

POLICY ESSAY

SMART BUDGETING: HOW BETTER TAX POLICY CAN HELP US INVEST IN OUR FUTURE

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Our nation's budget outlook has improved dramatically since the immediate aftermath of the Great Recession. With a stabilized debt outlook for the next decade, we can now afford to consider smart budget choices. My proposition is simple: structure the tax code to discourage dangers like carbon pollution, high-frequency financial trading, and obesity, and use the proceeds to improve the everyday lives of Americans.

Amid all the partisan gridlock in our nation's capital, there has been some refreshingly positive budget news from Washington over the last year—developments that free us to think boldly about our budgetary future.

This February, the non-partisan Congressional Budget Office (CBO)—Congress's official accounting arm—reported that federal health care spending continues to grow less rapidly than previously expected.¹ As a result, CBO has cut its estimate for Medicare spending in the year 2020 alone by \$109 billion or 12%.² Last year, CBO reported that since 2010, it has reduced its ten-year projections for Medicare and Medicaid by an astounding \$1.2 trillion.³

In its February outlook, CBO projected that the budget deficit for 2014 will be \$166 billion lower than it was in 2013, and sharply lower than the deficits between 2009 and 2012, which exceeded \$1 trillion per year.⁴ Higher tax rates for families earning over \$450,000⁵ and profits from the government's conservatorship of Fannie Mae and Freddie Mac⁶ have helped

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¹ CONG. BUDGET OFF., *THE BUDGET AND ECONOMIC OUTLOOK: 2014 TO 2024* 10, 57 (2014), available at http://www.cbo.gov/sites/default/files/cbofiles/attachments/45010-Outlook2014_Feb.pdf, archived at <http://perma.cc/3D73-GNLC>.

² *Id.* at 57.

³ Douglas W. Elmendorf, Dir., Cong. Budget Off., Comment on "Is This Time Different? The Slowdown in Healthcare Spending" 10 (Sept. 19, 2013), available at <http://cbo.gov/sites/default/files/cbofiles/attachments/44595-Presentation.pdf>, archived at <http://perma.cc/WE68-WA5T>.

⁴ CONG. BUDGET OFF., *supra* note 1, at 7 and 9.

⁵ *Id.* at 9; American Taxpayer Relief Act of 2012, Pub. L. No. 112-240, § 101(b)(3), 126 Stat. 2313, 2316.

⁶ CONG. BUDGET OFF., *supra* note 1, at 10.

drive the deficit decline. After more than doubling from 2001 to 2012⁷, CBO now estimates the national debt as a share of GDP will stay within 10% of its 2014 level through 2024.⁸ There is more work to be done to pare down our debt, but the nation's finances no longer appear to be spiraling out of control as they did during the Great Recession.⁹

In March of 2013, the Senate passed a ten-year budget plan¹⁰ that would further reduce deficits with a balance of targeted spending cuts and revenue from closing wasteful tax loopholes.¹¹ This plan serves as the blueprint for policies that would complete the task of stabilizing our debt level,¹² without burdening the middle class with higher taxes¹³ or curbing benefits under the federal retirement programs.¹⁴ Separate legislation introduced in the Senate could extend Social Security solvency beyond 2060 by simply applying the payroll tax to higher levels of income.¹⁵ Currently, only the first \$117,000 of income is taxed.¹⁶ If we raise the cap on taxable income, we can preserve this essential program without cutting benefits.

⁷ *Id.* at 156.

⁸ *Id.* at 1.

⁹ *Cf.* THE NAT'L COMM'N ON FISCAL RESP. & REFORM, THE MOMENT OF TRUTH 10–11 (2010), available at http://www.fiscalcommission.gov/sites/fiscalcommission.gov/files/documents/TheMomentofTruth12_1_2010.pdf, archived at <http://perma.cc/XE5H-9PZE>.

¹⁰ S. Con. Res. 8, 113th Cong. (as passed by Senate, Mar. 23, 2013).

¹¹ “The Senate Budget tackles our deficit and debt the way the American people have told us they want it done: with a balanced mix of responsible spending cuts and new revenue from the wealthiest Americans and biggest corporations.” See PATTY MURRAY, FOUNDATION FOR GROWTH: RESTORING THE PROMISE OF AMERICAN OPPORTUNITY 4 (emphasis omitted), available at http://web.archive.org/web/20130412231538/http://www.budget.senate.gov/democratic/index.cfm/files/serve?File_id=c951a802-7600-4111-97c9-20bcc9c69d8, archived at <http://perma.cc/RQ2T-HNCY>.

