We’re Not Broke
A commonsense guide to avoiding the fiscal swindle while making the United States more equitable, green, and secure

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Contributors: Sarah Anderson, Phyllis Bennis, John Cavanagh, Chuck Collins, Karen Dolan, Scott Klinger, Miriam Pemberton, and Daphne Wysham

Highway Robbery, an OtherWords cartoon by Khalil Bendib

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About the Contributors

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This report builds on the Institute’s “America Is Not Broke” study released in November 2011.
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Caution, Fiscal Cliff Ahead, an OtherWords cartoon by Khalil Bendib
I. Introduction and Summary

An overhaul of U.S. spending priorities is both long overdue and necessary to curb deficit growth. Yet there is no reason to accept the demands from conservative leaders and corporate lobbyists for the ill-timed belt-tightening and reductions in earned benefits like Social Security and Medicare they say are required to remedy the current budgetary crisis.

This “fiscal cliff” hysteria could easily trigger a grand fiscal swindle. But it doesn’t have to — because we’re not broke. The U.S. government can continue to fund and even expand programs that help people in need and rebuild our infrastructure while greening the economy, strengthening national security, and reducing the economic inequality that’s eating away at our democracy. Plenty of smart ways to cut spending and increase revenue should be “on the table.” Our report outlines 20 straightforward and creative options.

This is the second edition of an Institute for Policy Studies study that debunks the premise that the United States of America is broke. We released the first one a year ago, shortly before the supercommittee — a congressional panel tasked with putting our nation on a
sound fiscal path — fizzled into obscurity.

This time around, the frenzied “Taxmageddon” debate poses an unprecedented opportunity to harness our ample but misdirected resources in ways that will make the country more equitable, secure, and green. We have amassed a list of possible revenue-raisers and spending cuts to demonstrate that there are common-sense ways to shrink the deficit and get our country on a more sustainable path.

Our proposed reforms amount to $881 billion in potential new revenue and savings per year. These measures would eliminate most of the budget deficit, leave plenty of resources for jobs and for the nation’s pressing human and environmental needs, and stave off those looming across-the-board cuts. We have not assembled an exhaustive list of rational budget-cutting alternatives. But we have demonstrated that there are sensible ways to achieve a more sustainable budget without shredding our already threadbare safety net. Together, these measures would generate more than enough savings to prevent a harmful shift toward austerity.

Our three broad proposals would:

1. **Make the tax code fairer to advance a more equitable society:** Levying new taxes on Wall Street and corporations while restoring rates on rich individuals to historic norms could, if rigorously enforced, raise more than $458 billion a year and reduce reckless financial speculation. Between 1935 and the late 1970s, progressive tax rates and investments in infrastructure, education, and housing expanded the middle class and served as a foundation for decades of broadly shared prosperity.

2. **Right-size the Pentagon to make the United States and the world more secure:** The Pentagon consumes more than half of U.S. federal discretionary spending. We have identified a total of $198 billion in yearly military budget cuts that can be made without hurting our national security largely by ending the war in Afghanistan, scaling back the sprawling network of overseas U.S. military bases, and scrapping obsolete and wasteful military programs.

3. **Tax pollution, cut subsidies for dirty energy, and improve our land-use policies to create a cleaner environment and greener economy:** If all polluters had to pay the full cost of environmentally harmful practices, they would be more motivated to embrace greener technology and reduce our dependence on unsustainable practices. The Obama administration has promised to eliminate fossil fuel subsidies and yet U.S. taxpayers are still spending tens of billions of dollars per year on these handouts. We recommend ending this corporate welfare and introducing new taxes on pollution that could generate an estimated $225 billion per year in revenue.
II. Fairly Tax Wall Street, Corporations, and the Rich

