



PETER G.  
PETERSON  
FOUNDATION

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# SOLUTIONS INITIATIVE <sup>20</sup><sub>19</sub>

## CHARTING A SUSTAINABLE FUTURE

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AMERICAN ACTION  
FORUM



BIPARTISAN POLICY CENTER

Center for American Progress



Economic  
Policy  
Institute

MANHATTAN  
INSTITUTE

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### INTRODUCTION

Fiscal sustainability is critical to meeting our nation's aspirations and challenges over the long term. However, our national debt is at \$22 trillion and growing with no end in sight. The key drivers of our fiscal imbalance are well known: our population is aging, healthcare costs are rising, and revenues are inadequate to fund what we've promised. Not only have our leaders failed to address those structural drivers of our debt, they have also added trillions of dollars to the problem through fiscally irresponsible tax and spending legislation in recent years.

#### THE CURRENT SITUATION

By any measure, we're on a fiscal trajectory that is unsustainable. According to the non-partisan Congressional Budget Office (CBO), debt relative to the size of the economy (gross domestic product, or GDP) is at its highest point since just after World War II and far exceeds historical averages. CBO projects that federal debt will grow from 78 percent of GDP at the end of 2018 to 147 percent in 30 years under current law, and to more than 200 percent under reasonable alternative scenarios, which would significantly harm our economy.

The additional borrowing resulting from rising structural deficits will push up federal interest costs, which are already the fastest-growing component of the budget. The rapid growth of interest payments threatens to crowd out investments in our future such as education, infrastructure, and research and development; it also reduces resources available for programs that protect the most vulnerable Americans, who could face sudden, sharp reductions in benefits.

#### SOLUTIONS INITIATIVE 2019: CHARTING A SUSTAINABLE FISCAL FUTURE

The good news is that many solutions exist. And the Solutions Initiative is designed to show the many ways we can build a stronger future for America.

The Solutions Initiative brings together leading policy organizations from across the political spectrum to put forward comprehensive plans to set America on a stronger, more sustainable fiscal path. The Peterson Foundation asked experts from seven leading organizations—the American Action Forum, the American Enterprise Institute, the Bipartisan Policy Center, the Center for American Progress, the Economic Policy Institute, the Manhattan Institute, and the Progressive Policy Institute—to develop specific policy proposals and recommendations to address our fiscal situation and meet their policy priorities for the next 30 years.

With revenue estimates from the Tax Policy Center and spending effects reviewed by former CBO deputy director Barry Anderson, the plans make clear that many options exist for lawmakers to improve America's fiscal foundation. While each plan reflects the policy priorities of its authors, all seven groups substantially reduced the long-term trajectory of the debt relative to the path suggested by current policy.



The Peter G. Peterson Foundation is a non-partisan organization dedicated to increasing public awareness of the nature and urgency of key fiscal challenges threatening America's future and to accelerating action on them. To address these challenges successfully, we work to bring Americans together to find and implement sensible, long-term solutions that transcend age, party lines, and ideological divides in order to achieve real results.

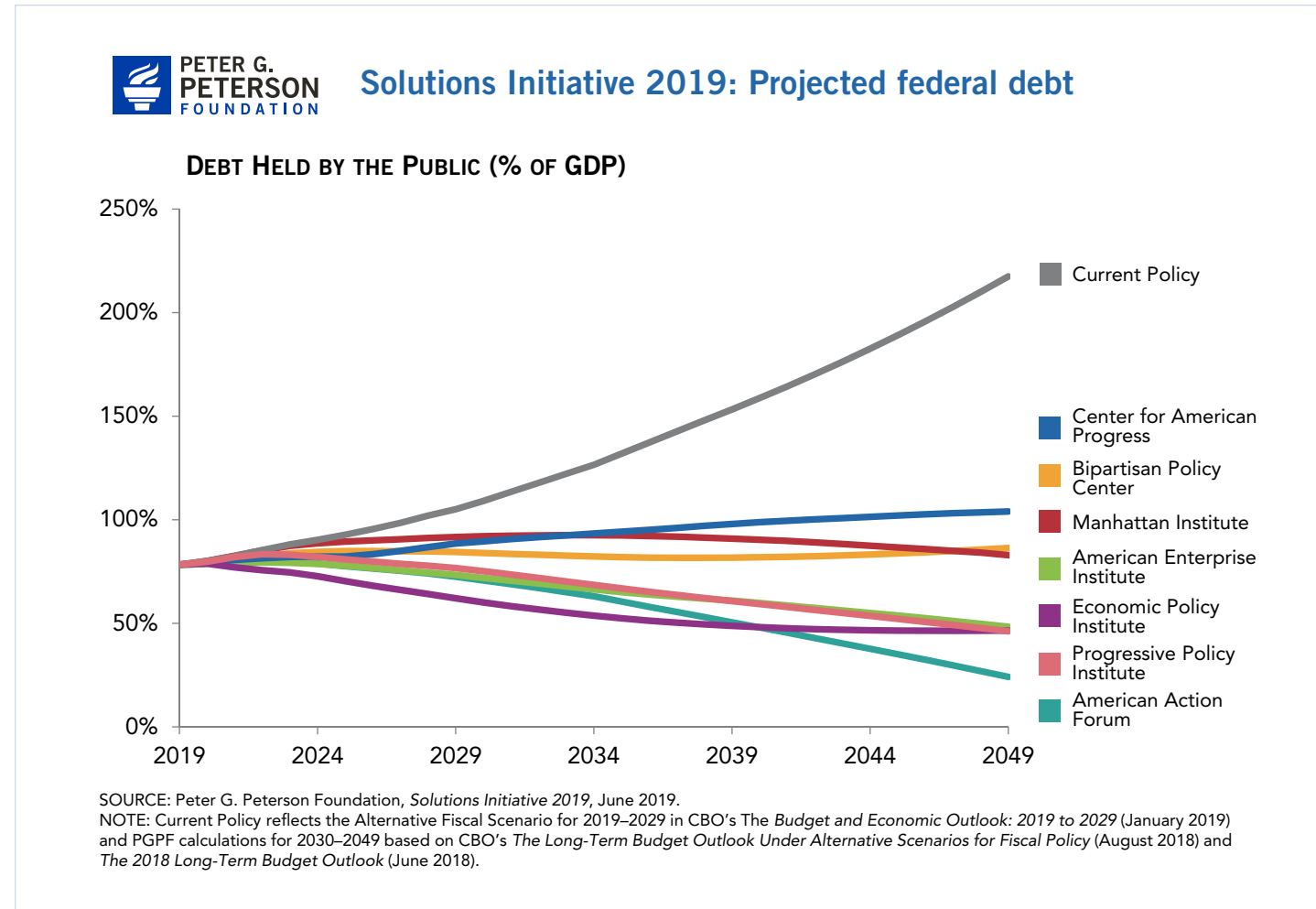
To learn more about the Foundation and our initiatives, visit [www.pgpf.org](http://www.pgpf.org).

The wide-ranging policy options and recommendations presented as part of Solutions Initiative 2019 can inform the national conversation in advance of the 2020 election, helping voters and policymakers assess and prioritize solutions to our fiscal challenges. Proactively addressing our fiscal future will lead to a better course for America with less debt, stronger economic growth, broader prosperity, and enhanced economic opportunity.

## SOLUTIONS INITIATIVE 2019: CHARTING A SUSTAINABLE FISCAL FUTURE

### SUMMARY OF PLANS

The seven organizations that participated in Solutions Initiative 2019—American Action Forum (AAF), American Enterprise Institute (AEI), Bipartisan Policy Center (BPC), Center for American Progress (CAP), Economic Policy Institute (EPI), Manhattan Institute (MI), and Progressive Policy Institute (PPI)—took a variety of approaches to reduce the debt over the next 30 years relative to its current path. Importantly, these leading think tanks presented comprehensive budget plans, including proposals affecting both spending and revenues, to put the nation on a more sustainable fiscal path.



#### FEDERAL HEALTHCARE PROGRAMS

America already has the most expensive healthcare system in the world, yet such spending is projected to continue to rise rapidly. Improving our system to provide high-quality care at lower cost is a key part of our nation’s long-term fiscal health.

The proposals generated by Solutions 2019 participants range from retaining the basic structure of existing federal healthcare programs, but attempting to make them more efficient, to substantially expanding the number of people covered by such programs.

Groups put forward specific proposals to modify Medicare and Medicaid, including: raising the eligibility age (AEI), cost containment through competitive bidding (AAF, AEI, and PPI), promoting increased competition in currently uncompetitive insurance markets (BPC), and negotiating lower drug prices (CAP and EPI).

AAF, AEI, and MI propose to convert Medicare to a “premium support” model in which seniors receive subsidies to purchase private health plans. These three groups also propose to restrain the growth of Medicaid costs by setting limits on payments and providing other incentives.

CAP, EPI, and PPI propose new programs to make Medicare coverage more widely available. Under CAP’s “Medicare Extra for All” proposal, all Americans would be given the chance to enroll in a new plan modeled after Medicare. Unlike current Medicare, this plan would include coverage for dental, vision, and reproductive care; it would also integrate drug benefits into the plan and set an out-of-pocket limit. Employers could offer this option in addition to the other plans available to their employees. EPI’s Medicare-for-All plan would maintain the existing structure of Medicare and introduce a public plan to cover non-elderly and non-poor households. PPI would create a budget-neutral buy-in program for Medicare, which would allow individuals ages 55–64 who do not receive employer-sponsored insurance to enroll in the program.

#### SOCIAL SECURITY

Social Security is currently the largest program in the federal budget and represents an essential part of Americans’ retirement. As the large Baby Boom generation retires and average life expectancy continues to rise, the program will come under escalating financial strain. Putting Social Security’s finances on a

sustainable footing not only ensures that older Americans will receive continued support, but will also improve the government’s long-term fiscal trajectory.

The participants address Social Security’s challenges by implementing a range of proposals, including:

- Better targeting of benefits to those most in need
- Raising the retirement age
- New measures for cost-of-living adjustments
- Reforming payroll taxes

Five out of the seven participants propose some reduction in Social Security retirement benefits for some beneficiaries. EPI would increase benefits substantially and CAP proposes a more modest increase in such spending.

Six organizations (all except AEI) would raise additional revenues dedicated to the program as part of improving its solvency:

- Four organizations (AAF, BPC, CAP, and EPI) propose to raise or eliminate the cap on earnings subject to the payroll tax
- BPC, EPI, and MI would increase the payroll tax rate
- PPI would phase out the payroll tax (they would also implement a value-added tax, but they do not directly specify how that tax would affect Social Security).

## DISCRETIONARY SPENDING

Discretionary spending represents approximately 30 percent of total federal spending and funds a wide variety of programs, including defense, education, and transportation. Outlays in this category are split roughly evenly between defense and nondefense spending; funding is set by Congress through the annual appropriation process.

While some of the organizations propose increasing defense spending in the near term and some propose to decrease it, all seven plans had defense spending in a similar range by 2049. CAP proposes the lowest level of spending in 2049 (2.0 percent of GDP) and PPI proposes the highest (2.5 percent of GDP).

There was more variation in the proposals for non-defense discretionary spending. Two organizations—AAF and AEI—kept such spending at or below the baseline level by 2049. The other five participants propose that non-defense discretionary spending grow relative to the baseline. BPC and MI propose modestly higher levels; CAP, EPI, and PPI propose significant growth, with PPI generating the highest total as a percentage of GDP by 2049 (3.1 percent).

## OTHER NON-INTEREST SPENDING

This category covers a wide variety of programs, including support for low-income families, unemployment benefits, veterans’ pensions and other benefits, student loans, crop insurance, and federal civilian and military retirement benefits.

CAP, EPI, and PPI propose significant investments in other non-interest spending, including universal childcare, high-quality early education, and paid family and medical leave. They would also bolster unemployment benefits.

AAF, AEI, BPC, and MI propose smaller changes to other non-interest spending. They all propose reducing agricultural subsidies. AEI and MI would reform federal pension programs. BPC proposes to reform housing finance.

## REVENUES

America’s tax code is confusing, inefficient, unfair, and does not raise sufficient revenues to pay for our federal programs. The Tax Cuts and Jobs Act (TCJA) in 2017 simplified certain aspects of the code, but left many loopholes, deductions, and exemptions that add complexity and cause economic distortions. From a fiscal sustainability standpoint, the tax code now raises significantly less revenue than it did before the adoption of the TCJA, adding to our long-term imbalances.

The Solutions 2019 participants propose a variety of changes that improve our fiscal and economic health by making our tax code simpler, more equitable, and more supportive of growth.

There are many areas of agreement among the Solutions 2019 participants when it comes to revenues. AAF, AEI, BPC, CAP, and PPI all would institute a carbon tax (but at varying levels). AEI and BPC both propose to increase the gas tax, while CAP and PPI would replace it with a new tax on vehicle miles traveled. AAF, BPC, EPI, and PPI advocate for immigration reform as part of their plans, which would help increase revenues by adding new workers.

Most of the participants also generally agree about what to do with the tax rates set in the TCJA. Five organizations would increase individual income tax rates relative to today’s levels. MI would maintain the TCJA’s individual income tax rates at their current levels and make those rates permanent (instead of allowing the rates to expire at the end of 2025 as under current law). By contrast, AEI would reduce individual rates further.

As for the reduction in the corporate tax rate set by the TCJA, AEI and MI would maintain it at 21 percent, while AAF would reduce it to 20 percent. The other four organizations would all raise it to between 25 percent and 35 percent.

All seven organizations eliminated certain tax expenditures, but diverged in their approaches. AAF, AEI, and EPI would eliminate all or most individual and corporate tax expenditures. All participants other than MI would adjust the Earned Income and Child Tax Credits in some fashion, some by modifying the current provisions and others by replacing them. Three participants (AEI, CAP, and PPI) would repeal the new deduction for owners of pass-through businesses; AAF would replace it.

## CONCLUSION

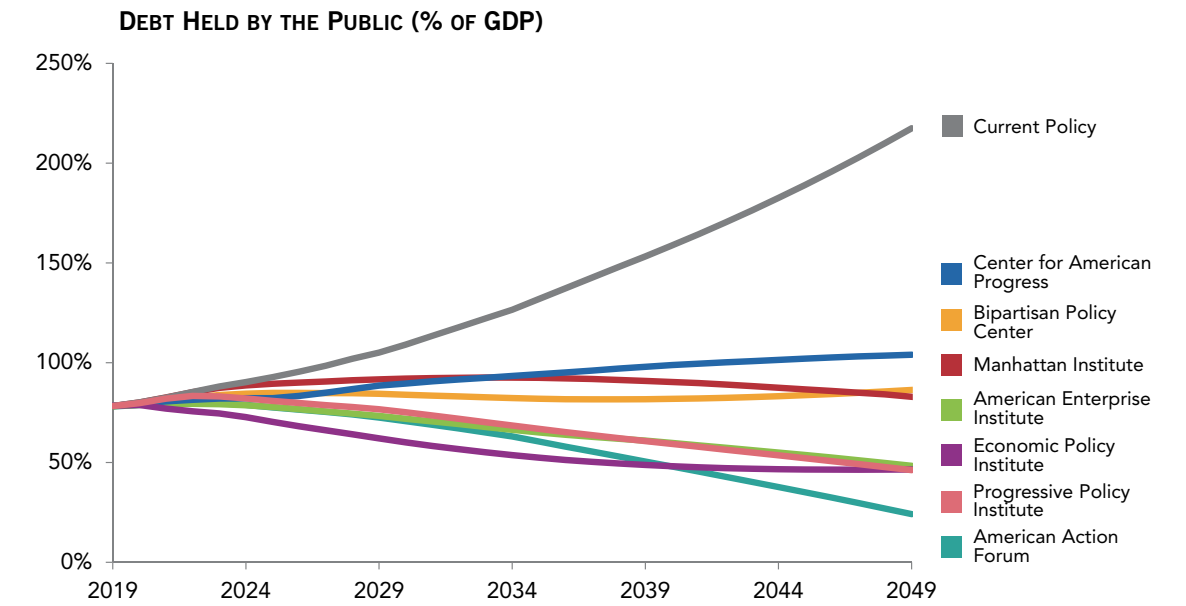
Ultimately, all seven participating organizations significantly improved America’s fiscal outlook by making comprehensive changes across the entire budget, consistent with their policy priorities. Responsible budgeting involves difficult tradeoffs, and these seven groups provide important blueprints that demonstrate the many pathways to building a more sustainable fiscal future for our nation.

## PETER G. PETERSON FOUNDATION - SOLUTIONS INITIATIVE 2019

Projected Budget Levels in 2049 (as a percentage of GDP)

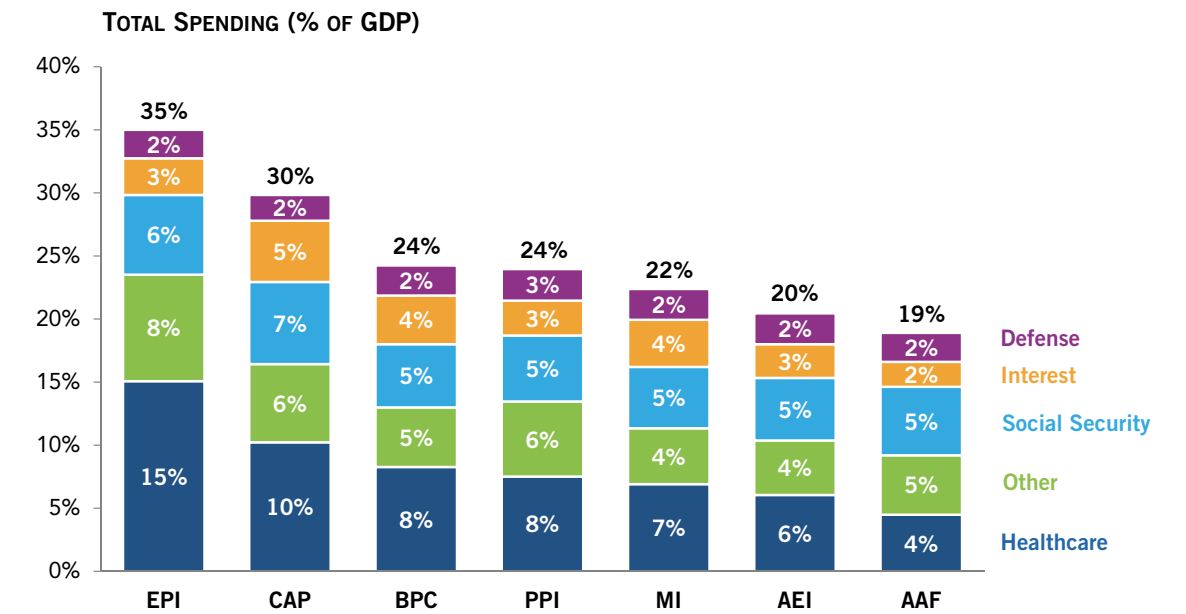
	American Action Forum	American Enterprise Institute	Bipartisan Policy Center	Center for American Progress	Economic Policy Institute	Manhattan Institute	Progressive Policy Institute
Revenues	20.6	19.9	20.0	25.3	33.1	20.2	23.5
Spending	18.9	20.4	24.2	29.8	35.0	22.4	24.0
Deficit (-)/ Surplus	1.7	-0.6	-4.3	-4.5	-2.0	-2.2	-0.5
Debt Held by the Public	24.2	48.3	86.4	104.0	46.5	82.9	46.2

## PETER G. PETERSON FOUNDATION Solutions Initiative 2019: Projected federal debt



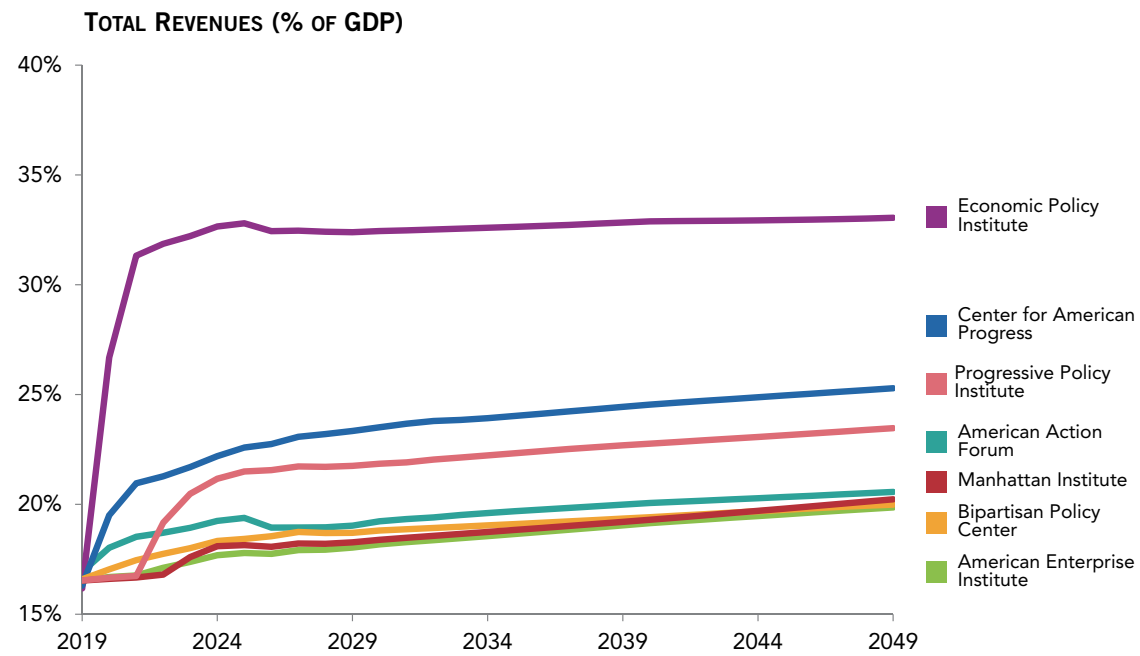
SOURCE: Peter G. Peterson Foundation, *Solutions Initiative 2019*, June 2019.  
 NOTE: Current Policy reflects the Alternative Fiscal Scenario for 2019–2029 in CBO's *The Budget and Economic Outlook: 2019 to 2029* (January 2019) and PGPF calculations for 2030–2049 based on CBO's *The Long-Term Budget Outlook Under Alternative Scenarios for Fiscal Policy* (August 2018) and *The 2018 Long-Term Budget Outlook* (June 2018).