¹²

In 2010, the bipartisan Simpson-Bowles Commission laid out a goal of reducing the deficit by \$4 trillion over ten years Since that time, Congress has worked to reduce the deficit by \$2.4 trillion, with most of that coming from spending cuts. The Senate Budget builds on this savings with an additional \$1.85 trillion in deficit reduction, for a total of \$4.25 trillion in deficit reduction since the Simpson-Bowles Commission report.

Id. at 5 (emphasis omitted).

¹³

It is the clear intent of the Senate Budget that the savings found by eliminating loopholes and cutting unfair and inefficient spending in the tax code not increase the tax burden on middle class families or the most vulnerable Americans who already have sacrificed greatly in recent deficit reduction efforts.

Id. at 62 (emphasis omitted).

¹⁴ *Id.* at 81 (“ . . . the Senate Budget does not dismantle or privatize by voucherizing Medicare. It includes new health care savings to strengthen the program—without harming beneficiaries.”); *id.* at 98 (“Unlike past Republican proposals that would seek to privatize and weaken Social Security, the Senate Budget ensures the guarantee remains.”).

¹⁵ See Letter from Stephen C. Goss, Chief Actuary, Soc. Sec. Admin., to Bernie Sanders, U.S. Senator (Mar. 19, 2013), available at http://www.ssa.gov/oact/solvency/BSanders_20130319.pdf, archived at <http://perma.cc/FU9J-SXH8>.

¹⁶ *Contribution and Benefit Base*, SOC. SEC. ADMIN., <http://www.ssa.gov/OACT/cola/cbb.html> (last visited Feb. 23, 2014), archived at <http://perma.cc/R28M-2PRJ>. But note that: “[t]his limit changes each year with changes in the national average wage index.” *Id.*

Recently, there has even been a break in the partisan obstruction that has slowed the progress of legislation since the 2010 election delivered Republican control of the House of Representatives. In December, House Budget Chairman Paul Ryan of Wisconsin—the former Republican Vice Presidential nominee—and Democratic Senate Budget Chairman Patty Murray of Washington reached what has been described as the first bipartisan budget deal since 1986.¹⁷ Although modest, the agreement, which swiftly passed both chambers,¹⁸ offers hope that we have moved beyond the worst days of political extremism and brinksmanship.¹⁹

With the steadying of our nation's balance sheet and the prospect of further bipartisan cooperation, we can think beyond deficit reduction and consider budget reforms that can strengthen our great nation. My proposition is simple: structure the tax code to discourage dangers like carbon pollution, high-frequency financial trading, and obesity, and use the proceeds to improve the everyday lives of Americans.

Such taxes and fees—called “Pigouvian” by economists after the late British economist Arthur C. Pigou—are not new.²⁰ The federal government and the states have long used tax policy to discourage smoking and drinking, and to raise money to offset the related health costs. In fact, the idea of using taxes to encourage and discourage behaviors goes back to the founding of the republic. In 1790, Secretary of the Treasury Alexander Hamilton suggested that raising taxes on alcohol would benefit both society and the economy. He wrote in a report to Congress:

The consumption of ardent spirits particularly, no doubt very much on account of their cheapness, is carried to an extreme, which is truly to be regretted, as well in regard to the health and the morals, as to the economy of the community. Should the increase of duties

¹⁷ See Paul Ryan, *A Firm Step Forward*, NAT'L REV. ONLINE (Dec. 11, 2013, 12:30 PM), <http://www.nationalreview.com/article/366050/firm-step-forward-paul-ryan>, archived at <http://perma.cc/RZ7Z-USMB>.

¹⁸ Bipartisan Budget Act of 2013, Pub. L. 113–67, 127 Stat. 1165; Press Release, Paul Ryan, Chairman, House Comm. on the Budget, Senate Passes the Bipartisan Budget Act (Dec. 18, 2013), available at <http://budget.house.gov/news/documentsingle.aspx?DocumentID=364792>, archived at <http://perma.cc/Z7KJ-XBXF>.

¹⁹ See, e.g., Ryan Alexander, *Thanks Ryan and Murray, Now Go Back to Work*, U.S. NEWS & WORLD REP. (Dec. 12, 2013), <http://www.usnews.com/opinion/blogs/economic-intelligence/2013/12/12/the-bipartisan-budget-deal-should-be-a-beginning-not-an-end>, archived at <http://perma.cc/B6AJ-UJUG>.

