PETER G. PETERSON FOUNDATION

SOLUTIONS INITIATIVE 2024

CHARTING A BRIGHTER FUTURE

AMERICAN ACTION FORUM

AEI AMERICAN ENTERPRISE INSTITUTE

Bipartisan Policy Center

CAP

Economic Policy Institute

Manhattan Institute

ppi radically pragmatic

PETER G. PETERSON FOUNDATION

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

To learn more about the Foundation and our initiatives, visit **www.pgpf.org**.

INTRODUCTION

Solutions Initiative 2024: Charting a Brighter Future arrives at an important fiscal moment.

In the five years since the last iteration of this project, our nation has suffered a deeply painful pandemic, with significant costs to our health, our economy, and our fiscal outlook. The debt-to-GDP ratio in the United States is now 20 percentage points higher than it was before the COVID-19 pandemic. In addition, we are facing higher levels of inflation, and the associated higher interest rates have significantly increased the burden of that debt. Moreover, there has been no meaningful legislative progress toward addressing the nation's structural deficits, so our long-term fiscal trajectory remains daunting.

In the near term, a series of highly consequential fiscal deadlines are rapidly approaching. Such issues include reinstatement of the debt limit, the expiration of provisions affecting individual income and other tax payments, key decisions on discretionary spending caps and subsidies for healthcare, and looming depletion dates for essential components of Social Security and Medicare, which will result in automatic cuts if lawmakers fail to take action.

The good news is that the problem is solvable.

Solutions Initiative 2024 aims to meet this fiscal moment by bringing together seven respected organizations from across the political and ideological spectrum to highlight the wide variety of options available to chart a brighter future in the critical policymaking months ahead. All seven organizations—through a combination of spending cuts and revenue increases—would reduce the path of federal debt to a sustainable level.

Current Fiscal Condition

Debt held by the public at the end of fiscal year 2023 was 97 percent of gross domestic product (GDP). The Congressional Budget Office (CBO) projects that within five years, that ratio will exceed the previous all-time high of 106 percent of GDP and will rise to 166 percent of GDP by 2054 if laws remain the same. Those high levels of debt would far exceed the 50-year historical average of 47 percent of GDP.

Our national debt is growing rapidly because of a fundamental imbalance between spending and revenues that will continue to expand in future years. CBO projects that federal spending will rise from 23.1 percent of GDP in 2024 to 27.3 percent in 2054 as a result of three main drivers: an aging population, rising healthcare costs per capita, and rapidly escalating interest costs. Revenues under CBO's projections would be insufficient to meet the promises that have been made, growing from 17.5 percent of GDP to 18.8 percent over the same period.

As a result of the fundamental imbalance between spending and revenues, the existing large level of debt, and higher interest rates, federal interest costs continue to eat up more and more of the budget. Spending on interest is already greater than what we spend on children or on national defense, and such payments are on track to exceed their previous high (relative to GDP) by next year. Higher interest costs can squeeze areas of the budget that support future economic growth, such as education, infrastructure, and research and development. Increased federal borrowing also crowds out private investment, which could harm future generations as it reduces income. In addition, high levels of debt curb our ability to respond to future challenges, diminish our global leadership, raise the possibility of a fiscal crisis, and increase the chance of higher inflation in the future. It also risks replacing the U.S. dollar as the world's premier reserve currency, which would put additional pressure on U.S. interest rates.

Solutions Initiative 2024: Charting a Brighter Future

Solutions Initiative 2024 brings together leading policy organizations from across the political spectrum to put forward comprehensive plans that set America on a stronger, more sustainable fiscal path. The Peterson Foundation asked experts from seven leading organizations—the American Action Forum, the American Enterprise Institute, the Bipartisan Policy Center, the Center for American Progress, the Economic Policy Institute, the Manhattan Institute, and the Progressive Policy Institute—to develop specific policy proposals and recommendations to address our fiscal situation and meet their policy priorities over the next 30 years. Revenue estimates were provided by the Tax Policy Center, and spending estimates were reviewed by former CBO deputy director Barry Anderson.

The plans make clear that many options exist for lawmakers to improve America's fiscal foundation. While each plan reflects the policy priorities of its authors, all seven groups substantially reduce and stabilize the long-term trajectory of the debt relative to the current law. The estimates of policy options account for the potential impacts on the economy.

The wide-ranging policy options and recommendations presented as part of Solutions Initiative 2024 can inform the national conversation during the 2024 election, helping voters and their leaders assess and prioritize solutions. Moreover, these seven plans also provide a deep playbook of options as America approaches critical fiscal decisions and deadlines next year.

Putting the country's debt on a more sustainable path will lead to stronger growth, broader prosperity, and enhanced economic opportunity. While the fiscal challenges are daunting, Solutions Initiative 2024 clearly demonstrates that charting a brighter future is not only possible—it's entirely within our control, and there are many options to choose from.

SUMMARY OF PLANS

The seven organizations participating in Solutions Initiative 2024 all significantly reduce projected debt over the next 30 years relative to its current path. All seven groups—the American Action Forum (AAF), the American Enterprise Institute (AEI), the Bipartisan Policy Center (BPC), the Center for American Progress (CAP), the Economic Policy Institute (EPI), the Manhattan Institute (MI), and the Progressive Policy Institute (PPI)—recognize that the trajectory of the debt under current law is unsustainably high, and recommend a comprehensive set of proposals to substantially reduce future borrowing. Though each group applies its unique policy priorities and ideological perspectives to addressing the nation's fiscal challenges, a number of commonalities exist among the plans, suggesting valuable policy opportunities for lawmakers.

Federal Healthcare Programs

America already has the most expensive healthcare system in the world, yet such spending is projected to continue to rise rapidly. According to the Congressional Budget Office (CBO), spending on major healthcare programs is projected to be the largest programmatic contributor to rising debt over the next 30 years, increasing by 56 percent from 2025 to 2054. Improving the system to provide high-quality care at lower costs is a key part of our nation's long-term fiscal well-being.

The proposals generated by participants in Solutions Initiative 2024 range from retaining the basic structure of existing federal healthcare programs and attempting to make them more efficient to substantially altering the way the programs operate, for example, in terms of financing or by expanding the number of people covered by such programs.

Medicare

AAF, AEI, and MI propose converting Medicare to a "premium support" model in which seniors receive subsidies to purchase their own insurance from competing private health plans.

AEI, PPI, and CAP propose new programs to consolidate coverage for older Americans. AEI would combine benefits under Parts A, B, and D while capping out-of-pocket costs at $8,500 and simplify cost-sharing arrangements. Under PPI's "Medicare One" proposal, Parts A, B, and D of Medicare would also be streamlined—with one premium, annual deductible, copayment rate, and an out-of-pocket cap that covers costs for hospitals, physicians, and prescription drugs. CAP similarly proposes a "Medicare 2.0" program that would cover those parts of Medicare as well as dental, vision, hearing, and long-term services, which PPI would only cover if fully financed by increasing income-based premiums. CAP's plan also limits out-of-pocket expenses for enrollees (at $0 for those with low incomes and $5,000 otherwise). Finally, EPI proposes to universalize access to basic health insurance.

Other proposals related to Medicare include containing costs through site-neutral payments (AEI, BPC, and PPI), leveraging competition between Medicare and Medicare Advantage (MA) to price plans (AAF, BPC, and PPI), and addressing improper MA payments (BPC, CAP, and PPI).

Medicaid, CHIP, and Health Exchanges

Three organizations (AAF, AEI, and MI) propose implementing caps on per-enrollee costs for Medicaid. AAF and AEI would set a cap on the overall rate of growth in federal Medicaid spending per enrollee based on the consumer price index (CPI-U) plus one percentage point. MI would implement different caps for different types of beneficiaries (children, adults, aged, or blind and disabled)—with growth in those limits ranging from 3.5 percent to 4.0 percent annually. BPC sought scoring of a federal Medicaid cap as an exercise to assess the effect on federal spending and to begin to understand the impact on beneficiaries, but have not officially considered such an approach. PPI would not reduce net Medicaid spending but would crack down on the use of provider taxes by states to inflate costs.

Two organizations proposed extending the expanded subsidies for purchase of healthcare in marketplaces; CAP would fully extend them and PPI would partially do so.

Healthcare Revenues

AAF, CAP, MI, and PPI propose changes to the tax that supports the Hospital Insurance (HI) Trust Fund—AAF and PPI would repeal the additional 0.9 percent Medicare surtax for people with high incomes, but PPI also would phase out the HI tax over 5 years. CAP would raise the HI surtax. MI would increase the total HI payroll tax rate by one percentage point.

EPI would institute a new 5 percent payroll tax, levied on employers, which would help cover costs for their universal health insurance program.

Three organizations (AEI, BPC, and MI) would limit the exclusion of employer-sponsored health insurance at a dollar amount equivalent to a certain percentile of premiums—AEI at the 75th percentile of premiums, BPC at the 80th percentile, and MI at the 50th percentile.

Social Security

Today, Social Security is the largest program in the federal budget and makes up more than one-fifth of total federal spending. As the large baby-boom generation retires and average life expectancy continues to rise, the program will come under escalating financial strain. Putting Social Security's finances on sustainable footing will not only strengthen the program for current and future generations, but will also improve the government's long-term fiscal trajectory.

All seven groups would extend the solvency of Social Security's trust funds over the next few decades. The participants would address Social Security's challenges by implementing a range of proposals related to both benefit adjustments and dedicated revenues, including:

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

Five out of the seven participants (AAF, AEI, BPC, MI, and PPI) propose some changes to Social Security that, on average, would likely decrease total benefits received over one's lifetime. Examples include raising the early or normal retirement age (AAF, BPC, MI, and PPI) and changing the indexing of benefits (AAF, BPC, MI, and PPI).

However, many organizations take care to protect benefits for vulnerable and/or lower-income beneficiaries. BPC, CAP, and PPI enhance surviving spouse benefits. PPI would maintain a special early retirement age and increase benefits for low-income workers, and three organizations (BPC, CAP, and MI) would establish a basic minimum benefit. EPI would increase benefits substantially and CAP proposes more modest increases, both targeting lower-income beneficiaries.

Four organizations raise additional revenues dedicated to the program as part of improving its solvency; AAF, BPC, CAP, and EPI propose raising or eliminating the cap on earnings subject to the payroll tax. BPC also would increase the payroll tax rate, and EPI would broaden the tax base leading to higher revenues into the trust funds.

The three other organizations propose reforms to Social Security that could influence the trust funds. AEI would fully tax Social Security benefits; BPC and PPI would tax the benefits of those with high incomes more aggressively. MI would eliminate the Social Security payroll tax at age 62. PPI would phase out all federal payroll taxes (although they would implement other taxes to more than make up for the lost revenue).

Discretionary Spending

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

Three organizations—AEI, BPC, and CAP—keep overall discretionary spending at or below CBO's baseline level by 2054. The other four participants have discretionary spending growing more than the baseline. AAF proposes only slightly higher levels; EPI, MI, and PPI propose more growth, with PPI generating the highest total as a percentage of GDP by 2054.

For defense discretionary spending, organizations have different approaches:

- Two organizations propose increases in defense spending (AAF and AEI)
- Four organizations would limit its growth by a set amount (BPC, CAP, EPI, and MI)
- PPI mostly adheres to the baseline but encourages that spending be done more efficiently

CAP, EPI, and PPI suggest overall boosts to nondefense discretionary spending relative to current law. In a few cases, organizations added funding for specific programs in the nondefense discretionary category. For example, CAP and PPI increase funding for education and apprenticeship programs. BPC would limit growth in nondefense discretionary by 1 to 2 percent each year over the period; MI would limit growth by 3.5 percent each year over the period.

Other Mandatory Spending

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

CAP, EPI, and PPI propose significant investments in other mandatory spending; some of the options included by one or more of those organizations' plans are universal childcare, high-quality early childhood education, and paid family leave. CAP and EPI would finance the paid leave program via a new payroll tax. Other proposals would bolster income security programs such as unemployment insurance (CAP and EPI), veterans' income security (MI), and housing choice vouchers (PPI).

Four organizations (AAF, BPC, MI, and PPI) propose reducing agricultural subsidies. MI would reform federal pension programs, and AAF and BPC would reform TRICARE (the healthcare program for service members and their families) in some manner.

Student loans are addressed by six organizations. BPC would eliminate subsidized federal student loans and instead increase funding for Pell grants. MI consolidates student loans and income-driven repayment (IDR) plans, and PPI reforms those IDR plans. AAF limits forgiveness of graduate student loans by increasing payments and extending the repayment timeline. CAP would incorporate the Administration's original plan for student debt relief that the Supreme Court struck down as well as fund free community college; EPI would add spending to make college more affordable.

Revenues

America's tax code can be confusing and inefficient; most importantly, it does not raise sufficient revenues to pay for promises that have been made. The expiration at the end of 2025 of major provisions of the Tax Cuts and Jobs Act (TCJA) plays a prominent role in the plans. All of the organizations recognize the opportunity presented by those expirations to improve the country's tax system, but vary in their approaches to doing so.

Individual Income and Related Tax Revenues

Participants suggest different methods for addressing tax rates for individual income. MI and BPC mostly maintain the TCJA's individual income tax rates at their current levels and make those rates permanent, with some exceptions. In MI's plan, the top income bracket would return to its pre-TCJA rate of 39.6 percent; BPC's plan increases rates for higher earners and reduces bracket thresholds by 10 percent for the top three individual income tax rates. AAF would return to pre-TCJA rates, and AEI would reduce the number of brackets and alter rates in those new brackets, with the highest rate being 35 percent. CAP, EPI, and PPI would increase individual income tax rates relative to the levels in the TCJA.

Most of the organizations would also address other elements of the TCJA, including its treatment of the standard deduction, personal exemptions, the alternative minimum tax, and provisions for pass-through businesses. In addition, three organizations (AAF, AEI, and PPI) would repeal the estate and gift tax (PPI would replace it with an inheritance tax); MI would keep such provisions as they exist now, and CAP and EPI would revert to the parameters that existed in 2009. Five organizations (AEI, BPC, CAP, MI, and PPI) also suggest modifying or repealing step-up in basis.

Organizations differed in their approach to the net investment income tax. Three organizations (AAF, AEI, and PPI) would repeal it while three organizations (BPC, CAP, and EPI) would expand it.

CAP proposes a minimum tax of 25 percent on total income, generally inclusive of unrealized capital gains, for all taxpayers with wealth greater than $100 million, and EPI would implement a wealth tax on net worth greater than $15 million.

Corporate Tax Revenues

AAF, BPC, and MI would maintain the TCJA statutory rate on corporate taxes of 21 percent; AEI would reduce that rate to 20 percent while limiting the deductibility of net interest and permanently extending partial expensing of new investment. CAP, EPI, and PPI all raise it to between 25 percent and 35 percent. AAF, along with BPC, would repeal the corporate alternative minimum tax (CAMT), and PPI reforms the CAMT as part of revenue-neutral international tax package. Six organizations (AAF, AEI, BPC, CAP, EPI, and PPI) propose reforms to the tax structure for multinational companies (such as the Undertaxed Profits Rule, border adjustments, and tariffs).

Tax Expenditures

All seven organizations eliminate certain tax expenditures, but diverge in their approaches. AAF, AEI, and EPI would eliminate all or most individual tax expenditures. All participants other than AAF would adjust the Earned Income and/or Child Tax Credits in some fashion, some by modifying the current provisions and others by replacing them.

AEI, CAP, and EPI would eliminate most corporate tax expenditures. Organizations also choose to repeal energy-related tax expenditures (AEI and MI) and corporate state and local tax deductions (AEI, MI, and PPI). Five organizations (AAF, BPC, EPI, MI, and PPI) adjust rules to deductibility of interest and investment, such as bonus depreciation and full expensing.

Other Revenue Proposals

In addition to provisions related to the TCJA, Solutions Initiative 2024 participants propose a variety of other changes to the tax code. AAF, AEI, EPI, MI, and PPI all would institute a carbon tax (but at varying levels). AEI, BPC, and MI propose to increase the gasoline tax, while PPI would replace it with a new vehicle-miles-traveled tax. Additionally, CAP, BPC, MI, and PPI advocate for the permanent extension of increased funding for the Internal Revenue Service. CAP, EPI, and PPI propose other new taxes—CAP and EPI would institute a paid leave payroll tax, and PPI would incorporate a value-added tax in lieu of many aspects of the existing system.

Other Proposals

Four organizations (AAF, BPC, EPI, and PPI) include comprehensive immigration reform as part of their plans. The details of such proposals were not specified, but were scored in a similar manner to the Border Security, Economic Opportunity, and Immigration Modernization Act, which was proposed in the Senate in 2013. The net effect of the proposed legislation was to reduce the deficit as revenues from a larger labor force and economy were estimated to outstrip the additional spending for new immigrants.

Conclusion

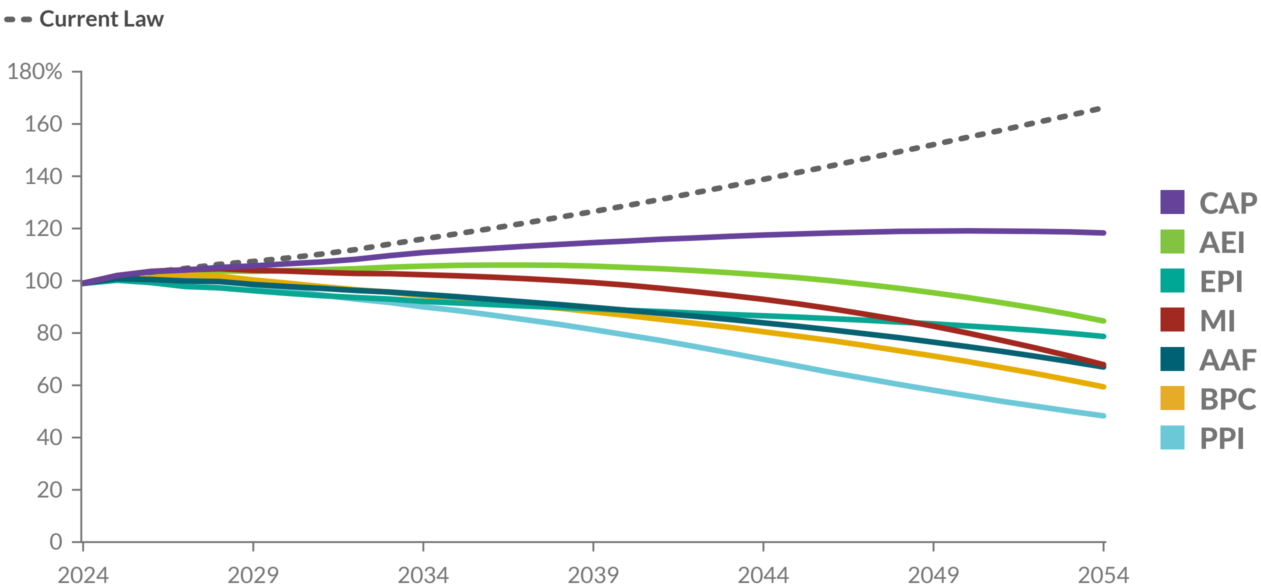
Ultimately, all seven participating organizations significantly improve America's fiscal outlook by making comprehensive changes across the entire budget that are consistent with their policy priorities. Responsible budgeting involves difficult tradeoffs, and these seven groups provide important blueprints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

Composition of Budget Levels in 2054 (as a percentage of GDP)

	American Action Forum	American Enterprise Institute	Bipartisan Policy Center	Center for American Progress	Economic Policy Institute	Manhattan Institute	Progressive Policy Institute
Spending	20.1	19.4	20.4	25.7	35.4	19.6	23.0
Revenues	19.7	18.8	20.7	21.8	33.8	20.3	23.0
Deficit (-) or Surplus	-0.4	-0.6	0.4	-3.9	-1.6	0.7	0.0
Debt Held by the Public	**67.0**	**84.6**	**59.4**	**118.3**	**78.7**	**67.9**	**48.3**

Projected federal debt

Debt held by the public (% of GDP)

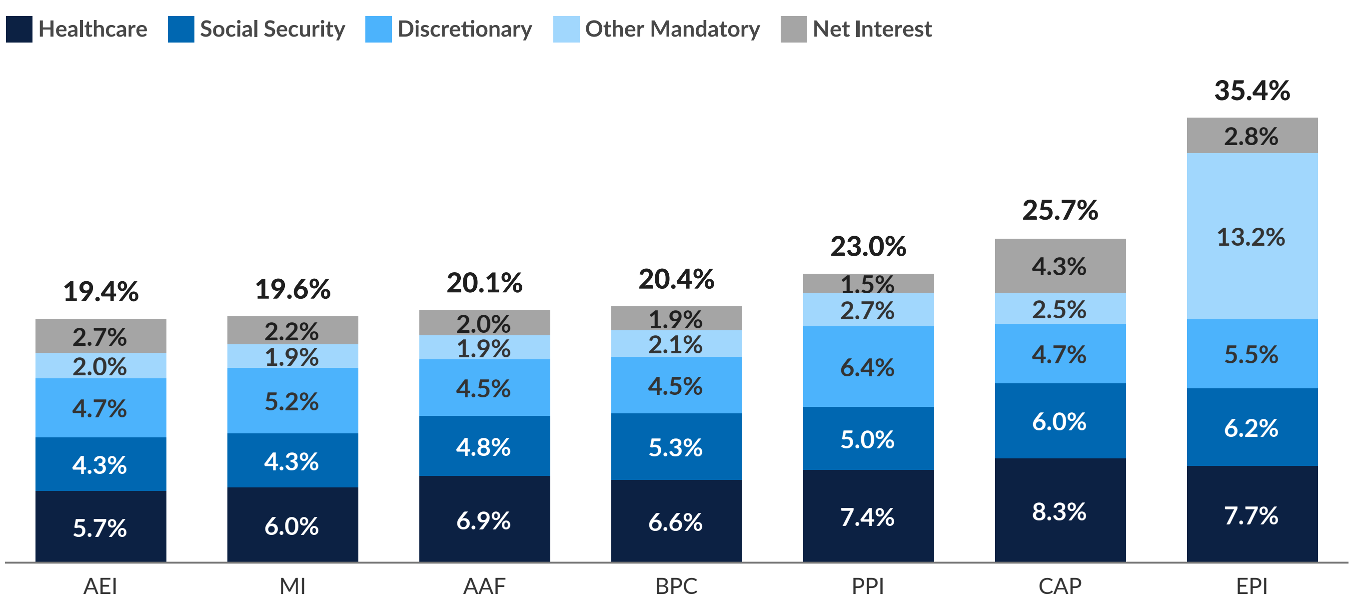


Source: Peter G. Peterson Foundation, Solutions Initiative 2024, July 2024.

Note: Current law baseline is from Congressional Budget Office, *The Long-Term Budget Outlook: 2024 to 2054* (March 2024).

Composition of projected federal spending in 2054

Total spending (% of GDP)



Source: Peter G. Peterson Foundation, Solutions Initiative 2024, July 2024.

Note: Numbers may not sum due to rounding.

