 — Raise personal income tax rates by 10% for everyone

Revenue increase in 2025: $184 billion

This option would increase marginal tax rates by 10% for all taxpayers. Taxpayers now in the 10% tax bracket would pay a marginal tax rate of 11%, those now in the 15% bracket would pay 16.5%, those now in the 25% bracket would pay 27.5%, those now in the 28% bracket would pay 30.8%, those now in the 33% bracket would pay 36.3%, and those now in the 35% bracket would pay 38.5%.

Option 22 — Raise personal income tax rates by 20% for everyone

Revenue increase in 2025: $381 billion

This option would increase marginal tax rates by 20% for all taxpayers. Taxpayers now in the 10% tax bracket would pay a marginal tax rate of 12%, those now in the 15% bracket would pay 18%, those now in the 25% bracket would pay 30%, those now in the 28% bracket would pay 33.6%, those now in the 33% bracket would pay 39.6%, and those now in the 35% bracket would pay 42%.

Option 23 — Raise personal income tax rates by 10% for taxpayers in the top two brackets

Revenue increase in 2025: $80 billion

This option would increase marginal tax rates by 10% for all taxpayers in the top two tax brackets. Taxpayers now in the 33% tax bracket – e.g., married couples who earn between $209,250 and $373,650 a year – would pay a marginal tax rate of 36.3%. Those now in the 35% bracket – e.g., married couples who earn more than $373,650 a year – would pay 38.5%.

Option 24 Raise personal income tax rates by 20% for taxpayers in the top two brackets

Revenue increase in 2025: $174 billion

This option would increase marginal tax rates by 20% for all taxpayers in the top two tax brackets. Taxpayers now in the 33% tax bracket – e.g., married couples who earn between $209,250 and $373,650 a year – would pay a marginal tax rate of 39.6%. Those now in the 35% bracket – e.g., married couples who earn more than $373,650 a year – would pay 42%.

ARGUMENTS FOR OPTIONS 21 TO 24:

- Raising income taxes across the board is fair because it is designed to help address a problem – rising deficits and debt – that affects the nation as a whole.
- Upper-income American are particularly well-positioned to pay higher taxes because they have done relatively well in recent years, compared to middle-income Americans whose living standards have been stagnant for decades.

ARGUMENTS AGAINST OPTIONS 21 TO 24:

- Across-the-board tax increases will hurt tens of millions of Americans whose living standards have been stagnant for decades.
- Increases in marginal tax rates, particularly on upper-income Americans, reduce incentives for work and saving.
- Higher tax rates could lead to lower economic growth, which would lower living standards as compared to what they otherwise would be.

Option 25

Create an extra 5% tax for people earning more than one million dollars a year

Revenue increase in 2025: $34 billion

ARGUMENTS FOR:

- Upper-income Americans are particularly well-positioned to pay higher taxes, certainly more so than other Americans.
- Upper-income Americans have done relatively well in recent years, compared to middle-income Americans whose living standards have been stagnant for decades.

ARGUMENTS AGAINST:

- Tax increases on upper-income Americans, particularly an extra tax on millionaires, will discourage work and penalize success.
- Those who will be taxed are the most likely Americans to make investments that would create new jobs.

Option 26

Raise the tax rate on capital gains and dividends

Revenue increase in 2025: $19.6 billion

Currently, the tax code allows Americans to pay a lower tax rate on investments in things like stocks and bonds, which are also known as capital gains and dividends, than on ordinary income. Investors in these long-term assets pay no more than a 15% tax – as compared to taxes on ordinary income that range all the way up to 35%.

This option would raise the tax rate on long-term capital gains and on qualified dividends to 20% for married couples making more than $250,000 a year (and singles making more than $200,000).

ARGUMENTS FOR:

- Income inequality is rising, and lower tax rates on capital gains and dividends tends to disproportionately help high-income Americans.
- Lower rates on capital gains creates incentives for taxpayers to create tax shelters by converting their ordinary income to capital gains, making the tax code less fair and more complicated.

ARGUMENTS AGAINST:

- A lower capital gains tax rewards those Americans who take a risk by investing in, for instance, start-up companies with no record of success.
- A lower capital gains rate also creates incentives for investing in activities that spur economic growth and create jobs.

Option 27 Raise the top corporate income tax rate to 40%, from 35%

Revenue increase in 2025: $68 billion

ARGUMENTS FOR:

- Corporations pay average (or "effective") tax rates that are comparable to those of corporations in other industrialized nations.
- The corporate tax rate was as high as 46% as recently as 1986 – so a 40% rate would still be only half-way between the current rate and the earlier higher rate.