By Sarah Anderson, John Cavanagh, Chuck Collins, and Scott Klinger

<table>
<thead>
<tr>
<th>Proposals</th>
<th>Potential annual revenues ($billions)</th>
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<tbody>
<tr>
<td>End the Bush-era tax cuts on the top 2 percent of incomes*</td>
<td>83</td>
</tr>
<tr>
<td>Tax financial transactions</td>
<td>150</td>
</tr>
<tr>
<td>Apply a levy on the largest banks</td>
<td>9</td>
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<td>Stop tax haven abuse</td>
<td>100</td>
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<td>Close the stock option loophole</td>
<td>2</td>
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<tr>
<td>Levy a progressive estate tax on large fortunes</td>
<td>35</td>
</tr>
<tr>
<td>Create additional tax brackets for higher incomes and tax capital gains</td>
<td>79</td>
</tr>
<tr>
<td>gains and dividends as ordinary income</td>
<td></td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td><strong>$458 billion</strong></td>
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*$250,000 for married couples and $200,000 for unmarried individuals.

End Bush-era tax cuts for the wealthy: $83 billion

Reversing the 2001 and 2003 Bush-era tax cuts for the highest-income households is the first step in any program to reduce deficits and raise revenue. These cuts, which will expire at the end of 2012 unless Congress intervenes, lowered the maximum marginal tax rate on “earned” income in the top income bracket from 39.6 percent to 35 percent. The Joint Committee on Taxation estimates that letting these tax cuts expire would generate $829 billion in revenue over 10 years.²

Tax financial transactions: $150 billion

As recently as the 1970s, most stock trades were carried out by people who were investing for the medium- and long-term. After three decades of deregulation, this is no longer the case. The cost of trading has been lowered by increased competition between brokers and technological advances. This has benefited all investors, but lower trading costs have also opened the door to widespread speculative activity that erodes confidence in the stability of markets. High-frequency trading now comprises about 55 percent of equity trades in the United States.³ This is a threat to the interests of responsible investors. According to the Center for Economic and Policy Research, a modest federal tax on every transaction that involves the buying and selling of stock and other financial products could generate about $150 billion per year, while dampening rapid turnover of stocks and specu-
Close the stock option loophole: $2 billion

Under current rules, companies can lower their tax bills by claiming deductions for stock options granted to their top executives that are much higher than the option value they report in their financial statements. This tax incentive encourages corporate boards to hand executives huge stock-option windfalls. The Ending Excess Corporate Deductions for Stock Options Act (S. 1375) would limit corporate tax deductions to the amount expensed for financial statement (book) purposes at the time of the option grant. Closing this loophole would add $24.6 billion to federal tax revenues over 10 years, or about $2 billion per year.

Apply a levy on the largest banks: $9 billion

The White House has proposed a levy on the liabilities of financial firms with more than $50 billion in assets. While this is no substitute for taxing financial transactions, it would help recoup at least a small share of the costs of the crisis and provide a deterrent against excessive leverage for the largest financial firms.

Stop tax haven abuse: $100 billion

By current statute, corporations are supposed to pay a 35 percent tax on their profits. According to Citizens for Tax Justice, the top U.S. corporations actually paid only 18.5 percent of their profits to Uncle Sam between 2008 and 2010. One of the main ways that large corporations avoid paying their fair share of taxes is by stashing them in overseas tax havens. In doing so, companies like Pfizer and General Electric shift their responsibility for paying taxes to responsible local banks and businesses that operate within our borders. The Stop Tax Havens Abuse Act (S. 1346 and H.R. 2669) would close numerous loopholes that facilitate tax dodging via tax havens. For example, it would treat foreign subsidiaries of U.S. corporations whose management and control occur primarily in the United States as U.S. domestic corporations for tax purposes.