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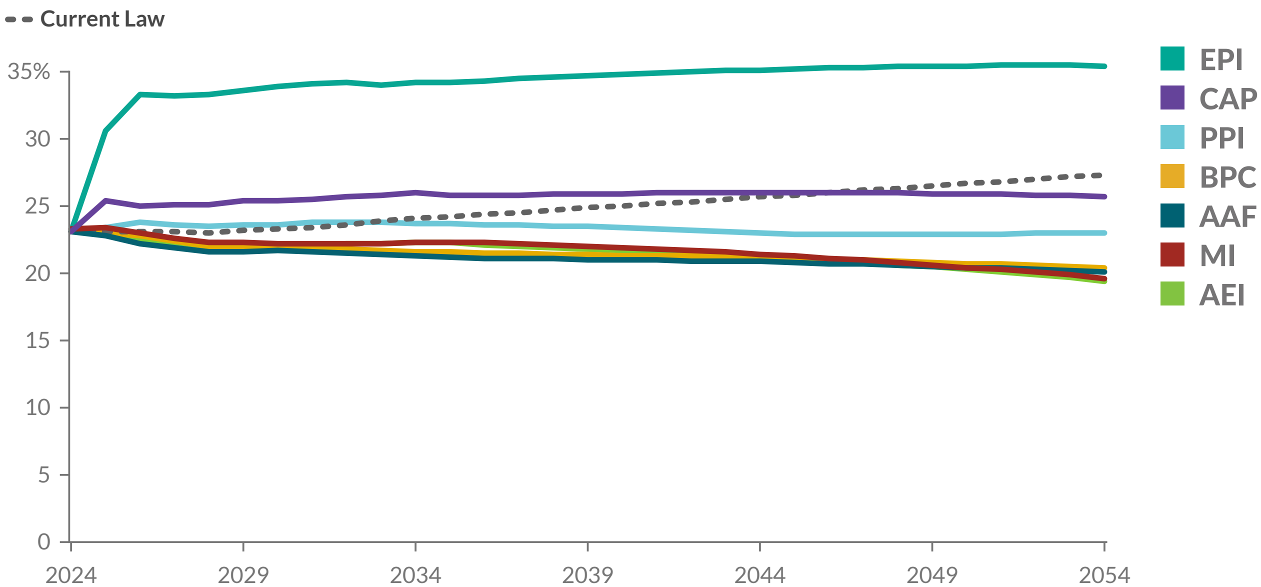
Projected federal spending

Total spending (% of GDP)

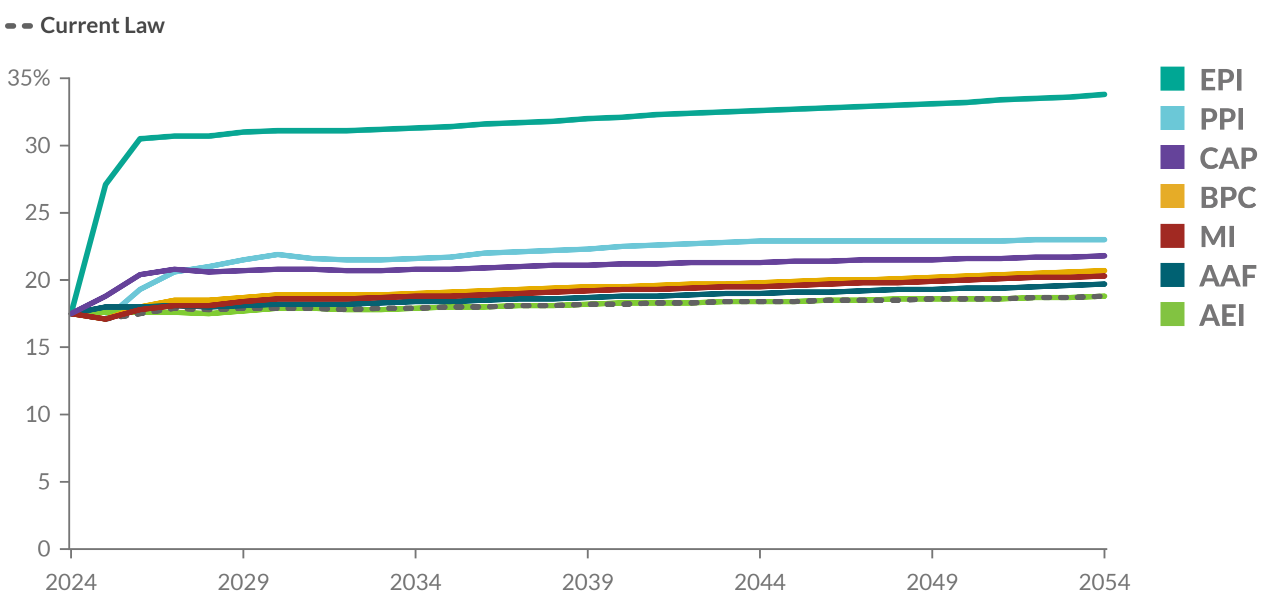


Source: Peter G. Peterson Foundation, Solutions Initiative 2024, July 2024.

Note: Current law baseline is from Congressional Budget Office, *The Long-Term Budget Outlook: 2024 to 2054* (March 2024).

Projected federal revenues

Total revenues (% of GDP)

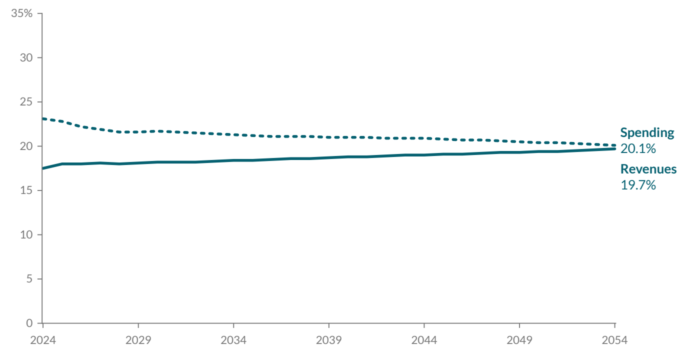


Source: Peter G. Peterson Foundation, Solutions Initiative 2024, July 2024.

Note: Current law baseline is from Congressional Budget Office, *The Long-Term Budget Outlook: 2024 to 2054* (March 2024).

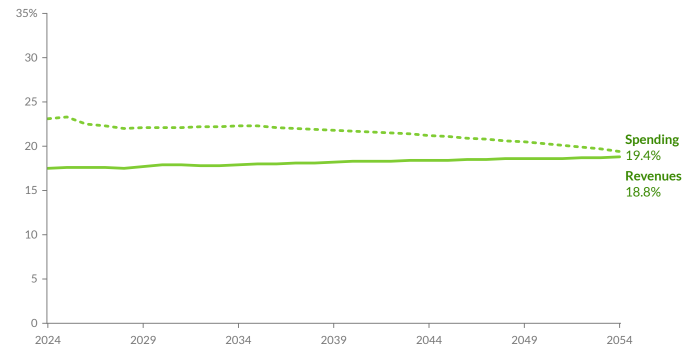
Projected Federal Revenues and Spending (as a percentage of GDP)

American Action Forum



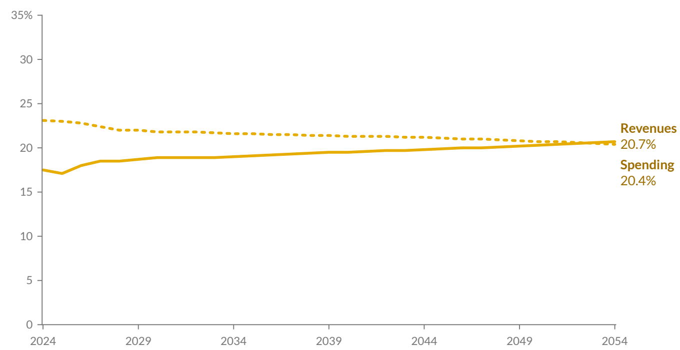
Source: Peter G. Peterson Foundation, Solutions Initiative 2024, July 2024.

American Enterprise Institute



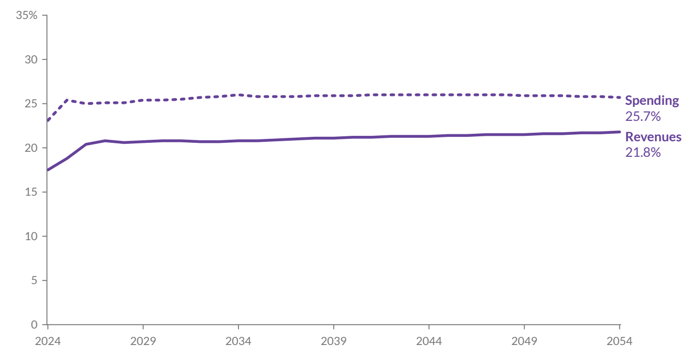
Source: Peter G. Peterson Foundation, Solutions Initiative 2024, July 2024.

Bipartisan Policy Center



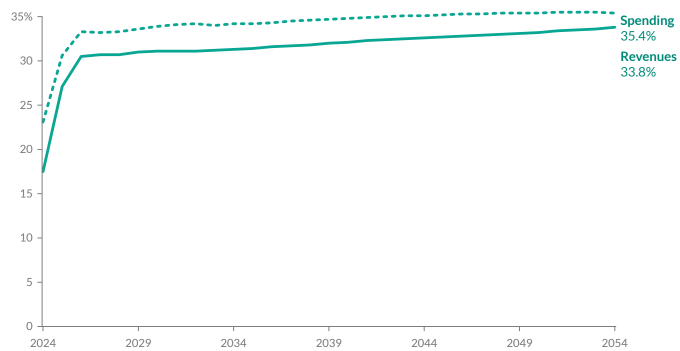
Source: Peter G. Peterson Foundation, Solutions Initiative 2024, July 2024.

Center for American Progress



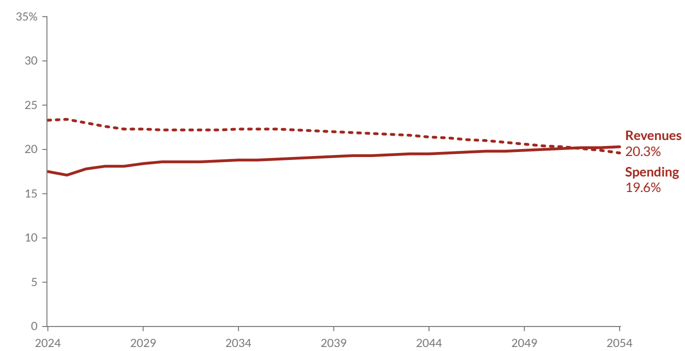
Source: Peter G. Peterson Foundation, Solutions Initiative 2024, July 2024.

Economic Policy Institute



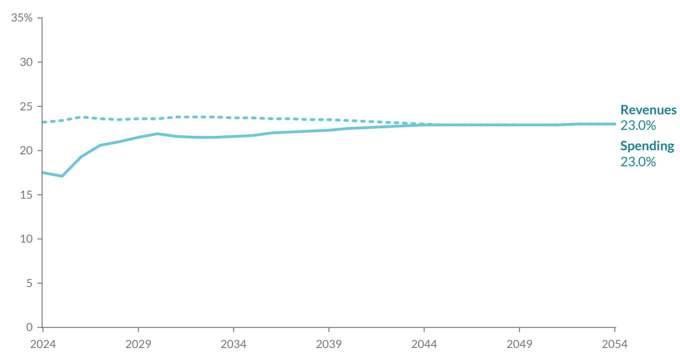
Source: Peter G. Peterson Foundation, Solutions Initiative 2024, July 2024.

Manhattan Institute



Source: Peter G. Peterson Foundation, Solutions Initiative 2024, July 2024.

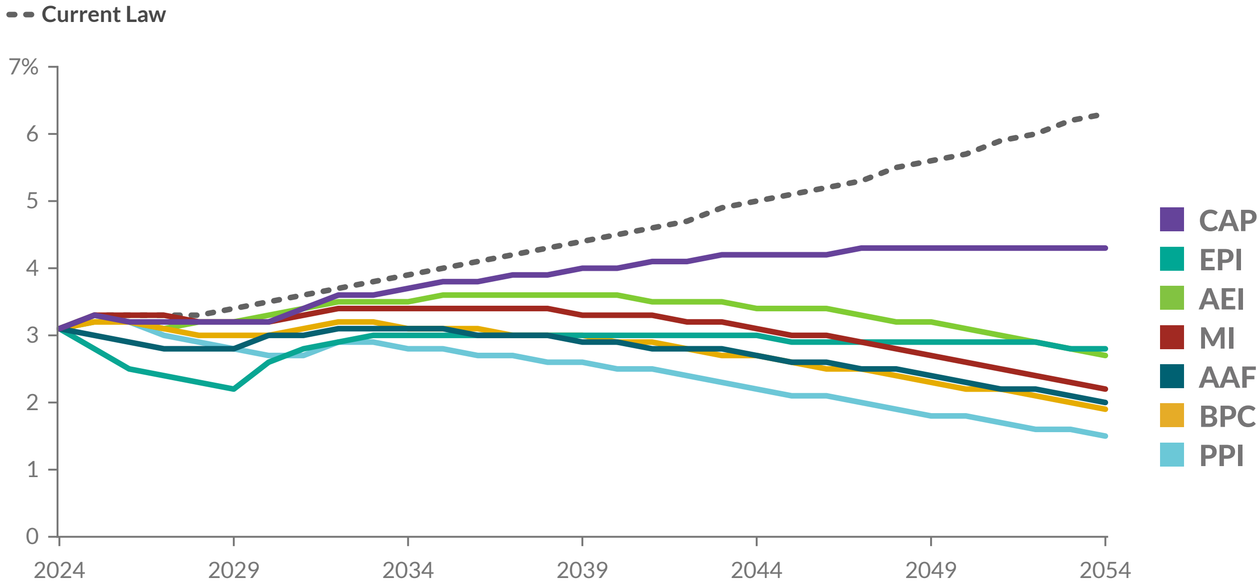
Progressive Policy Institute



Source: Peter G. Peterson Foundation, Solutions Initiative 2024, July 2024.

Projected net interest spending

Total net interest (% of GDP)



Source: Peter G. Peterson Foundation, Solutions Initiative 2024, July 2024.

Note: Current law baseline is from Congressional Budget Office, *The Long-Term Budget Outlook: 2024 to 2054* (March 2024).

Composition of Budget Levels in 2034 and 2054 (as a percentage of GDP)

	American Action Forum		American Enterprise Institute		Bipartisan Policy Center	
	2034	**2054**	**2034**	**2054**	**2034**	**2054**
Spending						
Health	5.7	6.9	4.9	5.7	5.5	6.6
Social Security	5.1	4.8	6.3	4.3	5.5	5.3
Discretionary Spending	5.0	4.5	5.1	4.7	4.8	4.5
Other Non-Interest Spending	2.4	1.9	2.5	2.0	2.6	2.1
Interest	3.1	2.0	3.5	2.7	3.1	1.9
Total Spending	**21.3**	**20.1**	**22.3**	**19.4**	**21.6**	**20.4**
Revenues	**18.4**	**19.7**	**17.9**	**18.8**	**19.0**	**20.7**
Deficit (-) or Surplus	-2.9	-0.4	-4.4	-0.6	-2.6	0.4
Debt Held by the Public	**94.8**	**67.0**	**105.6**	**84.6**	**94.3**	**59.4**

Center for American Progress		Economic Policy Institute		Manhattan Institute		Progressive Policy Institute	
2034	**2054**	**2034**	**2054**	**2034**	**2054**	**2034**	**2054**
6.8	8.3	6.3	7.7	5.4	6.0	6.1	7.4
6.1	6.0	6.1	6.2	5.6	4.3	5.6	5.0
5.9	4.7	5.8	5.5	5.6	5.2	5.9	6.4
3.5	2.5	13.0	13.2	2.4	1.9	3.3	2.7
3.7	4.3	3.0	2.8	3.4	2.2	2.8	1.5
26.0	**25.7**	**34.2**	**35.4**	**22.3**	**19.6**	**23.7**	**23.0**
20.8	**21.8**	**31.3**	**33.8**	**18.8**	**20.3**	**21.6**	**23.0**
-5.2	-3.9	-2.8	-1.6	-3.5	0.7	-2.1	0.0
110.8	**118.3**	**92.1**	**78.7**	**102.3**	**67.9**	**90.0**	**48.3**

Comparing Policy Proposals

Note: These tables are intended to summarize the options that have (1) large budgetary influence and/or (2) are innovative ideas in order to aid comparison across organizations. Tables do not include all the policy options that each organization proposed.

Healthcare

	American Action Forum	American Enterprise Institute	Bipartisan Policy Center
Medicare	Convert to a premium support plan	Convert to a premium support plan	
		Streamline Parts A, B, and D and simplify cost-sharing arrangements	
		Cap out-of-pocket expenses	
		Raise premiums for Parts B and D	
	Leverage competition between Medicare and Medicare Advantage to price plans		Leverage competition between Medicare and Medicare Advantage to price plans; Address improper Medicare Advantage payments
		Expand site-neutral payments	Expand site-neutral payments
		Increase Medicare eligibility age to 67	
Medicaid, CHIP, Health Exchanges	Cap per-enrollee costs in Medicaid	Cap per-enrollee costs in Medicaid	Investigate effects of Medicaid cap
Changes to Payroll Taxes and Taxation of Benefits	Repeal ACA's 0.9% HI surtax		
		Limit exclusion of employer-sponsored health insurance	Limit exclusion of employer-sponsored health insurance

Notes: ACA stands for Affordable Care Act. IRA stands for the Inflation Reduction Act. HI stands for Hospital Insurance.

Center for American Progress	Economic Policy Institute	Manhattan Institute	Progressive Policy Institute
		Convert to a premium support plan	
Streamline Parts A, B, and D into one "Medicare 2.0" plan and include hearing, vision, dental, and long-term care	Universalize access to basic health insurance		Streamline Parts A, B, and D into one "Medicare One" plan; Option for policymakers to add additional benefits if fully financed with income-based premiums
Cap out-of-pocket expenses			Cap out-of-pocket expenses
		Raise premiums for Parts B and D	Set premiums to cover a specific percentage of program costs
Eliminate Medicare Advantage overpayments			Leverage competition between Medicare One and Medicare Advantage to price plans; Restructure Medicare Advantage subsidies
			Expand site-neutral payments
		Cap per-enrollee costs in Medicaid	Curtail provider tax financing gimmicks
Extend expansion of ACA subsidies			Partially extend the IRA ACA expansion
Raise ACA's 0.9% HI surtax		Increase HI payroll tax rate to 3.9%	Repeal ACA's 0.9% HI surtax and phase out HI payroll tax over 5 years
		Limit exclusion of employer-sponsored health insurance	
	Institute a public health insurance employer payroll tax		

Social Security

	American Action Forum	American Enterprise Institute	Bipartisan Policy Center
Changes to Benefits	Link benefits to average prices	Means-tested benefit paid to all retirees	Establish a basic minimum benefit and other reforms
			Make the benefit formula more progressive; Cap and re-index spousal benefits; Enhance survivors benefits; Extend survivor benefits for students; Replace WEP/GPO
	Use 90/32/5 PIA factors		Use an annual PIA formula
	Raise normal retirement age		Raise normal retirement age
	Use an alternative measure of inflation to index Social Security		Index COLAs to the C-CPI-U
	Require Social Security Disability Insurance applicants to have worked more in recent years		
Changes to Payroll Taxes and Taxation of Benefits			Increase payroll tax by 1 percentage point over 10 years
	Increase the cap on taxable earnings		Increase the cap on taxable earnings
		Fully tax Social Security benefits	Tax Social Security benefits for high-income beneficiaries

Notes: FPL stands for federal poverty line. WEP/GPO stands for the Windfall Elimination Provision and the Government Pension Offset. PIA stands for primary insurance amount. OASDI refers to the Old-Age, Survivors, and Disability Insurance program. COLA refers to cost-of-living adjustment. C-CPI-U stands for Chained Consumer Price Index. FICA refers to Social Security and Medicare taxes established in the Federal Contributions Insurance Act; FUTA refers to federal unemployment taxes. HI stands for Hospital Insurance.

Center for American Progress	Economic Policy Institute	Manhattan Institute	Progressive Policy Institute
Establish a basic minimum benefit	Expand Social Security	Minimum benefit of 125% FPL to (more than) offset price indexing for lower-income seniors	Set benefits based on number of years worked instead of average lifetime earnings
Improvements to divorced spouse benefits and surviving spouse benefits		Limit spousal benefits	Increase benefits for widow(er)s most at risk of poverty and means-test spousal benefits
		Use an annual PIA formula; Price indexing of PIA factors beginning with those newly eligible for OASDI benefits in 2026	
		Raise normal retirement age and earliest eligibility age	Index retirement ages to longevity, with a special early retirement age for low-income workers
		Index COLAs to the C-CPI-U but have no COLAs for upper-income retirees	Use C-CPI-U for COLAs, then index to average wage growth 24 years after eligibility; Cap COLAs for beneficiaries on legacy PIA
		Require Social Security Disability Insurance applicants to have worked more in recent years	
	Combined FICA/FUTA rate of 15% (option applies to the OASDI and HI trust funds)	Eliminate 12.4% Social Security payroll tax at age 62	Phase out OASDI tax over 5 years
Eliminate the cap on taxable earnings	Eliminate the cap on taxable earnings		
			Tax Social Security benefits for high-income beneficiaries

Discretionary Spending

	American Action Forum	American Enterprise Institute	Bipartisan Policy Center
Defense	Increase defense spending	Increase defense spending 10% from FY 2025–2030 and taper down 2 percentage points every 5 years thereafter	Limit defense spending
Nondefense			
	Adopt a voucher plan and slow the growth of federal contributions for federal employee health benefits	Reform federal employee health benefits	
			Limit nondefense discretionary growth to 1% per year from FY 2025–2034 and 2% per year from FY 2035–2054

Note: FY stands for fiscal year.

Center for American Progress	Economic Policy Institute	Manhattan Institute	Progressive Policy Institute
Limit defense spending	Limit defense spending	Limit defense spending growth to 3.5% per year from FY 2025–2054	Mostly adheres to baseline, but encourages efficiencies
Increase funding for education and apprenticeship programs			Increase funding for education and apprenticeship programs
			Enact financial incentives to spur housing construction and reform housing choice vouchers
Boost nondefense discretionary spending	Boost nondefense discretionary spending	Limit nondefense spending growth to 3.5% per year from FY 2025–2054	Boost nondefense discretionary spending

PETER G. PETERSON FOUNDATION

Other Mandatory Spending

	American Action Forum	American Enterprise Institute	Bipartisan Policy Center
Other Mandatory Spending			
	Reform TRICARE		Reform TRICARE (incorporate out-of-pocket requirements)
	Reform agricultural subsidies		Reform agricultural subsidies
	Reform student loans and forgiveness		Eliminate subsidized federal student loans; Increase mandatory Pell funding

Notes: SNAP is the Supplemental Nutrition and Assistance Program and TANF is Temporary Assistance for Needy Families. SSI stands for Supplemental Security Income program. HBCU refers to historically Black colleges and universities. IDR stands for income-driven repayment.

	Center for American Progress	Economic Policy Institute	Manhattan Institute	Progressive Policy Institute
	Expand public spending on infrastructure, green investments, and education	Expand public spending on infrastructure and education	Cap most spending growth at inflation plus population growth	Expand public spending on research and development
	Paid family and medical leave	Paid family leave		Paid family leave
	Childcare programs and support	Early childhood education and childcare		Early childhood education
			Reform agricultural subsidies	Reform agricultural subsidies
	Expand unemployment benefits	Expand unemployment benefits	Protect income security for veterans	Smooth SNAP and SSI benefit cliffs; Repurpose TANF funds
	Double mandatory Pell funding; Incorporate free community college; Subsidize tuition at HBCUs; Incorporate the Administration's original plan for student debt relief	Make college more affordable	Consolidate student loans and IDR plans	Reform the Administration's IDR plan

Individual Income and Related Tax Revenues

	American Action Forum	American Enterprise Institute	Bipartisan Policy Center
Individual Income and Related Tax Revenues	Return rates and brackets to pre-TCJA with C-CPI-U	Change rates and brackets (4 brackets with top rate of 35%)	Change rates and brackets (7 brackets with top rate of 40%)
	Make TCJA standard deduction amounts permanent and repeal personal exemptions	Make TCJA standard deduction amounts permanent and repeal personal exemptions	Modify standard deduction amount and repeal personal exemptions
	Repeal the individual AMT	Repeal the individual AMT	Repeal the individual AMT
	Replace pass-through deduction with 25% rate cap on business income	Repeal disallowance of active pass-through losses in excess of $500,000 joint ($250,000 for others) indexed for inflation	Make permanent the disallowance of active pass-through losses in excess of $500,000 joint ($250,000 for others) indexed for inflation
		Reduce tax rates for long-term capital gains, dividends, and interest income	Rates on long-term capital gains and qualified dividends of 0%, 12%, and 22%; Realign brackets
	Repeal estate, gift, and generation-skipping transfer taxes for descendants	Repeal estate, gift, and generation-skipping transfer taxes for descendants	
		Repeal step-up in basis of capital gains for assets transferred at death with a $2 million (indexed) exemption per individual	Replace step-up in basis with carryover basis for assets transferred at death
	Repeal the NIIT	Repeal the NIIT	Expand base of the NIIT to include all pass-through business income not taxed under SECA

Notes: TCJA refers to the Tax Cuts and Jobs Act of 2017. C-CPI-U stands for Chained Consumer Price Index. AMT is the alternative minimum tax. NIIT is the net investment and income tax. SECA refers to the Self-Employed Contributions Act tax for self-employed individuals. HI stands for the Hospital Insurance Trust Fund.