ARGUMENTS AGAINST:

- U.S. corporations already face the second highest "marginal" tax rate – the tax on each additional dollar of earnings once they reach the 35% bracket – in the industrialized world.
- Tax increases on corporations raise their costs of doing business, hurting their competitiveness around the world and reducing the resources they could use to invest and create jobs at home.

Option 28 Make no changes

Revenue increases in 2025: $0

Reduce Deductions And Credits

The tax code provides deductions and credits for various purposes, such as health care, home ownership, savings, and investment.

Deductions and credits work differently. Deductions reduce the amount of income subject to taxes. With deductions, the higher your tax rate, the greater is the value of your deductions. On something eligible for a deduction (such as, interest payments on a mortgage), those who pay a 35% tax rate can deduct 35 cents of every dollar, those who pay a 15% rate can deduct 15 cents of every dollar, and those who claim the standard deduction or have no taxable income receive no benefit at all.

Credits, on the other hand, tend to be set at flat rates, such as a 15% credit against expenses, or a flat amount, such as a $1,000 credit against qualifying expenses. Tax credits offset the amount of taxes owed on a dollar for dollar basis. For example, if a taxpayer owes $1,000 in taxes before taking the credit into account and is eligible for a $1,000 tax credit, he or she would not owe any taxes. Some credits are refundable, which means that people who qualify for them receive a check from the government if their credit is greater than what they owe in income taxes or even if they owe no income taxes at all.

Option 29 — Limit the value of itemized deductions to 28%

Revenue increase in 2025: $49 billion

Taxpayers can deduct certain payments and contributions – such as interest payments on their mortgages, state and local income and property taxes, and contributions to charities – from their federal taxes.

President Obama has proposed to limit the value of those deductions to 28% for upper-income Americans[x]. That is, those in the 33 or 35% tax brackets – e.g., married couples who earn at least $209,250 a year – would deduct 28 cents of every dollar on those eligible items, rather than 33 or 35 cents.

ARGUMENTS FOR:

- Limiting itemized deductions to 28% would generate significant revenues while shrinking the gap between the value of deductions for high-income taxpayers as opposed to low-income taxpayers.

- Upper-income Americans are particularly well-positioned to pay higher taxes because they have done relatively well in recent years, compared to middle-income Americans whose living standards have been stagnant for decades.

ARGUMENTS AGAINST:

- Limiting the value of itemized deductions to 28% would reduce incentives for people to buy homes, make charitable donations, and do the other things that policymakers tried to encourage by establishing these deductions in the first place.

- It also would reduce those incentives for the very people – upper-income Americans – who are best-positioned to allocate their resources in these desired ways.

Option 30 Convert the mortgage interest deduction into a credit

Revenue increase in 2025: $106 billion

The tax code lets homeowners deduct the interest they pay on their home mortgage loans. They also can deduct their property taxes and exclude up to $250,000 ($500,000 for couples) of their profits from selling their homes.

This option would raise significant revenues by converting the mortgage interest deduction into a flat credit of 15% against a taxpayer's mortgage interest payments.

ARGUMENTS FOR:

- The mortgage interest deduction reduces the cost of financing a home purchase and thereby encourages people to invest more in home ownership than they otherwise would or to borrow against their homes.

- A credit would help low-income homeowners who do not take the mortgage interest deduction on their taxes because they take what's known as the "standard deduction," which does not provide an incentive for homeownership.

ARGUMENTS AGAINST:

- Converting the mortgage interest deduction into a credit could lower home values for relatively high-priced homes and would reduce home construction for those homes.

- It also could reduce the rate of homeownership, which, in turn, could hurt efforts to strengthen neighborhoods and communities.

Option 31

Limit the deduction for state and local income, real estate, and personal property taxes to 2% of a person's adjusted gross income

Revenue increase in 2025: $96 billion

The tax code lets taxpayers deduct their state and local income, real estate, and personal property taxes.

This option would limit those deductions to 2% of a taxpayer's adjusted gross income.

ARGUMENTS FOR:

- Limiting the deduction for state and local taxes would reduce what's now an incentive for state and local governments to spend more and to impose higher taxes to cover that spending than they otherwise might (because they know many of their constituents can deduct those taxes).
- It also would target a deduction that largely benefits wealthier communities where many upper-income Americans take the deduction and enjoy generous public services.

