Funding America’s Future: A Progressive Budget for Equitable Growth

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There are few greater reflections of our nation’s values than how we choose to spend our money. Public investments in scientific research power the development of innovative new technologies from energy to medicine that enrich our lives and advance human progress. Modern transportation and other infrastructure networks provide the arteries for robust economic growth and broadly shared prosperity. A top-tier education system that gives every American the skills to earn a decent living and programs to help disadvantaged citizens lift themselves from poverty are essential to delivering on the promise of the American dream.

When our workers and enterprises succeed thanks to these public investments, they pay it forward through a progressive tax system that reinvests in the next generation and supports those who are too young or too old to work themselves. Robust public investment, in short, is the foundation of American progress.

America once prioritized this foundation, but we’ve lost our way. Between 1965 and 1980, federal spending on education, infrastructure, and scientific research averaged about 2.5 percent of gross domestic product (the total value of all goods and services produced by the United States in a given year).1 Investment spending at that level would have been equal to roughly $500 billion in 2018. Yet in reality, the federal government spent just $300 billion on public investment in 2018 – less than 1.5 percent of GDP.2 As PPI documented in a recent report, Ending America’s Public Investment Drought, this decline in public investment spending can have disastrous consequences including lower incomes, fewer high-quality jobs, and reduced economic mobility.3

Instead of investing in America’s future, policymakers in recent years have borrowed
heavily to finance present consumption. This year, the federal government is projected to spend $4.4 trillion, of which today’s taxpayers will only cover 80 percent of the cost.\(^4\) The borrowing necessary to finance the gap means a bigger national debt and higher annual interest payments. In Fiscal Year (FY) 2018, the federal government spent over $320 billion paying interest on the national debt (the total amount the federal government has borrowed to finance deficits over the years) – that’s more than the government spent on public investments in education, infrastructure, and scientific research combined.\(^5\) But as spending on these investments declines to the lowest level in over 50 years, spending on federal interest payments will more than triple as a percent of GDP between now and 2050.\(^6\) This is not a fiscal policy for strengthening America’s future – it’s a blueprint for American decline.

Throughout the Obama administration, Democrats and Republicans engaged in several rounds of fiscal brinksmanship but failed to compromise on solutions to the nation’s core fiscal problems of inadequate tax revenues and unsustainable growth in health care and retirement spending. Instead, they chose the path of least resistance: cutting the relatively small and shrinking portion of the federal budget that funds the nation’s public investments.\(^7\) America’s fiscal health has only deteriorated since then. Self-proclaimed “king of debt” Donald Trump and his Republican allies in the previous Congress abandoned any pretense of fiscal responsibility, ramming through a partisan package of unpaid-for tax cuts that the official scorekeepers at the Congressional Budget Office (CBO) estimate will cost roughly $2 trillion over the next 10 years.\(^8\) Instead of holding Republicans accountable for their fiscal mismanagement, some Democrats seem determined to outdo them. Many on the “progressive” left now propose tens of trillions of dollars in new social spending on top of the unfunded promises the federal government already has made, without offering credible ways to pay for either.\(^9\)

The Progressive Policy Institute believes the better course – the genuinely progressive course – is to offer radically pragmatic ideas for breaking the fiscal deadlock in Washington, not making it worse. Rather than rehashing the same old proposals for a “grand bargain” that have gone nowhere for nearly a decade, America needs a radical reorienting of our tax and spending policies to redirect national resources from consuming today to investing in tomorrow. In this report, we propose deep structural changes in the federal budget to make room for public investments in education, and infrastructure, and scientific research; modernize federal health and retirement programs to reflect an aging society; and create a progressive, pro-growth tax code that raises the revenue necessary to pay the nation’s bills. If enacted in their entirety, these proposals would increase federal public investment spending by more than 70 percent over current projections while simultaneously putting the federal budget on a path toward balance (Fig. 1).
The core objective of this blueprint, however, is not to produce a balanced budget for the federal government. Rather, we seek to break the fiscal impasse in Washington that starves public investment, handcuffs future policymakers, and fuels unsustainable public debts. The immediate goal for policymakers should be to ensure that debt and deficits grow more slowly than our economy. Under current law, this isn’t the case: the national debt is currently on track to rise from 78 percent of GDP today to 149 percent by 2050. The situation will be even worse if temporary policies enacted under the Trump administration are made permanent. Under this scenario, the national debt as a percent of GDP would surpass the all-time high reached in the aftermath of World War II by 2030. By 2050, the national debt would grow to more than double the size of the economy.

The more than 50 recommendations in this report, on the other hand, would put the national debt on track to fall back down to the historical average of the past 50 years by 2050. (Fig. 2). CBO recently estimated that reducing debt down to this level would increase per-person incomes by
more than 10 percent relative to current policy.\textsuperscript{15} It would also create fiscal space for future policymakers to make other policies in the future to respond to the needs of their constituents. During national emergencies and economic downturns, increasing debt isn’t just acceptable – it is necessary. But as PPI documented in another report last year, countries entering a downturn with large debt-to-GDP ratios have responded less effectively and faced more economic hardship.\textsuperscript{16} To better prepare America for future recessions, the recommendations in this report pair deficit reduction during economic expansions with new “automatic stabilizers” that boost public investment spending, strengthen the social safety net, and cut taxes on lower- and middle-income Americans during economic downturns.

\textbf{FIGURE 2. IMPACT OF PPI PROPOSALS ON PROJECTED FEDERAL DEBT}

\textit{Note: Current law projection assumes many policies in place today will expire if they are scheduled to in the law as currently written. Current policy projection assumes that today’s tax and spending policies remain in place even if they are scheduled to change under current law. Projections of PPI’s budget assume all proposed policies either take effect or begin a scheduled phase-in in FY 2022.}

\textit{Sources: Congressional Budget Office,\textsuperscript{17, 18} Committee for a Responsible Federal Budget, and PPI calculations}
The recommendations in this report are broken down into seven critical national priorities, which are summarized below. At the end of the report is an appendix that scores the savings of each PPI policy recommendation individually. We assume for purposes of modeling that all of PPI’s proposed policies either take effect or begin a scheduled phase-in in FY 2022 – the first full fiscal year of the next administration. In practice, however, this blueprint is intended to function as the starting point for policymakers – including presidential candidates and the next administration – to develop a pro-growth fiscal policy that puts America on a path to more investment and less debt. The concepts and ideas it offers are far more important than the exact dollar figures in each proposal, some of which are designed to be more illustrative than concretely prescriptive.

I. Supercharge Public Investments in Social and Economic Growth (Pages 10-21)

PPI proposes to create a new budget for public investment and boost spending in these investments as a percent of GDP to pre-1980s levels, which in dollar terms represents a more than 70 percent increase above current-law projections. Specifically, PPI proposes to triple investment in basic R&D and fund the development of technologies to expand the clean-energy economy. We recommend enacting a $1 trillion infrastructure package that is timed to the next recession and leverages additional investment from the private sector and state and local governments. We would fund affordable pre-kindergarten for families in need and reduce the cost of higher education by pushing universities to transition from four-year to three-year degree programs, expanding Pell Grants, and making those grants available for more professional credentialing programs. We also propose to gradually set defense spending halfway between today’s levels and the NATO target of 2 percent, which we believe would make more efficient use of taxpayer dollars without undermining America’s strong and superior military capabilities.

II. Guarantee Universal Access to Affordable Health Care (Pages 22-27)

PPI’s budget would ensure all Americans have access to affordable, high-quality health insurance. Our plan starts by reversing Republican policies that sabotaged the Affordable Care Act and expanding subsidies to help working families buy health insurance. We recommend creating an automatic-enrollment system that replaces the ACA’s now-repealed individual mandate for purchasing health insurance to bring more young Americans with lower medical costs into the insurance pool and reduce instances of uncompensated care that drive up prices for other payers. We also propose to tackle the problem of high prices directly by setting maximum rates on what providers can charge payers for out-of-network care, which we anticipate will force providers to compete more on quality and enter into contracts with insurers that reward value-based care over fee-for-service reimbursements.

