

2011 | **FISCAL SUMMIT**

SOLUTIONS FOR AMERICA'S FUTURE

SPONSORED BY THE PETER G. PETERSON FOUNDATION

THE SOLUTIONS INITIATIVE

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Introduction

Over the past year, people from across the political spectrum have acknowledged America's unsustainable long-term fiscal challenges and are beginning to discuss solutions. As the report of the bipartisan Bowles-Simpson commission stated, "The era of debt denial is over, and there can be no turning back." Today, the public is beginning to demand honest talk about difficult choices and shared sacrifices.

Now that we are confronting the hard truths, we must do something about them. We cannot hope for easy solutions. Nor can we hold firm to rigid ideologies that don't allow for compromise and consensus. Though some may wish it weren't so, the only way to make real and lasting progress is for all sides to be represented in a final agreement and to have a stake in its success.

To clarify the issues, options, and points of view, the Peter G. Peterson Foundation designed the Solutions Initiative, which asked six organizations representing the wide scope of American political thought to develop comprehensive plans for putting the country on a fiscally sustainable long-term path.

The Peter G. Peterson Foundation Solutions Initiative

Policy teams from the six groups taking part in the Solutions Initiative—the American Enterprise Institute, the Bipartisan Policy Center, the Center for American Progress, the Economic Policy Institute, The Heritage Foundation, and the Roosevelt Institute Campus Network (representing the perspective of younger Americans)—all provided comprehensive plans to meet the budget challenge head on. The goal is sound fiscal policy over the long run, so that we put in place structural reforms that will resolve these problems for a generation or more.

The six plans contain specific policy recommendations, reflecting the groups' unique perspectives and priorities, and look out 10 and 25 years into the future. To make the plans more easily comparable, we asked that they be developed from a common starting point based upon the Congressional Budget Office's long-term projections. We also asked the Tax Policy Center and Barry Anderson (former acting director at CBO) to serve as independent scorekeepers, reviewing the plans and applying consistent analytical techniques to all of the proposals. The end result is an apples-to-apples comparison of spending, taxes, deficits, and debt that illustrates the impact and interaction of various policy choices made by the grantees.

Areas of Agreement

An encouraging result of this project is that all six organizations agree on several key themes:

- Most importantly, all grantees acknowledge that current policy is unsustainable—all of them recommend proposed policies that would reduce projected federal debt.

- The six organizations support maintaining a social safety net for those who need it. Some groups would make social programs more generous than others, and there are differences in the specific policies, but all preserve a role for government in maintaining health and retirement security for low-income citizens. Further, by putting America on a fiscally sustainable path, all of the plans help to ensure that safety nets will be more secure for future generations.
- All agree that we cannot subsidize the well-off the way we currently do. The proposed reforms include reduced benefits, higher taxes, or both. There is agreement that Americans with higher incomes should bear more of the burden of closing the budget gap.
- The grantees agree that the more than \$1 trillion in so-called “tax expenditures” are fertile ground for reform. Tax expenditures include incentives, credits, subsidies, exclusions, and deductions—such as the exemption from individual income of employer-provided health insurance (which employers also can deduct from taxable income), the deductibility of interest on home mortgages of up to \$1 million, and the deferral of foreign corporate income. Besides adding great complexity to the tax system, tax expenditures essentially act as spending programs that are not subject to regular review during the annual budget process. The benefits of tax expenditures go disproportionately to people with higher incomes and many are the result of intense lobbying efforts. Until recently, tax expenditures drew little scrutiny outside budget circles, but the Bowles-Simpson commission put tax expenditures at the center of the public policy debate, and today leaders across the political spectrum are considering ways to reduce or eliminate them.

The Solutions Initiative shows that there is significant consensus on these fundamental priorities. The fact that a range of actors agree on the overall goals and certain key principles should provide support for achieving a compromise on a way forward.

Any project involving organizations with diverse philosophies will also reveal significant differences, and this initiative is no exception. Overall, these proposals raise fundamental questions about the size of government. In essence, one’s view about the appropriate role of government dictates the relative emphasis on tax or spending changes in putting the budget on a sustainable course: a larger government that provides more services and programs requires more tax revenue to achieve fiscal balance; a smaller government requires less revenue, but also demands that Americans accept a government that provides fewer services and takes on fewer responsibilities.

Important Issues for Further Consideration

Looking ahead, three major issues emerge that need further consideration.

One is the growth of health care costs. All agree that health care costs represent the largest threat to our fiscal and economic future. With the growth of health care spending far outpacing both inflation and economic growth, health costs are consuming a larger and larger share of the federal budget and the national economy. Devoting more resources to health spending means fewer resources are available to invest in areas that are critical to economic growth and competitiveness. Future economic growth and long-term solvency for the federal government will require solutions that bring down the growing cost of health care.

It is commonly accepted that several factors contribute to rising health costs, including a fee-for-service payment system that encourages volume, not value; very high end-of-life costs; and inexplicable variations in costs across regions. The fundamental difficulty with respect to health care is that none of us really knows what specific reforms are needed to restrain cost growth—and how much those reforms might save—while also maintaining high quality health services and outcomes.

The recent health care reform legislation created the Independent Payment Advisory Board (IPAB) to develop improvements in how Medicare is paid for. If Medicare costs aren't kept below a specified level, IPAB has the authority, absent congressional and presidential action to the contrary, to change how much the federal government reimburses certain health care providers. The more progressive organizations participating in the Solutions Initiative rely on IPAB to drive down health care costs.

Those on the conservative side, however, feel that a market oriented approach without IPAB involvement is the better way to bring costs down—these grantees have suggested changing Medicare to a “premium support” model whereby individuals would purchase their own private insurance using a defined contribution from the federal government.

Both approaches have certain merits, but also carry risks: Can we rely on market competition to keep costs down when costs in the private system have grown so significantly over the past few decades? Will such a market-driven system continue to provide seniors with adequate access to care? On the other hand, IPAB has never existed before, it is unclear whether its members would have enough evidence to craft effective cost-reduction strategies, and government involvement in industry has a mixed history—why will it work in the health care sector in the future?

The second area that will require further thought is defense spending. The United States currently spends more on national defense than the next 17 highest-spending countries, combined. The Chairman of the Joint Chiefs of Staff, Admiral Mike Mullen, has said, “The

single-biggest threat to our national security is our debt.” And he has suggested that because of ballooning defense budgets, “we’ve lost our ability to prioritize.”

We believe that defense, which accounts for one-fifth of total federal spending, should undergo a thorough, fundamental review to ensure that we are spending money wisely and efficiently—and in ways that are appropriate to the national security challenges of the current era. Though some grantees have suggested cuts in defense spending while others have proposed small increases, all of them suggest that reforms are required to update our national defense strategy for current threats.

The third area for further consideration is tax reform. All groups participating in the Solutions Initiative agree that the current tax system is flawed and is in need of reform. They differ on the type of reforms they would implement, but, as noted above, all propose reductions in the size and scope of tax expenditures. Scaling them back could simplify the tax system, allow policymakers to reduce tax rates, and enhance economic growth. Some have called for a more fundamental reform of the tax code, proposing to scrap the current income tax system and replace it with a tax on income that is spent. Many also see opportunities for reforming the corporate tax system. However, there are major differences of opinion about whether tax reform should be used to reduce the deficit or should be revenue neutral. Future efforts at tax reform will have to grapple with these choices.

Time to Take Action

What emerges from this project is a clearer picture of the decisions and the trade-offs that must be made to reach the goal of fiscal sustainability. By clarifying what a sustainable fiscal policy would look like—from multiple perspectives and political philosophies—we hope to educate the public about the options for addressing our fiscal challenges and accelerate action on them.

On our current path, the levels of projected debt would very likely cause a major fiscal and financial crisis that would be disastrous for individuals, businesses, and markets. If foreign lenders—on whom we rely because of our dismal savings rate and growing deficits—were to lose confidence in the United States, they would charge substantially higher interest rates, which would make it much harder for American businesses to invest and create new jobs, for state and local governments to build and maintain critical infrastructure, and for families to pay for education, buy homes, and avoid foreclosure—all activities that are crucial to the nation’s general well-being and economic growth.

Further, the dramatically high levels of interest would crowd out badly needed investments and lead to long-term deterioration of our economy. Under these dire circumstances, the safety net could easily be shredded, leaving America’s neediest citizens even more vulnerable.

We do not have to follow this unsustainable path. A sustainable long-term budget path will allow for critical investments in education, research, and infrastructure—investments that lay a foundation for economic growth, job creation, and widely shared prosperity. Reduced interest costs will help to keep tax rates on individuals and businesses at reasonable levels. And the social safety net will be secure for those who need it.

It is imperative that policymakers capitalize on the momentum developed over the past year and lock in place a framework for long-term fiscal sustainability. By the time of the 2012 PGPF Fiscal Summit, we hope to be reviewing solutions that have been passed into law.

We are grateful to the leaders and staffs of the six organizations who participated in this exercise as well as the outside analysts. All six organizations' plans put the federal debt on a sustainable trajectory through 2035. Putting together comprehensive budget plans and evaluating them took a great deal of work, and all participants performed a valuable public service. The executive summaries of our grantees' six proposals are featured in this book, along with charts comparing how they addressed various key policy areas. For more information about any of the plans featured here, visit www.pgpf.org.

America can rise to this challenge, and will be far better off for doing so. A sustainable long-term fiscal path will serve as a foundation for long term American prosperity.

Solutions Initiative Plans – Highlights

The six proposals that follow are detailed efforts to address America’s unsustainable, long-term fiscal challenges. Experts at each organization approached this project with the goal of putting America on what they feel is a more prudent long-term fiscal path, and laying a foundation for economic growth. The diverse plans help to clarify the various choices that policymakers and the public will have to make to craft a sustainable fiscal policy. These budget proposals are more than a collection of numbers—they represent a vision for the nation that reflects the priorities and viewpoints of each organization.

To reach their goals, each Solutions Initiative grantee had to consider what role the federal government should play in American society—in promoting economic growth, ensuring national security, and providing support and services to seniors and the less affluent among us. They had to determine the size of government and, perhaps most basically, how much government should spend and how we, the people, should pay for it.

Our Fiscal Challenges

The Solutions Initiative grantees confronted a fundamental challenge. Nearly all economists agree that the ratio of government debt to gross domestic product (GDP) is an accurate gauge of a nation’s fiscal health. Many believe that governments should aim for a sustained debt-to-GDP ratio of 60 percent or less, and that a ratio over 90 percent is truly risky. Currently, U.S. publicly held debt is nearly \$10 trillion, or about 65 percent of GDP, which is high by many standards. (The current gross federal debt is \$14 trillion, which includes public debt and the debt issued to Social Security and other trust funds.¹)

Even though these are already high levels, the more significant challenges come in the future: on our current path, our debt is projected to grow far more quickly than the economy, which will cause the debt-to-GDP ratio to rise to unsustainable and dangerous levels.

The Congressional Budget Office uses two main projections of future debt-to-GDP levels.

- The “Alternative Fiscal Scenario” assumes health care costs remain on their current path and current tax rates (“the Bush tax rates”) remain in effect for families earning less than \$250,000.

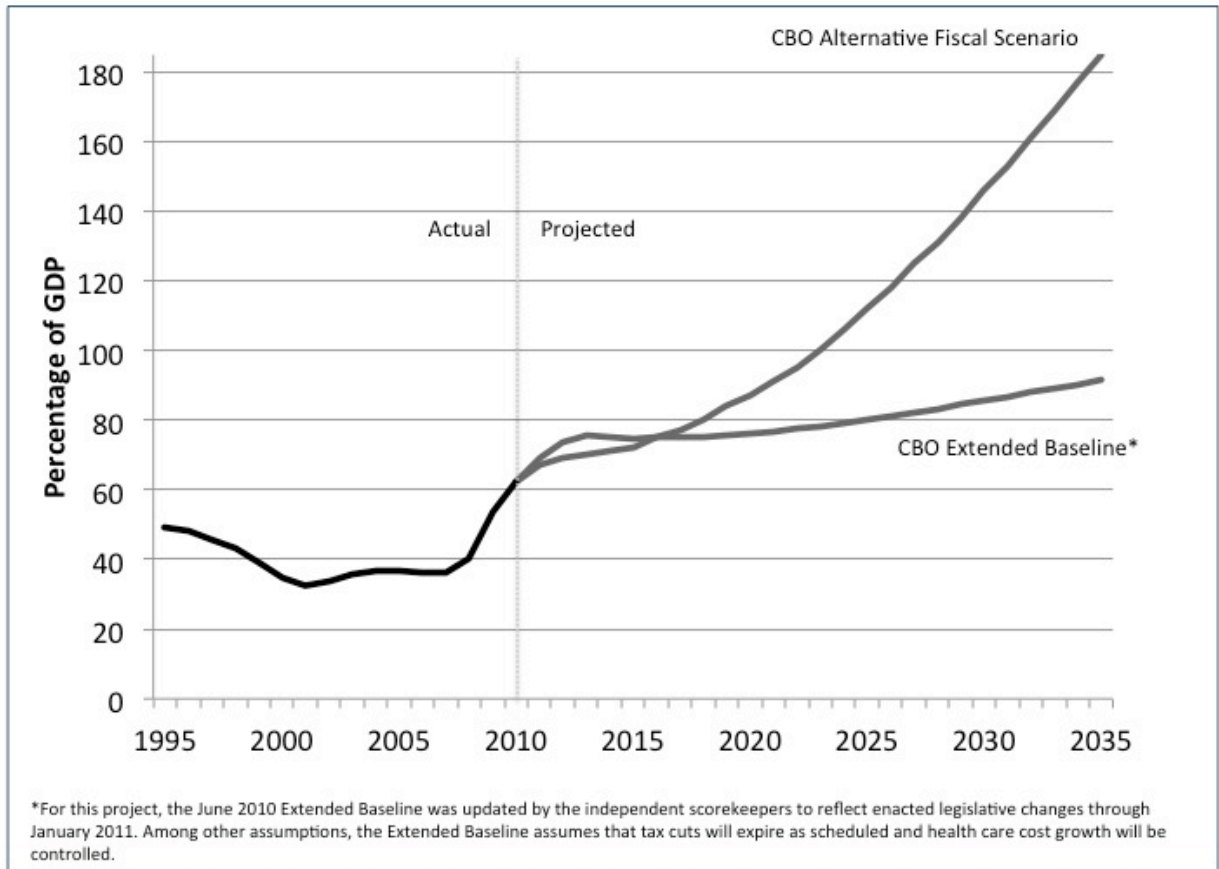
¹ The three common measures of the federal debt are: “debt held by the public,” “gross debt,” and “debt subject to limit.” Debt held by the public is debt issued to third parties, i.e. investors and foreign lenders. Gross debt includes debt held by the public, plus the debt issued to Social Security and other trust funds, which is essentially debt that the government owes itself based on past surplus contributions to the trust funds (plus interest). Debt subject to limit is gross debt, less certain debt issued by agencies other than the Treasury and the Federal Financing Bank; this debt recently reached the current limit of \$14.294 trillion, and the Treasury is taking extraordinary measures to stay at or below the limit.

- The “Extended Baseline Scenario” is a more optimistic fiscal scenario because it makes two crucial assumptions about fundamental sources of long-term fiscal imbalances: It assumes that the Bush tax rates expire for all Americans at the end of 2012 (as they are set to do unless Congress and the president take specific action to extend them); and it assumes that last year’s health reform will result in a slower growth rate of health care costs.

Either fiscal scenario leads to unsustainable levels of debt, though the Alternative Baseline leads to much higher levels due to its policy assumptions.

Current Federal Debt Outlook

(As percentage of GDP)



The largest factors contributing to long-term deficits are (1) demographics and (2) health care costs. Between now and 2030, the proportion of Americans over the age of 65 is expected to increase by 50 percent. This is due primarily to the Baby Boom and significant increases in longevity. After Baby Boomers fully retire, about 75 million Americans will be receiving Social

Security and Medicare benefits, with proportionately fewer workers to pay for them. The ratio of workers to Social Security recipients has declined dramatically from 17-to-1 in 1950 to 3-to-1 today, and will decline further in years to come.

