Chapter 1: Introduction

The Congress faces an array of policy choices as it confronts a daunting budgetary situation. At 14.9 percent of gross domestic product (GDP), the deficit in 2020 was the largest it has been since the end of World War II. Much of that deficit stemmed from the 2020 coronavirus pandemic and the government's actions in response—but the projected deficit was large by historical standards ($1.1 trillion, or 4.9 percent of GDP) even before the disruption caused by the pandemic. In the Congressional Budget Office's projections, deficits as a percent of GDP fall between 2021 and 2027 (from 8.6 percent of GDP to 4.0 percent), and then increase to 5.3 percent of GDP by 2030—more than one-and-a-half times the average over the past 50 years.

CBO projects that if current laws governing taxes and spending generally remained unchanged, federal debt held by the public would first exceed 100 percent of gross domestic product (GDP) in 2021 and would reach 107 percent of GDP, its highest level in the nation's history, by 2023.[1] Debt would continue to increase in most years thereafter, reaching 195 percent of GDP by 2050. High and rising federal debt makes the economy more vulnerable to rising interest rates and, depending on how that debt is financed, rising inflation. The growing debt burden also raises borrowing costs, slowing the growth of the economy and national income, and it increases the risk of a fiscal crisis or a gradual decline in the value of Treasury securities.

To help inform lawmakers as they address budgetary challenges, CBO periodically issues a compendium of policy options and their effects on the federal budget; this is the most recent. The agency also issues separate reports that present policy options in particular areas.

This document provides estimates of the budgetary savings from 83 options that would decrease federal spending or increase federal revenues over the next decade. All of the options appear in the previous edition of this volume, which was published in 2018; however, certain options from that edition are omitted in this report because they have been superseded by subsequent legislation or administrative action.[2] Other options are omitted in order to release this report when it would be most useful to the Congress.

The options in this report originally come from various sources. Some originated in proposed legislation or budget proposals of various Administrations; others come from Congressional offices or from entities in the federal government or the private sector. As a collection, the options are intended to reflect a range of possibilities, not a ranking of priorities or an exhaustive list. Inclusion or exclusion of any particular option does not imply approval or disapproval by CBO, and the report makes no recommendations.

The options cover many areas in the federal budget (see Table 1-1). The budgetary effects identified for the options span the 10 years from 2021 to 2030 (the period covered by the baseline budget projections CBO produced in 2020). This document presents options in the following categories:

- **Mandatory spending** (or direct spending), which includes outlays for some federal benefit programs and for certain other payments to people, businesses, and state and local governments. Such outlays are generally governed by statutory criteria and are not normally constrained by the annual appropriation process.

- **Discretionary spending**, which is controlled by appropriation acts in which policymakers specify how much money will be provided for certain government programs and activities in specific years.

- **Revenues**.

1. For CBO's most recent long-term projection of federal debt, see Congressional Budget Office, *The 2020 Long-Term Budget Outlook* (September 2020), www.cbo.gov/publication/56516.

2. See Congressional Budget Office, *Options for Reducing the Deficit, 2019 to 2028* (December 2018), www.cbo.gov/publication/54667.

This report includes some background information and a description of the policy involved for each option. For additional information, including more detailed background information, a discussion of the basis of the estimates, the largest sources of uncertainty, and arguments for and against the change, see the version of that option in the 2018 volume.

The estimates in this report generally reflect changes in the behavior of individuals, businesses, and other entities. However, they do not incorporate macroeconomic effects—that is, behavioral changes that affect total output in the economy.

Options that would increase an excise tax (or any other indirect tax imposed at an intermediate stage of production and sale) or the employer contribution for payroll taxes would reduce the amount of income subject to income and payroll taxes. The estimates for options in this report that increase indirect taxes or employer contributions for payroll taxes include an offset that accounts for that reduction.[3]

The ways in which specific federal programs, the budget as a whole, and the economy will evolve under current law are uncertain, as are the possible effects of proposed changes to federal spending and revenue policies. CBO's projections, especially its projections of how the economy will evolve, are even more uncertain than usual this year because of the 2020 coronavirus pandemic.

Estimates for options could differ from cost estimates for similar proposals that CBO or the staff of the Joint Committee on Taxation (JCT) might produce later for several reasons. First, the proposals on which those estimates were based might not precisely match the options presented here. Second, the baseline budget projections against which such proposals would be measured might have changed and thus would differ from the projections used for this report. Finally, CBO has not yet developed specific estimates of secondary effects for some options.