Levy a progressive estate tax on large fortunes: $35 billion

Congress passed a deal at the end of 2010 to reinstate the estate tax at 35 percent. Estates belonging to one person that are $5 million or less are exempted, as are estates belonging to a couple that total up to $10 million. This deal expires at the end of 2012, when estate tax rates will revert to 2001 levels, an exemption of $675,000 for an individual, $1.35 million for a couple and a top rate of 55 percent. Congress should proactively pass a progressive estate tax reform that closes loopholes and raises substantial revenue from those able to pay. The Responsible Estate Tax Act introduced by Senator Bernie Sanders (I-VT) in 2010 (but not reintroduced in the current Congress) would have established graduated tax rates that includes a 10 percent surtax on the value of an individual’s estate valued at $500 million or more — or $1 billion for a married couple.
Create additional tax brackets for people earning $1 million or more per year and eliminate the tax preference for capital gains and dividends: $79 billion

The Fairness in Taxation Act (H.R.1124) would add five additional tax brackets for income over $1 million. It would also tax income from wealth the same as income from work. Current law subjects most dividend and capital gains income — the investment income that flows overwhelmingly to wealthier Americans — to a 15 percent tax rate. The tax on wage and salary income, by contrast, can run up to 35 percent. This yawning gap is what inspired Warren Buffett to call on Congress to “stop coddling the super-rich” and institute higher rates on income from wealth. With carefully structured rate reform, we can end this preferential treatment and at the same time encourage average families to engage in long-term investing.
III. Right-Size Military Spending

By Phyllis Bennis, Miriam Pemberton, and Emily Johanson

<table>
<thead>
<tr>
<th>Proposed reforms</th>
<th>Potential annual revenues ($billions)</th>
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<tbody>
<tr>
<td>End the U.S. war in Afghanistan</td>
<td>86</td>
</tr>
<tr>
<td>Eliminate one-third of the U.S. military bases in Europe and Asia</td>
<td>10</td>
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<tr>
<td>Eliminate military waste and unnecessary weapon systems</td>
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<tr>
<td>Drastically reduce the nuclear warhead arsenal as a major step on the path to nuclear abolition</td>
<td>20</td>
</tr>
<tr>
<td>Stop R&amp;D and procurement of unnecessary weapons</td>
<td>9</td>
</tr>
<tr>
<td>Eliminate two active Air Force wings and two carrier groups that are not needed to address current and probable future threats</td>
<td>8</td>
</tr>
<tr>
<td>Achieve savings from eliminating inefficiencies to reduce overall military spending, rather than increasing other Pentagon expenditures</td>
<td>28</td>
</tr>
<tr>
<td>Scale back outsourcing to military contractors by 15 percent</td>
<td>40</td>
</tr>
<tr>
<td>End Foreign Military Financing</td>
<td>5</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td><strong>$198 billion</strong></td>
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End the U.S. war in Afghanistan: $86 billion

The Obama administration has requested $86 billion in military spending for the war in Afghanistan in the 2013 Fiscal Year.\(^{12}\) That includes only those funds that are expended specifically for the costs of the war. For example, soldiers’ regular pay is not included but combat pay is included. The $86 billion also excludes the costs of future medical care for soldiers and veterans wounded in the war or the additional interest payments on the national debt that will result from higher deficits due to unfunded war spending.

The war is not making us safer, but continues to put us at greater risk as fury grows in response to U.S.-caused casualties. U.S. officials talk about drawing down numbers of troops, but young soldiers are still dying in higher numbers. Every year, Afghan civilians are dying in higher numbers.\(^{13}\) And the United States is escalating and widening the war by using drones illegally in Pakistan, Somalia, Yemen, and beyond.\(^{14}\) It should not be a surprise that 64 percent of Americans say the war in Afghanistan is not worth fighting.\(^{15}\)
**Close 1 in 3 of the U.S. military bases in Europe and Asia: $10 billion**

The United States maintains roughly 1,000 military bases worldwide. As Congress begins to evaluate the usefulness of these bases, it will focus its reductions first on Europe and then on Asia, where the bulk of personnel and hardware is located and where the bases are still connected to long-outdated Cold War missions. We support the closing of U.S. military bases worldwide, but we recognize the most likely political targets for reduction in the near-term will be in Europe and Asia.

Although the Obama administration plans to remove two brigades from Europe (with 3,000-5,000 troops each), we recommend that at least 50,000 troops be withdrawn from military bases in Europe and Asia. This would eventually save $10 billion per year. Base closures are not without short-term costs, however. Initially, the government would need to fund job retraining for demobilized personnel and cleaning up these sites.