Per capita health care costs also are skyrocketing, rising at more than twice the rate of overall inflation and more quickly than GDP. Through Medicare and Medicaid, the federal government pays about one-third of the nation's health bill, which means rising health costs have a major impact on federal spending.

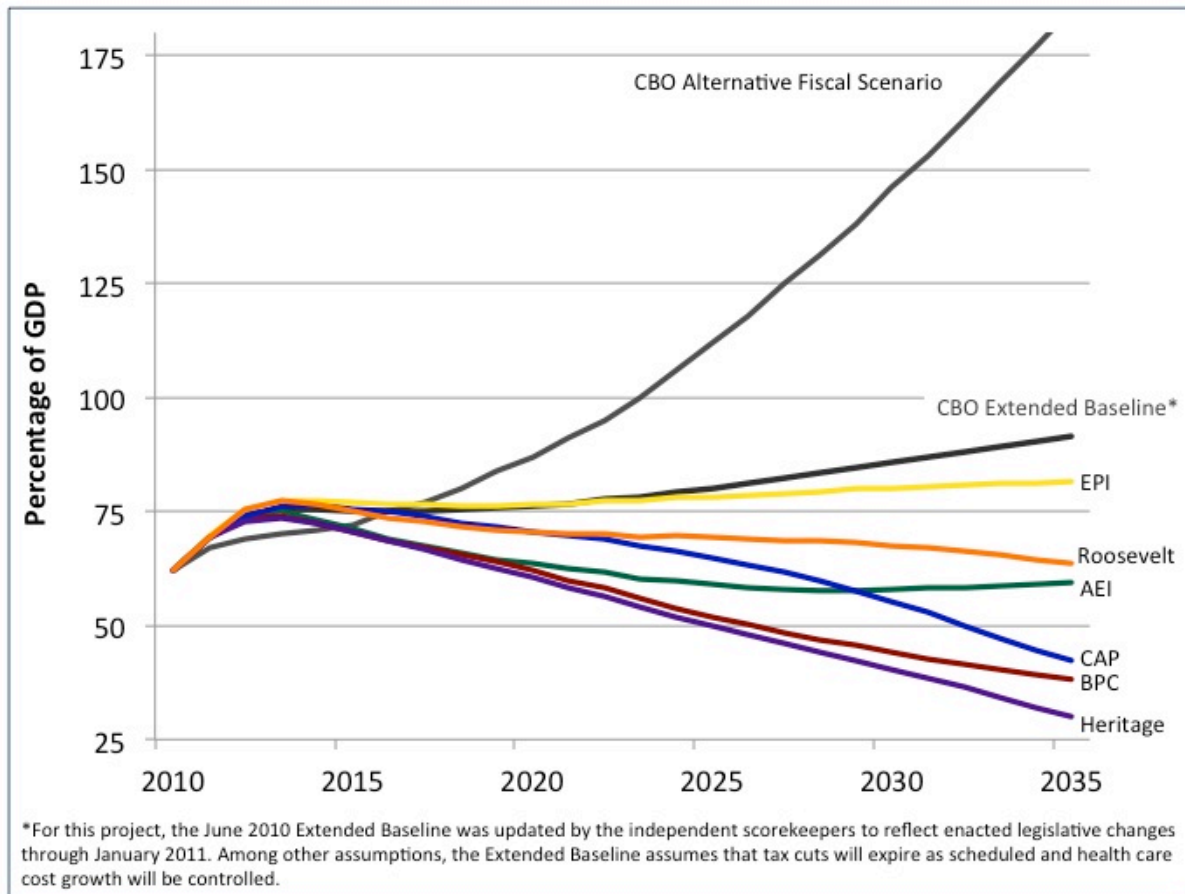
On the other side of the ledger, revenues are another key factor in our long-term fiscal challenges. While the current level of federal revenue (reduced because of the recent recession) is clearly inadequate, what level of revenue is necessary to fund the nation's priorities over the long term? Will the federal government be able to meet its responsibilities if revenues return to the average since 1960 of around 18 percent of GDP? Or will higher levels be necessary to meet growing needs? If so, how should revenues be raised?

Getting to Sustainability

All six grantees succeed in putting federal finances on a sustainable trajectory through 2035, and each plan contains proposals that would significantly restructure elements of the federal budget.

Projected Federal Debt Levels

(As a percentage of GDP)



The groups' projected levels of federal debt, spending, and revenue vary significantly.

- Projected debt-to-GDP ratios in 2035 range from 30 percent to 82 percent.
- Spending as a percentage of GDP in 2035 ranges from 17.7 percent to 27.8 percent.
- Revenue-to-GDP in 2035 ranges from 18.5 percent to 24.1 percent.

Solutions Initiative Plans:

Projected Budget Levels in 2035

(As percentage of GDP)

	<i>American Enterprise Institute</i>	<i>Bipartisan Policy Center</i>	<i>Center for American Progress</i>	<i>Economic Policy Institute</i>	<i>The Heritage Foundation</i>	<i>Roosevelt Campus Network</i>
Revenues	19.9%	23.1%	23.8%	24.1%	18.5%	22.9%
Spending	<u>22.8%</u>	<u>23.7%</u>	<u>23.2%</u>	<u>27.8%</u>	<u>17.7%</u>	<u>24.8%</u>
Deficit (-)/ Surplus (+)	-2.9%	-0.7%	0.6%	-3.7%	0.8%	-1.8%
Debt Held by the Public (end of year)	59.6%	38.2%	42.3%	81.7%	30.0%	63.6%

Controlling Health Care Costs

The grantees all agree that health care cost growth is a major threat to fiscal sustainability and must be restrained, both within the federal budget and across the American economy. Absent reform, the share of the federal budget devoted to health spending will increase by more than 50 percent over the next 25 years. The United States already spends more than twice as much on per-capita health costs than other advanced economies, but in many respects our health outcomes are no better, and are sometimes worse.

Grantees grappled with the question of how we will make choices to drive down costs. Some groups give the federal government more authority to limit cost growth through mandated spending restrictions. Other groups—The Heritage Foundation and researchers from the American Enterprise Institute (AEI)—would repeal the Patient Protection and Affordable Care Act (PPACA) and rely on market-based reforms. The Economic Policy Institute (EPI), Bipartisan Policy Center (BPC), the Roosevelt Institute Campus Network, and the Center for American Progress (CAP) would institute Medicare payment reforms to promote better coordination of care and reduce costs. Several groups also would seek aggressive implementation of the PPACA and CAP would expand the authority of Medicare’s Independent Payment Advisory Board (IPAB) to limit spending increases in the private insurance market if national health costs do not slow sufficiently. EPI, Roosevelt, and CAP also propose adding a public insurance option to the health insurance exchanges that will be set up to help people buy coverage.

The Heritage Foundation and AEI researchers would transform Medicare into a premium support program. Their proposals would put spending and cost-containment decisions in the hands of individuals and private-sector insurers. In this way, these private-sector actors would become responsible for, and be directly impacted by, the level of costs. BPC proposes a more generous premium support plan and also would allow seniors to remain enrolled in traditional Medicare unless they choose to enroll in a private plan.

To reduce the federal government's Medicaid costs, Heritage and AEI researchers would transform the program into a block grant to the states. Both groups would also provide additional assistance for low-income families.

Four grantees—AEI, BPC, Heritage, and Roosevelt—agree that the individual tax exemption of employer-sponsored health benefits (which employers also can deduct from income) should be phased out in an effort to make workers more conscious about the costs of their insurance decisions. This exclusion is the largest single tax expenditure, and is projected to cost more than a trillion dollars over the next five years.

Social Security Solutions

All plan participants grab the infamous “third rail” of American politics, proposing concrete changes to Social Security to make it more sustainable over the long run. Some groups focus on the tax side of the program; some focus on the spending side; others focus on both.

EPI, Roosevelt, BPC, and CAP would raise the cap on income subject to payroll taxes (currently \$106,800) and thus tax more income of higher earners. CAP and BPC also would reduce benefits for higher-income people, while enhancing benefits for the very old and the poor.

Heritage would eliminate payroll taxes; AEI researchers would do so for workers age 62 and older. Both would increase the retirement age, reduce the level of federal retirement benefits, and create universal savings accounts for all workers. The accounts proposed by Heritage would be voluntary, while AEI's accounts would be mandatory. Both groups also would institute a tax-advantaged, flat monthly Social Security benefit that would result in higher benefits for low-income Americans; Heritage would phase out the benefit at higher income levels.

Defense and Other Spending

The grantees present different visions for defense. Two groups (AEI and Heritage) would maintain defense spending at approximately 4 percent of GDP, while the four other groups propose making significant reductions in weapons systems and troop deployments to drive down defense spending.

CAP proposes to unify in a single spending category all security functions within the U.S. budget, including defense, veterans' affairs, homeland security, parts of the State Department, and nuclear weapons programs currently housed in the Energy Department. This is intended to provide a more comprehensive picture of how much the U.S. government spends each year on national security. BPC offers a similar proposal.

Looking beyond defense, all groups support a reduction in farm subsidies, but there are divergent opinions on other spending. AEI and Heritage propose sharp reductions in non-defense spending. By contrast, EPI, Roosevelt, and CAP propose increases in non-defense spending, especially for education, energy, and infrastructure.

Revenue

The Bowles-Simpson commission proposed tax reforms that would eliminate or reduce many tax expenditures, such as the mortgage interest deduction and the exclusion of employer-provided health benefits from income, and use the additional revenue to reduce income tax rates and lower projected deficits. Although many of the grantees took different approaches, all of them agree that the current tax system is overly complicated and support reducing tax expenditures to raise revenue or to achieve budget-neutral tax reform.

Heritage proposes a complete overhaul of the tax system that eliminates income and payroll taxes in favor of a flat tax rate on income that is not saved. As a result, this new system would tax consumption. AEI also proposes replacing the current individual and corporate income tax with a progressive consumption tax.

BPC would eliminate most tax expenditures, and would replace the current individual income tax rate structure with two rates—15 percent and 27 percent.

CAP and EPI would provide middle-class tax relief, raise rates on wealthier individuals, and introduce a millionaire surcharge. Under CAP's proposal, the surcharge would end when the budget is balanced. Roosevelt makes a novel proposal to link tax rates to income quintiles, rather than to specific dollar-based income levels, which reduces rates for all taxpayers except high-income filers.

Four of the six grantees include a carbon tax in their proposal, while three would impose a tax on financial transactions and large banks. BPC would add a 6.5 percent national sales tax to reduce debt.

Ideas into Action

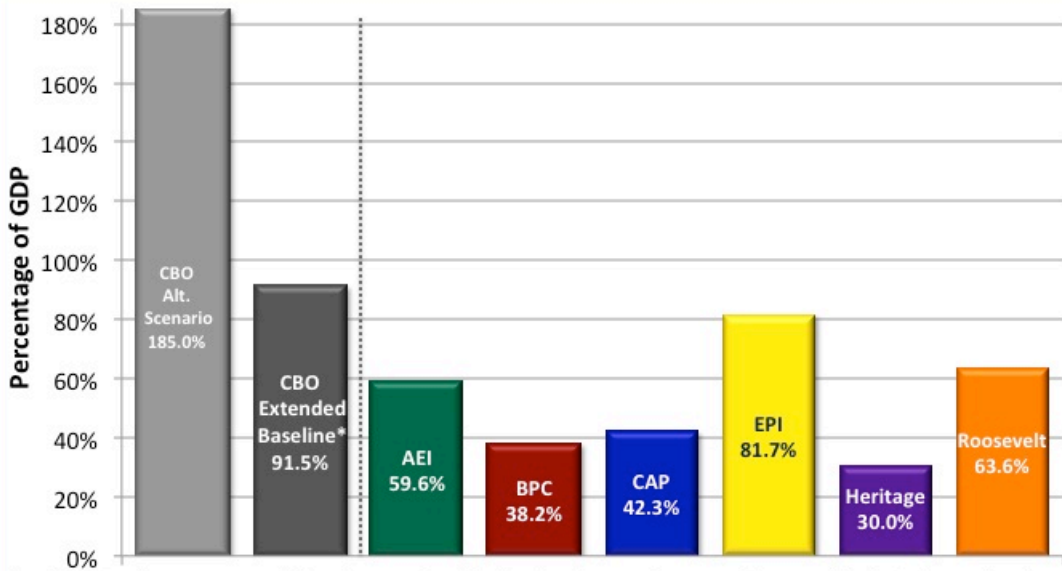
As you consider these plans, recognize that they are just that—plans. The future is uncertain. We have all found that long-term budget projections can vary quite widely from actual outcomes, as a result of not just policy decisions, but also a range of unanticipated factors including economic downturns, natural disasters, and national security requirements. Therefore, federal budget plans should be durable enough to stand up to future unknowns and flexible enough to allow the nation to respond to exigencies and readjust its priorities over time.

We know that the federal government’s responsibilities will grow in the years ahead, as tens of millions of Baby Boomers retire and begin receiving Social Security and Medicare benefits. Will working Americans be willing to pay more to provide those benefits? Can we exert enough downward pressure on rapidly rising health care costs (either through government entities or the private sector) to maintain government health spending at sustainable levels?

The Solutions Initiative plans that follow represent a wide range of opinions about our political, economic, and social priorities. The differences are sometimes stark and the choices are often difficult. But the six organizations represented here have done tremendous work and proven that our fiscal challenges are solvable—all we need to do is decide how.

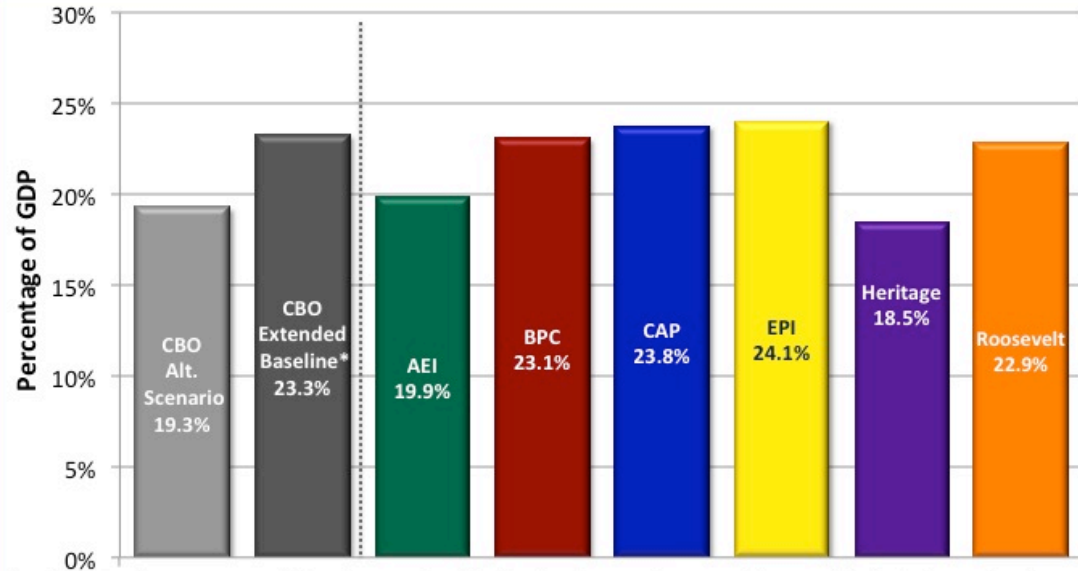
The seeds of a broad-based consensus exist in these proposals. Now it is time for policymakers to act.