Many of the options in this report could be used as building blocks for broader changes. In some cases, however, combining various spending or revenue options would produce budgetary effects that would differ from the sums of those estimates as presented here because some options would overlap or interact in ways that would change their budgetary impact. Furthermore, some options are mutually exclusive.

3. For information on JCT's methodology in estimating income and payroll tax offsets to excise taxes, see Joint Committee on Taxation, *The Income and Payroll Tax Offset to Changes in Excise Tax Revenues*, JCX-59-11 (December 23, 2011), www.jct.gov/publications/2011/jcx-59-11. For information on JCT's methodology in estimating income and payroll tax offsets to payroll taxes, see Joint Committee on Taxation, *The Income and Payroll Tax Offset to Changes in Payroll Tax Revenues, JCX-89-16* (November 18, 2016), www.jct.gov/publications/2016/jcx-89-16/. For JCT's current excise tax offsets, see Joint Committee on Taxation, *Updated Income and Payroll Tax Offsets to Changes in Excise Tax Revenues for 2020–2030*, JCX-20-20 (August 6, 2020), www.jct.gov/publications/2020/jcx-20-20/.

Table 1-1.

Options for Reducing the Deficit

Option	Title	Savings, 2021–2030[a] (Billions of dollars)
	Mandatory Spending	
1	Limit Enrollment in the Department of Agriculture's Conservation Programs	3 to 8
2	Eliminate Title I Agriculture Programs	39
3	Reduce Subsidies in the Crop Insurance Program	29
4	Limit ARC and PLC Payment Acres to 30 Percent of Base Acres	21
5	Raise Fannie Mae's and Freddie Mac's Guarantee Fees and Decrease Their Eligible Loan Limits	10 to 36
6	Eliminate or Reduce the Add-On to Pell Grants, Which Is Funded With Mandatory Spending	29 to 57
7	Limit Forgiveness of Graduate Student Loans	6 to 27
8	Reduce or Eliminate Subsidized Loans for Undergraduate Students	7 to 19
9	Reduce or Eliminate Public Service Loan Forgiveness	12 to 28
10	Remove the Cap on Interest Rates for Student Loans	3 to 5
11	Adopt a Voucher Plan and Slow the Growth of Federal Contributions for the Federal Employees Health Benefits Program	21 to 24[b]
12	Establish Caps on Federal Spending for Medicaid	353 to 959
13	Limit States' Taxes on Health Care Providers	32 to 429
14	Reduce Federal Medicaid Matching Rates	57 to 529
15	Introduce Enrollment Fees Under TRICARE for Life	14
16	Introduce Minimum Out-of-Pocket Requirements Under TRICARE for Life	27
17	Change the Cost-Sharing Rules for Medicare and Restrict Medigap Insurance	33 to 92
18	Increase Premiums for Parts B and D of Medicare	39 to 462
19	Reduce Medicare's Coverage of Bad Debt	21 to 69
20	Require Manufacturers to Pay a Minimum Rebate on Drugs Covered Under Part D of Medicare for Low-Income Beneficiaries	148
21	Consolidate and Reduce Federal Payments for Graduate Medical Education at Teaching Hospitals	34 to 40
22	Eliminate Subsidies for Certain Meals in the National School Lunch, School Breakfast, and Child and Adult Care Food Programs	9
23	Eliminate Supplemental Security Income Benefits for Disabled Children	103[b]
24	Link Initial Social Security Benefits to Average Prices Instead of Average Earnings	69 to 109
25	Make Social Security's Benefit Structure More Progressive	8 to 36
26	Raise the Full Retirement Age for Social Security	72
27	Require Social Security Disability Insurance Applicants to Have Worked More in Recent Years	47
28	Eliminate Eligibility for Starting Social Security Disability Benefits at Age 62 or Later	21
29	End VA's Individual Unemployability Payments to Disabled Veterans at the Full Retirement Age for Social Security	8 to 40
30	Reduce VA's Disability Benefits to Veterans Who Are Older Than the Full Retirement Age for Social Security	25
31	Narrow Eligibility for VA's Disability Compensation by Excluding Veterans With Low Disability Ratings	6 to 38
32	Use an Alternative Measure of Inflation to Index Social Security and Other Mandatory Programs	223