ARGUMENTS AGAINST:

- The federal government should retain this deduction because when states imposes taxes on income, that income is no longer available for families to spend and they should get a deduction in return.
- Limiting the deduction for state and local taxes would disproportionately affect taxpayers in high-tax states and localities, and it increase the gap in after-tax income between these taxpayers and those in low-tax states and localities.

Option 32

Limit corporate depreciation for equipment

Revenue increase in 2025: $100 billion

Currently, the tax code allows accelerated deductions – that is, a faster tax write-off of the asset's actual depreciation in value – to encourage investment.

This option would limit the value of this deduction by extending the number of years over which a company could depreciate an asset. The longer the period, the smaller the tax deduction in any one year.

ARGUMENTS FOR:

- The tax code currently favors those who invest in equipment over investment in structures, like a warehouse, which does not benefit from the same degree of accelerated deductions.
- This option would equalize the investment decision between these two types of capital.

ARGUMENTS AGAINST:

- Because deductions for accelerated depreciation encourage investment, any proposal that extends the depreciation life would discourage overall investment.
- With businesses making less investment, the growth in wages could be slower than otherwise over time.

Option 33 End the business deduction for producing goods in the United States

Revenue increase in 2025: $30 billion

The tax code lets businesses deduct up to 9% of what they earn from producing goods in the United States, rather than abroad. Activities that qualify for the deduction include the sales, rentals, and leases of personal property, computer software, and sound recordings, along with the production of films, electricity, and natural gas.

This option would eliminate this deduction so that production activities receive the same tax treatment no matter where they are performed.

ARGUMENTS FOR:

- The deduction creates economic distortions, which means that businesses produce goods that they otherwise would not if this deduction did not exist, because it applies only to certain domestic activities.
- That is, the deduction encourages businesses to invest in certain domestic production activities over others that might be more economically beneficial.

ARGUMENTS AGAINST:

- Repealing this deduction would raise the cost of business investment in the United States, perhaps reducing U.S. employment if businesses move overseas.
- The deduction was created partly to replace another business tax credit that was ruled illegal by the World Trade Organization.

Option 34 Make no changes

Revenue increase in 2025: $0

Reform The Tax Code

Rather than picking and choosing among the options in the first two sections above – raising existing taxes or reducing deductions and credits – you could take a more comprehensive approach to the existing tax code.

Tax reform generally refers to an effort to not just scale back deductions and credits (per the options in the previous section) but to eliminate as many deductions and credits as possible. Policymakers could use the resulting revenues to lower tax rates and perhaps also to reduce the budget deficit.

Please note: you can choose either to select options in the previous two sections ("RAISE EXISTING TAXES" and/or "REDUCE DEDUCTIONS AND CREDITS") or in this section ("REFORM THE TAX CODE") – not both. That is, you must choose whether to pick and choose among the previous tax options or to more fundamentally reform the tax system by choosing one of three tax reform options.

Economists generally agree that a well-designed tax reform could raise economic growth. By making the tax code easier for individuals and businesses to understand, it would reduce the time that taxpayers have to spend filing their tax returns. By scaling back deductions and credits, it would reduce incentives for taxpayers to invest in activities merely to obtain tax benefits and, instead, invest in more economically worthwhile ventures. By keeping tax rates as low as possible, it would create greater incentives to work for taxpayers who could keep more of the dollars they earn.

Nevertheless, tax reform comes with difficult choices. It would require an end to very popular deductions and credits on which tens of millions of Americans rely.

The 10 costliest deductions and credits[xi], and their projected costs in 2025, are the following:

- Taxpayers do not pay taxes on the value of the health care premiums that their employers pay.

  Cost in 2025: $589 billion

- Taxpayers can deduct the interest they pay on their mortgages.

  Cost in 2025: $323 billion

- Taxpayers pay a lower rate on capital gains on the assets they hold for at least a year.

  Cost in 2025: $292 billion

- Homeowners do not pay tax on what's known as the implicit rental value of home ownership.

  Cost in 2025: $248 billion

- Taxpayers do not pay capital gains taxes on up to $500,000 of the gains they make from selling their main residence.

  Cost in 2025: $138 billion

- Capital gains on assets that are held at an owner's death are not taxed.

  Cost in 2025: $130 billion

- Taxpayers can deduct their contributions to charitable, religious, and certain other non-profit institutions.

  Cost in 2025: $116 billion

- Taxpayers can take a federal deduction for the state and local income and property taxes that they pay.