**Eliminate military waste and unnecessary weapon systems**

The Institute for Policy Studies leads the team that releases a yearly *Unified Security Budget for the United States*. This report identifies tens of billions in savings that can be made with no sacrifice in security. The latest edition, which covers the 2013 Fiscal Year, proposes the following cost-saving steps:

- **Reduce the U.S. nuclear arsenal: $20 billion**

  Reducing the nuclear arsenal to no more than 311 warheads would save $20 billion per year. An arsenal of that size would provide more than enough nuclear deterrence against current and likely future threats, according to the faculty of the Air War College and the School of Advanced Air and Space Studies.

- **Drop unnecessary weapons: $9 billion**

  Scaling back or stopping the research, development, and procurement of weapons that are not necessary to deter today’s threats would generate huge savings. Examples include ballistic missile defense, the Virginia-Class submarine, and the F-35 Joint Strike Fighter.

- **Achieve savings from reducing inefficiencies: $28 billion**

  Inefficiencies in military health care and retirement programs waste $15 billion and $13 billion respectively. Eliminating these inefficiencies would save a total of $28 billion.

**Scale back outsourcing: $40 billion**

A 15 percent decrease in non-Pentagon national security federal service contracts would save $3.3 billion per year and the same decrease on military contracts would save $37.2 billion in 2013, according to estimates from the Project On Government Oversight and Taxpayers for Common Sense.
End Foreign Military Financing: $5 billion

The State Department is slated to spend $5 billion in 2013 on grants for foreign governments to buy U.S.-made weapons. This arms trade often fuels conflicts and contributes to human rights and international law violations, including the $3 billion in U.S. military support to Israel that enabled the latest assault on Gaza.
IV. Tax Pollution, Drop Environmentally Harmful Subsidies, and Improve Our Land-Use Policies

By Daphne Wysham, with contributions from Ben Schreiber of Friends of the Earth and Charles Komanoff of the Carbon Tax Center

<table>
<thead>
<tr>
<th>Proposed reforms</th>
<th>Potential annual revenues ($billions)</th>
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<tbody>
<tr>
<td>Tax carbon emissions</td>
<td>100</td>
</tr>
<tr>
<td>Tax air and water pollution</td>
<td>44</td>
</tr>
<tr>
<td>Charge more reasonable user fees for public resources</td>
<td>7</td>
</tr>
<tr>
<td>Eliminate fossil fuel, nuclear, and other dirty-energy subsidies</td>
<td>27</td>
</tr>
<tr>
<td>Drop subsidies that promote unsustainable agriculture</td>
<td>17</td>
</tr>
<tr>
<td>End subsidies for environmentally harmful transportation projects and land and water use</td>
<td>30</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td><strong>$225 billion</strong></td>
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**Tax Carbon: $100 billion**

Taxing the carbon content of fossil fuels would cut air pollution and greenhouse gas emissions, reduce U.S. oil dependence, and promote energy innovation. A modest tax on the carbon content of fossil fuels would raise between $75 billion and $100 billion per year, according to a widely cited 2009 article in the Harvard Environmental Law Review by Professors Gilbert E. Metcalf of Tufts University and David Weisbach of the University of Chicago.\(^{25}\) More recent estimates by the Carbon Tax Center confirm that a tax of just $20 per ton of carbon dioxide — a level far less than what many economists believe is the “climate cost” to society from a ton of emissions — would raise $100 billion a year.\(^ {26}\) Because poorer households spend a greater share of their disposable income on energy than the wealthy, most carbon tax proponents advocate a “progressive” approach to ensure that this kind of levy doesn’t hurt poor and working-class families, such as distributing “dividends” to households or reducing the federal payroll tax.

*Metcalf is now serving as the Deputy Assistant Treasury Secretary for Environment and Energy.