III. Modernize Medicare (Pages 28-33)

PPI proposes to consolidate 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 copayment or coinsurance rate for spending above that deductible, and an out-of-pocket cap. We also propose to base government subsidies for Medicare coverage on the average bid in a competitive bidding process
for Medicare Advantage and to allow Americans ages 55-64 who do not receive employer-sponsored insurance to buy into Medicare at a premium sufficient to make this buy-in deficit-neutral. Taken together, PPI’s Medicare reforms would reduce government spending without increasing costs for the average beneficiary.

IV. Strengthen Social Security’s Intergenerational Compact (Pages 34-42)
Our innovative framework for strengthening Social Security would improve retirement security for millions of seniors by making the program more progressive and fiscally sustainable without placing an undue tax burden on young Americans. Under a more egalitarian benefit formula developed by PPI, individuals would earn a flat “work credit” for each year they spent in the workforce regardless of what they were paid, meaning a low-skilled worker and their college-educated boss would receive the same benefit in retirement if they work hard for the same number of years. A person could also earn up to five years of work credits for time taken out of the workforce to serve as a caregiver. We would index both the ages at which someone can claim reduced and maximum monthly benefits to longevity with a special exemption for low-income workers. We also propose reforms to Social Security’s cost-of-living adjustments and a number of other small changes that either improve work incentives or increase benefits for those most at-risk of falling into poverty in old age.

V. Transform the Tax Code to Reward Work Over Wealth (Pages 43-56)
The Republican Party’s failed “starve-the-beast” mentality has slashed federal revenues to the lowest level they’ve been during an economic expansion in the modern era. What America needs now is real pro-growth tax reform that shifts the burden of taxation from work to wealth and consumption while raising adequate revenue to finance the needs of an aging society. PPI proposes to repeal the fiscally irresponsible giveaways to wealthy Americans in the GOP’s 2017 tax law, but we would also expand and make permanent provisions in the law that improve the international competitiveness of our tax code, incentivize investment, and limit regressive tax breaks. PPI supports raising the top marginal rate on annual earnings over $10 million to 50 percent, setting the corporate income tax rate to President Obama’s proposed level of 28 percent, and taxing unearned incomes from inheritances and capital gains at revenue-maximizing rates. We would also put more money in the pockets of workers by replacing regressive payroll taxes that depress wages with taxes on consumption and transforming the Earned Income Tax Credit into a more-generous Living Wage Tax Credit.

VI. Expand the Clean-Energy Economy (Pages 57-60)
Climate change may pose an even greater threat to future generations than our myopic fiscal policy does, and like our national debt, the challenge will be easier to solve the sooner we grapple with it. PPI proposes to harness the power of market competition to reduce carbon emissions by putting in place a long-overdue tax on emissions. The tax would begin at $30 per ton and increase by inflation plus 5 percent each year. We propose dedicating this revenue to three areas: increasing federal R&D, funding green infrastructure improvements, and providing tax incentives to encourage the adoption of electric vehicles and improvements to energy efficiency in the private economy.
VII. Empower Workers and Families (Pages 61-65)

PPI believes policymakers should commit more resources to improving social mobility and economic opportunity for workers and families. PPI’s budget includes funding for creating a paid family-leave program and bolstering the automatic expansion of unemployment benefits that is triggered during recessions. PPI also recommends policymakers find new ways to shift the emphasis of anti-poverty policy from income transfers to saving and wealth-building. Finally, we propose to replace the Trump administration’s cruel and economically shortsighted immigration policy with one that promotes growth by welcoming more lawful immigrants into our workforce. Increasing legal immigration levels would help to offset the falling birthrates of our native-born population, which would improve our worker-to-retiree ratio and strengthen the finances of programs such as Social Security and Medicare.

Conclusion: A Radically Pragmatic Blueprint for Funding America’s Future

PPI’s Progressive Budget for Equitable Growth gives the next administration a framework for investing in our country that doesn’t stick young Americans with the bill (Fig. 3). It powers the engines of American innovation by increasing investments in infrastructure, education, and scientific research by more than 70 percent relative to what they would be under current law. We tackle the greatest challenges facing our society, from rising economic inequality to climate change, through dynamic tax and spending policies that also help smooth the business cycle. And we pay for all of it, giving future policymakers the fiscal space necessary to respond to other unforeseen challenges and demonstrating that fiscal responsibility and investing in the American people are not contradictory – they are in fact complementary. By supporting both equity and growth, our blueprint would once again make fiscal policy an instrument of national progress.
FIGURE 3. PPI BUDGET VS CURRENT LAW

Note: Current law projection assumes many policies in place today will expire if they are scheduled to in the law as currently written. Projections of PPI's budget assume all proposed policies either take effect or begin a scheduled phase-in in FY 2022. By increasing GDP growth faster than revenues and spending, the immigration reforms assumed in PPI’s budget may create the appearance of cuts in this chart that are not being proposed by PPI.

Sources: Committee for a Responsible Federal Budget and PPI calculations
I. SUPERCHARGE PUBLIC INVESTMENTS IN SOCIAL AND ECONOMIC GROWTH

There are two categories of federal spending: discretionary spending, which is appropriated annually by Congress and the president; and mandatory spending, which is determined by formulas written into law by previous Congresses.\(^{19}\) Fifty years ago, discretionary spending accounted for two thirds of the federal budget, while one third went to finance categories of spending that operate on autopilot (mandatory spending and interest on the national debt). Today the ratio is reversed, primarily due to the growth of federal health care and retirement programs that make up the majority of mandatory spending.\(^{20}\) The shift in priorities from annually appropriated discretionary spending to formula-driven mandatory spending limits the “fiscal freedom” of elected officials to respond to the changing needs of their taxpaying constituents and results in a budget that is more oriented towards present consumption than investments in long-term economic growth.

The decline in discretionary spending also starves core government programs of the resources they need. Discretionary spending covers a wide array of government functions, split roughly in half between defense and non-defense “domestic” discretionary programs. The latter contains virtually every non-defense, non-entitlement program in the federal budget, including many core functions of government such as federal law enforcement, environmental protection, and foreign relations that our country could not function without. Even more importantly, discretionary spending includes funding for critical investments in our future that provide the building blocks for long-term economic growth, such as infrastructure, education, and scientific research.\(^{21}\)

PPI proposes to reorient America’s fiscal policy away from debt-financed consumption and towards public investment in life-changing research, state-of-the-art infrastructure, and the skills our workforce needs to succeed in the 21st century. Together, our proposed policies would increase public investment spending as a percent of GDP back to pre-1980s levels (Fig. 4). In dollar terms, this represents a more than 70 percent increase above current-law projections. These investments will not only grow our economy, they will also help tackle pressing social challenges and make our nation a world leader in innovation for the 21st century. We also recommend policymakers time these spending increases to coincide with the next economic downturn as a means for productive and effective economic stimulus.
1. Repeal the Sequester and Create a Public Investment Budget

The last major attempt to rein in deficits was the Budget Control Act of 2011. The BCA imposed caps on discretionary spending that were initially set to trim federal budget deficits by $900 billion over the 10 years following its enactment. The BCA also created a Joint Select Committee on Deficit Reduction (also known as the “super committee”) that was supposed to identify another $1.2-1.5 trillion worth of budget cuts. Failure by the committee triggered an across-the-board spending cut – called “sequestration” – to achieve the required savings, the vast majority of which were applied to discretionary spending programs. These short-sighted and counterproductive cuts brought discretionary spending to nearly its lowest level in over 50 years.

Although Congress has provided some relief to the caps in each year since they were enacted, the sequester-level caps are scheduled to return in full-force at the end of the current fiscal year. PPI urges the current Congress and the president to raise the caps on both defense and non-defense (domestic) discretionary spending by $67 billion in Fiscal Year 2020 – the same amount that Congress increased domestic discretionary spending for FY 2019. We then propose that the next administration work with Congress to separate spending on public investments – research, education, and infrastructure – into its own budget category, distinct from other non-defense discretionary spending.
Caps on other domestic spending would grow with inflation plus population growth. Public investment spending (including the new initiatives we propose below) would grow with GDP to ensure that a consistent share of economic resources is devoted to pro-growth spending. PPI would exempt public investment spending from any across-the-board spending cuts in the future. Existing guidelines from the Office of Management and Budget (OMB) should prevent politicians from using the designation to give preferential treatment towards favored non-investment spending.

