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.[1] 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.[2] 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.

1 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/.

2 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.[3] 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.[4]

- 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.

3 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/.

4 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.

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.