²⁰

The principle is susceptible of general application. It is employed, though in a very incomplete and partial manner, in the British levy of a petrol duty and a motor-car licence tax upon the users of motor cars, the proceeds of which are devoted to the service of the roads. It is employed again in an ingenious way in the National Insurance Act. When the sickness rate in any district is exceptionally high, provision is made for throwing the consequent abnormal expenses upon employers, local authorities or water companies, if the high rate can be shown to be due to neglect or carelessness on the part of any of these bodies.

ARTHUR C. PIGOU, *THE ECONOMICS OF WELFARE* 193 (4th ed. 1932) (1920).

tend to a decrease of the consumption of those articles, the effect would be, in every respect desirable. The saving which it would occasion, would leave individuals more at their ease, and promote a more favourable balance of trade. As far as this decrease might be applicable to distilled spirits, it would encourage the substitution of cyder and malt liquors, benefit agriculture, and open a new and productive source of revenue.²¹

We can achieve results that are “in every respect desirable” by thinking of tax policy in terms of negative externalities—the cost or harm of a product that is not in its price. By pricing negative externalities through fees or taxes, we can discourage harmful activities while also raising revenue for complementary remediation or other beneficial programs. I think of this as “smart budgeting.”

First, we can look at how the tax code can help slow global climate change and offset its damaging effects. Few responsible voices now deny that climate change is real and the damage is worsening. In fact, according to NASA, 97% of climate scientists agree that “climate-warming trends over the past century are very likely due to human activities.”²² Globally, the fourteen hottest years since 1980 have all been in the past sixteen years.²³ In the U.S., 2012 brought record-breaking temperatures²⁴ and the worst droughts in half a century²⁵—not to mention Superstorm Sandy.²⁶

From communities ravaged by “superstorms” to farmers and fishermen suffering declining yields,²⁷ we all currently stand to pick up the tab for major carbon polluters, a fine result only if you happen to be a major carbon polluter. Through smart budgeting with a fee on greenhouse gas pollution beginning at \$25 per ton and increasing each year at an inflation-adjusted rate of 2%, we can transfer the cost of carbon emissions to the polluters where it belongs, and, over the first ten years, generate an estimated \$1.06

²¹ ALEXANDER HAMILTON, REPORT OF THE SECRETARY OF THE TREASURY TO THE HOUSE OF REPRESENTATIVES, RELATIVE TO A PROVISION FOR THE SUPPORT OF THE PUBLIC CREDIT OF THE UNITED STATES 16 (1790).

²² *Consensus: 97% of Climate Scientists Agree*, NAT'L AERONAUTICS & SPACE ADMIN., <http://climate.nasa.gov/scientific-consensus> (last visited Feb. 26, 2014), archived at <http://perma.cc/5U8A-3YJS>.

²³ Justin Gillis, *2013 Listed as One of the Warmest Years on Record*, N.Y. TIMES, Jan. 22, 2014, at A9.

²⁴ *National Overview - Annual 2012*, NAT'L OCEANIC & ATMOSPHERIC ADMIN. (Jan. 8, 2013), <http://www.ncdc.noaa.gov/sotc/national/2012/13#over>, archived at <http://perma.cc/47PS-S9UG>.

²⁵ *See id.*; John Eligon, *Widespread Drought Is Likely to Worsen*, N.Y. TIMES, July 19, 2012, at A11.

²⁶ *See* James Barron, *After the Devastation, a Daunting Recovery*, N.Y. TIMES, Oct. 30, 2012, at A1.

²⁷ *See* U.S. GLOBAL CHANGE RESEARCH PROGRAM, GLOBAL CLIMATE CHANGE IMPACTS IN THE UNITED STATES 71–78, 81 (2009), available at <http://downloads.globalchange.gov/usimpacts/pdfs/climate-impacts-report.pdf>, archived at <http://perma.cc/QS3S-H7P8>.

trillion to return to the American people²⁸—enough money to give every American family an annual dividend of over \$900.²⁹ On top of the revenue benefits, researchers at the Massachusetts Institute of Technology have estimated that, by making pollution more expensive, a carbon fee of this magnitude would reduce carbon emissions to 14% below 2006 levels by 2020 and to 20% below 2006 levels by 2050.³⁰