	Center for American Progress	Economic Policy Institute	Manhattan Institute	Progressive Policy Institute
	Add a new tax rate of 44.6% above $1.127 million	Change rates and brackets (11 brackets with top rate of 49%)	Maintain TCJA rates but return top rate to 39.6%	Increase tax rates (9 brackets with top rate of 50%)
		Partial restoration of personal exemptions and lower the standard deduction	Make TCJA standard deduction amounts permanent and repeal personal exemptions	Make TCJA standard deduction amounts permanent but repeal age-65 additional standard deductions; Repeal personal exemptions
			Increase the individual AMT exemption amounts and phase-out thresholds	Repeal the individual AMT
			Limit active pass-through losses	Make permanent the disallowance of active pass-through losses in excess of $500,000 joint ($250,000 for others) indexed for inflation
	Tax high-income capital gains and dividends at ordinary rates	Taxation of capital income; Different parameters for publicly traded assets versus non-publicly traded assets		Set capital gains tax rates on income over $1 million at revenue-maximizing level
	Modify income, estate, gift, and generation-skipping transfer taxes for certain trusts; Revise rules for valuation of certain property; Revert estate and gift tax parameters to 2009 levels	Revert estate and gift tax parameters to 2009 levels	Continue estate and gift tax provisions as currently administered	Repeal estate and gift taxes; Enact an inheritance tax
	Adjust transfers of property by gift or death; Modify step-up in basis exclusion		Repeal step-up in basis of capital gains	Replace step-up in basis with carryover basis for assets transferred at death
	Apply the NIIT to pass-through business income of high-income taxpayers; Direct revenue from increasing the NIIT rate to the HI Trust Fund	Expand Base of the SECA/NIIT		Repeal the NIIT
	Impose a minimum tax of 25% on total income, generally inclusive of unrealized capital gains, for all taxpayers with wealth greater than $100 million	Implement a wealth tax on net worth greater than $15 million		

Corporate Income Tax Revenues

	American Action Forum	American Enterprise Institute	Bipartisan Policy Center
Corporate Income Tax Revenues	Repeal corporate alternative minimum tax	Reduce corporate income tax rate to 20%	Repeal corporate alternative minimum tax
	Reform tax structure for multinational companies	Reform tax structure for multinational companies	Reform tax structure for multinational companies

	Center for American Progress	Economic Policy Institute	Manhattan Institute	Progressive Policy Institute
	Raise corporate income tax rate to 30%	Raise corporate income tax rate to 35%		Raise corporate income tax rate to 25%; Reform corporate alternative minimum tax
	Reform tax structure for multinational companies	Reform tax structure for multinational companies		Reform tax structure for multinational companies

Tax Expenditures

	American Action Forum	American Enterprise Institute	Bipartisan Policy Center
Individual	Eliminate individual tax expenditures	Eliminate most individual tax expenditures	
			Repeal all itemized deductions other than those for charitable donations and medical expenses
	Phase out mortgage interest deduction; Replace with credits for charity and first-time homebuyers		Convert mortgage deduction into nonrefundable credits
			Repeal the non-business SALT deduction
		Modify the CTC and make it refundable in 2025; Index to inflation for following years	Modify the CTC refundability and make the credit permanent, indexed for inflation
		Increase the EITC phase-in and phase-out rates for those with no qualifying children	
Corporate		Eliminate most corporate tax expenditures	
		Repeal energy-related tax expenditures	
		Repeal corporate SALT deduction	
	Adjust rules to deductibility of interest and investment		Adjust rules to deductibility of interest and investment

Notes: SALT stands for state and local taxes. CTC stands for the Child Tax Credit. CDCTC stands for the Child and Dependent Care Tax Credit. EITC refers to the Earned Income Tax Credit.

Center for American Progress	Economic Policy Institute	Manhattan Institute	Progressive Policy Institute
	Eliminate all individual tax expenditures but EITC		
		Modify itemized deductions; Limit tax benefit of itemized deductions to 15%	Make permanent certain itemized deduction repeals and limit the tax benefit of other itemized deductions to 30%
	Repeal deductibility of individual interest payments		Repeal the state and local tax deductions and the municipal bond exemption; Use half the savings for direct grants to state and local governments
Provide first-time home buyer subsidies			Phase out the mortgage interest deduction
			Repeal the non-business SALT deduction
Make the American Rescue Plan CTC permanent	Replace CTC with universal child allowance	Modify the CTC	Repeal CDCTC, Modify the CTC; Create universal Child Opportunity Accounts with government contributions based on family income
Make the American Rescue Plan EITC permanent	Expand childless EITC		Replace the EITC with a more-generous “Living-Wage Tax Credit”
Eliminate some corporate tax expenditures	Eliminate most corporate tax expenditures		
		Repeal energy-related tax expenditures	
		Repeal corporate SALT deduction	Repeal corporate SALT deduction
	Adjust rules to deductibility of interest and investment	Adjust rules to deductibility of investment	Adjust rules to deductibility of interest and investment

Other Revenue Proposals

	American Action Forum	American Enterprise Institute	Bipartisan Policy Center	
Other Revenue Proposals	Carbon tax	Border-adjusted carbon tax		
			Permanently extend increased IRS funding	
		Raise gasoline and diesel fuel excise taxes	Raise gasoline and diesel fuel excise taxes	

Notes: IRS is the Internal Revenue Service. VAT is value-added tax.

Other Proposals

	American Action Forum	American Enterprise Institute	Bipartisan Policy Center	
Other Proposals	Immigration Reform		Immigration Reform	

	Center for American Progress	Economic Policy Institute	Manhattan Institute	Progressive Policy Institute
		Carbon tax	Carbon tax	Border-adjusted carbon tax
	Permanently extend increased IRS funding		Permanently extend increased IRS funding	Permanently extend increased IRS funding
	Reform fossil fuel preferences		Raise gasoline excise tax	Replace the motor fuel excise taxes with a vehicle mileage fee set at a level that will fully fund the Highway Trust Fund
				VAT starting at 3% in 2026, increased each year thereafter by 3% until fully phased in at 15% in 2030
	Institute a paid leave payroll tax	Institute a paid leave payroll tax		

	Center for American Progress	Economic Policy Institute	Manhattan Institute	Progressive Policy Institute
		Immigration Reform		Immigration Reform

MEMOS TO CANDIDATES AND POLICYMAKERS

As part of the Solutions 2024 project, each participating organization drafted a memo to candidates and policymakers identifying its top three priorities. Those memos can be found on subsequent pages; the top three recommendations for each organization are:

- **American Action Forum**
  - Entitlement Reform
  - Addressing Global Threats
  - Tax Reform
- **American Enterprise Institute**
  - Make Healthcare Programs More Efficient
  - Better Target Social Security
  - Reform the Tax System
- **Bipartisan Policy Center**
  - Pay for TCJA Extension
  - Broad Based Tax Reform
  - Strengthen Social Security
- **Center for American Progress**
  - Increase Nondefense Discretionary Spending
  - Invest in People
  - Ask the Wealthy and Large Corporations to Pay Their Fair Share
- **Economic Policy Institute**
  - Address Provisions of the TCJA
  - Strengthen Social Security Trust Funds
  - Reduce Healthcare Costs
- **Manhattan Institute**
  - Reform Social Security
  - Rethink Healthcare Entitlements
  - Raise Revenues Responsibly
- **Progressive Policy Institute**
  - Replace TCJA with Real Pro-Growth Tax Reform
  - Revitalize Public Investment
  - Modernize Retirement and Health Programs

AMERICAN ACTION FORUM

MEMORANDUM

TO: Candidates and Policymakers

FROM: Douglas Holtz-Eakin

DATE: July 2024

SUBJECT: Unbalanced

Introduction

The strength of the U.S. economy is matched only by the magnitude of the nation's indebtedness. The national debt is roughly equivalent to the size of U.S. economic output, while debt service costs are on track to surpass the cost of national defense this year. At a time when the United States and its allies are facing security threats from state actors as well as the enduring challenges of transnational terrorism and regional instability, U.S. defense capabilities must be strengthened to meet our security obligations. Even in times of relative budgetary ease and global placidity, striking the right balance for taxpayers to meet national security threats is a significant challenge. This is not one of those times. In the absence of significant fiscal consolidation, beginning with reforms to the nation's major entitlement programs, the United States will be unable to meet its commitments at home and abroad. Addressing even one of these challenges successfully has proven daunting for policymakers. The current generation of policymakers must embark willingly on a policy strategy to confront all three. The American Action Forum's (AAF's) budget plan seeks to articulate how that may be possible.

Top Three Policy Recommendations

Entitlement Reform

The primary causes of our growing debt have been walled off by elected policymakers from substantial reform. Mandatory spending and interest payments are driving the debt and increasingly crowd out discretionary spending. Mandatory spending has been growing as the nation ages, health costs grow, and policymakers create new entitlements and expand old ones. In 1974, spending on entitlements and debt service comprised 41 percent of federal outlays. Today this spending comprises 73 percent of outlays, and by 2034, it will be 79 percent. Along the way, debt service will become the third-largest federal expenditure—outstripping Medicaid and defense. Nevertheless, the last two attempts at deficit reduction, the Budget Control Act of 2011 and the

Fiscal Responsibility Act of 2023, focused almost exclusively on discretionary spending. That the fundamental budgetary outlook for the United States remains unchanged in the wake of these policies lays bare the need to focus attention on what matters most for the budget outlook.

Addressing Global Threats

The United States is facing an increasingly complex and diverse set of national security threats. Successive national security strategies have identified Russia and China as posing stark and unique threats, in addition to the persistent challenges from rogue nations such as North Korea and Iran, as well as transnational terrorism. These threats are far from abstractions. Russia has provoked a land war in Europe, China continues to signal aggressive intentions toward Taiwan, Iran and the United States have come as close to open warfare since the 1980s, while North Korea continues to develop its strategic nuclear forces. Contemporaneously, U.S. forces are engaged throughout the world in a counter-terror mission against prolific and evolving threats. Fundamentally, the United States must acknowledge these realities and prepare accordingly.

Tax Reform

The Tax Cuts and Jobs Act of 2017 (TCJA) marked the first substantial reform to the U.S. tax code in 30 years, but the task remains unfinished. The most conspicuous challenge and opportunity in this task is reflected in the pending expiration of substantially all the individual TCJA reforms as well as some business provisions. A durable tax reform would build on the best elements of the TCJA and reform those that could be improved. The business tax outlook would be substantially improved under the AAF plan, with the current provision for expensing of equipment expanded and made permanent. The corporate rate would be maintained at a competitive 21 percent. Most substantially, the plan would reform the current patchwork of base-erosion and other international tax provisions to a destination-based cash flow tax. This reform would obviate the complex international tax regime that adds needless complexity and harms U.S. competitiveness.

Address Near-Term Policy Issues

Over the next two years, the United States will be confronted with a number of public finance challenges that will require careful and deliberate attention from policymakers. The most immediate challenge is the expiration of the two-year discretionary spending caps enacted as part of the Fiscal Responsibility Act. These caps and ensuing legislation have had a salutary effect on the budget outlook through projected discretionary savings. While this is welcome, discretionary spending is not a key budgetary pressure and may limit U.S. capacity to respond to geopolitical challenges. The United States has an existing federal budgetary process that should obviate the need for additional spending caps. Policymakers should follow it.

The expiration of the TCJA individual tax title in 2025 is an opportunity for continuing the important work of tax reform begun in 2017. Unfortunately, the U.S. budget outlook is substantially worse than in 2017. In the absence of meaningful reform to the nation's major health and retirement systems, no tax code could durably finance the appetite for deficit spending and the debt service that attends it. It is critical that fiscal consolidation focus first and foremost on this challenge. The expiration of the TCJA is an opportunity to grapple with this reality and refine the nation's tax code to be more competitive internationally, while also embracing a more modern tax base. While this approach may yield additional revenue, the tax reform effort should be animated by efficient tax policy design.

At the same time, the enhanced premium tax credits will sunset as well. Given the need to control the growth of mandatory spending, these larger tax credits are a luxury that the taxpayer should not have to bear. They should be allowed to sunset.

There are additional challenges confronting U.S. public finance over the near and medium terms. First, the United States will need to increase the statutory debt limit in 2025. The debt limit is increasingly a risk to the U.S. economy for which the benefits are arguably insufficient. Policymakers should increase this limit promptly and expeditiously, recognizing that in the absence of meaningful reform to the nation's major entitlements, the United States will continue to plunge headlong into a future debt crisis. Relatedly, the exhaustion of the trust funds for Social Security and the Medicare Hospital Insurance program should prompt lawmakers to immediately pursue reforms to right-size these programs for the sake of beneficiaries and taxpayers. These reforms should look first to changes to benefits and introduce market forces where feasible. Last, recent infrastructure legislation has failed to tether highway spending to dedicated revenue. The gas tax is increasingly (and somewhat by design) obsolete. Accordingly, highway spending should compete with other appropriated programs for federal commitments.

Conclusion

The United States faces near-term challenges and a fundamentally unsustainable long-term budget outlook. The AAF proposal contains sweeping changes to both the outlay and revenue sides of the federal budget and accomplishes the feat of reducing the debt relative to GDP. The success of these spending reforms combined with revenues—raised in a pro-growth fashion—that are two full percentage points of GDP higher permits essentially eliminating annual deficits and reducing the debt to the pre-pandemic range. The basic lesson of these results is that the current fiscal outlook for the United States is extraordinarily dangerous and requires dramatic action on both sides of the budget to be rectified.

MEMORANDUM

TO: Candidates and Policymakers

FROM: Joseph Antos, Andrew Biggs, Alex Brill, and James Capretta

DATE: July 2024

SUBJECT: A Balanced Plan for Fiscal Stability and Economic Growth

Introduction

Our plan seeks to achieve long-term fiscal stability and promote economic growth by aligning federal spending and revenue and pursuing market-based policy reforms. The plan reduces the national debt by over $60 trillion in 2054. In that year, debt as a share of the economy would drop significantly, from 166 percent of GDP in the baseline to about 85 percent of GDP as a result of the proposed reforms. More stringent spending policies could cut the debt further, but there is no easy or quick solution to the country's fiscal challenges.

The plan emphasizes savings in the major entitlement programs—Social Security, Medicare, Medicaid, and health insurance subsidies—while continuing to protect those less fortunate. The plan raises the same revenue (in present discounted value across the 30-year horizon) as the current law baseline, resulting in a revenue level above historical averages, as a share of GDP. The plan reforms the income tax by broadening the base and reducing statutory rates to promote economic growth.

Top Three Policy Recommendations

Make Healthcare Programs More Efficient

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

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

Federal matching payments for Medicaid would be replaced with per-capita allotments, enabling states to manage their Medicaid programs more efficiently and eliminating the incentive to draw more federal funds without necessarily providing more or better services. The tax exclusion for employer-provided health insurance would be capped and partially replaced by a refundable health insurance tax credit providing a fixed dollar subsidy.

Better Target Social Security

The current Social Security benefit formula would be replaced with a means-tested benefit for all retirees and widow(er)s, regardless of their earnings history or labor force attachment. The benefit would equal 28 percent of the national average wage for single retirees and 41 percent of the average wage for couples. To supplement this flat benefit, workers would be automatically enrolled in employer-sponsored retirement plans with a default contribution of 3 percent of earnings, split evenly between the worker and employer. Workers whose employers did not offer a retirement plan at work would be enrolled in a defined contribution retirement plan similar to the Thrift Savings Plan offered to federal employees.

"Experience rating" would be instituted for the employer share of the Disability Insurance payroll tax, which would give employers an incentive to provide accommodations to workers with disabilities to keep them on the job. To maintain Social Security solvency without increases in tax rates or additional reductions in Social Security benefits, we allow the trust funds to borrow from the general fund during years when they would otherwise be depleted, and then to repay the borrowed funds in future years when the reforms included in this plan produce more savings.

Reform the Tax System

The tax system would be reformed to promote economic growth. Over the 2025–2054 period, revenue would be the same (in present discounted value) as under the current-law baseline.

The individual income tax provisions of the Tax Cuts and Jobs Act slated to expire at the end of 2025 would be modified. Ordinary income tax rates would be lowered and the tax base broadened. The standard deduction would be replaced with a credit and most deductions would be limited or repealed.

The corporate income tax rate would be reduced to 20 percent. Deductibility of interest expense would be further limited and 50 percent expensing would be permanently extended.

The municipal bond interest exclusion, the mortgage deduction, the remaining state and local tax deduction, the medical expense deduction, the pass-through business income deduction, and a variety of business tax preferences would be repealed. The exclusion of employer provided health insurance would be significantly curtailed.

The estate and gift tax would be repealed, but unrealized capital gains (above a threshold amount) would be taxed at death. The 3.8 percent net investment income tax would be repealed. A carbon tax would be adopted. The gasoline tax would be increased.

Addressing Shorter-Term Issues

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

- **Discretionary caps.** The 2023 Fiscal Responsibility Act established nominal dollar caps on discretionary spending for FY 2024 and FY 2025. Our plan assumes adherence to these caps. For years beyond 2025, most categories of discretionary spending are expected to increase at the same rate of inflation as the current-law baseline. However, given the increased global threat levels, defense discretionary spending is assumed to increase above baseline levels in the near term.

- **Debt ceiling.** The debt ceiling has failed to constrain federal spending and would be repealed.
- **Expiration of tax cuts for individuals in the Tax Cuts and Jobs Act**. As discussed above, the individual tax cuts would be permanently extended, with modifications that broaden the income tax base and reduce statutory rates.
- **Exhaustion of the Highway and Hospital Insurance Trust Funds.** The gasoline tax would be increased, which would extend the life of the Highway Trust Fund. Similarly, our health proposal would set Medicare on a sustainable fiscal path.

Conclusion

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

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

Bipartisan Policy Center

MEMORANDUM

TO: Candidates and Policymakers

FROM: Bipartisan Policy Center

DATE: July 2024

SUBJECT: Breaking the Budget Gridlock: A Bipartisan Blueprint for Debt Reduction

Introduction

The nation's fiscal trajectory is unsustainable. Policymakers should seek to stabilize the debt rather than demand balancing budgets or eliminating the debt entirely, and only bipartisan cooperation and solutions to these challenges will stand the test of time.

This blueprint offers a menu of policy proposals to both reduce the level of debt-to-gross domestic product (GDP) and win support from both parties. We protect taxpayer investments in programs that grow the economy and support workers and their families, while seeking spending reductions and tax increases that minimize distortions to the incentives to work, spend, save, and invest. Our combined proposals:

- Increase revenue by $4.1 trillion over 10 years and $37.3 trillion over 30 years;
- Reduce spending by $3.4 trillion over 10 years and $50.1 trillion over 30 years;
- Reduce debt-to-GDP from its fiscal year 2024 level of 99 percent to 59 percent by FY 2054; and
- Increase nominal GDP by $77.7 trillion over 30 years, 5 percent above the current baseline.

Although many of the fiscal policy challenges the nation faces will span decades, Congress does not have the luxury of time. Next year, the current debt limit suspension and the discretionary spending caps enacted in the Fiscal Responsibility Act expire along with trillions of dollars in tax cuts enacted in 2017 and 2022. Enormous pressure will mount on policymakers in both parties to extend tax provisions that—absent offsets—will further erode the nation's fiscal health. At the same time, Social Security and Medicare face looming insolvency, which will come to a head in the 2030s.

While several of the policy options included in this blueprint are ones that BPC would not support in isolation, packaged together they reflect the types of tradeoffs that lawmakers will have to make soon to improve our fiscal outlook. Indeed, the required actions would have been less difficult and less severe 25 years ago, 15 years ago, or even five years ago, before the onset of the COVID-19 pandemic. Despite these challenges, BPC's blueprint is intended to help bridge the political divide and provide a stable path to more sustainable budgetary outcomes.

Top Three Policy Options

Pay for TCJA Extension: BPC's plan raises significant revenue overall, and we prioritize a close to revenue-neutral extension of the Tax Cuts and Jobs Act (TCJA). This major overhaul to the U.S. tax code passed in 2017 largely expires in 2025, making it one of the top policy issues facing the 119th Congress next year. Our proposals for the provisions directly affected in 2025 lead to $273 billion in increased deficits over 10 years. Considering revenue effects alone, the proposals are functionally revenue neutral (+$61 billion over 10 years), but outlay effects, primarily from extending the child tax credit, increase spending and deficits.

Among the tax cuts we extend permanently are:

- Lower rates for the bottom three individual tax brackets (10 percent, 12 percent, 22 percent);
- Limitations on the alternative minimum tax (we repeal it completely);
- Doubling of the standard deduction; and
- Doubling of the Child Tax Credit (we further expand it).

Among the permanent offsets we include to pay for those policies are:

- Repeal of personal exemptions;
- Repeal of the state and local tax deduction (SALT);
- Repeal of all other itemized deductions, other than the charitable deduction and the medical expenses deduction.

Although our revenue plan goes well beyond TCJA, we prioritize offsetting TCJA extension because it will be one of the top policy issues facing Congress next year.

Broad Based Tax Reform: Beyond prioritizing offsets for TCJA extension, we offer tax policy proposals that increase revenue and modernize the tax code by broadening the nation's tax base. For example, we repeal the income- and payroll-tax exclusions for employer-provided fringe benefits, and instead include those in taxable income, raising revenue by $700 billion over 10 years and $3.4 trillion over 30 years. We also repeal step-up in basis for assets transferred at death, eliminating a provision that allows decedents to pass assets on to heirs tax-free—the capital gains of such assets escaping taxation. Doing so raises $200 billion over 10 years and $1.2 trillion over 30 years. These are examples of tax reform that broadens the tax base, reduces deficits, and helps sustain key government investments.

Strengthen Social Security: Social Security lifts nearly 23 million Americans above the poverty line annually and enjoys overwhelming public support. But it is the nation's single most expensive program, consuming 22 percent of the total federal budget and far more than its payroll tax brings in. BPC's plan, adapted from that of our bipartisan commission on retirement security and personal savings, would put the program on a fiscally sustainable path while bolstering support for retirees who rely most on Social Security. We accomplish this through a balanced package of cost reductions—including continuing to gradually increase the full retirement age, indexing cost-of-living adjustments to a more appropriate price index, and capping spousal benefits—and targeted benefit enhancements such as a more progressive benefit formula, a robust minimum benefit, and improved survivors benefits. We also include provisions that update Social Security for the modern workforce, changing the benefit calculation to an annual-primary-insurance-amount formula ("mini-PIA") and replacing the Windfall Elimination Provision with a proportional benefit formula.