## PETER G. PETERSON FOUNDATION Solutions Initiative 2019: Composition of projected federal spending in 2049



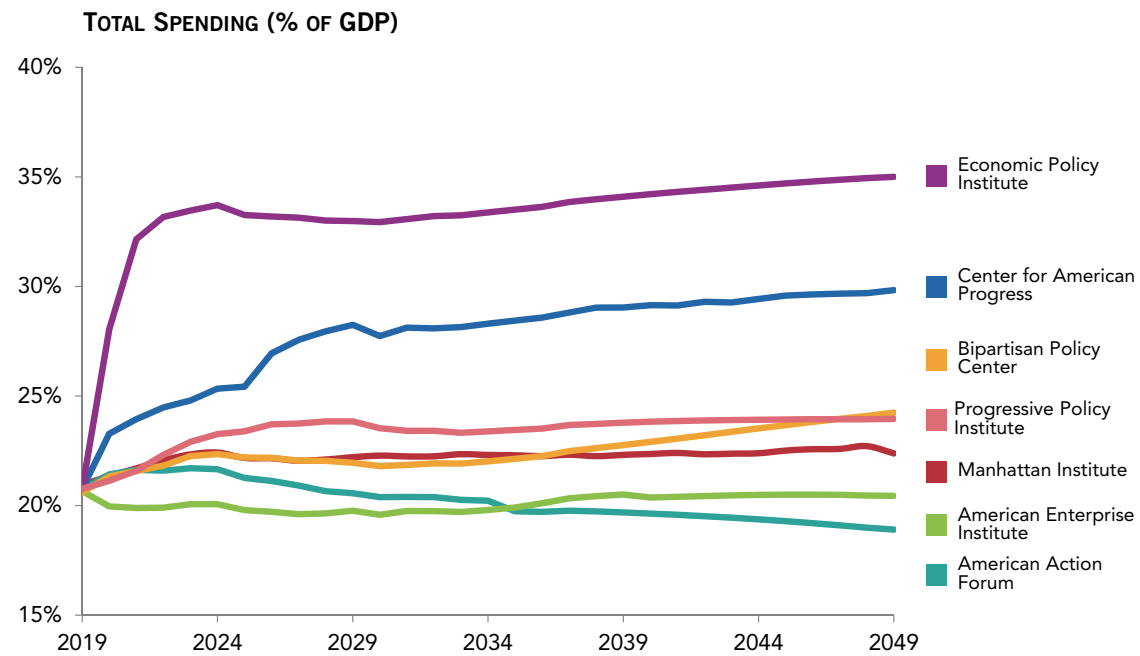
SOURCE: Peter G. Peterson Foundation, *Solutions Initiative 2019*, June 2019.  
 NOTES: Numbers may not sum to totals due to rounding.

Solutions Initiative 2019: Projected federal revenues, 2019 to 2049



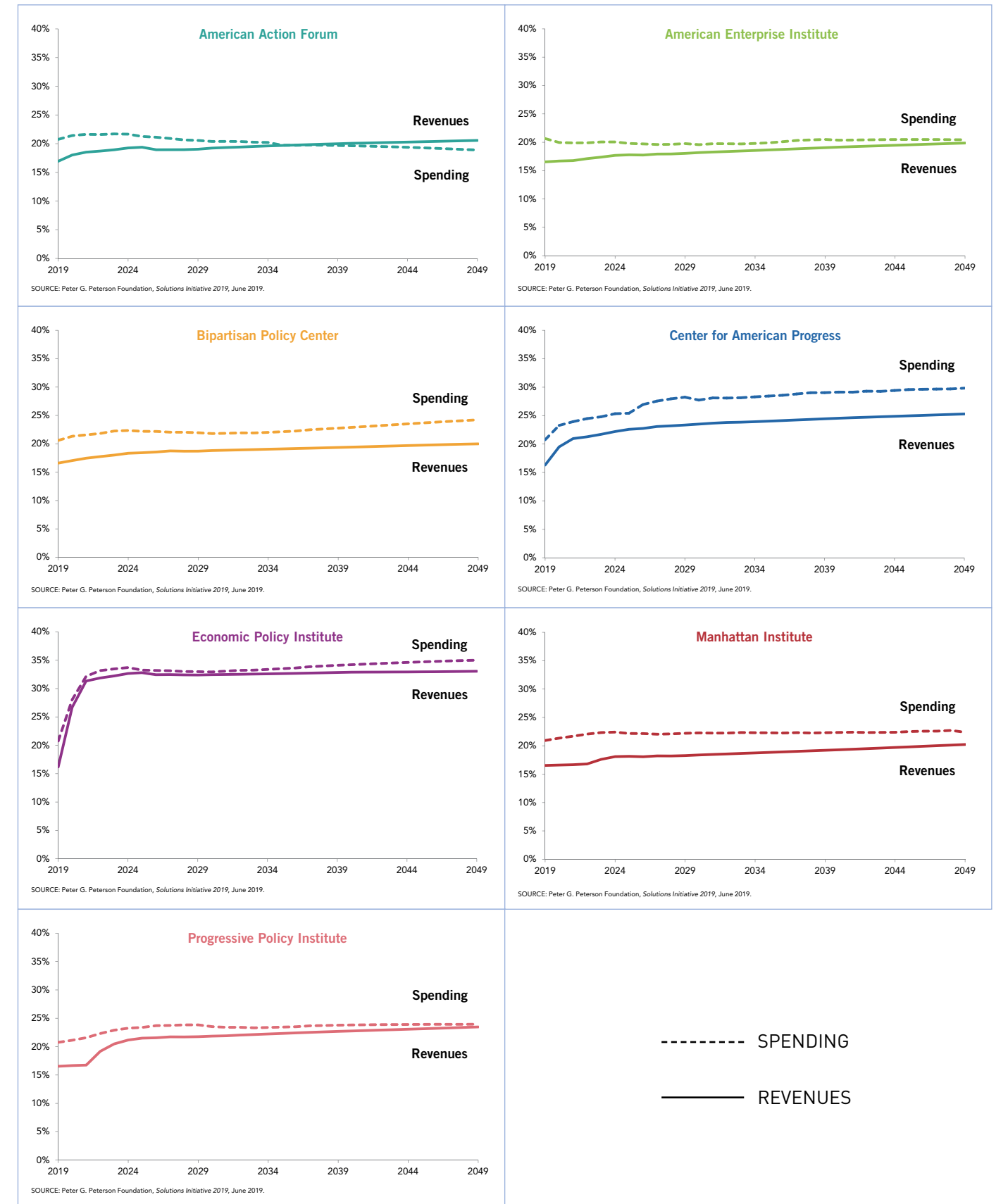
SOURCE: Peter G. Peterson Foundation, Solutions Initiative 2019, June 2019.

Solutions Initiative 2019: Projected federal spending, 2019 to 2049



SOURCE: Peter G. Peterson Foundation, Solutions Initiative 2019, June 2019.

Solutions Initiative 2019: Projected federal spending and revenues, as a percentage of GDP



**PETER G. PETERSON FOUNDATION SOLUTIONS INITIATIVE 2019**

Composition of Budget Levels in 2029 and 2049 (as a percentage of GDP)

	American Action Forum		American Enterprise Institute		Bipartisan Policy Center			Center for American Progress		Economic Policy Institute		Manhattan Institute		Progressive Policy Institute	
	2029	2049	2029	2049	2029	2049		2029	2049	2029	2049	2029	2049	2029	2049
<b>Spending</b>															
Health	5.2	4.5	4.9	6.0	6.5	8.3		9.5	10.2	12.7	15.1	5.6	6.9	6.4	7.5
Social Security	5.6	5.4	5.6	5.0	5.1	5.0		6.2	6.5	6.1	6.3	5.7	4.9	5.6	5.2
Defense Discretionary	2.4	2.3	2.5	2.4	2.5	2.4		2.4	2.0	2.3	2.3	2.8	2.4	2.7	2.5
Non-Defense Discretionary	2.3	2.2	2.4	2.3	2.6	2.4		3.7	2.7	3.1	3.0	2.8	2.4	3.7	3.1
Other Non-Interest Spending	2.8	2.5	2.0	2.0	2.6	2.4		3.7	3.5	6.8	5.5	2.3	2.0	3.0	2.9
Interest	2.3	2.0	2.3	2.7	2.7	3.9		2.9	4.9	2.0	2.9	3.0	3.7	2.4	2.8
<b>Total Spending</b>	<b>20.6</b>	<b>18.9</b>	<b>19.8</b>	<b>20.4</b>	<b>22.0</b>	<b>24.2</b>		<b>28.2</b>	<b>29.8</b>	<b>33.0</b>	<b>35.0</b>	<b>22.2</b>	<b>22.4</b>	<b>23.8</b>	<b>24.0</b>
<b>Revenues</b>	<b>19.0</b>	<b>20.6</b>	<b>18.0</b>	<b>19.9</b>	<b>18.7</b>	<b>20.0</b>		<b>23.3</b>	<b>25.3</b>	<b>32.4</b>	<b>33.1</b>	<b>18.3</b>	<b>20.2</b>	<b>21.8</b>	<b>23.5</b>
Deficit (-) or Surplus	-1.5	1.7	-1.7	-0.6	-3.2	-4.3		-4.9	-4.5	-0.6	-2.0	-3.9	-2.2	-2.1	-0.5
<b>Debt Held by the Public</b>	<b>72.5</b>	<b>24.2</b>	<b>73.4</b>	<b>48.3</b>	<b>84.4</b>	<b>86.4</b>		<b>88.6</b>	<b>104.0</b>	<b>62.1</b>	<b>46.5</b>	<b>91.7</b>	<b>82.9</b>	<b>76.7</b>	<b>46.2</b>

Comparing Policy Proposals

HEALTH

	American Action Forum	American Enterprise Institute	Bipartisan Policy Center		Center for American Progress	Economic Policy Institute	Manhattan Institute	Progressive Policy Institute
MEDICARE	Convert to premium support	Convert to premium support	Enhance traditional Medicare		Medicare Extra for All	Medicare for All; create a new plan for non-elderly, non-poor individuals	Convert to premium support for Medicare parts A and B with payment set at average local bid	Reform traditional Medicare with a buy-in program for ages 55–64; Combine Medicare parts A, B, and D into "Medicare One"
	Cost containment through competitive bidding and market forces	Cost containment through competitive bidding and market forces	Promote competition in non-competitive insurance markets					Base Medicare Advantage subsidies on average bid
		Increase premiums for Medicare parts B and D	Reform drug rebates and implement reinsurance reforms in Medicare part D				Raise premiums, with an exemption for bottom 40% of the income distribution	Set Medicare One premiums at 20% of total program spending
		Raise Medicare eligibility to 67						
MEDICAID, CHIP, HEALTH EXCHANGES		Medicaid per-capita caps					Medicaid per-capita caps	
	Use competitive bidding and limit growth of federal contribution	Offer premium support for private insurance to Medicaid beneficiaries						
						Eliminate exchange subsidies	Repeal federal funding for the ACA's 2014 Medicaid expansion	Expand premium subsidies
TAXES		Limit exclusion of employer-sponsored health insurance	Limit exclusion of employer-sponsored health insurance				Limit exclusion of employer-sponsored health insurance	
OTHER	Reform medical liability	Reform medical liability						
								Auto-enroll uninsured into health plans
								Set maximum rates on out-of-network care



**SOCIAL SECURITY**

	American Action Forum	American Enterprise Institute	Bipartisan Policy Center		Center for American Progress	Economic Policy Institute	Manhattan Institute	Progressive Policy Institute
<b>CHANGES TO BENEFITS</b>	Link benefits to average prices	Flat monthly benefit set at elderly poverty threshold and indexed to wage growth, with employer-sponsored retirement accounts	Establish basic minimum benefit		Modest enhancement of benefits	Expand coverage	Limit growth of benefits for high income earners and maintain benefits for the bottom 40% of lifetime earners	Set benefits based on number of years worked instead of average lifetime earnings
	Means-test benefits for higher-earning beneficiaries		Make benefit formula more progressive and limit spousal benefits; enhance survivor benefits					Increase benefits for widow(er)s at risk of poverty and means-test spousal benefits
	Raise normal retirement age	Raise early retirement age and encourage delayed retirement	Index full retirement age to longevity				Raise normal retirement age	Index retirement age to longevity, with an age allowance for low-income workers
	Use chained CPI for cost-of-living adjustments		Use chained CPI for cost-of-living adjustments					Use chained CPI for cost-of-living adjustments for all new beneficiaries, then index to average wage growth after 15 years of eligibility
<b>CHANGES TO PAYROLL TAXES</b>		Eliminate payroll tax on workers age 62 and older	Increase payroll tax by 1 percentage point over 10 years		Implement a 0.4% payroll tax to fund paid leave	Add a 3% employer-side payroll tax	Increase Social Security and Medicare payroll taxes by 1 percentage point each	Replace payroll tax with a value-added tax
	Increase the cap on taxable earnings		Increase the cap on taxable earnings		Eliminate the cap on taxable earnings	Increase the cap on taxable earnings		
		Fully tax Social Security benefits	Tax Social Security benefits for high-income beneficiaries		Close gaps in FICA/SECA tax base			

## DISCRETIONARY SPENDING

	American Action Forum	American Enterprise Institute	Bipartisan Policy Center		Center for American Progress	Economic Policy Institute	Manhattan Institute	Progressive Policy Institute
DEFENSE	Increase \$560 billion from 2020–2029	No change	Increase \$203 billion from 2020–2029		Increase \$104 billion from 2020–2029	Decrease \$504 billion from 2020–2029	Increase \$806 billion from 2020–2029	Increase \$708 billion from 2020–2029
	2.3% of GDP in 2049	2.4% of GDP in 2049	2.4% of GDP in 2049		2.0% of GDP in 2049	2.3% of GDP in 2049	2.4% of GDP in 2049	2.5% of GDP in 2049
NON-DEFENSE	Increase \$71 billion from 2020–2029	No change	Increase \$593 billion from 2020–2029		Increase \$3,337 billion from 2020–2029	Increase \$1,426 billion from 2020–2029	Increase \$926 billion from 2020–2029	Increase \$2,386 billion from 2020–2029
	2.2% of GDP in 2049	2.3% of GDP in 2049	2.4% of GDP in 2049		2.7% of GDP in 2049	3.0% of GDP in 2049	2.4% of GDP in 2049	3.1% of GDP in 2049

## OTHER NON-INTEREST SPENDING

	American Action Forum	American Enterprise Institute	Bipartisan Policy Center		Center for American Progress	Economic Policy Institute	Manhattan Institute	Progressive Policy Institute
					Expand public spending on infrastructure, green investments, and education	Expand public spending on infrastructure, green investments, and education	Cap most spending growth at inflation plus population growth	Expand public spending on infrastructure, green investments, R&D, and education
					Paid family leave	Paid family leave		Paid family leave
					Support for childcare and Pre-K			Universal access to affordable Pre-K
	Reform agricultural subsidies	Eliminate agricultural subsidies	Reform agricultural subsidies				Reform agricultural subsidies	
						Expand unemployment benefits		Expand unemployment benefits
		Reform federal pensions	Reform housing finance			Expand SNAP benefits		Expand SNAP benefits
	Reform TRICARE							

## INDIVIDUAL INCOME TAX REVENUES

	American Action Forum	American Enterprise Institute	Bipartisan Policy Center		Center for American Progress	Economic Policy Institute	Manhattan Institute	Progressive Policy Institute
	Return to pre-TCJA tax rates	Reduce individual income tax rates by 5%	Make TCJA permanent with some adjustments		Implement new marginal tax rates ranging from 15% to 44.6%. The highest rate would apply to income above \$1 million	Broaden base and increase tax rates. Establish top marginal rates at 45% for millionaires and 49% for billionaires	Make TCJA permanent	Broaden base and increase tax rates. Establish top marginal rates at 45% for earnings over \$1 million and 50% for earnings over \$10 million
		Replace standard deduction with zero-bracket amount in order to move all deductions above the line			Restore personal and dependent exemptions			
	Repeal AMT	Repeal AMT						Replace AMT with 30% cap on itemized deductions
					Tax income, capital gains, dividends, and inheritances at the same rate			Tax capital gains at revenue-maximizing rate for high-earners
	Extend TCJA estate and gift tax provisions	Repeal estate and gift taxes, tax unrealized gains (above a threshold amount) at death	Lower exemption level for estate tax		Replace estate tax with inheritance tax	Increase estate and gift taxes	Repeal step-up basis for capital gains taxes on inherited assets	Replace estate tax with inheritance tax and repeal step-up basis provision for capital gain taxes on inherited assets
					Broaden capital gains tax base through mark-to-market system and taxing gains at death	Create wealth tax		
						Income-based premium for taxpayers not covered by Medicare or Medicaid	Add a 1 percentage-point income tax surcharge above the level where Social Security tax on earnings maxes out	

## CORPORATE INCOME TAX REVENUES

	American Action Forum	American Enterprise Institute	Bipartisan Policy Center		Center for American Progress	Economic Policy Institute	Manhattan Institute	Progressive Policy Institute
	Reduce statutory corporate tax rate to 20%	Maintain corporate tax rate at 21%	Increase corporate tax rate to 25%		Increase corporate tax rate to 30%	Increase corporate tax rate to 35%	Maintain corporate tax rate at 21%	Increase corporate tax rate to 28%

## TAX EXPENDITURES

	American Action Forum	American Enterprise Institute	Bipartisan Policy Center		Center for American Progress	Economic Policy Institute	Manhattan Institute	Progressive Policy Institute
INDIVIDUAL	Eliminate individual tax expenditures. Phase out mortgage interest deduction. Replace with credits for charity and first-time homebuyers	Eliminate most individual tax expenditures	Convert mortgage and charitable deductions into nonrefundable credits		Eliminate or modify itemized deductions. Transform itemized deductions for charity and state and local taxes into nonrefundable credits	Eliminate all tax expenditures but EITC and differential taxes paid on Social Security benefits	Modify itemized deductions	Retain and expand TCJA's limits to itemized deductions
	Replace EITC and child credit with equal-dollar spending program	Reduce CTC in 2020 and index to inflation thereafter. Double EITC for childless taxpayers	Replace standard deduction, EITC, and CTC with a per-child tax credit and a refundable earnings credit		Expand EITC; Universal child allowance through a fully refundable CTC	Replace CTC with universal child allowance		Replace EITC with a more expansive living-wage tax credit
CORPORATE	Expand and make permanent full expensing of investment	Eliminate most corporate tax expenditures			Eliminate some corporate tax expenditures	Eliminate all corporate tax expenditures		Expand and make permanent full expensing of certain investments
	Replace pass-through deduction with 25% rate cap on business income	Repeal pass-through deduction			Repeal pass-through deduction			Repeal pass-through deduction

## OTHER REVENUE PROPOSALS

	American Action Forum	American Enterprise Institute	Bipartisan Policy Center		Center for American Progress	Economic Policy Institute	Manhattan Institute	Progressive Policy Institute
	Carbon tax	Carbon tax (in place of regulations, subsidies, and tax credits)	Carbon tax		Carbon tax	Carbon tax		Carbon tax
		Increase gas tax	Increase gas tax		Increase gas tax and eventually replace with a tax on vehicle miles traveled			Replace gas tax with a tax on vehicle miles traveled
					Financial transaction tax	Financial transaction tax		
								Repeal recent tariffs and cut pre-2017 tariffs

## OTHER PROPOSALS

	American Action Forum	American Enterprise Institute	Bipartisan Policy Center		Center for American Progress	Economic Policy Institute	Manhattan Institute	Progressive Policy Institute
	Immigration reform		Immigration reform			Immigration reform		Immigration reform

## MEMOS TO THE ADMINISTRATION AND CONGRESS

As part of Solutions Initiative 2019, each participating organization drafted a memo to the Administration and Congressional leaders to identify its top three priorities. Those memos can be found on subsequent pages; the top three recommendations for each organization are:

- **American Action Forum**
  - Tax Reform
  - Entitlement Reform
  - Addressing Global Threats
  
- **American Enterprise Institute**
  - Make Healthcare Programs More Efficient
  - Better Target Social Security
  - Reform the Tax System
  
- **Bipartisan Policy Center**
  - Tax Reform
  - Modernizing and Enhancing Social Security
  - Immigration Reform
  
- **Center for American Progress**
  - Invest in the Future
  - Guarantee Affordable, Quality Healthcare for All Americans
  - Address Climate Change
  
- **Economic Policy Institute**
  - Publicly Financed Healthcare for All
  - Boosting the Effective Tax Rate on Capital Income
  - Large Expansion of Public Investment
  
- **Manhattan Institute**
  - Modernize Social Security
  - Revitalize Stale Health Entitlements
  - Limit Painful Tax Increases
  
- **Progressive Policy Institute**
  - Restore America's Commitment to Public Investment
  - Rebalance the Intergenerational Compact for 21st-Century Demographics
  - Enact Pro-Growth Tax Reform that Rewards Work, Not Wealth

# AMERICAN ACTION FORUM

## MEMORANDUM

TO: The Administration and Congressional Leaders  
FROM: Douglas Holtz-Eakin and Gordon Gray  
DATE: June 11, 2019  
SUBJECT: Balanced

## INTRODUCTION

The debt currently stands at nearly 80 percent of the economy and is projected to grow inexorably, promising a future debt crisis at worst or an economic millstone at best. The economy has seen substantial improvement in the last two years, but its long-term health remains unsure. Meanwhile, policymakers must come to grips with the reality of growing security threats from near-peers, while existing threats from international terrorism and other quarters persist. Addressing any one of these challenges would be a signal policy accomplishment, but the hard reality that all policymakers must recognize is that each of these challenges must be met. The nation's fiscal problem threatens the standard of living of future generations, while an unsure economic outlook undermines a sustainable fiscal trajectory. Global security threats must also be confronted, as the risks of inaction can vastly outstrip the pecuniary costs of resourcing this challenge. Our budget plan seeks to balance these needs and challenges.

## TOP THREE POLICY RECOMMENDATIONS

### *Tax Reform*

The Tax Cuts and Jobs Act (TCJA) marked a substantial improvement in the U.S. tax code, but tax reform remains unfinished. The reconciliation process used to enact the TCJA left a number of important tax provisions as temporary, while the 10-year budgetary cost worsened an already poor fiscal outlook. A lasting reform would build on the best elements of the TCJA and reform those that could be improved. Specifically, our plan would reinstate the income tax rates that prevailed prior to the enactment of the TCJA but retain other key elements of the individual tax reforms.

The business tax outlook would be substantially improved under this plan, with the current provision for expensing of equipment expanded and made permanent. The corporate rate would be further reduced

to 20 percent. Most substantially, the plan would reform the current patchwork of base-erosion and other international tax provisions to a destination-based cash flow tax. This reform would obviate the complex international tax regime that adds needless complexity and harms U.S. competitiveness.

### *Entitlement Reform*

The primary causes of our growing debts have been largely untouched by past deficit-reduction efforts. Discretionary spending, reduced by the Budget Control Act, and tax revenue are not driving debt. Mandatory spending and interest payments are driving debt. Mandatory spending has been growing as the nation ages, health costs grow, and policymakers create new entitlements and expand old ones. In 1974, mandatory spending was 41 percent of the budget. By 2029, it will be 65 percent. Meanwhile, interest payment on the debt will continue to crowd out the budget as the debt portfolio remains outsized and interest rates normalize.

These pressures reflect legacy costs—past promises—crowding out investment in the future in the form of infrastructure, basic research, and education. This budget pressure strains the capacity to adequately fund what should be the first priority of the federal government: national defense. Absent restraint on entitlement programs, the United States will be unable to budget for these priorities.

### *Addressing Global Threats*

Commenting on the collision of budgetary constraints and national security risks, former Secretary of Defense Robert Gates once observed that “math [is] not strategy.” Nothing has changed in the interim. To the extent that the United States has achieved deficit reduction in recent years, it has largely been borne by defense and non-defense discretionary spending cuts. These cuts have come while the United States has needed to improve its defense posture against high-end threats from near-peer nations with a force that has been grappling with two major and long-term counterinsurgency campaigns. The nation's military forces require recapitalization to meet these new challenges while addressing existing threats.