Solutions Initiative Plans:
Projected Federal Debt Levels in 2035
 (As a percentage of GDP)



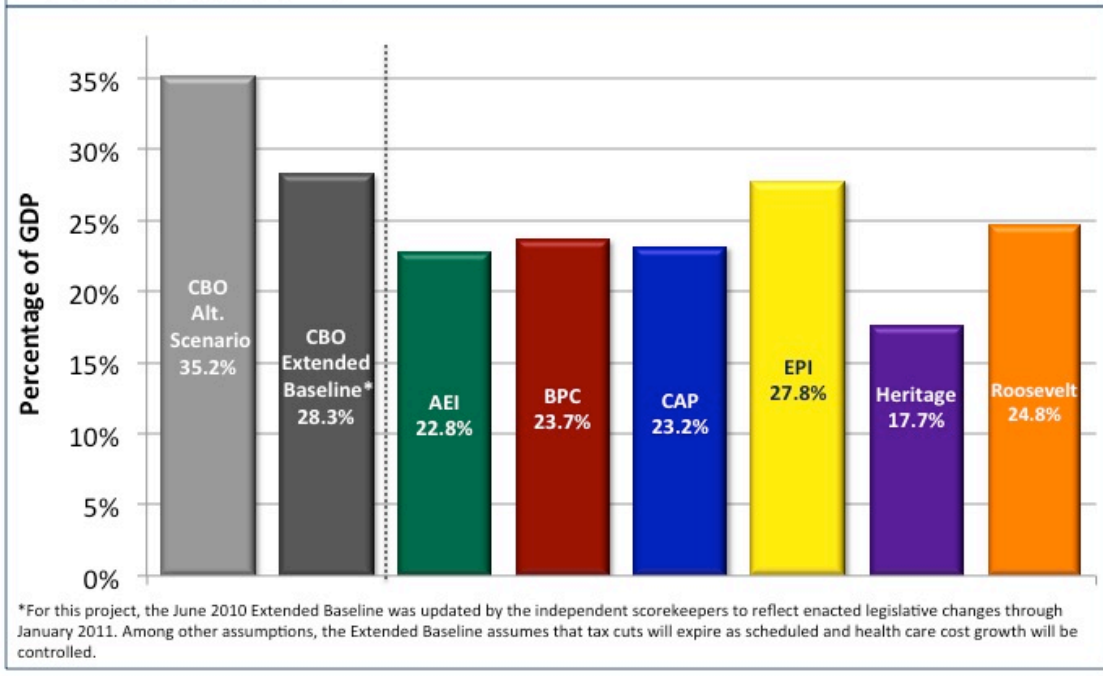
*For this project, the June 2010 Extended Baseline was updated by the independent scorekeepers to reflect enacted legislative changes through January 2011. Among other assumptions, the Extended Baseline assumes that tax cuts will expire as scheduled and health care cost growth will be controlled.

Solutions Initiative Plans:
Projected Federal Revenue Levels in 2035
 (As a percentage of GDP)

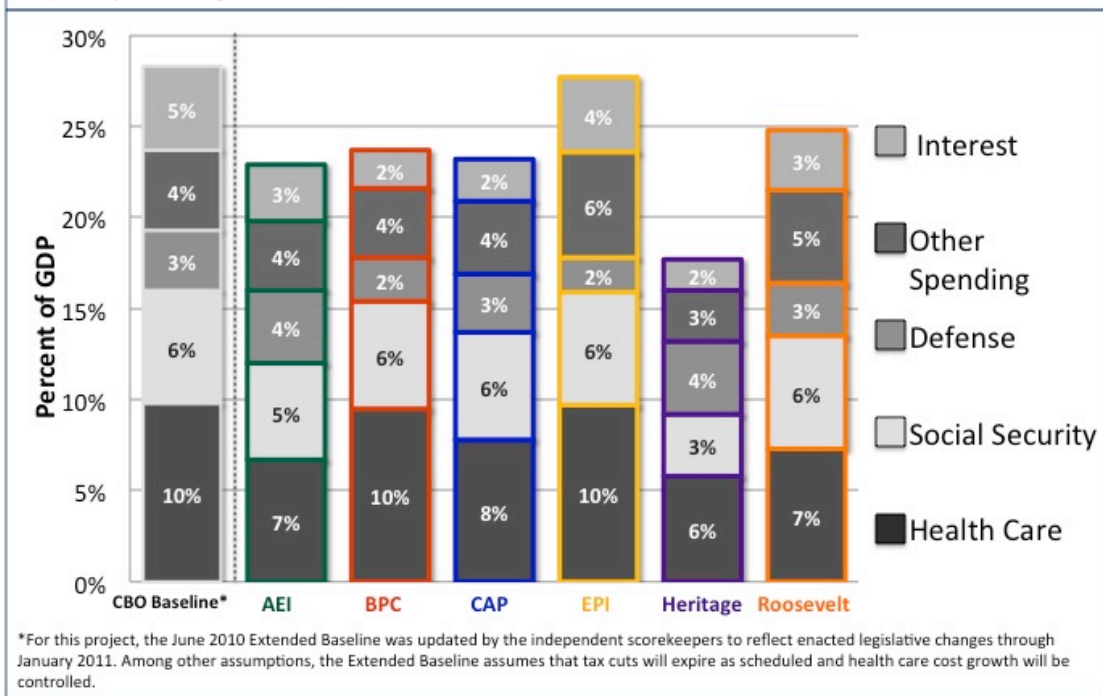


*For this project, the June 2010 Extended Baseline was updated by the independent scorekeepers to reflect enacted legislative changes through January 2011. Among other assumptions, the Extended Baseline assumes that tax cuts will expire as scheduled and health care cost growth will be controlled.

Solutions Initiative Plans:
Projected Federal Spending Levels in 2035
 (As a percentage of GDP)



Solutions Initiative Plans:
Composition of Projected Federal Spending in 2035
 (As a percentage of GDP)



PETER G. PETERSON FOUNDATION SOLUTIONS INITIATIVE

COMPARING POLICY PROPOSALS

	American Enterprise Institute	Bipartisan Policy Center	Center for American Progress	Economic Policy Institute	The Heritage Foundation	Roosevelt Campus Network
HEALTH						
Government						
MEDICARE	Convert to premium support that is adjusted by income	Convert to premium support; bundling & related payment reforms	Expand IPAB authority to all providers	Bundling & related payment reforms	Convert to premium support that is adjusted by income	Bundling & related payment reforms
		Retain traditional Medicare as default	Other payment reforms	Technology & effectiveness investments to reform care delivery	Raise eligibility age & link it to longevity	Fund & implement effectiveness research to reform care delivery
MEDICAID	Convert into grant to states	Reallocate financing between states & federal government			Convert nursing home/disability into grant to states; direct assistance to others	
HEALTH REFORM	Repeal		Exchanges made active purchasers; add weak public option	Add public option	Repeal	Add public option

For more detail, please see the executive summaries of each plan, which are also available at www.pgpf.org. Plans are available in their entirety on each organization's website.

	American Enterprise Institute	Bipartisan Policy Center	Center for American Progress	Economic Policy Institute	The Heritage Foundation	Roosevelt Campus Network
HEALTH						
Private						
	End tax exclusion of employer-sponsored insurance	Phase-out tax exclusion of employer-sponsored insurance	High cost growth triggers payment reforms	Technology, effectiveness investments to reform care delivery	End tax exclusion of employer-sponsored insurance	End tax exclusion of employer-sponsored insurance
	Provide tax credit to purchase insurance, adjusted by income				Provide tax credit or direct assistance to purchase insurance, adjusted by income	Provide refundable tax credit to purchase insurance
	Reform malpractice laws	Reform malpractice laws				Reform malpractice laws
SOCIAL SECURITY						
CHANGES TO BENEFITS	Flat \$850 monthly benefit, indexed to wage growth	Link growth of benefits to longevity; enhance for very old & poor	Reduce initial benefits for wealthy; enhance for very old & poor; benefit modernizations		Flat \$1,200 monthly benefit with an income-based phase-out, indexed to wage growth	Reinstate student survivor benefit
	Raise early retirement age				Raise retirement ages & link to longevity	
OTHER	Universal savings accounts				Auto-enrolled, voluntary savings accounts	
CHANGES TO PAYROLL TAX	Eliminate tax for workers age 62 & over	Increase cap to 90% of earnings	Eliminate cap for employers	Increase cap to 90% of earnings; eliminate cap for employers	Eliminate tax; finance program from flat tax	Increase cap to 90% of earnings; plus 4% above cap

For more detail, please see the executive summaries of each plan, which are also available at www.pgpf.org. Plans are available in their entirety on each organization's website.

	American Enterprise Institute	Bipartisan Policy Center	Center for American Progress	Economic Policy Institute	The Heritage Foundation	Roosevelt Campus Network
DEFENSE						
	Hold constant at 4% GDP	Hard freeze for five years, then grow with GDP	Cuts to weapons systems & troop deployments	Cuts to weapons systems & troop deployments	Hold constant at 4% GDP	Cuts to weapons systems & troop deployments
			Combined security budget cap at CPI + 1%			Reform/increase cyber, research, & foreign aid
INCOME SECURITY, EDUCATION, TRANSPORTATION, AND OTHER GOVERNMENT PROGRAMS						
	Reform & reduce farm subsidies	Reform & reduce farm subsidies	Reform & reduce farm subsidies	Reform & reduce farm subsidies	Reform & reduce farm subsidies	Reform & reduce farm subsidies
	Reductions in additional programs	Reforms to federal pensions	Increases in education, energy, infrastructure, & anti-poverty; cuts in other areas	Increases in education, energy, & infrastructure	Devolve transportation to states; cut, eliminate, privatize many others	Increases in education, energy, & infrastructures
	Reforms to federal pensions	Hard, four-year freeze on discretionary	Cap non-security discretionary spending		Return many to 2008 levels	Increase anti-poverty funds
INDIVIDUAL REVENUES						
	Replace with progressive consumption tax	Reform by broadening base & lowering rates; tax capital gains as ordinary income	Broadens base & modifies structure to reduce low & moderate tax rates; add temporary millionaire surcharge	Extend middle-class cuts, repeal high-income cuts, limit capital gains preference; add millionaire surcharge	Replace with modified flat tax on income used for spending; savings & senior benefits untaxed	Link rate structure to share of national income, reducing rates for all but high-income earners

For more detail, please see the executive summaries of each plan, which are also available at www.pgpf.org. Plans are available in their entirety on each organization's website.

American Enterprise Institute	Bipartisan Policy Center	Center for American Progress	Economic Policy Institute	The Heritage Foundation	Roosevelt Campus Network
CORPORATE REVENUES					
Replace with progressive consumption tax	Replace rate structure with flat 27% rate	Eliminate deductions	Tax foreign income as it is earned	Replace with modified flat tax on net cash flow	Reduce rates in all brackets by 3 percentage points
TAX EXPENDITURES					
Eliminate most; retain & simplify charity, mortgage interest, families, work	Eliminate most; retain & simplify charity, mortgage interest, families, work	Eliminate most; replace deductions & exemptions with credits	Convert charity & mortgage interest deductions into credits, cap remaining, extend/expand many refundable credits	Eliminate most; retain charity, mortgage interest, work, & add higher education	Eliminate mortgage interest deduction & reduce the value of those that remain by half
Modify research credit	Eliminate nearly all corporate	Extend research credit	Extend research credit	Modify research credit	Eliminate many corporate
		Eliminate fossil fuel production subsidies	Eliminate fossil fuel production subsidies		
OTHER TAXES					
Carbon tax	Initial 6.5% consumption tax phased down over time	Carbon tax & increase gas tax	Carbon tax & increase gas tax	Repeal estate & gift taxes	Carbon tax & repeal gas tax
		Tax financial transactions & large financial institutions	Tax financial transactions & large financial institutions		Tax financial transactions & institute a tax on systemic risk financial firms
Repeal estate & gift taxes	Initial 6.5% consumption tax phased down over time	Modify estate tax	Modify estate tax		
		Increase taxes on alcohol; increase cigarette tax; legalize and tax internet gambling	Adopt excise on sweetened beverages	Repeal nearly all excises	

For more detail, please see the executive summaries of each plan, which are also available at www.pgpf.org. Plans are available in their entirety on each organization's website.

Peter G. Peterson Foundation
 Fiscal Solutions Initiative
 Projected Budgets in 2021 and 2035
 (Percent of GDP)

	Baseline		AEI		BPC		CAP		EPI		Heritage		Roosevelt	
	2021	2035	2021	2035	2021	2035	2021	2035	2021	2035	2021	2035	2021	2035
Spending														
Health	7.4	9.8	5.7	6.7	7.6	9.5	7.3	7.8	7.3	9.7	4.2	5.8	6.9	7.3
Social Security	5.3	6.2	4.9	5.3	5.2	5.9	5.2	5.9	5.3	6.2	3.9	3.4	5.3	6.2
Defense	3.6	3.3	4.0	4.0	2.7	2.4	3.5	3.2	2.3	1.9	4.0	4.0	3.1	2.9
Income Security, Education, Transportation, and Other Government Programs	4.3	4.4	3.6	3.8	3.5	3.8	4.8	4.0	6.2	5.8	3.4	2.8	5.2	5.1
Subtotal,														
Noninterest	20.7	23.7	18.2	19.8	19.0	21.6	20.8	20.9	21.2	23.6	15.6	16.0	20.5	21.5
Interest	3.3	4.6	2.7	3.1	2.6	2.1	3.0	2.3	3.3	4.1	2.5	1.7	3.0	3.3
Total														
Spending	24.0	28.3	20.9	22.8	21.6	23.7	23.8	23.2	24.5	27.8	18.1	17.7	23.5	24.8
Revenues	20.8	23.3	19.5	19.9	21.5	23.1	22.3	23.8	21.6	24.1	18.3	18.5	21.5	22.9
Deficits (-)														
Surplus (+)	-3.2	-5.0	-1.3	-2.9	-0.1	-0.7	-1.6	0.6	-2.9	-3.7	0.2	0.8	-2.0	-1.8
Debt held by the public	76.7	91.5	62.6	59.6	59.9	38.2	69.7	42.3	76.5	81.7	58.2	30.0	70.0	63.6

Solutions Initiative Plans
Sources of Projected Reduction in Debt by 2035
(As a percentage of GDP)

	American Enterprise Institute	Bipartisan Policy Center	Center for American Progress	Economic Policy Institute	The Heritage Foundation	Roosevelt Campus Network
2035 Debt: CBO Extended Baseline ¹	91.5%	91.5%	91.5%	91.5%	91.5%	91.5%
Cumulative change ² in debt by 2035 due to:						
• Revenue policies	+27.8%	-6.7%	-17.0%	-13.6%	+50.9%	-6.0%
• Spending policies	-45.3%	-25.7%	-17.6%	+6.1%	-89.5%	-12.8%
• Debt service	<u>-14.5%</u>	<u>-20.9%</u>	<u>-14.5%</u>	<u>-2.3%</u>	<u>-23.0%</u>	<u>-9.1%</u>
Total reduction in debt	-32.0%	-53.3%	-49.2%	-9.8%	-61.5%	-27.9%
Plans' Debt Levels in 2035	59.6%	38.2%	42.3%	81.7%	30.0%	63.6%
Contribution ³ toward debt reduction from:						
• Revenue policies	-87%	+13%	+35%	+139%	-83%	+22%
• Spending policies	+142%	+48%	+36%	-62%	+146%	+46%
• Debt service	<u>+45%</u>	<u>+39%</u>	<u>+29%</u>	<u>+23%</u>	<u>+37%</u>	<u>+33%</u>
Total	100%	100%	100%	100%	100%	100%

¹ For this project, the June 2010 Extended Baseline was updated by the independent scorekeepers to reflect enacted legislative changes through January 2011.

² Negative (-) changes indicate a reduction in debt, due to either spending cuts or revenue increases. Positive (+) changes indicate an increase in debt, due to spending increases or tax cuts. Numbers may not sum to totals due to rounding.

³ Negative (-) contributions are changes that increase the debt. Positive (+) contributions are changes that reduce the debt. The sum of the contributions equals 100 percent of the total debt reduction under each plan. Numbers may not sum to totals due to rounding.



