



## **15 IDEAS FOR SMART DEFICIT REDUCTION**

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Few policy debates have been as contentious as the current tug-of-war over the federal budget deficit. Despite widespread agreement that the budget is on an unsustainable path, there is also widespread disagreement about what should be done, and, to complicate matters, this budgetary uncertainty comes at a time when policymakers are still trying to get Americans back to work in the wake of the Great Recession.

In the coming months, policymakers will make important decisions on how to reduce the budget deficit. These decisions pose significant political and economic challenges, but also create a rare window of opportunity for policymakers to decide what kinds of programs and investments our country values, and what sort of society we will create for future generations. Once consensus has been reached about the broad focus of future investments, the devil will be in the details of implementation. And without a doubt, a sound budget strategy will require ideas rooted in evidence, not ideology, if we are to achieve these long-term goals.

To this end, The Hamilton Project asked leading experts from a variety of backgrounds—the policy world, academia, and the private sector, and from both sides of the political aisle—to develop policy proposals that could form a partial menu of options to achieve responsible deficit reduction. These experts include Jonathan Gruber, an MIT professor who was instrumental in shaping health-care reform bills in Massachusetts and nationally; Jeff Liebman, a Harvard professor who previously served as acting Deputy Director at the Office of Management and Budget; Gary Roughead, a retired four-star admiral and former Chief of Naval Operations; Tyler Duvall, former Assistant Secretary of Transportation Policy at the Department of Transportation; Adele Morris of Brookings, who leads the institution’s climate and energy economics initiative; and many others.

The mandate given to the authors was to describe pragmatic, evidenced-based proposals that would both reduce the deficit and also bring broader economic benefits. The resulting [fifteen proposals](#) take on a wide-ranging set of topics, including immigration, transportation, health care, defense spending, and tax expenditures, and include options to reduce mandatory and discretionary expenditures, raise revenues, and improve government efficiency.

The following table presents the fifteen proposals included in The Hamilton Project’s forthcoming budget report and their potential impacts on the economy and the deficit over a ten-year period. Viewed individually, the proposals offer specific reforms and evidence-based policy ideas to achieve budgetary savings and broader economic benefits. Taken together, they offer a menu of policies—a mix of tax reforms, changes to major spending programs, and new revenue raisers—that could contribute meaningful deficit reduction and help the country confront its most pressing economic challenges. To preview the budget table, [click here](#).

TABLE 1.

## Summary of Proposals

Paper Title	Proposal	Broader Benefits to the U.S. Economy	Deficit Reduction as Estimated by Authors (10-year)
<b>Section 1. An Enduring Social Safety Net</b>			
<b>1. Transitioning to Bundled Payments in Medicare</b> Michael Chernew and Dana Goldman	Proposes a global payment system, where provider systems are paid a fixed fee per beneficiary to cover all spending.	Promotes efficiency in the Medicare program by providing incentives to treat disease rather than paying for individual services; continues to encourage improvements in the quality of care, but at lower costs.	\$100 billion
<b>2. Reforming Federal Support for Risky Development</b> David R. Conrad and Edward A. Thomas	Proposes to reform federal disaster programs to prioritize hazard mitigation, and change incentives to encourage risk reduction in local public- and private-sector investments.	Reduces budget costs of natural disasters; reduces risks to life and property of Americans living in disaster-prone areas.	\$40 billion
<b>3. Restructuring Cost Sharing and Supplemental Insurance for Medicare</b> Jonathan Gruber	Proposes an integrated, progressive Medicare cost-sharing structure with new limits on out-of-pocket expenses; imposes a tax on supplemental insurance policies to reflect costs shifted to Medicare.	Insures consumers against high out-of-pocket costs; aligns the costs faced by consumers with the actual cost of care; discourages incentives in private plans that encourage excess use of Medicare benefits.	\$125 billion
<b>4. An Evidence-Based Path to Disability Insurance Reform</b> Jeffrey B. Liebman and Jack A. Smalligan	Proposes three early intervention demonstration projects to help people with disabilities stay at or return to work. Also proposes mandatory funding for initial eligibility determinations and redeterminations so that the Social Security Administration can perform more timely and thorough eligibility reviews, thereby improving accuracy and reducing program costs.	Potential to increase employment and economic engagement of workers with disabilities and provide more rapid and reliable resolution of disability insurance claims for those who cannot work. Results of the pilots would inform broader reforms of the disability insurance system, leading to additional longer-term benefits.	\$10 billion – \$20 billion
<b>Section 2. Innovative Approaches to Tax Reform</b>			
<b>5. Eliminating Fossil Fuel Subsidies</b> Joseph E. Aldy	Proposes to eliminate twelve tax provisions that subsidize the production of fossil fuels in the United States.	Levels the playing field among fossil fuel producers and relative to other business investments; leads to potentially lower global fuel prices by providing the United States with increased leverage in negotiations over eliminating fossil fuel subsidies in the developing world.	\$41 billion
<b>6. Better Ways to Promote Saving through the Tax System</b> Karen Dynan	Proposes improving incentives for saving by low-income households by expanding use of behavioral approaches and incentives; reduces inefficient tax expenditures for higher-income households.	Improves saving and economic security for low-income households; reduces expensive and ineffective federal subsidies for high-income households.	\$40 billion
<b>7. Limiting Individual Income Tax Expenditures</b> Diane M. Lim	Proposes limiting itemized deductions to 15 percent, with special provisions to maintain incentives for charitable giving.	Raises revenue more efficiently by reducing tax expenditures; limits potential negative impacts on subsidized sectors by preserving certain tax incentives; equalizes implicit subsidies across middle- and higher-income taxpayers.	\$1 trillion

