third way
fresh thinking

September 15, 2011

The Honorable Patty Murray
448 Russell Senate Office Building
Washington, DC 20510

The Honorable Jeb Hensarling
129 Cannon House Office Building
Washington, DC 20510

Dear Co-Chairs Murray and Hensarling:

This August, Congress established the Joint Select Committee on Deficit Reduction with a clear mandate: develop a plan to trim the deficit by $1.2 trillion over ten years or face an automatic sequestration. We write to urge this committee to hit its mark by passing a bipartisan plan with $1.2 trillion in net deficit reduction, and we offer a plan to do so.

This "super committee" was born out of failure. It was the final piece of a last minute agreement to stave off a first-ever U.S. default after efforts to achieve a $4 trillion "grand bargain" collapsed. Today, there is little confidence that this "super committee" will succeed. But failure has high costs. A debt crisis is buffeting Europe and represents our future if we don't begin to act now. And the $1.2 trillion target is readily achievable.

But to reach even this level of savings the usual games and posturing must cease. Republicans have to demonstrate both seriousness of purpose and independence from narrow interests on taxes. Democrats must acknowledge that entitlements are not on a stable and solvent path, and they should offer ideas that mend, not end, critical safety net programs. Both parties have to walk hand-in-hand to clean out the Cold War closet by trimming unnecessary Pentagon spending, because economic security is the first element of national security. And stakeholders both in and out of government will have to rise above the urge to simply defend their parochial interests and focus on the greater national good.

Attached is our 67-item plan that finds over $1.65 trillion in deficit savings—a plan that includes room for the President's $450 billion jobs package. It is not a progressive, conservative, or "third way" wish list of items. It is a plan that demonstrates that significant savings can be achieved while allowing Democrats and Republicans to hold to their basic promises and principles.

In total, the plan finds $436 billion in new revenue, $556 billion in cuts to mandatory spending programs, $420 billion in defense reductions, and $252 billion in interest savings. It does not raise individual or capital gains tax rates, allowing Republicans to hold to the spirit of their no-new-taxes pledge. It trims entitlements

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without touching Medicare benefits and only barely impacting Social Security spending, allowing Democrats to ensure that these vital programs are on a more sound financial footing. It tackles the defense budget mostly by phasing out expensive, rarely-used weapons systems in favor of existing, proven weapons systems, allowing both parties to be confident that we have a tough and smart national security budget.

This plan does not represent the end of deficit reduction efforts. It is simply the next necessary and achievable step along the path. This Congress, or a future one, must address Medicare and Medicaid spending, Social Security solvency, and the Bush-era tax rates. Third Way has been a strong advocate for aggressive action on the deficit and would welcome as much progress as the committee is capable of. However, we believe that if the "super committee" is able focus on the task at hand and achieve $1.2 trillion in net deficit reduction while paying for the President's jobs plan, the long-term prospects for successful deficit reduction greatly improve.

Last summer, failure to reach a serious budget agreement led one of the three major credit ratings agencies to downgrade the nation's debt. This was a historical first, a national embarrassment, and a completely self-inflicted wound. Now we have a chance to hit the reset button. The United States cannot afford another false start on deficit reduction.

Sincerely,

Jon Cowan
President, Third Way

cc:
The Honorable Max Baucus
The Honorable Jon Kyl
The Honorable John Kerry
The Honorable Rob Portman
The Honorable Pat Toomey
The Honorable James Clyburn
The Honorable Dave Camp
The Honorable Xavier Becerra
The Honorable Fred Upton
The Honorable Chris Van Hollen

Third Way's Bipartisan Savings Package for the Joint Select Committee on Deficit Reduction

This package totals $1.659 trillion in savings over ten years, meeting the "super committee's" $1.2 trillion mandate and paying for the President's proposed jobs package. It includes $434 billion in new revenue, $549 billion in cuts to mandatory spending, $420 billion in defense cuts, and $253 billion in interest savings.