A Balanced Plan for Fiscal Stability and Economic Growth

American Enterprise Institute²

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

INTRODUCTION

The objective of this plan is to re-establish a balance between federal spending and revenue that achieves long-term fiscal stability and promotes economic growth. We cannot simply tax our way to a balanced budget without suffering the consequences of a sluggish economy and reduced prosperity. We also cannot simply cut spending without risking the loss of essential services for an aging population, undercutting our infrastructure on which economic growth builds, and reducing our ability to defend the country against its enemies.

Our proposals are intended to limit the national debt to 60 percent of annual GDP in 2035. Ambitious cuts in federal spending are required to achieve that goal while minimizing tax burdens on the American people and the drag that high marginal tax rates impose on long-run economic growth.

We are under no illusion about the difficulty of this task. These policies will require real sacrifices of many families and will be politically 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 resolve the fiscal crisis.

The major entitlement programs—Medicare, Medicaid, and Social Security—will account for most of the unsustainable growth in long-term federal spending. The Patient Protection and Affordable Care Act (PPACA) introduces a new subsidy for health insurance in 2014 that will add to the fiscal pressure and contribute to the inflationary pressures that make health care increasingly unaffordable. Spending also must be reduced in other federal programs, but fiscal stability cannot be achieved without reforming our health and retirement programs.

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 impose unnecessary restrictions on 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

² 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.

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 PPACA and replace it with a new set of policies based on market principles and budget realities. Nonetheless, the major objectives of that legislation (such as creating an organized marketplace for insurance, better information for consumers, and expanded federal insurance subsidies for those most in need) are reflected in new policies better able to achieve those goals.

The Social Security reform is 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 the coming decades. That 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.

Our proposal eliminates unnecessary and duplicative programs government-wide, and focuses the remaining programs on their core missions to maximize their value and efficiency. That does not preclude expanding some programs that are particularly effective while contracting others whose value is lower. Defense spending is subject to these budgetary restraints, but the proposal maintains adequate military capacity to protect U.S. and allied interests. Moreover, in the event of significant new threats, we assume that adjustments in other programs would be made to ensure our country's security.

The federal government raises much of its revenue from individual and corporate income taxes, which are biased against saving and investment. Our proposed tax reform replaces the income tax system and the estate and gift tax with a progressive consumption tax, thereby eliminating the tax penalty on saving and investment. To address environmental concerns in a more market-friendly manner, the proposal replaces an array of energy subsidies, tax credits, and regulations with a carbon tax.

Our proposal seeks to bring 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 and by using an economically efficient consumption tax to raise the revenue that is needed. Real federal spending would continue to increase under the proposal, but significantly slower than it would increase without these reforms.

SPENDING

Medicare, Medicaid, and other federal health programs

Our proposal caps federal subsidies for insurance, promotes effective competition and innovation in the health sector, reduces regulatory burden, develops better consumer information, and lowers everyone's unrealistic expectations. Subsidies in all federal health programs would be

made more progressive, helping those who most need the help. Such policies will provide strong incentives for the private sector to develop new ways to deliver care that improve efficiency and lower the cost 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. Total Medicare spending would average about 1.2 percentage points slower growth than under current law. This policy is effective starting in 2013. It would be desirable to phase premium support in over 10 or more years, allowing individuals and the health system time to adjust to placing Medicare on a budget. However, a phase-in period also delays the spending reductions needed to achieve our long-term fiscal goal.

Other reforms would address long-standing problems in traditional Medicare. Medicare's eligibility age would be increased gradually to 67, consistent with Social Security. Until premium support is effective, the basic premiums for Medicare Part B and Part D would increase from 25 percent to 40 percent of each program's cost. 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, and 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 57 percent of total costs on average. 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 block grants eliminates this perverse incentive and permits states to manage their Medicaid programs more efficiently. Federal Medicaid costs would grow with the economy, allowing for some additional savings due to increased efficiency in the health sector.

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 may 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. The health reform legislation establishes a new subsidy for individuals with incomes below 400 percent of poverty who buy insurance through the exchanges. Both programs would be 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 risk. That eliminates the current system's incentive to purchase more expensive coverage and its favoritism toward higher-income purchasers.

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 would stifle 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

The proposal will 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 will 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, disabled persons, and survivors regardless of their earnings history. The benefit is based on the current elderly poverty threshold and indexed to wage growth. In addition, percent of each worker's earnings would be paid into a retirement savings account, with equal contributions from the worker and employer. The combined benefits would roughly replicate the generosity and progressivity of Social Security under current law, but would provide significantly better poverty protections for low earners while reducing the tax burden on the economy. 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 on the economy and on government budgets. 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.

Defense and other spending

Defense spending levels are based on the security needs of the country, rather than arbitrary budget targets. Productivity improvements and reductions in outdated, ineffective, and excessively expensive weapons systems can produce greater defense capability for less money. In addition, military personnel management and compensation policies can be modified to

reduce costs. The proposal assumes that defense spending would average 4 percent of GDP over the long term.

Spending for mandatory programs (other than the health entitlements and Social Security) would be reduced by eliminating farm subsidies, reducing federal pensions, eliminating the refundable portion of the child credit, and miscellaneous cuts in such things as social services and rural investment. The proposal assumes that spending for this category of programs would be reduced annually by 0.3 percent of GDP; in 2035, spending would decline from the baseline level of 1.5 percent to 1.2 percent of GDP.

Other discretionary programs would also face budget cuts. Deep reductions would be made in community and regional development, energy and agriculture spending, and other programs. Additional savings would accrue in all programs from reductions in federal employee compensation. The proposal assumes that spending for those programs in total would be set at 2.6 percent of GDP; in 2035, spending would decline from the baseline level of 2.9 percent of GDP to 2.6 percent.

REVENUES

Recognizing the costly health and welfare burdens imposed by an aging population, our revenue target is 19.9 percent of GDP. Although somewhat above the historical average, this level of revenue is far below the disturbingly high levels (greater than 23 percent of GDP in 2035) that would result from leaving current law in place. Holding the revenue share to 19.9 percent will require the type of aggressive spending discipline outlined in this proposal. We also propose fundamental tax reform to ensure that additional revenues are raised in a manner conducive to long-run economic growth.

Replacement of income and estate taxes by Bradford X tax

A Bradford X tax would be instituted, along the lines of the Progressive Consumption Tax plan discussed, but not endorsed, by the 2005 Tax Reform Panel. The X tax consists of a flat-rate, firm-level tax on business cash flow and a graduated-rate, household-level tax on wages, fringe benefits, and defined-benefit pension payments. The X tax would replace the individual and corporate income taxes and the estate and gift tax on January 1, 2013, subject to transition rules

Although the X tax is administratively similar to an income tax, the combination of two features makes it a consumption tax. First, households do not pay tax on interest, dividends, capital gains, or other income from savings. Second, firms immediately deduct business investments, rather than depreciating them over time. Economic theory indicates that there is then no net tax on a marginal new investment, because the tax savings from the immediate deduction fully offset, in present value, the tax on the investment's subsequent cash flows. With no marginal tax on new saving at either the firm or household level, the X tax is a consumption tax.

A constant 35 percent tax rate will apply to firms' cash flow and to wages in the highest bracket, with lower rates on other workers. Initially, a 15 percent tax rate will apply to the first \$50,000 of taxable earnings and a 25 percent rate will apply to taxable earnings between \$50,000 and

\$100,000. The 15 and 25 percent tax rates may vary over time to keep revenue at 19.9 percent of GDP in future years.

Households would be allowed a 15 percent refundable credit for charitable contributions, in excess of an annual floor of \$500; a nonrefundable \$500 child credit; the earned income tax credit, generally computed under 2012 tax rules; a refundable health insurance credit, as detailed above; and deductions for some child care and employee business expenses.

All investment, including equipment, structures, land, and inventories, would be expensed under the firm-level tax. With minor exceptions, the tax would be real-based and disregard financial transactions. Business tax preferences, except a reformed and permanent research tax credit, would be abolished.

Changes to payroll taxes

Employer-provided health insurance and other fringe benefits would be subject to payroll taxes. Workers aged 62 or older would be exempt from payroll taxes.

Replacement of energy subsidies, credits, and regulations by carbon tax

Subsidies for ethanol and other alternative fuels would be abolished (except some basic research on renewable energy), along with energy tax credits and regulations intended to lower greenhouse gas emissions. Instead, a carbon tax would be imposed in 2013, phased in at a uniform pace over five years, so that the 2017 tax would be slightly more than \$26 per metric ton of CO₂ equivalent. The tax would then increase 5.6 percent per year through 2050.

CONCLUSION

There are no easy solutions to the country's fiscal crisis, and further delay will only make the decisions harder. An aging population will put increasing demand on government health and retirement programs whose costs are borne by younger generations worried about paying for their own families' needs. The challenge is finding a balance between those competing demands. A fiscally sound policy will require greater self-reliance, but does not mean that our society will turn its back 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.

American Enterprise Institute

Percent of GDP	2021	2035
Revenues	19.5	19.9
Spending	<u>20.9</u>	<u>22.8</u>
Deficit (-)	-1.3	-2.9
Debt Held by the Public	62.6	59.6



BIPARTISAN POLICY CENTER

Restoring America's Future

Bipartisan Policy Center's Debt Reduction Task Force
Senator Pete Domenici and Dr. Alice Rivlin, Co-Chairs

INTRODUCTION

The federal budget is on a dangerous, unsustainable path. Even after the economy fully recovers from this deep recession, federal spending is projected to rise substantially faster than revenues and the government will be forced to borrow ever-increasing amounts. Federal debt will rise to unmanageable levels, which will push interest rates up, endanger our prosperity, and make us increasingly vulnerable to the dictates of our creditors, including nations whose interests may differ from ours.

This alarming prospect was created by the actions of both political parties over many years, with strong public approval. Promises to provide benefits and services through Medicare, Medicaid, Social Security and many other spending programs, as well as reductions in taxes, were extremely popular and both parties took credit for them. But now, with an aging population and increasingly expensive health care, federal spending will rise much faster than revenues if those popular policies are not changed. The only hope is for the two parties to come together around a bipartisan plan—which liberals, moderates, and conservatives alike see as fair—and work together to make it a reality.

We offer this plan as proof that a group of Republicans, Democrats, and independents can work together to create a balanced package of spending cuts and revenue increases that solves the debt crisis. Other groups might prefer other combinations of policies to reach the same ends. We created this plan to show that it can be done—and thereby encourage others from both political parties to bring their ideas to a constructive, respectful, and ultimately successful dialogue.

This proposal attacks our debt problem from all sides and, by 2021, reduces and stabilizes the federal debt below 60 percent of GDP. Further, this plan will balance the budget in 2023. To succeed, federal spending is reduced from projected levels of 24 percent of GDP to 21.6 percent by 2021, with revenues at 21.5 percent. This requires taking a hard look at our tax code, health care system, Social Security, and all discretionary spending programs while making fundamental changes to our nation's budget process.

HEALTH CARE

- Incentivize employers and employees to select more cost-effective health plans:

- ✓ Cap the exclusion of employer-provided health benefits in 2018, and then phase it out over 10 years.
- Control Medicare costs in the short term:
 - ✓ Gradually raise Medicare Part B premiums from 25 percent to 35 percent of total program costs (over five years).
 - ✓ Use Medicare’s buying power to increase rebates from pharmaceutical companies.
 - ✓ Modernize Medicare’s benefits package by providing catastrophic coverage and updating the premium and coinsurance structure. To avoid having the modernized benefit structure become outdated, empower the Independent Payment Advisory Board to recommend changes every two years to parallel developments in the private insurance market.
 - ✓ Bundle Medicare’s payments for post-acute care to reduce costs.
- Preserve Medicare for the long term:
 - ✓ Transition Medicare, starting in 2018, to a “premium support” model that limits growth in per-beneficiary federal support (to GDP plus 1 percent, as compared to current projections of GDP plus 1.7 percent). The new system maintains traditional Medicare as the default, but will charge higher premiums if costs rise faster than the established limits. Alternatively, beneficiaries can opt to purchase a private plan on a health insurance exchange. Competition among plans should foster innovation, improve the quality of care, and increase efficiency.
- Control Medicaid costs in the short term:
 - ✓ Remove existing barriers for states seeking to enroll aged Supplemental Security Income (SSI) beneficiaries in managed care plans.
- Control Medicaid costs in the long term:
 - ✓ Beginning in 2018, reduce the amount by which Medicaid is growing faster than the economy (that is, reduce annual per-beneficiary cost growth by 1 percentage point).

- ✓ There are various approaches to achieving these savings. One option would be to reform the shared financing arrangement between the federal and state governments, which has led to gaming of the matching payment system and rising health care costs. Through a federal-state negotiation, allocate program responsibilities between the federal government and the states, so that each will fully finance and administer its selected components of the Medicaid program. This will restore incentives for cost containment, and slow future program spending growth.
- Reform medical malpractice laws:
 - ✓ Cap awards for noneconomic and punitive damages for medical malpractice.
 - ✓ Start large-scale testing of systemic reforms, including safe harbors for practices that conform to accepted guidelines, specialized malpractice courts, and administrative proceedings to resolve disputes.
- Help reduce long-term health care spending to treat obesity-related illnesses—including diabetes, heart disease, cancer, and stroke—by imposing an excise tax on the manufacture and importation of beverages sweetened with sugar or high-fructose corn syrup.
- The Task Force plan accommodates a permanent fix to the sustainable growth rate (SGR) mechanism that currently requires unrealistic automatic cuts in physician payments, which Congress has been annually delaying.

SOCIAL SECURITY

In order to guarantee that Social Security can pay benefits for the next 75 years and beyond:

- Gradually raise the amount of wages subject to payroll taxes (currently \$106,800) over the next 38 years to reach the 1977 target of covering 90 percent of all wages.
- Change the calculation of annual cost-of-living adjustments (COLAs) for benefits to more accurately reflect inflation. (This is a technical change that will be applied in all government programs that use COLAs, including the indexation of tax brackets.)
- Slightly reduce the growth in benefits compared to current law for approximately the top 25 percent of beneficiaries.

- Increase the minimum benefit for long-term, lower-wage earners, and protect the most vulnerable elderly with a modest benefit increase. The former is particularly targeted to address the needs of long-time laborers who are unable to remain in the workforce due to the demanding nature of their work.
- Beginning in 2023, index the benefit formula for increases in life expectancy and require the Social Security Administration to ensure that early retirees understand that they are opting for a lower monthly benefit. These changes will increase the incentive to work longer, while not changing either the age of full retirement or the early retirement age from those in current law.

Cover newly hired state and local government workers under the Social Security system, beginning in 2020, to increase the universality of the program.

DOMESTIC DISCRETIONARY SPENDING

- Freeze domestic (i.e., non-defense) discretionary spending for four years and cap at GDP thereafter.
- Implementing the freeze will require policymakers to terminate ineffective programs and set priorities across the broad range of government programs.
- Enforce the freeze through statutory spending caps, which, if exceeded, trigger automatic across-the-board cuts in all domestic discretionary programs.

OTHER MANDATORY SPENDING

- Reduce farm program spending by eliminating all farm payments to producers with adjusted gross incomes greater than \$250,000, imposing limits on direct payments to producers, consolidating and capping 16 conservation programs, and reforming federal crop insurance.
- Reform civilian retirement by calculating benefits based on a retiree's annual salary from his or her highest five years of government service; and reform the age at which career military can retire to be consistent with federal civilian retirement.
- Achieve other cost savings by raising fees for aviation security, actuarially adjusting flood insurance subsidies for risk, adjusting Pension Benefit Guaranty Corporation fees to better cover unfunded liabilities, and adopting a more accurate inflation measurement to calculate COLAs for all federal programs.