## ADDRESS SHORTER-TERM ISSUES

This budget plan will eliminate the “sequester” and remove the biannual threat of across the board spending cuts on discretionary funding. It assumes the debt limit is routinely raised to accommodate borrowing needs. The plan will substantially improve the outlook for Medicare, affording the opportunity to continue to finance benefits under a reformed system. Critically, our plan substantially reduces the debt, providing fiscal “space” for countercyclical policies and geopolitical crises. Our plan also assumes that outlays under the Highway Trust Fund are allowed to keep pace with the Congressional Budget Office's current-law projections.

## CONCLUSION

The United States must address three key policy changes: a poor budget outlook, an unsure economic outlook, and growing security threats. These challenges are interrelated, and over the long term the solutions are complimentary. The combined policies in our plan are politically challenging, but they offer significant fiscal consolidation that is broadly pro-growth and afford the capacity to address a challenging national security environment.



## MEMORANDUM

TO: The Administration and Congressional Leaders  
FROM: Joseph Antos, Andrew Biggs, Alex Brill, James Capretta, and Alan Viard  
DATE: June 11, 2019  
SUBJECT: A Balanced Plan for Fiscal Stability and Economic Growth

## INTRODUCTION

Our plan seeks to achieve long-term fiscal stability and promote economic growth by aligning federal spending and revenue and pursuing market-based policy reforms. The plan limits the national debt to approximately three-quarters of annual GDP in 2049.

The plan emphasizes cuts in the major entitlement programs—Social Security, Medicare, Medicaid, and health insurance subsidies—while continuing to protect those less fortunate. The plan raises the same revenue (in present discounted value across the thirty-year horizon) as the current law baseline, resulting in a revenue level above historical averages, as a share of GDP. The plan reforms the income tax by broadening the base and reducing statutory rates to promote economic growth.

## TOP THREE POLICY RECOMMENDATIONS

### *Make Health Care Programs More Efficient*

Incentives, rather than controls, would be used to promote greater efficiency while allowing patients and their health care providers to make the best individual decisions within a responsible budget framework. All subsidies would be reformulated to provide greater support to those with greater financial need or higher health risks.

Medicare would be converted to a premium support plan, providing a subsidy to beneficiaries who would choose from among competing health plans. Those selecting more expensive plans (including traditional Medicare) would be responsible for any premium amount above the subsidy. The eligibility age would be gradually increased to 67.

Federal matching payments for Medicaid would be replaced with per capita allotments, enabling states to manage their Medicaid programs more efficiently and eliminating the incentive to draw more federal funds

without necessarily providing more or better services. The tax exclusion for employer-provided health insurance would be capped and partially replaced by a refundable health insurance tax credit providing a fixed dollar subsidy.

### *Better Target Social Security*

The current Social Security benefit formula would be replaced with a flat dollar benefit for all retirees and widow(er)s, regardless of their earnings history or labor force attachment. The benefit would initially be set at the elderly poverty threshold, but would thereafter be indexed to wage growth. To supplement this flat benefit, workers would be automatically enrolled in employer-sponsored retirement plans with a default contribution of 3 percent of earnings, split evenly between the worker and employer.

The early retirement age would gradually increase from 62 to 65 and the 12.4 percent Social Security payroll tax would be eliminated for all workers age 62 and older. “Experience rating” would be instituted for the employer share of the DI payroll tax, which would give employers the incentive to provide accommodations to workers with disabilities to keep them on the job.

### *Reform the Tax System*

The tax system would be reformed to promote economic growth. Over the 2019–2049 period, revenue would be the same (in present discounted value) as under the current-law baseline.

The individual income tax provisions of the Tax Cuts and Jobs Act slated to expire at the end of 2025 would be permanently extended, with modifications. All individual income tax rates would be lowered by approximately 5 percent across the board from their TCJA values. The corporate income tax rate would be kept at 21 percent. The individual and corporate income tax bases would be broadened by reforming or eliminating ill-designed tax preferences, with transition relief for taxpayers who have relied on current tax laws. The municipal bond interest exclusion, the mortgage deduction, the remaining state and local tax deduction, the medical expense deduction, the pass-through business income deduction, and a variety of business tax preferences would be repealed.

The estate and gift tax would be repealed, but unrealized capital gains (above a threshold amount) would be taxed at death. The 3.8 percent net investment income tax would be repealed. A carbon tax would be adopted to replace the Clean Power Plan and other climate-related regulations. The gasoline tax would be increased.

## ADDRESSING SHORTER-TERM ISSUES

Our plan addresses the major long-term fiscal policy challenges facing the country. Other issues should also be addressed, including the following:

- **Discretionary caps.** The 2011 Budget Control Act enacted nominal dollar caps on discretionary spending for FY 2013 to FY 2021. Congress raised the caps for FY 2013 through FY 2019. The caps do not apply to funding for Overseas Contingency Operations and certain other discretionary programs. Our plan assumes that discretionary spending will equal the levels in the current-law baseline, which assumes that the current caps remain in place through 2021 and that funding for programs not covered by the caps grows with inflation.
- **Debt ceiling.** The debt ceiling has failed to constrain federal spending and would be repealed.
- **Expiration of tax cuts for individuals in the Tax Cuts and Jobs Act.** As discussed above, the individual tax cuts would be permanently extended, with modifications that broaden the income tax base and reduce statutory rates.

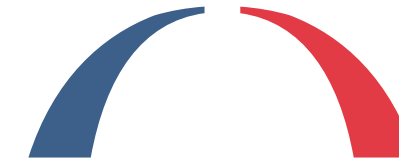


- **Exhaustion of the Highway and Hospital Insurance Trust Funds.** The gasoline tax would be increased, which would extend the life of the Highway Trust Fund. Similarly, our health proposal would set Medicare on a sustainable fiscal path.

## CONCLUSION

The health care proposal caps federal subsidies for insurance and makes them more progressive, promotes effective competition and innovation in the health sector, reduces regulatory burden, and develops better consumer information. The Social Security proposal protects low earners, is more conducive to saving and longer work lives, and better aligns the work and retirement conditions that will prevail in the coming decades. The tax proposal broadens the base and lowers statutory tax rates to provide a more neutral and growth-friendly tax system and replaces inefficient regulations with a carbon tax.

Fiscally sound policy will require greater self-reliance, but does not require us to turn our backs on the elderly and the less fortunate. Our proposal narrows the fiscal imbalance, limits the size of government and adopts a more growth-friendly tax code. Although these policies will require difficult choices, they will ensure a vibrant economy and fiscal stability, now and in the future.



## BIPARTISAN POLICY CENTER

### MEMORANDUM

TO: The Administration and Congressional Leaders

FROM: Bipartisan Policy Center

DATE: June 11, 2019

SUBJECT: Putting America Back on Track: A Bipartisan Approach to Fiscal Policy Solutions

### INTRODUCTION

The United States is at a fiscal tipping point. This year, a full decade into the current economic expansion, the federal government is at risk of running a \$1 trillion budget deficit. Without action, debt held by the public will surpass the size of the economy in the coming years. At the Bipartisan Policy Center (BPC), we have long been concerned with the trajectory of our nation's debt burden. Further, we believe that the U.S. finds itself on this unsustainable fiscal path because the cost of our major social insurance programs—especially health and Social Security—are not aligned with the revenue brought in by our tax code.

To address the disconnect, BPC offers realistic, bipartisan, and politically viable solutions to our nation's fiscal problems. The net result: our plan would stabilize debt-to-GDP while maintaining crucial public programs, increasing public investment, and raising revenues in a balanced and sustainable manner.

### TOP THREE POLICY RECOMMENDATIONS

#### Tax Reform

Under any realistic scenario, funding the federal government in the coming decades will require more revenue than is projected under current law, especially in the wake of the 2017 Tax Cuts and Jobs Act (TCJA). To the extent possible, however, BPC believes new revenues should be tied to specific priorities, such as added payroll taxes to shore up Social Security, or a carbon tax to cover natural disaster spending. In that spirit, BPC's tax plan recommends several changes with the goals of incentivizing work, simplification, and increasing fairness and equity in the tax system.

To summarize some of the highlights of BPC's plan, we propose: simplifying and expanding the earned income and child tax credits; implementing a carbon tax to address climate change and bring disaster spending "on-budget"; increasing the marginal corporate tax rate to 25 percent (still a 10-percentage

point cut relative to the pre-TCJA baseline); and finally, extending TCJA's individual tax provisions, with some adjustments to the brackets and thresholds.

BPC's plan also focuses on how tax policies will be administered. Tax implementation and administration is often overlooked in discussions of tax policy, despite being an integral component of the tax system. Therefore, BPC recommends an increase in IRS funding and several changes to the tax administration system to improve efficiency.

### **Modernizing and Enhancing Social Security**

Policymakers have no choice but to address the structural imbalance in Social Security's finances. Refusing to do so soon will only worsen the financial and political consequences as the program's trust funds become depleted, potentially causing millions of retirees to face immediate benefit cuts. BPC's Social Security proposal includes a balanced set of policies to reduce spending growth and increase revenue.

This comprehensive set of proposals is too wide-ranging to list here, but independent analyses of BPC's plan confirm it would restore long-term solvency, enhance the adequacy of the system for those who rely on it most, and dramatically improve equity and fairness in the benefit formula. Recent projections from the Social Security trustees suggest that the program's trust funds could be depleted by 2035, at which point disruptive benefit reductions, tax increases, or likely both would be necessary to restore financial stability. We advise policymakers to act as soon as possible to reform the program. The policy options for viable reform narrow as we inch closer to the cliff.

### **Immigration Reform**

BPC has long recognized that immigration reform in the United States is decades past due. Among the benefits would be enhanced economic growth, improved fiscal status of the federal government, and the establishment of a policy that upholds the integrity of the system and the dignity of the people in it. To reflect BPC's support for reform, our proposal includes the so-called "Gang of 8" immigration bill from 2013. This plan represented a serious bipartisan effort to balance the need for comprehensive legal immigration reform with legalization of the undocumented and enhanced border security. BPC's Immigration Project continues to develop proposals for legislative reforms that can improve the system by any means, including solutions for DREAMers and DACA recipients, and advance pragmatic border security.

## **NEAR-TERM POLICY ISSUES**

In the near-term, BPC proposes lifting the Budget Control Act spending caps, and allowing discretionary spending to increase with inflation. To deal with the nation's crumbling infrastructure and rapidly depleting highway trust fund, BPC's plan includes an increase in infrastructure spending funded by increasing and indexing the federal gas tax.

Finally, for nearly a decade, BPC has informed policymakers about the risks and costs associated with the debt limit, which must be dealt with again later this year. Policymakers have recently allowed this once innocuous threshold to put the U.S. economy at risk, time and time again. Instead of simply extending the debt limit again this year, our plan recommends dramatically reforming the limit, minimizing the possibility of default, aligning the debt limit with budget decisions, and ultimately, providing a dedicated process for policymakers to debate options for reducing the federal debt.

## **CONCLUSION**

If policymakers fail to take action soon, a fiscal crisis of one variety or another will become unavoidable. We should not ignore our debt problems and force the next generation to bear the responsibility for our inaction. The tradeoffs involved and the hard choices that need to be made will only get more difficult with each passing year.

It is our responsibility to take action now. BPC's proposed reforms reflect important priorities of both political parties—including equity, competitiveness, investment, and fiscal responsibility—and represent achievable changes to the structures in place today.

# Center for American Progress



## MEMORANDUM

TO: The Administration and Congressional Leaders

FROM: The Center for American Progress

DATE: June 11, 2019

SUBJECT: America Can Do Big Things: A Budget Plan for a Better Future

The United States faces a multitude of societal and economic challenges, including rising inequality that has eroded the middle class, persistent poverty and lack of opportunity, and climate change. Confronting each of these challenges will require foresight and bold action, including thoughtful reforms to our tax code and smart deployment of public investments—but as a country, we have the resources and fiscal capacity to address each of them.<sup>1</sup> As the Center for American Progress' (CAP) Solutions Initiative Plan shows, our country can address our most urgent challenges and invest in the future while improving our long-term fiscal outlook.

## TOP THREE POLICY RECOMMENDATIONS

### *Invest in the Future*

Public investments in areas like infrastructure, education, and social insurance make workers more productive, help sustain employment, and reduce inequality. These types of smart forward-thinking policies are central to boosting economic outcomes for America's middle- and working- class and strengthening the economy for the long term. Following the proposals outlined in CAP's Jobs Blueprint, Congress can take on wage stagnation and the employment challenges that working- and middle- class Americans are facing, make targeted investments in communities left behind, and address our nation's most pressing economic and social needs.<sup>2</sup> CAP's plan also invests in children by providing affordable, high-quality child care for all, creating a universal child allowance to empower parents and reduce child poverty, modernizing school facilities, and significantly boosting what we pay teachers working in high-poverty schools, among other investments.

<sup>1</sup> See Christian E. Weller, Sara Estep, and Galen Hendricks, "Budgeting the Future" (Washington: Center for American Progress, April 2, 2019), <https://www.americanprogress.org/issues/economy/reports/2019/04/02/467911/budgeting-the-future/>.

<sup>2</sup> Center for American Progress, Blueprint for the 21st Century (Washington: May, 14, 2018, <https://www.americanprogress.org/issues/economy/reports/2018/05/14/450856/blueprint-21st-century/>).

### *Guarantee Affordable, Quality Health Care for All Americans*

CAP's budget plan incorporates Medicare Extra for All, our plan to ensure that health care is a right for all Americans.<sup>3</sup> Americans would be guaranteed the right to enroll in the same high-quality health plan modeled after Medicare—regardless of income, health status, age, or insurance status. The plan also includes important enhancements to the current Medicare program, including an out-of-pocket limit, coverage of dental care and hearing aids, and integrated drug benefits. It strengthens, streamlines, and integrates Medicaid coverage with guaranteed quality into a national program. Employers would have the option to sponsor Medicare Extra and employees would have the right to choose Medicare Extra over their employer coverage. CAP's plan significantly reduces health care costs. Payment rates for medical providers would reference current Medicare rates—and employer plans would be able to take advantage of these savings. Medicare Extra would negotiate prescription drug prices by giving preference to drugs whose prices reflect value and innovation. Medicare Extra would also implement long overdue reforms to the payment and delivery system and take advantage of Medicare's administrative efficiencies.

### *Address Climate Change*

The economic consequences of continued inaction on climate change are extraordinarily high. Extreme weather events have more than doubled in the past five years and are projected to increase in frequency. In the last three years, weather and climate events cost the US more than \$450 billion. Continued inaction will cost the U.S. economy an estimated \$500 billion per year by the end of the century. The actual price tag of inaction is much higher as these estimates do not account for indirect costs such as losses to natural capital or assets, health care related losses, or values associated with loss of life. Addressing climate change is an urgent fiscal priority. CAP's plan proposes bold, concrete steps to address climate change—including major new investments in climate science, R&D, clean energy infrastructure, and resilience, while introducing a progressive, budget-neutral carbon tax to reduce carbon emissions.

## NEAR-TERM ISSUES FACING CONGRESS

We recommend the following steps to address several issues confronting Congress in the immediate or medium term, consistent with the long-term vision presented in our budget plan.

- **Budget caps.** In the immediate term, Congress should reverse the years of disinvestment in nondefense programs by raising the budget caps for FY20 sufficiently to increase funding from FY19 levels enough to maintain current services levels, address new needs including the census and veterans' health, and begin to make additional investments. Investments in nondefense programs are critical for America's security and long-term competitiveness. On defense, we believe that the President's recent request of \$750 billion, with the increase routed through the war spending account, is wasteful and unnecessary. Authorizing defense spending at \$700 billion for FY20—the level the President embraced in October, and for which the Pentagon has already prepared a budget—is sufficient for national defense.<sup>4</sup>
- **Raise the debt ceiling—but better yet, eliminate it.** Congress should raise the debt ceiling without ever again threatening to default on U.S. obligations. A default would cause extensive repercussions for the economy and global financial markets—and should be taken off the table permanently.

<sup>3</sup> Center for American Progress, "Medicare Extra for All" (Washington: Feb. 22, 2018), <https://www.americanprogress.org/issues/healthcare/reports/2018/02/22/447095/medicare-extra-for-all/>.

<sup>4</sup> For further discussion see Lawrence J. Korb, "What the FY 2020 Defense Budget Gets Wrong" (Washington: Center for American Progress, April 29, 2019), <https://www.americanprogress.org/issues/security/reports/2019/04/29/469086/fy-2020-defense-budget-gets-wrong/>.

- **Replace the 2017 tax scheme with a fair tax code that raises adequate revenue.** The 2017 Tax Cuts and Jobs Act will cost an estimated \$1.9 trillion in the first decade alone, largely due to massive tax cuts for the wealthy and corporations. Congress should roll back these unfair and unnecessary tax cuts. But restoring the pre-2017 tax code is not enough for achieving tax fairness or for raising the revenue needed for public investments like education and infrastructure improvements that are critical to an inclusive and sustainable economy. For those ends, the United States needs fundamental, progressive tax reform.
- **Trust funds.** Our plan addresses the shortfall in the Highway Trust Fund by roughly restoring motor fuels taxes to their inflation-adjusted levels from 1993, the last time they were increased. More importantly, Congress should undertake bold new investments in transportation and water infrastructure, funded by progressive taxes. On Medicare, which is solvent until 2026 under existing law, our plan strengthens and improves traditional Medicare while extending guaranteed coverage to all Americans through Medicare Extra. The plan is fully financed with progressive revenues and cost savings. Our plan also includes revenues that in and of themselves would substantially improve Medicare trust fund finances if the revenue is devoted to the trust fund, including closing loopholes in self-employment and Medicare net investment income taxes.

## CONCLUSION

America has the fiscal capacity to address our nation’s challenges as long as Congress adopts smart investments in the future and progressive tax reforms that help to promote growth and reduce inequality, and addresses urgent issues like climate change.



## MEMORANDUM

TO: The Administration and Congressional Leaders  
 FROM: Josh Bivens and Hunter Blair, Economic Policy Institute  
 DATE: June 11, 2019  
 SUBJECT: The Budget for Shared Prosperity

## INTRODUCTION

The United States faces pressing economic challenges that can be most efficiently and equitably met with a substantially larger federal fiscal footprint. These challenges include: keeping aggregate demand strong in the face of structural headwinds (“secular stagnation”); ensuring the fruits of economic growth are broadly shared, even as inequality of market income is at historic levels; and making public investments at a sufficient scale to provide meaningful economic mobility and opportunity for all families, as well as to aid the fight against global climate change.

Meeting these challenges will require a substantially higher level of federal spending—which in turn will require a substantially higher level of revenue. The first tranche of revenue should come from progressive sources. Income growth has been enormously skewed towards the top of the distribution in recent decades, so financing the spending expansion that the economy needs should be disproportionately borne by those who have benefited the most. However, the scale of spending we call for in our budget—particularly that demanded by the introduction of publicly financed health care for all—will require broader-based revenue changes. We think Americans are ready to hear this message, and we think the extra revenue raised will pay off in services that come to be greatly valued—as evidenced by past legacies of social insurance expansions like the introduction of Social Security, Medicare, and Medicaid.

## TOP THREE POLICY RECOMMENDATIONS

Our largest spending increase provides publicly financed health care for all Americans. We think a single-payer plan will reap large savings in the long run by reducing administrative costs and providing a check on the pricing power of health care providers like pharmaceutical companies, device makers, and hospital chains. We also think that a single-payer plan will keep families from falling through the cracks of the

current system and provide everybody the fundamental right to health care that does not make them poorer throughout the rest of their lives. We target two specific taxes for this expansion: a broad-based payroll tax and an income-based premium. These taxes will largely mimic the spending flows that finance how Americans with employer-sponsored insurance today finance their health care.

On overall revenue, we recommend boosting the effective tax rate on capital income (income accruing to households through their ownership of wealth) and the abolition of all tax expenditures except for the earned income tax credit (EITC). Incomes at the top of the income distribution are dominated by capital-based sources, and current law taxes capital very lightly—keeping households at the top from contributing their proper share to financing the federal budget. Effectively taxing capital will require the full suite of tax changes in our budget—there is no single silver bullet. The fiscal cost of tax expenditures today rivals the entire discretionary portion of the federal budget, and their benefits accrue to the richest fifth of the income distribution. Moreover, the 2017 tax law further increased their regressivity. Many of the social objectives that provide the rationale for tax expenditures can be better served by direct spending. We model this by replacing the child tax credit with a universal child allowance—a change that will radically reduce child poverty.

Finally, we call for a large expansion of public investment—in traditional infrastructure, in green investments, and in public education. Federal investment has been squeezed for years, and private investment has been relatively weak for nearly two decades, leading to a slowdown in economy-wide productivity growth. The most direct tool to reverse these adverse trends is a substantial boost to public investments.

These recommendations to raise revenue progressively and boost spending will also provide strong “balanced budget multiplier” effects to aggregate demand growth, helping the economy escape the chronic shortfall of spending that has held back growth for more than a decade.

## SHORTER-TERM ISSUES

We would replace current caps on discretionary spending after 2019 with permanent increases in this spending that hold it constant as a share of gross domestic product (GDP). Our recommendation for the statutory debt limit is to abolish it. It serves no useful economic purpose and only allows irresponsible actors in Congress to cause economic uncertainty for political gain when it threatens to bind. We would completely undo the 2017 Tax Cuts and Jobs Act (TCJA) and replace it with the tax provisions in this budget. While we raise the federal gas tax in part to forestall the exhaustion of the Highway Trust Fund (HITF), we also finance other infrastructure spending with general revenue. Finally, we would authorize the payment of Medicare Part A services with general revenue in the event of the HITF exhaustion.

## CONCLUSION

In recent decades, American economic growth has been too slow and too skewed towards the rich. This slow and unequal growth has caused great—and unnecessary—economic distress for the vast majority of American families. A much-larger footprint of federal spending and revenue can make a substantial contribution to fixing the problems of slow and unequal growth. It can do this by boosting public investments to make up for years of slow federal investment and the slowdown in private-sector investment growth. These public investments can boost economy-wide productivity growth, as well as provide meaningful pathways for economic mobility and opportunity. Additionally, the federal government’s taking on the task of financing health care will provide great benefits to American families, both in access to

health care—a fundamental human right—as well as to reducing costs and wringing out inefficiencies and corporate rents. Health care currently accounts for roughly a sixth of the entire U.S. economy, and per unit health costs are routinely twice as high as in other advanced economies. Fundamental reform in this sector is a crucially important economic issue for American families.

Financing these increases in spending in a macroeconomically responsible way requires substantial new revenue. But the U.S. is a rich country that is very lightly taxed relative to international peers. Further, effective tax rates on the richest households have fallen in recent decades, even as their share of national income rose enormously. In short, the U.S. has enormous untapped fiscal capacity to give its residents the economic security and opportunity they deserve.

## MEMORANDUM

TO: The Administration and Congressional Leaders  
FROM: Brian Riedl  
DATE: June 11, 2019  
SUBJECT: A Plausible Blueprint for Fiscal Sustainability

## INTRODUCTION

The greatest long-term threat to economic prosperity is a national debt that threatens to crowd out investment, raise interest rates, and ultimately bury the federal budget in unaffordable interest costs. And Social Security and Medicare's cash shortfalls—defined as the benefits and resulting interest costs that must be funded by outside general revenues—drive the entire coming debt avalanche.