  Cost in 2025: $106 billion

- Businesses can deduct part of what they earn from producing goods in the United States rather than abroad.

  Cost in 2025: $30 billion

- Taxpayers can make tax-free contributions to employer-provided 401(k) and 401(k)-like pension plans and defer the taxes on the investment income that they earn until they withdraw funds.

  Cost in 2025: $93 billion

Options

Below you will find three options for reforming the existing tax code and using the revenue savings to both keep tax rates low and reduce the deficit, and a fourth option not to reform the code at all. Specifically, you can eliminate all of the major deductions and credits listed above, totaling $2.07 trillion in 2025 and (1) use 90% of the savings to lower tax rates and 10% for deficit reduction, (2) use 80% of the savings to lower tax rates and 20% for deficit reduction, or (3) use 70% of the savings to lower tax rates and 30% for deficit reduction.

The options themselves do not reflect any particular tax reform proposal before Congress, or even any drafted by tax experts. Instead, they are designed to illustrate both the principle of tax reform and the potential for applying tax reform to an effort to lower tax rates and to reduce the deficit.

Option 35

Eliminate major deductions and credits:

Use 90% ($1.86 trillion) for lowering taxes
Use 10% ($206 billion) for deficit reduction

Revenue increase in 2025: $206 billion

What would this option mean?
This option would generate significant savings to help you reach the $1.2 trillion deficit-reduction target of this exercise, and it would also generate substantial savings to lower tax rates. But it would eliminate a very significant amount of the important deductions and credits on which tens of millions of American households and thousands of businesses have come to rely and which provide important incentives for, for instance, home ownership, charitable giving, personal saving, and investments in start-up businesses.

Option 36

Eliminate major deductions and credits:

Use 80% ($1.65 trillion) for lowering taxes
Use 20% ($412 billion) for deficit reduction

Revenue increase in 2025: $412 billion

What would this option mean?
This option would generate even more significant savings to help you reach the $1.2 trillion deficit-reduction target of this exercise, and it would also generate substantial savings to lower tax rates. But it would eliminate a very significant amount of the important deductions and credits on which tens of millions of American households and thousands of businesses have come to rely and which provide important incentives for, for instance, home ownership, charitable giving, personal saving, and investments in start-up businesses.

Option 37 — Eliminate major deductions and credits:

Use 70% ($1.45 trillion) for lowering taxes
Use 30% ($618 billion) for deficit reduction

Revenue increase in 2025: $618 billion

What would this option mean?
This option would generate more than half of the needed savings for you to reach the $1.2 trillion deficit-reduction target of this exercise, and it would also generate substantial savings to lower tax rates. But it would eliminate a very significant amount of the important deductions and credits on which tens of millions of American households and thousands of businesses have come to rely and which provide important incentives for, for instance, home ownership, charitable giving, personal saving, and investments in start-up businesses.

Option 38 — Make no changes

Savings in 2025: $0

Arguments for and Against Tax Reform

ARGUMENTS FOR:

- Economists generally agree that tax reform could produce a stronger economy, reducing incentives for individuals and businesses to invest in activities merely to obtain tax benefits and, instead, invest in more economically worthwhile ventures.
- Keeping tax rates as low as possible would create greater incentives to work for taxpayers, who would be able to keep more of the additional dollars they earn.
- Tax reform would make the tax code easier for individuals and businesses to understand, reducing the time they have to spend filling out their tax returns, reducing opportunities for error and fraud, and increasing taxpayers' confidence in the system.

ARGUMENTS AGAINST:

- Tax reform would eliminate important incentives for individuals and businesses to invest in socially useful activities, such as homeownership, charitable giving, personal saving, research and development, and investment in start-up companies.
- Taxpayers, for instance, would lose important incentives for home ownership – they could no longer deduct their mortgage interest payments and property taxes, they would pay tax on the implicit rental value of home ownership, and they would pay taxes on all their gains from selling their home. The result could be a drop in housing prices of, according to some experts, 15 to 25%.
- Taxpayers who receive employer-provided health care would pay taxes on the value of their employer-paid premiums, they could no longer deduct contributions to charities and other nonprofits, they could no longer deduct their state and local income and property taxes, they could no longer make tax-free contributions to 401(k) plans, they would pay tax on their earnings in 401(k) plans each year, and they would no longer pay lower taxes on the gains from their investments.