**Tax air and water pollution: $44 billion**

By shifting more of the tax burden onto activities that cause air and water pollution, we can make the economy more productive, enhance our quality of life, encourage alternative energy technologies, and strengthen national energy security. Over $42 billion could be generated simply by placing a tax on volatile organic compounds, which are released by large industries — such as chemical plants — as well as small businesses such as dry cleaners. At least another $2 billion could be generated by taxing pollutants that poison our rivers and oceans, such as nitrogen fertilizers and
Raise user fees for public resources to reasonable levels: $7 billion

Taxpayers should be fairly compensated when the private sector profits from our public resources, such as offshore oil drilling and gas production and the use of radio spectrum licenses. Modest increases in these payments — which in some cases are still based on an 1872 mining code allowing mining companies access to public lands for a mere $5 per acre — could raise an estimated $7 billion per year.28

End fossil fuel, nuclear, and other energy subsidies: $27 billion

Dirty-energy industries are both highly polluting and highly profitable. Yet U.S. taxpayers heavily subsidize oil, gas, and coal companies with $16 billion per year in tax breaks and financial assistance, according to the the left-right 2012 Green Scissors report, which has also identified roughly $8.5 billion in subsidies for sewage. These figures were calculated by the bipartisan group Get America Working,27 based on data from the Environmental Protection Agency and the Joint Committee on Taxation.

Three Examples of Potential Budget Savings that Should Address Related Challenges

By Emily Schwartz Greco and Karen Dolan

Regardless of whether we jump off a cliff or just trip over a curb in 2013, targeted budget savings could free up money that the federal government needs to tackle long-neglected priorities.

For example, the growth in our already astronomical and industry-driven health care costs threatens the nation’s long-term financial stability at every level. Out-of-control health costs are a major driver of the federal budget’s imbalance as well as a primary cause of bankruptcy for millions of U.S. households struck by cancer and other illnesses or injuries. With millions of Americans uninsured or forgoing care because of their underinsurance, this is no time to cut Medicare or Medicaid benefits. These two government programs are the most cost-efficient way to provide needed care to seniors, low-income people, and people living with disabilities. However, substantial savings are possible in both programs because they often overpay insurance companies, drugmakers, and doctors.

Consider this: Medicare regularly overpays the private insurance companies that provide seniors with “Medicare Advantage” plans.34 These overpayments have amounted to more than $280 billion since 1985, researchers at Physicians for a National Health Program determined. The overpayments, which totaled $34.1 billion just this year, must stop. Improving benefits and care for seniors and people living with disabilities should be the highest priority with these savings.

Here’s another straightforward example of a fiscal fix that shouldn’t simply be directed into deficit reduction. The wealthiest Americans regularly take advantage of the mortgage-interest tax deduction to finance their mansions, luxury vacation homes, and yachts.35 This policy is far more appropriate when it makes or breaks
the nuclear power industry and another $2.7 billion in payments for the biofuel industry that could be cut.\textsuperscript{31}

**Drop subsidies that promote unsustainable agriculture: $17 billion**

The vast majority of agricultural subsidies flow to corporate mega-farms rather than authentic family farms or efforts to help shift our food system to more environmentally friendly and sustainable practices. The Green Scissors report identifies about $17 billion per year in corporate welfare for agribusinesses that should cease.\textsuperscript{32}

End subsidies for environmentally harmful transportation projects and land and water use: $31 billion

The Green Scissors Report also highlights $21 billion per year in wasteful transportation funding that is not helping the nation shift to more energy-efficient forms of travel or sensible housing patterns, as well as another $19 billion in harmful land and water use policies, such as flood insurance that encourages intensive development in flood plains.

Perhaps the most creative budget-cutting moves are underway in Colorado and Washington State, where voters opted this year to de-criminalize marijuana. If their ballot initiatives ultimately lead to a legal trade in that recreational drug, those states will earn much-needed tax dollars off the sale of a common yet officially banned product.\textsuperscript{32} And just think of all those millions that the government would save if it didn’t arrest, prosecute, and imprison people for either selling or smoking pot.