Over the next decade, 91 percent of the projected increase in budget deficits—which are set to approach \$2 trillion—comes from the increased cost of filling these shortfalls. Over the next 30 years, Social Security and Medicare are projected to run a \$100 trillion cash shortfall (including resulting interest costs), while the rest of the budget is projected to run a \$16 trillion surplus.

The blueprint presented here would avert a debt crisis by stabilizing the debt around 90 percent of GDP. It would accomplish this primarily by reforming the Social Security and Medicare shortfalls driving the debt, rather than by eviscerating the safety net and social spending, or doubling taxes on existing workers.

## TOP THREE POLICY RECOMMENDATIONS

### *Modernize Social Security*

Social Security is projected to run a cash deficit of \$18 trillion over the next 30 years, plus \$12 trillion in resulting interest from borrowing to cover this shortfall. Reducing this shortfall should begin with gradually raising the Social Security full-benefit retirement age from 67 to 69 by 2030, and by significantly limiting the growth of benefits for the highest-earning half of new retirees. Initial Social Security benefits would be set lower than under current schedules for those with higher lifetime earnings. Also, seniors whose current (postretirement) incomes exceeded \$85,000 (single) and \$170,000 (married) in the previous year would not receive a cost-of-living increase (but this threshold would rise with the inflation rate).

The bottom 40 percent of lifetime earners would be held harmless by these reforms (other than the higher eligibility age).

By also incorporating the 1-percentage-point payroll-tax increase in this blueprint—described later—the 30-year Social Security cash deficit would fall from \$18 trillion to \$5 trillion, and likely reach annual balance around 2050.

### *Revitalize Stale Health Entitlements*

Medicare is projected to run a cash deficit of \$41 trillion over the next years, plus \$29 trillion in additional interest costs. This is the result of adding 74 million baby boomers to a Medicare system that pays benefits three times as large as the typical senior's lifetime contributions.

The first place to seek savings is by making Medicare more efficient. Transitioning to a moderate premium support model—where seniors would receive a payment equal to the average bid of all local competing plans—would reduce premiums by 7 percent, and total Medicare spending by 5 percent, all without any reduction in guaranteed benefits. In short, premium support means more choices for seniors, no reduction in benefits, and substantial cost savings both for seniors and the federal government.

Next, Congress should gradually raise total senior premiums to cover 50 percent of Medicare Part B costs—which matches the original program design—and 40 percent of Medicare Part D costs. This can be done while exempting the bottom-earning 40 percent of retirees.

Combining these two policies, total Medicare premiums would rise by approximately 4 percent of aggregate senior income relative to the baseline.

These proposals eliminate more than half of Medicare's projected 3.0 percent of GDP cost growth over 30 years. A Medicare payroll-tax increase described below will also bring in 0.36 percent of GDP, and also extend the Medicare Part A Trust Fund.

Within Medicaid, Congress should cap Washington's per-capita payments to states beginning in 2023. This will end the irrational policy of rewarding big-spending states with extra federal dollars, and will encourage state innovation. The caps would grow by 3.5 percent annually for children and adults; and 4.0 percent annually for the elderly and disabled (a weighted average of 3.8 percent). This is not far below the estimated 4.6 percent annual growth in per-capita Medicaid spending assumed in CBO's long-term budget baseline. Innovative governors should be able to stay under these more generous caps without raising state taxes or deeply limiting eligibility.

### *Limit Painful Tax Increases*

Washington has promised senior citizens—the wealthiest age group—benefits far exceeding their contributions to Social Security and Medicare. In this situation, drowning working families in exorbitant taxes is no more moral than drowning them in debt. Instead, the benefit programs themselves should be made sustainable.

Over the next 30 years—even if all current tax cuts are extended—real bracket creep will add 2 percent of GDP in revenues. An additional 1.5 percent of GDP can be raised by phasing down the tax exclusion for employer-provided health care, raising the Social Security and Medicare payroll taxes by 1 percentage point apiece, and adding a 1 percent income surtax to cover incomes above the Social Security payroll tax phase-out.

These small, broad-based tax increases will affect nearly all workers while crippling very few, and also add resources to the Social Security and Medicare systems. By contrast, trying to close the gap solely by taxing the rich would require exorbitant and unrealistic tax rates that would severely harm the economy.

We need not wait for long-term reforms to address the budget deficit. The discretionary spending caps should be extended as part of legislation to raise the debt limit. The highway program (and gas tax) should be sent back to the states.

## CONCLUSION

Unless we address the Social Security and Medicare shortfalls driving the debt to unsustainable levels, we will continue to see taxes rise and other priority spending get squeezed out. Without reform, eventually interest rates will rise, investment spending will fall, and interest costs will overwhelm the budget. There is no plausible level of tax increases, defense cuts, or safety net savings that can close more than a fraction of Social Security and Medicare's \$100 trillion cash shortfall. If we act quickly, we can reform these programs without burdening low-income families or retirees.



## MEMORANDUM

TO: The Administration and Congressional Leaders

FROM: Ben Ritz and Brendan McDermott

DATE: June 11, 2019

SUBJECT: Funding America's Future

## INTRODUCTION

America's fiscal policy is in dire need of a course correction. Spending on public investments that lay the foundation for long-term economic growth has fallen to historically low levels, threatening our future prosperity. Meanwhile, a perfect storm of fiscally irresponsible tax cuts and an unwillingness to tackle escalating health and retirement spending are feeding trillion-dollar deficits as far as the eye can see. These shortsighted policies promote consumption by the current generation at the expense of investment in the next.

The Progressive Policy Institute champions a new approach that invests in our country without leaving the bill to young Americans. Our fiscal blueprint powers the engines of American innovation by investing in infrastructure, education, and scientific research. We tackle the greatest challenges facing our society, from rising economic inequality to climate change, through dynamic tax and spending policies that are also designed to smooth the business cycle. And we pay for all of it: our plan would put the national debt on track to fall below 50 percent of GDP within 25 years of enactment, giving future policymakers the fiscal space necessary to respond to other unforeseen challenges.

## MAJOR POLICY RECOMMENDATIONS

Policymakers' top priority should be restoring America's commitment to public investment. Measured as a percent of GDP, the federal government now spends roughly half as much on infrastructure, education, and scientific research as it did in 1965. The consequences: China has now overtaken the United States as the world leader in R&D spending, our deficient infrastructure is costing the average family up to \$3,400 per year, and millions of workers cannot get the skills they need to compete for next-generation jobs.

PPI's fiscal blueprint boosts public investment spending as a percent of GDP to pre-1980s levels, which in dollar terms represents a more than 50 percent increase above current-law projections. Specifically, PPI proposes to triple investment in basic R&D over a decade and spend an additional \$280 billion over the same time period on the development of technologies that help combat climate change. We recommend enacting a \$1 trillion infrastructure package that begins during the next recession and leverages additional investment from the private sector and state and local governments. To make higher education affordable, PPI proposes to expand Pell Grants, make them available for more professional credentialing programs, and push universities to transition from four-year to three-year degree programs over a decade.

Next, we propose to rebalance the intergenerational compact for 21st-century demographics. Fifty years ago, Congress and the president had the ability to annually appropriate two thirds of federal spending, while one third went to finance categories of spending that operate on autopilot. Today the ratio is reversed, primarily due to the growth of federal health care and retirement programs. This trend both limits the "fiscal freedom" of elected officials to respond to the changing needs of their constituents and results in a budget that is more oriented towards present consumption than investments in long-term economic growth.

PPI recommends shoring up Social Security's finances by transitioning to a new formula that awards benefits based on the number of years a person worked rather than on their lifetime average earnings. PPI also recommends a number of other changes to Social Security that would strengthen work incentives and retirement security in a way that is fair to both younger workers and older beneficiaries. PPI's proposed health-care reforms build upon what works in the ACA by expanding premiums subsidies, automatically enrolling uninsured people in health plans, and creating a deficit-neutral Medicare buy-in program for Americans ages 55-64. PPI recommends adopting a default-price health care regime to bend the cost curve. To modernize Medicare, we recommend consolidating Parts A, B, and D into a streamlined "Medicare One" benefit and adopting an average-bid subsidy model for Medicare Advantage. Taken together, PPI's Medicare reforms would reduce government spending with no net cost increase for the average beneficiary.

Finally, America needs real pro-growth tax reform that rewards work, not wealth, and raises adequate revenue to finance federal obligations. PPI proposes to repeal the fiscally irresponsible giveaways given to wealthy Americans in the GOP's 2017 tax law, but we would expand and make permanent provisions in the law that incentivized investment and limited regressive tax deductions. We support raising the top marginal rate on annual earnings over \$10 million to 50 percent and taxing unearned incomes from inheritances and capital gains at revenue-maximizing rates. To put more money in the pockets of workers, PPI proposes to replace regressive payroll taxes with taxes on carbon and consumption, and transform the EITC into a more-generous Living-Wage Tax Credit.

We acknowledge that such sweeping reforms are unlikely to be enacted before the 2020 election, hence we designed most of our recommendations to take effect in the first full fiscal year of the next administration. However, there are some important steps that policymakers must take in the near term. Before October, Congress and the president should prevent sequester cuts from taking effect and avoid a catastrophic debt default by raising, suspending, or repealing and replacing the debt limit with a less-dangerous debt control mechanism. Lawmakers should adopt a mileage-based user fee to plug the Highway Trust Fund's financial shortfall. As part of PPI's proposal to consolidate traditional Medicare benefits, the Part A Hospital Insurance program should either be moved to general-revenue financing (as Parts B and D currently are), or all of Medicare should have a trust-fund financing mechanism with a dedicated revenue source sufficient to fully fund benefits.

## CONCLUSION

PPI's fiscal blueprint rebalances the federal budget to fund important public investments in long-term economic growth and strengthen social programs. Our blueprint is fully paid-for by enacting pro-growth tax reform that rewards work instead of wealth. By putting the national debt on a downward trajectory during economic expansions, we create the fiscal space for future policymakers to respond to the unforeseen needs of their constituents without being limited by real or perceived fiscal constraints. The PPI blueprint for funding America's future demonstrates that fiscal responsibility and investing in the American people are not mutually exclusive—they are in fact complementary.



# AMERICAN ACTION FORUM

## BALANCED

### American Action Forum

Douglas Holtz-Eakin and Gordon Gray

#### INTRODUCTION

The United States currently faces three substantial challenges: unsustainable debt, a modest growth trajectory, and a difficult global security environment. Over the long term, addressing the debt challenge will remove a significant future risk to the economic outlook. The magnitude of the fiscal consolidation needed to place the federal budget on a sustainable course, however, will involve policy choices that are difficult and, all else being equal, may impose costs to the economy. The goal of the American Action Forum plan is to impose these policies efficiently, while recognizing that the scope and scale of the budgetary challenge requires enacting policies that would not have been considered even just a few years ago. Against this backdrop, the United States must also contend with new and varied security threats that will require a significant investment in new capabilities while maintaining the capacity to resource existing missions.

This plan reflects the experience that the United States is served best by a contained, efficient government focused on core national security and domestic activities, including a durable social safety net. It also recognizes the practical reality that the Affordable Care Act (ACA) is the law of the land but can still be improved. It is guided by the lesson of history that the best approach to simultaneous poor growth and explosive debt is to reform taxes to be more pro-growth, preserve core functions of government, and focus on streamlining transfer programs—entitlement programs in the United States—as the route to controlling debt. It enacts these reforms in a disciplined fashion that significantly improves long-term economic growth.

#### SPENDING

##### *Medicare, Medicaid, and Other Federal Health Programs*

In general, the plan focuses on cost containment to the federal government and slowing the growth of per-person health spending while raising the value of healthcare and recognizing that the basic architecture ACA is here to stay. This plan retains the ACA's coverage provisions, but it incorporates substantial reforms

to Medicaid and reinstates the cost-sharing reduction and reinsurance regime that ceased under the current administration.

This plan would provide states with resources to engage private markets in Medicaid coverage through the private bidding process, yielding savings. Similar market forces would be brought to bear on Medicare. Research suggests that competitive bidding in a reformed premium-support program could yield savings approaching 10 percent (relative to a baseline that excludes the changes made by the ACA). The approach taken by this plan would gradually phase in with new Medicare enrollees, ultimately yielding significant savings over time. Medicare's outsized share of the health care market means that delivery system changes will permeate the health sector and introduce additional national cost savings. Reform to medical liability, among other more modest changes to federal health programs, should also further constrain cost growth.

### **Social Security**

In its most recent report, the board of Trustees that oversees the Social Security program confirmed that the nation's primary safety net for retirees, survivors, and the disabled remains in financial distress. The report proves that, absent reform, the program will fail to meet its promises to future seniors. The report estimated that the combined (retirement and disability) Social Security Trust Funds will be bankrupt by 2035, at which point retirees would see their benefits reduced by 20 percent.

Avoiding these sharp benefit reductions is an essential element of any meaningful Social Security reform. This plan assumes a combination of policy changes that would address the structural imbalance in Social Security over the long term. Specifically, the plan would move to price indexing in the calculation of benefits, means-test benefits for higher-earning beneficiaries, and incorporate chained CPI. The plan would also reform the Disability Insurance benefit formula for the calculation of work history and place the program on a more sound structural footing.

### **Defense and Non-Defense Discretionary**

The plan restores funding to both defense and non-defense discretionary spending and averts the cuts to these programs arising from the reduced spending caps under current law. The plan also provides additional defense funding to meet the growing challenges of the global security environment. While overall discretionary funding levels are increased, the plan includes savings within these areas, including the implementation of reforms to constrain growth in civilian and military health costs. The discretionary component of the budget also includes reforms to better target Pell grants.

### **Other Mandatory**

Reform of these programs would see the major income and family support reappropriated to two principal assistance regimes: work support and family support. The earned income tax credit, Supplemental Security Income, and unemployment insurance would constitute work support programs. Real, per capita benefits would be maintained as under current law. The earned income tax credit would be repealed as a tax measure but reinstated as a work incentive payment on a dollar-for-dollar basis. The same approach would be taken with major family assistance programs to include the Child Tax credit, which would be added to support a regime of family assistance programs, such as the Supplemental Nutrition Assistance Program. Over 10 years, these programs would see comparatively minor savings relative to aggregate program expenditures. Greater savings would accrue over the long term. The plan also includes limitations to mandatory agriculture program spending, as well as additional savings from federal student loan programs.

Additionally, the plan assumes a fundamental immigration reform. On net, such a reform would reduce the deficit and have a positive effect on economic growth—as much as a percentage point over the near term, which would translate into a per capita gain of \$1,500. Conversely, enforcing existing immigration policies

would have a detrimental budgetary and economic effect, requiring an increase in federal spending of between roughly \$400 billion to \$600 billion to address the 11.2 million undocumented immigrants and prevent future unlawful entry into the United States. In turn, this enforcement would shrink the labor force by 11 million workers and reduce real gross domestic product by \$1.6 trillion.

## **REVENUES**

### **Individual Income Taxes**

Beginning in 2020, this plan assumes a reversion of pre-Tax Cuts and Jobs Act (TCJA) income tax rates. All brackets are indexed by chained CPI (CCPI)—consistent with other elements of reform on the spending side of the budget and current law. The tax plan preserves the current-law structure of the standard deduction, and the elimination of personal exemptions and other tax preferences.

The only credits allowed would be: a new credit of 15 percent of charitable contributions in excess of \$500, indexed at CCPI, and a new refundable credit for first-time homebuyers (as defined for the American Recovery and Reinvestment Act credit) of 15 percent of the value of the purchased home, claimed in five equal installments (i.e., 3 percent of the value) in each of the first 5 years of ownership. The existing mortgage interest deduction would be phased out for existing mortgages over 10 years.

The plan would eliminate the AMT and the HI and NIIT taxes from the ACA, and extend TCJA estate, gift, and GST provisions. The plan would implement carryover basis for bequests after 12-31-2019.

### **Corporate Income Taxes**

The plan would eliminate the newly imposed international tax regime and implement a destination-based cash-flow tax consistent with the House Blueprint for Tax Reform. The plan would also reduce the statutory corporate tax rate from 21 percent to 20 percent. The plan would allow for the immediate expensing of all new investment. The plan would eliminate all excise taxes, fees and penalties from the ACA, except for the excise tax on high-cost health insurance plans, which would be allowed to enter into force.

### **Tax Expenditures**

The AAF tax plan would replace the 199A deduction with a 25 percent rate cap on active business income and enforce the 70/30 rule consistent with the House Blueprint for Tax Reform.

The AAF tax plan would eliminate the deduction of net interest expense for new loans.

### **Other Sources**

The AAF plan would make two other important tax changes: It would increase the payroll-tax cap to capture 90 percent of earnings and would implement a carbon tax. The carbon tax would impose a \$20 per metric ton tax on CO<sub>2</sub> and would increase by C-CPI-U + 5 percent each year.

All tax proposals unless otherwise noted are assumed to occur in 2020.

## **CONCLUSION**

The AAF plan seeks to address the nation's policy priorities—substantial fiscal consolidation, robust economic growth, and a strong national defense. It achieves balance by 2036—reflecting the difficulty in balancing the need for significant debt reduction, while ensuring there is an adequate safety net in place. It begins deficit reduction immediately but relies on the gradual accrual of savings in mandatory spending programs to achieve most of the savings proposed under this budget. The plan continues the reform

effort begun with the TCJA to make the tax code a more efficient means of collecting sufficient revenue to fund the nation’s priorities. The tax changes in this plan, including the repeal of certain elements of the TCJA, a new carbon tax, and an increase in the payroll tax cap, would increase revenues above current law. These changes, all else equal, would have a negative effect on economic growth. The scope and scale of the nation’s fiscal, demographic, and national security challenges, however, are such that some additional revenue will be required to balance these priorities. The plan relies heavily on reforms to major health entitlement programs, which are the principal drivers of our long-term fiscal challenge. The plan proposes significant reforms to Social Security to ensure it is in place for future generations. It also imposes modest savings on “other mandatory” programs through reforms that would seek to sustain real per capita benefits for eligible participants. The plan increases both defense and non-defense discretionary spending compared to current law, while implementing reforms to constrain growth in civilian and military health costs.

Taken together, these changes would set forth a credible and consistent improvement in the U.S. fiscal position and improve long-term economic growth. According to estimates from the Tax Policy Center, this plan would increase annual GDP growth on average by almost four-tenths of a percentage point over the budget window—over three decades of meaningfully higher growth. This budget represents a practical approach to constraining the growth in government that also recognizes that the nation’s competing policy priorities will require difficult tradeoffs.

Percentage of GDP	2019	2029	2049
Revenues	16.9	19.0	20.6
Spending	20.8	20.6	18.9
Deficit (-)/Surplus	-3.8	-1.5	1.7
Debt Held by the Public	78.1	72.5	24.2



## A BALANCED PLAN FOR FISCAL STABILITY AND ECONOMIC GROWTH

American Enterprise Institute<sup>1</sup>

Joseph Antos, Andrew Biggs, Alex Brill, James Capretta, and Alan Viard

### INTRODUCTION

The objective of our plan is to achieve long-term fiscal stability and promote economic growth. Under our plan, publicly-held federal debt is projected to equal 48 percent of annual GDP in the year 2049, one-third of the 147 percent of annual GDP projected under the current-law baseline. Achieving that goal requires ambitious reductions in the growth of federal spending (relative to the rapid increases under current law). The plan emphasizes cuts in the major entitlement programs—Social Security, Medicare, Medicaid, and the health insurance subsidies established by the Patient Protection and Affordable Care Act (PPACA). The plan reforms the tax code to reduce economic distortions and disincentives while raising the same revenue (in present discounted revenue across the thirty-year horizon) as the current law baseline.

Our plan supports economic growth by reducing transfer payments to the elderly, reforming the income tax system through rate reduction and base broadening, and replacing environmental subsidies and regulations with a carbon tax.

Our plan maintains economic opportunity by protecting core safety net provisions while adopting a more growth-friendly tax system that will provide future generations with higher living standards. The earned income tax credit for childless taxpayers will be doubled.

Many of the policies will undoubtedly be unpopular, but some version of our proposal is necessary. None of the authors of this plan fully agree with every policy advanced here, but we have been able to reach the kind of compromise that is needed to address the long-run fiscal imbalance. Political opposition to the plan can be overcome by helping people across the ideological spectrum recognize that its balanced approach makes it superior to alternative plans that rely on extreme tax increases or extreme spending cuts. At least some aspects of the income tax base broadening and rate reduction have the potential to attract broad, bipartisan support, as those provisions have appeared in previous bipartisan deficit reduction plans.

<sup>1</sup> The views expressed here are solely those of the authors and do not reflect the position of the American Enterprise Institute or any other organization.

**Health Care.** Our proposed health reforms are intended to slow the growth of spending—both federal and system-wide—while maintaining access to high-quality health services. The reforms establish a clear understanding that there are binding resource constraints without imposing burdensome regulations that unnecessarily restrict consumer choice. Incentives, rather than controls, promote greater efficiency and allow patients and their health care providers to make the best individual decisions within a responsible budget framework. That requires shifting away from the defined-benefit approach that characterizes Medicare and Medicaid today to a defined-contribution philosophy that places a limit on federal spending while recognizing the changing needs of the population. To develop an effective plan, it is necessary to repeal major sections of PPACA and replace them with a new set of policies based on market principles and budget realities. The new policies offer better ways to achieve the major objectives of PPACA, such as creating an organized marketplace for insurance, providing better information to consumers, expanding federal insurance subsidies for those most in need, and preserving protections for persons with pre-existing conditions.

**Social Security.** Our proposed Social Security reforms are designed to make the program more effective in protecting low earners, simpler for individuals of all earnings levels to understand, more conducive to saving and longer work lives, and better aligned with the work and retirement conditions that will prevail in upcoming decades. These changes will make Social Security solvent and sustainable over the long term while reducing program outlays to better accommodate rising costs for other priorities, including health care.

**Taxes.** Our proposed tax reforms broaden the income tax base while lowering statutory tax rates, providing a more neutral and growth-friendly tax system. To address environmental concerns in a more market-oriented manner, the proposal replaces an array of energy subsidies, tax credits, and regulations with a carbon tax.

Our plan brings federal spending and revenue into closer alignment, thereby sparing future generations from the explosive growth of federal debt. At the same time, it promotes economic growth by emphasizing spending cuts rather than tax increases. Real federal spending would continue to increase under the proposal, but at a significantly slower pace than under current law.

## SPENDING

### *Medicare, Medicaid, and Other Federal Health Programs*

Our plan caps federal subsidies for insurance, promotes effective competition and innovation in the health sector, reduces regulatory burden, and develops better consumer information. Subsidies in all federal health programs would be made more progressive, helping those in the greatest need. Such policies will provide strong incentives for the private sector to develop new ways to deliver care that improve efficiency and lower costs per unit of service. Spending reductions are substantial, requiring beneficiaries to shoulder more of the cost of their health care. However, health system improvements are expected to maintain quality of care and access to essential services.

**Medicare reform.** Medicare is primarily a fee-for-service program that offers little incentive to patients or providers to hold down costs. It would be converted to a premium support plan, in which a subsidy would be provided to beneficiaries who would choose from among competing health plans. Larger subsidies would be paid to beneficiaries who are in greater financial need or who have higher health risks. Those selecting more expensive plans (including traditional Medicare, which would remain available but at a premium commensurate with its cost) would be responsible for any premium amount above the subsidy.