The revenue generated from fees polluters pay for the cost of their pollution could potentially be used in a variety of ways to benefit the American people. Instead of distributing annual dividends, we could (after setting aside a portion of the revenue to help lower-income families meet energy costs)³¹ give Social Security recipients each a \$1,600-a-year raise.³² Another option would be to choose to invest the revenue in education and, for instance, forgive outright half of the almost \$1 trillion in outstanding federal student loan debt,³³ increase Pell Grants for college students,³⁴ and lower interest

²⁸ CONG. BUDGET OFF., *OPTIONS FOR REDUCING THE DEFICIT 176–77* (2013), available at http://www.cbo.gov/sites/default/files/cbofiles/attachments/44715-OptionsForReducingDeficit-2_1.pdf, archived at <http://perma.cc/YS82-LDS8>. Under federal law and Congressional budget rules, the Congressional Budget Office and Joint Committee on Taxation estimate the ten-year spending and revenue effects of proposed legislation. Given these estimates, Members of Congress typically refer to the ten-year deficit impact of a bill or amendment as the measure's "score." Under the Statutory Pay-As-You-Go Act of 2010, legislation that increases the deficit over five or ten year periods may result in automatic across-the-board budget cuts. See Pub. L. No. 111-139, 124 Stat. 8 (codified as amended in scattered sections of 31 & 2 U.S.C.).

²⁹ CBO estimated that the carbon fee would generate \$1.06 trillion in the first decade alone. CONG. BUDGET OFF., *OPTIONS FOR REDUCING THE DEFICIT*, *supra* note 28, at 176–77. According to the U.S. Census, the number of American households averaged 115,226,802 from 2008 to 2012. *USA Quickfacts*, U.S. CENSUS BUREAU, <http://quickfacts.census.gov/qfd/states/00000.html> (last updated Jan. 7, 2014, 8:52 AM), archived at <http://perma.cc/W32E-M7Y7>. The \$1.06 trillion divided by that number of households divided by ten years totals \$920.

³⁰ SEBASTIAN RAUSCH & JOHN REILLY, MIT JOINT PROGRAM ON THE SCI. & POL'Y OF GLOBAL CHANGE, *CARBON TAX REVENUE AND THE BUDGET DEFICIT: A WIN-WIN-WIN SOLUTION 9* (2012), available at http://globalchange.mit.edu/files/document/MITJPSPGC_Rpt228.pdf, archived at <http://perma.cc/HJJ9-AB9R>.

³¹ According to the Congressional Budget Office, it would take roughly 12% of the revenues from a carbon fee to fully offset the price effects on households in the lowest income quintile. Terry Dinan, *Offsetting A Carbon Tax's Costs on Low-Income Households* 13 (Cong. Budget Off. Working Paper, 2012), available at <http://www.cbo.gov/sites/default/files/cbofiles/attachments/11-13LowIncomeOptions.pdf>, archived at <http://perma.cc/F7J8-KWJP>. The Social Security, student loan, and tax cut examples that follow assume 12% of carbon fee proceeds would be set aside to help lower-income households cover higher energy costs. Since lower-income families would receive \$900 per year under the dividend option, that option does not include the 12% set-aside.

³² According to the Social Security Administration, there were approximately 58 million beneficiaries in 2013. *Social Security Basic Facts*, SOC. SEC. ADMIN. (July 26, 2013), <http://www.ssa.gov/pressoffice/basicfact.htm>, archived at <http://perma.cc/36BA-ZXG7>. After setting aside 12% of the \$1.06 trillion in revenues for low-income households, there would still be sufficient money to give fifty-eight million beneficiaries a \$1,608 per month benefit increase.

³³ See Rohit Chopra, *Student Debt Swells, Federal Loans Now Top a Trillion*, CONSUMER FIN. PROT. BUREAU (July 17, 2013), <http://www.consumerfinance.gov/newsroom/student-debt-swells-federal-loans-now-top-a-trillion/>, archived at <http://perma.cc/4WRP-L46R> ("The Consumer Financial Protection Bureau estimates that outstanding debt is approaching \$1.2 trillion

rates on subsidized student loans.³⁵ Those with supply-side priorities might prefer to use the proceeds from a carbon fee to cut the top corporate tax rate from thirty-five percent to twenty-eight percent.³⁶ This was a component of Mitt Romney's tax plan,³⁷ and we could do it with a carbon fee, without adding to the deficit.

A carbon fee would make polluters pay, reduce overall emissions, and generate enormous resources for a number of worthy investments. That is smart budgeting, and Americans across the political spectrum should support it.

