

The Next Trillion:

Fiscal Responsibility Through More Accountability

June 2010

U.S. PIRG

Education Fund

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U.S. Public Interest Research Group Education Fund
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Louis Evans, contributing



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On February 18, President Barack Obama established the National Commission on Fiscal Responsibility and Reform, or "debt commission." The goal of the bipartisan commission is to balance the budget by 2015 and strengthen the government's long-term financial health.

To assist the work of the Commission when it commenced, U.S. PIRG looked at existing tax code for loopholes, reviewed government reports on wasteful contracting practices and crunched the numbers. We came up with an initial list of ways the government can save the first trillion dollars by enacting common sense policies that advance the public interest.

As the Commission continued its work, U.S. PIRG continued its research to find another trillion dollars in cost savings and additional revenues that would increase accountability to taxpayers.

Key findings include:

- \$160 billion in savings within the Medicare program by the use of electronic records, better alignment of payments to costs and ending inflated payments to pharmaceutical companies for prescription drugs;
- \$185 billion in savings by ending the practice of purchasing supplies and spare parts that go unused across different branches of the military; and
- \$884 billion in new revenue by implementing a fractional speculation fee on stock, bond, options, swap, futures and foreign exchange spot transactions.

Since the release of *The First Trillion*, the Administration and Congress have taken some important steps to address the initial cost-saving measures identified. For example, the Administration has collected data and produced additional guidance to help agencies identify wasteful contracts and information technology projects. In addition, Congress ended the practice of subsidizing private student loan lenders and began the process of closing a few international tax loopholes that enable individuals to keep money offshore and untaxed. But there is much more work to be done.

This report is intended to provide the President's Commission on Fiscal Responsibility and Reform with ways to reduce the deficit through common sense policies that are in the public interest.

The Next Trillion: Savings Breakdown

Method to Restore Fiscal Responsibility	\$ Saved By 2011 (in millions)	\$ Saved By 2015 (in millions)	Source
Reduce Wasteful Spending on Contracts and Supplies			
Reduce the Use of High-Risk Contracts, Increase Competition and Improve Contract Oversight	\$40,000	\$200,000	White House ¹
Eliminate Homeland Security Contracts Already Identified as Wasteful	\$34,000	\$34,000	House Committee on Oversight and Government Reform - Report ²
End Orders for Obsolete Spare Parts and Supplies for the Defense Logistics Agency and the Armed Forces	\$7,100	\$35,500	GAO ³
End Orders for Obsolete Spare Parts and Supplies for the Army	\$3,600	\$18,000	GAO ⁴
End Orders for Obsolete Spare Parts and Supplies for the Navy	\$7,500	\$37,500	GAO ⁵
End Orders for Obsolete Spare Parts and Supplies for the Air Force	\$18,700	\$93,500	GAO ⁶
Make Polluters and Financial Speculators Pay for the Damage They Create			
Reinstate Superfund Fee on Polluters	\$1,203	\$8,298	President's Budget ⁷
Implement Financial Crisis Responsibility Fee	\$8,000	\$34,000	President's Budget ⁸
Implement Speculation Fee on Stock, Bond, Options, Swap, Foreign Exchange Spot and Futures Transactions	\$176,900	\$884,500	Center for Economic and Policy Research; Political Economy Research Institute - Univ. of Massachusetts, Amherst ⁹
End Wasteful Corporate Subsidies			
Eliminate Subsidies for Oil and	\$2,754	\$19,187	President's Budget ¹⁰

Gas Companies			
Better Collect Existing Taxes			
Collect Unpaid Payroll Taxes from Businesses	\$58,000	\$290,000	GAO ¹¹
Collect Delinquent Taxes from Contractors	\$7,700	\$38,500	GAO ¹²
Implement Surtax for Companies Reporting Much Lower Income to IRS than to Shareholders	\$3,000	\$15,000	IRS, U.S. PIRG ¹³
Close Carried Interest Loophole	\$1,452	\$15,572	President's Budget ¹⁴
Reduce the Use of Offshore Tax Havens for Tax Avoidance and Evasion	\$100,000	\$500,000	Committee on Homeland Security and Governmental Affairs, Permanent Subcommittee on Investigations. <i>TAX HAVEN BANKS AND U. S. TAX COMPLIANCE STAFF REPORT</i> ¹⁵
Reduce Costs to Administer Medicare			
Eliminate Payment Errors in Medicare and Medicaid	\$65,000	\$65,000	OMB ¹⁶
Reduce Geographic Disparities in Medicare Provider Payments	\$1,000	\$11,700	CBO ¹⁷
Better Align Payments to Teaching Hospitals Based on Actual Costs	\$4,800	\$20,500	
Reduce Costs Through the Use of Information Technology Solutions	\$420	\$7,000	
Stop forcing Medicare to Pay Higher Prescription Drug Rates than Medicaid	\$6,000	\$55,000	
Total		\$547,129	\$2,382,757