Paper Title	Proposal	Broader Benefits to the U.S. Economy	Deficit Reduction as Estimated by Authors (10-year)
<b>8. Replacing the Home Mortgage Interest Deduction</b> Alan D. Viard	Proposes replacing the mortgage interest deduction with a 15 percent refundable credit based on up to \$300,000 of mortgage principal.	Reduces the artificial incentive for the construction of high-end homes by reducing and better targeting the tax breaks for housing.	\$300 billion
<b>Section 3. New Sources of Revenue and Efficiency</b>			
<b>9. Funding Transportation Infrastructure with User Fees</b> Jack Basso and Tyler Duvall	Proposes expanding the use of user fees and tolls to fund ground transportation.	Raises revenues, reduces congestion on major roadways, reduces pollution; promotes wiser infrastructure investments.	\$312 billion
<b>10. Creating an American Value-Added Tax</b> William G. Gale and Benjamin H. Harris	Proposes a 5-percent value-added tax on consumption starting in 2017, and offsets regressive impacts through refundable cash payments.	Raises revenue in a manner that does not distort saving and investment choices.	\$1.6 trillion
<b>11. The Many Benefits of a Carbon Tax</b> Adele C. Morris	Proposes a \$16 per ton carbon dioxide tax, consolidates and rolls back redundant climate-change regulations, reduces corporate income tax rates, and offsets tax burden on the poorest households.	Reduces the buildup of greenhouse gas emissions; replaces command-and-control regulations and expensive subsidies with transparent and powerful market-based incentives; promotes economic activity through reduced regulatory burden and lower marginal tax rates.	\$199 billion
<b>12. Overhauling the Temporary Work Visa System</b> Pia M. Orrenius, Giovanni Peri, and Madeline Zavodny	Proposes replacing the current system for allocating temporary worker visas with permit auctions for employers.	Maximizes the economic benefits of work-oriented visas by allocating visas to firms (and immigrants) based on market needs; raises revenue through auctions.	\$7 billion – \$12 billion
<b>13. Increasing the Role of the Private Sector in Housing Finance</b> Phillip Swagel	Proposes to increase private participation in mortgage securitization markets, privatize the mortgage finance firms of Fannie Mae and Freddie Mac, and provide secondary government insurance on housing securities.	Improves incentives for risk taking and investment in the mortgage market and market for homes; reduces taxpayer exposure to risk; fosters competition and innovation in housing finance.	\$134 billion
<b>Section 4. Budgeting for a Modern Military</b>			
<b>14. National Defense in a Time of Change</b> Gary Roughead and Kori Schake	Proposes restructuring and restrategizing the military force structure by scaling back ground combat troops, altering acquisition practices, and reforming compensation packages.	Improves the military's ability to respond to modern challenges, particularly in Asia and the Middle East; makes military procurement of assets more efficient and competitive; designs benefit packages more in line with troops' preferences.	\$500 billion
<b>15. Making Defense Affordable</b> Cindy Williams	Proposes changes to slow the growth of costs for military health care, pay, weapons acquisition, and operation and maintenance; offers one option to downsize the military consistent with the Budget Control Act and another to reduce and reshape the forces strategically, consistent with rebalancing toward Asia and the Pacific.	Addresses growing internal costs in the defense budget to preserve military capabilities; reshapes military forces in a way that reduces future budgets while keeping a strong and ready military.	\$540 billion– \$770 billion

The Hamilton Project budget report will be released on February 26<sup>th</sup> as part of a two-part forum:

**Part I: Budgeting for a Modern Military — February 22<sup>nd</sup>**

The first event will feature two proposals for reducing defense spending while preserving national security. The authors of the papers—Retired Admiral and former Chief of Naval Operations Gary Roughead, and former CBO Assistant Director Cindy Williams—will be joined to discuss their ideas by high-level experts including former Deputy Secretary of Defense and former CIA Director John Deutch, former Undersecretary for Defense Michele Flournoy, and former Senate Armed Services Chairman Sam Nunn.

**Part II: Addressing Entitlements, Taxation, and Revenues — February 26<sup>th</sup>**

The second event in our series will shift the focus to entitlements, tax reform, and new sources of revenue. Three former CBO directors—Alice Rivlin, Senior Fellow at Brookings, Robert B. Reischauer of The Urban Institute, and Donald Marron of the Tax Policy Center—will set the stage for the day's discussions around 13 new proposals for reducing the deficit. A diverse group of authors will join the forum for roundtables focusing on an enduring social safety net, innovative approaches to tax reform, and new sources of revenue and efficiency.

On a related note, we recently sat down to discuss some of the insightful ideas that will be presented. Watch a video of that discussion [here](#).

For updates on the event, follow us [@hamiltonproj](#) and join the conversation using **#RethinktheBudget**.