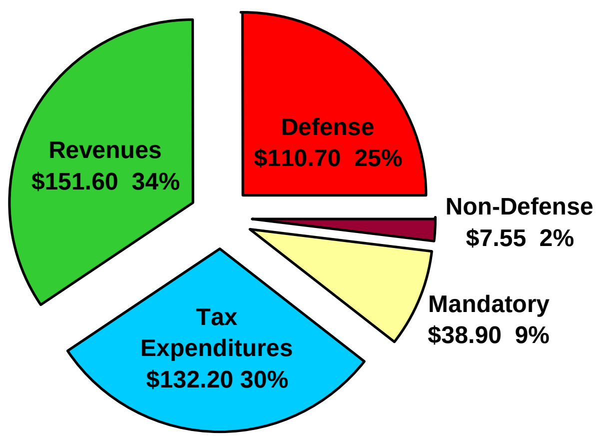
Schakowsky Deficit Reduction Plan

Fiscal Responsibility That Protects the Lower and Middle Class

Overview: The Schakowsky Deficit Reduction Plan is a progressive proposal that will exceed the President's goal of achieving primary budget balance in 2015 while strengthening our economy and protecting lower income and middle class families who had nothing to do with creating the deficit.

Investment: The Schakowsky Plan would **invest $200 billion** into job creation measures over the next two years to jump-start economic growth. Possibilities include the Local Jobs for America Act, funding for infrastructure, education, and law enforcement, extended unemployment insurance, and measures to promote investment in domestic manufacturing and green jobs.

Reducing the Deficit in 2015: The Schakowsky Plan would **reduce the deficit in 2015 by $441 billion**, exceeding the $250 billion target set by the President's goal in that year of achieving primary budget balance (in which all spending is paid for except for interest on the debt). It would achieve that goal by reducing unnecessary spending and increasing revenues in a progressive way. The proposal lists specific recommendations in order to achieve the savings, and also includes $42 billion in additional options for deficit reduction that Congress could choose to include.



Social Security: Social Security has *nothing* to do with the deficit. It has a surplus of $2.5 trillion which will go up to $4 trillion, and without any changes the program can pay out full benefits until 2037. To extend full benefits for the next 75 years, **the Schakowsky plan achieves long-term solvency without making any benefit cuts.** The plan would eliminate the wage cap on the employer side and raise it to cover 90% of aggregate wages on the employee side, apply FICA to all wage income below the cap, and establish a small legacy tax on wages above the cap. Those recommendations would result in surplus funding that can be used to improve the extremely modest benefits that are now provided.

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	Option	Deficit Reduction in 2015 ($Billions)	Details
TOTAL		440.95	
Discretionary Non-Defense 7.55	Eliminate the Overseas Private Investment Corporation	0.15	The Overseas Private Investment Corporation (OPIC) subsidizes the foreign operations of many large, private U.S. corporations through financing and insurance supports. .
	Sell excess federal property*	1	Address the 14,000 buildings and structures currently designated as excess and 55,000 identified as under- or not-utilized.
	Reduce unnecessary printing costs*	0.4	Reduce unnecessary printing and publishing costs by allowing certain documents to be released in electronic-only form.
	Other efficiencies*	1	Make double-sided the default setting for copy machines, introduce energy saving technologies and practices to personal computer usage, and eliminate paper paystubs. Based on Administration proposals.
	Implement GAO Recommendations to Reduce Improper Payments by the Federal Government	5	GAO estimates that the federal government made about $99 billion in improper payments in 2009 through 60 different federal programs. Reducing improper payments by 5% would save about $5 billion.

Additional Options:
Require airports to fund a larger portion of the cost of aviation security* ($1.9 B)
Cut federal travel budget* ($0.4 B)
Trim the federal vehicle budget* ($0.3 B)