2. Triple Federal Investments in Basic Research Over Ten Years

From medicine to communications, federal support for scientific research and development has led to the creation of countless technologies that power economic growth and benefit Americans throughout their daily lives. For example, a study of the National Institutes of Health’s Human Genome Project found that the project generated an astonishing $178 for every $1 spent, resulting in nearly $1 trillion of additional economic growth. Although few public R&D projects will generate such immense gains, other analyses have estimated an average return of at least 30 percent on R&D investment.

Back in the 1960s, the federal government spent as much as 1 percent of GDP on non-defense R&D as it fought to win the space race and put a man on the moon. Unfortunately, today's policymakers seem to lack the foresight of their predecessors in funding these critical projects. Federal spending on non-defense R&D has fallen by more than half, and last year, for the first time in modern history, China surpassed the United States as the global leader in R&D spending.

America must renew its commitment to public investment in R&D so it can attract top talent, compete in the global economy, and remain the leader of innovation in the 21st century.

<table>
<thead>
<tr>
<th>FEDERAL NON-DEFENSE</th>
<th>FEDERAL DEFENSE</th>
<th>PRIVATE INDUSTRY</th>
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<tbody>
<tr>
<td>Basic Research</td>
<td>Applied Research</td>
<td>Development</td>
</tr>
<tr>
<td>46%</td>
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<td>15%</td>
</tr>
<tr>
<td>15%</td>
<td>11%</td>
<td>15%</td>
</tr>
<tr>
<td>39%</td>
<td>86%</td>
<td>78%</td>
</tr>
</tbody>
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Note: NSF data reflects federal government obligations instead of outlays and thus the federal government figures include some commitments for future spending not included in the industry figure.

Source: National Science Foundation

Figures and Data
PPI proposes to boost federal R&D closer to historical levels by tripling federal investment in basic research over the next ten years.

Unlike applied research and development, the private sector has little incentive to focus on basic research – which focuses on exploring foundational scientific principles with no explicit objective in mind – because the knowledge gained from such activities is unlikely to have commercial applications until several years after the initial investment is made. Furthermore, if and when a marketable purpose is eventually found for the research’s findings, there is no guarantee that the researching firm will be the one to profit from it. Accordingly, private businesses spend just 7 percent of their R&D dollars on basic research, while basic research comprises nearly half of federal non-defense R&D spending (Fig. 5). These traits make basic research a quintessential public good: its benefits can be unpredictable but tend to permeate throughout society, benefitting the country and the economy in ways we can’t predict. Increasing federal investment in basic research will create more opportunities for private investment in technological innovation for decades to come.34

3. Invest $1 Trillion in Modernizing America’s Infrastructure

Investments in infrastructure are at their lowest level since WWII – and they’re projected to fall even further if current trends continue.35 Independent estimates by the American Society of Civil Engineers (ASCE) and McKinsey both found that the United States should spend roughly $1.4 trillion more on infrastructure than it is currently projected to over the next decade (Fig. 6).36, 37 Allowing the foundation of our commerce to crumble imposes real costs: ASCE estimated in 2016 that the United States could lose nearly $4 trillion in GDP through 2025 if we fail to close this gap, costing the average family about $3,400 per year.38

**FIGURE 6. INFRASTRUCTURE FUNDING GAPS (2016-2025)**

<table>
<thead>
<tr>
<th>Infrastructure Type</th>
<th>Funding Expected</th>
<th>Funding Needed</th>
</tr>
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<tbody>
<tr>
<td>Surface Transportation</td>
<td>$1,000 b</td>
<td>$2,000 b</td>
</tr>
<tr>
<td>Electricity</td>
<td>$500 b</td>
<td>$500 b</td>
</tr>
<tr>
<td>Water</td>
<td>$0 b</td>
<td>$500 b</td>
</tr>
<tr>
<td>Airports</td>
<td>$0 b</td>
<td>$500 b</td>
</tr>
</tbody>
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Note: Figures are adjusted for inflation in year 2015 dollars. Water infrastructure includes both water/wastewater systems and water transportation.

Source: American Society of Civil Engineers39
Although state and local governments are primarily responsible for maintaining America’s infrastructure, roughly one third of funding for public infrastructure investments in the United States comes from the federal government. Because national leadership is essential to galvanize action and supplement state and local funding capacity, PPI proposes $1 trillion in new federal infrastructure investment over a decade. This funding should take the form of well-structured matching grants and other financial instruments that leverage the remaining investment needed from the private sector and state and local governments. For example, policymakers could consider creating a national infrastructure bank that invests public funds in infrastructure projects with a high return to taxpayers and then reinvests the profits into other projects.40

Federal investment should go primarily to urgent national priorities that cross state boundaries and to assist disadvantaged communities that are hobbled by decrepit infrastructure but lack the tax base needed to pull themselves out of distress. Over 30 percent of Americans in rural areas lack access to modern broadband services, compared to just 2 percent of those in urban areas.41 This disparity creates an economic opportunity gap in growing e-commerce activities that rely on the internet.42 Meanwhile, lower-income Americans in cities are struggling with a decreasing stock of affordable housing that fell by 60 percent between 2010 and 2016.43 Rising rent prices put added pressure on public assistance programs that cannot afford to meet demand: in 2016, only one in four Americans eligible for federal housing support received any assistance due to inadequate funding.44, 45 These are areas where federal investment can help level the opportunity playing field.

But it’s not enough for the federal government to spend more on infrastructure, it must also spend smarter. Two thirds of federal infrastructure spending takes the form of matching grants given to state and local governments to support the construction of new infrastructure, which incentivizes them to prioritize new construction projects over maintaining and repairing existing structures.46 The result is a negative feedback loop in which new infrastructure is built only to be neglected and fall into disrepair, leaving the country with a growing stock of deficient infrastructure and deferred maintenance costs. This misallocation of resources is particularly costly given that the average rate of return for spending on maintenance projects is estimated to be nearly double the rate of return for comparable spending on new construction.47

PPI recommends adjusting federal matching grant formulas to incentivize state and local governments to address the nation’s infrastructure needs in the most cost-effective way possible. Rather than simply fronting the money for a project of national importance and then leaving the structure’s well-being up to the whims of local officials, the federal government should arrange funding incentives to promote adequate maintenance. The federal government’s share of a structure’s costs should vary based on how much economic benefit the structure provides nationally versus locally, not based on whether a structure is new or old.

Finally, PPI recommends that lawmakers turn infrastructure investment into a more-robust automatic stabilizer. The impact of infrastructure spending on short-run economic output is higher than most other government spending and is even higher during recessions than normal times, making it a particularly potent recession-fighting tool.48 But during recessions, falling revenues
force state and local governments to cut back on their spending on infrastructure. Federal matching rates should automatically increase when a region enters a recession to discourage state and local governments from pulling the plug on projects with national significance simply because it is poorly timed to the business cycle. An added benefit of prioritizing maintenance and repair is that such projects can be implemented quickly and are thus more “shovel-ready” for fast-acting stimulus than the development of new structures.49,50

4. Adopt a Mileage-Based User Fee to Fully Fund Highway Infrastructure
The federal government primarily finances national highways with an 18.4 cents per-gallon tax on gasoline and a 24.4 cents per-gallon tax on diesel fuel. These fuel taxes are intended to ensure that those who use roads pay the most for the roads’ construction and maintenance.51 But revenue raised by these taxes has failed to keep up with transportation funding needs, both because Congress never indexed the rates to inflation and because improvements in vehicle fuel efficiency are reducing the amount of gasoline that the average driver needs to buy (Fig. 7).52 Failing to maintain adequate surface transportation infrastructure is expensive: a 2015 analysis found that congestion costs our economy about $160 billion annually.53

To address surface transportation funding needs and make up for the erosion of revenue over the past two decades, PPI proposes to replace fuel taxes with a tax on the number of miles that a car travels, known as a vehicle miles-travelled (VMT) tax. A VMT tax would ensure that the

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**Figure 7: Federal Spending and Revenue for Highways**

Note: Chart depicts operations of the federal Highway Trust Fund. Inflation adjustment since 1993 is based on the Consumer Price Index for All Urban Consumers because the chained index was not developed until several years later. Projections are based on current law.