Again, the best way to use these savings would be to remedy related underlying problems. The number of treatment slots for the millions of Americans suffering from substance-abuse problems is far too low and the wait-times are far too long.\textsuperscript{44}
Notes


4. Dean Baker, The Deficit-Reducing Potential of a Financial Speculation Tax, Center for Economic and Policy Research, January 2011. http://www.cepr.net/documents/publications/fst-2011-01.pdf. Note: This estimate falls in the middle of various revenue estimates, which differ significantly, depending on tax rates, the types of financial instruments covered, and assumptions about how traders will respond to the tax. On the higher end, Professor Robert Pollin of the University of Massachusetts, Amherst has estimated that a U.S. financial transaction tax could generate as much as $350 billion per year. (http://www.peri.umass.edu/fileadmin/pdf/other_publication_types/magazine___journal_articles/Pollin---Fin_Transaction_Tax_for_New_Labor_Forum_5-1-12.pdf) On the lower end, the Joint Committee on Taxation has estimated that bills introduced in November 2011 by Rep. Peter DeFazio (D-OR) and Senator Tom Harkin (D-IA) would generate $353 billion over 10 years. Those bills would apply a tax rate that is considered by Pollin and Baker (0.03 percent on each transaction). http://www.defazio.house.gov/index.php?option=com_content&view=article&id=736:memo-joint-tax-committee-finds-harkin-defazio-wall-street-trading-and-speculators-tax-generates-more-than-350-billion-&catid=65:2011-news


13. See fatalities figures at: http://icasualties.org/inf/


16. Strangely, there’s no agreement on the precise number of overseas U.S. military bases. For more on this important yet under reported issue, we recommend reading these two articles: Nick Turse, Empire of Bases 2.0, TomDispatch, January 9, 2011 http://tomdispatch.com/blog/175338/ and David Vine, Too Many Overseas Bases, Foreign Policy In Focus, February. 25, 2009. http://www.fpif.org/articles/too_many_overseas_bases


20. We have deducted $10 billion related to personnel reductions from the Unified Security Budget so as to avoid double-counting the savings proposed here through the reduction in U.S. military bases.


30. In their forthcoming discussion note, John Talberth and Erin Gray of the Center for Sustainable Economy, estimate that fossil-fuel subsidies now total $19 billion.


32. Ibid, p. 10


34. Medicare Advantage plans provide beneficiaries with their Part A and Part B benefits. More than one in four Medicare beneficiaries are enrolled in these plans. Health insurance industry whistleblower Wendell Potter outlined the many pitfalls with this arrangement in this blog post. http://wendellpotter.com/2012/10/who-wins-with-medicare-advantage-2/

35. The IRS allows taxpayers to take the mortgage-interest deduction on up to two “residences.” Boats that include berths with a designated sleeping space, a toilet, and some kind of cooking arrangement can qualify. The Discover Boating website spells this out quite clearly. http://www.discoverboating.com/buying/financing/taxdeduct.aspx and the IRS spells out the rules on its website as well http://www.irs.gov/publications/p936/ar02.html#en_US_2011_publink1000229900

36. These estimates are from Economic Policy Institute researcher Andrew Fieldhouse. An earlier version of them may be found in Our Fiscal Security, a joint report produced by Demos, the Economic Policy Institute, and the Century Foundation, November 29, 2010. http://www.ourfiscalsecurity.org/storage/Blueprint_OFS.pdf


42. The Washington State government, which acknowledges that it’s hard to estimate the potential revenue impact from legalizing, taxing, and regulating marijuana, says that the measure may generate up to $1.9 billion in new tax revenue over five years. http://www.ofm.wa.gov/initiatives/2012/502_fiscal_impact.pdf The Colorado Center on Law and Policy estimates that the Colorado measure could save the state up to $120 million per year after 2017. http://www.cclponline.org/postfiles/amendment_64_analysis_final.pdf

43. A total of 507,000 drug offenders were imprisoned in the United States in 2010, according to the Sentencing Project. http://www.sentencingproject.org/template/page.cfm?id=128