*Indicates this option was included in the Bowles-Simpson proposal

Updated 11/18/10

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Discretionary

Defense
$110.7 Billion

Option	Deficit Reduction in 2015 ($Billions)	Details
Reduce military personnel deployed in Europe and Asia*	12	Reduce # of U.S. soldiers permanentaly stationed on U.S. bases in Europe and Asia (currently about 150,000 people) by 1/3. (Bowles/Simpson draft lists the same reduction but for an estimated savings of only $8.5 billion)
Reduced deployed strategic nuclear arsenal	11.4	Reduce deployed arsenal by 85%, to about 300 weapons
End V-22 Ospreys*	1.9	Full cancellation of the Pentagon's purchase of over 450 V-22s
Buy only one DDG-51 Arleigh Burke class destroyer	1.9	Reduce Navy's plan to purchase two DDG-51 destroyers in 2015, and instead only purchase one destroyer
Buy only two CVN-80 aircraft carriers	1.5	Reduce Navy's order from 3 additional Gerald Ford class nuclear aircraft carriers to only two carriers
Buy fewer littoral combat ships	1.3	Reduce Navy's plan to purchase littoral combat ships from 4 ships per year in 2013 to 2015 to only two ships per year
End some missile defense programs	1.3	Eliminate some of the DoD's missile defense programs
Eliminate procurement of the Expeditionary Fighting Vehice*	0.6	Cancel the Marine Corps' procurement of this amphibious vehicle, as recommended by Sec. Gates
Reduce U.S. ground forces	12.1	Reduce Army and Marine Corps to their pre-Iraq/Afghanistan war sizes
Reduce civilian personnel	8	Proportional reduction in civilian personnel, in accordance with reduction in ground forces
Buy fewer F-35 Joint Strike Fighters	4.7	Cut planned 2015 purchase of 89 JSFs in half
Buy fewer Virginia Class submarines	2.8	Cancel planned increase from one sub per year to two subs per year
Research, development, testing, and evaluation*	10	15% reduction (Bowles/Simpson Draft calls for a 10% reduction, for a savings of $7 billion)
Reduce carrier battle groups	3	Retire two (out of a current total of 11) carrier battle groups
Apply the overhead savings planned by Sec. Gates to deficit reduction*	25	Gates plans to find efficiencies and reduce overhead costs, with a five-year savings goal of $100 billion.
Double Sec. Gates' cuts to defense contracting*	5.4	Double the proposed cuts to contractor personnel who augment defense headquarters staff
Cancel Navy's Future Maritime Prepositioning Force*	1	Cancel "sea-basing" program, which faces technical challenges
Cancel Joint Light Vehicle, Ground Combat Vehicle, and Joint Tactical Radio*	2.3	Army continues to upgrade current fleet of tactical vehicles
Retire two US Air Force tactical fighter wings.	4.5	Savings reflect reduced aircraft, missile, and ammunition procurement costs; reduced personnel costs for approximately 3,000 air force personnel; reduced air wing operations and maintenance expenses; and reduced base operating expenses.

*Indicates this option was included in the Bowles-Simpson proposal

Schakowsky Deficit Reduction Plan

	Option	Deficit Reduction in 2015 ($Billions)	Details
Mandatory			
Health Care $31.2 Billion	Robust Public Option	10	Creates a publicly-administered plan (initially using Medicare rates) to compete with private insurance plans in Exchanges.
	Require full drug rebates from drug manufacturers to full premium subsidy eligible individuals in Part D*	6	Ensures that the costs of drugs for individuals enrolled in both Medicare and Medicaid are no higher than Medicare costs.
	Ban Pay-For-Delay	1.2	Ban anticompetitive patent settlements, in which manufacturers of brand-name drugs pay potential generic competitors to stay out of the market.
	Medicare Rx Plan	(Requested score from fiscal commission)	Establishes a Medicare-administered Part D drug plan to compete with private plans.
	Medicare Rx Price Negotiation	14	Requires Medicare to use its bargaining power to negotiate for drug prices. Score requested from fiscal commission; $14 billion estimate from similar proposal by the Bipartisan Policy Center's Debt Reduction Task Force.
	Additional Options:		
	Reduce exclusivity period for brand-name biologics from 12 years to 7 years ($0.6 B)		
"Other" Mandatory $7.7 Billion	Reduce farm subsidies	7.5	50% cut in federal direct support for agriculture. Much of the federal assistance for agriculture goes disproportionately to large, corporate farms in ways that hurt smaller family farms. Large profit margins for big corporate farms at the production and marketing levels exerts massive downward pressure on farm commodity prices.
	Eliminate the Market Access Program	0.2	The Market Access program uses taxpayer dollars to fund advertising and promotion by private companies marketing agricultural products in other countries. These companies include McDonald's, Nabisco, Fruit of the Loom, and Mars.

Mandatory Subtotal
$38.9 Billion

*Indicates this option was included in the Bowles-Simpson proposal

Schakowsky Deficit Reduction Plan

	Option	Deficit Reduction in 2015 ($Billions)	Details
Tax Expenditures $132.2 Billion	Limit the Deductibility of Financial Corporate Debt Interest Payments	77.1	Limiting the tax policy that favors debt as a financing source would generate revenue and discourage highly-leveraged financing. Many economists have said that companies taking on too much debt was a major cause of the financial crisis. This option would make the preference an after-tax credit of 25% rather than a pre-tax deduction.
	Close Dividend Loophole for Foreign Source Income	34.1	This tax break allows firms to avoid bringing foreign income back to the U.S.
	Close Active Financing Tax Deferral for Financial Firms	6	This tax break encourages firms to make investments overseas and avoid paying taxes in the U.S.
	Repeal a tax subsidy for mergers and acquisitions	5	Go back to old rule for writing off "intangible" assets. Existing rule functionally has served as a tax break for mergers and acquisitions. The old rule would only allow a tax break for assets that could be shown to depreciate over time.
	Eliminate the deduction for business meals and entertaintment	10	This deduction has been reduced twice before; it also results in an unknown amount of fraud and abuse.