Sources: Federal Highway Administration,54 Congressional Budget Office,55,56,57 Bureau of Labor Statistics,58 and PPI calculations
amount that someone drives is directly related to how much they must pay for the roads that they drive on, regardless of the vehicle's fuel efficiency. The change would also be progressive because the average fuel efficiency of vehicles in rural and low-income communities is lower than in urban or wealthier communities.⁵⁹

5. Expand and Reform Support for Higher Education and Job Training

As jobs in our modern economy become increasingly complex, all Americans should have access to quality education that gives them the opportunity to pursue a lucrative and fulfilling career.⁶⁰ Educating our workforce also offers additional social benefits, including increased worker productivity and higher tax revenue for the government.⁶¹ But America’s current system for subsidizing higher education isn’t working. Over the last two decades, the combined costs of federal spending and tax subsidies for higher education have more than tripled as a percent of GDP.⁶² Yet over the same period, the price to consumers grew even faster than did health care (Fig. 8). The result: college students have had to borrow more and more money to finance their education even as federal aid continues to rise.⁶³ Meanwhile, federal student aid programs neglect other forms of post-secondary education that can improve peoples’ earning potential for a fraction of the cost of a college degree and that require older workers to commit less time and tuition to learn new skills.⁶⁴

PPI proposes to fundamentally restructure federal support for higher education to better target support to those who need it and put in place mechanisms to control costs. PPI would eliminate tax deductions or exemptions for student loan interest payments, discharged student fees, higher education expenses, and tax breaks that give larger benefits to people in higher tax brackets. PPI would also eliminate 529 college savings plans that exempt investments from taxes on capital gains or dividends so long as the returns are used to pay for education expenses. Because parents with income below $78,750 already do not pay any taxes on capital gains and dividends, 529 plans almost exclusively benefit relatively affluent families.⁶⁵ Forty-seven percent of people with 529 plans earn more than $150,000, compared to only 8 percent of families without 529 plans.⁶⁶
PPI’s proposed budget redirects every dollar of savings from the elimination of these tax breaks to funding for an expanded “Super” Pell Grant. Unlike the tax subsidies to upper-income families, the Pell Grant program provides direct aid for students from lower- and middle-income families who otherwise could not afford higher education. Annual funding for Pell would nearly double under PPI’s framework, allowing the program to support up to two thirds of undergraduate students in the United States with higher grants than the current average Pell award.

But as is the case with infrastructure, it’s not enough for the federal government to just spend more money on higher education. Subsidizing college education increases the amount of tuition students are able to pay and therefore lets universities raise tuitions without losing students. The Federal Reserve found that increasing the maximum amount of subsidized student loans someone could take out led universities to raise their tuition by nearly 60 percent of the increase in loans available to students. Washington should support more alternatives to traditional four-year degrees and condition federal funding for traditional degrees on action by universities to slow the growth of tuitions and fees.

Specifically, the federal government should end the federal bias towards college degrees for those who don’t need them by allowing students in shorter occupational training programs to use Pell Grants. Jobs that don’t require a traditional four-year bachelor’s degree but do require education beyond a high school diploma...
(also known as “middle-skill” or “new-collar” jobs) now make up over half of all jobs in the United States. But only 43 percent of U.S. workers are trained at this level, resulting in a “skills gap.” Obtaining industry-approved credentials can increase a low-income person’s earnings by as much as $11,000 within two years. As businesses face a shortage of middle-skill workers, expanding students’ ability to apply Pell Grants towards credential programs could help workers improve their economic circumstances for a fraction of the expense they would incur pursuing a bachelor’s degree.

One way to cut costs is to encourage U.S. colleges to move from four-year to three-year degree programs. Three-year degree programs are standard in much of Europe, and students who graduate with bachelor’s degrees from prestigious institutions such as Oxford, Cambridge, or the London School of Economics typically do so in just three years. Transitioning to a three-year degree system would force universities to review their curriculums and cut unnecessary degree requirements that pad educational expenses for students without enhancing the value of their degree. Taken together, three-year degree programs and Super Pell Grants could slash out-of-pocket expenses for a bachelor’s degree at public universities in half for in-state students. Universities can open their classrooms to more students if each student takes up a spot at the university for a shorter period of time, which will make a college education accessible to more students.

The most aggressive version of this reform would be to give colleges and universities up to 10 years to adjust their curriculums, after which point the federal government would cut off support for all four-year degree programs (except for those in complex fields for which there is little fat to cut in existing curriculums, as determined by a waiver system developed by the Department of Education). But there are also less invasive measures the federal government can take in pursuit of the same goal. The government could require universities to award college credit for Advanced Placement, International Baccalaureate, and other college-level coursework completed by students in high school. PPI proposes to increase federal funding for these programs in underserved communities to better prepare students for college and raise graduation rates. Improving graduation rates is essential to alleviating the student debt burden because half of students who fail to graduate accrue more federal debt over the first seven years of their repayment than they initially borrowed because they are unable to make loan payments that keep up with interest.

The government could also place restrictions on tuition increases at universities receiving federal funding and tighten accreditation standards to close so-called “dropout factories.” The Department of Education only grants federal aid to students attending colleges and universities that are recognized by approved accreditors. While graduation rates do not demonstrate everything about a school’s quality, a 2014 study found that the government spent $15 billion in non-tax student aid on colleges and universities that had six-year graduation rates below 15 percent. The Department of Education should require accreditors to only recognize colleges and universities that can prove they improve students’ outcomes, allowing students who would otherwise waste money at these institutions to get a proper education elsewhere.
6. Provide Affordable Pre-K for All Children from Families in Need

Federal spending per child is less than one sixth of the amount spent per older American despite the fact that children are almost twice as likely as older Americans to be in poverty. Investing in these children is an investment in the future health of our economy and our society (Fig. 9). Nobel-prize winning economist James Heckman estimated that investing in a child’s pre-kindergarten education generates 7 to 10 percent annual returns for the child and society as a whole. This effect is even greater for disadvantaged children who have fewer resources to support them at home. But the cost of pre-kindergarten and child care for older children has risen by 38 percent in the past 20 years, adjusted for inflation, putting it out of reach for many low- and middle- income families. The result is that only 68 percent of American four-year-olds and 40 percent of three-year-olds were enrolled in pre-K in 2017 despite the tremendous return on investment in young children’s education.

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**FIGURE 9. FEDERAL SPENDING AND POVERTY RATES BY AGE**

<table>
<thead>
<tr>
<th></th>
<th>ELDERLY (65+)</th>
<th>CHILDREN</th>
</tr>
</thead>
<tbody>
<tr>
<td>FEDERAL SPENDING PER CAPITA</td>
<td>$29,547</td>
<td>$4,811</td>
</tr>
<tr>
<td>POVERTY RATE</td>
<td>17.5%</td>
<td>9.2%</td>
</tr>
</tbody>
</table>

*Note: Spending figures are for 2015 but have been adjusted for inflation to 2017 dollars. Poverty rate is for 2017.
Sources: Urban Institute and Census Bureau*
When working parents cannot afford child care, they often need to sacrifice time they would otherwise spend working to mind their children, which can require them to postpone their long-term career goals. Forty-four percent of mothers working full-time say that they would look for a higher paying job if they had access to adequate child care. Many women have been pushed out of the labor force entirely because of the lack of affordable child care options — 20 percent of mothers not currently working say they would look for a job if they could afford child care services.89 Expanding pre-K and child care programs, especially for lower-income families, could be done at relatively low cost, empower more students to achieve, and enable parents to better balance their work-life and child-rearing responsibilities.90

7. Fund a Smart National Defense to Keep America Strong and Secure

National security is one of the federal government’s most fundamental responsibilities. Additionally, activities conducted in the name of national defense can also contribute to the domestic economy just as non-defense public investments do. For example, research conducted by the Department of Defense contributed to the development of the internet, GPS, and artificial intelligence.91 Policymakers shouldn’t undermine these crucial investments in maintaining our military’s qualitative superiority just to save the federal budget a few pennies on the dollar.