Address Near-Term Policy Issues and the 2025 Fiscal Cliff

- **Caps on discretionary spending beyond FY 2025:** We limit discretionary spending growth—for both defense and nondefense categories—to 1 percent per year for the next decade (FY 2025 through FY 2034) and to 2 percent per year in the two subsequent decades. Although discretionary spending is not a primary driver of future debt and deficits, a comprehensive and bipartisan debt reduction plan will require sacrifice in all parts of the federal budget.
- **The debt ceiling:** We urge Congress to expeditiously suspend or increase the debt limit ahead of its reinstatement on January 2, 2025. Even approaching the nation's X Date—the date on which Treasury would exhaust extraordinary measures and be unable to meet all of the government's obligations in full and on time—creates significant uncertainty for financial markets and the economy. Crossing the X Date carries potentially catastrophic consequences for the U.S. government and the domestic and global economy. Policymakers should reform the debt limit process to avoid any chance of default on our obligations and return the legislative focus to the underlying fiscal challenge.
- **Expiration of tax cuts for individuals in the Tax Cuts and Jobs Act:** As noted above, we suggest that lawmakers address TCJA expirations in an approximately deficit-neutral manner. When considering extensions, we encourage lawmakers to prioritize low rates for low- and middle-income taxpayers and tax expenditures that disproportionately benefit those same taxpayers, such as an expanded Child Tax Credit. We similarly urge Congress to pay for these extensions by limiting tax expenditures that disproportionately benefit high-income households, like the SALT deduction.
- **Expiration of enhanced subsidies for purchase of health insurance through the marketplaces:** This blueprint assumes no changes to current law regarding the Affordable Care Act's premium tax credit structure, though we anticipate lawmakers will have a robust conversation next year over the extension of the expanded premium tax credits.
- **Upcoming exhaustion of the trust funds for Old-Age and Survivors Insurance, Hospital Insurance and Highways:** Through decades of inaction, Congress has risked the depletion of the Social Security OASI, Medicare HI, and Highway trust funds. By prioritizing the long-term strength and stability of these programs, BPC's blueprint delays depletion of all three trust funds. Without severe and immediate additional tax increases or spending reductions in these programs, however, lawmakers will still need to determine how to prevent shortages of funds as our plan phases in and begins to yield long-term fiscal benefits.

Conclusion

Lawmakers will have no choice but to address significant fiscal policy challenges in the years ahead, from the debt limit and the expiration of trillions of dollars in tax cuts in 2025 to the depletion of Social Security and Medicare trust funds in the early 2030s. BPC's blueprint prioritizes bold, comprehensive solutions to these challenges that can win bipartisan support. We urge policymakers to reform their processes surrounding the most basic elements of governing—addressing the debt limit, preventing government shutdowns, passing budgets on time—and to spend more time on these generational challenges to our fiscal and economic outlook.

MEMORANDUM

TO: Candidates and Policymakers

FROM: Brendan Duke, Senior Director for Economic Policy

DATE: July 2024

SUBJECT: A Budget for Inclusive Growth

Introduction

The Biden administration inherited an economy with millions out of work, a rapidly climbing inflation rate owing to supply chain disruptions, and a failed pandemic response. Its combination of aggressive fiscal policy and targeted public investments has led to a strong economic recovery that is the envy of advanced economies. The CAP plan builds on these successes with new public investments—especially in people—that will reduce families' cost of living while promoting future productivity growth.

Largely as a result of two decades of unpaid tax cuts, America's fiscal trajectory has moved from a projection of an ever-declining debt-to-GDP ratio to one rising indefinitely. The CAP plan places America on the appropriate fiscal trajectory: slowing down the growth rate of the debt-to-GDP ratio so it peaks below 120 percent of GDP and begins falling modestly as the federal government begins running a primary budget surplus toward the end of the 30-year budget window. More important than the specific level is that the debt-to-GDP ratio stops growing indefinitely and begins to fall.

The CAP plan does this while safeguarding our commitments to seniors, investing in the American people, putting our debt trajectory on course toward stabilization, and preventing interest costs from crowding out private and public investments that will help us move toward a greener, more resilient economy. In particular, policymakers must use the expiration of many of former President Trump's tax cuts at the end of 2025 to raise revenue by raising taxes on the wealthy and corporations.

Top Three Policy Recommendations

- **Increase nondefense discretionary spending:** Nondefense discretionary spending funds some of the federal government's most critical priorities. It helps fill some of the holes in our porous safety net such as nutrition, housing, and healthcare. It funds the agency staff that literally run the government as well as all the data collection we need to ensure smart and efficient government—without the statisticians at the U.S. Census Bureau and U.S. Bureau of Labor Statistics, policymakers and even the Federal Reserve would be flying blind. Finally, it funds most of our long-term investments in the future including our scientific research and development, our infrastructure, and our federal education spending.

- **Invest in people:** The last three years have shown the results we can achieve with smart public investments. The American Rescue Plan, Infrastructure Investment and Jobs Act, CHIPS and Science Act, and Inflation Reduction Act are delivering a strong, equitable labor market recovery in the short term while crowding in private investment that will boost productivity in the long term. The CAP plan makes a similar investment in the American people—it would deliver affordable childcare for millions of families, universal pre-K, free community college, paid family and medical leave, a larger and more inclusive Child Tax Credit, affordable healthcare, and more. These investments would save families money in the short term. In the longer term, they will pay off in more productivity through higher education attainment, greater labor force attachment among young parents, and more.
- **Ask the wealthy and large corporations to pay their fair share:** Making these investments while keeping the federal government's debt-to-GDP ratio on a sustainable trajectory will require additional revenue. The CAP plan achieves this with $9 trillion in additional revenue largely from the wealthy and corporations over its first 10 years. Some of the key reforms it includes are raising the corporate tax rate to 30 percent (still well below its pre-Tax Cuts and Jobs Act level of 35 percent), a 25 percent minimum income tax on households worth over $100 million, and lifting the cap on Social Security earnings so the wealthy contribute the same way low-wage workers do. While these reforms will help curtail the 40-year trend of growing income and wealth inequality, the United States would remain a low tax nation: federal revenue as a share of the economy would rise by about 3 percentage points of GDP, which would move us from the 29th highest-tax country in the OECD to the 28th.

Address Near-Term Policy Issues

The plan would address near-term fiscal policy issues in the following ways:

- **Caps on discretionary spending beyond FY 2025:** As discussed above, the CAP fiscal plan calls for an immediate increase in nondefense discretionary spending after FY 2025 equal to 0.75 percent of GDP. By the end of the decade, it would bring down defense discretionary spending to where it was under President Obama adjusted for inflation. After that, both would grow with population and inflation.
- **The debt ceiling:** The debt ceiling serves no useful purpose—the United States is one of just two countries that has a debt ceiling at a fixed nominal amount. Moreover, Congress initially instituted the debt ceiling to *facilitate* borrowing by the executive instead of routinely putting our country at the risk of default. The CAP plan calls for abolishing it. If Congress wishes to address debt and deficits, it should change tax and spending laws, not threaten the full faith and credit of the United States.
- **Expiration of tax cuts for individuals in the Tax Cuts and Jobs Act:** The CAP plan calls for using the expiration of the Trump tax cuts as an opportunity to raise additional revenue while refusing to cut additional taxes for the wealthy and large corporations. Any extension of the tax cuts going to low- and middle-income households should be offset either through the $9 trillion in revenue raisers over the first 10 years identified in the CAP plan or through additional reforms such as reducing the value of itemized deductions, reforming retirement tax incentives, and rationalizing the tax treatment of business investment.

- **Expiration of enhanced subsidies for purchase of health insurance through the marketplaces:** The enhanced Affordable Care Act subsidies have helped drive down the share of Americans without health insurance to a historic low while saving Americans billions in healthcare costs. The CAP plan calls for extending them.
- **Upcoming exhaustion of the trust funds for Old-Age and Survivors Insurance, Hospital Insurance, and Highways:** The CAP fiscal plan would lift the earnings cap on Social Security earnings, which would keep the OASDI trust fund solvent for the entire long-term budget window according to the Social Security chief actuary. It increases the Medicare tax rate on high earners, closes the loophole from Medicare taxes for high-income business owners, and redirects revenue from the net investment income tax to the Medicare Hospital Trust Fund as was originally intended. The Medicare actuary has found these reforms would keep the trust fund solvent indefinitely. The CAP plan would backfill the Highway Trust Fund with general revenue.

Conclusion

America can afford to invest in its people with nondefense discretionary spending and a suite of policies that will reduce families' cost of living. It will require that policymakers use the coming expiration of major pieces of the Trump tax cuts to raise taxes on the wealthy and large corporations instead of doubling down on the tax cut agenda that has placed America on an unsustainable fiscal trajectory.

Economic Policy Institute

MEMORANDUM

To: Candidates and Policymakers

From: Josh Bivens, Chief Economist, Economic Policy Institute (EPI)

Date: July 2024

Re: Navigating Near-Term Fiscal Issues

Introduction

Our nation has pressing social needs that require greater public investment and a more robust set of income support and social insurance protections. We also have higher-than-optimal fiscal deficits even at today's too-low spending levels. The clear path to boosting living standards and economic security for the vast majority while also stabilizing the nation's debt to gross domestic product (GDP) ratio in coming decades is by raising revenue. The first tranche of revenue raised should be from progressive sources, but then if opportunities for substantial increases in broad-based social insurance programs become available, the broad benefits of these expansions should be financed by broader-based taxes.

EPI's model tax and budget plan provides an aspirational plan for a progressive governing majority. Its political moment is admittedly not right now. But there remain realistic political opportunities in front of us to take some steps towards our goal of maintaining social insurance and income support programs as well as the vital public investment efforts begun in recent years to accelerate decarbonization.

Top Three Policy Recommendations

Address Provisions of the Tax Cuts and Jobs Act (TCJA)

The most obvious political opportunity is the expiration of many of the individual income tax provisions of the 2017 tax law (commonly called the TCJA). These scheduled expirations—which, crucially, are current law—would see large revenue gains relative to a baseline where they were instead continued. Many of these expirations will raise revenue in a progressive manner. To put it simply, step one in the effort to whittle down the size of deficits in coming years by boosting revenue should be to simply "stop digging". In practice, this means allowing the vast majority of the provisions currently scheduled to expire to actually phase out.

The TCJA, like the large tax cuts of 2001 and 2003, had large provisions that were temporary because its architects were transparently trying to game the legislative rules around budget reconciliation. Making these provisions temporary was a political strategy premised on the assumption that there was no political will to ever allow taxes to rise even when the law cutting them was explicitly written to be temporary. This assumption has so far largely proved correct—far too much of the 2001 and 2003 tax cuts became permanent, causing large revenue losses at a time when the spending side of the federal budget was subject to extreme austerity during the 2010s.

Part of why the 2001 and 2003 cuts were so hard to rollback is because their expiration coincided with extreme economic weakness. The debate at the end of 2012 over the "fiscal cliff" had some real logic to it—at the end of that year many fiscal provisions were set to expire at a time when the economy was still extremely weak after the 2008–2009 financial crisis and recession. The 2001 and 2003 tax cuts were actually the least-damaging fiscal provisions set to expire, but, even their expiration would have dragged a bit on recovery. We are not in that situation today. The economy is strong and can absorb a reduction in the budget deficit driven by a rollback of tax cuts mostly aimed at high-income households.

Finally in regards to the TCJA, just because some of its provisions do not have an automatic phase-out does not mean they should not be on the table. Its permanent provisions overwhelmingly benefit the owners of corporate equity—a group that is vastly overrepresented among the richest households in the United States. Revenue from the corporate income tax in the United States today is at historic lows and is extremely low relative to other advanced country peers. The rate cuts for corporate income taxes in the TCJA should be (at least partially) reversed, and much better base-broadening measures should be instituted, particularly to stop profit-shifting to lower-tax overseas locales.

Strengthen Social Security Trust Funds

Some near-term relief from the possible expiration of parts of the Social Security trust funds could be obtained by raising the taxable maximum on OASDI payroll taxes. This step has broad popular support and much of the revenue raised in this manner would simply be replacing an unforeseen revenue loss that came about through rising inequality after the early 1980s. In a sense, this is more maintenance and repair than fundamental reform. If short-term Congresses do not want to go this far, a more-modest step could be to subject pass-through business income to Self-Employment Contributions Act (SECA) taxes and impose a material participation standard.

Reduce Healthcare Costs

The prescription drug bargaining provisions included in the Inflation Reduction Act (IRA) should be expanded to provide more savings to Medicare. These provisions are highly popular and address a key source of potential cost growth. Further, while the degree of excess costs associated with Medicare Advantage (MA) plans has shrunk a bit in recent years, there are still excess costs in MA. Further, the population served by MA plans has risen significantly, meaning that this problem of excess MA costs needs attention and offers a chance for significant savings. A number of policy options to reduce this overpayment problem have been forwarded by various researchers—the next administration should move quickly to assess and implement these.

Shorter-Term Issues

The discretionary spending caps included in the Fiscal Responsibility Act (FRA)—like many such caps before them—provide a deeply flawed model of how to approach fiscal issues. Appropriations should be legislated through regular order and their levels should be set by serious calculations about what resources are needed to govern effectively, not by arbitrary top-down caps.

The issue of Highway Trust Fund expiration should be addressed in the short-run by raising the federal gasoline tax and indexing it to inflation. This tax has not been increased since 1993; it is well past time. In the longer-run, a commission to assess how to keep the Highway Trust Fund viable in a future of electric vehicles should be established to evaluate solutions such as vehicle miles traveled charges, higher vehicle registration fees, or fees on electric utility bills. But, roads and transit are crucial public infrastructure that must be maintained and paid-for.

Conclusion

Finally, addressing the threat of the statutory debt ceiling and its weaponization by partisan actors is crucial—it is by far the most useful thing that could be done to defuse the possibility of any acute fiscal crisis. The statutory debt ceiling is currently suspended until early 2025. But because it has been repeatedly weaponized in what should be routine legislative debates, and because the consequences of a debt ceiling breach are so large, at some point the threat of a debt ceiling crisis needs to be taken off the table. The optimal solution is simple abolition—most advanced countries do not have a statutory debt limit and there is no reason we need one. Compromises could be offered—one might be that when the debt limit is breached it triggers a day on the Congressional calendar to debate fiscal issues. Another solution would be to invoke the 14th Amendment and argue that the debt ceiling and Congressional legislation around taxes and spending levels gives the executive branch conflicting directions and hence they are free to choose the least-damaging path to reconcile them. One way or the other, though, the debt ceiling threat needs to be defused—we have had far too many near-misses and it is by far the most likely source of a future fiscal crisis.

Manhattan Institute

MEMORANDUM

TO: Candidates and Policymakers

FROM: Brian Riedl

DATE: July 2024

SUBJECT: A Centrist and Plausible Blueprint to Stabilize the Federal Debt

Soaring federal debt represents the greatest long-term threat to the U.S. economy. Simply extending current tax and spending policies would push the debt to 236 percent of GDP over three decades. If interest rates rise—a typical consequence of steeply rising debt—then projections show the debt possibly exceeding 300 percent of GDP in three decades, with annual interest costs consuming nearly all annual federal taxes. Obviously, this fiscal path is not sustainable. The economists at the University of Pennsylvania's Wharton School could not even model a functioning long-term economy under the current debt path. Responsible stewardship requires confronting these fiscal trends before they bring a financial crisis.

Addressing deepening deficits requires reforming annual Social Security and Medicare shortfalls that will rise from $650 billion this year to $2.2 trillion within a decade, according to Congressional Budget Office (CBO) data. Over three decades, these two program shortfalls will total $124 trillion, and exceed 11 percent of GDP annually by 2054 when including the interest costs resulting from their borrowing. The rest of the budget is projected to approximately balance over the next few decades. While all policies must be on the table, it is simply not possible to build a sustainable budget without reining in these Social Security and Medicare shortfalls.

The blueprint presented would stabilize the long-term debt around the current level of 100 percent of GDP through 2040, after which the blueprint's compounding policy and interest savings would create a "virtuous cycle" that reduces the debt to 68 percent of GDP by 2054. Stabilizing the debt will ensure that the economy maintains the resources necessary to invest, create jobs, and raise incomes.

Top Three Policy Recommendations

Reform Social Security

Over the next 30 years—driven by baby boomer retirements—Social Security is projected to run a cash shortfall of $20 trillion, plus $17 trillion in interest costs on its debt. Bringing Social Security into solvency requires addressing three cost drivers: 1) a retirement age that allows someone retiring at age 66 and living until 90 to collect benefits for one-third of his/her adult life; 2) generous benefits for wealthy retirees who do not need them; and 3) benefit formulas that over-correct for inflation and thus allow each generation's benefits to well-exceed the inflation-adjusted benefits of the previous generation.

These issues can be addressed with reforms such as gradually raising the early eligibility age to 64 and the normal eligibility age to 69. Lifetime earnings can be converted into an initial benefit level using lifetime price inflation rather than overly generous wage inflation. Once the initial benefit is determined, benefits can grow annually by the more accurate chained CPI rate. Annual cost-of-living adjustments can also be cancelled for those retirees still earning exorbitant incomes after retirement. In order to protect low-income seniors from significant benefit cuts, a minimum benefit of 125 percent of the federal poverty line can be guaranteed to retirees with full work histories.

These reforms would gradually bring Social Security's finances into annual balance. They would also help flatten benefits between high- and low-earners, and ensure that initial and yearly benefit levels grow generally with inflation over the long term and with parity across generations.

Rethink Healthcare Entitlements

Medicare is projected to run a 30-year cash shortfall of $49 trillion, plus $38 trillion in additional interest costs. Within three decades, its annual deficits will reach 3.6 percent of GDP, or 8.1 percent including interest costs. This is the result of the typical retiring couple receiving Medicare benefits more than three times as large as their lifetime contributions to the system, adjusted into present value.

Efficiency savings are a true fiscal free lunch. Moving Medicare to a premium support system would create a robust health insurance market where private insurers must compete for retirees. Each insurer would be required to offer a benefit package as generous as the current Medicare system, and each senior would buy insurance with a payment set at the cost of the midpoint-priced plan. Through choice and competition, CBO estimates that seniors would quickly save 7 percent on their premiums, and the government would save 8 percent on the cost of providing their care.

Medicare reform should also better align premiums with the cost of coverage. Currently, more than 90 percent of seniors are charged Medicare Part B and D premiums that cover no more than 26 percent of their cost of coverage (and these benefits are not prefunded with payroll taxes like they are for Medicare Part A). While the bottom-earning 40 percent of seniors should see no premium hikes, those premium rates should gradually rise as incomes move up the ladder.

Within Medicaid, rising costs are driven in part by an irrational system that bribes states to add Medicaid costs with generous and open-ended federal matching funds. Additionally, these federal matching rates are substantially higher for the coverage of higher-earning, able-bodied adults than for seniors, children, low-income adults, and disabled individuals. A commonsense reform would replace this system with a set federal payment to states for each Medicaid recipient that rises by 4 percent annually for disabled and elderly recipients, and 3.5 percent annually for children and able-bodied adults. Additionally, states should be given more freedom to innovate in their Medicaid programs. Such caps would stabilize federal Medicaid spending without dumping new liabilities on states or cutting caseloads.

Raise Revenues Responsibly

Even aggressive reforms to Social Security and Medicare shortfalls are not enough to bring long-term debt sustainability. All other spending must also be on the table, and so must tax revenues. Responsible tax policies would raise revenue without dramatically raising tax rates or reducing incentives to work, save, and invest.

Most of the 2017 tax cuts should be extended, with exceptions that would end the 20 percent pass-through business deduction and would restore the earlier top income tax bracket of 39.6 percent. Additionally, for upper-income families, tax deductions should be capped at 15 percent of their value, capital gains should be taxable at death, and the recent IRS tax enforcement funding should be made permanent.

More broadly, lawmakers should cap the tax exclusion for employer-provided healthcare, raise the Medicare payroll tax rate by one percentage point, hike the gas tax, and impose a carbon tax with its costs rebated to all but above-average earners. On the corporate side, the energy credits from the Inflation Reduction Act—which are well over budget—should be repealed. Combined with other modest tax changes, this tax package would gradually raise revenues by 2.3 percent of GDP over several decades compared to a current-policy baseline.

Address Near-Term Policy Issues

The multiple upcoming fiscal deadlines present a threat to add more red ink—and also an opportunity to scale back deficits. The 2017 tax cut extensions should be offset by the tax policies above. Discretionary spending caps should be extended beyond 2025 because, over the past several decades, discretionary appropriations have on average grown 2.7 percent in capped years versus 6.4 percent in uncapped years. The recent Affordable Care Act expansion should be allowed to expire, and the insolvency of the Highway Trust Fund should prompt legislation to devolve more of the highway system back to the states. The looming insolvency of the Social Security and Medicare Part A trust funds should motivate the creation of a fiscal commission to impose the reforms detailed above. And finally, the debt limit has ceased to serve any purpose in limiting runaway spending and deficits, and instead endangers the financial system by risking default on federal obligations. Lawmakers should replace it with legislation capping the long-term federal debt at 100 percent of GDP, with automatic savings reforms to address overages.

Conclusion

The reform proposals detailed here will not be easy or popular. Indeed, the broad popularity of Social Security, Medicare, and low taxes have created the unsustainable fiscal outlook that now threatens the economy. However, the mathematical and economic reality always eventually wins. The federal government has simply promised far more government benefits than the economy and tax system will be able to deliver. These swelling deficits will not be solved by conservative fantasy scenarios of unilaterally eviscerating social and international spending. Nor can the liberal fantasy scenarios of exorbitant tax-the-rich hikes or defense cuts by themselves come close to stabilizing long-term deficits. Both Republicans and Democrats will have to come together, put everything on the table, and move far outside of their ideological comfort zones in order to build a bipartisan solution that can prove sustainable both economically and politically over several decades. The individual policy levers are somewhat flexible, what matters is a bipartisan willingness to come together and address the debt before it jumps even higher, interest rates escalate further, and the baby boomers grow too old to absorb any benefit reforms. Until the debt is stabilized, all other long-term economic priorities will remain endangered.

MEMORANDUM

TO: Candidates and Policymakers

FROM: Ben Ritz and Laura Duffy

DATE: July 2024

SUBJECT: Cutting Costs and Boosting Growth

Introduction

Americans are finally experiencing the consequences of two decades of fiscal mismanagement in Washington. The federal government ran a $2 trillion deficit last year despite record-low unemployment, which exacerbated inflation and put upward pressure on interest rates following the COVID-19 pandemic. Annual interest payments on the national debt are now higher as a percent of gross domestic product (GDP) than any other point in American history and are crowding out critical public investments in our future.

Unfortunately, the current leaders of both parties have made pledges that make it virtually impossible to solve the problem. President Biden has pledged not to cut Social Security or Medicare—the largest and fastest-growing federal spending programs—and ruled out raising taxes on 98 percent of Americans to help pay for them. Donald Trump is even worse: he's campaigning to *worsen* the deficit by extending and expanding the unaffordable tax cuts he enacted in 2017. The Progressive Policy Institute (PPI) strongly urges the next president to move beyond these shortsighted campaign promises.

The next president and Congress will confront several action-forcing events that pressure them to reshape fiscal policy, the first of which is the return of the federal debt limit early next year. When Congress last suspended the debt limit, it dangerously waited until after the original default date estimated by Treasury. And instead of tackling the structural drivers of our debt, lawmakers cut discretionary spending—the shrinking budget category that now only accounts for roughly a quarter of federal spending and funds critical public investments in education, infrastructure, and scientific research.

PPI supports replacing the current debt limit with mechanisms to promote deficit reduction without threatening a catastrophic default, such as those proposed in the Responsible Budgeting Act. We also urge policymakers to draw upon ideas in our Blueprint for Cutting Costs and Boosting Growth, which demonstrates that fiscal responsibility and robust public investment are complementary rather than contradictory priorities. Our blueprint would boost public investment and balance the budget within 20 years of being enacted. Although PPI does not believe actually balancing the budget is necessary, putting it on that path would restore fiscal democracy and give future policymakers the flexibility to address unforeseen needs.

Below are three recommendations from our plan that can be applied during other upcoming fiscal deadlines:

Recommendation 1: Replace TCJA with Real Pro-Growth Tax Reform

The 2017 Tax Cuts and Jobs Act (TCJA) took positive steps towards making the tax code simpler and more internationally competitive. Unfortunately, Republicans prioritized cutting taxes for the rich over adequately funding our government. With deficits and interest payments reaching unprecedented heights, public investments falling to historic lows, and the costs of an aging society mounting, lawmakers must use TCJA's expiration to raise revenue rather than expand unaffordable tax cuts.

PPI's blueprint proposes making permanent TCJA's changes to personal exemptions and standard deductions that dramatically reduced how many households itemize their taxes. We would further curtail costly and increasingly regressive tax breaks, including the state and local tax deduction, the mortgage interest deduction, and more. PPI would also make individual income tax rates more progressive, with new brackets for individuals making $1 million and $10 million. While TCJA cut the estate tax to allow heirs to inherit up to $26 million from their parents tax-free, we would replace it with a progressive inheritance tax so earned income is taxed at a lower rate than the windfall someone receives simply for being born to wealthy parents.