Revenue

Any serious deal must include some new revenue. Our package achieves $434 billion in deficit reduction by eliminating tax earmarks and expenditures.

Marginal rates would be left untouched—for now. Broad tax reform is a fiscal and economic necessity, but will require a rigorous reexamination of the code. Politically, Republican reticence to consider raising the Bush rates on high income earners would derail the committee's work. To avoid these potential pitfalls, this package focuses mostly on unaffordable, narrowly targeted subsidies that balloon the deficit and distort the economy. Many of the items identified have already been targeted by leading Republican budget hawks like Senator Coburn, or by substantial bipartisan efforts like the Bowles-Simpson Commission, and should provide a basis for bipartisan agreement. The disposition of the Bush tax cuts will be dealt with—one way or another—when they are due to expire in December 2012.

Action	10-year Savings (billions)	Description and Justification
Personal		
Use chained CPI for adjusting tax brackets	$59.6	Every year, the Internal Revenue Service adds an inflation update to the federal income tax brackets, which are the income ranges that determine your tax rate. Economists have developed a more accurate measure of inflation called chained CPI. This new measure of inflation assumes that when the price of one product becomes too high, consumers will buy a cheaper substitute if one is available. For example, if the price of orange juice increases because of a crop failure in Florida, people will switch to apple juice. Chained CPI produces a slightly lower update for inflation—about .3% lower—than traditional measures. This proposal would adopt the use of chained-CPI for updating the tax brackets.[1] It would raise revenue because bracket adjustments would be slightly less each year than they are under the current measurement. About half of all taxpayers would be affected each year. In 2012, those affected would pay an average of $12 more in taxes.[2]

Action	10-year Savings (billions)	Description and Justification
Reform tax treatment of foreign-earned wages	$18.0	Citizens who live and work in other countries can exclude about $105,000 of their foreign earned income and employer-provided housing from their taxable income. They can avoid paying U.S. income taxes even when they are not paying foreign taxes. This proposal would continue to let Americans abroad get a credit for the taxes that they pay to foreign countries, but they would have to make up the difference in U.S. taxes owed on all of their income without any exclusions.[3]
Lower the limit mortgage interest deduction to $700,000	$90.0	Homeowners can take an itemized deduction for up to $1.1 million in debt that a homeowner incurs to buy, build, or improve a first or second home and up to $100,000 in other debt (such as a home-equity loan) secured by the home. This proposal would gradually lower the interest deduction to $700,000. The reductions would occur in increments of $100,000 from 2014 through 2016.[4] Following this reduction, the mortgage interest deduction would still exceed the maximum FHA loan limit of $625,500 set to take effect on October 1, 2011.[5] It would preserve federal support for encouraging home ownership and wealth-building for the middle class without subsidizing the purchase of high-end homes.
End mortgage interest deduction for second homes	$8.9	Second homes are often vacation homes and sometimes even yachts.[6] Given the nation's deficit challenge, continuing this deduction is not justified. This proposal would end the deduction of interest on second home mortgages.[7]
Reform estate tax rules	$19.5	The estate tax, which currently applies to estates worth more than $5 million for individuals ($10 million for couples), involves many rules to determine the value of the estate. Estate planners often find loopholes in the rules that allow even highly valued estates to escape taxation. This proposal is based on the Department of Treasury's proposed estate tax revisions that involve valuation rules, the sharing of the estate tax exemption between spouses, and reform of grantor retained annuity trusts.[8]
Repeal excess estate tax cut in the 2010 extension of the Bush tax cuts	$23.0	Over 99% of estates were exempt from taxes under the Bush tax cuts because they were under the $3.5 million for individuals ($7 million for couples) limit.[9] As part of the extension of the Bush tax cuts in December 2010, the exemption amount was increased to $5 million ($10 million for couples), which increase the deficit by an additional $23 billion. This proposal would lower the exemption amount for 2012 to a level that would make up for the extra cost of higher exemption amount for 2011.[10]

