

Center for American Progress



MEMORANDUM

TO: The 45th President and 115th Congress

FROM: The Center for American Progress

DATE: January 1, 2017

SUBJECT: Laying the Foundation for Inclusive Prosperity

The beginning of a new Administration and a new Congress presents an opportunity to take a fresh approach to the federal budget, one that lays the foundation for a strong economy that works for everyone.

There are three tests that any budget plan must pass to be taken seriously: it must contain measures to grow the economy by strengthening and expanding the middle class, slow the growth of health care costs for both American families and the federal government, and increase federal revenues over the long term.

A healthy budget requires a healthy economy, and a healthy economy requires a thriving middle class. Recent analysis from the Organisation for Economic Co-operation and Development finds that “income inequality has a negative and statistically significant impact on subsequent growth.” Excessive inequality and a struggling middle class also weaken critical federal programs. For example, a CAP analysis found that the surplus currently in the Social Security trust funds would be more than \$1 trillion larger if payroll taxes still covered 90 percent of wages. Excessive inequality is fiscally irresponsible.

The Center for American Progress quantified the economic struggles facing middle-class families in a report titled “The Middle-Class Squeeze,” and published a detailed policy agenda to address these challenges and build an economy that works for everyone in the “Report from the Commission on Inclusive Prosperity.” The Inclusive Prosperity Commission’s recommendations included investing in infrastructure, innovation, and national service to create jobs; helping middle-class families afford child care, higher education and retirement; and making the tax code more fair and efficient for everyone, in part by eliminating preferences that give special treatment to the wealthy few.

Health care is among the most significant expenses squeezing family budgets, and rising health care costs are also a primary driver of the federal government’s long-term fiscal imbalance. The Affordable Care Act included many policies to slow the growth of health care costs, and these costs have indeed grown unusually slowly over the last few years. Those who care about fiscal discipline should be highly skeptical of any plan

that repeals the Affordable Care Act and starts from scratch, given the tremendous difficulty of enacting lasting policy to control health care costs.

A fiscally responsible budget should build on the successful cost control policies of the Affordable Care Act. President Barack Obama has proposed smart Medicare reforms in his budgets, and “The Senior Protection Plan” from the Center for American Progress offers a set of policies to reduce costs in federal programs without harming patients. To control health care cost growth over the long term, CAP’s “Accountable Care States” proposal would enable states to partner with the federal government to improve their health care systems, with federal and state governments sharing in the savings from these improvements.

Finally, a responsible budget must increase tax revenues over the long term. Maintaining the fiction that tax cuts will lead to economic growth is dishonest, as recent history demonstrates, and creates the false impression that all Americans will benefit. The truth is that the long-term gap between spending and revenues cannot be closed with spending cuts alone—not without damaging or even eliminating programs that are critical to retirement security, poverty reduction, infrastructure, and security, as well as programs that will ensure America continues to innovate and meet the challenges of a digitally connected world.

Bipartisan fiscal commissions consistently recognize that a responsible long-term federal budget plan requires additional tax revenue. Unfortunately, a majority of the House of Representatives and nearly half of the Senate have sworn to oppose any attempt to raise revenue, by signing the “Taxpayer Protection Pledge” circulated by Americans for Tax Reform. As long as so many members of Congress remain sworn opponents of bipartisan fiscal responsibility, the prospects for sustainable action on the long-term debt will remain dim.

We encourage you to review our proposed budget, which increases tax revenues through reasonable measures that also ensure every American and every corporation is paying their fair share. It eliminates wasteful spending through the tax code on both the wealthy, who are better able to pay their fair share, and on industries that do not need special treatment. Where it does spend through the tax code, it does so because the tax code is an efficient and appropriate tool for the specific purpose. For example, we use it to ensure that young children receive high-quality child care so that both of their parents can work. And we use the tax code responsibly, providing a temporary tax credit for middle-income families to share the prosperity of the recovering economy until their wages catch up with the growth in profits of corporations.

Balancing targeted spending cuts with reasonable tax increases prevents the need for catastrophic measures. The good news is that, if done properly and combined with measures to strengthen the middle class and control health care costs without losing the progress from the Affordable Care Act, the benefits to the U.S. economy will be immediate.

We can have an economy that works for all if we have a budget that works for all.