Smart budgeting could also help protect us from financial market bubbles and deceptive high-frequency trading. Berkshire Hathaway Vice Chairman Charlie Munger has colorfully noted that high-frequency traders "have all the social utility of a bunch of rats admitted to a granary."³⁸ Yet this kind of rapid trading, in which sophisticated computer algorithms are used to trade high volumes of securities in fractions of a second, recently accounted for over two-thirds of all trades,³⁹ skimming profits at the expense of ordinary investors. Furthermore, high-frequency trading may contribute to market volatility,⁴⁰ including "flash crashes" during which prices drop substantially and then quickly rebound. During one such "flash crash" on May 6, 2010, the Dow Jones Industrial Average lost and regained several

as of May 2013. We also estimate that student loans guaranteed or held by the federal government have now crossed the \$1 trillion mark.").

³⁴ The federal government spent \$33.6 billion on the Pell Grant Program between July 1, 2011 and June 30, 2012. CONG. BUDGET OFF., THE FEDERAL PELL GRANT PROGRAM: RECENT GROWTH AND POLICY OPTIONS 1 (2013), available at http://www.cbo.gov/sites/default/files/cbofiles/attachments/44448_PellGrants_9-5-13.pdf, archived at <http://perma.cc/R6BU-VV97>.

³⁵ CBO has estimated it would cost \$8.6 billion to lower certain student loan rates from 6.8% to 3.4% for two years. CONG. BUDGET OFF., ESTIMATE OF THE BUDGETARY EFFECTS OF S. 953, THE STUDENT LOAN AFFORDABILITY ACT, AS INTRODUCED IN THE SENATE ON MAY 14, 2013 (2013), available at <http://cbo.gov/sites/default/files/cbofiles/attachments/s953.pdf>, archived at <http://perma.cc/TQ5G-HBZH>.

³⁶ Business Insider reported that the Joint Committee on Taxation (JCT), the office responsible for estimating the revenue effects of federal tax legislation, estimated that reducing the top corporate tax rate from thirty-five percent to twenty-eight percent would reduce revenues by \$717.5 billion over ten years. Michelle Hirsch, *Slashing The Corporate Tax Rate To 28% Will Cost \$717.5 Billion*, BUS. INSIDER (Nov. 3, 2011), <http://www.businessinsider.com/slashing-the-corporate-tax-rate-to-28-will-cost-7175-billion-2011-11>, archived at <http://perma.cc/3BWJ-BTDA>. This report offers a sense of the magnitude of the cost of lowering corporate tax rates; JCT's estimates will differ with the details of specific proposals.

³⁷ John Harwood, *Romney Proposes Slashing Top Tax Rate to 28 Percent*, CNBC.COM (Feb. 22, 2012, 12:19 PM), <http://www.cnbc.com/id/46482452>, archived at <http://perma.cc/8R9B-DJFB>.

³⁸ *High-Frequency Traders Like 'Rats' in a Granary: Munger*, CNBC.COM (May 7, 2012, 7:41 PM), http://www.cnbc.com/id/47330452/HighFrequency_Traders_Like_QuoteRatsQuote_in_a_Granary_Munger, archived at <http://perma.cc/72FK-KMHL>.

³⁹ Elaine Wah & Michael P. Wellman, *Latency Arbitrage, Market Fragmentation, and Efficiency: A Two-Market Model*, 2013 PROC. FOURTEENTH ASS'N COMPUTER MACH. CONF. ELEC. COM. 855, 855, 857.

⁴⁰ X. Frank Zhang, *High Frequency Trading on Stock Volatility and Price Discovery* 4-5 (Yale Univ. Sch. of Mgmt. Working Paper, 2010), available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1691679, archived at <http://perma.cc/WBM-9ZGK>.

hundred points in a matter of minutes,⁴¹ temporarily erasing one trillion dollars in market value.⁴² Imagine the ordinary investors whose orders to sell stock were executed during this unfortunate period.

Like cigarette smoking and carbon pollution, high-frequency trading produces negative externalities borne by society. Taxing it could discourage those harms and raise considerable revenue for worthy investments. A tiny tax of 0.03 percent on securities trades would mean almost nothing to ordinary, legitimate investors—amounting to just \$30 per \$100,000 traded—but could be a major disincentive to trading millions of shares in seconds.