The annual growth in the premium subsidy would be determined by Congress in conjunction with decisions about other spending priorities. Our cost estimate assumes growth in total Medicare spending would be 1.9 percentage points slower than under current law. Premium support is effective starting in 2022.

Other reforms would address longstanding problems in traditional Medicare. Medicare's eligibility age would be increased gradually to 67, consistent with Social Security. The basic premiums for Medicare Part B and Part D would increase from 25 percent to 40 percent of each program's cost, phased in over 10 years. Premiums would be based on enrollees' lifetime earnings rather than their current annual incomes. Traditional Medicare's cost-sharing arrangements would be simplified, replacing the current cost-sharing rules with a single deductible for Part A and Part B and 20 percent coinsurance for all covered services. Incentives to drop Medigap coverage would be offered to promote cost awareness.

**Medicaid reform.** The federal government subsidizes state Medicaid programs through matching payments that cover about 62 to 64 percent of total costs on average, accounting for the higher match rates for newly eligible beneficiaries established by PPACA. States have developed complex financial arrangements that allow them to draw more federal funds without necessarily providing more or better services. Replacing matching payments with per-capita allotments eliminates this perverse incentive and permits states to manage their Medicaid programs more efficiently. Increased efficiency in the health sector would provide additional savings, but federal Medicaid costs would still grow about 20 percent faster than the economy

Federal subsidies to states would be restructured to encourage states to expand Medicaid eligibility to everyone up to 100 percent of the federal poverty level. States would be permitted to offer premium support for private insurance to Medicaid beneficiaries on a voluntary basis. In addition, benefit payments for individuals who receive both Medicaid and Medicare benefits (the "dual eligibles") would be converted into fixed payments for insurance plus a contribution to a medical savings account. Dual eligibles would be allowed to enroll in either a Medicaid or Medicare managed care plan, rather than drawing fee-for-service benefits from both programs.

**Insurance subsidy reform.** Workers currently are not taxed on contributions for health insurance made by their employers. That creates an open-ended and regressive subsidy that has promoted first-dollar coverage and rapid growth in health spending. As part of our revenue proposal, the tax exclusion would be capped and partially replaced by a refundable health insurance tax credit that provides a flat dollar subsidy, with higher payments to those with lower incomes and greater health risks. That change would eliminate the current system's incentive to purchase more expensive coverage and its favoritism toward higher-income purchasers. In addition, PPACA's subsidies would be restructured to compensate insurers for reducing cost-sharing requirements for low-income enrollees in exchange plans on the condition that premiums are reduced. That would reduce premium subsidies for eligible enrollees while leaving them no worse off. Some of the savings would be made available to states to promote more competitive insurance alternatives.

**Other reforms.** Financing reforms must be accompanied by a host of other changes in the design and operation of the health system. Organized insurance markets, similar in concept to the exchanges but with less federal control that stifles innovation and competition, are needed to foster effective consumerism. Better information on treatment options, including information on cost and provider performance, is necessary for patients to make informed decisions in conjunction with their doctors. Medical liability reforms are needed to reduce defensive medicine and to give all patients fairer recourse if medical errors occur.

## Social Security

Our plan would reduce the growth rate of Social Security outlays in future years to keep the program solvent and to make room in the budget for the growth of other programs, particularly the health-related entitlements. Important changes would be made to the structure of Social Security benefits, to focus more heavily on providing a safety net against poverty for the aged, disabled, and survivors, while instituting new savings accounts outside of Social Security to buttress retirement preparation for middle- and high-earning individuals.

The core element of the reform is a flat dollar benefit that would be paid to all retirees and widow(er)s, regardless of their earnings history or labor force attachment. The benefit would initially be set at the elderly poverty threshold, but would thereafter be indexed to wage growth rather than the Consumer Price Index. To supplement this flat benefit, workers would be automatically enrolled in employer-sponsored retirement plans with a default contribution of 3 percent of earnings, split evenly between the worker and employer. Assuming that accounts earn the Trust Fund bond rate of return, the combined benefits of the account and the flat benefit would roughly replicate the generosity and progressivity of Social Security under current law, but would provide significantly better poverty protection for low earners while reducing long-run tax burdens. To give workers more time to plan for retirement, these reforms would be introduced gradually, taking full effect only when an individual entering the workforce today reaches retirement age.

The reforms also would encourage delayed retirement to ameliorate the effects of population aging. The early retirement age would gradually increase from 62 to 65, and the 12.4 percent Social Security payroll tax would be eliminated for all workers age 62 and older. The combined effect would enhance both individuals' retirement income and the economy.

Our plan addresses the Disability Insurance (DI) program by coupling policy reforms to reduce medium- and long-term costs with short-term borrowing between the Social Security retirement fund and the disability fund. The plan would institute "experience rating" for the employer share of the DI payroll tax, which would give employers an incentive to provide accommodations to workers with disabilities to keep them on the job. This policy is assumed to reduce the disability onset rate to halfway between the Social Security Trustees' intermediate and low-cost assumptions; disability recovery rates are assumed to remain unchanged.

## Defense and Non-Defense Discretionary

Defense and nondefense discretionary spending would be maintained at their current-law baseline levels. The baseline already incorporates significant reductions in these spending categories as a share of GDP. Although further reductions would be welcome if they can be attained without endangering national security and other vital national objectives, we believe that it would be unwise to rely on such reductions. Instead, our plan emphasizes changes to mandatory spending and revenues, which drive the long-term fiscal imbalance.

## Other Mandatory

Spending for other mandatory programs would be reduced by eliminating farm subsidies, reducing federal pensions, and other cuts. The proposal assumes that these programs would be reduced by 0.3 percent of GDP.

## REVENUES

Recognizing the costly health and welfare burdens imposed by an aging population, revenue would rise

to 19.9 percent of GDP in 2049 under our plan. Over the 2019-2049 period, revenue would be equal (in present discounted value) to its level under the current-law baseline. Although revenue would be somewhat above the historical average, it would remain below the disturbingly high levels that would be necessary if current spending policies were left unchanged. We propose revenue-neutral tax reform to minimize the harm that the tax system imposes on long-run economic growth.

The provisions of the Tax Cuts and Jobs Act slated to expire at the end of 2025 would be permanently extended, with modifications. Tax changes would take effect in 2020 unless otherwise noted.

## Individual Income Taxes

The 10, 12, 22, 24, 32, 35, and 37 percent statutory rates set forth in the Tax Cuts and Jobs Act would be lowered by approximately 5 percent across the board. The new rates would be equal to 9.5, 11.4, 21.0, 22.9, 30.5, 33.4, and 35.3 percent. The individual alternative minimum tax would be repealed.

The standard deduction would be repealed; all allowable deductions would be above the line. Zero-bracket amounts would be established as follows, for 2020 (and inflation-indexed thereafter): \$10,000 for singles, \$15,000 for heads of households, and \$20,000 for married couples, plus an additional \$2,000 for a blind single or head of household taxpayer and an additional \$1,500 for each married blind taxpayer. The child tax credit would be reduced to \$1,500 in 2020 and would be inflation-indexed thereafter. The credit would be refundable to the extent of 15 percent of the excess of the taxpayer's earned income over \$2,500. There would be no income-based phase-out of the credit.

Tax relief would be provided for costs of earning income, including child care costs, moving expenses, and employee business expenses. The earned income tax credit for childless taxpayers would be doubled.

## Corporate Income Taxes

The corporate income tax rate would remain at 21 percent to ensure that the United States remains an attractive investment location. The restrictions on loss deductions adopted by the TCJA would be repealed, removing penalties on risky investment. The mercantilist Foreign Derived Intangible Income provision and the arbitrary Base Erosion and Anti-Abuse Tax would be repealed, averting potential violations of tax and trade treaties.

## Tax Expenditures

**Individuals.** The remaining deduction for nonbusiness state and local taxes would be repealed. The mortgage interest deduction would be repealed, with grandfathering for mortgages outstanding on June 11, 2019. The Lifetime Learning and American Opportunity tax credits would be repealed, but half of the resulting revenue gain would be used to increase Pell grant funding. The deduction for student loan interest would be repealed, with grandfathering for loans outstanding on June 11, 2019. All energy-related individual tax expenditures would be repealed. Charitable contributions would be deductible for all taxpayers to the extent that contributions exceed a floor of \$500 (\$1,000) for single (married couples) in 2020, with inflation indexation in subsequent years.

The exclusions of employer-provided transportation benefits, employer-provided life insurance, and employer-provided accident and disability insurance would be repealed. The excise tax ("Cadillac tax") imposed by the Affordable Care Act on high-cost health insurance offered by employers would be repealed, but the income and payroll tax exclusions for employment-based health insurance would be capped at the 50th percentile of premiums. The medical expense deduction would be repealed.

Social Security benefits would be fully taxable. The exclusion for interest on municipal bonds would be

repealed; interest on bonds outstanding on June 11, 2019 would be grandfathered. All tax credit bonds would be eliminated, effective for bonds issued after June 11, 2019.

**Businesses.** For investments placed in service on or after June 11, 2019, 50 percent bonus depreciation would be allowed according to the bonus depreciation rules defined in TCJA.

The LIFO conformity rule would be repealed, allowing all businesses to use LIFO on their tax returns, regardless of their financial accounting decisions.

State and local employer payroll taxes would not be deductible. The work opportunity tax credit would be repealed. All business energy tax expenditures would be repealed, including percentage depletion. The exemption of credit union income and the special Blue Cross/Blue Shield deduction would be repealed. The rehabilitation tax credit would be repealed for projects started after June 11, 2019. There would be no new allocations of low income housing tax credits after June 11, 2019. The qualified opportunity zone provisions would be repealed, effective for contributions to qualified opportunity funds made after June 11, 2019.

The section 199A deduction for qualified business income would be repealed.

**Other Sources**

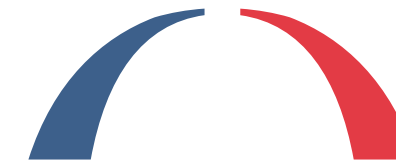
Employer-provided health insurance and other fringe benefits would be subject to payroll tax. Workers aged 62 or older would be exempt from payroll taxes. The 0.9-percentage-point increase in the Medicare payroll tax for high earners adopted by PPACA would be eliminated.

Subsidies for ethanol and other alternative fuels would be abolished (except for basic research on renewable energy), along with energy tax credits and regulations intended to lower greenhouse gas emissions. A carbon tax would be imposed in 2020 at a level of \$25 per metric ton of CO2 equivalent, increasing thereafter by inflation plus 2 percent per year.

The federal gasoline excise tax would be increased by 15 cents per gallon in 2020 and the tax rate would be indexed to infrastructure construction prices in subsequent years. Excise taxes adopted by the Affordable Care Act would be repealed.

Percentage of GDP	2019	2029	2049
Revenues	16.5	18.0	19.9
Spending	20.7	19.8	20.4
Deficit	-4.1	-1.7	-0.6
Debt Held by the Public	78.2	73.4	48.3

There are no easy solutions to the country’s fiscal crisis and further delay will only make the decisions harder. Fiscally sound policy will require greater self-reliance, but does not require us to turn our backs on the elderly and the less fortunate. Our proposal narrows the fiscal imbalance, limits the size of government, and adopts a more growth-oriented tax code. Although these policies will require difficult choices, they will ensure a vibrant economy and fiscal stability, now and in the future.



**BIPARTISAN POLICY CENTER**

**PUTTING AMERICA BACK ON TRACK:  
A BIPARTISAN APPROACH TO FISCAL POLICY SOLUTIONS**

**Bipartisan Policy Center**

Bill Hoagland, Shai Akabas, Jason Fichtner, Tim Shaw, Jack Rametta

**INTRODUCTION**

The United States is at a fiscal tipping point. Total federal public debt outstanding has reached \$22 trillion, greater than the nation’s gross domestic product (GDP). Even excluding intragovernmental debt—that is, debt owed by the government to itself—federal debt is on track to exceed the size of the economy within 10 years and to be more than double the size of the economy by 2049 under realistic assumptions. Rising federal debt is fueled by rising annual deficits, reflecting a systematic imbalance between the government’s spending and revenues. According to the Congressional Budget Office (CBO), \$1 trillion deficits will return as soon as this year.

Mandatory spending programs—which make up the vast majority of the federal budget and include Social Security, Medicare, Medicaid, and others—largely run on autopilot and are consuming a growing share of federal revenues, crowding out needed public investments in important areas like education, science, and infrastructure. Interest payments on the federal debt, which provide little direct benefit to most taxpayers, are projected to approach \$1 trillion by the end of the next decade, at which point they would far exceed total defense spending.

With the recent implementation of the 2017 Tax Cuts and Jobs Act (TCJA), CBO estimates that tax revenues will hover around 18 percent of GDP by the end of the decade, while spending will reach 23 percent of GDP and continue to climb thereafter. Thus, with each passing year, the deficit and the national debt will continue to increase.

The health of the U.S. economy will be severely damaged if we do not fundamentally alter the current trajectory of federal debt. Not only does public debt crowd out private investment that spurs economic growth, but at some point, bondholders may become concerned about the federal government’s commitment and ability to repay all of its debts without devaluing the dollar. The only way to get our fiscal house in order is for federal policymakers to weigh competing priorities and make difficult decisions.

Further delaying the tough choices will only require much larger and more painful changes in the future. In fact, by ignoring past warnings to fix our fiscal problems, we have lost the opportunity to make small tweaks to mandatory spending and the tax code, that when combined with modest growth could have addressed this challenge.

The Bipartisan Policy Center has long been concerned with the unsustainable trajectory of our nation's debt, caused by a lack of action on both the spending and revenue sides of the budget equation. From the time BPC started the Domenici-Rivlin Debt Reduction Task Force in 2010, our stance has been clear: the United States finds itself on an unsustainable fiscal trajectory because the cost of our entitlement programs—especially health and Social Security—are not aligned with the revenue brought in by our tax code.

We believe the plan we offer here will course-correct the nation's fiscal path and bring spending and revenues more in line, while maintaining business competitiveness, creating a level and fair playing field for all Americans, and investing in critical areas that will grow the economy. It is a balanced plan that stabilizes debt as a share of the economy at around 85 percent of GDP, effectively bending down the debt curve over the next several decades to a sustainable level.

Any plan to address our nation's serious fiscal problems will have to be bipartisan. While policymakers may disagree with individual pieces of our plan, BPC believes that the hard choices of the type recommended here are the only path forward to ensuring our country continues to prosper well into the 21st century.

BPC's plan tackles the debt through three main avenues:

1. Tax reform and enhancements to revenue streams that cover spending in particular areas
2. Gradual changes to major social insurance programs, namely Social Security and Medicare
3. Other bipartisan reforms that restrain spending and grow the economy.

Specifically, BPC's plan would enhance economic growth by:

1. Streamlining the tax code
2. Increasing investments in domestic programs, such as infrastructure
3. Facilitating disaster recovery by bringing such spending "on budget"
4. Establishing a carbon tax to internalize the negative externalities associated with carbon and to spur innovation in sustainable green or renewable energy technologies.

## SPENDING

### *Modernizing and Enhancing Social Security*

Social Security is often described as the third rail of American politics. Touch it and you die. But contrary to this popular cliché, policymakers have no choice but to address the structural imbalance in Social Security's finances. If they refuse to do so soon, the consequences will surely be worse when the program's trust funds become depleted, potentially causing millions of retirees to face immediate benefit cuts. Luckily, reform is not only possible, but could even be popular, if action is taken soon. BPC's Social Security proposal includes a balanced set of policies to improve the program's benefit structure and reduce spending growth, described here, and to increase dedicated revenues, which are described in the Revenues section.

When the Social Security program—originally designed as old-age insurance—was first enacted, American society was different in a variety of ways. For instance, the majority of families were single-earner households, and there were several times as many workers paying into the program as beneficiaries drawing out. Today, things are quite different. Family structure has largely shifted to favor dual-earner households as women have entered the labor force, and life expectancy has significantly increased.<sup>1</sup> Other issues with the benefit structure are also apparent, such as the reduction in household income when one spouse passes away, and the diminishing work incentives as people near retirement age.

BPC's plan systematically addresses these challenges, and brings Social Security into the 21st century. We propose the following:

- Establish a Basic Minimum Benefit to enhance Social Security and replace Supplemental Security Income for beneficiaries with low incomes.
- Index the full retirement age to account for ongoing increases in longevity, gradually increasing the age over decades.
- Significantly enhance survivor's benefits by allowing surviving spouses to receive 75 percent of their deceased spouse's benefit in addition to their own.
- Base cost-of-living adjustments on the chained consumer price index, a better measure of inflation.
- Make the benefit formula more progressive, and in a similar vein, limit the spousal benefit (which provides outsized benefits to higher-earning, non-working spouses).
- Calculate benefits using annual, rather than averaged, income to incentivize work and reward longer careers by counting more years in the benefit formula.

These changes would improve Social Security's solvency while enhancing the adequacy of the program for those who rely on it most and improving equity and fairness in the system. The changes recommended here are adapted from the final report of BPC's Commission on Retirement Security and Personal Savings.<sup>2</sup> Pairing a Social Security package with changes to law that help millions of additional Americans save for retirement through their workplace would make the reforms more palatable and politically feasible.

### *Discretionary Spending*

The levels of annually appropriated spending allowed under the Budget Control Act's sequester caps are too low. They do not allow the U.S. to adequately fund the readiness of its armed forces nor to make important investments in science, health, education, and infrastructure. Neither public investments nor national security should be sacrificed in the name of fiscal responsibility when the primary drivers of our debt are on the mandatory side of the budget. For these reasons, we propose to allow defense and nondefense discretionary spending to increase at the rate of inflation, rather than implementing further cuts in the coming years.

That said, there are plenty of necessary reforms to discretionary spending. For example, BPC proposes to eliminate the perpetual reliance on the Overseas Contingency Operations fund, which some have referred to as the "Pentagon slush fund." BPC also proposes several other defense reforms that would produce efficiencies and savings, including: a new round of Base Realignment and Closure; reforms to TRICARE to expand access and reduce costs; and modernizing the Department of Defense's civilian personnel systems and business practices. Importantly, BPC would put half of the resulting savings toward deficit reduction and reallocate the other half to other defense priorities. This approach retains savings but increases the political viability of these efficiencies.

<sup>1</sup> Notwithstanding slight decreases in average life-expectancy over the last few years.

<sup>2</sup> <https://bipartisanpolicy.org/wp-content/uploads/2016/06/BPC-Retirement-Security-Report.pdf>

On the nondefense side, BPC proposes a significant increase in spending to enhance the nation's crumbling transportation infrastructure. This new spending is paid for in BPC's plan by a one-time increase and indexing of the federal gas tax. Yet, with rising fuel efficiency and electric vehicle ownership, gas tax increases cannot sustainably meet expected long-term infrastructure needs. New, innovative funding mechanisms<sup>3</sup> are necessary to support these needs down the road.

### Immigration Reform

BPC has long recognized that immigration reform in the United States is decades past due. Among the benefits of a modernized immigration system would be enhanced economic growth, an improved fiscal status for the federal government, and a policy approach that upholds both the integrity of the system and the dignity of the people in it. To reflect BPC's support for reform, our proposal includes the so-called "Gang of 8" immigration bill from 2013 in the package of recommendations. This plan represented a serious bipartisan effort to balance the need for comprehensive legal immigration reforms with legalization of the undocumented and enhanced border security. BPC's immigration project continues to develop policies that would achieve similar goals and meet the current political realities and challenges on the border.

### Other Mandatory Spending

Disaster spending is likely to increase in the coming years and the federal government should be prepared. Ad hoc allocations for natural disasters have provided much-needed relief, but in the face of climate change, the government must plan more comprehensively for disaster spending. As such, BPC proposes bringing disaster spending "on budget" and using new revenue from a carbon tax, described in the Revenue section, to fund these relief and recovery efforts going forward.

BPC also proposes to reform housing finance along the lines of the Housing Finance Reform and Taxpayer Protection Act of 2014. The act would completely overhaul government sponsored enterprises Fannie Mae and Freddie Mac, winding them down and then replacing them with a system of paid-for federal guarantees of the timely payment of principal and interest to investors in "eligible" mortgage-backed securities. Additionally, BPC's plan includes reductions to agriculture subsidies and reforms to the nation's crop insurance program.

### Federal Health Programs

Federal health care programs are expected to grow faster than any other non-interest spending category over the next two decades. An aging population, rising utilization, and climbing health care prices have put Medicare's finances on an unsustainable path. Because Medicare is such a major player in the health care sector, changes to the program can encourage system-wide health care improvement. Thus, BPC's Future of Health Care Initiative is actively reviewing reforms to improve value and outcomes, and reduce costs, in the American health care system.

Reforms to Medicare could address several longstanding challenges and appeal across the political aisle. Some reforms under consideration by the Initiative, and included in this plan, include: implementing site-neutral payment policy; a reduction in Medicare's coverage of bad debt; prohibiting anti-competitive "pay-for-delay" drug agreements; reforms to reduce costs and improve coverage in Medicare Part D; and policies to address the ongoing obesity epidemic.

Further, there is interest in methods to combat market consolidation and promote competition in currently non-competitive insurance markets. Our plan suggests that the Federal Trade Commission use the

<sup>3</sup> <https://bipartisanpolicy.org/wp-content/uploads/2016/05/BPC-New-Infrastructure-Model.pdf#page=58>

Herfindahl-Hirschmann Index—an existing measurement of market concentration—to encourage price competition and provide regulatory relief in highly consolidated markets. This model could spark business creativity, increasing value to consumers in the health care system overall.

We recognize that these changes alone would not be expansive enough to rein in health care costs, nor to cope with the myriad policy issues in the health care space. But reforms like these could be first steps toward broader, comprehensive reforms that partisans on both sides agree will be necessary in the coming years.

## REVENUES

Under any realistic scenario, funding the federal government in the coming decades will require more revenue than is projected under current law. To the extent possible, however, new revenues should be tied to specific priorities, such as payroll taxes to shore up Social Security or a carbon tax to address climate change. BPC's tax plan also recommends several important changes to the tax code, and in total, would increase revenue from 16.6 percent to 20.0 percent of GDP by 2049.

The plan redesigns the federal income tax code to make it simpler, fairer, more progressive, and more efficient. We start by extending the individual tax provisions contained in the TCJA indefinitely, with some adjustments to marginal tax rates and bracket thresholds.

Further, we recognize that the statutory burden of a tax can be different from the economic burden, and that the corporate income tax is passed along to Americans either in the form of lower returns on capital, lower wages, or higher prices. However, to the extent that the distribution of the corporate income tax falls more heavily on owners of capital, who tend to have higher incomes, an increase in the corporate tax rate would be both simple to implement and be borne by those most likely to be able to withstand the burden of additional taxes. Therefore, BPC proposes a 4-percentage point increase in the corporate tax rate to 25 percent, near the average among developed countries. This increase would still represent a 10-percentage point reduction from the pre-TCJA baseline and allow U.S. companies to remain competitive in the global economy.

