MEMORANDUM

TO: The 45th President and 115th Congress

FROM: Economic Policy Institute

DATE: January 1, 2017

SUBJECT: Investing in America's Economy: A Budget Blueprint for Today and Tomorrow

Introduction

The American economy continues to struggle after the end of the Great Recession and five years of fiscal austerity measures. Economic growth is half of what it normally should be after a recession, and the labor market still displays signs of slack with little wage growth and a high proportion of long-term unemployed. Even with the ruinous austerity measures enacted in the Budget Control Act of 2011 (BCA), the long-term budget outlook sees rising debt ratios even if the economy reaches full employment, largely because too many members of Congress have pledged not to raise taxes.

Our budget proposal starts from a vision shared by most Americans: rising living standards, greater economic opportunity and security, and provision for future generations. To this end, we propose a long-term budget that invests in America's future by repealing the BCA austerity measures and increasing critical public investments, reduces economic inequality and improves economic opportunity, and strengthens our social protection system. Although our budget is crafted to meet these economic and social goals, our proposals also yield sustainable budget deficits and debt over the long term, with debt held by the public falling relative to GDP from its current 74 percent to less than 59 percent by 2026 and finally to 54 percent by 2040.

Policy recommendations

We offer several specific budget provisions to meet these goals, but three are particularly important: increasing public investments, strengthening the social welfare system, and paying for the goods and services Americans need and want from the federal government.

First, we propose to increase spending for public investments by about 1.5 percent of GDP per year (by almost $400 billion for fiscal year 2018, for example). These investments include increased infrastructure spending for repairing and improving roads, bridges, water and sewage systems, waterways, schools, and

computer infrastructure for important agencies such as the Federal Aviation Administration and the National Weather Service. Our budget further increases spending for education (primary, secondary, and post-secondary), job training, and scientific research and development. These investments will not only boost future economic growth by increasing public capital, human capital, and knowledge, but also will create good jobs in the near term to rebuild America's infrastructure.

Second, our budget preserves and strengthens our country's social welfare system, which helps to soften the sharp edges of our market economy and to maintain public support for the market economy. Social Security finances are improved by raising the cap on taxable earnings. The Supplemental Nutrition Assistance Program (food stamps) cuts are repealed to help feed low-income families and children. The Earned Income Tax Credit (EITC), which encourages work and reduces poverty, is expanded for childless workers. The 2009 expansions of the child tax credit and the EITC, both of which expire in 2017, are made permanent. Our budget further improves unemployment insurance (UI) extended benefits by creating a permanent, federally-funded program that provides benefits for up to 52 weeks.

Lastly, our budget would pay for the increased spending by raising revenue, mostly by reversing recent decades' cuts in top tax rates and by closing tax loopholes. This reversal simply means asking for a bit more from those households that have seen the most rapid income growth in recent decades. Accordingly, we propose broadening the tax base by eliminating many wasteful tax expenditures and tax breaks, such as the mortgage interest deduction and corporate deferral of foreign source income. In addition, we propose increasing the top tax rates for taxpayers earning over $2 million per year and instituting a carbon tax. These proposals will raise needed revenue, simplify the tax code, help reduce income inequality, and reduce our reliance on fossil fuels. Eliminating wasteful tax breaks will also improve tax compliance and administration. The tax increases are designed to minimize any adverse effects on the economy.

Conclusion

Budget policies adopted in recent years under the misguided notion that budget deficits should be eliminated quickly and only through spending cuts have had devastating consequences. The long-term budget outlook still shows rising debt ratios even if the economy recovers. Our crumbling national infrastructure has caused many preventable deaths and contributes to low economic growth. The recovery from the Great Recession can best be described as anemic. We appear to be well on the road to leaving our children with substantial hurdles to future success: poor infrastructure as well as other substandard public assets, a tattered social safety net, and no ladder to upward economic mobility.

In closing, we strongly urge you to adopt our budget to put America on a long-term path for strong economic growth, rising living standards, greater economic opportunity, and a secure future for our children. The key feature of our budget is our proposal to pay for the necessary increases in federal spending. At the same time, our proposal lowers budget deficits to sustainable levels and gradually reduces the debt-to-GDP ratio from its current 74 percent to 58 percent by the end of the 10-year budget window in 2027. Even after raising taxes to pay for the increased spending, the United States will still have one of the lowest tax burdens of any developed country.