In addition to discouraging supercomputer-driven trades, this financial transactions tax would generate an estimated \$350 billion over ten years.⁴³ To put this figure into perspective, it could just about cover our \$384 billion water infrastructure deficit over the next two decades, according to estimates from the Environmental Protection Agency.⁴⁴ Drinking water and wastewater infrastructure is often more than 100 years old, with some pipes dating as far back as the Civil War.⁴⁵ Overall, our water infrastructure is so decrepit the American Society of Civil Engineers has given it a letter grade of “D.”⁴⁶

Through smart budgeting, we can discourage market-distorting financial trades, update failing drinking and wastewater systems, and generate over a million jobs⁴⁷ at a time when unemployment remains stubbornly high in many places.⁴⁸

As I noted earlier, slower-than-anticipated growth in the cost of health care has helped lower our deficits.⁴⁹ This is indeed good news, but rising

⁴¹ Tom Lauricella, *Market Plunge Baffles Wall Street*, WALL ST. J., May 7, 2010, <http://online.wsj.com/news/articles/SB10001424052748704370704575228664083620340>, archived at <http://perma.cc/D2LZ-ZKMM>.

⁴² Ben Rooney, *Trading Program Sparked May “Flash-Crash”*, CNNMONEY BLOG (Oct. 1, 2010, 2:56 PM), http://money.cnn.com/2010/10/01/markets/SEC_CFTC_flash_crash/, archived at <http://perma.cc/P6S9-8369>.

⁴³ Press Release, Senator Tom Harkin, Lawmakers Introduce Targeted Wall Street Trading Tax (Feb. 28, 2013), available at <http://www.harkin.senate.gov/press/release.cfm?i=339847>, archived at <http://perma.cc/V8BH-KJ7A>.

⁴⁴ U.S. ENVTL. PROT. AGENCY, OFF. WATER, EPA 816-R-13-006, DRINKING WATER INFRASTRUCTURE NEEDS SURVEY AND ASSESSMENT, FIFTH REPORT TO CONGRESS 11 (2013), available at http://water.epa.gov/grants_funding/dwsrf/upload/epa816r13006.pdf, archived at <http://perma.cc/79BX-PFKG>.

⁴⁵ 2013 Report Card for America’s Infrastructure, AM. SOC’Y OF CIV. ENG’RS, <http://www.infrastructurereportcard.org/a/#p/drinking-water/conditions-and-capacity> (last visited Mar. 9, 2014), archived at <http://perma.cc/HZJ2-B4UT>.

⁴⁶ *Id.*

⁴⁷ “We find that an investment of \$188.4 billion spread equally over the next five years would generate \$265.6 billion in economic activity and create close to 1.9 million jobs.” GREEN FOR ALL, WATER WORKS: REBUILDING INFRASTRUCTURE, CREATING JOBS, GREENING THE ENVIRONMENT 1 (2011), available at <http://greenforall.org/wordpress/wp-content/uploads/2012/07/Green-for-All-Water-Works.pdf>, archived at <http://perma.cc/5QXW-DDW9>.

⁴⁸ See Pamela N. Prah, Pew Charitable Tr., *Nine States Still Have High Unemployment*, STATELINE DISPATCH, Jan. 28, 2014, <http://www.pewstates.org/research/analysis/nine-states-still-have-high-unemployment-85899536282>, archived at <http://perma.cc/G9W2-RE4W>.

⁴⁹ See generally CONG. BUDGET OFF., THE BUDGET AND ECONOMIC OUTLOOK: 2014 TO 2024, *supra* note 1.

health care costs remain the single largest driver of our long-term budget imbalance.⁵⁰ For a final example of smart budgeting, let's look at how a modest tax on sugary drinks could improve the health of Americans and reduce the societal costs related to obesity and diabetes.

Approximately thirty-six percent of Americans are clinically obese⁵¹—a figure that has more than doubled over the last three decades.⁵² Even among children ages six to nineteen, the obesity rate now exceeds eighteen percent.⁵³ Last year, the American Medical Association categorized obesity as a “disease” and linked it to other serious ailments like cardiovascular disease and type 2 diabetes.⁵⁴

We could curb obesity by assessing a penny-per-ounce tax on sugar-sweetened beverages. Researchers at the University of California, San Francisco estimated that over the next decade such a tax in California would result in 1.8% to 3.4% fewer cases of diabetes and hundreds of millions of dollars in medical cost savings.⁵⁵ Evaluating a similar proposal in Illinois, the Cook County Department of Health concluded it would reduce youth obesity by 9.3% and adult obesity by 5.2%.⁵⁶ Comparable results nationwide could mean considerable savings on the \$147 billion to \$210 billion researchers estimate we now spend each year treating obesity and its related effects.⁵⁷ Since Medicare, Medicaid, and other public health programs account for around 40% of national health expenditures,⁵⁸ a reduction in the