DEFENSE SPENDING

- Freeze non-war defense discretionary spending for five years and cap at GDP thereafter (baseline assumes reduction of troop levels deployed in combat to 45,000 by 2015).
- Among the options for achieving the required savings are streamlining military end strength, prioritizing defense investment, maintaining intelligence capabilities at a reduced cost, reforming military health care, and applying the savings from Secretary Gates' efficiency measures to deficit reduction.
- Implement the freeze through statutory spending caps, enforceable through automatic across-the-board cuts in all defense programs.

TAX REFORM

- Cut tax rates; broaden the tax base; boost incentives to work, save, and invest; and ensure, by 2018, that nearly 90 million households (about half of potential tax filers) no longer have to file tax returns.
 - ✓ Cut individual income tax rates and establish just two rates—15 and 27 percent—replacing the current six rates that go up to 35 percent.
 - ✓ Cut the top corporate tax rate to 27 percent from its current 35 percent, making the United States a more attractive place to invest.
 - ✓ Eliminate most deductions and credits and simplify those that remain while making them better targeted and more effective.
 - ✓ Replace the deductions for mortgage interest and charitable contributions with 15 percent refundable credits that anyone who owns a home or gives to charity can claim.
 - ✓ Restructure provisions that benefit low-income taxpayers and families with children by making them simpler, more progressive, and enabling most recipients to receive them without filing tax returns.
- Establish a new 6.5 percent national Debt Reduction Sales Tax (DRST) that, along with the spending cuts outlined in this plan, will reduce the debt and secure America's economic future. Once debt is stabilized below 60 percent of GDP, the DRST could be slowly phased down so long as debt as a percent of GDP remains on a declining path.

These reforms, taken together, will make the tax system more progressive.

BUDGET PROCESS REFORMS

- Prevent new tax cuts or new entitlement spending from worsening the fiscal situation by enacting a strict, statutory “pay-as-you-go” (PAYGO) requirement:
 - ✓ Require policymakers to fully offset new tax cuts, expansions of existing mandatory spending, or new mandatory spending with increases in revenues or reductions in mandatory spending.
 - ✓ Trigger fully offsetting automatic cuts in predetermined mandatory programs or increases in revenue if policymakers violate the requirement.
- Convert the federal budget process from annual to biennial budgeting.
- If the president and the Congress cannot agree on a comprehensive package of reforms upfront, create a new budget process mechanism—Save-as-you-Go (“SAVEGO”)—to mandate specific amounts of annual budget savings in different categories of the budget. Specifically, SAVEGO would create:
 - ✓ Appropriations spending caps for the next 10 years (Congress may choose to subdivide appropriations into separate categories, such as security and non-security).
 - ✓ A SAVEGO rule with required year-by-year amounts of deficit reduction in the rest of the budget (entitlement programs and taxes). We recommend that the Congress create two separate categories: healthcare and other.

In total, “Restoring America’s Future” is a moderate balance of spending cuts, tax expenditure cuts, and new revenues.

CONCLUSION

There are no easy answers, no quick fixes. Policymakers cannot solve the debt crisis simply by eliminating congressional earmarks or foreign aid. Nor can policymakers significantly reduce the debt by eliminating “waste, fraud, and abuse.”

Nor can policymakers realistically solve the problem simply by cutting domestic discretionary spending. Stabilizing the debt by 2020 through domestic discretionary cuts alone would require

eliminating all such spending—everything from law enforcement and border security to education and food and drug inspection.

Nor can policymakers rely on hopes of a strong economy to “grow our way out of the deficit.” Just to stabilize the debt at 60 percent of GDP, the economy would have to grow at a sustained rate of more than 6 percent per year for at least the next 10 years. The economy has never grown by more than 4.4 percent in any decade since World War II.

Nor can policymakers solve the problem simply by raising taxes on wealthy Americans. Reducing deficits to manageable levels by the end of the decade though tax increases on the most well-to-do Americans would require raising the top two bracket rates to 86 percent and 91 percent (from the current 33 and 35 percent rates).³

This bipartisan, fair, and reasonable plan makes tough choices and requires sacrifice from all. Nothing less has a hope of restoring America’s future for our children and grandchildren.

Bipartisan Policy Center

Percent of GDP	2021	2035
Revenues	21.5	23.1
Spending	<u>21.6</u>	<u>23.7</u>
Deficit (-)	-0.1	-0.7
Debt Held by the Public	59.9	38.2

³ Rosanne Altshuler, Katherine Lim, and Robertson Williams, “Desperately Seeking Revenue,” Tax Policy Center, January 29, 2010, http://www.taxpolicycenter.org/UploadedPDF/412018_seeking_revenue.pdf.



Budgeting for Growth and Prosperity: A Long-Term Plan to Balance the Budget, Grow the Economy and Strengthen the Middle Class

Center for American Progress

Michael Ettlinger, Michael Linden, and Seth Hanlon

The purpose of the Center for American Progress plan for long-term deficit reduction is to build a strong American economy that provides the best opportunities for personal success of any country in the world, strengthens and builds a thriving middle class, and secures the position of the United States as the leading nation of the 21st century. To achieve this goal federal budget deficits must be brought under control to keep credit markets strong and interest payments to foreign creditors low. But a balanced federal budget is far from all that is needed.

America must also invest in its economic future to achieve the economy we envision. Most of America's investments are made by businesses and individuals, but the federal government plays critical roles as a direct investor in areas such as education, basic science, technology, and infrastructure, and as a catalyst for private investment. Without the federal government effectively playing these roles American economic growth will be weak, America will no longer be the global leader it is today, and all Americans will lose.

Central to our strategy is investing in the middle class. The America we know was built by middle-class workers and consumers, innovators, and entrepreneurs. The fortunes of the Forbes 400 have their roots in the opportunities our country has offered those in the middle class. Investments in the middle class are investments for a successful American economy.

The public sector's contribution to the economy we envision, however, goes beyond balanced budgets and investment. An economy must have a basic set of rules and protections that ensure trust and confidence in the marketplace. This role ranges from policing insider trading on Wall Street, to enforcing contracts, to ensuring that our food and medicine are safe. Certainly there is such a thing as too much regulation. But, as the recent financial market disaster painfully reminds us, there is also such thing as too little.

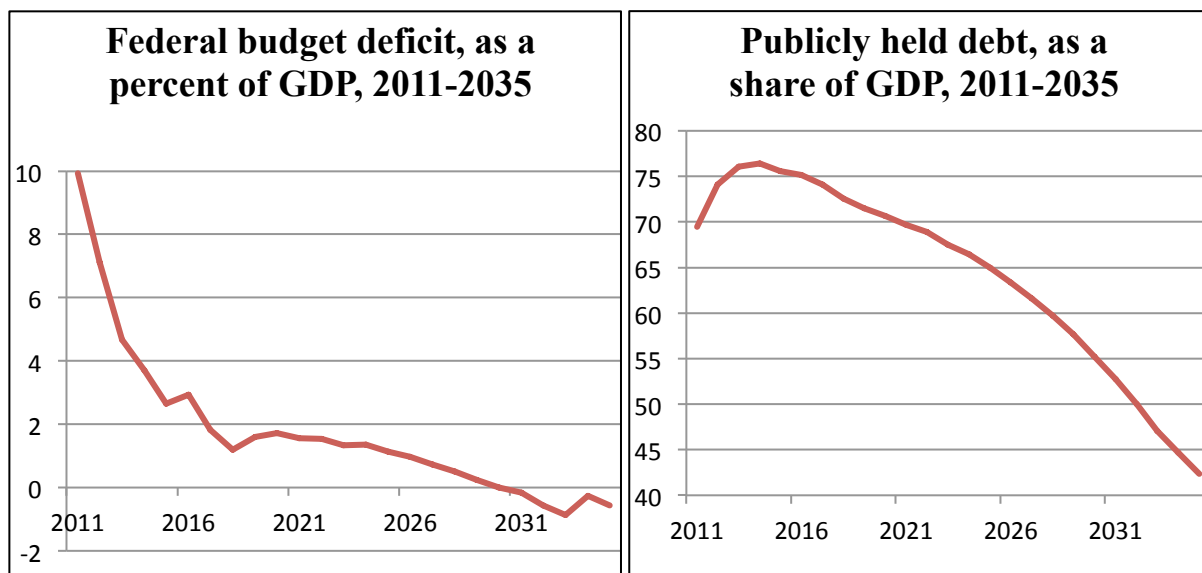
Our economic success also depends on our government providing the public services on which the nation relies in ways that are both effective and efficient. Finally, the tax system should offer incentives and disincentives that enhance economic growth and should address the growing inequality that undermines our national prosperity.

While the central motivation for the reforms we propose is the long-term success of the American economy, our plan also achieves several objectives motivated by other values. There are national responsibilities that simply must be honored whatever their economic payoff:

national security, public safety and health, preventing destitution, and honoring our commitments, including those to the elderly and disabled.

Our plan is also designed with an eye on the political journey our nation will have to take to achieve substantial deficit reduction, allowing time for the building of a consensus for the major reforms that will be necessary. We also must allow time for our economy to fully recover before administering the strongest deficit-slashing medicine. Deficit reduction that is too big, too fast, would be counterproductive—stalling growth and worsening our fiscal problems. Our most important national objective in the near term is to create jobs and get the economy back on track.

For these reasons our plan builds over time. The first stage hits an interim budget target of “primary balance” in 2015, with revenues equal to spending except for interest payments on the debt. Our path to primary balance gets the nation out of the deficit danger zone in a timely way without choking off economic recovery. Our plan for reaching primary balance is described in the Center for American Progress report “The First Step: A Progressive Plan for Meaningful Deficit Reduction by 2015.”



In 2017 and beyond, our plan puts in place the much more aggressive deficit reduction measures described below, and by 2030, our plan results in a fully balanced budget. Furthermore, it is our belief that the economic growth gained in the early years through deficit reduction, investments, and other measures will, in fact, lead to a balanced budget earlier than that year.

SPENDING

The federal government makes investments that are important to our economy, provides services to the public and carries out a variety of activities necessary to a well-functioning society. Our spending plan is designed to do those things well, do them efficiently, and do them at the appropriate level of public expenditure.

The CAP spending plan (1) makes significant new investments in key areas such as education, infrastructure, science, technology, and energy research, as well as areas that strengthen the middle class, (2) reduces spending while making government more efficient, maintaining public services that businesses and the public rely on, and ensuring our national defense through a reconfigured national security budget, (3) strengthens the social safety net where needed, and (4) brings under control the most substantial spending challenge facing the country: health care. The plan reduces spending from about 27 percent of GDP in 2030 in the extended baseline to under 24 percent of GDP. By 2035 spending is down to about 23 percent of GDP.

Investing to promote economic growth and a strong middle class

Starting in 2017 the CAP plan makes significant new investments in scientific research, all levels of education, clean energy technologies, and transportation and infrastructure—areas where nations around the world are making substantial commitments. Our plan makes major investments in strengthening the American middle class. All of these investments are necessities if the United States wants to avoid being surpassed as the country with the greatest opportunities, the best jobs, and the most powerful economy. They are essential if we want our nation to continue to be where the great ideas and the most innovation comes from and a nation where entrepreneurs thrive and build successful businesses, large and small.

Investments such as these are the foundation of a strong 21st century economy. The country that leads in basic scientific research obviously has a huge advantage in innovation and technology. The country that can rely on domestically produced renewable energy isn't exposed to the risks associated with relying on imports, keeps funds at home that would otherwise go abroad, and gets a leg up on what will be one of the most important industries of this century. And the country that invests in its middle class has educated, productive, and creative workers, a strong domestic market, a motivated workforce, and a population from which the greatest innovators and entrepreneurs emerge.

The investments we make include a doubling of spending on science, technology research, and renewable energy; large boosts in K-12 education, pre-K, and Pell grants; and a 20 percent hike in transportation and infrastructure spending.

Restraining discretionary spending while providing important services for the public and businesses

The CAP plan includes separate spending limits on a unified security budget and on non-security discretionary spending. Our unified security budget includes the distinct budgets of defense, homeland security, and international affairs—the budget areas that comprise the means by which we implement our national security policy.

Beginning in 2016, we set the limit on the unified security budget at about \$700 billion. This is approximately the same overall level, adjusted for inflation, as it was in 1986 at the height of the Cold War. From there, the cap rises at the rate of inflation plus one percentage point.

Our limits on non-security discretionary spending are set at specific levels designed to adequately fund the public services on which the public and businesses rely, and to make the investments described above. Overall, discretionary spending will make up about 6 percent of GDP in 2035, compared to 6.2 percent of GDP in the baseline.

Shifting nonhealth mandatory spending

The CAP plan reduces agricultural subsidies and constrains the growth in many other programs while allowing room for investments and patching holes in the social safety net. The safety net steps include increasing participation in the Supplemental Nutrition Assistance Program to 85 percent of eligible people, increasing the Supplemental Security Income benefit, increasing housing assistance by 20 percent, and boosting funding for children’s programs. These steps plus our investments in education will reduce the poverty rate to below 7 percent from its current level of over 14 percent. Preventing destitution is a moral obligation but pulling people off the economic sidelines into the mainstream serves national economic goals as well.

CAP has previously released a Social Security plan in our report, “Building It Up, Not Tearing It Down: A Progressive Approach to Strengthening Social Security,” that has a number of benefit adjustments that net to a reduction in outlays in 2030 from 6.0 percent of GDP to 5.8 percent.

Containing health care cost growth

Rising costs and an aging population make health care a major driver of our long-term deficits. Therefore, a key challenge in any deficit reduction plan is to lower these costs without sacrificing care for the millions of Americans who rely on public programs. Any approach that relies solely on savings from Medicare and other public programs without addressing rising health care costs economy-wide will only shift costs onto individuals and families, hurt the quality of care, or both. Co-pays will go up while providers leave the programs or make up lost revenue by raising private market rates on businesses and families.

To avoid that outcome, our plan brings down the costs of health care for everyone, not just those of the federal government. In this effort the Affordable Care Act, passed last year, is our most valuable tool. The new health care law has dozens of mechanisms, reforms, and pilot programs designed to bring down the costs of care, while improving the quality. The law also encourages the private sector to follow the public sector’s lead, and incentivizes public-private partnerships that bring down costs broadly. Backstopping all of this is the Independent Payment Advisory Board, whose mission it is to ensure that target savings are realized.

In our plan, aggressive implementation of PPACA, along with some enhancements to its existing cost-control mechanisms, will result in dramatically lower health expenditures, both for the federal government and overall. But predicting the exact effect of the myriad test programs and reforms in the new health law is fraught with uncertainty. Thus we also include a failsafe mechanism that would ensure significant savings. Our failsafe would be triggered if, starting in 2020, total economywide health care expenditures grow at a rate faster than the economy. Should that happen, we would empower the IPAB to extend successful reforms in Medicare and other public programs to insurance plans offered in the health care exchanges and then potentially to

all health care plans, such that the target is met. This will ensure that costs are constrained across the health care sector, preventing cost-shifting and maintaining access for all.

The effect of these reforms, along with our failsafe, will be to hold federal health spending to 7.4 percent of GDP in 2030, compared to 8.7 percent in the baseline. As importantly, they will lower the overall cost of health care, thus ensuring that reductions in Medicare do not result in providers leaving the program and that costs aren't shifted from the public to the private sector.

REVENUE

In the spending part of our plan we have constrained the areas of greatest growth, cut unneeded spending, and increased spending that is necessary to the future of our economy. Overall, our plan cuts spending by more than \$13 trillion below current projections for the next 25 years. But even after all our spending cuts, without some revenue enhancement, there would still be more spending than revenue. Compared to the baseline, we would still have a deficit of 2.5 percent of GDP in 2030.

When the economy is running well and we are at peace, running deficits unnecessarily weakens our nation. Thus, our plan raises additional revenue to balance the budget. It does so, however, in a way that simplifies a grotesquely complicated tax system, closes loopholes, eliminates special tax breaks that create unfair disparities among taxpayers, re-aligns the incentives of the tax system to better serve our economy and planet, cuts income taxes for middle-income taxpayers, and takes steps to address the inequality that undermines our national prosperity.