Action	10-year Savings (billions)	Description and Justification
Reduce the gap in tax collections	$69.0	The annual gap between taxes owed and taxes paid is approximately $345 billion.[11] Aggressive action should be taken to dramatically close this gap. Although more savings are likely achievable, existing plans to address the tax gap score modestly. As such, this proposal also calls for a closing of the tax gap that achieves the modest savings of 2% over the next 10 years. It would include such measures as making IRS rules clearer to reduce ambiguity that some taxpayers and businesses take advantage of, reclaiming a passport if back taxes owed are greater than $100,000, expanding information reporting by contractors to allow the IRS to double check their income, and other enforcement and compliance measures.[12]
Personal Subtotal	**$288.0**	

Energy		
End ethanol tax incentives		The federal tax code provides several credits for ethanol production and use. These credits are in addition to other direct subsidies and federal fuel standards that encourage the use of ethanol as a fuel. Of all the efforts to develop clean energy for the United States, these ethanol tax credits are the least effective.
>Volumetric Ethanol Excise Tax Credit (VEETC)	$2.4	This tax credit provides 45 cents per gallon to fuel producers who blend ethanol with gasoline. It duplicates the Renewable Fuels Standard, which require specific levels of ethanol use in gasoline. This proposal would end this tax credit before its current expiration date at the end of 2011.[13]
>Small Ethanol Producer Credit	$4.0	This tax credit provides 10 cents per gallon for a limited production of ethanol (15 million gallons) for any producer with a relatively small production capacity (below 60 million gallons and valued at $440 million annually). This proposal would end this tax credit before its current expiration at the end of 2011.[14]
>Cellulosic Ethanol Production Tax Credit	$10.3	This tax credit provides $1.01 per gallon for the production of cellulosic ethanol, which comes from non-corn sources. Although this form of ethanol is not yet in production, the Environmental Protection Agency has projected significant production in 2012. This tax credit is duplicated by the Renewable Fuels Standard that can require the use of cellulosic ethanol. This proposal would end the tax credit before its current expiration at the end of 2012.[15]
End Biodiesel Tax Credit	$5.0	Biofuels come from renewable sources such as crop wastes and animal fat. This tax credit is worth $1 per gallon to biodiesel producers. This proposal would end the credit before its current expiration at the end of 2011.[16]

Action	10-year Savings (billions)	Description and Justification
Eliminate clean coal credits; redirect 50% to clean coal R&D and the remaining 50% for deficit reduction	$0.1	This tax credit attempts to encourage the deployment and construction of carbon capture and storage technology. But the technology is not yet ready for use. Instead of eliminating the clean coal tax credit,[17] this alternative would redirect half of it towards clean coal research and development. The other half would go to deficit reduction.
Repeal expensing of intangible drilling costs	$12.5	Oil and gas producers can take an immediate expense deduction for costs that could not be recovered in a project fails. This proposal would eliminate this provision because it inappropriately insulates investors from the risk.[18]
Repeal deduction for tertiary injectants	$0.9	Oil producers can take an immediate expense deduction for using injection technology to squeeze out oil from areas that would be otherwise inaccessible. This proposal would eliminate this provision because it unduly favors a particular form of oil production.[19]
Repeal exception to passive loss limitations for working interests in oil and natural gas properties	$0.2	Oil and gas investors can circumvent rules known as passive loss limitations that are designed to prevent tax shelters for those who don't play an active role in a business. This proposal would eliminate this special treatment because it discourages other forms of energy production.[20]
Repeal percentage depletion for oil and natural gas wells	$11.2	Independent oil and gas producers can shelter about 15% of their income from taxes. This proposal would eliminate this provision, which provides an unnecessary industry-specific subsidy.[21]
Increase geological and geophysical amortization period for independent producers to seven years	$1.4	Oil and gas producers can deduct the cost of exploration over two years. This proposal would increase the expense period to seven years in order to end this special treatment to a specific industry.[22]
Reduce coal company tax preferences	$2.2	Coal companies receive specific tax breaks for exploration and development, domestic mining, production, and royalty payments. These provisions include the coal exploration and development expensing, hard mineral fossil fuel percentage depletion, and coal royalty taxation benefits. These tax breaks favor green-house gas producing energy sources over other sources of energy. This proposal would reduce or phase-out these tax breaks.[23]