Additional Options:
Special Blue Cross/Blue Shield deduction - Eliminate special deduction that acts as a federal subsidy for operations, and for which other health insurance companies are ineligible. ($0.7 B)
Capital gains treatment of certain timber income - Eliminate treatment of certain timber sales as capital gains rather than income. ($0.1 B)
Expensing of multiperiod timber growing costs - Eliminate special rules that allow timber companies to immediately write off their production costs even though other businesses have to amortize those costs. ($0.3 B)
Eliminate tax-exempt status for insurance companies operated by tax-exempt organizations. ($0.2 B)
Exception from passive loss rules for $25000 of rental loss - These special rules for real estate investors relate to how investment losses are treated. The exception means that rental losses aren't protected by rules that prevent the ability of an individual to use the losses as a tax shelter. ($13 B)
Eliminate special capital gains tax rate for sales of certain agricultural items, and instead tax such sales as income. ($1 B)
Expensing of certain multiperiod agricultural production costs - Eliminate exemption of livestock and crops with production period of 2+ years from uniform cost capitalization rules. ($0.1 B)
Eliminate the ability to expense capital improvements (including feed and fertilizer) as property. ($0.1 B)
Eliminate mortgage interest deduction for second homes

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Category	Option	Deficit Reduction in 2015 ($Billions)	Details
Revenues			
Taxes $144.6 Billion	Tax Capital Gains and Dividends as Ordinary Income	88.1	Subject capital gains and qualified dividends to the regular income tax schedule. Making this change would also address the inequity of current tax rates on "carried interest" earnings.
	Reform the Estate Tax with a Progressive Schedule of Marginal Tax Rates	4.5	Based on bill by Senators Sanders, Harkin, and Whitehouse (S.3533). Would set the estate tax exemption at $3.5 million per individual and $7 million per couple. Includes a graduated rate structure. Estates up to $10 million would be taxed at 45%, estates over $10 million would be taxed at 50%, estates over $50 million would be taxed at 55%, and estates over $500 million would be taxed at 65%.
	Cap and Trade (Divert 50% as Rebates)	52	Assumes enactment of a cap and trade bill in which emission allowances are allocated through an auction and the revenue generated is recycled back to consumers, with particular emphasis on offsetting the regressive nature of the rising energy costs.
	Additional Options:		
	Implement a 1.5% surtax on corporate income ($5.8 B)		
	Excessive Executive Compensation Tax ($17.4 B)		Salaries over $1 million are not tax-deductible (for the amount over $1 million). Many companies get around this by increasing performance-based compensation or other benefits, which are not taxed, including bonuses, retirement, deferred compensation, and stock options. We would close the following tax and accounting loopholes that encourage excessive executive pay: 1. Unlimited deferred pay ($80.6 million) 2. Offshore deferred compensation ($2.1 billion) 3. Unlimited deductibility of executive compensation ($5.2 billion) 4. Stock option accounting double standard ($10.0 billion)
Non-Tax Revenues $7 Billion	Raise rates that the private sector pays for use of public resources	7	e.g. EPA gives away SO2 allowances each year under the Clean Air Act - auction them instead; limit Dept. of Interior royalty relief to offshore drilling and gas production; extend FCC's authority to auction radio spectrum licenses
	Additional Options:		
	Raise liability caps in federal law or index with inflation, where it isn't already (e.g. the Clean Water Act, the Oil Pollution Act)		
Revenues Subtotal $151.6 Billion			

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	Options:	Percent of Projected Shortfall Closed
	Eliminate the Social Security payroll tax cap on the employer side; raise the cap on earnings on the employee side to 90%	74%
Social Security	Treat other salary reduction plans like 401(k)s	13%
	3%-4% legacy tax on all earnings over cap	26%
	Optional benefit increase: Excess funding should be used to improve benefits. Some possibilities for Committee consideration are minimum benefits, restoration of student benefits, caregiver credit, and benefit increase at 85.	

Investments **$200 B** **in 2011-2012**	Funding would be used to maximize job creation based on an analysis of impacts of initiatives such as the Local Jobs for America Act, funding for education and law enforcement; UI, FMAP and SNAP extensions, and infrastructure.