⁵⁰ *Review of Previous Debt Reduction Proposals: Hearing Before the J. Select Comm. on Deficit Reduction*, 112th Cong. (2011) (statement of Sen. Pete V. Domenici & Dr. Alice Rivlin, Co-Chairs, Bipartisan Pol’y Ctr. Debt Reduction Task Force).

⁵¹ *Obesity and Overweight*, CTRS. FOR DISEASE CONTROL & PREVENTION, <http://www.cdc.gov/nchs/fastats/overwt.htm> (last visited Mar. 7, 2014), archived at <http://perma.cc/R8B6-7XY5>.

⁵² *Prevalence of Overweight, Obesity, and Extreme Obesity Among Adults: United States, Trends 1960-1962 Through 2009-2010*, CTRS. FOR DISEASE CONTROL & PREVENTION, http://www.cdc.gov/nchs/data/hestat/obesity_adult_09_10/obesity_adult_09_10.htm (last visited Mar. 7, 2014), archived at <http://perma.cc/8KHQ-8DG9>.

⁵³ See *Obesity and Overweight*, *supra* note 51.

⁵⁴ Press Release, Am. Med. Ass’n, AMA Adopts New Policies on Second Day of Voting at Annual Meeting (June 18, 2013), available at <http://www.ama-assn.org/ama/pub/news/news/2013/2013-06-18-new-ama-policies-annual-meeting.page>, archived at <http://perma.cc/Q7YX-G5AE>.

⁵⁵ Tekeshe A. Mekonnen et al., *Health Benefits of Reducing Sugar-Sweetened Beverage Intake in High Risk Populations of California: Results from the Cardiovascular Disease (CVD) Policy Model*, 8 PLoS ONE, no. 12 Dec. 2013, at 4, available at <http://www.plosone.org/article/info%3Adoi%2F10.1371%2Fjournal.pone.0081723>, archived at <http://perma.cc/T76W-JL6R>.

⁵⁶ COOK CNTY. DEP’T OF PUB. HEALTH, ESTIMATING THE POTENTIAL IMPACT OF SUGAR-SWEETENED AND OTHER BEVERAGE EXCISE TAXES IN ILLINOIS 2 (2011), available at http://www.cookcountypublichealth.org/files/pdf/Chaloupka_Report_PRf.pdf, archived at <http://perma.cc/X3WN-87SH>.

⁵⁷ *F as in Fat: How Obesity Threatens America’s Future 2012*, TR. FOR AM.’S HEALTH, <http://healthyamericans.org/report/100/> (last visited Mar. 7, 2014), archived at <http://perma.cc/3VT-3ZPA>.

⁵⁸ Estimate based on 2012 data from the Centers for Medicare & Medicaid Services, Office of the Actuary, National Health Statistics Group, including health care spending from Medicare (20%), the federal share of Medicaid (9%), the state share of Medicaid (7%), the

obesity rate would stand to generate tens of billions of dollars of annual savings in the federal budget.

In addition to reducing obesity (a worthwhile goal in itself) and reducing health care spending, a penny-per-ounce tax would also create considerable revenue. Evidence shows Americans support this approach. In 1994, Arkansas voters defeated an industry-funded referendum to repeal a much smaller state soft drink tax.⁵⁹ Over the past twenty years, the tax has generated over \$587 million to help Arkansas fund its Medicaid program.⁶⁰ A recent poll of California voters found that sixty-eight percent would support a tax on sugar-sweetened beverages if the proceeds were used to boost school nutrition and physical activity programs.⁶¹

A penny-per-ounce federal tax would raise an estimated \$160 billion over the first decade.⁶² Smart budgeting could allow us to invest this revenue in better childhood nutrition. In 2012, the federal government spent \$11.5 billion to provide over five billion school lunches⁶³—around \$2.25 per meal. An additional \$16 billion a year could double that amount and provide billions of dollars for schools to improve their infrastructure, equipment, and training, helping schools serve fresher, healthier meals many cannot now afford to serve.⁶⁴

U.S. Department of Veterans Affairs, Department of Defense and Children's Health Insurance Program (4%). See *The Nation's Health Dollar (\$2.8 Trillion), Calendar Year 2012: Where it Came From*, CTRS. FOR MEDICARE & MEDICAID SERVS., OFFICE OF THE ACTUARY, NAT'L HEALTH STATISTICS GRP., <http://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/Downloads/PieChartSourcesExpenditures2012.pdf> (last visited Mar. 7, 2014), archived at <http://perma.cc/ZM7W-B2KK>.