Personal income tax

Our plan makes the personal income tax simpler and fairer. It introduces a flat 15 percent rate for couples with incomes under \$100,000.⁴ Many loopholes, deductions, and exemptions are eliminated but the ones middle-class families most rely on are replaced by better-targeted credits. Thus, while taxpayers will no longer have “deductions” from income for mortgage interest, charitable contributions, etc., they will instead receive a direct reduction in their taxes through a credit equal to 15 percent of these costs. In addition, there will be a large flat “Alternative Credit” that taxpayers can choose instead of the itemized credits. This Alternative Credit works similarly to the current standard deduction. For 90 percent of Americans, choosing the Alternative Credit instead of the itemized credits will both lower their overall tax bill, and make filing simple and easy.

Most middle-class taxpayers will pay lower income taxes under our proposal. Tax rates are lower at most levels of taxable income. Overall, factoring in all the changes to the personal income tax in our plan, only those in the top 5 percent of the income spectrum will, on average pay higher taxes. All other income groups, on average, will pay less or the same.

⁴ Bracket amounts for singles are half of those for joint filers; amounts for heads of households are three-quarters those for joint filers.

For the wealthy, loopholes are closed and the top tax rate is restored to the level it was at under President Clinton during the 1990s economic expansion. A temporary surtax of 5 percent is added for ordinary income over \$1 million. The surtax expires once the federal budget is balanced. The top rate will still be lower than during most of the post-war period, including the country’s greatest period of economic growth. The top rate for capital gains is set at the level signed into law by President Reagan. The reforms make taxes simpler for the rich as well as the middle class by obviating the need for the Alternative Minimum Tax and various high-income phaseouts.

After years of successive tax cuts and rapidly increasing income (even as the income of typical Americans has stagnated or fallen) the wealthiest Americans can afford to pay more. Under our plan, *the average after-tax income of the richest 1 percent of Americans will still be over 40% higher than it was in 2001. The richest 5 percent will still have over 30 percent higher income.*

Personal Income Tax Change as a % of Income		
	Relative To:	
Income Group	Pre-Bush Tax Levels	Bush Tax Levels
Bottom 20%	-2.9%	-2.9%
Second 20%	-5.5%	-4.6%
Middle 20%	-4.9%	-3.7%
Fourth 20%	-2.6%	-1.4%
Next 15%	-1.2%	0.0%
Next 4%	-0.1%	+0.7%
Top 1%	+4.1%	+6.4%

Finally, once our plan achieves budget surpluses in excess of 1 percent of GDP, the Alternative Credit is raised substantially to simplify tax filing for still more people and further reduce middle-income taxpayers’ tax bills—while maintaining a federal budget in balance or small surplus. This is projected to occur in 2033.

Reducing greenhouse gas emissions and reliance on foreign oil with a price on carbon and an oil import fee

Our plan addresses the risks and economic damage from our heavy reliance on foreign oil and the dangers of climate change by imposing a price on emissions of carbon dioxide and other greenhouse gases, and an oil import fee of \$5 per barrel. Under our plan, greenhouse gas emissions will be reduced by 42 percent of 2005 levels by 2030 and 83 percent of 2005 levels by 2050.

For low- and middle-income taxpayers, any resulting rises in energy prices are offset by the benefits of reduced income taxes. And, in the case of those who do not owe personal income tax, often the elderly, a rebate program accounted for in our spending proposals provides an offset.

Financial transactions tax

Our plan imposes a modest fee on financial transactions, including trading in stocks, bonds, and derivatives. The tax is applied at a very low rate—less than two-tenths of a percent on stock trades. We believe the purpose of Wall Street is to raise capital for the productive sectors of the economy and that excessive financial speculation is harmful. An financial transaction tax (FTT) discourages unnecessary speculation while raising revenue. Our proposed FTT is modest compared to those imposed in other financial centers, including the United Kingdom and Singapore.

Other

There are a number of other tax changes in the CAP plan. Among them:

- Remove the cap on the employer side of the payroll tax as described in the CAP Social Security plan. Currently the payroll tax to fund Social Security is only applied to earned income up to \$106,800. Our proposal removes that cap, but only on the part of the Social Security tax paid by the employer—not the part paid by the employee.
- Restore the estate tax to approximately *pre-Bush-tax-cut levels*, but indexed for inflation.
- Adopt several revenue proposals in President Obama’s 2011 and 2012 budgets.
- Eliminate some industry-specific tax expenditures, including those for the oil industry.
- Other revenue measures including an internet gambling tax and superfund excise tax.

Overall, our plan raises revenues in 2030 by less than 2 percent of GDP compared to the baseline. That drops to 23.8 percent of GDP by 2035, just half a percentage point above the baseline.

CONCLUSION

Budgets reflect values. A family budget that puts money away for the parents’ retirement and the children’s education, makes donations to the family’s church and favorite charities, and buys insurance against future risks, reflects different values than a family budget that prioritizes fancy clothes and flashy cars over saving and planning. Similarly, a business that strives to update to the latest technology and upgrade the skills of its workforce is approaching its business very differently from one that forgoes research and development in favor of short-term profits.

The long-term budget plan outlined here reflects the values of the Center for American Progress. We believe that investments are critical for our national well-being, that we have obligations we must meet, and that we have to pay for what we spend. The country can, of course, choose a different path—the seemingly simple path of lower taxes, underinvestment, and abandoning our obligations. But the thrill of lower taxes would be a transitory one as, one way or another, the bills come due—lost competitiveness, broken promises, bad jobs, a weak economy.

Instead, we offer a plan that includes revenues that are fair alongside investments that will build the country we want for the future while keeping our commitments. That will, indeed, be an America making progress.

Center for American Progress

Percent of GDP	2021	2035
Revenues	22.3	23.8
Spending	<u>23.8</u>	<u>23.2</u>
Deficit (-)	-1.6	0.6
Debt Held by the Public	69.7	42.3



Investing in America's Economy: A Budget Blueprint for Economic Recovery and Fiscal Responsibility

Economic Policy Institute

John Irons, Andrew Fieldhouse, Ethan Pollack, and Rebecca Thiess

INTRODUCTION

In the wake of the largest recession since the Great Depression, the United States continues to face serious economic challenges. Nearly one in 10 workers is unemployed, and long-term unemployment is at record levels. Millions of other families face stagnant or declining incomes and worry about their economic futures. Out of these depressed economic conditions has emerged a national debate on the best pathway to restored economic growth and shared prosperity. While the right approach could accelerate our recovery, the wrong approach could deepen the economic slump while failing to restore fiscal balance.

One of the nation's economic challenges comes from the long-run imbalance between revenue levels and national spending, which will create an unsustainable deficit in the future. Bush-era tax cuts and a shrinking economy have led to significant budget deficits since the start of the recession. Revenue levels initially will recover as the economy picks up, but over the next few decades, public debt is projected to increase in the face of both inadequate revenue and rising health care costs.

While there are many paths to fiscal balance, only a path that fosters broadly shared economic growth and security will be viable in the long run. National economic policy should be designed to address not only the need to put the federal budget on a sustainable course for the future, but also the need to create jobs today and invest in America's future.

Our budgetary path is based on "Investing in America's Economy," a joint project with Demos and The Century Foundation. This path achieves the goals of creating jobs and investing in America while putting the federal budget on a sustainable course. The path stabilizes debt as a share of the economy without demanding draconian cuts to national investments or vital economic security programs. It provides substantial and sustained increased funding for job creation and investments, particularly in the near term, all while improving both the 10- and 25-year budget windows. Our path achieves primary budget balance by 2017, and improves the course of public debt in the long term. It provides a solid footing for Social Security, Medicare, and Medicaid in the long term, and modernizes the tax code in a way that raises adequate revenue fairly and efficiently.

An investment-oriented approach to economic policy helped create a strong middle class in the postwar period, and an ideology of disinvestment has helped to erode it in recent years. Another path—away from erosion of the middle class—is not only possible, but necessary.

SPENDING

Public investments are essential for economic growth and family security. Our spending priorities are guided by the notion that policies should strengthen the middle class and expand economic opportunities for everyone.

Public investments

With the above criteria in mind, we include significant public investments in our budget. Our investment path includes \$300 billion in annualized investments for 2011, \$250 billion for 2012, and \$200 billion for 2013. Beyond 2013 we grow investments with the economy through 2021, after which we sustain inflation-adjusted, per-capita spending levels. This funding is designed to create badly needed jobs in the short run while also sustaining longer-term investments in our nation’s economic future.

Our path would invest significantly in areas that promote growth and prosperity. Investments in areas such as education, infrastructure, and basic research have been shown to have high rates of return and should be expanded. Specifically, we recommend increasing investments in transportation, early childhood education and quality childcare, energy and broadband infrastructure, and general research and development. We believe investments in these high-return areas now can boost our human and physical capital and promote robust long-run economic growth. Finally we include upfront investments in health care to improve outcomes and lower costs.

Medicare, Medicaid, and other federal health programs

We propose the following policies to increase the efficiency of health care delivery by improving care while lowering costs:

- Establish a “public option” of government-provided health coverage—similar to Medicare—to complement health care reform by reining in costs while expanding access.
- Allow the Medicare program to negotiate prescription drug prices.
- Encourage caregivers to coordinate patient care by bundling Medicare payments for post-acute care, leading to better health outcomes and reduced cost.
- Enhance the Centers for Medicare & Medicaid Services program integrity authority, pursue other Medicare and Medicaid savings, and strengthen prescription drug reforms—building on the recently passed health care reform to promote savings and efficiency.

We additionally propose upfront investments in health information technology and comparative effectiveness research, which will provide additional efficiency savings in the long run and could reduce long-run health care costs. Our plan expects savings from these investments beginning in 2025, while recognizing that the savings are uncertain, as are all projections of future health care costs. If the growth rate of health care does not decelerate starting in 2025, we propose establishing a trigger that would limit the tax preference on financial firm debt (which is currently tax deductible). Our fiscal path also includes an adjustment to Medicare physician payments at 2011 levels, extending the “doc fix.”

Department of Defense

Any serious approach to cutting the deficit or dealing with long-term debt issues must also include reductions in spending by the Department of Defense, which comprises the largest portion of the discretionary budget. The Sustainable Defense Task Force, a bipartisan group of defense experts, released a report in June 2010 that detailed a series of options, which, if taken together, would save \$960 billion over the next decade. We consider that total savings—\$960 billion by 2020—a reasonable amount by which to cut the Department of Defense budget. Beyond the 10-year window, our plan would freeze defense spending at inflation.

Social Security

Millions of elderly Americans rely on the economic security that comes from the Social Security system. Our plan recognizes the need to shore up the Social Security system while protecting the benefits of current and future retirees. In short, we do not propose any reductions in benefits.

Under the current system, income above a taxable maximum is not subject to any Social Security tax, meaning that high-income individuals pay less as a share of their income than everyone else. To increase the financial stability of the system, we propose raising the taxable maximum to include 90 percent of total earnings, and to eliminate the maximum that employers pay on behalf of their high-income employees. This proposal would put Social Security on a sustainable trajectory by closing three-fourths of the long-run shortfall.

Other mandatory programs

The plan eliminates commodity payments to large farms (farms with more than \$250,000 in annual farm or non-farm income), reduces the value of direct payments, and reforms the crop insurance program.

REVENUES

The current tax code is ill-equipped for the 21st century and needs to be modernized. First, revenue levels are inadequate, and are a core reason deficit levels are projected to rise in the future. Second, more and more of our national income in recent decades has been flowing to those on the top rungs of the economic ladder while tax changes have overwhelmingly benefited those very same people. Third, the complexity of the code, both for individuals and for corporations, has led to an environment in which one’s tax bill can depend as much on the

quality of one's accountant as on the size of one's income. Finally, with many families struggling to make it into the middle class, the tax code should work with people in their struggles, not present additional barriers.

Our proposals would result in high-income earners and corporations contributing more to the country's fiscal solvency. Finally, the proposals would strengthen and expand pro-family and anti-poverty tax benefits for low-income households.

Our plan includes the following proposals:

Individual income taxes

- Extend middle-class tax changes as outlined by President Obama, modifying certain tax cuts enacted in 2001 and 2003. Our path rescinds the upper-income tax cuts included in the December 2010 tax "compromise" and allows these cuts to expire permanently.
- Lower taxes on low- and moderate-income workers by permanently extending the Making Work Pay and American Opportunity refundable tax credits, making the Child Tax Credit fully refundable, and expanding the Earned Income Tax Credit for large families, childless families, and joint filers.
- Enact a 5.4 percent millionaire surcharge on adjusted gross income (AGI) above \$500,000 for a single filer and \$1 million for joint filers.

Corporate income taxes

- Eliminate fossil fuel tax preferences as detailed in the president's budget.
- Tax U.S. corporate foreign income as it is earned rather than waiting until it is repatriated.

Tax expenditures

- Tax capital gains and dividends as ordinary income, with a 33.4 percent top rate on capital gains for millionaires.
- Cap the benefit on itemized deductions at 15 percent.
- Expand the charitable and housing tax preferences to low- and moderate-income households by converting the charitable giving deduction to a refundable credit of 25 percent and the home mortgage interest deduction to a refundable credit of 15 percent on primary mortgages under \$500,000.

Other revenues

- Enact a carbon tax or a cap-and-trade program in order to address the societal cost of greenhouse gas emissions.
- Enact a progressive estate tax with a higher threshold and a graduated rate structure while maintaining current law revenue.
- Institute a financial transactions tax and a tax on financial leverage (the financial crisis responsibility fee as proposed in the president’s budget).
- Gradually increase the motor fuel excise tax by 15 cents in 2019 and 25 cents in 2024.
- Tax sweetened beverages by introducing an excise tax on the manufacture and importation of beverages sweetened with sugar or high-fructose corn syrup.

CONCLUSION

Americans have a choice as to how best to solve our long-term fiscal challenges. Our path achieves fiscal sustainability while increasing investments in important national priorities. It does so mainly by asking more of those in society that can most afford it and by avoiding both cost-shifting and band-aid solutions that do not address underlying economic problems.

The current recession should not be used as justification for punitive fiscal austerity, but rather an opportunity to show how investing in the middle class can help us grow our way through tough fiscal times. The policies we have included work against the erosion of investment we have seen over the past 30 years while modernizing our tax code. We believe sustained investment in the economy will provide a strong foundation for job creation and future economic growth. Growing productivity can then help trim deficits and pay down the national debt.

Economic Policy Institute

Percent of GDP	2021	2035
Revenues	21.6	24.1
Spending	<u>24.5</u>	<u>27.8</u>
Deficit (-)	-2.9	-3.7
Debt Held by the Public	76.5	81.7



Saving the American Dream: The Heritage Plan to fix the Debt, Cut Spending, and Restore Prosperity

The Heritage Foundation
Stuart Butler, Alison Fraser, and Bill Beach

INTRODUCTION

America must change course. We face a staggering fiscal problem that threatens the very future of our nation. Unless we act wisely, massive spending and surging public debt will destroy the foundations of our economy and darken the American dream for our children and grandchildren. But this grim future is not inevitable. The Heritage fiscal plan will solve America's twin crises of debt and spending with reforms that are consistent with the principles of democratic governance and deeply held American values.

The plan does this by cutting government down to size, re-energizing American enterprise through fundamental tax reform, and transforming entitlement programs to provide real economic security without passing along a crushing financial burden to younger generations. Our plan achieves the following:

- **Balances the federal budget in 10 years and keeps it balanced forever at no more than 18.5 percent of GDP.** Americans have made clear to Washington over many decades how much they are willing to pay for government. We keep it at that level.
- **Reduces the debt to 30 percent of GDP within 25 years and puts it on track to continue falling thereafter.** Lower debt will remove the threat of financial crisis and restore the confidence of citizens, investors, and lenders. It will also sharply reduce the debt burden on future generations and help to secure our prosperity.
- **Replaces the complex and unfair tax code with a completely new tax system.** We replace the current Byzantine tax system, including the payroll tax, with a much simpler single-rate system that minimizes tax distortions and perverse incentives.
- **Protects America and its interests around the globe by ensuring full funding for national defense.** Defense is a core constitutional responsibility of the federal government and essential to preserving American liberty and prosperity. Waste and inefficiency should be rooted out, but the resulting savings should be used to meet defense needs.
- **Creates a health care system that is affordable both for the nation and for individuals and families.** We replace the Obama reform with a system that fosters individual choice, competition, and state innovation to control underlying health costs while assuring

continuous and portable coverage. By overhauling subsidies and tax breaks for health care, we ensure that all Americans can afford adequate coverage.