On the business side, PPI would raise the corporate income tax rate from 21 percent to 25 percent to make up for the corporate tax revenue TCJA lost. We would make the tax code more pro-growth by replacing deductions for interest with a full-expensing regime so businesses can fully deduct investment spending the year in which it occurs, which would encourage investment rather than subsidizing debt. We also urge policymakers to cut regressive, discriminatory, and inflationary tariffs while reforming international taxation to prevent other countries from collecting taxes that U.S. companies should be paying to our government instead.

Beyond TCJA, PPI proposes ambitious reforms to replace the regressive, anti-work payroll tax with more-progressive consumption taxes that encourage savings and investment. These include a 15 percent value-added tax—widely recognized by economists as one of the most efficient taxes—and a border-adjusted carbon tax to speed the clean-energy transition. To protect lower-income households from these changes, we propose transforming the Earned Income Tax Credit into a more generous Living Wage Tax Credit.

Recommendation 2: Revitalize Public Investment

The next Congress must decide whether to continue the Fiscal Responsibility Act's discretionary spending caps. PPI believes spending on public investments in education, infrastructure, and scientific research should grow with GDP to ensure a consistent share of resources are devoted to pro-growth spending. Meanwhile, other nondefense discretionary spending should grow with population plus inflation. We believe the baseline defense spending trajectory should be maintained, but that cutting waste can free up resources to better support our allies defending democracy from adversaries including Russia and China.

PPI calls for fully funding strategic public investments including those in the CHIPS and Science Act to promote U.S. leadership in new technologies such as artificial intelligence. However, we believe our government should not just spend more, but spend smarter. PPI would repeal Buy America provisions (except those essential for national security) and other restrictions that prevent taxpayers from getting the most bang for their buck. We support permitting reforms and financial incentives to spur new housing construction, and we propose replacing the outdated gas tax with a vehicle-miles-traveled tax that adequately funds America's infrastructure.

Policymakers should also fulfill many of President Biden's incomplete Build Back Better objectives, but in a better-targeted and fiscally sustainable way. Our framework provides paid-leave benefits for new parents, expands the Child Tax Credit to help families afford infant care, and makes preschool universal for three- and four-year-olds. We also propose reforming income-driven repayment of student loans and repealing regressive education-related tax breaks. These savings should be used to expand funding for Pell grants, career-technical education in high schools, and four million new apprenticeships annually. Our approach provides better non-college pathways to well-paying jobs while cutting the cost of college for those who pursue it.

Recommendation 3: Modernize Retirement and Health Programs

The Social Security and Medicare Hospital Insurance trust funds will both be exhausted in roughly a decade. Trust funds can help make visible the link between taxes workers pay and benefits they receive, but they become accounting fictions when expenses chronically exceed revenues (as Social Security and Medicare do today). PPI believes simply raising taxes on workers or using open-ended borrowing to fund current benefit schedules unfairly sticks young Americans with the bill for previous generations who failed to adequately fund their own retirement. Instead, the exhaustion of these funds should force lawmakers to modernize the programs for current demographics.

PPI proposes transitioning to a new Social Security benefit formula that awards benefits based on years worked rather than average lifetime earnings, which makes the program more progressive while preserving its status as an "earned" benefit. We pair this revolutionary change with other modernizations, including indexing the retirement age to reflect increased longevity, reforming spousal and survivors benefits to better support widow(er)s, tying cost-of-living adjustments to a more-accurate inflation measure, and boosting benefits for the oldest beneficiaries at risk of outliving their savings. As a result of these changes, nobody who works for 20 years would experience poverty in retirement.

PPI also proposes consolidating Medicare Parts A, B, and D into a streamlined "Medicare One" benefit with one premium, one annual deductible, one set of co-insurance rates, a cap on out-of-pocket expenses, and one set of site-neutral provider reimbursement rates. The income-based premium subsidy for beneficiaries would be determined using a weighted average of Medicare One costs and Medicare Advantage plan bids, which leverages competition to cut overall costs without increasing average costs for beneficiaries.

Additionally, we propose allowing individuals ages 55–65 to buy into Medicare at premiums equal to those available in the Affordable Care Act (ACA) exchanges. Our plan permanently fixes the ACA's "subsidy cliff" by partially extending the Inflation Reduction Act's subsidies. To control healthcare costs more broadly, PPI would set maximum rates on out-of-network charges at a multiple of Medicare reimbursement rates. These changes should be paired with additional measures to improve price transparency and break up anti-competitive healthcare monopolies, thereby forcing provider competition and incentivizing value-based care.

Conclusion

PPI's Blueprint for Cutting Costs and Boosting Growth offers a visionary center-left framework for correcting our nation's fiscal trajectory, restoring fiscal freedom, and revitalizing public investments that promote prosperity. We know that this blueprint is unlikely to be adopted in its entirety at a time when neither party prioritizes fiscal restraint. Democrats will object to entitlement cuts, while Republicans will bristle at new revenue. But adopting even half of our recommended savings would be enough to stabilize the debt, making PPI's blueprint a strong menu of options for policymakers to choose from when addressing upcoming fiscal deadlines.

AMERICAN ACTION FORUM

UNBALANCED

American Action Forum

Douglas Holtz-Eakin

Introduction

The American Action Forum (AAF) plan begins with the premise that time is quickly running out on the nation's capacity to forestall a potential debt crisis. Under successive administrations and Congresses, U.S. debt has grown such that its mere carrying costs will exceed defense spending—this year. To be sure, the nation's accumulation of debt has often been the result of unique crises or the combination of multiple challenges. That policymakers never do the hard work of fiscal consolidation when circumstances allow is the fundamental reason why the United States is at risk of failing to meet the challenges of the future.

The AAF plan reduces the debt relative to gross domestic product (GDP), permitting fiscal room to respond as needed and sending the message to global capital markets that the United States will be successful in managing its finances.

The AAF plan makes immediate and sweeping changes to the nation's major health and retirement programs. There is a cottage industry in Washington, D.C., dedicated to quibbling over which party, president, or Congress is more responsible for America's indebtedness. That question is irrelevant to this exercise, as the programs that will guarantee a future debt crisis are essentially the decades-old major entitlement programs. The political lesson of recent decades is that these programs are inviolate—but this consensus must be upended if the country is to meaningfully address its debt challenge.

A rapid fiscal consolidation can pose challenges for the economy. Accordingly, this plan focuses substantially on transfer payments and reorients the tax code to be more pro-growth. To the extent that what was once a long-term debt challenge has now become a near-term threat, meaningful fiscal consolidation should have positive effects on economic growth, especially compared to an alternative in which the nation's unsustainable debt challenge is left unaddressed. The consequences of a sovereign debt crisis would be catastrophic for global economic growth. The most vulnerable Americans would be disproportionally affected by the ensuing economic crisis and a fiscal consolidation imposed by circumstance. This plan recognizes that avoiding this future is not only critical to overall growth but reflects a need to spare the nation's vulnerable from such a scenario.

Spending

Medicare, Medicaid, and Other Federal Health Programs

In general, the AAF plan recognizes that the primary drivers of future debt accumulation are the nation's major health and retirement systems, and any meaningful fiscal consolidation must substantially and materially reform these programs. They simply cannot be sustained in their current form. According to the most recent report from the Trustees of the Medicare program, the Hospital Insurance (HI) Trust Fund will be exhausted in 2036 and unable to finance full benefits for seniors. Medicaid remains an open-ended budgetary commitment that fails patients and taxpayers.

The AAF plan focuses on cost containment to the federal government and slowing the growth of per-person health spending. This plan retains the Affordable Care Act's (ACA's) coverage provisions, but it incorporates substantial reforms to Medicaid. This plan would establish per-capita limits on the federal commitment to Medicaid. Market forces and competition are leveraged to reform the Medicare program and yield necessary and timely budgetary savings. Under the AAF plan, traditional fee-for-service (FFS) Medicare would be reformed and priced as a Medicare option with a market-based premium based on current Medicare FFS expenditures. This market-priced Medicare option would then compete with Medicare Advantage. The central tenet of Medicare market reform is that by introducing competition among private insurers, premiums may more accurately reflect costs and quality of care. To make this competition balanced, the plan establishes a quality metric in Medicare FFS comparable to the Medicare Advantage Stars program. In addition, the plan allows additional versions of market-priced Medicare FFS where Part D prescription drug coverage and Medigap supplemental coverage can be added. Reform to medical liability, among other more modest changes to federal health programs, should also further constrain cost growth.

Social Security

In its most recent report, the Board of Trustees that oversees the Social Security program confirmed that the nation's primary safety net for retirees, survivors, and the disabled remains in financial distress. The report shows that the financial outlook for Social Security will fail to meet its promises to future seniors in the absence of meaningful reform. The report estimates that the combined (retirement and disability) Social Security Trust Funds will be exhausted by 2035. The Trustees Report makes clear the program's structural imbalance puts the retirement benefits of millions of working Americans at risk.

Avoiding these sharp benefit reductions is an essential element of any meaningful Social Security reform. This plan assumes a combination of policy changes that would address the structural imbalance in Social Security over the long term. Specifically, the plan would move to price indexing in the calculation of benefits, means test benefits for higher-earning beneficiaries, and incorporate the Chained Consumer Price Index (C-CPI-U).

Defense and Nondefense Discretionary

The overall trend of discretionary spending in the AAF plan hews to the discretionary baseline, which reflects the imposition of spending caps under the Fiscal Responsibility Act. The plan also provides additional defense funding to meet the growing challenges of the global security environment. For the first decade under the AAF plan, defense and related outlays rise commensurate with annual additional appropriations consistent with the security supplemental pending before Congress. In the latter two decades, this additional defense spending phases down to more modest additions. While overall discretionary funding levels are increased, the plan includes savings within these areas, including the implementation of reforms to constrain growth in civilian and military health costs.

Other Mandatory

The AAF plan also includes limitations to spending on agriculture programs, as well as additional savings from federal student loan programs. Critically, the plan assumes a fundamental immigration reform. On net, such a reform would reduce the deficit and have a positive effect on economic growth. Conversely, enforcing existing immigration policies would have a detrimental budgetary and economic effect, requiring a substantial increase in federal spending on the order of half a trillion dollars to deport those unlawfully present and prevent future unlawful entry into the United States.

Revenues

Individual Income Taxes

Beginning in 2025, the AAF plan assumes a reversion of pre-Tax Cuts and Jobs Act (TCJA) income tax rates. All brackets are indexed by C-CPI-U, consistent with other elements of reform on the spending side of the budget and current law. The tax plan preserves the current-law structure of the standard deduction and the elimination of personal exemptions and other tax preferences.

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

The plan would eliminate the alternative minimum tax, the additional Medicare tax, and the net investment income tax from the Affordable Care Act, and extend TCJA estate, gift, and generation-skipping tax provisions. The plan would implement carryover basis for bequests.

Corporate Income Taxes

The plan would eliminate the newly imposed international tax regime and implement a destination-based cash-flow tax consistent with the House Blueprint for Tax Reform. The plan would allow for the immediate expensing of all new investment. The plan would eliminate the new and unworkable corporate alternative minimum tax as well as the tax on stock buybacks enacted as part of the Inflation Reduction Act. One key challenge confronting the international tax landscape is the implementation of the Organisation for Economic Co-operation and Development's proposed Pillar 1 and Pillar 2 frameworks. The AAF plan assumes a diplomatically negotiated exit from these regimes.

Tax Expenditures

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

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

Other Sources

The AAF plan would make two other important tax changes: It would increase the payroll-tax cap to capture 90 percent of earnings and would implement a carbon tax. The carbon tax would impose a $20-per-metric-ton tax on CO_2 and would increase by C-CPI-U + 5 percent each year.

All tax proposals unless otherwise noted are assumed to occur in 2025.

Conclusion

The AAF proposal contains sweeping changes to both the outlay and revenue sides of the federal budget and accomplishes the feat of reducing debt relative to GDP. The success of these spending reforms combined with revenues—raised in a pro-growth fashion—that are two full percentage points of GDP higher permits essentially eliminating annual deficits and reducing the debt to the pre-pandemic range. The basic lesson of these results is that the current fiscal outlook for the United States is extraordinarily dangerous and requires dramatic action on both sides of the budget to be rectified.

Percentage of GDP	2024	2034	2054
Revenues	17.5	18.4	19.7
Spending	23.1	21.3	20.1
Deficit (-) or Surplus	-5.6	-2.9	-0.4
Debt Held by the Public	99.0	94.8	67.0

A BALANCED PLAN FOR FISCAL STABILITY AND ECONOMIC GROWTH

American Enterprise Institute[1]

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

Introduction

The objective of our plan is to achieve long-term fiscal stability and promote economic growth. Under our plan, publicly held federal debt is projected to equal 85 percent of GDP in 2054, a substantial reduction from the projected 166 percent of GDP under the current-law baseline. Achieving that goal requires ambitious reductions in the growth of federal spending (relative to the rapid increases under current law). The plan emphasizes savings in the major entitlement programs—Social Security, Medicare, Medicaid, and the health insurance subsidies established by the Patient Protection and Affordable Care Act (PPACA). The plan reforms the tax code to reduce economic distortions and disincentives while raising the same revenue (in present discounted revenue across the 30-year horizon) as the current law baseline.

Our plan supports economic growth by reducing transfer payments to the elderly, reforming the income tax system through rate reduction and base broadening, and replacing environmental subsidies and regulations with a carbon tax. We provide additional funds to maintain and strengthen the country's defense capabilities in light of growing threats to peace around the world.

Our plan maintains economic opportunity by protecting core safety net provisions while adopting a more growth-friendly tax system that will provide future generations with higher living standards.

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

1 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.

Spending

Medicare, Medicaid, and Other Federal Health Programs

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

Medicare reform. Despite strong enrollment growth in comprehensive private health plans under Medicare Advantage, nearly half of all Medicare beneficiaries receive care under a traditional fee-for-service program that offers little incentive to patients or providers to hold down costs. Medicare 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.

Other reforms address longstanding problems in traditional Medicare. Medicare's eligibility age would be increased gradually to 67, consistent with Social Security. Medicare's benefits under Part A, Part B, and Part D would be combined and traditional Medicare's cost-sharing arrangements would be simplified. An annual out-of-pocket limit of $8,500 would apply to covered services. Incentives for Medicare beneficiaries to drop those Medigap plans that eliminate nearly all cost-sharing would be offered to promote cost awareness.

Medicare premiums currently cover 25 percent of the cost of Part B and Part D and require higher premiums from enrollees with higher incomes. The reform increases premiums to cover 30 percent of the cost of all Medicare-covered services (including Part A). The premium structure would be progressive, with premiums based on enrollees' lifetime earnings rather than their current annual incomes.

These reforms would permanently ensure solvency of the Hospital Insurance Trust Fund.

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

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

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

Enhanced premium subsidies for PPACA exchange plans would lapse in 2025 and not renewed.

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

Social Security

Our plan would reduce the growth rate of Social Security outlays in future years to keep the program solvent and to make room in the budget for the growth of other programs. Important changes would be made to the structure of Social Security benefits, to focus more heavily on providing a safety net against poverty for the aged, disabled, and survivors, while instituting universal enrollment in workplace retirement plans. Workers whose employers did not offer a retirement plan at work would be enrolled in a defined contribution retirement plan similar to the Thrift Savings Plan offered to federal employees.

The core element of the reform is a means-tested benefit that would be paid to all retirees and widow(er)s, regardless of their earnings history or labor force attachment. The benefit would equal 28 percent of the national average wage for single retirees and 41 percent of the average wage for couples.[2] The benefit would be adjusted to provide greater support for lower-income retirees. To supplement this basic benefit, workers would be automatically enrolled in employer-sponsored retirement plans with a default contribution initially set at 3 percent of earnings, split evenly between the worker and employer. The default contribution would gradually rise to 10 percent of wages. Assuming savings earn the Trust Fund bond rate of return, these accounts would provide a retirement income equal to roughly half of the employee's final earnings, which would be supplemented by the minimum benefit. To give workers more time to plan for retirement, these reforms would be introduced gradually, taking full effect only when an individual entering the workforce today reaches retirement age.

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

To maintain Social Security solvency without increases in tax rates or additional reductions in Social Security benefits, we allow the trust funds to borrow from the general fund during years when they would otherwise be depleted, and then to repay the borrowed funds in future years when the reforms included in this plan produce more savings. A variety of research concludes that the tax preference does little to increase total retirement

2 The couples' benefit is less than twice the benefit for a single retiree because of economies of scale from two people living together.

savings, with the benefits of the tax preference accruing principally to higher-income households that are at little risk of inadequate incomes in old age.

The OASDI trust fund balance would deteriorate for several years, but eventually would become permanently solvent. The figures presented here assume that, during any years in which the trust funds are exhausted, general revenues are borrowed to pay benefits as scheduled under the Social Security reforms outlined herein.

Defense and Nondefense Discretionary

Given increased threat levels, defense discretionary spending is increased above current-law baseline levels in the near term. Nondefense discretionary spending is maintained at baseline levels. Note that the baseline incorporates significant reductions in these spending categories as a share of GDP, which may prove to be unattainable. Our plan emphasizes changes to mandatory spending and revenues, which drive the long-term fiscal imbalance.

Revenues

Recognizing the costly health and welfare burdens imposed by an aging population, revenue would rise to 18.8 percent of GDP in 2054 under our plan. Over the 2024–2054 period, revenue would be equal (in present discounted value) to its level under the current-law baseline. Although revenue would be somewhat above the historical average, it would remain below the disturbingly high levels that would be necessary if current spending policies were left unchanged. We propose revenue-neutral tax reform, relative to current law, to minimize the harm that the tax system imposes on long-run economic growth.

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

Individual Income Taxes

The 10, 12, 22, 24, 32, 35, and 37 percent statutory rates set forth in the TCJA would be reduced to four brackets and the rates set to 10, 20, 30 and 35. The individual alternative minimum tax would be repealed.

Interest income would be taxed like dividends and capital gains, zero percent for those in the first two tax brackets and 20 percent for those in the 30 or 35 percent bracket. The 3.8 percent tax on net investment income would be repealed. Tax-preferred savings accounts would be simplified and consolidated in a revenue-neutral manner.

The standard deduction would be repealed and replaced with a credit, $1,500 for singles and $3,000 for married filing jointly; all allowable deductions would be above the line.

Charitable contributions would be deductible for all taxpayers to the extent that contributions exceed a floor of $500 for single filers and $1,000 for married couples filing jointly, with inflation indexation of the floor in subsequent years.

The child tax credit would be set to $1,500 and would be inflation-indexed. The $2,500 income threshold would be eliminated, thereby increasing the generosity of the credit for low-income households. There would be no income-based phase-out of the credit. The Earned Income Tax Credit for childless taxpayers would be doubled. The maximum Child and Dependent Care Credit would be expanded to $6,000 for one child and $12,000 for two or more children while the credit rate would be reduced to 15 percent and made refundable.

The remaining deduction for nonbusiness state and local taxes would be repealed. The mortgage interest deduction would be repealed, with grandfathering for mortgages outstanding on May 13, 2024. The Lifetime Learning and American Opportunity tax credits would be repealed, but half of the resulting revenue gain would be used to increase Pell grant funding. The deduction for student loan interest would be repealed, with grandfathering for loans outstanding on May 13, 2024. All energy-related individual tax expenditures would be repealed.

The exclusions of employer-provided health insurance, transportation benefits, employer-provided life insurance, and employer-provided accident and disability insurance would be repealed. The medical expense deduction would be repealed.

Social Security benefits would be fully taxable. The exclusion for interest on municipal bonds would be repealed; interest on bonds outstanding on May 13, 2024, would be grandfathered. All tax credit bonds would be eliminated, effective for bonds issued after May 13, 2024.

Corporate Income Taxes

The corporate income tax rate would be reduced from 21 percent to 20 percent to ensure that the United States remains an attractive investment location. The restrictions on loss deductions adopted by the TCJA would be repealed, removing penalties on risky investment.

Businesses. For investments placed in service on or after May 13, 2024, 50 percent bonus depreciation would be allowed according to the bonus depreciation rules defined in TCJA. The LIFO conformity rule would be repealed, allowing all businesses to use LIFO on their tax returns, regardless of their financial accounting decisions. Net interest expense would be limited to 50 percent of such costs and the current limitations on interest deductibility would be repealed.

Amortization of research and development costs will be repealed, thereby permitting immediate expensing of these costs, as was the law prior to the TCJA. The Foreign Derived Intangible Income provision and the Base Erosion and Anti-Abuse Tax would be repealed.

State and local employer payroll taxes would not be deductible. The Work Opportunity Tax Credit would be repealed. All business energy tax expenditures would be repealed, including percentage depletion. The Rehabilitation Tax Credit would be repealed for projects starting after May 13, 2024. There would be no new allocations of low-income housing tax credits after May 13, 2024. The qualified opportunity zone provisions would be repealed, effective for contributions to qualified opportunity funds made after May 13, 2024.

Other

The estate and gift tax, including the generation-skipping tax, would be repealed, for gifts made, and decedents dying, on or after January 1, 2025. However, capital gains would be realized at death, subject to an exemption amount of $2 million (indexed for inflation), payable over time with interest.

Employer-provided health insurance and other fringe benefits would be subject to payroll tax.

Subsidies for ethanol and other alternative fuels would be abolished (except for basic research on renewable energy), along with energy tax credits and regulations intended to lower greenhouse gas emissions. A carbon tax would be imposed in 2025 at a level of $25 per metric ton of CO_2 equivalent, increasing thereafter by inflation plus 2 percent per year.

The federal gasoline excise tax would be increased by 15 cents per gallon in 2025 and the tax rate would be indexed to infrastructure construction prices in subsequent years.

Conclusion

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

Percentage of GDP	2024	2034	2054
Revenues	17.5	17.9	18.8
Spending	23.1	22.3	19.4
Deficit (-) or Surplus	-5.6	-4.4	-0.6
Debt Held by the Public	99.0	105.6	84.6

Bipartisan Policy Center

BREAKING THE BUDGET GRIDLOCK: A BIPARTISAN BLUEPRINT FOR DEBT REDUCTION

Bipartisan Policy Center

By Bill Hoagland, Jason Fichtner, Shai Akabas, Rachel Snyderman, Emerson Sprick, and Andrew Lautz

Introduction

America's budget trajectory has become increasingly alarming over the first quarter of the 21st century. A multitude of factors—from increased entitlement costs to spending on U.S. military engagements to tax cuts to the multi-trillion-dollar federal response to the pandemic—have driven the $23 trillion increase in debt since 2000. Both parties share blame for the issue, but one thing is clear above all: to stabilize the U.S. fiscal outlook, Democrats, Republicans, and Independents must work *together*. Only bipartisan compromise to address the debt and deficit will withstand political scrutiny and the test of time.

It would have been easier to stabilize the debt in 2000, when debt was $3.6 trillion and 34 percent of gross domestic product (GDP), or even in 2010, when debt was $9 trillion and 61 percent of GDP. It is now $26 trillion and nearly 100 percent of GDP. Delay has made the actions required of lawmakers more difficult and painful; further delay will make them more painful still.

The Bipartisan Policy Center's illustrative debt reduction blueprint shows how growth of debt could be slowed in the decades ahead, stabilizing debt to GDP at approximately 100 percent then slowly reducing it to below 60 percent of GDP by the end of the window. It would reduce debt by $87 trillion in FY 2054 compared to the Congressional Budget Office's March 2024 baseline. Our options would increase nominal GDP by $78 trillion over 30 years, 5 percent above baseline levels.

Mindful of the impact that tax increases and spending reductions can have on both economic growth and distributional effects, we choose debt reduction policies that will increase economic growth, provide stability for major programs and the tax code, and avoid disproportionate harm to low- and middle-income Americans. Some of these policies reduce revenues or increase spending, but they are more than offset with policies that reduce spending, grow the tax base, or reduce tax expenditures that benefit wealthy Americans. The blueprint reduces economic inequality by making targeted expansions to programs that disproportionately benefit low-income Americans, including Social Security, the Child Tax Credit (CTC), the Earned Income Tax Credit

(EITC), and Pell grants. We extend the 2017 tax law's lower marginal tax rates for the majority of taxpayers—preventing an increase in rates that could disincentivize work—and business tax provisions that would have a positive impact on job creation and wage growth, including full expensing for R&D and a 50 percent bonus depreciation allowance.