The Next Trillion: Detailed Explanations

Method to Restore Fiscal Responsibility	Explanation
Reduce Wasteful Spending on Contracts and Supplies	
Reduce the Use of High-Risk Contracts, Increase Competition and Improve Contract Oversight	Over the last year, the President issued requirements for government agencies to review their contracts, contracting practices, and oversight in order to minimize the risks and costs to taxpayers. The recent emergence of the Do-Not-Pay list will also buttress these overall efforts to ban contractors that have poor performance records, owe the government money, or were already was flagged by another agency or office.
Eliminate Homeland Security Contracts	As a minimal example, the U.S. Government Accountability Office, agency inspectors general, the Defense Contract Audit Agency, or other government investigators found 32 contracts collectively worth \$34.3 billion that have been plagued by waste, abuse, or mismanagement from 2001 through 2006.
End Orders for Obsolete Spare Parts and Supplies for the Defense Logistics Agency and the Armed Forces	In examining purchasing and inventory data at the DLA, Army, Navy and Air Force, the Government Accountability Office discovered that the organizations were wasting billions of dollars purchasing items that went unused or were never required (as much as 50% more than required). Through reforms to their purchasing process and better data around requirements, money can be saved as well as better directed to serve the needs of the armed forces.
Make Polluters and Financial Speculators Pay for the Damage They Create	
Reinstate Superfund Fee on Polluters	Reinstate policies for polluting companies to pay the bill, instead of taxpayers paying for polluters to clean up their toxic waste sites,
Implement Financial Crisis Responsibility Fee	Speeding up the return of bailout money to taxpayers, this charge would only be applied only to firms with more than \$50 billion in consolidated assets. According to the Treasury Department, "the fee would be collected by the IRS and revenues would be contributed to the general fund to reduce the deficit."
Implement Speculation Fee on Stock, Bond, Options, Swap, Foreign Exchange Spot and Futures Transactions	Use very small (less than 1%) fees on speculative transactions to both raise revenue and encourage longer-term investments, while discouraging purely speculative high-volume trading. The fee is supported by many global leaders, Nobel Laureates, the former Chief Economist for the IMF, business leaders such as Warren Buffet, House Speaker Nancy Pelosi, and a broad coalition of labor, consumer, environmental, human rights, healthcare, good government, tax justice and economic policy organizations.
End Wasteful Corporate Subsidies	

Method to Restore Fiscal Responsibility	Explanation
Eliminate Subsidies for Oil and Gas Companies	End government giveaways to highly profitable oil and gas companies.
Collect Existing Tax Revenues	
Collect Unpaid Payroll Taxes from Businesses	GAO and IRS records show that, as of September 30, 2007, over 1.6 million businesses owed over \$58 billion in unpaid federal payroll taxes, including interest and penalties.
Collect Delinquent Taxes from Contractors	Ensure that contractors pay back taxes owed to the government. Contractors who play by the rules shouldn't have to compete against companies that don't pay tax.
Implement Surtax for Companies Reporting Much Lower Income to IRS than to Shareholders	Place a small tax on the dollar gap between the income some companies report to tax authorities and what they tell their shareholders. This policy will both improve honesty of tax reporting and the quality of information reported to investors.
Close the Carried Interest Loophole	Tax fund managers' income at the same rate as other similarly situated workers, not at 15%.
Reduce the Use of Offshore Tax Havens for Tax Avoidance and Evasion	End the practice of tax breaks for companies that keep profits overseas. Treat companies that are managed and operated in the U.S. as domestic. Require companies and individuals to fully disclose hidden offshore accounts.
Reduce Costs to Administer Medicare	
Eliminate Payment Errors in Medicare and Medicaid	Use technology, management tools and data sharing to root out payments made in error to program participants. In some cases, the individuals were not even alive.
Reduce Geographic Disparities in Medicare Provider Payment	Hospitals and providers in some regions of the country are paid as much as twice their counterparts in other areas. These high-cost regions are superb at billing for the most expensive tests and procedures, but the care delivered in these areas is worse than regions which focus on quality, primary care medicine. These inflated reimbursement rates for high cost-regions may enrich some region's health industries but they do not improve care for patients.
Better Align Payments to Teaching Hospitals Based on Actual Costs	Re-calibrate payments to cover actual costs for Medicare's graduate medical education program.
Reduce Costs Through the Use of Information Technology Solutions	Cut costs and improve patient care in Medicare through the use of electronic medical records and information streamlining. The agency should set a deadline of 2015, requiring adoption of information technology solutions by all Medicare providers and hospitals.
Stop forcing Medicare to Pay Higher Prescription Drug Rates than Medicaid	Stop forcing Medicare Part D to pay higher, market-rate prescription drug costs for those eligible for both Medicaid and Medicare. The government should demand the same discounted prices that Medicaid receives and stop subsidizing the pharmaceutical industry.

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2. http://oversight.house.gov/index.php?option=com_content&view=article&id=2507&catid=44:legislation
3. <http://www.gao.gov/products/GAO-10-469>
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17. <http://www.cbo.gov/doc.cfm?index=9925>