- **Redesigns Social Security and Medicare as sustainable programs so that they protect seniors but will be around for our children and grandchildren.** Today’s retirement system cannot pay for all of its promised benefits without inundating our children with debt. Accordingly, we transform these defined-benefit entitlement programs into budgeted “real insurance” programs that focus on those who need them for retirement security, with checks and assistance phased down by income for those who do not really need them. We adjust benefits to recipient need without raising taxes on current and future Americans.
- **Provides strong incentives for working Americans to save and invest.** Our tax and Social Security reforms provide new ways for Americans to save for their future security and to create capital for enterprise.

SPENDING

Social Security

The Heritage Social Security plan provides strong retirement security for seniors that is affordable and thus assured for future generations. Unlike today, the plan provides complete protection for seniors against poverty and assures Americans that they will have a secure retirement.

Social Security will gradually be transformed from an “income replacement” system back to its original purpose of providing economic security for seniors. Social Security benefits will evolve over time into a flat payment system to keep seniors out of poverty throughout their retirement and supplement the savings and income of middle-class retirees. Our plan will also create important incentives for workers of all income levels to save more for retirement.

Because the new Social Security is a real insurance system, designed to be affordable and to protect seniors from hardship, retirees with high non-Social Security incomes will receive a smaller check. Affluent seniors who do not need Social Security to prosper will receive no check, ensuring that checks will be available to future retirees. Currently, the IRS income-adjusts Social Security checks surreptitiously even for modest-income seniors. We end that. Our income adjusting is transparent and it will not touch the checks of modest-income seniors.

The Social Security early and full retirement ages will be raised gradually and then indexed to life expectancy, creating a more reasonable balance between the number of years a person works and the years he or she receives Social Security benefits.

To encourage people to stay in the workforce longer, Americans who work beyond the full retirement age will receive a substantial tax deduction, leading to a higher level of after-tax income than today’s if they are not claiming benefits.

Medicare

The Heritage plan transforms Medicare from an open-ended and unsustainable defined-benefit entitlement into a properly budgeted program that focuses Medicare subsidies on those who need them most. The new Medicare program would look much more like the Federal Employees Health Benefits Program (FEHBP), the health care system for members of Congress and federal employees.

Over a five-year period, the plan transforms Medicare into a defined-contribution system (known as premium support), with strong health security for the poor and less healthy and new protections against catastrophic costs for all enrollees. Seniors will be able to use the contribution toward a plan of their choice or for premium-based, fee-for-service coverage. Stronger competition and consumer choice will replace government regulation as the tool to reduce costs and spending. This premium support will be income-adjusted using the same parameters as Social Security.

Like the Social Security adjustments in retirement age, Medicare's eligibility age will gradually be raised to 68 in 10 years and will be indexed thereafter for increases in longevity.

Medicare's traditional fee-for-service system also changes during the five-year transition. Deductibles and other out-of-pocket costs are adjusted. Building on current income-adjustment policy, premiums for Parts B and D rise according to income, and an income-adjusted premium for Part A is phased in—with the highest-income seniors paying full, unsubsidized premiums.

Health care for families

The Heritage plan ensures that everyone, regardless of job situation, is eligible for a tax credit or other help in purchasing health insurance. This means that people can buy, own, and keep the health care plans of their choice.

The current individual tax exclusion for employer-sponsored health insurance and other tax mechanisms is replaced with a nonrefundable fixed tax credit for households to purchase health coverage. The credit is phased out as income rises and eliminated for upper-income households. The switch from the exclusion to the credit system is revenue-neutral to the federal government. By contrast, today's tax code provides unlimited tax breaks only to workers who receive coverage through their employers, with upper-income workers receiving the largest tax break.

For low-income Americans, the plan provides direct assistance for coverage, paid for with reductions in other federal spending. Low-income, able-bodied adults and their children currently on Medicaid would no longer participate in Medicaid; instead, they would be able to enroll in private coverage. Meanwhile, low-income individuals who are not currently eligible for Medicaid would receive a voucher. This ensures that everyone who needs it receives assistance in purchasing health insurance.

The Heritage plan transforms the remainder of today's Medicaid program—for the frail, elderly, and disabled—into a health care safety-net program rather than today's catch-all, patchwork

program. In addition, we replace the open-ended federal-state financing arrangement with a more consistent and sustainable capped allotment. In exchange for the capped allotment, states are given much more flexibility to redesign health services for the disabled and the elderly poor so that they can provide better and more integrated services at lower cost.

Other spending

Under the Heritage plan, non-defense discretionary spending—appropriated programs such as foreign aid, K–12 education, transportation, health research, housing, community development, and veterans health care, which today account for 4.5 percent of GDP—is reduced to 2 percent of GDP by 2021. These reforms will reduce the burden of government, empowering families and entrepreneurs and boosting prosperity.

Antipoverty spending is scaled back to its 2007 level, adjusted for inflation. Agriculture and education programs are structurally reformed, and highway spending is devolved to the states. The central goal for defense is to guarantee national security as prudently and economically as possible. With improvements in efficiency, we estimate that defense needs will require spending approximately 4 percent of GDP for the foreseeable future.

TAX REFORM

A stronger economy plays a vital role in improving federal finances. It means sustained, normal levels of tax revenues. It also reduces the number of Americans who need help because they are temporarily distressed as a result of unemployment. A stronger economy with better wages and more jobs is also the most powerful antidote to persistent poverty, and less poverty reduces the demands for anti-poverty spending. Thus, tax reform to spur economic growth is a critical component of the Heritage plan.

A Unified Single Tax Rate. The Heritage tax reform plan builds on previous well-known tax reform proposals. The Heritage plan replaces today’s individual and corporate income tax systems and eliminates the estate tax. In lieu of the current array of taxes, our plan institutes a simple, single-rate tax on individuals and businesses. It also folds today’s federal payroll taxes for Social Security and Medicare into the single-rate income tax. In addition, it replaces all federal excise taxes except those dedicated to specific trust funds.

A Simplified System. The basic structure is simple. With its single rate, it taxes uniformly all income sources that are spent on consumption. This means that taxable income includes all labor compensation, net withdrawals from savings and investment accounts, and net borrowing.

Encouragement of Savings. The net amount put aside in savings is subtracted from income to determine net taxable income. Thus, the more individuals or families save, the lower their taxes; they pay tax on savings only when savings are used to pay for goods and services.

Few Deductions or Credits. Under this plan, the individual income tax has only three deductions instead of the legion of deductions under current law.

- **Higher education.** As higher education is a form of savings and investment in human capital, a deduction is allowed for tuition and expenses for higher education up to the average annual cost at a four-year public college or university.
- **Charitable donations and gifts.** As per current law, gifts to nonprofit organizations are tax-deductible if the organizations are recognized as tax-exempt for tax purposes. Gifts to individuals and transfers through inheritance are deductible to the donor but become taxable to the recipient when spent on consumption. Thus, there is no estate tax in our tax reform.
- **Mortgage interest.** Under current law, homeowners can deduct mortgage interest while the lender continues to be taxed on mortgage interest income—so it is taxed once. Our plan does give homeowners the option of foregoing the deduction, in which case the lender is not taxed on mortgage interest income. Market pressure would encourage the lender to offer a lower mortgage interest rate in this case.

Protecting Low-Income Seniors. For Medicare-eligible senior citizens, the calculation of taxable income in the Heritage plan is modified to ensure that the income-adjusted, flat benefit amounts for Social Security and the Medicare defined contribution are tax-free. Today, part of the Social Security benefits of even modest-income seniors is taxed. Thus, lower-income seniors will no longer be pushed back into poverty by the tax system. During the lengthy transition period for the Heritage plan’s Social Security reform, some seniors above certain incomes with relatively high benefits will pay tax on part of those benefits, but they will pay less than most do today. Thus, our plan includes important senior-specific features.

- We gradually end the taxation of Social Security benefits. Seniors protected from poverty by the Social Security and Medicare reforms will no longer be placed at risk by losing some benefits through taxation.
- Encouraging seniors to stay in the workforce longer is important both for their own financial security and for the health of the economy. To achieve this, the first \$10,000 of a senior’s wages and salary is excluded from tax. This provision is especially important for low-income and middle-income seniors.

Taxation of Businesses. The tax on businesses is a simple levy on domestic net cash flow, meaning that taxable income is domestic receipts minus all business costs. It excludes all foreign-source income, which is taxed in the foreign jurisdictions according to their laws and systems. All other special provisions and credits in existing law are repealed except for the Alternative Simplified R&D tax credit.

The business tax is also “border-adjustable,” which levels the playing field between foreign and domestically produced goods and services. Specifically, the business tax is lifted from exports and levied on imports, normalizing tax levels between countries.

Family businesses especially will be helped by the tax reform. Thanks to the tax treatment of savings and gifts, proprietors and investors will have a greater incentive to build up capital for enterprises. And owners will be able to grow their businesses without worrying about whether

their heirs will have to deal with the estate tax, which is repealed.

Tax Rate. The tax system is designed to raise a permanent revenue stream of up to 18.5 percent of the economy as measured by GDP. The single rate is adjusted periodically so that it achieves that level of revenue.

We estimate that the individual and business tax rate needed will likely be between 25 percent and 30 percent, but this is comparable to or significantly below the typical rate facing an individual or family today. The reason for this is that a working family today not only pays federal income tax at rates of between 10 percent and 35 percent, but also is subject to a combined 15.3 percent payroll tax rate on all or most of their compensation.

Thus, the new tax system offers individuals and families a comparable or lower tax rate and vastly improves their savings incentives to build wealth and ensure their own financial security. It simultaneously improves the ability of the economy to raise wages and provide more job opportunities.

BUDGET PROCESS

Today's budget process does little to facilitate sound fiscal reform and in many ways actually impedes good and bold policy. The focus on just 10 years diverts lawmakers from dealing with mounting long-term challenges, such as retirement programs. The lack of firm budget controls and enforcement procedures also makes fiscal discipline very difficult.

In the Heritage plan, we change the budget process to impose enforceable caps in order to reduce total federal spending (including entitlement programs) to 18.5 percent of GDP by 2021 and then keep spending at that level. Within those overall caps we also cap non-defense discretionary spending at 2 percent of GDP. Anti-poverty spending is also capped, as described above.

We also propose amending existing federal laws that provide permanent or indefinite appropriations for federal agencies or programs (including entitlement programs), or that allow agencies or programs to spend funds they receive from fees or otherwise rather than depositing them in the U.S. Treasury, so as to retrieve congressional control of spending. Within our specific reforms for Medicare and Medicaid we also include a fixed budget amount for each program.

To make the budget process more visible, understandable, and accountable to the American people, we require Congress to estimate and publish the projected cost over 75 years of any proposed policy or funding level for each significant federal program.

CONCLUSION

Today, we face a daunting task. We struggle with huge federal deficits in the near future and huge levels of spending and debts in the future. There are two visions of how to address this challenge. One would make few changes in rapidly expanding programs while increasing taxes, increasing the size of government and threatening our economic future. The other, which we

share, is to curb the growth of spending so that a reformed federal government can operate deficit-free at the size that Americans have been prepared to finance.

Fixing the deficit and debt problem means that we must ask ourselves tough questions about how we can allocate public funds in the most effective way. We must acknowledge that everyone will need to pitch in to solve the problem. We must ask parents and grandparents to think not just of their own immediate situations, but also of the financial consequences that their children and grandchildren will have to endure if today's adults are not prepared to re-evaluate whether they need everything that has been promised them. The money is simply no longer available to pay for all of the promised benefits. That is an indictment against Washington, but it is also a fact—and one that we are now forced to address.

The good news is that we can do this. We can guarantee economic security to middle-aged and older Americans even as we reduce the crippling debt that we have piled onto the shoulders of the young. To do this, we must reduce the size of the federal government and focus it on performing its core responsibilities effectively and efficiently. And we must not allow taxes to drift higher and higher as a proportion of the economy. Instead we must rein in taxes and reform the tax system to foster both faster growth and greater economic freedom.

The Heritage Foundation

Percent of GDP	2021	2035
Revenues	18.3	18.5
Spending	<u>18.1</u>	<u>17.7</u>
Deficit (-)	0.2	0.8
Debt Held by the Public	58.2	30.0

Roosevelt Campus Network's Budget for the Millennial America

The Roosevelt Campus Network

Produced by Hilary Doe, Zachary Kolodin, Reese Neader, Brad Bosserman, Nick Brown, and the Budget for the Millennial America working groups:

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Roosevelt employed its unique model of student engagement to produce this “Budget for the Millennial America.” Over the course of a year, we engaged more than 1,000 young people in person and 2,000 online in our Think 2040 program, which asked college-aged “Millennials,” “What do you want the world to look like in 2040”. Their values and highest-ranked priorities for America’s future are reflected in our “Blueprint for the Millennial America.” In order to prove that this vision for the future is achievable, and to address Millennials’ deep concerns for America’s fiscal future, we designed a plan together to fund the future they want to inherit—our “Budget for the Millennial America.”

Using the “Blueprint” as a starting point, we set up four working groups to discuss different aspects of the federal budget, including groups on: Taxes and the Economy, Health Care and the Social Safety Net, Non-Defense Discretionary Spending, and Defense Discretionary Spending. Each group met at least three times, and moved from a very broad set of options to the final policy choices showcased in the “Budget for the Millennial America.”

OVERVIEW

Young Americans will inherit the consequences of whatever action we take to address America’s long-term budget challenges. Many public figures have tried to speak for us, claiming to represent their “grandchildren.” But until now, Millennials have not been asked to provide *their* plan to achieve their vision for the future while bringing America back to fiscal sustainability. The “Budget for the Millennial America” represents that Millennial voice. The Roosevelt Campus Network asked thousands of young people across the country to identify our priorities for America’s future, coalesce around our highest priority outcomes, and make the tough choices necessary to finance them. We came together as a generation, and put forward this proposal to resolve America’s fiscal challenges and build towards our shared vision for 2040.

Millennials believe that America has come to a crossroads. The role of government involvement and public spending is being hotly contested, and as a generation, we’re faced with hard fiscal choices. However, these challenges are not inexorable. Young people across the country

recognize that those in power have made choices over the last 15 years that led us down the path to fiscal turmoil, and we are ready to pull ourselves out. Not by making haphazard cuts and sacrificing investment, but through a budget plan rooted in the achievement of our vision for America in a fiscally responsible way. Any solution to our fiscal trouble must not only resolve the gap between spending and revenue, but also address the underlying causes of fiscal unrest. Millennials recognize that much of the long-term budget gap stems from excess cost growth in the health care industry. We resist calls to simply push the cost from government balance sheets, directly onto the backs of American households. Rather, the “Budget for the Millennial America” makes a serious effort to bring health costs under control. And we are ready to institute a public health insurance option that can hold costs down through competition with the private market if health care costs continue to spiral out of control.

When Millennials look at our country’s economic and political landscape in 2011, they understand that the root causes of the financial crash have not been addressed. Millennials recognize that the housing bubble that wiped out the savings of millions of hard-working Americans was made much worse by irresponsible practices in the financial sector, especially from banks that are “too big to fail.” Any sustainable solution to America’s fiscal challenges must include decisive action to bring about a stable, efficient financial system. The “Budget for the Millennial America” moves aggressively to reduce systemic risk by proposing a “too big to fail tax” and by replacing the mortgage interest deduction with a capped credit.