Any solutions to address the debt must be bipartisan, both to pass and to serve as good, durable policy. Our blueprint offers a template for lawmakers to compromise on the challenges they must address in the years ahead, including tax cut expirations in 2025 and the pending insolvency of Social Security and Medicare in the 2030s. Failure to break the gridlock will only further threaten economic growth and financial stability for the millions of Americans who most rely on support from government programs and services.

Spending

All spending provisions presented here are intended to be effective at the beginning of fiscal year 2025 (October 1, 2024) unless otherwise specified.

Medicare, Medicaid, and Other Federal Health Programs

Rising healthcare spending will continue to put enormous pressure on the federal budget in the years and decades ahead, particularly in the nation's two largest federal health programs, Medicare and Medicaid. BPC's blueprint includes robust changes to Medicare spending—particularly for improving competition within the Medicare Advantage (MA) program, and between Medicare Advantage and Traditional Medicare—that if successful should ease solvency concerns with the Medicare Hospital Insurance Trust Fund.

Our MA proposals would improve competitive bidding, modify the Centers for Medicare & Medicaid Services' risk-adjustment methodology within MA, and address improper MA payments. These proposals would address policymakers' concerns over higher spending for beneficiaries in the MA program than for those in Traditional Medicare. Adjusting this balance would lay the foundation for creating apples-to-apples competition between traditional Medicare and MA. This would allow beneficiaries to easily compare these coverage options based on a standard set of benefits, which would be an improved set of benefits for Traditional Medicare beneficiaries.

Social Security

Social Security, the single largest federal program, consumes 22 percent of the total federal budget—a proportion CBO projects will only increase in the coming years. But Social Security is also among the most effective and popular federal programs, enjoying overwhelming public support and lifting nearly 23 million Americans above the poverty line annually.

Our proposals, adapted from BPC's bipartisan Commission on Retirement Security and Personal Savings, would put the program on a fiscally sustainable path while also incentivizing workforce participation and bolstering support for retirees who rely most on Social Security. We accomplish this through a balanced package of cost reductions—including continuing to gradually increase the full retirement age, indexing cost-of-living adjustments to a more appropriate price index, and capping spousal benefits—and targeted benefit enhancements such as a more progressive benefit formula, a meaningful minimum benefit, and improved survivors benefits. We also implement provisions that update Social Security for the modern workforce, changing the benefit calculation to an annual-primary-insurance-amount formula ("mini-PIA"), and replacing the windfall elimination provision with a proportional benefit formula.

Defense and Nondefense Discretionary Spending

Discretionary spending still represents nearly 30 percent of the federal government's budget and we believe prudent limitations on its growth are appropriate. For both defense and nondefense discretionary spending, we limit growth to 1 percent per year for the next decade (FY 2025-2034) and then allow 2 percent growth per year in the two decades after. Since we recognize the value in providing tangible budget options—rather than just a target growth factor—we suggest several discretionary spending reduction options that could be included in (rather than added on top of) the reductions needed to stay at or below the growth factors. In addition to these options, we encourage lawmakers to scrutinize opportunities to reduce duplication and overlap in federal programs.

Other Mandatory Spending

Outside of the major categories of mandatory spending, we make several meaningful modifications. We reduce crop insurance subsidies as outlined by the Congressional Budget Office, which should reduce benefits flowing to the highest-income policyholders. We also include a mix of reforms in the higher education arena, eliminating subsidized student loans while investing in the future workforce and in economic mobility through a matching grant to states and increased funding for Pell grants.

Revenues

All revenue proposals are intended to be effective at the beginning of calendar year 2026. We see the pending expiration of the 2017 tax cuts as an opportunity for lawmakers to gravitate towards a simpler, more progressive tax code that provides certainty for taxpayers and businesses and facilitates robust economic growth.

Individual Income Taxes

Note*: All references to income thresholds are projected thresholds for the 2026 calendar year.*

Our framework extends the lower rates and thresholds from the Tax Cuts and Jobs Act (TCJA) for the bottom three tax brackets, preventing marginal tax rates from going up on single taxpayers making less than $105,750 and on joint filers making less than $211,500. We provide partial protection to taxpayers in the fourth bracket ($105,750 to $181,620 for single taxpayers in 2026, $211,500 to $363,240 for joint filers) by setting their top bracket at 26 percent, halfway between TCJA's 24 percent and the prior 28 percent. We modestly raise marginal rates for single/joint filers making more than $181,620/$363,240, by two percentage points over the TCJA setting for the fifth and sixth brackets (32 percent to 34 percent and 35 percent to 37 percent, respectively) and by three percentage points for the seventh and final bracket (37 percent to 40 percent). These changes in total reduce revenues by $1.6 trillion over 10 years and $7.8 trillion over 30 years from the current-law baseline.

We propose simplifying tax filing by: 1) extending TCJA's doubling of the standard deduction, 2) repealing all itemized deductions other than the charitable deduction and the medical expenses deduction, and converting the mortgage interest deduction (MID) into a nonrefundable credit, 3) extending TCJA's repeal of personal exemptions, 4) permanently repealing the individual alternative minimum tax (AMT), and 5) limiting the head of household filing status to unmarried taxpayers with a dependent under age 17.

We also propose a simplification to the taxation of long-term capital gains, with higher rates for high-income taxpayers but lower rates for low- and middle-income taxpayers. This raises revenues on net by $18 billion over 10 years and $115 billion over 30 years, roughly revenue-neutral when compared to the hundreds of trillions of dollars raised by the current tax code in the 30-year period. We explicitly align the end of the 0 percent capital gains threshold with the end of the second individual income threshold ($49,600 single/$99,200 joint) so that no households below those thresholds pay taxes on long-term capital gains. We reduce the 15 percent bracket to 12 percent for taxpayers in the third and fourth individual income brackets ($49,600 to $181,620 single/$99,200 to $363,240 joint). Taxpayers making above these thresholds would see a 22 percent maximum rate, compared to 20 percent maximum rate under current law.

Arguably our most significant reform to the taxation of high-income and/or high-wealth individuals, though, is repealing the exclusion of capital gains at death, commonly referred to as "step-up in basis." Repealing step-up in basis is a more administratively sound and legally ironclad method to increase taxes on high-income individuals than ideas like a wealth tax or a billionaire minimum tax. More importantly, it ends a tax benefit with little economic justification. This raises $217 billion over 10 years and $1.2 trillion over 30 years.

Payroll Taxes

We moderately increase both the rate and base of Social Security payroll taxes to help fully close the program's long-range deficit. Our plan increases the old-age, survivors, and disability insurance (OASDI) payroll tax rate by one percentage point (split evenly between employers and employees) over 10 years. This raises $500 billion over 10 years and $4.2 trillion over 30 years. The plan also expands the base of earnings subject to this tax by increasing the OASDI contribution and benefit base to $225,000 in equal amounts over four years and subsequently indexing increases to the average wage index plus 0.5 percentage points. This raises an additional $250 billion over 10 years and $2 trillion over 30 years. In addition, we expand the base of the 3.8 percent net investment income tax to include pass-through business income, raising nearly $300 billion over 10 years and $1.4 trillion over 30 years.

Corporate Income Taxes

We retain the 21 percent corporate income tax rate permanently modified by TCJA. Although we believe that broadening the corporate tax base could be a part of any comprehensive fiscal solution, the current rate has provided certainty and competitiveness gains to the country.

We retain the 30 percent of earnings before interest and taxes on business interest deductions but make permanent full and immediate R&D expensing and a 50 percent bonus depreciation allowance. We also repeal the corporate alternative minimum tax and broaden the tax base by requiring five-year amortization of advertising expenses and increasing taxes on U.S. multinationals' income earned abroad.

Our international tax changes are not designed to "soak" U.S. multinationals' foreign earned income. Rather, we seek to thread the needle of coming into compliance with the 2021 OECD/G20 global tax agreement and avoiding double taxation of U.S. companies while also not raising taxes on multinational income above what is needed for compliance purposes. We raise the global intangible low-taxed income (GILTI) rate from 10.5 percent to 15 percent, lower the foreign-derived intangible income (FDII) deduction so that the effective rate on FDII is also 15 percent (from current law 13.125 percent), and raise the base erosion and anti-abuse tax rate from 10 percent to 15 percent. We also expand GILTI's substance-based carveout from current law, allowing companies to carve out 5 percent of payroll and 5 percent of tangible assets (rather than 10 percent of tangible assets), eliminate GILTI's 20 percent foreign tax credit haircut, and allow carryforward of excess foreign tax credits in GILTI.

These changes, if enacted, allow the United States to adopt an Undertaxed Profits Rule under Pillar 2 of the global tax agreement. The combined corporate and international changes above raise revenues by $105 billion over 10 years and are exactly revenue neutral over 30 years.

Tax Expenditures

We make major modifications to two of the four largest itemized deductions: 1) repealing the state and local tax (SALT) deduction, and 2) converting the MID into a non-refundable 15 percent credit and capping allowable interest at $25,000 (indexed to inflation). These changes generally broaden the tax base, simplify tax filing and tax administration, and enhance the progressivity of the tax code.

We also include an option for limiting the tax exclusion for employer-sponsored health insurance (ESI)—among the largest in the tax code—and replacing it with a more sustainable approach. The new policy would limit the

ESI exclusion at a dollar amount equivalent to the 80th percentile of single and family ESI premiums, which we expect will reduce upward pressure on health insurance premiums in the years ahead. This limitation, which would only be applied to expensive plans purchased by higher-income individuals, raises revenues by nearly $600 billion over 10 years, and nearly $4.6 trillion over 30 years. This option stems from a package of reforms proposed by BPC's Future of Health Care initiative in 2020, though the score cited above only covers the limitation on the ESI exclusion and not other options in the Future of Health Care report. BPC supports devoting resources to improving coverage and affordability for consumers and finding additional offsets consistent with the overall objective of not worsening the fiscal outlook for the federal government.

We expand the CTC by indexing the base amount to inflation, providing a bonus credit for the youngest children (ages 0–3), making it fully refundable, enhancing the phase-in, and phasing the credit out for single/joint filers making more than $75,000/$150,000 (as opposed to $200,000/$400,000 under current law). We expand the EITC for childless workers only. And we make the Child and Dependent Care Tax Credit fully refundable so that this credit—the only one directed to parents for eligible child care expenses—reaches more low- and middle-income taxpayers. These credit expansions are targeted towards taxpayers who are most in need of additional support.

Other Sources

We increase gas and diesel taxes by nearly $0.15 per gallon, which will help shore up the Highway Trust Fund and fund infrastructure needs for years to come. We also extend supplemental IRS funding to ensure adequate resources for reducing the tax gap.

Finally, we enact comprehensive immigration reform, using bipartisan 2013 legislation that passed the Senate as a framework. While this is not a tax increase, it does raise significant revenue by providing a pathway to citizenship for millions of undocumented people currently living and working in the United States, allowing them to increase their taxable earnings. It also would expand legal immigration, particularly skilled immigration, which would have positive fiscal as well as GDP benefits by offsetting a projected slowing of labor force growth.

Conclusion

Our blueprint leads to declining debt-to-GDP ratios, falling from 99 percent in 2024 to 59 percent in FY 2054. We reduce deficits from 5.6 percent of GDP in FY 2024 to near zero, achieving surpluses in FY 2053 and FY 2054, by slowing the growth of spending, increasing revenues, and growing the economy through immigration reform and several initiatives to boost wages, GDP, and federal revenues.

None of the choices made in this blueprint are easy because Congress closed the door to those options long ago. However, our blueprint is capable of winning bipartisan support when presented as a comprehensive package of compromises between the two parties—a prerequisite to debt reduction efforts having a durable impact. The longer lawmakers wait to act, the less desirable choices they will face.

Percentage of GDP	2024	2034	2054
Revenues	17.5	19.0	20.7
Spending	23.1	21.6	20.4
Deficit (-) or Surplus	-5.6	-2.6	0.4
Debt Held by the Public	99.0	94.3	59.4

A BUDGET FOR INCLUSIVE GROWTH

Center for American Progress

Brendan Duke, Senior Director for Economic Policy

Introduction

The Biden administration inherited an economy with millions out of work, a rapidly climbing inflation rate owing to supply chain disruptions, and a failed pandemic response. Its combination of aggressive fiscal policy and targeted public investments has led to a strong economic recovery that is the envy of other advanced economies. The CAP plan builds on these successes with new public investments that will reduce families' cost of living while promoting productivity growth.

Largely as a result of two decades of unpaid tax cuts, America's fiscal trajectory has moved from a projection of an ever-declining debt-to-GDP ratio to one rising indefinitely. The CAP plan places America on the appropriate fiscal trajectory: slowing down the growth rate of the debt-to-GDP ratio so it peaks below 120 percent of GDP and begins falling modestly as the federal government begins running a primary budget surplus toward the end of the 30-year budget window. More important than the specific level is that the debt-to-GDP ratio stabilizes and begins to fall.

The CAP plan meets these fiscal goals while safeguarding our commitments to seniors: it not only prevents cuts to Social Security or Medicare benefits but also expands them. It funds many of the Medicare enhancements by reducing Medicare Advantage overpayments, drawing on bipartisan legislation such as Senators Cassidy and Merkley's "No Unreasonable Payments, Coding, or Diagnoses for the Elderly" (No UPCODE) Act. At the same time, it makes several investments in the next generation such as child care, early education, and higher education.

The plan shows that America does not have to choose between debt stability and inclusive growth. The CAP plan manages to balance the two by raising revenue as a share of the economy by three percentage points. The United States would remain a low tax nation—it would move from the 29th highest tax country in the OECD to the 28th. It also highlights that policymakers must use the expiration of many of former President Trump's tax cuts at the end of 2025 to raise revenue by raising taxes on the wealthy and corporations.

The plan would also support economic growth. In particular, the investments in childcare and paid leave will support higher labor force participation. The effects of these proposals are not included in the analysis here but would boost revenues as parents' increased earnings would raise tax revenues. The plan also includes several investments that will make growth inclusive: in particular, making permanent the American Rescue Plan's Child Tax Credit changes would dramatically reduce child poverty and, evidence suggests, boost children's earnings later in life.

The upcoming expiration of the individual Trump tax cuts as well as exhaustion of the Social Security and Medicare trust funds will provide policymakers with an opportunity to assess their priorities—do they prioritize lower taxes for the wealthy and large corporations or preserving and expanding programs that serve as the bedrock of the American social contract? Extensive public opinion research demonstrates Americans' support for Social Security and Medicare as well as raising taxes on the wealthy and corporations. This can provide the political momentum for Congress to adopt this approach. CAP's plan presents a realistic and responsible path forward.

Spending

Medicare, Medicaid, and Other Federal Health Programs

CAP's plan incorporates our "Medicare 2.0" proposal released earlier this spring. It would modernize Medicare by turning Medicare Parts A, B, and D into a single, streamlined plan that covers hospitals, physicians, prescription drugs, dental, vision, hearing, and long-term services and supports (specifically home and community-based services). Out-of-pocket expenses would be capped at $5,000 for all, with no out-of-pocket expenses for beneficiaries below 200 percent of the federal poverty level.

It pays for these improvements to Medicare through further prescription drug reforms (those included in the Elijah Cummings Lower Drug Costs Now Act), building on those passed in the Inflation Reduction Act, as well as ending overpayments for Medicare Advantage plans, which CAP has previously calculated amount to $87 billion to $127 billion in 2024 alone.

CAP's plan extends the enhanced Affordable Care Act subsidies that expire after 2025, as well as provides Medicaid-like coverage to individuals in states that have not adopted the Affordable Care Act's Medicaid expansion.

Social Security

CAP's plan protects Social Security for decades to come by eliminating the taxable wage cap ensuring that all earnings are taxed under Social Security—which the trustees have estimated would ensure that Social Security remains solvent until the mid-2050s. Our plan also makes modest improvements in Social Security benefits.

Defense and Nondefense Discretionary

One of the CAP plan's key priorities is bringing nondefense discretionary spending—which funds some of the federal government's most critical priorities—to an appropriate level. Some of the key specific discretionary spending the CAP proposal includes are doubling the size of Pell grants, Public Education Opportunity grants to provide significant additional funding to the highest-poverty districts in each state, and Targeted Grants for Education Excellence to improve working conditions in schools with the highest teacher turnover.

The CAP plan immediately increases nondefense discretionary spending by 0.75 percent of GDP after FY 2025. After that, it grows with inflation and population. The CAP plan also right-sizes our defense budget by bringing down inflation-adjusted defense discretionary spending to where it was under President Obama by the end of the decade. After that, defense spending would also grow with inflation and population.

Other Mandatory

The CAP plan includes several additional investments that will save families in the short term while, in the longer term, increasing productivity through higher education attainment, greater labor force attachment among young parents, and more. They include:

- **Child Care and Early Childhood Education**: The CAP plan incorporates the Child Care for Working Families Act. The legislation from Sen. Patty Murray and Rep. Bobby Scott ensures that no low- or middle- income family pays more than 7 percent of its income on child care, guarantees a living wage for early childhood educators, and invests in improving quality in child care programs and increasing the number of child care slots in child care deserts or areas with an undersupply. The bill also provides funding and incentives for states to expand high-quality preschool programs to serve 3- and 4-year-olds.
- **Free Community College and Other Higher Education Investments**: The CAP plan incorporates the Biden administration's proposals to expand free community college and provides two years of subsidized tuition for students from families earning less than $125,000 enrolled in a participating four-year Historically Black College or University, Tribally-Controlled College or University, or Minority-Serving Institution. Combined with doubling the Pell grant as part of the discretionary investments, this would make attending college far more affordable for low- and moderate-income students.

  It also makes an investment in school construction and enacts legislation restoring the Biden administration's original student debt forgiveness proposal that the Supreme Court struck down (the plan the administration released in 2024 is not part of the baseline for this exercise).
- **Housing**: The CAP plan tackles one of the most difficult affordability challenges families face today with a public-private initiative to support modular housing construction for low- and moderate-income households. Funding should support states and localities that encourage innovations in constructing affordable, resilient, and energy-efficient housing. It also provides subsidies for low- and moderate-income renters in targeted multifamily housing shortage markets and for low- and moderate-income first-time borrowers of FHA-insured loans to offset current high premiums and incentivize lenders in underserved markets.
- **Paid Leave**: The CAP plan also incorporates the FAMILY Act, sponsored by Rep. DeLauro and Sen. Gillibrand, which creates a comprehensive national family and medical leave insurance program. The plan provides up to 12 weeks a year of paid leave for workers with serious health conditions, including pregnancy and childbirth; for workers to care for parents, spouses, domestic partners, or children with serious health conditions; to care for new children; and for other specific military caregiving and leave purposes.
- **Climate**: The CAP plan builds on the momentum the Inflation Reduction Act is generating for clean energy investment with a targeted set of additional investments that fill in areas that it did not address such as funding for rural electrification, industrial decarbonization, and more. This is a 10-year, one-time investment intended to address the current foreseeable challenges to building a 100 percent clean energy economy.

Revenues

Individual Income Taxes

The CAP plan prioritizes raising taxes on the highest income Americans who have benefitted the most from economic growth and rising income inequality over the last several decades. It starts with introducing a new top tax rate of 44.6 percent—five percentage points above the 39.6 percent top rate that takes effect after 2025—starting around $1 million of taxable income.

The CAP plan directly addresses the shortfall in the Medicare trust fund by directing revenue from the net investment income tax (NIIT) to the Medicare trust fund as originally intended in the drafting of the Affordable Care Act. It further shores up the trust fund by raising the NIIT and Medicare payroll tax rate from 3.8 to 5 percent and ensuring that the profits of active business owners face Medicare taxes.

The CAP plan addresses the flaws in the income tax that allow the nation's very wealthiest families to pay a lower tax rate than some middle-income families. Using a broad measure of income that includes unrealized capital gains, economists have estimated the average individual tax rate paid by the United States' 400 wealthiest families was 8.2 percent between 2010 and 2018. The CAP plan addresses this flaw by adopting the Biden administration's proposal to introduce a 25 percent minimum income tax on households worth over $100 million. Critically, the income measure used would include unrealized capital gains and would function as a pre-payment of the tax that would ultimately be owed when the gain is recognized at sale or death.

Finally, the CAP plan would add fairness to our tax system by adopting the American Rescue Plan's Child Tax Credit (CTC) and Earned Income Tax Credit (EITC) expansions. The CTC expansion would restore a tax credit that helped cut the child poverty rate almost in half in 2021 while the EITC expansion would ensure the federal tax code does not tax low-income childless workers into poverty.

Corporate Income Taxes

The CAP plan addresses several flaws of the 2017 tax law, which dramatically cut corporate taxes while introducing new incentives for multinationals to shift profits and investments overseas. This massive corporate tax cut was sold as benefitting ordinary Americans by increasing investment and thus wages, but the evidence suggests that the increase in investment was minimal and the wage gains overwhelmingly went to the highest income 10 percent of workers and especially firm managers and executives.

The CAP plan begins by raising the corporate tax rate to 30 percent, which is still below the pre-2018 rate of 35 percent. This will raise much-needed revenue and evidence suggests that it overwhelmingly falls on excess profits above the level firms need to justify an investment, making it an efficient source of tax revenue.

It raises the minimum tax rate on U.S. corporations' foreign earnings to 21 percent and eliminates several of the incentives for corporations to book profits offshore in tax havens. These changes would bring the United States into compliance with the Organization for Economic Cooperation and Development's Pillar Two Framework, which establishes a global minimum tax on very large multinational corporations and penalizes profit shifting to low-tax jurisdictions. Following that framework, it would replace the base erosion and anti-abuse tax with an under-taxed profits rule that would protect U.S. revenue from similar rules imposed by other countries while allowing U.S. taxpayers to continue to benefit from U.S. tax incentives that promote U.S. competitiveness. It would also eliminate the foreign-derived intangible income deduction.

Corporations can return profits to shareholders in two ways—issuing dividends or repurchasing their own stock ("stock buybacks"). The tax code places these two methods on an unequal playing field. Taxable shareholders must pay tax on dividends when they receive the dividend while buybacks, by increasing the share price, only face tax when the shareholder sells the stock. The tax treatment of buybacks also allows foreign owners of equity in U.S. corporations—who owned 42 percent of ownership interests in 2022—to often avoid paying U.S. tax entirely. The Inflation Reduction Act began to address this disparity with a 1 percent excise tax on buybacks, but the CAP plan quadruples the tax to 4 percent. This both raises revenue and makes the tax code more neutral between ways of returning profits to shareholders.

Tax Expenditures

The CAP plan would target two of the largest tax expenditures that entrench wealth and income inequality: lower tax rates on capital gains and dividend income than wage income and the stepped-up basis loophole that allows taxes on capital gains to go uncollected. It would end preferential tax rates on investment income for households making over $1 million while taxing unrealized capital gains at death with an exemption of $2 million per couple. This would be on top of the existing $500,000 per couple exemption on capital gains from residence while allowing heirs to family-owned and operated businesses to defer paying the tax until they sell the business.

Other Sources

The CAP plan would further address intergenerational wealth inequality by strengthening the estate tax and restoring it to its 2009 parameters of a 45 percent tax on estates over $7 million per couple. It would also discourage unproductive financial speculation with a 3-basis-point financial transactions tax. It would also raise and modernize excise taxes by taxing all forms of nicotine equally and raising the alcohol tax.

The Inflation Reduction Act included a transformational investment in IRS enforcement reversing years of declining real funding that have eroded the IRS's ability to enforce the nation's tax laws. This investment is allowing the IRS to modernize its technology and hire the staff it needs to enforce the nation's tax laws. In particular, the wealthy and large corporations use complicated tax structures that make it difficult for an underfunded and understaffed IRS to audit. The CAP plan makes the IRS funding increase permanent.

Conclusion

The CAP plan demonstrates that inclusive growth is fiscally sustainable—that we can keep our commitments to our seniors, make further investments in the American people, and prevent rising interest costs from crowding out the private and public investments that will make our economy greener and more resilient.