At the same time, the Department of Defense can and should contribute to breaking the fiscal handcuffs that are holding our country back. The United States currently spends more on its military than the next seven countries combined and there is clearly room for savings form the Pentagon that don’t compromise military readiness (Fig. 10). In fact, the Republican-controlled Congress appropriated the Department of Defense more money than it asked for in 2018 – cutting money the Pentagon doesn’t even want is low-hanging fruit for reining in defense costs.92 In 2015, the Department of Defense wrote a report that estimated the Department could save $125 billion over five years by encouraging early retirements, using fewer expensive contractors, and using information technology more efficiently.93 The Pentagon should also work to rein in the rising cost of military-personnel expenses, which have remained constant as a share of defense spending despite a massive reduction in troop levels.94 Creating a new Base Realignment and Closure (BRAC) commission, which allows the military to close unneeded bases or move operations between bases, could also save the military as much as $2 billion per year.95
Under CBO’s extended baseline, defense spending is projected to be roughly 2.5 percent of GDP over the long-term. PPI supports spending at this level, which is about half way between current U.S. defense spending and a 2 percent of GDP spending target set by the North Atlantic Treaty Organization (NATO) for member states. However, the sudden and deep spending cuts scheduled to occur in FY 2020 due to the return of sequestration would reduce spending too quickly for our military to adapt. PPI instead proposes to gradually bring defense spending down to these levels over a decade.

Importantly, these projections assume no new major military conflicts. To fund such conflicts, Congress created a separate account not subject to ordinary defense spending caps known as the Overseas Contingency Operations (OCO) account. While OCO should remain flexible and available for future conflicts, policymakers have leaned on this budget gimmick to avoid the budget caps for expenses that had previously been a part of the Pentagon’s normal budget. The Department of Defense itself estimates that roughly one fifth of OCO spending between 2015 and 2019 had nothing to do with military operations in Iraq, Afghanistan, or Syria. Policymakers should end the OCO shell game and keep total defense spending in line with the levels PPI proposes except for the temporary military engagements that leaders originally designed the OCO to fund.
II. GUARANTEE UNIVERSAL ACCESS TO AFFORDABLE HEALTH CARE

The Affordable Care Act was a monumental achievement in the expansion of health care coverage. The law expanded Medicaid to cover people with modified adjusted gross incomes below 138 percent of the Federal Poverty Level (FPL) and created subsidies to help middle-income people purchase private plans on regulated marketplaces. It also prohibited most insurers from denying coverage or charging consumers more for pre-existing conditions, making affordable health care accessible for those who needed it most. Between 2010 and 2017, the ACA extended coverage to over 19 million people and cut the uninsured rate by roughly half. The law also created many other consumer protections and policies to help hold down health care costs.

Still, the American health care system is far from perfect. The United States spends 17 percent of GDP on health care – more than almost any other country in the world – yet ranks last in access, equity, and overall health status when compared to 10 other high-income countries (Fig. 11). Even after the passage of the ACA, 9.4 percent of Americans still had no coverage.

FIGURE 11. NATIONAL HEALTH CARE SPENDING IN 2018

Source: Organisation for Economic Co-operation and Development
according to the Center for Disease Control – one of the highest rates of any Organisation for Economic Co-operation and Development country. Moreover, recent Republican sabotage of the ACA increased premiums on benchmark silver plans by an average of 33 percent and are projected to reduce enrollment in health insurance plans by up to 13 million people.

PPI’s proposals would reverse these efforts to undermine the ACA and build upon what worked to better control costs and expand coverage so that all Americans have access to affordable health care. If adopted, these reforms have the potential to put America on a path to universal coverage and cut per-capita health care costs for patients with private insurance by almost half. At the same time, it would promote choice and competition by preserving our hybrid system of public and private coverage, maintaining America’s status as the world leader in medical research and innovation.

8. Stabilize the ACA Marketplace by Reversing Trump Administration Sabotage

PPI proposes two policy changes to reverse the sabotage done by the Trump administration to the Affordable Care Act. First, we would reverse the Trump administration’s decision to make short-term health plans renewable for up to 36 months. These plans were only intended to provide temporary coverage for people whose coverage lapses when moving from one plan to another. Short-term plans also typically have a maximum benefit amount and do not have to abide by many ACA regulations, such as covering pre-existing conditions and all essential health benefits. Consumers may be under the illusion they have comprehensive coverage, when in fact short-term plans usually have very limited benefits. And if healthy people opt for these cheaper plans over comprehensive coverage, sicker people will see their premiums rise.

PPI proposes to only allow these types of plans to be used for a short three-month period as was originally intended, rather than as a cheap substitute for comprehensive health insurance.

Second, we propose to restore the transitional reinsurance program, which was in operation for ACA plans between 2014 and 2016. This program provided a government backstop to help insurers manage the risk of insuring exceptionally expensive patients, which helped keep premiums down by making expenses more predictable for insurers. When it was in effect, the reinsurance program covered as much as 14 percent of the cost to insurers of overall claims. Our plan would renew the reinsurance program to help stabilize premiums that have skyrocketed as a result of Republican sabotage. For states that already have an equivalent waiver-based reinsurance or premium reduction program, the funding would instead be funneled into those programs. We estimate that a nationwide budget of $15 billion in 2022 would be required to restore prior reinsurance coverage. However, much of that funding would be offset by reductions in subsidy spending due to lower premiums.

9. Smooth the ACA Subsidy Cliff

The ACA provides subsidies to purchase insurance plans on regulated exchanges for consumers who are not eligible for employer-sponsored insurance. The subsidies are set such that anyone with a modified adjusted gross income under 400 percent of FPL does not have to spend more than a certain percentage of income to purchase a mid-level plan (known as a Silver plan) on their local exchange, with the cap gradually rising with a consumer’s income. If premiums for the second-cheapest Silver plan on the exchange are greater than the income cap, the ACA provides a subsidy equal to the difference.
Consumers can then use this subsidy to help purchase any eligible plan on the exchange.

But if a consumer’s income is even a dollar over 400 percent of FPL, the cap and corresponding subsidies disappear, creating a “cliff” that results in large costs for anyone just outside the eligibility range for subsidies and incentivizes people to earn a lower income so they can avoid this steep drop off in benefits. This cliff hits middle-income consumers particularly hard when premiums rise quickly, as they did following the Trump administration’s sabotage. We propose to make subsidies available to people on the individual market with incomes between 400 percent and 600 percent of FPL and create a gradual phase-out to replace the steep cliff and avoid perverse earnings incentives. This proposal will increase the availability of affordable health care to 1.2 million middle-income families who don’t receive employer-sponsored insurance and currently cannot afford coverage.

10. Create an Automatic-Enrollment System for the Uninsured

Health insurance premiums are based on the average cost of care for consumers in the covered population. If younger and healthier people with less expensive health care needs decline to buy insurance, the covered population will on average be older and sicker people who have higher medical bills. Prior to the passage of the ACA, insurers managed this challenge by charging higher premiums to people with more expensive health-care needs and declining to cover pre-existing conditions. The ACA banned these practices, resulting in people paying similar premiums for similar coverage regardless of their pre-existing conditions. The result: higher premiums for the healthy and lower premiums for the sick.

This dynamic made insurance a worse financial proposition on average for healthy consumers, many of whom could decide to drop their coverage. This in turn would lead to even higher premiums for the insured population, which would push even more healthy people out of the market, in a vicious cycle commonly referred to as a “death spiral.” Additionally, when uninsured people do get sick or injured, they tend to receive expensive treatment from emergency rooms that they cannot afford to pay for. These costs are often passed along to the government through components of Medicare and Medicaid.