Action	10-year Savings (billions)	Description and Justification
Eliminate oil and gas research and development	$0.2	This tax credit allows oil and gas development companies to offset some of their research and development costs. Although supporting investment in research and development is an important function of government, federal funds should not be spent on such initiatives for mature and profitable industries. This proposal would eliminate this credit.[24]
Reform hardrock mineral royalty	$1.5	Certain minerals are recovered from federal lands (silver, gold, copper, zinc, etc) with no royalty payments made to the federal government. The White House has proposed collecting between 5% and 8% royalty on all existing and new mines and estimates that this will create roughly $3 billion in revenues.[25] However, half of these funds are slated to be used for abandoned mine reclamation (cleanup) which would leave approximately $1.5 billion for deficit reduction.
Energy Subtotal	**$51.8**	

Business		
End NASCAR racetrack 7-year write-off	$0.4	Owners of NASCAR race tracks can depreciate them over seven years instead of the normal 15 to 39 years for non-residential property. This proposal would eliminate this special tax treatment.[26]
End one-year write-offs for tree planting	$4.8	The timber industry can write-off the cost of tree planting and other maintenance costs in one-year instead of over multiple years. This proposal would end all special tax treatment of the timber industry.[27]
Repeal railroad track maintenance tax credit	$2.3	Railroads have received tax credits for track maintenance to encourage rehabilitation of short freight lines that were spun-off from large railroads under deregulation. This proposal would end this tax credit which started as one-year, temporary provision because it distorts the marketplace.[28]
Repeal special depreciation for corporate jets	$3.0	Companies that use jets for business purposes can write off the cost of the jet over five years instead of the seven years used by charter or commercial airlines. This proposal would make corporate jet depreciation consistent with the depreciation in the airline industry.[29]
Cut by half tax credits for historic preservation and rehabilitation	$3.8	Owners of structures designated as historic by the National Park Service receive an unlimited tax credit for rehabilitation. Owners of non-residential building that were built before 1936 can receive a tax credit of up to 10% of rehabilitation costs. This proposal would cut both tax credits in half because they are duplicative of other federal programs and an unnecessary use of limited federal dollars.[30]
Business Subtotal	**$14.3**	

Action	10-year Savings (billions)	Description and Justification
Non-Tax Revenue		
Increase flood insurance premiums for high risk property	$8.0	The National Flood Insurance Program's premium subsidies were originally designed before property owners could easily see the flood risks for virtually any property in the nation. This proposal would phase out all subsidies for flood insurance that are not related to actual flood risks of a property. It would raise $10 billion in new revenue over ten years, but $2 billion would be held back to continue assistance to low-income families who would otherwise have to go without flood insurance.[31]
Increase fees for aviation security	$19.0	After 9/11, federal costs for airline security have gone up substantially without commensurate increases in fees paid by airlines and airport authorities. The fees authorized to pay for the new security now cover less than half of federal costs. This proposal would increase fees for aviation security to a flat amount of $5 per one-way trip.[32]
Sell federal lands	$2.5	The federal government owns approximately 650 million acres of land. Over the last ten years, it has spent more than $2.5 billion to acquire land. This proposal would put a five-year moratorium on new purchases and require the sale of $2.5 billion of real estate over the next 10 years.[33]
Sell unneeded federal property	$15.0	The government currently owns over 63,000 underutilized and not utilized buildings. This proposal would dispose of unneeded federal property by establishing a civilian equivalent to the military's Base Realignment and Closure (also called BRAC) process, which is used to close unneeded bases.[34]
Collect unpaid taxes from federal employees	$1.0	Nearly 100,000 civilian federal employees haven't paid their federal income taxes and owe over $1 billion. This proposal would require the IRS to collect the unpaid taxes.[35]
Rent Smithsonian buildings for events	$0.4	Only corporate donors are allowed to rent the Smithsonian for private functions. This proposal would allow anyone to rent a portion of the Smithsonian during off-hours.[36]
Collection of unpaid federal fines	$9.8	The federal government is owed more than $65 billion in fines and restitution as of last year. Yet, the Department of Justice only collected $2.84 billion of this amount. This proposal would require the collection of 15% of the $65 billion in unpaid fines.[37]
Give pension benefit guarantee board authority to increase premiums	$16.0	Pension Benefit Guarantee Corporation (PBGC) expenses have climbed substantially since the 2008 financial crisis due to bankruptcies, termination of pension plans or inability to pay. This proposal would give the PBGC the ability to increase its fees to meet long-term financial obligations.[38]