We propose to lower the exemption level for the estate tax from the current level of \$11.4 million per individual to \$2.5 million for singles and \$5.0 million for couples. Marginal estate tax rates, including the top 40 percent rate, would remain unchanged. These changes would begin in 2020, and the exemption thresholds would be indexed to inflation thereafter.

To fund the nation's infrastructure investment needs, BPC proposes to increase the gasoline tax to \$0.334 per gallon and the diesel tax to \$0.394 per gallon beginning in 2020, with those rates indexed to inflation thereafter. Additionally, BPC proposes a new carbon tax. We would implement a tax on carbon, and all greenhouse gases, at \$25 per ton in 2020 and then increase that levy at a real (inflation-adjusted) 2 percent per year. This tax serves the dual purpose of recognizing the real and growing threat of climate change and providing sufficient revenues to bring federal disaster spending "on-budget."

BPC would replace the standard deduction, the Earned Income Tax Credit, and the child tax credit with a refundable per-child tax credit of \$1,750 and a refundable earnings credit worth 17.5 percent of the first \$21,900 of earnings (adjusted for inflation in future years). Such a reform would make the tax system fairer, simpler, more efficient, and less burdensome for taxpayers and easier for the IRS to administer. This reform would also significantly increase wage subsidies for childless moderate-income workers, who are largely excluded from the existing constellation of tax expenditures. Further, BPC proposes to convert both



the home mortgage interest deduction and the deduction for charitable contributions into a 20 percent nonrefundable credit, phased down to 15 percent over five years. Both of these credits would be capped at \$25,000 per year, adjusted for inflation. BPC also suggests allowing individuals to deduct miscellaneous itemized expenses, but only if they are in excess of 5 percent of adjusted gross income (AGI), rather than the previous 2 percent threshold, and medical expenses in excess of 10 percent of AGI, compared to the 7.5 percent threshold today.

Under current law, employer-sponsored health insurance premiums are excluded from the taxable income of employees. The Affordable Care Act’s “Cadillac tax” effectively limits this exclusion by imposing an excise tax of 40 percent on plans that exceed certain costs, but this tax has never been allowed to take effect. Our plan includes a repeal of the Cadillac tax, replacing it with a limit on the income-tax exclusion for employer-provided health benefits.

To improve the finances of the Social Security system, BPC proposes several policies to increase revenues. First, we would raise the payroll tax rate by 1 percentage point (to 13.4 percent) over the course of 10 years (by 0.1 percentage points per year) beginning in 2020. Additionally, BPC proposes to increase the taxable maximum wages covered by Social Security to \$210,000 over three years (reaching that amount in 2022), and then indexed to the average wage index plus 0.5 percentage points thereafter to maintain the tax base in the face of growing wage inequality.

Lastly, for the highest-income beneficiaries, we propose subjecting all Social Security benefits to taxation. Beginning in 2022, single/head-of-household/married filing-separately taxpayers with AGI of more than \$250,000 and joint filers with AGI of more than \$500,000, would have 100 percent of Social Security benefits included in taxable income, up from 85 percent currently. In subsequent years, these thresholds would be updated for growth in wages.

The tax code is also an important instrument to support and encourage people to save for retirement. Thus, for younger workers, we recommend replacing the Saver’s Credit with a Starter Saver’s Match that would match contributions to an individual retirement arrangement (IRA) or workplace retirement plan on a dollar-for-dollar basis up to a maximum of \$500 per year (\$1,000 for joint filers). The match would phase out between \$25,000 and \$30,000 of AGI for single filers and between \$50,000 and \$60,000 of AGI for joint filers. The existing Saver’s Credit would continue to be available for workers aged 36 and older. Unlike the Saver’s Credit, the Starter Saver’s Match would be fully refundable.

Finally, our plan also focuses on administration and implementation of the tax system, an issue that is too often overlooked in discussions of tax policy. For example, Congress has chronically underfunded the IRS, reducing its budget in real terms by more than 15 percent since 2010. The lack of staff and resources hinders the agency’s customer service and enforcement abilities alike. For example, underfunding has resulted in longer telephone wait times for taxpayers seeking assistance and only 0.5 percent of all returns audited in 2016. BPC therefore recommends additional funding for the IRS to adequately support customer service initiatives and properly administer the tax system to reduce the tax gap and ensure compliance with the tax code, as well as several changes to the tax administration system to improve efficiency.

## CONCLUSION

Without action soon, the risk of a fiscal crisis will rise dramatically. We can no longer ignore the nation’s debt problem and punt the tough fiscal decisions to the next generation.

BPC’s plan tackles the fiscal challenge head on, establishing a sound and responsible fiscal policy by increasing revenues, constraining spending growth, addressing the unsustainable and rising costs of the nation’s health care and retirement programs, and increasing targeted investments to boost economic growth. Our proposals would do all of this while lifting the most vulnerable members of society by targeting them for increased support.

BPC’s reforms reflect important priorities of both political parties—including equity, competitiveness, investment, and fiscal responsibility—and represent achievable changes to the policies in place today.

Percentage of GDP	2019	2029	2049
Revenues	16.6	18.7	20.0
Spending	20.6	22.0	24.2
Deficit	-4.0	-3.2	-4.3
Debt Held by the Public	78.2	84.4	86.4



## AMERICA CAN DO BIG THINGS: A BUDGET PLAN FOR A BETTER FUTURE

Center for American Progress

Principal authors: Seth Hanlon, Alex Thornton, Sara Estep, and Galen Hendricks

### INTRODUCTION

The Center for American Progress plan is based on the premise that the United States can afford to dramatically increase our investment in our people, our economy, and our future—and that we cannot afford not to. The American Progress plan addresses the most important national challenges—rising inequality that undermines our economy and democracy, underinvestment in children and the future, and the daunting threat of climate change—while improving our long-term fiscal outlook and keeping federal debt to manageable levels.

Under the plan:

- Every American would have quality, affordable health care.
- Every family would have access to quality, affordable child care and comprehensive paid family and medical leave.
- The United States would take bold action to address climate change, including major new investments in climate science, R&D, resilience, and the transition to a clean energy economy.
- The nation would improve the wellbeing of today's children and improve their future prospects by providing a universal child allowance and through other investments, including modernizing school facilities and boosting teacher pay in high-poverty schools.
- The United States would make the investments needed for a strong middle class that serves as the foundation of a strong, inclusive economy. Major productivity-enhancing investments in infrastructure, schools, and science, and a targeted jobs guarantee would strengthen our economy and extend opportunity to workers and communities that have been left behind.
- Fundamental tax reform would dramatically reduce income and wealth inequality. It would ensure that all income—whether from work, investment, or inheritance—is taxed under the same

progressive rate schedule. The plan would roll back the windfall that wealthy corporations received in the 2017 tax law and level the playing field for American workers by taxing foreign and domestic profits the same.

- Social Security would be protected for decades to come without any benefit cuts or other harmful changes.

While this plan does not start with the premise that deficit reduction is a near-term priority, the plan makes these investments while substantially improving our long-term fiscal outlook: specifically, the plan slows the rise in the public debt so that three decades from now, it would be roughly 92 percent of GDP when scored using conventional revenue estimates, or 104 percent using “dynamic” scoring—compared to roughly 150 percent of GDP under CBO’s long-term budget outlook, or 200 percent or higher if current policies including the 2017 tax cuts continue.

Clear majorities of Americans support expanded health care and child care, greater public investment, and action on climate change. They also support tax fairness that would make the wealthy and corporations pay more. CAP’s plan charts a bold yet feasible path for bringing these ideas to fruition.

## SPENDING

### *Medicare, Medicaid, and Other Federal Health Programs*

CAP’s budget plan incorporates Medicare Extra for All, our plan to ensure that health care is a right for all Americans. Under Medicare Extra, all Americans would be guaranteed the right to enroll in the same high-quality health plan modeled after Medicare—regardless of income, health status, age, or insurance status. The plan also includes important enhancements to the current Medicare program, including an out-of-pocket limit, coverage of dental care and hearing aids, and integrated drug benefits. It strengthens, streamlines, and integrates Medicaid coverage with guaranteed quality into a national program. Employers would have the option to sponsor Medicare Extra and employees would have the right to choose Medicare Extra over their employer coverage.

CAP’s plan significantly reduces health care costs. The payment rates for medical providers would reference current Medicare rates—and importantly, employer plans would be able to take advantage of these savings. Medicare Extra would negotiate prescription drug prices by giving preference to drugs whose prices reflect value and innovation. Medicare Extra would also implement long overdue reforms to the payment and delivery system and take advantage of Medicare’s administrative efficiencies.

### *Child Care and Early Childhood Education*

CAP’s plan incorporates the Child Care for Working Families Act, which makes high-quality child care affordable. The legislation from Sen. Patty Murray and Rep. Bobby Scott ensures that no low- or middle-income family pays more than 7 percent of its income on child care (with the typical family paying no more than \$45 a week for child care), guarantees a living wage for early childhood educators, and invests in improving quality in child care programs and increasing the number of child care slots in child care deserts or areas with an undersupply. The bill also provides funding and incentives for states to expand high-quality preschool programs to serve 3- and 4-year-olds.

### *Paid Family and Medical Leave*

CAP’s plan also incorporates the FAMILY Act, sponsored by Rep. DeLauro and Sen. Gillibrand, which creates a comprehensive national family and medical leave insurance program, modeled after successful

programs in six states and Washington, D.C. The plan provides up to 12 weeks a year of paid leave for workers with serious health conditions, including pregnancy and childbirth; for workers to care for parents, spouses, domestic partners, or children with serious health conditions; to care for new children; and for other specific military caregiving and leave purposes. The FAMILY Act is funded by a small payroll tax shared between employees and employers, which contributes to a self-sustaining paid leave fund.

### *Social Security*

CAP’s plan protects Social Security for decades to come by eliminating the taxable maximum wage amount, ensuring that all earnings are taxed under Social Security—which the Trustees have estimated would ensure that Social Security remains solvent until 2074. Our plan also makes modest improvements in Social Security benefits. The CAP plan also makes the saver’s tax credit refundable to strengthen private retirement savings.

### *Defense*

CAP’s plan rejects President Trump’s proposal to massively inflate the defense budget and use the war spending account as a slush fund. Instead, our plan responsibly provides for the national defense while restraining the projected growth in Pentagon spending over the next decade as the United States draws down its presence in Afghanistan and Syria. Under our plan, in real terms, defense spending would be about equal to the average post-9/11 base defense budget, and also roughly the same as it was in the mid-1980s. Over time, CAP’s plan assumes that defense spending will grow at the pace of inflation plus one percentage point.

### *Non-Defense Discretionary*

CAP’s plan reverses the disinvestment in domestic discretionary spending with substantial new investments in schools, teachers, transportation and water infrastructure, and jobs. It provides funding to increase pay for teachers in high-poverty schools by \$10,000, repair and modernize schools, improve roads and transit, and ensure all Americans have access to safe drinking water; the plan also incorporates CAP’s proposal for a targeted jobs guarantee for workers in economically distressed communities.

The plan makes dramatic new investments in the transition to a clean energy economy by doubling climate science and R&D and investing in next generation rural electrification, transmission infrastructure (grid), housing weatherization, advanced manufacturing, mitigation of natural gas pipeline leaks, and state energy efficiency projects. It invests in a zero-emissions transportation system, including electric vehicle charging infrastructure, trade-ins of fuel inefficient vehicles, and purchasing electric buses. It provides funding for “shovel-ready” climate resilience projects. These investments would complement the progressive, budget-neutral carbon tax described further below.

In addition to these new investments, our plan prevents the harmful cuts to other nondefense programs by maintaining funding for existing nondefense programs at their real FY19 levels. After the first decade, our plan assumes that the total nondefense discretionary budget will grow at the pace of inflation plus one percentage point.

## REVENUES

Our existing tax code is deeply flawed and unfair, raising inadequate levels of revenue and enabling near-historic levels of income inequality and especially wealth inequality. Non-wage income and accretions to wealth are taxed at much lower rates than earnings, or not at all, and the tax code contains many loopholes for those with the resources to take advantage of them. As a result, much of the income of the wealthy

slips through the cracks. The wealthy continue to accrue ever-larger amounts of wealth, even as American workers' wages have stagnated. The Tax Cuts and Jobs Act of 2017 (TCJA) exacerbated the tax code's failings, adding costly new loopholes, permanently slashing the corporate tax rate, and providing much larger tax cuts to the wealthy than to people with modest incomes.

The CAP budget plan will begin bringing revenues more in line with our budget needs by increasing taxes, especially on those who have benefitted most from the divergence of incomes and recent tax cuts.

The tax proposals in the CAP budget also would dramatically reduce income and wealth inequality. The revenue portion of the plan begins with the principle that all income should be taxed the same according to progressive rates, whether the income is earned through work or received through investments or inheritances. Therefore, under our plan, capital gains, dividends, and inheritances (above a lifetime exemption amount) would be taxed according to ordinary rates. Those rates and brackets would revert to pre-TCJA levels, including moving the 37 percent rate back up to 39.6 percent, with a new marginal tax rate of 44.6 percent on the portion of income that exceeds \$1 million.

The plan addresses the challenge of taxing wealth by implementing a mark-to-market regime for very wealthy taxpayers, where accumulations of wealth, that is, the gain in value of capital assets, are taxed annually, whether realized or not, at ordinary rates. Non-publicly traded assets would be subject to a deemed interest charge upon disposition, reflecting interest on the taxes that would have been due if the gain had been taxed annually as it accrued. Like a direct tax on wealth, the mark-to-market regime would help address the failure of our existing tax system to tax massive accumulations of wealth. In addition, an inheritance tax would replace the current estate tax, so that wealthy heirs pay tax at ordinary rates at the time of inheritance on the amount of an inheritance that exceeds the per-person lifetime exemption amount of \$1.5 million. By taxing very large inheritances, the plan effectively would treat very lucky heirs in a manner similar to the treatment of lucky lottery winners.

TCJA temporarily eliminated the personal and dependent exemptions that allowed families a deduction of more than \$4,000 for each person. Our plan would restore personal and dependent exemptions and increase them to \$5,000, while also restoring a phase-out of the exemptions for higher-income taxpayers. Personal and dependent exemptions are an important feature of the tax system that express how much income a taxpayer should receive before owing income tax and recognize the impact of family size on ability to pay.

Under the plan, the nation would make a strong investment in the growth and wellbeing of every child through a universal child allowance in the form of a \$2,000-per-child fully refundable Child Tax Credit and an additional fully refundable \$1,500 tax credit for young children. The latter would be payable in advance on a monthly basis when it is actually needed. The plan more than doubles the EITC for childless workers and extends it to younger workers (18–24) and older workers (65–66). As originally proposed by CAP in 2016, the plan would allow all EITC recipients to claim up to \$500 of EITC in advance after July 1 of each year.

The plan would transform itemized deductions for state and local taxes and charitable giving into tax credits, so that the percentage benefit of these tax preferences would not be greater for those with higher incomes. Taxpayers would be able to claim a nonrefundable credit of 15 percent of state and local property and income taxes—or a flat amount of \$2,000 for singles and \$4,000 for couples. In addition, CAP's plan extends charitable tax incentives to many more givers by transforming the charitable tax deduction (now estimated to be claimed by less than 10 percent of households) into a flat 15 percent, nonrefundable credit available to all filers on contributions exceeding 2 percent of adjusted gross income.

The CAP plan would close a number of loopholes that TCJA failed to eliminate, such as the carried interest loophole, loopholes that enable high-income taxpayers to avoid payroll and net investment income taxes, the back-door Roth loophole and the ability of the wealthy to accumulate millions in tax-advantaged retirement accounts. Other unjustified business tax breaks that are eliminated in the plan include fossil fuel subsidies and tax-free like-kind exchanges for real estate, which TCJA left in place.

In addition, the CAP plan would end the illogical, costly and poorly crafted tax breaks created by TCJA, such as the new pass-through deduction and the Opportunity Zone tax breaks for wealthy investors. The passthrough deduction provides most of its benefits to the top 1 percent, adds even more complexity and gaming opportunities, and promotes workplace "fissuring," which threatens wages and worker protections. The Opportunity Zone tax shelter is a handout to the wealthy with no corresponding guardrails to ensure that existing members of struggling communities are protected and benefit from this large tax expenditure. Instead, our plan directly invests in the residents of distressed communities through the jobs guarantee, tax credits directly benefitting low-income families, and other policies.

Our plan rolls back the recent corporate tax cuts and strengthens corporate taxation by increasing the corporate tax rate to 30 percent, repealing the TCJA deduction for foreign-derived intangible income (FDII), and modifying the TCJA Global Intangible Low-taxed Income (GILTI) provisions by eliminating the 50 percent exclusion and requiring the calculation of the tax to be determined on a country-by-country basis. The CAP plan also includes a number of provisions advanced by President Obama to tighten the rules on corporate inversions and close certain loopholes used by U.S. multinational corporations. The plan also would impose a small tax on financial transactions to raise revenue and discourage inefficient trading.

Under the CAP plan, the United States would take dramatic action to address the threat of climate change both by making the investments described above and by introducing a progressive, budget-neutral carbon tax. The carbon tax would be border-adjusted and complement regulatory strategies and investments, helping to restore U.S. leadership in meeting the most significant challenge of our time. All of the carbon tax revenue would be returned to low- and middle-income taxpayers to assist them with increased energy costs associated with transitioning to a cleaner economy. To speed innovation, the CAP plan also would extend several renewable energy tax credits, such as for construction of wind energy facilities, investments in solar energy, and investments in alternative fuel vehicles.

## CONCLUSION

CAP's "America Can Do Big Things" budget plan illustrates that America has the fiscal capacity to address our nation's challenges as long as Congress adopts smart investments in the future and progressive tax reforms. The CAP plan addresses the most important national challenges—including rising inequality, underinvestment in children and the future, and climate change—while keeping federal debt to manageable levels.

Percentage of GDP	2019	2029	2049
Revenues	16.3	23.3	25.3
Spending	20.8	28.2	29.8
Deficit	-4.5	-4.9	-4.5
Debt Held by the Public	78.4	88.6	104.0

Note: The above table reflects the revenue estimates of CAP’s plan using the Tax Policy Center’s “dynamic” scoring. Revenue levels are higher, and deficits and debt lower, under conventional revenue estimates.



## A BUDGET FOR SHARED PROSPERITY

Economic Policy Institute

Josh Bivens and Hunter Blair

### INTRODUCTION

EPI’s budget plan is informed by a number of stylized facts about the U.S. economy. First, economic growth has been slow for almost two decades. The roots of this slow growth are too-slack aggregate demand for most of this period, anemic growth in private-sector investment, and productivity growth. Second, the slow growth in recent decades has not been accompanied by any progress at all in reversing the huge upward redistribution of income that characterized previous decades—in fact, by many measures inequality has continued to rise. Third, the public sector footprint in the United States is far smaller than in many other rich countries around the world. This small public sector footprint in turn means that we expend far less fiscal effort in income support programs to fight poverty, social insurance programs to provide broad-based economic security, and public investments to spur growth. Fourth, the most-glaring outcome of the small public footprint in the U.S. economy is a health sector that is inefficient and unfair. Our health care system provides coverage to a smaller share of our population, delivers less health care, obtains worse health outcomes, and yet places a far greater economic burden on households than in almost any other rich country. Given the enormous economic heft of the health care system, any budget aiming to boost living standards must provide strong reform for this sector.

A greater commitment to providing stronger public investment, social insurance and safety nets over the long-run requires a willingness to pay more in taxes. The enormous upward distribution of income in recent decades means we can get a long way with explicitly progressive tax increases. But our adoption of a fully-public health care financing system is expensive enough in fiscal terms to require broader-based tax increases. It is important to note that these broad-based taxes are not a new “cost” to households for healthcare. Instead, they will largely replace the current health costs these households face. In the long-run, much evidence indicates that the pace of health care cost growth—and hence the economic burden it places on families—can be substantially reduced with a fully public plan. So, even as the fiscal cost of health and tax rates facing families rises, these families’ post-tax, post-health care living standards will increase.

Our plan would address the slow pace of economic growth in two broad ways. First, the larger public footprint and a tax and transfer system that redistributes away from the top and towards the bottom and middle will mechanically help strengthen aggregate demand growth (as households at the top of the income distribution save more than those in the middle and bottom). Second, because the slow pace of private investment has held back growth in recent years, our plan ramps up public investment. Much research shows that investing in basic infrastructure, green infrastructure, and in early childhood care and investment would have profound effects in boosting growth for the future. Reducing inequality and ramping up public investment in early childhood care and education will also provide a huge spur to economic mobility and opportunity.

### **What's the Political Opportunity for this Budget?**

This is obviously not a budget that many current members of the Republican party in Congress would support. But Congress has failed to even pass a budget resolution in 6 of the last 8 years, in either Republican or Democratic-controlled Congresses. The extreme polarization of politics means that a strategy of finding votes in the middle of both parties by figuring out which policies code as “centrist” is obsolete, for good or bad. So, our budget is not one that has a micro-targeting political strategy of bundling together a few votes here and there to become law. Instead, it is a budget blueprint for a progressive governing majority, should one ever take power.

That said, there are elements of the budget that are broadly popular across the public who identify as either Republican or Democratic. The most popular aspects might surprise those in the DC policymaking bubble: substantially raising taxes on the rich and corporations. A Fox News Poll found that 54 percent of Republicans favored a proposal to raise income taxes on rich families. Perhaps the most-crippling false impression in Beltway politics today is the reluctance to make full-throated calls for progressive taxes. There are many good reasons to undertake these progressive tax changes, and the public is broadly on-board.

## **SPENDING**

All policies are assumed to start at the beginning of 2020. The largest practical implementation challenge is posed by our M4A program, which would need to be integrated with Medicaid and Medicare over time into a more-seamless public plan. The substantial increase in taxation—including new forms of taxation such as a wealth tax - will present the challenge of increased incentives for tax avoidance. Our plan deals with this by ensuring a broad base of taxation, for example the repeal of tax expenditures, as well as including a substantial increase to IRS funding to ensure that the IRS has the resources necessary to enforce the new tax code.

Overall, our spending proposals raise the federal government’s spending by roughly 10.1 percentage points of GDP in 2029 relative to baseline, and raise them by 7.9 percentage points in 2049.

### **Medicare, Medicaid, and Other Federal Health Programs**

In our plan, we propose to raise enough revenue to supplant all private health insurance coverage with a new public plan (a plan we’ll call **M4A**). We will keep the existing structure of Medicaid and Medicare in place and introduce a public plan that covers all non-elderly, non-poor households who are currently covered by employer-sponsored insurance or insurance purchased on individual marketplaces or who are uninsured. We will keep intact military and VA plans.

We have obviously not accounted for all implementation details in this plan—such an ambitious restructuring of the American health system would take many years to complete. But we have tried to

specify where we think the financing flows of this plan would come from, and, have identified evidence as to why we think such a plan would considerably reduce the trajectory of health costs over time. We would also hope to over time integrate M4A, Medicaid and Medicare into a more-seamless public plan with a common payment structure and reimbursement rates.

Essentially, we call for raising enough revenue to supplant the 6.5 percent of GDP currently spent on private health insurance, as well as covering the currently un- and underinsured and reducing out-of-pocket costs system-wide by half. Given that a large share of these out-of-pocket costs is paid by current Medicare beneficiaries, this implies a large boost to the protectiveness of current Medicare coverage—something we think should be a prime policy goal. A portion of the revenue needed for the expansion of public coverage can be claimed by the eliminated need to continue the subsidies for private purchase of insurance in the exchanges set up by the Affordable Care Act (ACA).