To control these costs, the ACA included an individual mandate to purchase insurance: anyone who could afford coverage but declined to purchase it would pay a tax penalty. The penalty was one of the most controversial parts of the ACA, but it was a vital tool to control costs created by other provisions (such as requiring coverage for pre-existing conditions). Nevertheless, Republicans used their 2017 tax bill to set the penalty to zero, effectively repealing it and leading to higher premiums.

PPI proposes to replace the now-repealed individual mandate with a system for automatically enrolling uninsured individuals in affordable coverage. By automatically enrolling people in insurance plans instead of requiring them to take affirmative action to enroll themselves, policymakers create a dynamic in which it requires less effort to be insured than uninsured. Auto-enrollment has proved a successful tool in retirement plans, where automatically enrolling people leads to about a 40 percent increase in coverage. We do not recommend a specific auto-enrollment policy, but policymakers should consider some of the following options:
• State governments could designate a "default" health insurance plan on their exchange. All uncompensated care claims by providers would be charged to this insurance plan. Uninsured individuals would pay a premium to cover the costs of this plan through their tax returns whether or not they took advantage of the insurance benefits during the past year. People who had other insurance coverage for part of the year would have their premium for this default program pro-rated accordingly. Alternatively, policymakers could create a voluntary opt-out for consumers who truly want to be uninsured. This would reduce the benefits of auto-enrollment but would also mitigate the elements of the individual mandate that made the policy so unpopular in the first place.

• Uninsured individuals could also be pushed to enroll when filing their taxes by the IRS and tax preparers. In the same way that filers receiving refunds are encouraged to direct those refunds into a retirement savings account, uninsured taxpayers should be pushed to enroll in an ACA plan and direct their refunds to covering a portion of their premiums. Individuals who avail themselves of this option could be eligible for a reduction in the automatic premium mentioned above. The reduction would be revoked if the person in question dropped coverage or failed to pay premiums during the following tax year.

• Under current law, health care providers often act as enrollment facilitators for low-income patients eligible for Medicaid. Health care providers could also be permitted to auto-enroll people whose incomes are too high for Medicaid, but eligible for coverage under the ACA via health exchanges. Operationally, providers could act as de-facto exchange navigators for uninsured people, signing them up for coverage and starting the process of selecting a plan determining their premium subsidy. State exchanges or the federal exchange would set up a process for enrolling people who did not select a plan.

11. Set Default Prices to Cap Medical Costs
The United States has higher health care costs per person than most other developed countries. These costs don't stem from overutilization of services or an inherently older or sicker population; rather, our high costs are simply a result of high prices for treatment. One contributor to our higher prices is the lack of bargaining power among individual payers in our system. Prices are particularly high in places where one or two provider networks have a monopoly on service delivery and can charge whatever price they want. Medicare can negotiate lower reimbursement rates than private insurers because it covers about one out of every six Americans, so providers lose access to millions of potential patients if they don’t accept Medicare’s prices. Medicare spending per enrollee grew half as quickly as it did in the private system between 2010 and 2017.

Some on the left believe the solution to our price problem is Medicare for All, under which everyone would be covered by one government program. In this single-payer system, providers’ monopoly power is challenged by the government’s monopsony power, leading to a more balanced negotiation dynamic. But a single-payer system abandons the benefits of competition (including innovation) in the insurance market, and polls show that a majority of respondents oppose Medicare-for-All when told the system would eliminate private health insurance.
PPI proposes to instead leverage the government’s bargaining power on behalf of consumers and private insurers rather than putting insurers out of business. The federal government would tackle the price problem directly by setting a maximum rate on what providers can charge payers for out-of-network care. All commercial health plans would have the option of using these default prices for all emergency and out-of-network claims, and all health-care providers would be required to accept them. Providers would be prohibited from passing the costs of this care onto consumers through balance billing for emergency services (for which patients cannot shop around) or any non-emergency service without adequate price disclosure in advance.

Policymakers should set localized caps based on existing Medicare reimbursement rates (which vary regionally), measures of provider consolidation, and population density. The Center for Medicare and Medicaid Services (CMS) can subject provider monopolies to tighter rate caps, thereby encouraging these monopolies to break themselves up and promote competition in pursuit of higher payment rates. Meanwhile, relaxing consolidation standards and setting higher default prices in areas with low population density can ensure this policy does not compromise the ability of smaller remote hospitals to continue operating. Our plan proposes that the average rate cap under this policy should start at 200 percent of current Medicare rates then be reduced by 8 percentage points per year until the default price reaches 120 percent of Medicare reimbursement rates.

These price caps would reduce costs for both in-network and out-of-network care because insurers would have little incentive to bring providers into their network at fee-for-service payment rates significantly higher than the default price. Knowing that they can only receive a limited payment for each service rendered, providers may also be incentivized to move away from fee-for-service arrangements altogether and instead enter into contracts with insurers that reward outcomes and efficiency of care over the number of services provided. Over time, as provider prices fall and better payment models are developed, more insurers can afford to enter new markets, thus increasing competition in the insurance market.

Savings achieved from reducing health care prices would be passed on to consumers in the form of lower premiums because of the ACA’s medical-loss ratio, which caps the share of premiums that can be spent on administration instead of paying for services. Lower premiums will then result in lower government spending on ACA premium subsidies and lower employer spending on health coverage. Because spending on employer-sponsored insurance premiums is given preferential tax treatment, this reduction in employer premium spending will translate to higher taxable incomes and thus more federal revenue. Such a reduction would render the Cadillac Tax – a 40-percent excise tax on high-cost health insurance plans scheduled to take effect in 2022 – unnecessary for controlling the rising cost of health care and raising federal revenue, allowing policymakers to repeal it if they so choose.

12. Reduce Barriers to Developing Generic Prescription Drugs
One of the greatest concerns Americans have about health care is the rising cost of prescription drugs. PPI proposes two policies that would bring down the cost of medication by increasing the availability of generic variants, which are functionally equivalent but far cheaper versions
of brand-name drugs made after the brand-name drug’s patent expires. Brand-name drug manufacturers have been able to delay the creation of generic drugs by providing insufficient samples for testing bioequivalence. This testing determines whether a generic drug can deliver the same benefits as the brand-name drug, which is a pre-requisite for Food and Drug Administration approval. Our plan would allow generic manufacturers to sue brand-name drug manufacturers if the brand-name manufacturer refuses to provide the necessary samples for such tests. We also support prohibiting “pay-for-delay” patent settlements, in which brand-name manufacturers pay generic companies not to bring lower-cost alternatives to market. According to the Federal Trade Commission, the reduced competition resulting from these agreements costs consumers and taxpayers $3.5 billion in higher drug costs each year.

Taking these two steps to increase the availability of generics will help control the rising costs of prescription drugs.

13. Encourage State Innovation in Medicaid

States are the laboratories of democracy in our federalist system. There is no better example of this dynamic than the health care program created by Governor Mitt Romney in Massachusetts, the success of which provided the foundation for the ACA four years later. Medicaid programs are particularly well-suited to experiment with new models of delivering and paying for care because they have to set a budget for managing the health care of all enrollees each year. This structure can encourage states to seek the most bang for their buck. A waiver system created by the ACA allows states to apply to the Department of Health and Human Services (HHS) for exemptions to certain Medicaid rules, so long as they are not expected to compromise care.

The waiver system is conducive to innovation. For example, Oregon won a waiver from HHS in 2010 that allowed it to pay networks of health care providers (known as Coordinated Care Organizations, or CCOs) a set dollar amount per patient (adjusted for the financial risks associated with each patient’s personal health) instead of paying providers for each service delivered. These CCOs were encouraged to coordinate with health-care providers, community organizations, and other social services to address all their patients’ needs. The additional supports provided under this system proved successful in early evaluations: the 15 CCOs saved roughly $2 billion over five years.