Action	10-year Savings (billions)	Description and Justification
Miscellaneous Fiscal Commission proposals: abandoned mine payments, FCC spectrum authority, index user fees, charge market rates for federal power, and post office reforms	$8.0	The bipartisan Fiscal Commission proposed several smaller revenue measures that added together could make substantial difference: sale of addition radio spectrum licenses, indexing mandatory fees to inflation, and charging market rate for federal power production.[39]
Non-Tax Revenue Subtotal	**$79.7**	

REVENUE SUBTOTAL	**$433.8**

Cuts in Mandatory Spending

For the "super committee" to succeed Democrats will have to agree to some mandatory spending cuts. This package achieves $549 billion in deficit reduction by finding savings in mandatory subsidy programs, Medicare, and Medicaid.

Our entitlement programs have a demographic date with insolvency. Between now and 2050, the number of retirees is set to double and the amount of the typical lifetime Medicare benefit is projected to double in real dollars,[40] but the number of workers paying into the system will only grow by one-third.[41] Our package identifies steps to generate significant savings without altering the fundamental structure of the programs.

Action	10-year Savings (billions)	Description and Justification
Federal Pensions		
Reform financing of federal pensions	$117.0	Federal workers pay a much smaller share of their retirement benefits than private sector workers. This proposal would require them to pay half the cost of their defined benefit plan under the Federal Employee Retirement System.[42]
Federal Pensions Subtotal	**$117.0**	

Action	10-year Savings (billions)	Description and Justification
Entitlements-Chained CPI		
Use chained CPI for adjusting COLAs in Social Security and other programs	$168.0	This proposal would apply chained CPI to the major entitlement and federal retirement programs that have COLAs.[43] (See description of chained CPI above in the personal revenue section.) Social Security outlays would be reduced by $112 billion over ten years, a reduction of 1% of total benefits.
Entitlements-Chained CPI Subtotal	**$168.0**	
Education		
Eliminate in-school subsidies for federal student loan programs	$43.0	Student loan programs have shifted their focus to helping students based on family income. This proposal would eliminate subsidies for the cost of interest on student loans while students are in school to be consistent with assistance based on ability to afford college up front.[44]
Education SUBTOTAL	**$43.0**	
Housing		
Reform Fannie Mae & Freddie Mac	$30.0	Increase the guarantee fees GSEs charge, reduce GSE investment portfolio, increase down-payments for GSE-backed mortgages to at least 10%, gradually lower the conforming loan limits, and reduce executive pay.[45]
Housing Subtotal	**$30.0**	
Labor		
Make minor changes in unemployment insurance	$8.0	Unemployment compensation is a critical program for Americans between jobs especially in the current economy. Congress should vote again continue to extend unemployment benefits, but it should also enact minor reforms to eliminate the following wasteful practices: providing unemployment benefits to millionaires, curbing improper payments that occur when individuals receiving benefits do not follow-through on requirements to search for work, and cracking down on identity theft schemes used to obtain unemployment benefits fraudulently.[46]
Labor Subtotal	**$8.0**	