We achieve some health care savings by instituting tougher negotiations over pharmaceutical and medical device prices in Medicare, Medicaid and the new M4A plan. We would address issues of Medicare trust fund accounting by mandating that general revenue be used to fund Medicare Part A services in the event of a trust fund shortfall. We think the much more pressing economic challenge to sustaining and strengthening Medicare is ensuring the entire federal budget is on a sound footing, which is the purpose of this exercise.

### **Social Security**

Like the Medicare Part A Trust Fund, we do not specify a full actuarial reform that ensures no shortfall in the Social Security Trust Fund. We think such an accounting reform of Social Security should be done outside of an omnibus tax and budget plan like the current exercise. Again, the compelling economic challenge to sustaining and strengthening Social Security is ensuring that the overall tax and budget is on a sound and sustainable footing. Given that we do this overall budget reform, we would instruct full Social Security payments to be made even in the event that the trust fund becomes exhausted.

In our budget, we do make some low-hanging changes to Social Security, even if we do not undertake a full accounting reform. For example, we raise the taxable maximum payroll cap to a level that would cover 90 percent of earnings, the level it was set at in the latest large reform in 1983. The erosion of this cap’s coverage since then has been driven entirely by increased inequality— a development not foreseen by the 1983 reformers. We see this largely as a simple technical fix to ensure that federal revenues are not lost to unforeseen economic developments.

On the spending side, we adopt the coverage expansions called for in the Sanders-DeFazio Social Security Expansion Act. Given what we view as the clear and colossal failure of the 401-K experiment in providing retirement security for all, we think eventually even more ambitious Social Security expansions will likely have to be done.

### **Defense**

Regarding defense spending, we propose drawing down the budget authority of Overseas Contingency Operations (OCO) funding (under budget items 050 and 150) after FY 2019. This would be a clear win for budget honesty and transparency. Besides this, we essentially hold defense spending at a constant level of GDP for the budget window, at a level that is fairly low by historical standards.

### **Non-Defense Discretionary**

We propose a permanent boost to non-defense discretionary (NDD) funding in our budget, reversing deep Budget Control Act (BCA) cuts to make needed investments. We increase NDD spending so that

it reaches its historical average of 3.53 percent of GDP by 2024 and then hold it relatively constant as a share of GDP. Similarly, we repurpose the one-time disaster relief package included in the baseline into this broad permanent boost to NDD spending—this money will surely be needed as natural disasters become more common because of global climate change. The NDD budget houses a range of critical public investments in areas such as education, energy, basic scientific research, workforce training, and health. These investments ramp-up over 5 years, and then are assumed to be maintained as a percentage of GDP thereafter. We think a key permanent boost to NDD spending is increased appropriations for the Internal Revenue Service’s enforcement initiatives. This is spending that literally saves the government money—and by a large margin.

### Other Mandatory

Our major new other mandatory expenditures include ramped-up levels of infrastructure spending, including investments in better-paid teachers and new and renovated schools. We also create a new, paid-for social insurance benefit for paid family leave. We provide for universal, high-quality early education and a plan for debt-free college attendance.

For other mandatory spending, we restore levels of spending on SNAP benefits that were in the American Recovery and Reinvestment Act (ARRA) and repeal farm bill cuts to SNAP. We also boost mandatory child nutrition programs by \$10 billion over the next 10 years, and then hold that amount constant as a share of GDP going forward. Finally, we strengthen the unemployment insurance program by adopting a proposal from the Obama Administration’s FY17 President’s budget which would establish a new Extended Benefits program to provide additional benefits during economic downturns. The program would provide as many as 52 weeks of additional federally-funded benefits to states experiencing elevated unemployment levels, with the number of weeks tied to the state’s unemployment rate.

## REVENUES

Our revenue changes are substantial. We look to both broaden the tax base and raise tax rates. Overall, our revenue changes increase revenue as a share of GDP by 15.2 percentage points in 2029 relative to baseline, and by 15.6 percentage points by 2049.

### Individual Income Taxes

We introduce a new set of income tax rates and brackets. They can be thought of as largely returning to pre-2001 individual tax rates, though we keep a 10 percent tax bracket. The pre-TCJA top tax rate (40 percent) now hits at \$275,000 for singles. At \$1,000,000 the rate rises to 45 percent, and then it tops out at 49 percent for \$1,000,000,000.

Given how ambitious our budget is, it might strike some as strange that our top rate is 49 percent, given recent calls for marginal rates as high as 70 percent. We would note that this top rate does not include the Medicare surcharge of 3.8 percent, and, while we do not call for a complete uncapping of the Social Security taxable maximum in our budget, we keep this top rate low to accommodate this potential uncapping in the future. Between the Medicare surcharge and the potential uncapping of the Social Security tax, this would leave our top federal effective marginal rate at roughly 65 percent.

To help finance our new M4A plan, we impose an income-based premium for taxpayers not covered by Medicare or Medicaid. For those with income 400 percent of the federal poverty line or greater, this premium will be \$3,000 per adult and \$1,200 per child. The premium will be capped as a share of income for households below 400 percent, on a sliding scale.

### Corporate Income Taxes

The best summary description of our corporate tax proposal is that we completely undo the TCJA, return to pre-TCJA 35 percent corporate tax rates, and in the return to worldwide taxation that was the pre-TCJA regime, we do away with the ability of firms to defer taxes on profits earned abroad.

### Tax Expenditures

Our reforms to tax expenditures are possibly the most transformative part of the budget. We get rid of all tax expenditures except the EITC and the differential taxes paid on Social Security benefits. This includes the preferential tax rates on capital gains, dividends and pass-through business income—three extraordinarily regressive parts of the current tax code. The single-biggest tax expenditure in revenue terms—the tax exclusion for employer-provided health insurance premiums—is rendered largely moot by our publicly-financed M4A plan which would supplant employer plans.

We replace the child tax credit with a universal child allowance (UCA)—the allowance is “scored” as a budget outlay rather than a tax cut. Besides the UCA being more effective in alleviating child poverty, we think its adoption is a model of how to think about tax expenditures: often the social good policymakers are hoping to accomplish with tax expenditures can be more-usefully fulfilled with direct spending. This same logic applies, for example, with the abolition of the tax expenditure that allows the deduction of state and local taxes in our budget. While this makes it a bit harder for state governments to raise revenue for taxpayers who can no longer write-off this revenue on federal returns, the total resources going to states from the federal government in our budget is substantially larger; making it near-impossible to think that state and local governments wouldn’t see our budget in toto as a huge boost to their resources.

Besides eliminating the extremely costly and regressive tax expenditure that allowed capital gains to be taxed a lower rate, we implement a suite of reforms to close loopholes that could allow households to avoid the now-higher capital gains rate. Most fundamentally, we introduce marked-to-market taxation of unrealized gains. It is now widely recognized that fundamental changes (at least on the scale of marked-to-market, if not exactly that) will be needed to effectively tax capital income in the future. Our budget recognizes this reality.

### Corrective Taxes

Many of the rest of our tax proposals fall into the “corrective” tax bin. The largest and most important is a substantial tax on carbon—starting at \$80 per ton and rising to \$120 per ton. 200 percent of the revenue from this tax is recycled as a lump-sum payment to all households. This recycled lump-sum, along with the UCA, gives our budget two income flows that can be thought of as universal basic incomes.

We also institute a broad-based financial transactions tax (FTT). The FTT is an extraordinarily progressive tax, and, it will either raise significant amounts of revenue or it will crowd-out a large number of financial transactions. Given the complete lack of evidence that marginal financial transactions in recent decades have meaningfully boosted economic growth, we think these transactions essentially constitute rent-seeking, and squeezing them out of the economy will raise incomes in other sectors.

### Payroll Taxes

As noted previously, we raise the taxable maximum on the payroll tax that funds Social Security so that it covers 90 percent of all earnings, the way it did in 1983 when the last major reform to Social Security happened. More importantly, we institute a 3 percent employer-side payroll tax to finance part of our M4A plan. Employers currently pay substantially more than this (close to 8 percent) for health insurance premiums for their workers. We also propose a small payroll tax to finance our plan for paid family and medical leave.

### Other Taxes

We also raise substantially more revenue through taxes on wealth—including a small (0.1-1 percent) wealth tax on all holdings over \$10 million, and with an expanded estate and gift tax.

### CONCLUSION

The overall effects of our budget plan are summarized below in Table 1. Given CBO projections, we targeted deficits of roughly 2 percent of GDP in coming years, as these were consistent with stabilizing the debt to GDP ratio at a level at or below overall GDP.

Percentage of GDP	2019	2029	2049
Revenues	16.2	32.4	33.1
Spending	20.8	33.0	35.0
Deficit	-4.6	-0.6	-2.0
Debt Held by the Public	78.4	62.1	46.5

# MANHATTAN INSTITUTE

## A PLAUSIBLE BLUEPRINT FOR FISCAL SUSTAINABILITY

Manhattan Institute

Brian Riedl

### INTRODUCTION

Budget deficits are projected to soon surpass \$1 trillion, on their way to \$2 trillion within a decade—or closer to \$3 trillion if interest rates return to 1990s levels. Over the next 30 years, the national debt is projected to soar to between 150 percent and 230 percent of GDP, depending on interest rates and the fate of expiring policies.

Unless reforms are enacted, global markets will eventually stop lending to the U.S. at plausible interest rates. When that event occurs, or even approaches, interest rates will soar, and the federal government will not be able to pay its bills, with dire consequences for the economy.

There is no dispute that Social Security and Medicare's shortfalls drive these deficits. Because payroll taxes and senior premiums are insufficient, the annual general revenues (and resulting interest costs) needed to pay full Social Security and Medicare benefits will rise from \$396 billion in 2018, to \$1,681 billion in 2029. This accounts for 91 percent of the increase in projected budget deficits over that period.

The long-term picture is even more dire. Data from the Congressional Budget Office show that Social Security and Medicare face a \$100 trillion cash shortfall over the next 30 years—consisting of a \$41 trillion Medicare shortfall, \$18 trillion Social Security shortfall, and \$41 trillion in national debt interest payments directly resulting from these shortfalls. The rest of the budget is projected to run a \$16 trillion surplus over this period. In short, the long-term deficit is entirely driven by the Social Security and Medicare systems' shortfalls.

Social Security and Medicaid should continue to aid seniors. Yet it makes no sense to drive Washington towards a debt crisis so that the wealthiest seniors can receive Social Security and Medicare benefits far exceeding their lifetime contributions.

The blueprint presented here would stabilize the national debt around 90 percent of GDP, which requires gradually reducing the annual deficit to 2.5 percent of GDP. Yet rather than present an unrealistic



conservative or liberal fantasy scenario, the reforms here thread the needle of bipartisan plausibility and effectiveness in stabilizing the debt without damaging the economy. They achieve most savings from the programs that are driving the debt, and protect other priorities. Specifically, reforms are crafted in four tiers (ranked by priority):

- **Tier 1:** Squeeze out inefficiencies from the health programs driving spending upward.
- **Tier 2:** Trim Social Security and Medicare benefits for upper-income retirees.
- **Tier 3:** Trim other federal programs to the extent feasible on a bipartisan basis.
- **Tier 4:** Close the remaining gap with new taxes in the broadest and least-damaging manner possible.

The blueprint also provides that: the lowest-income 40 percent of seniors are protected from any Social Security or Medicare cuts (although the Social Security full-benefit retirement age would rise); spending cuts to antipoverty programs are avoided; parity between discretionary defense and nondefense spending is maintained; Washington's structural budget deficits are not passed on to the nation's governors; tax increases are kept within reasonable limits; and policy changes are phased in gradually, mostly beginning in 2023.

By focusing most reforms on improving health efficiencies and trimming expensive benefits for upper-income seniors, the blueprint avoids large, economy-damaging tax increases, and also protects the middle- and lower-income families from deep cuts in their benefits.

## SPENDING

### *Medicare, Medicaid, and Other Federal Health Programs*

**Medicare.** Medicare spending—projected to more than double, from 2.9 percent to 5.9 percent of GDP by 2049—is the single largest driver of long-term deficits.

The first place to seek savings is by making Medicare more efficient. The largest efficiencies would come from implementing a premium support system for Medicare Parts A and B. Instead of the traditional Medicare system's one-size-fits-all model (which is slightly improved by the Medicare Advantage option), premium support creates a health-care market where insurers must compete for retirees. This model has proved, in the case of Medicare Part D, to empower seniors, encourage innovation, reduce premium growth, and stabilize taxpayer costs. As applied to Medicare overall, this proposal's federal premium support payment would equal the average bid of all competing plans, all of which would be required to offer benefits at least actuarially equivalent to the current system. CBO estimates that premiums paid by retirees would fall by 7 percent, and the federal Medicare savings would total 5 percent of projected Medicare spending by the fifth year. In short, premium support means more choices for seniors, no reduction in benefits, and substantial cost savings both for seniors and the federal government.

Past premium support proposals were criticized for tying the payment level to a variable such as inflation or economic growth that may not keep up with the rising cost of health plans—or tying the payment level to one of the lowest-bid plans, thus making it likely that seniors would pay more out-of-pocket for a typical plan. By contrast, this premium support proposal is more generously set at the average local bid. No matter how much health-care costs rise, the premium support payment would remain tied to the cost of the average plan.

Medicare can achieve additional savings by modestly tweaking other payment policies and curtailing spending such as Graduate Medical Education subsidies. Overall, efficiency savings could rise to 9 percent of projected program costs by 2049. The combined annual growth rates of Medicare Parts A and B would fall from approximately 6.3 percent to 5.8 percent (and declining).

The next step is to rebalance the responsibility for funding Medicare Parts B and D. Currently, more than 95 percent of seniors are charged premiums that cover no more than 26 percent of the cost of their coverage. Taxpayers fund the rest. The federal subsidies for Medicare Parts B and D were not "earned" with earlier payroll taxes—which contribute only to Medicare Part A.

Congress should gradually raise total senior premiums to cover 50 percent of Medicare Part B costs—which matches the original program design—and 40 percent of Medicare Part D costs. The monthly premiums would rise on a sliding scale, based on current, postretirement income. Retirees whose income is at or below the 40th percentile would see no premium hikes. However, the monthly premium would increase between the 41st and 80th income percentile, until it reaches 100 percent of the cost of the insurance plan.

These higher premiums will be more affordable because they are partially offset by efficiency gains from the premium support mechanism that should lower total Medicare Part B costs. Once fully phased in, total Medicare premiums would rise by approximately 4 percent of aggregate senior income relative to the baseline.

The Medicare eligibility age would remain at 65, as the limited federal budget savings of raising the age are not worth the upheaval.

These proposals eliminate half of the projected 3.0 percent of GDP cost growth of Medicare by 2049. A Medicare payroll-tax increase described below will also bring in 0.36 percent of GDP. Medicare's projected 30-year cash shortfall would fall from \$41 trillion to \$24 trillion through a combination of efficiencies (saving \$4.2 trillion), Part B premium income-relating (saving \$5.9 trillion), Part D premium income-relating (saving \$2.6 trillion), and a payroll-tax increase (raising \$4.0 trillion).

**Medicaid.** Recent eligibility expansions and natural caseload increases have raised federal Medicaid spending from 1.3 percent to 1.9 percent of GDP since 2007—and spending is projected to reach 2.8 percent of GDP within 30 years. Achievable reforms can instead limit that growth to 2.2 percent of GDP while improving the program.

Congress should first repeal the 90 percent long-term federal reimbursement rate for the newly-eligible population of nondisabled, working-age adults with higher incomes that was implemented in 2014. States should continue to be allowed to include these newly added adults in their Medicaid programs; but no rational explanation exists for Washington subsidizing nondisabled, working-age adults on Medicaid with a much higher reimbursement rate than children, the elderly, and the disabled.

Next, Congress should cap Washington's per-capita Medicaid payments to states beginning in 2023. The current system irrationally reimburses a preset percentage of state Medicaid costs, which means that the more a state spends, the larger its federal subsidy. The current system also restricts state innovation in health care. Per-capita caps would provide an incentive and the added flexibility for states to devise innovative coverage for low-income residents. States developing successful approaches will certainly be copied by other states.

In keeping with the principle that deficit reduction should not simply dump the federal budget deficit onto states, the per-capita caps would be significantly looser than those proposed in Congress. The caps would grow by 3.5 percent annually for children and adults; and 4.0 percent annually for the elderly and disabled (a weighted average of 3.8 percent). This is not far below the estimated 4.6 percent annual growth in per-capita Medicaid spending assumed in CBO’s long-term budget baseline. Innovative governors should be able to stay under these more generous caps without raising state taxes or deeply limiting eligibility.

### Social Security

The blueprint’s Social Security reforms are based on a modified version of the Social Security Reform Act of 2016, authored by House Ways and Means Social Security Subcommittee chairman Sam Johnson (R., Texas).

The vast majority of the federal-budget savings would come from gradually raising the Social Security full-benefit retirement age from 67 to 69 by 2030, and by significantly limiting the growth of benefits for the highest-earning half of new retirees. Initial Social Security benefits would be set lower than under current schedules for those with higher lifetime earnings. Also, seniors whose current (postretirement) incomes exceeded \$85,000 (single) and \$170,000 (married) in the previous year would not receive a cost-of-living increase (but this threshold would rise with the inflation rate).

Additionally, in this modified proposal, the bottom 40 percent of lifetime earners would be held harmless (other than the higher eligibility age).

These benefit cuts are less drastic than they appear. The Social Security baseline assumes that future retirees will receive much higher benefits than current retirees, even adjusting for inflation. Instead, for all except the top 20 percent of retirees (by income), someone turning 65 in 2049 would receive an inflation-adjusted benefit roughly equal to (or even slightly above) the benefit level of someone turning 65 in 2019. And only the top 10 percent of future retirees would see a significant drop in inflation-adjusted benefits relative to 2019 levels.

By also incorporating the 1-percentage-point payroll-tax increase in this blueprint—described later—the 30-year Social Security cash deficit would fall from \$18 trillion to \$5 trillion, and likely reach annual balance around 2050.

**Senior impacts.** Well-off retirees will shoulder most of the costs of bringing Social Security and Medicare finances to a sustainable level. The wealthiest half of seniors often have incomes and net worths (even excluding illiquid home equity) that exceed those of young workers, while typically not having mortgage or child-raising expenses. They are also currently scheduled to receive benefits far exceeding what they paid into these programs.

The 2030 impact figures below apply to individuals reaching retirement age that year, and are adjusted for inflation:

- Seniors with post-retirement incomes below the 40th percentile would see no change in Social Security benefit formulas (just a higher eligibility age) and would benefit from lower Medicare premiums due to premium support efficiencies.
- Seniors with post-retirement incomes in the middle quintile—with an average household income of \$52,500 in 2030—would face approximately \$2,500 less in annual Social Security benefits and \$1,050 in higher Medicare premiums by 2030.

- Seniors in the fourth income quintile (\$91,300 average in 2030) would face approximately \$3,700 less in annual Social Security benefits and \$6,300 in Medicare changes by 2030.
- Seniors in the top income quintile (\$280,000 in 2030) would experience a decline in their Social Security benefits of \$8,600 and a rise in Medicare premiums of \$11,000 by 2030.

### Defense

The blueprint proposes that annual defense appropriations would grow by 2.5 percent through 2030, and 3.5 percent thereafter—a little faster than projected chained CPI inflation plus population growth (2.8 percent). Because this spending rate slightly trails projected economic growth rates, defense spending would fall from 3.1 percent to 2.4 percent of GDP over 30 years. This would represent the smallest defense spending level since the 1930s.

### Non-Defense Discretionary

This blueprint would maintain parity between defense and nondefense discretionary spending levels—as a bipartisan compromise and an acknowledgment that neither category can be reduced as deeply as partisans on either side wish. Thus, non-defense discretionary spending would match the defense levels above.

### Other Mandatory

This spending would grow at CBO’s baseline level through 2029, and then 3.3 percent annually thereafter—slightly faster than the 2.8 percent projected rate of chained CPI inflation plus population growth, but slower than the economy. Thus, this federal spending would dip by 0.3 percent of GDP over 30 years. There is no politically realistic path to achieving much larger savings from this slice of federal spending.

Specifically, non-health mandatory spending on “vulnerable populations” consists of 1.5 percent of GDP spent on programs like SNAP (aka food stamps), the Earned Income Tax Credit (EITC), Child Tax Credit, Supplemental Security Income (SSI), and unemployment benefits. Even the most aggressive reforms, such as SNAP work requirements, would save just 0.1 percent of GDP. It is not plausible to expect deep savings here.

Nor is it plausible to significantly cut veterans’ benefits (0.5 percent of GDP), military pensions (0.2 percent of GDP), and federal employee pensions (0.3 percent of GDP). Recent wars and the aging of the population will increase these costs, and the proposed growth is roughly in line with (or slightly faster than) inflation plus population.

There is room to phase-in modest federal employee pension reforms, eliminate wasteful farm subsidies, privatize lower-priority programs, and sell federal land and assets. These savings could finance stronger growth in veterans’ benefits or an expanded EITC.

## REVENUES

Even all plausible spending cuts listed above are not enough to stabilize the debt. Tax revenues must also gradually rise from 16.5 percent to 20.2 percent of GDP over the next 30 years. This blueprint first permanently extends the 2017 tax cuts and the current health care tax moratoriums in order to set up a current-policy baseline. Even with those extensions, real bracket creep and the deluge of baby boomer taxable retirement distributions will automatically push projected tax revenues up to 18.6 percent of GDP over 30 years. The final 1.6 percent of GDP in revenues would come from new tax reforms.

### Individual Income Taxes

The 2017 Tax Cuts and Job Act reforms would be made permanent. Step-up basis for capital gains taxes on inherited assets would be repealed as of 2023.

### Corporate Income Taxes

The 2017 Tax Cuts and Job Act reforms would be made permanent.

### Tax Expenditures

The current moratorium on Affordable Care Act taxes should be permanently extended. Then, in 2023, the employer health-care tax exclusion should be capped at the 75th percentile of health-insurance premiums paid by employers that year (replacing the Obamacare “Cadillac tax” that was never implemented). The cap level setting a maximum-deductible premium would grow annually at the rate of the CPI. Capping the exclusion will reduce business incentives to overspend on health benefits and to downplay cost containment, and thus contribute to broader efficiency savings in health care. It will also increase take-home pay for many workers because more of their compensation would go toward wages rather than health-insurance premiums.

### Other Sources

These reforms would raise the Medicare and Social Security payroll tax by 1 percentage point each, while adding a 1-percentage-point income-tax surcharge above the level where the Social Security tax on earnings maxes out (all beginning in 2023).

This approach is recommended for two reasons. First, as stated above, the Social Security and Medicare systems face a combined \$100 trillion cash deficit over 30 years, so it makes sense to concentrate budget savings in those two systems. Second, any tax increases should be widely dispersed to minimize economic disruptions. The alternative of imposing enormous tax hikes on one industry or group of people would significantly decrease incentives to work, save, and invest, and thus harm economic growth—which would also decrease the resulting new tax revenues. A simple 2-percentage-point payroll-tax increase, split between Social Security and Medicare, will affect nearly all workers while crippling very few. Because the Social Security payroll tax maxes out at a certain income level, the blueprint proposes adding a 1-percentage-point tax to income above that level so that the new tax remains proportional.