Other states should explore similarly innovative ways to move away from fee-for-service payments and better coordinate with all services provided across state agencies. To promote state experimentation, PPI supports universal waiver approval: if states have demonstrated a successful model, states should easily be able to replicate the waiver and move through an expedited approval process. The savings achieved through these and other innovations in Medicaid should be shared between the state and federal governments.
III. MODERNIZE MEDICARE

Medicare is the largest health insurer in the United States, covering nearly 60 million Americans aged 65 and older and/or receiving Social Security Disability Insurance benefits in 2018. It is also the fastest-growing program in the federal budget, with spending expected to roughly double as a percent of GDP over the next 30 years. Two thirds of this increase is due to rising per-person health costs, while one third is due to the aging of our population. By 2050, there will be almost twice as many Americans aged 65 and older than there were in 2016, and nearly three times as many Americans aged 85 and older. The number of working-age Americans, meanwhile, will only increase by 12 percent. Because older people tend to have more health problems than younger ones, the aging of the population magnifies the cost of our expensive health care system.

The previous section of this report detailed ways to control the cost of health care in the private sector, but the success of those mechanisms depends on having an efficient and well-functioning Medicare program. During past program expansions, new benefits were tacked on as separate programs with new rules and financing mechanisms rather than being incorporated into a coherent benefit structure. This disjointed structure creates complexity for beneficiaries and misaligns incentives for providers. Moreover, because only about half of Medicare spending is covered by dedicated revenue sources such as payroll taxes and premiums paid by beneficiaries, the growth of costs poses a grave threat to other federal priorities that could see more general revenues diverted to bankrolling Medicare (Fig. 12).

FIGURE 12. SOURCES OF REVENUE FOR MEDICARE

Note: Projections are based on current law.
Source: Medicare Trustees Report, 2019
PPI’s reforms would modernize Medicare for America’s current health-care needs, with streamlined rules to promote better delivery and responsible management of care for seniors. Just as importantly, our proposed reforms would cap out-of-pocket costs and set premiums for most seniors below what they are projected to be under current law. These reforms would be a win for beneficiaries and taxpayers alike.

**14. Consolidate Medicare Parts A, B, and D into a Streamlined “Medicare One” Benefit**

Medicare beneficiaries have two options for coverage. The first option, traditional fee-for-service Medicare, allows beneficiaries to enroll in three different services: Medicare Part A (Hospital Insurance), which covers hospital services, nursing facilities, home health assistance, and hospice care; Medicare Part B (Supplemental Medical Insurance), which covers outpatient services and medical equipment; and Medicare Part D (Prescription Drug Benefits).

Each benefit operates with its own complicated set of rules. Part A is operated by the government and funded by a 1.45 percent payroll tax. Beneficiaries must pay an initial co-payment for each incident requiring hospitalization before costs are paid by the government, then they are often on the hook for daily copayments for extended in-patient treatments. Part B is also administered by the government but has a very different benefit structure: beneficiaries pay a small annual deductible out of pocket, then enrollees pay 20 percent of additional costs for covered services. The program is also funded by a combination of income-based premiums and general tax revenue instead of a dedicated payroll tax. Part D plans, on the other hand, are chosen by the enrollee among several privately administered options that each have rules of their own. Like Part B, Part D plans are funded by a combination of premiums and general revenues.

The current alternative to this convoluted structure is for beneficiaries to choose a Medicare Advantage (MA) plan. MA plans – also known as Medicare Part C – provide the same benefits as Medicare Parts A, B, and D, but do so in one consolidated benefit structure (similar to how most employer-sponsored insurance works). Beneficiaries pay a premium to their MA plan just as they would with traditional Medicare or private insurance, with the federal government providing a lump-sum subsidy to pay for the share of expenses that would be covered by taxpayers in traditional Medicare. It then falls upon these MA plans to manage care for their enrollees.

PPI proposes to consolidate Medicare Parts A, B, and D into a streamlined “Medicare One” benefit with one premium, one annual deductible, one copayment or coinsurance rate for spending above that deductible, and an out-of-pocket cap. From the enrollees’ perspective, they would have one consolidated benefit just like they would receive from Medicare Advantage. Administratively, Medicare Parts A and B would become one program within CMS that has one set of reimbursement rates (as opposed to the current system, where reimbursement rates differ between Parts A and B). The combined AB plan would then be paired with the prescription drug benefits package of an enrollee’s choice. Enrollees’ premiums and deductibles for Medicare One would be set based on the package of prescription drug benefits they choose.

Medicare One has a number of advantages over the current system. Cost-sharing rules are simpler for patients to follow so they won’t have to worry about being caught between
multiple deductibles. Although costs may rise slightly for about half of beneficiaries in most years, lifetime expenses for many Medicare beneficiaries will fall because acute episodes of care (such as those requiring hospitalization) would receive more support from Medicare One than is currently provided by Part A.\textsuperscript{151} This proposal would also strengthen incentives for Medicare to make investments and improve benefit designs that reduce health costs. For example, combining or directly partnering Part D plans with the Part AB program would create incentives to provide improvements in drug coverages that would reduce patients’ likelihood of expensive hospitalizations down the road, which allows for shared savings. Medigap plans, which provide Medicare beneficiaries with supplemental coverage to assist with out-of-pocket costs, would also be restricted from covering parts of the new cost-sharing structure where doing so is likely to result in over-utilization, including first-dollar coverage of deductibles and over 50 percent of coinsurance/copayment rates.

### 15. Base Medicare Premium Subsidies on Average Bids

Unlike private health insurance plans, premiums don’t fully cover the cost of providing Medicare coverage because Medicare plans receive massive taxpayer subsidies. This dynamic is a critical part of the intergenerational compact: young workers pay taxes now to reduce the cost of health care when they are older. For enrollees in traditional Medicare, the taxpayer subsidy is equal to roughly 75 percent of spending for Parts B and D (adjusted based on a beneficiary’s income) and all of Part A (minus other cost sharing, as described in the previous recommendation).\textsuperscript{152} Taxpayer subsidies for Medicare Advantage plans are based on a statutory benchmark set between 95 percent and 115 percent of Medicare spending per capita in the beneficiary’s county. Plan administrators submit bids for per-enrollee spending, and if the bid falls below the benchmark, the subsidy is reduced by up to half of the difference. Subsidies are also risk-adjusted so that plans covering sicker populations receive more financial support per-beneficiary.

But this benchmark is problematic because Medicare spending per capita does not necessarily reflect the costs that MA plans face, and the government overpays these plans as a result. While per-beneficiary MA subsidies are about the same as traditional Medicare spending per-beneficiary, spending on MA patients was 13 percent less than spending on traditional Medicare patients in 2016, adjusted for health risk factors.\textsuperscript{153, 154} The government should not subsidize Medicare Advantage plans any more than the plans actually need to make covering seniors profitable.

PPI proposes to restructure the government’s subsidy for Medicare to be based on a competitive bidding process. Beginning in 2022, CMS would pool the bids from MA plans in each region, as well as the cost of covering a beneficiary under Medicare One, and calculate an average bid weighted by the number of enrollees in each plan. Every plan, whether it be Medicare One or Medicare Advantage, would receive a taxpayer subsidy for each enrollee equal to 84 percent of the average-bid benchmark (with the appropriate risk and income adjustments). Enrollees would then pay a premium equal to the difference between the government subsidy and the full premium value of the plan they’ve selected.

Ending the reduction in subsidies for plans
that come in with bids below the benchmark would better incentivize plans to pursue greater efficiency in managing care because doing so would no longer reduce the plan administrator’s income.\textsuperscript{155} Beneficiaries would be protected from plans seeking to wring out savings by cutting benefits because the package of benefits offered by Medicare Advantage plans would be required to have the same actuarial value as Medicare One coverage. In the aggregate, the move by all plans in the system to increase efficiency and manage care better will bring down costs throughout the system, thereby slowing the growth of the benchmark over time. Consumers will also be incentivized to choose efficient plans because those plans will have lower premiums, meaning that the weighted average will favor more efficient plans over time. These forces together will compound into significant savings for the Medicare program.\textsuperscript{156}

To capture more fiscal savings from this policy and PPI’s other proposed Medicare reforms that compound savings over time, we also propose to gradually reduce the proportion of the average-bid benchmark covered by taxpayers by 0.16 percentage points per year until the subsidy rate falls to 80 percent of program costs 25 years later. Even with this provision, PPI estimates that average Medicare premiums paid by enrollees in future years will be up to 10 percent less than they would be under current law, making our policies a win for both taxpayers and beneficiaries.