Action	10-year Savings (billions)	Description and Justification
Agriculture		
Reduce payments to crop insurance companies and reduce premium subsidies to farmers	$9.0	Costs for administrative and operating expenses paid to private insurance companies under the Federal Crop Insurance Program have been rising rapidly in recent years. As a result, crop insurance companies now enjoy a rate of return that is more than twice as high as property and casualty insurance companies: 24% compared to 11%.[47] This proposal would reduce these costs so that crop insurance companies will have a reasonable rate of return.[48] It would also lower the level of subsidies to farmers for crop insurance (from 60% to 50%) in order to capture the savings in administrative costs for farmers as well as the federal government.
Reduce agriculture subsidies by $35 billion over ten years	$35.0	The federal government spent $18.6 billion on agriculture subsidies in 2010.[49] Nearly two-thirds of all payments go to the largest 12 percent of all farms.[50] This proposal would require the Congressional Agriculture Committees to reduce agriculture subsidies by $35 billion, or 19%.[51]
Consolidate and cap agriculture conservation programs	$6.0	The USDA has 16 conservation programs with overlapping responsibilities. This proposal would consolidate them into one capped entitlement that grows with inflation.[52]
Agriculture Subtotal	**$50.0**	

Medicare & Medicaid		
Reduce Medicare spending for graduate medical education	$60.0	Medicare provides funding to teaching hospitals for the cost of training doctors and the indirect costs of providing the training. This proposal would bring these payments in line to within 120% of national average salary paid to residents in 2010 and would then update them annually using chained CPI. The additional payment for indirect medical training costs would decrease from 5.5% to 2.2% as the Medicare Payment Advisory Commission has recommended and identified as being more accurate.[53]

Action	10-year Savings (billions)	Description and Justification
Require higher income seniors to pay up to the full cost of Parts B and D coverage	$30.0	Medicare's coverage for physician services (Part B) and for prescription drug coverage (Part D) are not paid out of the trust fund that is financed with payroll taxes. Instead, most of the financing comes from general revenues. This proposal would eliminate the taxpayer subsidy for higher income seniors making more than $150,000 annually ($300,000 for couples).[54] They would pay the full cost of Part B and Part D coverage. In addition, for beneficiaries with incomes above $85,000 per year ($170,000 for couples), the income brackets that determines the portion of the Part B premiums that they pay (e.g., an individual with a modified adjusted gross income from $160,000 to $214,000 pays 50% of the Part B premium) would not receive inflation updates in 2020 and 2021 (the freeze is already in effect through 2019). Lastly, this proposal would increase the premium share by 10% for each category of high-income beneficiaries (e.g., a 50% share of premium becomes 55% for an individual with a modified adjusted gross income from $160,000 to $214,000 beginning in 2015.[55]
Provide coordinated care to Medicare and Medicaid dually eligible seniors	$15.0	Many Americans have both Medicare and Medicaid coverage because they have Medicare coverage for their general Medicare care and also Medicaid coverage needs such as nursing home care. Because these two programs are administered separately by the federal and state governments, the care that dual eligibles receive is often fragmented. This proposal would place all dual eligibles into a private coordinated care program.[56]
Extend hospital payment reductions for uncompensated care from the Affordable Care Act	$4.0	Under the Affordable Care Act, the Medicare payments to hospitals to cover the losses for caring for the uninsured were set to decline since most of them will now be covered. This proposal would extend the reduction in payment for uncompensated care one-year beyond the original ten-year window.
Accelerate home health savings in the Affordable Care Act	$9.0	The Affordable Care Act included several policies changing reimbursements for home health providers. This proposal would accelerate these changes to incorporate productivity adjustment beginning in 2013 and direct the Secretary of Health and Human Services (HHS) to phase in rebasing the home health prospective payment system by 2015 instead of 2017.[57]