Percentage of GDP	2024	2034	2054
Revenues	17.5	20.8	21.8
Spending	23.1	26.0	25.7
Deficit (-) or Surplus	-5.7	-5.2	-3.9
Debt Held by the Public	99.0	110.8	118.3

Economic Policy Institute

NAVIGATING NEAR-TERM FISCAL ISSUES

Economic Policy Institute

Josh Bivens, Chief Economist, Economic Policy Institute

Introduction

After two decades of low and falling interest rates and below-target inflation, the post-pandemic recovery in the U.S. economy has shown signs that this period of "secular stagnation" has been (at least temporarily) ended. In the big picture, this is very good news. The two decades of low interest rates and low inflation signaled clearly that aggregate demand was too low relative to the economy's potential output. This chronic demand shortfall caused great economic damage in those decades, mostly through years of excess unemployment and weak growth of both productivity and real wages.

But while ending this chronic demand shortfall is clearly desirable, it does require more attention be paid to the nation's fiscal balance. Currently, fiscal deficits are large relative to previous periods that saw similarly low unemployment, inflation remains a bit above the target set by the Federal Reserve, and policy interest rates are well in excess of estimates of their long-run neutral level. All of this would argue that the economy would see benefits from stopping the upward trajectory of debt relative to GDP.

Further, the next decade is one where a robust build-out of renewable energy capacity is needed—and is receiving considerable fiscal policy support. Like all capital expenditures, renewable energy investment is affected by the level of interest rates. Given this, anything that relieves upward pressure on these rates will be quite useful to the goal of transitioning to an economy that emits fewer greenhouse gases. This might be the single strongest argument for near-term moves to rein in the upward trajectory of the debt-to-GDP ratio.

But *how* one achieves deficit reduction is as important as *whether* one achieves it if the goal is to lift the living standards of the vast majority—and especially if one takes on the goal of avoiding harm for the most vulnerable. In short, deficit reduction can aid goals of progressive governance if done at the right time and in the right manner.

Consistent with these commitments—avoiding harm for the most vulnerable and maintaining broad-based prosperity and security—our plan relies on tax increases much more heavily than spending reductions to bring revenue and outlays into closer balance. We seek realistic efficiencies in spending when they are available, but we take seriously the fact that the United States is a near-outlier among rich nations in how little it raises in revenue and how little it spends on social protection and seek to move closer to advanced country norms in this regard. A growing research literature highlights that robust social protection is good not just for keeping inequality in check but also constitutes a valuable investment in the nation's future. By keeping inequality in check and investing in the nation's future, our plan would reliably boost economic mobility and opportunity and would break cycles of intergenerational poverty.

What's the Political Opportunity for this Budget?

Our plan is admittedly not constructed to get a majority in the current House and Senate. It is an aspirational budget for a progressive governing majority. For anything like this plan to pass in the future will require persuasion about the broad benefits it would provide—but we are confident that the facts and evidence are on our side in this persuasive effort.

Broad bipartisan support *in Congress* is hard to come by for any policy these days. In our plan—and more generally in budget debates—we think measures that aim to rein in the rising cost of public health programs without sacrificing the protectiveness they provide beneficiaries might have broad support even within Congress. This can be seen in the relatively broad popularity, for example, of the prescription drug bargaining provisions included in the Inflation Reduction Act. We also think that higher taxes on high-income and high-wealth households and corporations likely have broad bipartisan support *among the general public*—but this has so far not translated in any way to broad bipartisan support in Congress. How to solve the wedge between popular opinion and Congressional plausibility is beyond the scope of this project—it's not about technocratic tweaks to specific fiscal policies.

Below we provide an overview of the guiding philosophies behind the broad brush of our proposals on taxing and spending, as well as a bit of detail on specific policies. A key goal of our budget is to convert costs throughout the economy into direct public spending when that will help them more efficiently meet their goals. Too often in the U.S. economy social policy goals are addressed through a combination of preferential tax policy (the "tax expenditures" we radically reform in our section below) and employer benefits. These social policy goals can often be met more efficiently and more progressively by converting preferential tax treatment or employer benefits into direct, universal public benefits.

Additionally, these "tax expenditures" are a large drain on the nation's fiscal capacity, but they do not show up as an identifiable line-item in either the tax or spending side of most presentations of the nation's fiscal balance. What this means is that while on its face our budget sees large increases in spending and taxes as shares of GDP, a good portion of these increases are not actually a net new fiscal commitment; instead they are pulling large fiscal costs that are today hidden from view into a more transparent accounting system. This would lead to much more honest and useful policy debates.

Finally, we think there are larger efficiency gains to be had from approaching the issue of progressivity and "targeting" of fiscal benefits from a system-wide perspective. That is, instead of trying to construct each individual tax break or spending program with phase-outs and means-tests to keep it progressive, we move to universality of benefits on the spending side combined with an overall tax system that is strongly progressive. Again, we think this leads to more-transparent policy debates and could remove key sources of administrative burden from many programs.

Spending

As noted above, we try to meet many of the social goals that are currently targeted through the tax code with direct spending instead. Given that the "tax expenditures" we are seeking to replace are large in fiscal terms, this means that our spending plans look quite large. But many of these high spending costs are not really net new demands on fiscal capacity; they are just making these fiscal demands more transparent.

But we also are affirmatively targeting a more protective and robust welfare state with our spending programs. The United States remains an outlier in how stingy its spending on social protection is relative to other advanced economies. While U.S. spending is currently quite well-targeted in the sense of directing most benefits at lower-income families, increasing the scale of social insurance and income support would lead to a large gain in social welfare.

Medicare, Medicaid, and Other Federal Health Programs

Our 2019 budget called for global budgeting of all major health programs (including our single-payer plan described below), and we argued that this global budgeting could lead to a reduction in Medicare cost-growth without sacrificing protectiveness. Since 2019, the Congressional Budget Office (CBO) has significantly marked-down its estimates of Medicare cost growth even as no scaling back of Medicare's guarantees of coverage have occurred—we take this as evidence that we were correct about the possibilities for win-win cost containment. But it does mean that our estimates for reduced growth in Medicare relative to the CBO baseline is substantially smaller this time. Besides the global budget, we also call for expanding on the introduction of pharmaceutical bargaining in Medicare and think this can provide modest but important savings over the longer-run.

For Medicaid, our main policy change is to enact the proposals related to the home and community-based services (HCBS) made by the Biden administration in their "Build Back Better" proposal from 2021. This change substantially increases funding for the HCBS to provide better access for patients and higher pay for front-line providers of this care.

Social Security

We adopted the Social Security expenditure provisions of a 2019 bill proposed by Senator Sanders; it essentially provides an across-the-board increase in benefits, but one that is tilted towards lower-income beneficiaries. This bill would move the United States a step closer to norms (but still on the notably low side) among advanced economies in terms of the generosity of public pension systems. We also provide an across-the-board boost of 25 percent in Supplemental Security Income (SSI) benefits.

Defense

For defense spending, we target spending at 2.6 percent of GDP, slightly lower than the CBO baseline.

Nondefense Discretionary

For nondefense discretionary spending, we target a level of 3 percent of GDP. This nondefense target is higher than the CBO baseline. Given that this portion of the budget is where so much public investment is housed, and given how important well-functioning federal agencies are to quality of life, we think reversing the recent downward pressure on this part of the budget makes good sense.

Other Mandatory

By far our biggest change to spending is bringing the nearly 5 percent of GDP that is currently private households' and employers' contributions to providing health insurance for non-elderly Americans onto the federal government's spending ledger. We also take up state and local governments' share of Medicaid payments onto the federal government and cut private out-of-pocket costs to near zero. This push to universalize access to basic health insurance protections has been taken up recently by some of the world's leading health economists. It both expands access but also provides a better structure for cost containment over the longer run. Evidence of this cost containment can be seen by comparing per enrollee growth in health spending between the large public programs (Medicare, Medicaid and the Veterans' health programs) with growth in privately-provided insurance costs. Yes, this proposal adds some further stress to fiscal balances, but there are substantial fiscal benefits as well. The tax exclusion for employer-provided health insurance premiums—by far the single largest tax expenditure—will no longer be needed. Further, subsidies for coverage in Affordable Care Act exchanges will also no longer be needed. Finally, pulling health costs onto the public spending ledger acknowledges the reality that solving a *fiscal* problem by keeping costs off of public programs and on private households just leaves an underlying *economic* problem unaddressed.

Our plan calls for an ambitious investment in early childcare and education, allocating enough money to provide for universal, high-quality pre-Kindergarten for 3- and 4-year olds and providing substantial subsidies to cap childcare costs at manageable levels for working families. We also provide for a substantial increase in federal grants for state and local K-12 public education. In short, our budget significantly increases the federal investment in children—a task that is overwhelmingly left to state and local governments in our current system of fiscal federalism.

Finally, our plan calls for a substantial increase in the generosity and protectiveness of unemployment insurance (UI). We provide enough spending in our budget to make UI benefit durations and generosity respond more automatically to conditions-based triggers and to make baseline levels of eligibility much broader. The pandemic recession highlighted just how transformative a generous UI system could be for workers navigating spells of job loss, and we try to make this a more-permanent part of the U.S. social insurance system.

Many of these plans are ambitious enough in scope that they likely would take a number of years to rollout. However, we essentially assumed that they were up and running in 2025 to not game the scoring system by having revenues come online substantially before spending and giving a number of "free" years where we got credit for implementing progressive programs without really paying for them.

Revenues

As we noted in the spending section, we think tax policy is significantly overused to target specific social policy goals. This almost always means preferential tax rates or bases (so-called "tax expenditures") are offered to incentivize actions that have been deemed desirable, leading to substantial revenue losses versus a world where rates and bases were applied more consistently.

Individual Income Taxes

We raise income tax rates and reform brackets and the standard deduction to move closer to 2000 levels of income taxation. Had the rates and brackets of that year stayed the same over the next 20 years, the U.S. debt-to-GDP ratio would be *far* lower today. For example, the 2010 long-term budget outlook by the CBO included a "extended baseline" projection for revenue that assumed (as was the current law at the time) a full rollback of the tax cuts passed between 2000 and 2010. In that 2010 extended-baseline projection, revenue averaged almost 5 full percentage points of GDP higher between 2024 and 2052 than it averages under the most-recent long-term budget outlook projections. This is more than double what would be needed to eliminate today's fiscal gap. We also raise taxes on capital gains and dividends.

Corporate Income Taxes

We raise corporate income tax rates back to pre-TJCA levels and enact reforms to stop profit-shifting to tax havens. We abolish the corporate tax expenditure on interest payments but allow for full expensing of new investments.

Tax Expenditures

Our view is that the tax system should not try to micro-target specific social policy goals and should instead be tasked with raising sufficient revenue in a progressive fashion. Direct spending should allocate that revenue to meet desired social policy goals. Since the vast majority of tax expenditures fail to contribute to this vision of the proper role of a tax system—they instead reduce revenue and implicitly provide benefits in a regressive fashion—we abolish nearly every tax expenditure in the tax code, save for the Earned Income Tax Credit and the preferential tax rates and deductions associated with Social Security benefits.

Some might be surprised that we abolish the Child Tax Credit. But instead of running this benefit through the tax code and trying to enforce some measure of targeted progressivity strictly within the parameters of this benefit alone, we instead provide a Universal Child Allowance that provides flat benefits to all families with children. We are confident that the sum of taxes and benefits across the population leads to a strongly progressive fiscal system, so we do not feel the need to make sure every individual provision has (often complicated and different) rules and phase-outs to make it targeted.

Corrective taxes

We call for a carbon tax of $80 per ton of CO2 equivalents of greenhouse gases, and gradually raise it to a level of $120 per ton—a measure closer in-line to estimates of the social cost of carbon emissions. To ensure that putting a price on carbon does not impose hardship on households, our plan calls for recycling *more than* the full amount of revenue collected by the carbon tax in a per-capita lump-sum allocation across U.S. households (we rebate 125 percent of all revenue collected). In a sense, it can be seen as a carbon tax-funded universal basic income to provide a bridge over the transition costs associated with moving to a greener economy.

Payroll taxes

To help pay for the large new fiscal obligation of the single-payer health insurance coverage provided to non-elderly Americans, we institute a 5 percent payroll tax (levied on employers). This is meant to largely mirror an important way that healthcare is paid for today for these families—through employer payments for premiums. This payroll tax levy is substantially flatter and more broad-based than many of our other revenue raisers. But we think it makes sense that after substantial revenue is raised from high-income and high-wealth households that further ambitious expansions of the social insurance state should be paid for largely by the households who will benefit from them.

We also substantially broaden the base for Social Security taxes. We essentially combine FICA and FUTA taxes into one base—the base currently used for Medicare taxes. This means payroll costs over the current taxable maximum for Social Security and net investment income is included in our overall tax base. We also adopt rules clarifying what income can and cannot escape self-employment or net investment income taxes. We apply a 15 percent rate to the entire base. This leads to a large revenue increase for those above the current taxable maximum for Social Security or those with large net investment income, but a tax decrease for those below the taxable maximum.

Other taxes

We also include a wealth tax that starts at $15 million in net worth. There are many good reasons to tax capital, but if people seriously believe that a coming wave of artificial intelligence (AI) technology is going to make capital much more valuable than labor in coming years and displace jobs, taxing capital will be necessary to ensure that any such economic transition gives the federal government resources it needs to provide baseline levels of economic security to all.

The main practical challenge to implementation of the tax provisions in our plan is IRS capacity to estimate wealth valuations and keep tax evasion in check. This should not in theory be insurmountable. For example, the

IRS in our plan would need to have the ability to put a price on many assets. But they currently do this in estate tax enforcement—they would just need to scale up that existing capacity significantly.

An issue in modeling these plans is that large changes in both spending and taxes can lead to very large changes in projected deficits or surpluses. In our plan we overshot on how much revenue we targeted to raise. In a world where resources for analysis were unlimited and we could toggle plan parameters, we might have come up with a different structure of taxes. As is, we think the main issue regarding revenue—having it be sufficient and progressively raised—is satisfied, but we would probably change things if we had another run or two at estimating tax changes.

Conclusion

Our plan increases spending considerably but increases tax revenue more. This allows for stabilization of debt-to-GDP ratios and manageable budget deficits, without leading to harmful cuts to economic security for the vast majority.

We think this constellation of tax increases and spending increases moves us closer to advanced economy norms in the level of social protection afforded by the public sector, and it also recognizes a reality of economic life that the demand and relative cost of public services tends to rise over time as incomes rise. While of course smart management and spending efficiencies should be a constant goal of fiscal policymakers, this rise in the share of overall output devoted to public services is not in and of itself a problem to be solved—it is a reality to be reconciled by our fiscal system. Trying to buck this reality by clamping down on the overall fiscal footprint (on both the spending and taxing side) arbitrarily will lead to costs shed off of public ledgers, showing up and stressing household budgets.

In short, even from perspective that only targets stability in the debt-to-GDP ratio, what matters is not the size of the public sector in an economy, instead it is how adequately this public sector is financed.

Percentage of GDP	2024	2034	2054
Revenues	17.5	31.3	33.8
Spending	23.1	34.2	35.4
Deficit (-) or Surplus	-5.6	-2.8	-1.6
Debt Held by the Public	99.0	92.1	78.7

A CENTRIST AND PLAUSIBLE BLUEPRINT TO STABILIZE THE FEDERAL DEBT

Manhattan Institute

Brian Riedl

Introduction

In the past year, annual budget deficits doubled to $2 trillion and are headed towards $3 trillion a decade from now. Social Security and Medicare face a combined $124 trillion cash deficit over the next 30 years. The Congressional Budget Office (CBO) projects that the national debt will soar past 165 percent of GDP within three decades—or as high as 300 percent of GDP if interest rates remain elevated and Congress extends expiring policies. At that point, interest costs could consume half or even three-quarters of all federal tax revenues. Unless reforms are enacted, Washington's escalating borrowing demands will likely—at some point—overwhelm the capacity of financial markets to supply the required deluge of lending at plausible interest rates. When that event occurs, or even approaches, interest rates will soar, and the federal government may not be able to pay its bills, causing dire consequences for the U.S. economy.

Ultimately, addressing long-term budget deficits is impossible without fundamentally addressing Social Security and Medicare's cash shortfalls that are projected to leap from $650 billion this year to $2.2 trillion a decade from now, and are set to total $124 trillion over the next three decades (CBO projects the rest of the budget to be roughly balanced over three decades). Three decades from now, Social Security and Medicare are projected to collect 6.3 percent of GDP and cost 17.6 percent of GDP (including interest on the national debt). This is neither economically sustainable nor morally reasonable, especially when seniors comprise America's wealthiest age group.

That said, stabilizing the long-term debt around the current level of 100 percent of GDP—which will also stabilize interest costs and prevent a debt spiral—requires a broad and bipartisan range of policies. As policy, there is no single set of narrow reforms on the left or right that can plausibly close deficits of this magnitude. Politically, the controversial nature of such steep savings reforms requires bipartisan cover and a sense of shared sacrifice. A singular conservative or liberal solution would be too draconian and unpopular to be sustained. Both parties will have to hold hands and jump together.

Thus, the proposal presented here is intended to serve as the basis for bipartisan negotiations should lawmakers ever decide to stabilize the long-term debt. It is not a conservative or liberal fantasy scenario, or even the plan the author would design if no political constraints existed.

This budget blueprint works largely within the current structure of major policies, rather than proposing complete rewrites of major programs or the tax code. It divides reforms into four tiers and seeks maximum savings in a given tier before moving to the next:

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

The blueprint also provides that: the lowest-income 40 percent of seniors are largely protected from Social Security and Medicare cuts (beyond raising the Social Security eligibility age); antipoverty caseloads and benefits are not reduced; parity is maintained between discretionary defense and nondefense spending; Washington's structural budget deficits are not passed on to the nation's governors; tax increases are kept within reasonable limits; and policy changes are phased in gradually, mostly beginning in 2026.

The blueprint presented would stabilize the long-term debt around the current level of 100 percent of GDP through 2040, after which the blueprint's compounding policy and interest savings would create a "virtuous cycle" that reduces the debt to 68 percent of GDP by 2054.

Spending

Medicare, Medicaid, and Other Federal Health Programs

Medicare. Medicare's spending, which is projected to soar from 3 percent to 5.4 percent of GDP over the next few decades, is the single largest driver of long-term budget deficits.

The first place to seek savings is by making Medicare more efficient. The largest efficiencies would come from implementing a premium support system for Medicare Parts A and B, much like the original Medicare Part D (the prescription-drug program), which cost far less than had been originally projected. Instead of the traditional Medicare system's one-size-fits-all model (which is slightly improved by the Medicare Advantage option), premium support creates a healthcare market where insurers must compete for retirees. This model has proved, in the case of Medicare Part D, to empower seniors, encourage innovation, and reduce premium growth. As applied to Medicare overall, this budget proposal's federal premium support payment would equal the average bid of all competing plans, all of which would be required to offer benefits at least actuarially equivalent to the current system. CBO estimates that premiums paid by retirees would fall by 7 percent, and the federal Medicare savings for affected beneficiaries would total 8 percent, by the fifth year. In short, premium support means more choices for seniors, no reduction in benefits, and substantial cost savings both for seniors and the federal government.

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

Once Medicare has maximized its efficiency savings, the next step is to rebalance the responsibility for funding

Medicare Parts B and D. Currently, more than 90 percent of seniors are charged premiums that cover no more than 26 percent of the cost of their coverage. Taxpayers fund the rest. The federal subsidies for Medicare Parts B and D were not "earned" with earlier payroll taxes—which contribute only to Medicare Part A.

Senior premiums would gradually rise to cover 50 percent of Medicare Part B costs—matching the original program design—and 30 percent of Medicare Part D costs. The monthly premiums would rise on a sliding scale, based on current, post-retirement income. Retirees whose income is at or below the 40th percentile would see no premium hikes. However, the Part B monthly premium would increase between the 41st and 80th income percentile, until it reaches 95 percent of the cost of the insurance plans. The Part D monthly premium would gradually rise for those above the 40th percentile until it reaches 85 percent of the cost of coverage.

The cost of these higher premiums would be partially offset by efficiency gains from the premium support mechanism that should reduce the total cost of the Part B program. Once fully phased in, total Medicare premiums would rise by approximately 3 percent of aggregate senior income relative to the baseline.

Medicaid. Recent eligibility expansions and natural caseload increases have raised federal Medicaid spending from 1.3 percent to more than 2 percent of GDP since 2007—and spending is projected to reach 2.5 percent of GDP within 30 years. Achievable reforms can maintain Medicaid spending at 2 percent of GDP while improving the program.

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

Next, Congress should cap Washington's per-capita Medicaid payments to states beginning in 2026. The current system irrationally reimburses a preset percentage of state Medicaid costs, which means that the more a state spends, the larger its federal subsidy. The current system also restricts state innovation in healthcare. Per-capita caps would provide an incentive and added flexibility for states to devise innovative coverage for low-income residents. States developing successful approaches will certainly be copied by other states.

In keeping with the principle that deficit reduction should not simply dump the federal budget deficit onto states, the federal per-capita payments would grow by 3.5 percent annually for children and adults; and 4 percent annually for the elderly and disabled. This weighted average of 3.8 percent per-capita spending growth is not too far below the estimated 4.6 percent annual rate assumed in CBO's long-term budget baseline. Innovative governors should be able to stay under these more generous caps without raising state taxes or deeply limiting eligibility.

Social Security

The Social Security reforms are designed to achieve sustainable solvency by gradually reducing spending down to the system's long-term revenues of 4.5 percent of GDP, rather than allowing spending to rise to 5.9 percent of GDP. Because most tax increases are reserved to help finance the larger Medicare and interest costs, Social Security is reformed exclusively through spending reforms.

Essentially, these reforms would flatten Social Security benefits, shrinking the benefit gap between high- and low-earners. This would return Social Security to its original social insurance purpose of poverty protection, rather than distributing many of its largest benefits to high earners. The other effect is to ensure that average benefit levels grow roughly by price inflation over the long-term (slightly faster for low-earners, slightly lower for high-earners), ensuring parity across generations as well as long-term fiscal sustainability.

Specifically, the blueprint would gradually raise both the early and normal eligibility ages (currently 62 and rising to 67, respectively) by three months per year beginning in 2030, until they reach 64 and 69. Initial benefit levels would be indexed to price inflation rather than wage inflation, yet low-income seniors with a full work history would be protected with a new minimum benefit set at 125 percent of the federal poverty line.

From there, annual Social Security benefits would grow with the more accurate chained CPI. No cost-of-living adjustment (COLA) would be provided to seniors whose income in the previous year exceeded $100,000 (single) and $200,000 (married), a threshold that would adjust annually for inflation. Benefits for retirees and survivors would be based on 38 earning years rather than the current 35, the non-working spousal benefit would be reformed, and Social Security Disability Insurance would be improved.

Senior impacts. Well-off retirees will shoulder most of the costs of bringing Social Security and Medicare finances to a sustainable level. The wealthiest half of seniors often have income and net worth (even excluding illiquid home equity) that exceed those of young workers, while typically not having mortgage or child-raising expenses. The following 2035 impact figures are adjusted for inflation:

- Seniors with household incomes below the 40th percentile come out largely unchanged in Social Security (although the eligibility age rises), as well as Medicare.
- Senior households in the 41st–60th income percentile—with an average household income of $92,000 in 2035—would see a $2,700 reduction in annual Social Security benefits (relative to the growing baseline levels) and $2,800 in higher Medicare premiums.
- Senior households in the 61st–80th income percentile—with an inflation-adjusted average household income of $137,000 in 2035—would face $4,200 in lower-than-projected Social Security benefits and $7,300 in higher Medicare premiums.
- Retiree households in the 81st–90th income percentile—with average household incomes of $257,000 by 2035—would experience a decline in their projected Social Security benefits of $5,700 and a rise in Medicare premiums of $15,000.
- The highest-earning 10 percent of retiree households—with average household incomes of $478,000 by 2035—would experience a decline in their projected Social Security benefits of $7,400 and a rise in Medicare premiums of $5,700 before their premiums hit the maximum cost of the insurance.