⁵⁹ Under the referendum, voters were asked if they would like to continue the tax. It passed with 55.2 percent of the vote. *Summary of 11/8/94 General Election Results By County*, ARK. SEC'Y ST., http://www.sos.arkansas.gov/elections/historicalElectionResults/Documents/94general_election_results.xls (last visited Mar. 9, 2014).

⁶⁰ ARK. DEP'T. OF FIN. & ADMIN., *SOFT DRINK TAX DRINK* (2014), available at <http://www.dfa.arkansas.gov/offices/exciseTax/MiscTax/Documents/softDrinkRevenue.pdf>, archived at <http://perma.cc/VQE6-WLVG>.

⁶¹ *Poll: Most Calif. Voters Support Soda Tax to Boost Students' Health*, CAL. HEALTHLINE (Feb. 15, 2013), <http://www.californiahealthline.org/articles/2013/2/15/poll-most-calif-voters-support-soda-tax-to-boost-students-health>, archived at <http://perma.cc/XY9J-KC6U>.

⁶² Press Release, Ctr. for Sci. in the Pub. Interest, *Sugary Drink Tax Should be on Table During Fiscal Cliff Talks, Group Says* (Nov. 30, 2012), available at <http://www.cspinet.org/new/201211301.html>, archived at <http://perma.cc/G3X4-JRV8>.

⁶³ U.S. DEPT. OF AGRIC., *ANNUAL SUMMARY OF FOOD AND NUTRITION SERVICE PROGRAMS* (2014), available at <http://www.fns.usda.gov/pd/annual.htm>, archived at <http://perma.cc/95KC-UMMV>.

⁶⁴ "Many school food authorities indicate that they could be serving healthy foods more efficiently and effectively if they had the proper equipment and infrastructure, and if their staff members were trained accordingly, making them less reliant on unsustainable workarounds." THE PEW CHARITABLE TRUSTS & ROBERT WOOD JOHNSON FOUND., *SERVING HEALTHY SCHOOL MEALS: DESPITE CHALLENGES, SCHOOLS MEET USDA MEAL REQUIREMENTS 14* (2013), available at <http://www.rwjf.org/content/dam/farm/reports/reports/2013/rwjf407899>, archived at <http://perma.cc/XXJ6-87U6>.

Healthier meals in turn would reduce obesity risk and improve the health of our children.⁶⁵ Studies show that better nutrition also leads to better learning.⁶⁶ Once again, by taxing an activity linked to a societal harm, we can reduce that harm and raise money to invest in our future.

Smart budgeting encourages smart choices—choices that benefit the environment, the economy, and our health—and raises resources to achieve smart goals. These kinds of solutions should resonate with Americans and enjoy broad popular support. More importantly, smart budgeting represents a shift away from the fiscal stalemates and short-sighted austerity budgeting of recent years, and toward a long-term national investment strategy that promotes growth and builds a more dynamic economy for future generations. As Congress considers rewriting our nation's tax laws, I hope Democrats and Republicans alike will “get smart” in budgeting. Smart decisions make a stronger nation.

⁶⁵ “In contrast, consumption of fruits and vegetables in place of high calorie foods may reduce the risk for obesity and help sustain weight loss because the body's sense of fullness at meals is partly regulated by volume.” U.S. DEP'T OF HEALTH & HUMAN SERVS. THE SURGEON GENERAL'S VISION FOR A HEALTHY AND FIT NATION 4 (2010), available at <http://www.surgeongeneral.gov/initiatives/healthy-fit-nation/obesityvision2010.pdf>, archived at <http://perma.cc/RK6W-PHD8>.

⁶⁶ GENYOUTH FOUND., THE WELLNESS IMPACT: ENHANCING ACADEMIC SUCCESS THROUGH HEALTHY SCHOOL ENVIRONMENTS (2013), available at http://www.genyouthfoundation.org/wp-content/uploads/2013/02/The_Wellness_Impact_Report.pdf, archived at <http://perma.cc/HEM7-JUM5>.