Action	10-year Savings (billions)	Description and Justification
Reform the Quality Improvement Organizations program	$0.3	Quality Improvement Organizations (QIO) are private, mostly not-for-profit organizations, staffed by health care professionals, that review beneficiary complaints about quality of care and also work with providers to improve quality of care. This proposal would improve the program's administrative operations and introduce competition and performance incentives by: enhancing QIO contract review and termination processes; allowing other organizations to compete for QIO contracts; alleviating concerns about peer review conflicts of interest; and requiring the Secretary of Health and Human Services to determine the geographic boundaries of QIOs in a way that improves the efficiency of contracting.[58]
Reduce provider reimbursement for bad debt	$15.0	Medicare currently reimburses some providers for bad debt—defined as Medicare cost-sharing that beneficiaries fail to pay—at a rate of 70% for hospitals and skilled nursing facilities, 100% for some other providers, and 101% for certain small rural hospitals. The federal government requires providers to take many actions to collect bad debt. This current policy gives providers weak incentives to collect bad debt in some cases and too many requirements to collect bad debt in other cases where the cost of collecting the debt exceeds the amount of debt collected. This proposal would lower the amount of bad debt reimbursed under Medicare in order to give providers a strong incentive to collect it. It would also change the payment for bad debt to a fixed amount that would be part of regular provider payments for health care services. Providers could then choose themselves the most effective strategy for collecting bad debt.
Medicare & Medicaid Subtotal	**$133.3**	

MANDATORY CUTS SUBTOTAL	**$549.3**

Defense Cuts

Defense spending—the largest discretionary federal budget category—has grown almost 50% over the past decade. Our package trims $420 billion from the defense budget by purchasing or extending existing, proven weapons systems instead of expensive, rarely-used ones, reducing the length of tours of duty, recruiting fewer troops, and managing inventories and prepositioned supplies more efficiently.

This package does not count the reduction of supplemental appropriations for operations in Iraq and Afghanistan, address overall end strength reductions that the services will make to reflect their scaled-down presence overseas, or reduce retiree benefits. We have also foregone consideration of reductions in military personnel benefits which, like tax and entitlement reform, are complicated and politically contentious. Rather than rush changes through the “super committee” or risk derailing the process, we believe that changes to these programs must be carefully considered and would be best addressed in the next phase of deficit reduction.

Action	10-year Savings (billions)	Description and Justification
Defense Cuts		
Cancel the V-22 Osprey	$15.0	This proposal would replace the V-22 with existing helicopters, such as the MH-60 and CH-53. The V-22 is a tilt-rotor aircraft that tries to combine the speed of fixed wing planes with the hover capability of helicopters. Unfortunately, it is slower than fixed wing transports, does not carry as much, and does not hover as well as a helicopter but is significantly more expensive.[59]
Cancel the JSF Navy F-35C and Marine F-35B	$9.9	This option would cancel the Navy and Marine Corps models of the F-35. The Navy has an ongoing, significant investment in future carrier-based UAVs that can replace many of the F-35s capabilities, while tactical aviation missions can be met with the F/A-18E/F. The F-35 has a troubled design history, and the entire fleet has been grounded multiple times. The Pentagon's Acquisitions Chief recently called the $133M/unit price unaffordable.[60]
Double Secretary Gates proposed cuts to contractor augmentees who support defense headquarters staff	$37.8	Secretary Gates initially proposed to reduce contractors working in the Pentagon by 10% each year from 2011-2013. This option would increase the reductions by 20% instead. Contracted personnel cost $20 billion and are twice as expensive as their civilian counterparts. Moreover, utilization of contractors has tripled over the last decade.[61]
Adjust Deployment and Reserve requirements to reflect expected troop drawdown	$120.0	Deployment and Reserve requirements were increased during the last decade to sustain the conflicts in Iraq and Afghanistan. This option reflects a restructuring of the force due to an expected drawdown in troop levels overseas. Furthermore, this option would: (1) decrease deployments to one year with a two year rest period, (2) discontinue stop-loss, and (3) return Guard and Reserves to strategic reserve status with no more than one year, out of six, as activated.[62]
Cancel the Marine Corps version of the JLTV (Joint Light Tactical Vehicle)	$20.0	The JLTV was meant to be a replacement for the up armored Humvee with additional armor. However, the JLTV is too heavy to meet the Marine Corp's amphibious missions, and can be replaced with the MRAP, which carries more people and has completed development. This option would therefore cancel the JLTV.[63]
Delay the Fielding of the Ground Combat Vehicle	$7.0	The Ground Combat Vehicle is the equivalent to a tank and will replace the Army’s cancelled Future Combat System. This option proposes delaying the fielding of the GCV until 2025, which would reduce the annual costs to $600 million, and thereby reduce the appropriation needs by $2 billion a year. It remains unclear that the U.S. needs another tank. Some of the savings will be used to purchase upgrades for the Bradley Fighting Vehicles as they will remain in the U.S. inventory until 2025. Also, the Army can continue to use M113 armed personnel carriers as well Abrams tanks and Stryker vehicles in the meantime.[64]