Defense and Nondefense Discretionary

Following several years of large expansions, the blueprint freezes discretionary appropriations through 2025, and then caps its annual growth at 3.5 percent afterwards. Because that rate is slower than the projected nominal economic growth rate, total discretionary outlays would fall to 5.4 percent of GDP over three decades. With parity maintained between defense and nondefense spending, each would gradually fall to 2.7 percent of GDP. This would represent the smallest defense budget since the 1930s, and also gradually push nondefense appropriations below post-1960s levels.

Other Mandatory

Starting a decade from now, the blueprint would cap the growth of most of this spending at the inflation rate plus population growth. Veterans' income benefits would be exempt from this constraint. Additional reforms would extend the Inflation Reduction Act's tax enforcement funding after its scheduled 2031 expiration, reform student loans, pare back farm subsidies, hike Pension Benefit Guaranty Corporation premiums, extend the current mandatory spending sequester beyond 2031, and switch annual spending inflation adjustments to the more accurate chained CPI.

Revenues

Even after building the largest plausible package of spending savings for a bipartisan negotiation, it is simply not possible to stabilize the long-term debt with revenues remaining at 17 percent or 18 percent of GDP. This is especially true when most spending reform proposals—which are based on reduced annual growth rates—take a decade or more to ramp up their budget savings. Under this proposal, tax revenues would gradually rise to 20.3 percent of GDP by 2054.

Individual Income Taxes

This blueprint aims to include "tax the rich" policies that do not dramatically increase marginal tax rates. Thus, the 2017 tax cuts are extended—except for the 20 percent pass-through tax deduction (repealed), and the 37 percent top tax bracket (which would return to 39.6 percent). Additionally, high earners would have their itemized tax deductions capped at 15 percent of the amount deducted, their capital gains would become taxable after death, and the Inflation Reduction Act's tax enforcement spending would be made permanent.

Raising the 2.9 percent Medicare payroll tax rate by one percentage point is necessary because Medicare faces a 30-year cash shortfall of $49 trillion ($87 trillion including interest costs) that cannot be addressed on the spending side alone. This tax also ensures shared sacrifice on the tax side, while being still modest enough to avoid significant disruption to families and the economy.

The Social Security payroll tax would be eliminated at age 62 to promote hiring and assist those affected by the eligibility age adjustment.

Corporate Income Taxes

The energy tax preferences created in the Inflation Reduction Act have come in extraordinarily over budget and would be repealed. Also repealed would be the corporate state and local tax deduction, Low-income Housing Tax Credit, and Last-in First-out and Lower of Cost or Market inventory valuation methods. The expiring portions of the 2017 corporate tax reforms—which modernized the archaic and globally-uncompetitive corporate tax code at minimal cost—would be extended.

Tax Expenditures

The tax exclusion for employer-provided healthcare would be capped at 50 percent of the average premium. Within broader tax increases, capping the employer healthcare tax exclusion is both sound tax policy and sound health policy. Many economists agree that the employer health exclusion encourages businesses to overspend on health benefits and downplay cost-containment, while disproportionately benefitting upper-income employees who would otherwise pay higher tax rates on that compensation. It also penalizes families who buy their own health insurance and do not get a tax break. Capping the exclusion will contribute to broader efficiency savings in healthcare. It will also raise revenue not only from businesses paying the tax on generous health plans, but also from families receiving more of their compensation in the form of (taxable) wages—which still may result in higher take-home pay.

Also eliminated would be the American Opportunity Tax Credit, Lifetime Learning Credit (addressed in student aid reform), and the tax exemption for new qualified private activity bonds.

Other Sources

To reduce the shortfalls in the Highway Trust Fund, the federal gas tax—which has not been raised since 1993—would rise by 15 cents per gallon and then be indexed annually for inflation. Additionally, a modest carbon tax would have its revenues rebated back to all but the top-earning half of households.

Those who would prefer that all new taxes come from upper-income taxpayers should note that such families would already bear nearly the entire cost of 3 percent of GDP in Social Security and Medicare reforms—as well as most of the new taxes. The bottom-half of earners would see only a 1 percent payroll tax hike (which will help finance their own Medicare benefits), and a small gas tax increase (a user fee needed to close the shortfalls in the highway program)—plus the benefits of no Social Security payroll taxes beginning at age 62. Given the principle that everyone should contribute to closing these shortfalls, low earners are overwhelmingly shielded from new costs.

Conclusion

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

In reality, it accepts that voters are not going to balance the budget on the backs of low-income families, social programs, and foreign aid. Nor will voters accept larger-than-necessary cuts to social and entitlement spending just to shield millionaires and corporations from contributing an additional dollar in taxes. The savings described above—focused mostly on health efficiencies and upper-income seniors—represent the ceiling of plausible spending savings, and produce 60 percent of this proposal's noninterest deficit reduction. As the baby boomers grow too old to absorb Social Security and Medicare reforms, the likely solutions will only become more tax-heavy the longer reform is delayed.

Many liberals will also dismiss even these modest versions of Medicare premium support and Medicaid per-capita caps, as well as income-relating of Social Security and Medicare benefits—especially with just 2.3 percent of GDP in new taxes compared to current policies.

However, the unforgiving math shows that it is simply not possible to raise more than 1 percent to 2 percent of GDP by taxing the rich, even if all economic considerations are ignored. Defense spending is already set to fall to 1930s levels, and Medicare-For-All would require large new taxes without reducing Medicare's current liabilities. Long-term spending must be significantly reduced, and starting with healthcare inefficiencies and benefits for wealthier seniors can minimize the cuts to low-income seniors, the safety net, and social spending. Furthermore, the alternative approach of closing Social Security's and Medicare's massive shortfalls with exorbitant taxes would leave no room to raise taxes down the road for other progressive goals such as climate, education, safety net, and infrastructure.

Virtually everyone will have preferred tweaks to this blueprint. However, it may provide a useful starting point for bipartisan negotiations because it avoids as many partisan "poison pills" as possible while still meeting its ambitious target of stabilizing the long-term debt at 100 percent of GDP. Every year of delay raises costs and thus requires even more expensive and drastic reforms. It is imperative that the White House and Congress begin a bipartisan process to stabilize the debt as soon as possible.

Percentage of GDP	2024	2034	2054
Revenues	17.5	18.8	20.3
Spending	23.3	22.3	19.6
Deficit (-) or Surplus	-5.8	-3.5	0.7
Debt Held by the Public	99.1	102.3	67.9

A BLUEPRINT FOR CUTTING COSTS AND BOOSTING GROWTH

Progressive Policy Institute

Ben Ritz and Laura Duffy

Introduction

When the Progressive Policy Institute (PPI) published our plan for Funding America's Future as part of the 2019 Solutions Initiative, we urged policymakers to do two things: restore America's commitment to public investment and put the national debt on a downward trajectory so those investments could be sustained. We warned that failure to do so would result in borrowing costs crowding out public investment and reduced economic opportunity for young Americans.

In his first term as president, Joe Biden has led our country in revitalizing major public investments. The Infrastructure Investment and Jobs Act (IIJA) dedicated more than half a trillion dollars in new spending to rebuild crumbling roads and bridges, modernize our power grid, improve water safety, and so much more. The CHIPS and Science Act promised to dramatically increase spending on research and development (R&D) activities that lay the foundation for technological progress. And the Inflation Reduction Act (IRA) was the world's biggest investment in staving off a climate crisis by supercharging a green-energy revolution.

Unfortunately, similar progress was not made on debt management. Last year, the federal government spent $2 trillion more than it raised in revenue. Such massive borrowing might have made sense if it was necessary to support the economy through a recession or other unforeseen emergency, but it cannot possibly be justified given the record-low unemployment brought about by the Biden economy. This overspending exacerbated inflation in the aftermath of the COVID-19 pandemic and helped push interest rates higher than at any point since 2000.

As a result, the federal government now spends more than 3.1 percent of gross domestic product (GDP) annually just servicing the national debt—a level that's already higher than at any other point in American history and is projected to more than double over the next 30 years if current policy continues. The Fiscal Responsibility Act of 2023 made deep cuts to discretionary spending that left many CHIPS and Science Act programs unfunded, demonstrating that public investments are often the first thing to be crowded out by debt. The consequences of two decades of fiscal irresponsibility, once thought to be a problem for future generations, are a problem for Americans today.

PPI's new Blueprint for Cutting Costs and Boosting Growth proposes a better path forward that builds upon President Biden's pro-growth public investments by pairing them with the fiscal restraint necessary to prevent ballooning debt payments from crowding them out. We propose modernizing healthcare and retirement programs for our aging society by controlling costs and rewarding work with more-progressive benefit formulas. Our approach makes the federal tax code simpler and more progressive while raising the revenue necessary to adequately fund our government. Together, our policy proposals promote long-term growth and economic opportunity while reducing income inequality.

If fully enacted during the first year of the next president's administration, PPI's blueprint would put the budget on a path to balance within 20 years. But we do not see actually balancing the budget as a necessary end. Rather, PPI seeks to put the budget on a healthy trajectory so future policymakers have the fiscal freedom to address emergencies and other unforeseen needs. We know many on the right will oppose our proposed tax increases and many on the left will oppose our entitlement reforms. However, setting the ambitious goals we have ensures that enacting even half our proposed savings could stabilize the debt and secure a more prosperous future.

Spending

As our population ages, the explosive growth of healthcare and retirement spending, and interest on the debt used to finance them, is leaving lawmakers with fewer resources to invest in the next generation. Nearly three quarters of federal spending this year will be allocated based on legislation passed by previous Congresses—nearly double the share it was 50 years ago. PPI's blueprint would restore fiscal democracy by giving elected officials greater flexibility to adjust future spending priorities and revitalize public investments that support long-term growth.

Strengthen Social Security's Intergenerational Compact with Pro-Work Reforms

Despite most Americans' perception of Social Security as an earned benefit that they pay for throughout their lives, the program has been spending more on benefits than it raises in taxes for years—and the gap is only growing. As a result, benefits will be automatically cut by more than 20 percent when the trust funds are exhausted roughly a decade from now. It is vital for policymakers to protect vulnerable seniors from deep cuts without asking young Americans to foot the bill for affluent beneficiaries who did not pay enough to finance the program during their working lives.

To that end, PPI proposes transitioning to a new formula that awards benefits based on how many years an individual worked rather than their lifetime earnings. This innovative structure cements Social Security's status as an "earned benefit" but is far more progressive and affordable than the current formula. A low-income worker and their higher-earning boss would get the same benefit if they put in the same amount of work and anyone who works for at least 20 years would receive a benefit that keeps them out of poverty. Parents would also receive up to five years of credit for caregiving to better reflect their contributions to future Social Security solvency.

Our plan also increases the eligibility ages with longevity while preserving a special early retirement age for lower-earning workers because these gains have not been evenly shared. We would change cost-of-living adjustments to track inflation more accurately but boost benefits for the oldest beneficiaries most at risk of outliving their savings. And we would reform spousal and survivors benefits to better protect widow(er)s from falling into poverty.

Altogether, PPI's proposed reforms are the equivalent of fixing roughly half of the program's shortfall over the next 30 years through benefit changes and half through greater contributions from workers. Beneficiaries in the top fifth of the lifetime earnings distribution would absorb cuts relative to the current formula that are on average comparable to the ones already slated to occur under current law, but those at the bottom would be fully shielded from any cuts and many would even receive greater benefits than they could receive under the current formula.

Modernize America's Healthcare System to Expand Coverage and Reduce Costs

Medicare faces the same demographic and financing challenges as Social Security, but with the added pressure of healthcare costs growing faster than inflation. We propose to modernize Medicare by consolidating the three parts of traditional fee-for-service Medicare—Hospital Insurance (Part A), Supplemental Medical Insurance (Part B), and Prescription Drug Coverage (Part D)—into a simplified "Medicare One" benefit with one premium, one annual deductible, one set of co-insurance rates, a cap on out-of-pocket expenses, and one set of site-neutral provider reimbursement rates. Our approach leaves open the option for Medicare to also cover hearing, vision, and dental benefits but only if that benefit expansion is fully financed with income-based premiums. We would leverage competition to reduce inefficiencies and cut costs by basing the taxpayer subsidy for Medicare premiums on a weighted average of Medicare One and Medicare Advantage coverage costs. Together, these reforms would reduce government healthcare spending with no net cost increase for the average beneficiary.

PPI proposes to tackle high prices for healthcare services more broadly by setting maximum rates (based on a multiple of Medicare One reimbursement rates) for what providers can charge payers for out-of-network care. Providers would be prohibited from passing the costs of this care onto consumers through balance billing without adequate disclosure in advance. We also support breaking up anti-competitive monopolies in healthcare, which together with our other policies would pressure providers to compete more on quality and enter into contracts with insurers that reward value-based care.

We propose a partial extension of the IRA's temporary premium tax credit expansion that permanently fixes the "cash cliff" with a subsidy rate halfway between the IRA and original Affordable Care Act. We would also let individuals ages 55–64 without an employer-sponsored insurance plan use these premium subsidies to buy into Medicare at cost. Our reforms to Medicaid eliminate financing gimmicks, streamline the waiver process to support state innovation, and improve healthcare for needy populations. Finally, we propose investments in public health to tackle the opioid crisis, maternal mortality, and future pandemics like COVID-19.

Revitalize Discretionary Spending to Promote Public Investment

By controlling the growth of debt and mandatory spending programs, our plan provides fiscal space for policymakers to revitalize public investments in our future. We would raise federal spending on domestic R&D back to its historical average of 0.5 percent of GDP, which would be enough to fully fund the programs authorized by the CHIPS and Science Act and lay the groundwork for American leadership in new technologies such as artificial intelligence. Our budget then grows spending on public investments in education, infrastructure, and scientific research with GDP to ensure a consistent share of economic resources are devoted to pro-growth spending. Meanwhile, other nondefense discretionary spending is indexed to grow with our population plus inflation to maintain current service capacity.

But PPI believes that our government must not only spend more, it must spend smarter. We propose to repeal Buy America provisions (except those essential for national security) and other restrictions such as the Jones Act that prevent taxpayers from getting the most bang for their buck. Our budget includes a competitive grant program to relax zoning restrictions and seeds capital for a housing construction bank, both of which would spur new housing supply to reduce most families' greatest cost. We also propose several changes to rationalize the social safety net, such as tightening eligibility for housing choice vouchers by turning it into an entitlement.

We recommend a similar approach to defense spending. PPI supports establishing a BRAC-like commission composed of retired military and civilian leaders to identify common-sense savings from wasteful procurement practices and unnecessary personnel expenses. However, because the defense budget is already set to shrink as a percent of GDP under the baseline while authoritarian regimes such as Russia and China make our world increasingly dangerous, PPI proposes using these savings to help our allies defend democracy instead of pocketing them for deficit reduction.

Invest in the Workforce of Today and Tomorrow

PPI's budget offers a better-targeted, fiscally responsible way to advance many of the goals from the Biden administration's unsuccessful Build Back Better agenda. Our plan provides paid-leave benefits for new parents that replace 80 percent of the first $15 in hourly wages for 12 weeks and encourages employers to supplement it. We would put affordable child care within reach by making the Child Tax Credit fully refundable, expanding it to $5,000 per year for children under age three, and supporting states that expand public education to include all-day preschool for children ages three and four. These policies help new parents stay attached to the workforce and recognize the enormous social benefit parents provide by raising the next generation. We also propose to create "Child Opportunity Accounts" with annual government contributions based on family income to teach financial literacy through experience and help children from disadvantaged backgrounds access the same opportunities as their wealthier peers.

As children prepare to enter the workforce, they face an entrenched bias in federal policy that favors going to college over pursuing other skills—one which was made worse by the Biden administration's poorly targeted student-debt cancellation schemes. We would reform income-driven repayment programs to better target relief for students whose debt burdens outweigh the financial benefits of their degree and repeal regressive education-related tax breaks. PPI would use the savings to expand Pell grants and allow them to be used for more training programs, increase funding for career-technical education in high schools, and sponsor four million new apprenticeships annually. Paired with proposals to promote greater accountability of schools, these policies reduce the cost of college for those who attend while providing more accessible pathways to well-paying jobs for the majority of young Americans who do not.

We also believe now is the time for comprehensive, pro-growth immigration reform. While policymakers must strengthen border security, the United States currently has more job openings than jobless people to fill them—a problem that will worsen as our population ages. Opening our country up to more young immigrants with the skills needed to fill these jobs can help curtail inflation, reduce deficits, and strengthen the finances of Social Security and Medicare without undermining American workers.

Revenues

Congress had a unique opportunity in 2017 to make the tax code simpler and promote growth. Unfortunately, Republicans in power then chose to instead prioritize shortsighted tax cuts for the rich. When these provisions expire at the end of December 2025, PPI proposes to instead enact fiscally responsible, pro-growth tax reform. Our plan aims to raise at least 22 percent of GDP in revenue over the long run—enough to fund the government without slowing our economy or overburdening workers.

Reform the Corporate Tax Code to Promote Growth and International Competitiveness

TCJA made several positive changes to the corporate tax code, such as broadening its base and making the rate more internationally competitive. But lawmakers overshot when they slashed the rate from 35 percent to 21 percent. Our plan recoups the lost revenue by raising the federal corporate income tax rate to 25 percent, which is roughly on par with the OECD average. We also propose to equalize the tax treatment of stock buybacks with qualified dividends, tax nonprofit entities that functionally operate like corporations, and cut inefficient tax loopholes left in place by TCJA.

Importantly, we call for reversing the one "base-broadening" provision that TCJA got profoundly wrong: prohibiting investments in R&D from being fully deducted the year in which they occur. This change artificially reduced TCJA's scored cost while disincentivizing investments in technological innovation that power our economy. PPI proposes to not only restore the immediate deductibility of R&D but expand upon it by offering similar tax treatment for expensing all investments. We propose to pay for this change over the 30-year window by gradually eliminating the deductibility of interest on business loans, which encourages businesses to rack up debt regardless of whether it is used to expand productive capacity.

PPI also advocates reversing the counterproductive trade wars started by Donald Trump. The current U.S. tariff regime is needlessly complicated and raises costs for industries ranging from farming to manufacturing. Even worse, it discriminates against women and disproportionately raises the cost of products purchased by low-income people. Policymakers should dramatically simplify and scale back both the Trump-era tariffs and the ones that predated them. However, PPI does not advocate for unilateral disarmament in international tax policy: we support retaining some targeted tariffs on China and reforms that prevent other countries from collecting taxes that U.S. companies should be paying to our government instead.

Make the Individual Income Tax Code Simpler and More Progressive

While TCJA's business tax reforms were imperfect, its changes to individual income taxes were an unaffordable giveaway to the rich. PPI would not only reverse TCJA's individual rate cuts but make the tax code even more progressive than before, such as by taxing individual income over $1 million at a 45 percent rate and income over $10 million at a 50 percent rate. Furthermore, we would raise capital gains tax rates in these two tax brackets to the revenue-maximizing level.

TCJA's most egregious change was cutting the estate tax so an heir can inherit up to $26 million from their parents tax-free. It is antithetical to our nation's meritocratic ideals for the income someone earns through their own hard work or entrepreneurial risk-taking to be taxed more than a windfall they receive simply for being born to wealthy parents. PPI thus proposes to replace the estate tax with a progressive inheritance tax that taxes inherited income over $1 million at the beneficiary's top marginal income tax rate plus a surtax of up to 15 percent. However, we permit inheritance taxes on illiquid assets to be paid over several decades so nobody has to sell their family farm or small business just to pay the tax bill. We would also require heirs to pay all unpaid capital gains taxes when an asset is sold rather than "stepping up" the basis.

Despite its flaws, TCJA's individual income tax changes also included several worthy tax simplification measures that PPI would build upon. Our plan makes permanent TCJA's changes to personal exemptions and standard deductions that dramatically reduced the number of households who itemize their taxes. PPI would go even further than TCJA by repealing the state-and-local tax deduction altogether as well as the tax exemption for interest on municipal bonds. Most of the benefits from these tax breaks are captured by higher earners rather than by the state and local governments they are supposed to support, so we propose the federal government instead use half the savings from their repeal to assist state and local governments directly. Our plan would also phase out the mortgage interest deduction, giveaways to pass-through business owners, and several other increasingly regressive tax expenditures. Instead of restoring the alternative minimum tax, we favor capping the value of any remaining itemized deductions at 30 percent for each dollar deducted. Finally, we would reverse recent cuts to IRS enforcement that make it easier for wealthy tax cheats to escape paying the taxes they legally owe.

Replace Regressive Taxes on Work with Economically Efficient Taxes on Consumption

Our ambitious tax plan also goes well beyond addressing provisions related to TCJA. The payroll tax has become a highly regressive tax on workers' wages after several rate increases meant to finance previous benefit expansions. It imposes a flat rate of over 15 percent on most wages but less than 4 percent on earnings above a certain threshold. By taxing wages but not capital, the payroll tax hampers job creation and reduces earnings. Yet it doesn't raise nearly enough money to pay promised benefits for Social Security and Medicare, forcing the government to rely on general revenues and public borrowing to make up the difference.

PPI proposes to replace this regressive, anti-growth tax on labor with more progressive and efficient taxes on consumption. Specifically, we call for a 15 percent value-added tax and a border-adjusted carbon tax to reduce both our deficit and greenhouse gas emissions. To prevent these changes from harming lower-income families who spend a disproportionate share of their income on energy and necessities, PPI proposes transforming the Earned Income Tax Credit into a more generous Living Wage Tax Credit and making permanent a modified version of TCJA's Child Tax Credit that is fully refundable, indexed for inflation, and can be claimed monthly. We also call for replacing outdated gas taxes with a new vehicle-miles traveled tax piloted by IIJA that raises enough revenue from users to fully fund surface transportation infrastructure.

Conclusion

When the budget was last balanced, nobody could have predicted the need for new spending in response to the War on Terror, the 2008 financial crisis, or the COVID-19 pandemic. Because we can't know what challenges future policymakers will face, PPI's budget controls costs so they have the fiscal space needed to address those challenges without harming growth (for illustrative purposes, we assume any future surpluses are evenly split between new tax cuts and discretionary spending). In doing so, our plan restores fiscal democracy and revitalizes pro-growth public investments that lay the foundation for a more abundant and equitable America.

PPI's full Blueprint for Cutting Costs and Boosting Growth can be found at https://www.progressivepolicy.org/publication/budgetblueprint/

Percentage of GDP	2024	2034	2054
Revenues	17.5	21.6	23.0
Spending	23.2	23.7	23.0
Deficit (-) or Surplus	-5.7	-2.1	0.0
Debt Held by the Public	99.1	90.0	48.3

A NOTE ABOUT SCOREKEEPING

The Peter G. Peterson Foundation's Solutions Initiative 2024 enlisted seven independent policy organizations to develop comprehensive plans that met the following criteria:

- Proposed solutions should be sufficiently detailed to allow them to be scored by independent analysts against the February 2024 baseline from the Congressional Budget Office (CBO)—extended through FY 2054 using CBO's Long-Term Outlook (published in March 2024).
- Each finished budget plan should represent a comprehensive package of specific policy proposals to address the projected long-term fiscal gap. The Foundation did not stipulate a required goal or target for these plans.
- Each plan should be accompanied by a detailed spreadsheet that provides preliminary estimates of its budgetary effects.

To enable fair and objective comparisons of the plans, the Foundation engaged independent scorekeepers to carry out estimates or review analyses for each plan. The scorekeeping effort for spending proposals was conducted by Barry Anderson, former Acting Director at CBO and senior career civil servant at the Office of Management and Budget (OMB). The Tax Policy Center, a joint venture of the Urban Institute and the Brookings Institution, estimated the plans' revenue proposals and the macroeconomic effects of the budget plans.

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

- the sources cited by the organizations to support their estimates;
- estimates produced by existing models developed to score similar proposals;
- comparisons with estimates of similar proposals made by other organizations; and,
- comparisons with similar proposals made by one or more of the other organizations that developed plans as part of Solutions Initiative 2024.

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

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

PETER G. PETERSON FOUNDATION

For more information, please visit:

solutions2024.pgpf.org