Continued

Table 1-1. Continued

Options for Reducing the Deficit

Option	Title	Savings, 2021–2030[a] (Billions of dollars)
	Discretionary Spending	
1	Reduce the Department of Defense's Budget	317 to 607
2	Reduce DoD's Operation and Maintenance Appropriation (Excluding Funding for the Defense Health Program)	60 to 168
3	Cap Increases in Basic Pay for Military Service Members	19
4	Replace Some Military Personnel With Civilian Employees	14
5	Stop Building Ford Class Aircraft Carriers	3
6	Reduce Funding for Naval Ship Construction to Historical Levels	51
7	Reduce the Size of the Nuclear Triad	10 to 12
8	Cancel the Long-Range Standoff Weapon	11
9	Defer Development of the B-21 Bomber	36
10	Reduce the Size of the Bomber Force by Retiring the B-1B	13
11	Reduce the Size of the Fighter Force by Retiring the F-22	33
12	Reduce the Basic Allowance for Housing to 80 Percent of Average Housing Costs	15[b]
13	Reduce Funding for International Affairs Programs	117
14	Eliminate Funding for Amtrak and the Essential Air Service Program	2 to 20[b]
15	Eliminate Federal Funding for National Community Service	9
16	Eliminate Head Start	95
17	Tighten Eligibility for Pell Grants	4 to 64[b]
18	Reduce the Annual Across-the-Board Adjustment for Federal Civilian Employees' Pay	59
19	Reduce Funding for Certain Grants to State and Local Governments	1 to 40
20	Repeal the Davis-Bacon Act	11[b]

Continued

Table 1-1. Continued

Options for Reducing the Deficit

Option	Title	Savings, 2021–2030[a] (Billions of dollars)
	Revenues	
1	Increase Individual Income Tax Rates	114 to 884
2	Raise the Tax Rates on Long-Term Capital Gains and Qualified Dividends by 2 Percentage Points	75
3	Eliminate or Modify Head-of-Household Filing Status	62 to 158
4	Eliminate Itemized Deductions	1,718
5	Limit the Deduction for Charitable Giving	208 to 232
6	Change the Tax Treatment of Capital Gains From Sales of Inherited Assets	110
7	Eliminate the Tax Exemption for New Qualified Private Activity Bonds	15
8	Expand the Base of the Net Investment Income Tax to Include the Income of Active Participants in S Corporations and Limited Partnerships	210
9	Include Disability Payments From the Department of Veterans Affairs in Taxable Income	113
10	Further Limit Annual Contributions to Retirement Plans	99
11	Tax Social Security and Railroad Retirement Benefits in the Same Way That Distributions From Defined Benefit Pensions Are Taxed	459
12	Eliminate Certain Tax Preferences for Education Expenses	153
13	Lower the Investment Income Limit for the Earned Income Tax Credit and Extend That Limit to the Refundable Portion of the Child Tax Credit	8
14	Require Earned Income Tax Credit and Child Tax Credit Claimants to Have a Social Security Number That Is Valid for Employment	21
15	Increase the Payroll Tax Rate for Medicare Hospital Insurance	878 to 1,736
16	Increase the Payroll Tax Rate for Social Security	712 to 1,406
17	Increase the Maximum Taxable Earnings for the Social Security Payroll Tax	647 to 1,024
18	Expand Social Security Coverage to Include Newly Hired State and Local Government Employees	101
19	Increase the Corporate Income Tax Rate by 1 Percentage Point	99
20	Repeal the "LIFO" Approach to Inventory Identification and the "Lower of Cost or Market" and "Subnormal Goods" Methods of Inventory Valuation	60
21	Require Half of Advertising Expenses to Be Amortized Over 5 or 10 Years	66 to 133
22	Repeal the Low-Income Housing Tax Credit	44
23	Increase All Taxes on Alcoholic Beverages to $16 per Proof Gallon and Index for Inflation	83 to 96
24	Increase Excise Taxes on Tobacco Products	37
25	Increase Excise Taxes on Motor Fuels and Index for Inflation	237 to 512
26	Impose an Excise Tax on Overland Freight Transport	351
27	Impose a 5 Percent Value-Added Tax	1,820 to 2,830
28	Impose a Tax on Emissions of Greenhouse Gases	1,033
29	Impose a Tax on Financial Transactions	752
30	Increase Federal Civilian Employees' Contributions to the Federal Employees Retirement System	43
31	Increase Appropriations for the Internal Revenue Service's Enforcement Initiatives	41

Data sources: Congressional Budget Office; staff of the Joint Committee on Taxation.

ARC = Agriculture Risk Coverage; DoD = Department of Defense; LIFO = last in, first out; PLC = Price Loss Coverage; VA = Department of Veterans Affairs.

a. For options affecting primarily mandatory spending or revenues, savings sometimes would derive from changes in both. When that is the case, the savings shown include effects on both mandatory spending and revenues. For options affecting primarily discretionary spending, the savings shown are the decrease in discretionary outlays.

b. Savings do not encompass all budgetary effects.