Establish New Taxes

A final approach is to create a new tax to generate more revenues, such as a tax on items that people buy (a consumption tax, or VAT), a tax on the energy that people use (a carbon tax), or a tax on financial transactions.

Option 39 — Create a 5% Value Added Tax (VAT)

Revenue increase in 2025: $399 billion

The U.S. federal tax system is based largely on income and payroll taxes. One option to help reduce the deficit is to establish a new tax on consumption – such as a sales tax, which is very common at the state level.

Specifically, this option would establish a kind of consumption tax that's known as a value added tax (VAT), which is common in developed countries around the world. Businesses pay the tax on the products they produce, but pass it on to consumers in the form of higher prices. Under this option, the VAT would be applied to all goods and services, with exceptions for food, education, health care, the financial sector, and housing.

ARGUMENTS FOR:

- A national consumption tax, such as a value-added tax (VAT), would generate huge revenues.
- Although a VAT is regressive, meaning that lower-income people pay a greater share of their income on it, policymakers can make other changes in taxes or other assistance to offset those effects.

ARGUMENTS AGAINST:

- Without other changes to the tax code, a national consumption tax, such as a value-added tax (VAT), would be regressive, with lower-income Americans paying a larger share of their income on it than more well-to-do Americans.
- It would penalize senior citizens who paid income taxes while they worked and would now pay tax on what they spend in retirement.

Option 40 — Create a carbon tax

Revenue increase in 2025: $186 billion

A carbon tax is a tax on the carbon content of fuels, such as coal, natural gas, and petroleum. Energy producers would presumably pass some of the tax on to consumers, which would encourage consumers to reduce their carbon use. That, in turn, would benefit the environment and reduce America's dependence on foreign sources of energy.

Because a carbon tax would be regressive, with poorer people paying a greater share of their income on it than wealthier people, the federal government could reallocate some of the revenues it generates by providing a refund to low-income Americans.

ARGUMENTS FOR:

- A carbon tax would encourage a more careful use of energy resources, improve the environment and reduce U.S. dependence on foreign energy sources – and, if structured properly, can protect low-income consumers by providing refunds to offset their higher taxes.

ARGUMENTS AGAINST:

- A carbon tax would either fall disproportionately on low-income Americans or, if designed to protect those Americans by providing refunds, could prove difficult to administer.

Option 41 — Create a Securities Transaction Tax

Revenue increase in 2025: $30 billion

Trillions of dollars in stock transactions take place each year. A securities transaction tax would levy a small "sales tax" of 0.5% on the transfer of stock ownership.

The tax could be split between the buyer and the seller and could raise significant revenues each year. Additional taxes on other financial transactions could raise even more revenues.

ARGUMENTS FOR:

- The level of the proposed tax would be insignificant for most traders and could discourage some speculative trading.
- The resulting revenues could either reduce the deficit or replace cuts in spending for the more vulnerable Americans.

ARGUMENTS AGAINST:

- The tax could move stock transactions to other markets, such as London, reducing the role and importance of U.S. markets.
- The lower volume of transactions could also reduce liquidity in some U.S. markets, making it harder for some U.S. companies to raise capital.

Option 42 Make no changes

Revenue increase in 2025: $0

End Notes

i *As explained in the Note to Economists and Budget Experts on p. 2, these figures and all other projections in this document (unless otherwise noted) come from the budget projections (or the "baseline") of the Congressional Budget Office, with a few adjustments.*

ii *The options described in this document draw heavily from Budget Options: Volume 2, Congressional Budget Office, August 2009. Other sources of information are noted elsewhere in this document.*

iii *The numbers in this chart may not add up precisely due to the rounding of each individual number.*

iv *See footnote [i].*

v *Social Security Administration.*

vi *Lavery, Joni and Reno, Virginia P., Children's Stake in Social Security (Social Security Brief No. 27). Washington, DC: National Academy of Social Insurance, 2008.*

vii *"Increase the Maximum Taxable Earnings for the Social Security Payroll Tax," Budget Options: Volume 2, Congressional Budget Office, August 2009, p. 234.*

viii *Ryan, Paul, Ranking Member, Committee on the Budget, U.S. House of Representatives, "The Roadmap Plan," at http://www.roadmap.republicans.budget.house.gov/Plan/.*

ix *The descriptions that follow draw heavily from "Budget Functions," from the website of the House Budget Committee.*

x *President Obama's fiscal year 2011 budget proposal.*

xi *"Federal Receipts," Analytical Perspectives, Office of Management and Budget.*

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