Finally, as young Americans continue to struggle because of the Great Recession, Millennials are committed to building a safety net that will be resilient when the next economic storm hits. That means strengthening Social Security. It means providing states with the tools that they need to provide essential services to citizens in need. It means that we don’t walk away from displaced workers, but rather build a system to get them back on their feet. The “Budget for the Millennial America” actually increases domestic discretionary spending, because we believe that investments in our people, infrastructure, and economy are the only viable route to a prosperous society that provides for all Americans.

SPENDING

Medicare, Medicaid, and other federal health programs

Millennials understand the importance of health to society, and to their own lives. This is a generation that has grown up aware of the consequences of our *Fast Food Nation*. The costs to society of chronic disease are not lost on them. Furthermore, they know that the cost of ensuring decent care for the elderly and disabled will grow to unsustainable levels during their prime. We believe that this issue demands decisive action, while upholding the core commitments of ensuring quality health care for those that can least afford to buy it on a private market.

Recognizing the enormous investment that went into passing the Patient Protection and Affordable Care Act (PPACA), Roosevelt proposes to strengthen the market reforms begun in the PPACA, and give the new system 10 years to bring government health care expenditures under control. As such, Roosevelt immediately implements several key market reforms, such as repealing the monopoly exemption for health insurance companies, allowing states to pool their

insurance markets, funding comparative effectiveness research, and replacing the employer-provided health insurance tax exclusion and replacing it with a generous tax credit.

If these systemic reforms fail to bring non-Medicare government health insurance costs under control by 2022, Roosevelt creates a robust, national public health insurance plan to compete with the private market. This health plan would have all the negotiating and cost-controlling powers of Medicare, would be listed on all health insurance exchanges, and would be eligible for exchange subsidies through PPACA.

Ultimately, Roosevelt brings sanity to America's health insurance market through a uniquely American solution. We bring the full force of public and private innovation to bear on reducing health costs, while maintaining consumer choice in terms of doctors and hospitals. Furthermore, through the creation of a generous tax credit to help families buy health insurance, Roosevelt brings the opportunity to buy high-quality insurance to low-income, part-time workers for the first time in American history.

List of health care policies

- Adopt bundled payments through Medicare.
- Limit awards for medical malpractice torts.
- Institute a public option, controlling non-Medicare costs to 3 percent of GDP.
- Fund comparative effectiveness research, then automatically implement recommendations.
- Require Medicare to directly negotiate for price with drug manufacturers.
- Enact a permanent "doc fix" with 0 percent update through 2035.
- Adopt a regionally competitive model for Medicare fees and payments. Rather than having a national system for fee and payment updates, we will direct CMS to begin updating these payments each year only by region. Payments will vary based on increased cost per capita, but they will average out to GDP plus 1 percent. After 2021, they will average out to grow with GDP. To claw back the cost of a permanent doc fix, physicians' fees will update at an average rate of GDP minus 3 percent until 2021, after which they will update with GDP.
- Repeal the health insurance industry's monopoly exemption, increase price transparency, and allow states to pool insurance markets. We will permanently repeal the monopoly exemption for insurance companies, allowing the Department of Justice to undertake any necessary and applicable investigations that apply under American competitiveness clauses. We will allow states to pool their insurance markets through mutual agreement, allowing them to aggregate their market power.

Social Security

Millennials believe that Social Security is the foundation of our safety net, and make plans to expand the efficient, impactful program. In order to ensure the long-term solvency of Social Security, we propose increasing the taxable maximum to 90 percent of total payroll, drastically decreasing the long-term shortfall. And for individuals making more than 90 percent of payroll, we propose a 4 percent tax on their wages above 90 percent. We expand the program by allowing children of the disabled or deceased who are pursuing higher education to continue drawing benefits up to age 22, as long as they remain in school.

Defense

Having grown up in the shadow of 9/11 and two subsequent wars in the Middle East, Millennials are the most internationally engaged generation in American history. Our Defense and Diplomacy strategy envisions a more cost-effective, more agile military focused on confronting 21st century threats, incorporating our allies into burden-sharing arrangements, and designing robust diplomatic engagement and a comprehensive global development strategy.

During the Cold War, defeating communism was the clear, overarching goal for U.S. foreign policy. But since the Cold War's end, the world's only superpower has operated without a coherent long-term strategy that defines our position in the international system, our goals for engagement with other countries, and our plan for ensuring that U.S. foreign policy builds our national prosperity. We need a “grand strategy” to ensure that America wins the 21st century.

There is strong bipartisan consensus that 21st century threats need to be addressed with a mix of foreign policy tools—a concept commonly referred to as “smart power.” Smart power places heavy emphasis on development and diplomacy as effective tools of statecraft. Our military also needs the ability to reform institutions to implement the use of new operational systems, reform the U.S. foreign assistance structure, and create a centralized cyber security command. Through rebalancing the deployment of U.S. forces overseas to reflect current threats to national security and mixing the use of defense, development, and diplomacy, the United States can reduce national defense expenditures and more effectively ensure global stability.

List of defense policies:

- 20 percent increase in annual funding for Cyber Security Operations.
- Implementation of the “Alternative Energy Development Recommendations of the Post-Partisan Power” report.
- Roll back peacetime forces in Europe and Asia.
- Reduce combat troops in Afghanistan and Iraq to 45,000 by 2015.
- Scale back the U.S. nuclear posture.

- Cancel equipment purchases. Replace the F-35 Acquisition with F-18s and F-16s, and cancel the remaining acquisition of the MV-22 Osprey and the Maritime Prepositioning Force ships.
- Postpone purchases of new airborne refueling tankers.

Non-defense discretionary

Because America has yet to recover from the Great Recession, Roosevelt proposes an ambitious program to get our economy back on track. By rebuilding America’s infrastructure, investing in high-speed Internet access for all Americans, building high-speed intercity passenger rail, and establishing a Green Jobs Corps, we can stimulate the economy and get people back to work. We invest heavily in a green economy through smart grid technology and renewable energy development—Americans will get richer and the environment will benefit. Further, we recognize that because our carbon tax will hit some communities harder than others, designated funding is needed to help transition coal- and gas-dependent towns to new industries. Our special program—ARPACT—will be there to help.

Looking forward, Millennials see education as the foundation of America’s prosperity. We make long-term investments in key programs, like Pell grants, and even create new pathways to opportunity through universal pre-K. Finally, we’re tackling the more than \$2 trillion worth of repairs to America’s infrastructure, and implementing a program that halves the “infrastructure deficit” in its first five years—easing commerce and reinstating America at the vanguard of innovative infrastructure.

List of non-defense discretionary policies:

- Fund universal pre-K.
- Rebuild America's infrastructure program.
- 21st Century worker retraining program
- America's Revitalization Program for Areas Adversely Affected by the Carbon Tax
- Double USAID budget.
- Support sustainable agriculture practices, research, and local food programs.
- Teaching/public service loan forgiveness program.
- High-speed Internet and mobile access infrastructure program.
- Auto Stimulus Plan.
- 50 percent increase in funding for Community Development Block Grants.

- Ten percent increases in child nutrition and milk programs.
- 50 percent increase in the Department of Labor's training and employment services.
- Extend the Smart Grid Investment Grant program for 15 years.
- High-speed intercity passenger rail.
- Fund the Early Learning Challenge Fund at six times the current level.
- Ten percent increase in Title 1 funding.
- 30 percent increase in the annual budget for the Indian Health Service.
- Boost federal non-Pell higher education grants.
- Double the pre-American Recovery and Reinvestment Act annual budget for the Corporation for National Community Service.
- Double the total annual funding for Investing in Innovation (i3) grants.
- 40 percent increase in annual funding for the Bureau of Indian Affairs.
- Public funding for medical student education.
- Ten percent increase in annual Head Start funding.
- Triple funding for Native American Programs within HUD.
- Ten percent increase in Childcare and Development Block Grants.
- Maintain full funding levels for the Temporary Assistance for Needy Families Emergency Fund.
- Double the food distribution on Indian reservations program within the Department of Agriculture.
- Effectiveness assessment research for TRIO, GEAR UP, and Race to the Top.
- State budget bank.

Other mandatory

- Phase out government direct agriculture payments.

- Increase Pell Grant funding by 10 percent over FY2011 levels.

REVENUES

Millennials know that in order to provide opportunity for all Americans and build the kind of society prepared to compete in the 21st century, we must make investments in our people and in our infrastructure. To finance this, Millennials are willing to raise more revenue through the tax system. We will raise taxes as necessary, but not until we eliminate the billions of dollars in tax giveaways to corporations and special interests distributed through the tax code. Roosevelt eliminates loopholes and exemptions to make the tax code more equitable, while implementing a financial transactions tax and cutting corporate rates across the board.

We also implement major income tax reform. Currently the top 10 percent of earners hold more than 45 percent of the wealth in America. While cutting income tax rates to historic lows, we amend the system to designate tax rates based on the distribution of wealth, so that as inequality rises or falls, the tax system automatically adapts to follow the money. It’s a smarter, more equitable tax code, responsive to changes in inequality that makes it possible to invest in education, fight climate change, and update American infrastructure—all while bringing debt under control.

Individual income taxes

Income Tax Reform. We propose a new income tax code that bases brackets upon shares of overall Adjusted Gross Income. Brackets will be divided as follows:

Table 1: New Income Tax Brackets (values denote bottom thresholds)		
Single Filer	Joint Filer	Rates for each bracket
\$0	\$0	9.45 %
\$39,536.76	\$79,073.53	15.75%
\$65,894.61	\$131,789.22	26.25%
\$84,010.16	\$168,020.31	31.5%
\$208,668.94	\$417,337.87	AMT tax threshold*
\$709,679.84	\$1,419,359.67	36.75%

*The rates for the AMT will be 24 percent for all income below this threshold, and 28 percent above it.

This system represents an enormous tax cut for most families. We combine the bottom two brackets into a single bracket with a 9.45 percent rate, and add a new top bracket. Moreover, our system resolves many problems Congress currently addresses annually. We remove the “marriage penalty” and the middle-class tax hike under the Alternative Minimum Tax, ending 20 years of inaction. The high threshold also returns the AMT to its original purpose—restricting excessive deductions by the very wealthy. In 2030, we enact an additional cut of 2 percent on the lowest bracket, and a 1 percent reduction on the second-lowest bracket.

Corporate income taxes

Corporate Tax rate Cut of 3 percent in 2013. Unlike many other proposals, we intend to reduce rates for all brackets, rather than just the top rate—a true, small-business tax cut. This will result in a 32 percent top corporate tax rate, far below many OECD nations, and a bottom rate of 12 percent.

Tax expenditures

Tax Expenditure Reform. We propose the removal or reduction of a large number of tax expenditures. Overall, we eliminate roughly 50 percent of the tax expenditures currently in the tax code, raising more than \$550 billion per year with a menu of expenditure eliminations.

Phase out Mortgage Interest Deduction. Roosevelt lowers the ceiling for the mortgage interest deduction from \$1 million to \$500,000 *and allows* deductions only for primary residences, progressively reducing the ceiling by \$100,000 per year beginning in 2013. We also replace the current tax deduction with a tax credit of 15 percent, thereby reducing the regressivity of home mortgage subsidies and more directly encouraging investment in homes by poor families.

Replace the employer-provided health insurance tax exclusion with a health insurance voucher of \$2,300 per adult and \$1,700 per child, not to exceed \$8,000 per family.

Other revenues

An upstream tax on carbon of \$24.33 beginning in 2013, increasing yearly by 5.6 percent. Roosevelt proposes assigning a price on carbon in 2013. This price will increase by 5.6 percent each year, consistent with the EPA’s conservative estimates of the social cost of carbon. The CBO projects this will reduce emissions by 36 percent by 2026, moving us toward responsible emissions levels.

Utilities subsidies along the lines of the Waxman-Markey proposal for mitigation of cost impact for low-income families. We expect that making the carbon tax “upstream”—that is, paid by business instead of consumers—will partially lift the burden from poor families who spend a disproportionate amount of their income on carbon-intensive products. However, we remain concerned that business may ultimately pass the cost of a carbon tax on the consumer. In order to mitigate that impact, then, we propose a refundable carbon tax rebate for all Americans.

Repeal of the gasoline tax. The double taxation that a gas and carbon tax would entail is unnecessary. We therefore remove the gasoline tax that the carbon tax has now replaced.

Institute a Financial Transactions Tax: Roosevelt proposes a Financial Transactions Tax that includes a 0.5 percent fee on stock trades, a 0.01 percent fee on bonds for each year remaining until maturity, a fee on futures of 0.02 percent of the notional value of the underlying asset, a fee on options of 0.5 percent of the premium paid for the option, and a fee on interest rate swaps for 0.01 percent of the asset value for each year until the expiration of the agreement.

Institute a Too Big to Fail Financial Activities Tax of 25 percent in 2013. In order to stabilize the financial sector and ensure that large banks pose no threat to America’s fiscal sustainability, we propose a tax of 25 percent on all banks with more than \$200 billion in assets (indexed to inflation). The tax will apply to wages and profits less capital formation on financial institutions. If the financial arm of a corporation reaches \$200 billion in assets, it too would be included.

PROCESS

Roosevelt does not propose any budget process reforms, because we wanted to focus on a bringing a substantive vision for America to fruition, rather placing a narrow lens on the budget.

CONCLUSION

When all is said and done, the “Budget for the Millennial America” stabilizes the national debt in 2015. If we adopt this plan, we will build the America our generation envisions, while bringing the national debt down to 64 percent of GDP by 2035.

Roosevelt Institute Campus Network

Percent of GDP	2021	2035
Revenues	21.5	22.9
Spending	<u>23.5</u>	<u>24.8</u>
Deficit (-)	-2.0	-1.8
Debt Held by the Public	70.0	63.6

A Note about Scorekeeping

The Peter G. Peterson Foundation's Fiscal Solutions Grants Program required the six organizations who accepted grants to develop comprehensive plans that met the following criteria:

- Proposed solutions should be sufficiently detailed to allow them to be scored by an independent group against the January 2011 CBO baseline, extended through FY2035.
- Each finished budget plan should represent a comprehensive package of specific policy proposals to address the projected long-term fiscal gap. Although the Foundation did not stipulate a required goal or target for these plans, each plan will be evaluated on its impact on projected debt-to-GDP ratios and other related measures over the FY2012-FY2035 time period.
- Each of the comprehensive budget plans should be accompanied by a detailed spreadsheet that provides estimates of its projected budgetary impact.

To allow for 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. Eric Toder and Jim Nunns of the Tax Policy Center, a joint venture of the Urban Institute and the Brookings Institution, led a team that reviewed the estimates of each plan's revenue proposals. Bill Menth, former OMB senior analyst, tracked each of the plan's specific proposals and performed aggregate comparisons of the plans. Other current and former budget analysts helped review the plans' specific proposals, particularly in the health, Social Security, and defense areas.

The scorekeeping team carefully reviewed each of the spending and revenue proposals submitted by each of the six organizations. In particular, the scorekeeping team reviewed:

- The sources cited by the organizations to support their estimates.
- The baseline assumptions used by the organizations in measuring the budgetary impact of their proposals.
- Estimates produced by existing models developed to score similar proposals.
- Comparisons with estimates of similar proposals made by other organizations at other times.

- Comparisons of similar proposals made by one or more of the other organizations who developed plans in response to the Foundation’s Fiscal Solutions Grant Program.

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

For the past five 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 year-by-year budgetary impact of proposals—many of which were innovative with few similar proposals having been made previously—over a 25-year period is inherently difficult. 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.

This is not to say that the Foundation, the scorekeeping team or its members, or any of the organizations to which members of the scorekeeping team belong, should be cited as sources of the estimates. The sources of the estimates are the six organizations that made the proposals. However, the scorekeeping team believes that because of the actions taken by each of the organizations in trying to achieve common, comparable estimates of the budgetary impact of their proposals, a fair and objective comparison of the six plans can be made.