Those who would prefer that all new taxes come from upper-income taxpayers should note that these taxpayers would already bear nearly the entire cost of the Social Security and Medicare reforms—as well as most of the cost of scaling back the employer health exclusion. Replacing the 2-percentage-point increase on the Social Security and Medicare payroll tax with a 20-percentage-point income-tax hike on families earning above \$400,000 would raise a similar amount of revenue yet significantly damage the economy and raise equity concerns.

Similarly, eliminating the 12.4 percent Social Security earnings cap (raising 0.8 percent of GDP) would combine with the benefit changes described above to leave Social Security with a large surplus and Medicare with an enormous deficit, while also pushing combined federal and state marginal tax rates as high as 62 percent.

For most lower-income families, the modest payroll tax increase would be their only cost of this substantial fiscal consolidation, beyond a future higher Social Security full-benefit retirement age.

## CONCLUSION

This blueprint has something for everyone to oppose. At first glance, many conservatives will assert that raising any taxes rather than eviscerating antipoverty and nondefense discretionary spending represents a weak-kneed surrender to big government.

In reality, it accepts that voters are not going to balance the budget on the backs of low-income families or social programs. The savings described above—focused mostly on health efficiencies are upper-income seniors—represent the ceiling of plausible spending savings.

Many liberals will also dismiss even these modest versions of Medicare premium support and Medicaid per-capita caps, as well as income-relating of Social Security and Medicare benefits—especially when paired with just 1.6 percent of GDP in broad-based tax increases.

However, tax hikes on upper-income earners and defense cuts alone cannot produce the savings needed to stabilize the national debt. The numbers simply do not add up. So if spending must be trimmed, it makes sense to target upper-income retirees while protecting low-income and social spending. Besides, maximizing upper-income tax rates to pay for Social Security and Medicare would leave no room to raise their taxes down the road to finance new initiatives such as tuition-free public universities or universal pre-K.

The details of reform are negotiable. What matters most is a bipartisan commitment to address the dire long-term projections. The retirement of 74 million baby boomers into expensive Social Security and Medicare systems is not just a theoretical projection. It is an inescapable demographic reality. And every year of delay significantly raises the cost of reform. Without reform, runaway deficits will all but guarantee a debt crisis that will profoundly damage the country’s economic and social order. There is still time to avoid that crisis, but it will require the nation’s fractious political leaders to leave their respective comfort zones and compromise.

Percentage of GDP	2019	2029	2049
Revenues	16.5	18.3	20.2
Spending	20.9	22.2	22.4
Deficit	-4.4	-3.9	-2.2
Debt Held by the Public	78.3	91.7	82.9



## FUNDING AMERICA'S FUTURE

Progressive Policy Institute

Ben Ritz, Brendan McDermott

### INTRODUCTION

America suffers from a shortsighted fiscal policy that promotes consumption by the current generation at the expense of investment in the next. Measured as a share of gross domestic product, federal spending on public investments in education, infrastructure, and scientific research has fallen by more than 40 percent from pre-1980s levels. As PPI documented in its recent report, *Ending America's Public Investment Drought*, this trend has enormous consequences: China has now overtaken the United States as the world leader in R&D spending, our deficient infrastructure is costing the average family up to \$3,400 per year, and millions of workers cannot get the skills they need to compete for next-generation jobs.

Meanwhile, a perfect storm of fiscally irresponsible tax cuts and an unwillingness to tackle escalating health and retirement spending are feeding trillion-dollar deficits as far as the eye can see. Under current law, the federal government is projected to begin spending more than twice as much money servicing our growing national debt as it will spend on the three major categories of public investment *combined* within the next few years. This is not a fiscal policy for strengthening America's future—it's blueprint for American decline.

The Progressive Policy Institute offers a better alternative: an innovative agenda that pairs robust public investment with the responsible fiscal policy needed to sustain those investments for generations to come. In addition to reversing the harmful across-the-board cuts to discretionary spending imposed by sequestration in recent years, PPI proposes new investments to tackle pressing social problems ranging from income inequality to climate change. We would curtail the growth of health care costs while expanding coverage to ensure every American has access to affordable health care. Our proposed reforms to Social Security modernize the benefit structure to strengthen work incentives, retirement security, and financial sustainability in a way that is fair to both younger workers and older beneficiaries.

PPI also presents a plan for comprehensive tax reform that would transform our tax code to reward work, not wealth. Our plan slashes taxes on workers by repealing the regressive payroll tax and replacing it with taxes on consumption and carbon. We tax wealthy people's unearned income from sources such as inheritances at a higher rate than we tax earnings to allow Americans across the income distribution to

keep the fruits of their labor. Finally, we propose to repeal and replace the GOP’s disastrous 2017 tax law with real tax reform that incentivizes private investment without starving public investment of much-needed revenue.

Our plan, if adopted in its entirety during the first year of the next administration, would put the national debt on track to fall below 50 percent of GDP within 25 years of enactment. But bringing debt all the way down to this level is not our primary goal; in fact, during national emergencies and economic downturns, we believe increasing debt isn’t just acceptable—it is *necessary*. That’s why our plan introduces new automatic stabilizers to boost public investment, strengthen the social safety net, and further cut taxes on lower- and middle-income Americans during economic downturns. By putting the national debt on a downward trajectory during economic expansions, we create the fiscal space for future policymakers to respond to these circumstances and the other unforeseen needs of their constituents without being limited by real or perceived fiscal constraints.

## SPENDING

Fifty years ago, Congress and the president had the ability to annually appropriate two thirds of federal spending, while one third went to finance categories of spending that operate on autopilot. Today the ratio is reversed, primarily due to the growth of federal health care and retirement programs. This trend both limits the “fiscal freedom” of elected officials to respond to the changing needs of their taxpaying constituents and results in a budget that is more oriented towards present consumption than investments in long-term economic growth. PPI’s spending proposals rebalance the federal budget to fund these investments while strengthening social programs, particularly for our nation’s most vulnerable citizens.

### **Boost Discretionary Spending and Create a Public Investment Budget**

Our plan urges Congress and the president to raise the caps on both defense and non-defense (domestic) discretionary spending by \$67 billion in Fiscal Year 2020—the same amount domestic discretionary spending was increased for FY 2019. We then propose to separate spending on public investments—research, education, and infrastructure—into its own budget category, distinct from other non-defense discretionary spending. While caps on other domestic spending would be indexed to grow with inflation plus population growth, public investment spending (including the new initiatives we propose below) would be indexed to grow with GDP to ensure that a consistent share of economic resources are devoted to pro-growth spending.

Federal investments in scientific research have contributed to developing hundreds of technologies that benefit Americans every day, ranging from modern cancer treatments to the Internet. But over the past 50 years, non-defense R&D spending as a percent of GDP has been cut in half. We propose to reverse this trend by tripling federal investment in basic R&D over a decade and committing an additional \$280 billion over the same time period to researching renewable energy and carbon capture technologies that will help mitigate climate change.

Within the past three years, independent estimates by the American Society of Civil Engineers and McKinsey both found that the United States needed to increase projected infrastructure spending by roughly \$1.4 trillion over the coming decade. We recommend the federal government spend \$1 trillion above baseline projections on infrastructure in the form of well-structured matching grants and other financial instruments that leverage the remaining investment needed from the private sector and state and local governments. PPI also recommends automatically increasing the matching rate for infrastructure spending during recessions to ease pressure on state and local budgets, prevent project disruption, and provide timely economic stimulus.

We propose to shift spending from most education-related tax expenditures—which primarily benefit relatively wealthy families—to a “Super Pell” grant program that will help the majority of lower- and middle-income students access affordable higher education. PPI recommends enabling students to access this support for more professional credentialing programs and other alternatives to a traditional college education. To cut costs for students who choose to pursue traditional degrees, the federal government would push universities to transition from four-year to three-year degree programs over ten years and limit the growth of tuition and fees. It would further support the transition by funding more “pre-college” programs to give high-school students a head start on their post-secondary education.

PPI has long advocated for a strong, superior national defense. The sudden and deep spending cuts scheduled to occur in FY 2020 due to the return of sequestration must be prevented to avoid jeopardizing national security. However, the Pentagon must do its part to wring inefficiencies out of military spending. We support bringing defense spending caps down to levels in line with CBO’s long-term baseline projections, but we propose to do so gradually over a decade rather than immediately this year. This change would leave U.S. defense spending roughly halfway between today’s levels and the NATO target of 2 percent.

### **Revamp Health Care Programs to Expand Coverage and Reduce Costs**

PPI is committed to ensuring all Americans have access to affordable, high-quality health insurance. The most immediate priority here is to build upon what worked in the Affordable Care Act. Our plan starts by reversing recent Republican policies that sabotaged the ACA marketplace and increased premiums for consumers. We would also raise the threshold required to qualify for premium subsidies from 400 percent of the federal poverty level to 600 percent, thereby eliminating the “subsidy cliff” and expanding access to affordable coverage for the middle class.

To further lower premiums throughout the individual market, we recommend two policy changes to make the patient pool healthier and cheaper to cover. The first proposal is to create an automatic enrollment system that replaces the ACA’s now-repealed individual mandate for purchasing health insurance. This system will bring more young Americans with lower medical costs into the insurance pool and reduce instances of uncompensated care that drive up prices for other payers. Second, we recommend allowing individuals ages 55-64 who do not receive employer-sponsored insurance to buy into Medicare, with ACA subsidies, at a sufficient premium to make the buy-in deficit-neutral. Moving older people with more expensive medical needs from the market would result in a healthier pool and reduce costs for everyone left.

The high cost of health care in the United States is primarily due to high prices. We propose to tackle the price problem directly by setting maximum rates—based on a multiple of Medicare reimbursement rates—on what providers can charge payers for out-of-network care. Providers would be prohibited from passing the costs of this care onto consumers through balance billing for emergency services or any non-emergency service without adequate disclosure in advance. We anticipate that this policy will force providers to compete more on quality and enter into contracts with insurers that reward value-based care over fee-for-service reimbursements.

Finally, we propose to streamline and modernize Medicare. Our plan would consolidate the three parts of traditional fee-for-service Medicare—Hospital Insurance (Part A), Supplemental Medical Insurance (Part B), and Prescription Drug Coverage (Part D)—into a simplified “Medicare One” benefit with one premium and one set of rules for co-insurance, deductibles, reimbursements, etc. We also propose to base Medicare Advantage subsidies on the average bid in a competitive bidding process to lower costs. Taken together,

our Medicare reforms would reduce government spending with no net cost increase for the average beneficiary.

### **Strengthen Social Security with Pro-Worker Reforms**

As a result of increasing life expectancy and falling birthrates, the ratio of working Americans paying into Social Security per person receiving benefits in 2045 will barely be half of what it was in 1965. The failure of policymakers to modernize Social Security in reaction to changing demographics jeopardizes the program's finances: under current law, beneficiaries face the prospect of a 23 percent benefit cut when the program's trust funds exhaust in 2035. Our innovative framework for strengthening Social Security prevents this benefit cut and improves retirement security for millions of seniors without placing an undue tax burden on young Americans, who face many financial challenges that their elders did not.

Under a more egalitarian benefit formula developed by PPI, individuals would earn a flat "work credit" for each year they spent in the workforce regardless of what they were paid, meaning a low-skilled worker and their college-educated boss would receive the same benefit in retirement if they work hard for the same number of years. A person can also earn up to five years of work credits for time taken out of the workforce to serve as a caregiver. This formula is more progressive and has better incentives for older Americans to remain in the workforce than does the current one. Our formula would be phased in over 10 years and ensure everyone who works for at least 20 years would receive a large enough benefit to keep them out of poverty.

Additionally, we would index both the ages at which someone can claim reduced and maximum monthly benefits to longevity. However, our plan retains a special early retirement age that allows low-income workers to claim an unreduced benefit at age 62 because longevity gains have been smaller among low-income Americans. Annual cost-of-living adjustments under our plan would initially be linked to chained-CPI—a slower-growing but more-accurate measure of inflation. However, after a beneficiary has been eligible for Social Security for 15 years, their COLAs would be indexed to average wage growth to better insure against the possibility of outliving their savings. We would increase benefits for widow(er)s who are at risk of falling into poverty when their spouse dies, while capping and means testing spousal benefits so that wealthy couples don't receive additional benefits that they neither need and nor earned through work.

### **Improve Other Social Programs**

PPI believes policymakers should commit more resources to strengthening the social safety net for workers and families. We recommend bolstering the automatic expansion of unemployment benefits that is triggered during recessions. Our budget allocates funding to create a paid-family leave program and provide children in need with universal access to affordable pre-kindergarten, both of which would support childhood development and make parenting easier for those in the workforce. PPI also recommends policymakers find new ways to shift the emphasis of anti-poverty policy from income transfers to saving and wealth building.

## **REVENUES**

Our government needs a tax code that meets the needs of the 21st century, which means raising adequate revenue to support both our aging population and public investments in our future. To counteract our declining ratio of workers to retirees and the rise of income inequality, the tax code should incentivize and reward work, not entrenched wealth. The 2017 Republican tax bill failed all of these goals. PPI proposes a plan to reverse its regressive features while modifying its provisions for business.

### **Create a Simpler, Fairer, and Fiscally Sustainable Income Tax Code**

The deep cuts to personal income taxes in the GOP tax law are simply unaffordable and unfair. PPI would replace the current rate structure with one more similar to the rate structure that was in place from 2013 to 2017. We would also add two new rates to curtail income inequality: a 45 percent rate on individual earnings over \$1 million (\$2 million for couples) and a 50 percent rate on individual earnings over \$10 million (\$20 million for couples).

We support retaining and expanding upon the law's provisions to limit itemized deductions that increase complexity and reduce the progressivity of our income tax code. PPI would make permanent the new standard deduction and cap on deductions for state and local taxes, although we would make changes to eliminate the SALT cap's marriage penalty. We would also phase out other expensive deductions such as the home mortgage interest deduction and impose a cap on the value of itemized deductions at 30 percent to reduce their benefit to high-income taxpayers.

### **Replace the Payroll Tax with a Dynamic Value-Added Tax**

Increased many times to cover benefit increases and shortfalls in Social Security and Medicare funding, the payroll tax has become a highly regressive tax on workers' wages. It imposes a flat rate of over 15 percent on most wages (half of which is paid by the employer but nearly all of which is taken out of the employee's compensation), but less than four percent on earnings above a certain threshold. By taxing wages but not capital, the payroll tax disincentivizes hiring and reduces wages. And it does not raise nearly enough money to pay promised benefits, forcing the government to rely on general revenues and public borrowing to make up the difference.

We believe America's new demographic realities—a rapidly aging population and slowing workforce growth—have made the payroll-tax financing system obsolete. We propose to modernize funding for America's major social insurance programs by phasing out the regressive payroll tax and replacing it with a broad-based value-added tax. Establishing adequate and equitable sources of revenue for Social Security and Medicare, together with changes we proposed earlier in the way benefits are calculated, would rebalance America's implicit intergenerational compact to no longer disfavor young workers.

PPI would also tailor our VAT to function as a strong automatic stabilizer. The standard VAT rate would be 15 percent, but under the PPI framework, this rate would adjust automatically to the state of the economy (much in the same way that emergency unemployment benefits are triggered by a rise in the unemployment rate). During recessions, this structure provides tax relief to workers and low-income people. As the economy recovers, the VAT rate would rise back to 15 percent. Because consumers will know the tax cut is temporary, our policy will stimulate demand and consumption when the economy needs it most.

### **Combat Climate Change through the Tax Code**

Climate change may pose an even greater threat to future generations than our myopic fiscal policy does, and like our national debt, the challenge will be easier to solve the sooner we grapple with it. PPI proposes to harness the power of market competition to reduce carbon emissions by putting in place a long-overdue tax on emissions. The tax would begin at \$30 per ton and increase by inflation plus 5 percent each year. We propose dedicating this revenue to three areas: increasing federal R&D, funding green infrastructure improvements, and providing tax incentives to encourage the adoption of electric vehicles and improve to energy efficiency in the private economy. Our budget also repeals tax breaks that subsidize fossil fuel production, which will accelerate America's transition to a green economy.

### Replace the EITC with a Living-Wage Tax Credit

Although the switch from payroll taxes to taxes on carbon and consumption will be good for most workers, low-income and non-workers spend more of their income on consumption than do wealthier Americans, and thus could face higher taxes under this regime. To ensure that doesn't happen, PPI proposes to replace the Earned Income Tax Credit with a much larger Living Wage Tax Credit. The LWTC would function similarly to the EITC, however the LWTC would provide far larger benefits that stretch further up the income distribution. It would also provide more generous benefits to childless individuals and a flat benefit to even people with no earnings (which will effectively function as a VAT and carbon tax rebate).

### Tax Wealth, Not Work

One of the most egregious provisions of the GOP tax bill was slashing estate tax, thereby allowing the children of rich families to inherit over \$10 million tax-free. There is no justification for taxing the income someone earned through their own hard work at a higher rate than income they received simply because they were born to wealthy parents. PPI proposes replacing the current estate tax with a progressive inheritance tax. Our proposal would tax inherited income at the beneficiary's top marginal income tax rate plus 15 percent (after a \$1 million lifetime exemption). We would also repeal the step-up basis provision that allows heirs to forever avoid paying capital gains taxes on inherited assets, and we would tax capital gains for taxpayers in our top two tax brackets at the revenue-maximizing rate.

### Adopt Real Corporate Tax Reform

The GOP's corporate tax reform should also be modified. It's true that the old U.S. corporate tax rate of 35 percent was too high and hampered our competitiveness internationally, but the GOP did not close nearly enough loopholes to finance the cost of cutting the rate down to 21 percent. PPI would bump the corporate rate back up to 28 percent—the level proposed by President Obama in his final budget. PPI would also repeal the 199A deduction that allows wealthy individuals to avoid paying their fair share of taxes by masquerading as small businesses. One positive change the GOP made was allowing more businesses to adopt full expensing, under which the full cost of an investment can be deducted the year it is made rather than depreciating it over the asset's lifecycle. We would expand and make permanent full expensing while ending the deduction for interest costs that encourages debt-financing of these investments.

### End the Trump Trade Wars and Cut Regressive Tariffs

Donald Trump's senseless trade wars are a disaster for hardworking Americans. His protectionist tariffs have raised prices on everyday goods and incited our trade partners to implement tariffs of their own that hurt American exporters. We propose to repeal Trump's tariffs and find smarter ways to sanction China for its systematic abuses of free trade rules. But we would go one step further and repeal tariffs on apparel and footwear that predated the Trump administration. These tariffs primarily raise the price of goods purchased by lower-income people, making them a regressive tax. Repealing these tariffs would cut total U.S. tariffs in half—a boon for free trade.

### Replace the Gas Tax with a Mileage-Based User Fee

Taxes on motor fuels are supposed to function as user fees to fund federal investments in highways and mass transit, but their value has been eroded over the last few decades by inflation and rising fuel efficiency. By 2021, the federal government's highway trust fund is projected to be insolvent, jeopardizing much-needed infrastructure investments. We would close this shortfall by replacing fuel taxes with a vehicle miles-traveled tax that better captures the cost of driving.

### Enact Comprehensive Immigration Reform

President Trump's immigration policy is both cruel and economically shortsighted. Increasing legal immigration levels would help to offset the falling birthrates of our native-born population, improving our worker-to-retiree ratio and strengthening the finances of programs such as Social Security. In 2013, a bipartisan proposal to grant legal status to millions of undocumented immigrants, increase spending on border security, and promote merit-based immigration passed the Senate with a two-thirds supermajority and would have become law if not for obstructionist House Republicans. PPI recommends returning to this framework, which CBO estimated would grow our economy and boost federal revenues by far more than it would increase spending.

## CONCLUSION

PPI's plan for funding America's future gives the next administration a framework for investing in our country without leaving the bill to young Americans. Our fiscal blueprint powers the engines of American innovation by increasing investments in infrastructure, education, and scientific research by more than 70 percent relative to what they would be under current law. We tackle the greatest challenges facing our society, from rising economic inequality to climate change, through dynamic tax and spending policies that also help smooth the business cycle. And we pay for all of it, giving future policymakers the fiscal space necessary to respond to other unforeseen challenges and demonstrating that fiscal responsibility and investing in the American people are not contradictory—they are in fact complementary. By supporting both growth and equity, our blueprint would once again make fiscal policy an instrument of national progress.

Percentage of GDP	2019	2029	2049
Revenues	16.5	21.8	23.5
Spending	20.8	23.8	24.0
Deficit	-4.2	-2.1	-0.5
Debt Held by the Public	78.3	76.7	46.2

## A NOTE ABOUT SCOREKEEPING

The Peter G. Peterson Foundation’s Solutions Initiative 2019 enlisted seven independent policy organizations to develop comprehensive plans that met the following criteria:

- Proposed solutions should be sufficiently detailed to allow them to be scored by independent analysts against the January 2019 CBO baseline—extended through FY 2049 using CBO’s Long-Term Outlook (published in June 2018) and extrapolating for 2049.
- Each finished budget plan should represent a comprehensive package of specific policy proposals to address the projected long-term fiscal gap. The Foundation did not stipulate a required goal or target for these plans.
- Each plan should be accompanied by a detailed spreadsheet that provides estimates of its budgetary effects.

To enable fair and objective comparisons of the plans, the Foundation engaged independent scorekeepers to review the estimates and analyses for each plan. This scorekeeping effort was led by Barry Anderson, former Acting Director at CBO and senior career civil servant at OMB. The Tax Policy Center, a joint venture of the Urban Institute and the Brookings Institution, estimated the plans’ revenue proposals and the macro-economic effects of the budget plans. Bill Menth, former OMB senior analyst, generated the template for the plans. Other current and former budget analysts helped review the plans’ specific proposals, particularly for healthcare and Social Security.

The scorekeeping team, using common baseline assumptions, carefully reviewed each of the spending and revenue proposals submitted by the seven organizations. In particular, the scorekeeping team reviewed:

- the sources cited by the organizations to support their estimates;
- estimates produced by existing models developed to score similar proposals;
- comparisons with estimates of similar proposals made by other organizations; and,
- comparisons with similar proposals made by one or more of the other organizations that developed plans as part of Solutions Initiative 2019.

Many of the organizations relied on the scoring of similar proposals produced by CBO, OMB, the Joint Committee on Taxation, and other agencies that have extensive experience in scoring proposals, and this reliance greatly facilitated the review of the scoring of the proposals.

For the past several months, the scorekeeping team has had extensive discussions with each of the organizations. Some of the organizations’ original proposals were modified as a result of these discussions. The scorekeeping team recognized that estimating the budgetary impact of proposals over a 30-year period is inherently difficult, especially since many of those proposals were innovative and therefore were not easily compared to previous policies. Nevertheless, despite these difficulties, all of the organizations sought to make their estimates as accurate and consistent with objective scorekeeping principles as possible. As a result of these efforts, the scorekeeping team is satisfied that the organizations’ plans can be fairly and objectively compared with each other.





For more information, please visit:  
[pgpf.org/solutions-initiative-2019](http://pgpf.org/solutions-initiative-2019)