Action	10-year Savings (billions)	Description and Justification
Reduce Inventories in the “Other Procurement” Category	$52.0	Other Procurement includes equipment like tactical radios, radars, trucks, armored security vehicles and trailers. This option recognizes that fewer annual purchases are necessary because there is an oversupply in the current inventory and many of the items purchased within the last decade will last for many more years. This option would continue to fund this appropriation, but would reduce the overall funding to $30 billion per year from 2015-2021. The amount is double the amount received in 2000.[65]
Cancel the Fire Scout (VTUAV)	$1.7	The Fire Scout is an unmanned helicopter. The Navy is currently planning to procure 156 units for $1.6 billion. However, despite years of development the DOD Director of Operational Test and Evaluation found the system cannot provide information to ground forces, has failed nearly half its missions and the communications capability of recon is "fragile". Moreover, the Army terminated their involvement in the program, determining that other UAVs could meet their needs.[66]
Scale back missile defense spending	$55.0	As the U.S. has experienced challenges in testing and deploying effective missile defense systems for decades, this option freezes new program development until the existing programs are tested and proven. Also, this option eliminates programs that duplicate other capabilities like spaced-based radar.[67]
Cancel the JLENS (Joint Land Attack Cruise Missile Defense Elevated Netted Sensor System)	$5.8	The JLENS is essentially a blimp that detects cruise missiles, UAVs, tactical ballistic missiles, etc. This option suggests canceling this System. The Army could instead use 60 RAID Systems that were successfully used in Iraq and Afghanistan or outfit UAVs with sensors.[68]
Reduce the Intelligence Budget	$26.0	Although the specifics of this option are classified, it is a suggested reduction in funding by 5% annually.
Cancel the new Maritime Preposition Force (MPF) Fleet-(Future)	$17.0	The Navy is buying a fleet of ships to support its evolving “sea basing” concept. This option cancels the new MPF (F) fleet. These ships are only useful when the target country has a coastline, but the ships are more vulnerable to coastal defenses than traditional amphibious vehicles. The Navy already maintains supply ships overseas and could lease additional ships if needed.[69]
Replace military personnel with civilians	$53.0	Military personnel currently perform a number of jobs that can be done by civilians, including communications, installation, and recreation support. This option would replace 88,000 military personnel performing non-military essential functions with civilians. Replacing military service members with civilians will provide more continuity for these functions, at a lower cost.[70]
Defense Cuts Subtotal	**$420.1**	

DEFENSE CUTS SUBTOTAL	**$420.1**

Totals

Revenue Subtotal	$433.8
Mandatory Cuts Total	$549.3
Defense Cuts Subtotal	$420.1
Interest Savings[71]	$252.6
PACKAGE OVERALL TOTAL	**$1,655.8**

Endnotes

[1] Senator Tom Coburn, "Back in Black: A Deficit Reduction Plan," Report, July 2011, p. 587. Accessed September 14, 2011. Available at: http://coburn.senate.gov/public/index.cfm/legislationissues?p=deficit-reduction.

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