

REAL SPECIFICS: 15 WAYS TO RETHINK THE FEDERAL BUDGET

Part I: Budgeting for a Modern Military (February 22, 2013)

Part II: Addressing Entitlements, Taxation, and Revenues (February 26, 2013)

PART I: BUDGETING FOR A MODERN MILITARY

Defense spending currently accounts for approximately 20 percent of the federal budget. Sequestration would have cut defense spending by 7.5 percent, raising concerns over preserving national security. The Hamilton Project will feature two alternative approaches to creating a more efficient defense budget reflecting the realities of our modern military. Each proposal will offer recommendations for putting defense spending in line with the requirements of the Budget Control Act, or the requirements of the caps on spending and sequestration. The authors will also discuss the “fair” level of cuts to the defense budget in its contribution to long-term fiscal sustainability.

1. National Defense in a Time of Change

Authors: Adm. Gary Roughead (USN Ret.) (Hoover) and Kori Schake (Hoover)

This paper begins by outlining budgetary challenges facing the military and setting the security stage. It then offers recommendations for addressing each challenge, including procurement policy and process reforms, an investment strategy to match a new vision for the military’s role in today’s security environment, and addressing growth in personnel costs.

2. Making Defense Affordable

Author: Cindy Williams (MIT)

This paper proposes measures for sustaining a strong military while reducing future annual defense budgets by 10 percent or more in real terms, relative to the President’s Budget for FY 2013. The first set of measures aims simply to avert the cost growth CBO anticipates in military health care, military pay, operation and maintenance, and weapons acquisition. The paper then offers two options for meeting the budget targets: 1) Reduce each military department’s budget by 10 percent in real terms relative to the Defense Department’s FY 2013 plan; 2) Reduce Department of Defense non-war budgets by 16 percent in real terms relative to the FY 2013 plan, with a strategic focus on forces for rebalancing toward Asia and the Pacific.

PART II: ADDRESSING ENTITLEMENTS, TAXATION, AND REVENUES

As policymakers contemplate new efforts to confront the unsustainable federal deficit, they face a dual mandate—to place the budget on a sustainable path while also spurring growth that broadly benefits the American economy and households.

To this end, The Hamilton Project asked experts from a variety of backgrounds—the policy world, academia, and the private sector—and from both sides of the political aisle, to provide innovative, pragmatic proposals for lowering the deficit by reducing expenditures or raising revenues, and that take into account impacts to the economy at large. Each author was asked to offer an idea to help fill part of the remaining budget deficit and improve competitiveness while also being mindful of distributional and near-term economic concerns. The resulting 13 proposals range across budget groups, and include options to reduce mandatory and discretionary programs, to improve economic efficiency, and touch on topics as wide ranging as immigration, transportation, healthcare, and mortgage interest.

CLUSTER 1: AN ENDURING SOCIAL SAFETY NET

1. Transitioning to Bundled Payments in Medicare

Authors: Michael Chernew (Harvard) and Dana Goldman (USC)

Slowing the rate of health care spending growth will likely require transitioning away from fee-for-service payment to a global payment system, which will improve health outcomes and save money. This paper explores policy issues and budget consequences associated with this transition.

2. Reforming Federal Support for Risky Development

Authors: David Conrad (National Wildlife Federation) and Ed Thomas (Natural Hazard Mitigation Association)

The National Flood Insurance Program has provided needed insurance for millions of Americans, but it has failed to adequately restrict growth in high-risk floodprone and environmentally sensitive areas. This paper examines how this program and other federal programs can be reformed to better align the costs and benefits of living in disaster-prone areas and to put the budget on more sound footing.

3. Restructuring Cost Sharing and Supplemental Insurance for Medicare

Author: Jonathan Gruber (MIT)

Cost sharing under the Medicare Parts A & B programs is both variable and uncapped, with an overall structure that is hard to rationalize. This paper will discuss reforms to Medicare cost sharing that can provide budget savings while encouraging appropriate care and discouraging inappropriate care.

4. An Evidence-Based Path to Disability Insurance Reform

Author: Jeffrey Liebman (Harvard), Jack Smalligan

Although the disability insurance system largely works, there is still a critical need for improvement in several areas: some beneficiaries appear to be receiving the wrong form of assistance, and the system can create misaligned incentives. This paper proposes a path forward for realigning and streamlining the disability insurance system, helping some get back to work and providing more rapid and reliable resolution of disability insurance claims.

CLUSTER 2: INNOVATIVE APPROACHES TO TAX REFORM

5. Eliminating Fossil Fuel Subsidies

Author: Joseph Aldy (Harvard)

This paper looks at how limiting subsidies for fossil fuels could raise revenue for the federal government and while also benefiting the environment. It proposes the elimination of twelve tax provisions that subsidize the production of fossil fuels in the United States.

6. Better Ways to Promote Saving through the Tax System

Author: Karen Dynan (Brookings)

Government programs and tax provisions aimed at encouraging people to save are essential to promoting economic security, but can subsidize savings that would have occurred anyway. This paper examines the design of better savings programs, outlining how one could reform savings-related programs to increase security but lower budgetary cost.

7. Limiting Individual Income-Tax Expenditures

Author: Diane Lim (Pew Charitable Trusts)

This paper takes another approach to individual income tax expenditures, proposing an across-the-board reduction in deductions and exclusions rather than targeting specific provisions.

8. Replacing the Home Mortgage Interest Deduction

Author: Alan Viard (AEI)

Tax reform discussions often end up calling for a broader base—eliminating or limiting tax exclusions and deductions that can distort taxpayer decisions. This paper addresses replacing the mortgage interest deduction with a refundable credit to raise revenue and improve the efficiency of the tax code.

CLUSTER 3: NEW SOURCES OF REVENUE AND EFFICIENCY

9. Funding Transportation Infrastructure with User Fees

Author: Tyler Duvall (McKinsey) and Jack Basso (American Association of State Highway and Transportation Officials)

Investments in infrastructure are essential for a vital economy, but much of U.S. transportation infrastructure is in disrepair and overly congested. This paper looks to user fees as a way to raise revenues while also encouraging smarter use of infrastructure.

10. Creating an American Value-Added Tax

Authors: Bill Gale (Brookings) and Ben Harris (Urban Institute)

Creating a value-added tax (VAT) in the United States could help raise revenue in a manner that does not distort saving and investment choices, that makes our system more consistent with the rest of the world's, and that has been proven to be feasible administratively. This paper considers how a VAT could contribute to a fiscal solution and discusses its design.

11. The Many Benefits of a Carbon Tax

Author: Adele Morris (Brookings)

A carbon tax could provide a new source of revenue while also addressing climate change more efficiently than many current regulations in place. This paper lays out a plan to implement a carbon tax while consolidating and limiting other regulations targeting climate change.

12. Overhauling the Temporary Work Visa System

Authors: Pia Orrenius (Dallas Fed), Giovanni Peri (UC Davis), and Madeline Zavodny (Agnes Scott)

A simplified immigration system designed to meet the needs of the economy would allow the United States to maximize the many benefits of immigration. This paper explores how reforms to the employment-based immigration system could increase the economic benefits of immigration while also raising revenue by auctioning visas.

13. Increasing the Role of the Private Sector in Housing Finance

Author: Phillip Swagel (UMD)

Government support for housing has allowed Americans to get mortgages and refinance at low interest rates, but it also leave taxpayers exposed to an immense amount of risk. This paper presents an overview of how changes in housing policies and reform of government-sponsored enterprises could contribute to budget savings as well as improve the distributional consequences and efficiency of federal housing policy.