16. Create a Medicare Buy-In for People Ages 55-64

People ages 55 or older but not otherwise eligible for Medicare should be able to purchase Medicare coverage directly. In the same way automatic enrollment can reduce costs by bringing healthy people into the private insurance pool, a Medicare buy-in would reduce costs by taking sicker people out.\textsuperscript{157} Buy-in beneficiaries would have access to the same Medicare options as aged or disabled beneficiaries, including both Medicare One and Medicare Advantage plans. The main difference would be premiums: while people currently eligible for Medicare would have 80 percent of their premiums subsidized by taxpayers, the buy-in population would be charged premiums necessary to cover the full cost of their coverage. The only subsidy buy-in beneficiaries would receive are those they would be eligible for under the ACA to purchase private plans on the exchanges.

CMS would also be directed to create a system allowing buy-in enrollees to get their premium tax credits in advance via monthly estimated amounts, with subsequent reconciliation on their annual tax returns. Medicare would thus be authorized to use the “data hub” that ACA exchanges and plans use when determining advance tax credits. Medicare would also be the secondary payer behind any employer coverage. Although the Medicare buy-in population would be older and sicker than the exchange population overall, they would be healthier than the existing pool of Medicare beneficiaries. Additionally, costs would be lower in Medicare because Medicare reimbursement rates are lower than those paid by private insurers.

17. Reform Medicare Prescription Drug Reimbursements and Out-of-Pocket Costs

After a Medicare Part D beneficiary’s out-of-pocket spending reaches $5,100, the federal government currently pays 80 percent of “catastrophic costs” above this threshold, with Part D plans paying 15 percent and enrollees paying a 5 percent coinsurance.\textsuperscript{158} The structure of this Part D benefit gives drug manufacturers a powerful incentive for extremely high prices
because enrollees are quickly pushed through the earlier stages of their benefits into the heavily-subsidized catastrophic zone.159 But even with a relatively low 5 percent coinsurance rate, the patient costs for very expensive drugs in the catastrophic zone can still be prohibitive, reducing access and adherence to medication schedules. At the same time, Part D plans don’t have a powerful incentive to manage patient costs after they’ve hit the catastrophic threshold because they only absorb a relatively small 15 percent of the cost.

PPI proposes to introduce an out-of-pocket maximum of approximately $3,000 for patients, above which their coinsurance would be zero, and reduce the federal government’s share of spending on drugs in the catastrophic zone from 80 percent to 20 percent. Drug plans would likely raise premiums to cover these higher costs, but patients would not necessarily be on the hook: Medicare would use some of the savings from this proposal to increase the per-enrollee payment it makes to private health plans so they can cover the redistributed costs. Over time, Medicare’s Payment Advisory Commission (MedPAC) believes this approach would be much more efficient, creating savings for both Part D plans and the rest of Medicare.160 Reduced prices resulting from this policy will hopefully spill over into the private sector as well.

18. Promote Value-Based Care
A 2016 analysis found that physicians were paid through fee-for-service arrangements, which pays the health care provider a fixed price for each service they perform, for nearly 95 percent of all doctor visits.161 Fee-for-service gives providers more money if they provide more services, which incentivizes providers to provide "care" that the patient may not actually need and gives the provider no reason to control the overall cost of the patient’s care. To better control costs, recent laws like the Affordable Care Act and the Medicare Access and CHIP Reauthorization Act of 2015 have tried to advance health insurance arrangements that pay providers based on the value of their care, not the quantity.162

We urge policymakers to find new ways to encourage value-based care. For example, Congress could clarify that anti-kickback laws, which prevent drug manufacturers from paying providers for prescribing their drugs, do not prohibit doctors from receiving greater payments from insurers for prescribing cheaper drugs rather than more expensive ones. Additionally, policymakers should ensure that Medicaid’s requirement that drug manufacturers offer Medicaid the lowest price available for a drug do not deter manufacturers from entering into value-based arrangements that offer discounts based on the drug’s success.

19. Expand Medicare Site-Neutral Payments
Medicare currently pays more for some clinical visits that are performed in hospital outpatient settings than it does for the same service when performed in a physician’s office. There is no good reason for taxpayers to pay more for the same service just because of where it is delivered. PPI proposes to equalize the reimbursement for these services by enacting four policies outlined in the President’s FY 2020 budget proposal:

- pay the same amount for rehabilitative care and ongoing treatment for chronic illnesses regardless of whether the care occurs at a hospital, a hospice center, or anywhere else;
- pay off-campus hospital-owned physician offices the same amount as any other physician office for a given service;
• pay hospitals and physician offices the same amount for certain services that do not require specialized in-hospital treatment; and

• create a fair and consistent set of criteria under which long-term care hospitals can receive larger reimbursements than physician offices.¹⁶³

20. Rebase Medicare Payment Rates on 2019 Levels
The BCA triggered a 2 percent reduction in reimbursement rates to providers, Part D plans, and Medicare Advantage for 10 years when the super-committee failed to agree on a comprehensive deficit-reduction plan. Since then, Congress extended this spending cut several times as an offset for other policies with fiscal costs.¹⁶⁴ It’s clear this cut is here to stay, but current-law projections nevertheless show it expiring after 2027 (which is why extending the cut one or two years at a time has become a go-to budget gimmick for Congress). PPI proposes to make the change permanent by rebasing Medicare reimbursement rates on current levels. Controlling the growth of Medicare reimbursement rates under the PPI plan would reverberate throughout the private sector as well thanks to our default-price health care regime. We also believe the improvements in care and efficiency resulting from our proposed package of reforms will enable future policymakers to slow the annual growth of reimbursement rates by an additional one third of one percentage point beginning ten years after enactment.

21. Reform GME and IME Payments
Medicare compensates teaching hospitals for both the direct and indirect costs of medical education. While Graduate Medical Education (GME) funding directly supports residents’ salaries, Indirect Medical Education (IME) funding covers things like the additional tests and time the hospital must take up to provide residencies.¹⁶⁵ MedPAC has consistently found that the formula for IME payments overstates the actual indirect cost to teaching hospitals of hosting residents. PPI thus proposes cutting IME spending by as much as President Obama proposed doing in his FY 2017 budget. Additionally, we support reforming GME to ensure that the outcome standards residency programs are held to accomplish the program’s goal of training medical students to provide high-quality health care. If revising these standards saves money, Medicare should use the savings to expand the number of residency slots to meet the rising medical demands of our aging society.¹⁶⁶
IV. STRENGTHEN SOCIAL SECURITY’S INTERGENERATIONAL COMPACT

Social Security is the largest program in the federal budget and consists of two components: Old Age and Survivors Insurance (OASI) and Disability Insurance (DI). OASI provides monthly income to old-age beneficiaries who worked in jobs covered by Social Security for 10 years or longer, as well as their spouses and children under the age of 18. In 2018, OASI paid $845 billion in benefits to 53 million beneficiaries, while DI paid $144 billion in benefits to 10 million beneficiaries. Without reform, the Social Security trustees project the programs’ trust funds will be depleted by 2035. At that point, the program will only be able to pay out benefits equal to its incoming revenues, resulting in an across-the-board benefit cut of 20 percent (Fig. 13). The prospect of such a steep and sudden benefit cut makes it difficult for current workers to plan for retirement and risks throwing many vulnerable seniors who are already retired today into poverty.

Some have proposed resolving Social Security’s financial challenges simply by raising taxes on current workers, but doing so would place an undue tax burden on young Americans, who did not. Social Security is an intergenerational compact and it must be updated for 21st-century demographics in a way that is fair to both current generation of workers and retirees who have not been enough to pay for the benefits they’ve supposedly earned.

In years where payroll tax revenue exceeded Social Security payments, as it did from 1984 to 2009, the Treasury Department credited the programs’ “trust funds” with the balance and used it to finance general government deficits in lieu of borrowing from the private sector. The Treasury also credited trust funds with interest on their remaining balance each year, even though their “assets” generate no real return for the government. Since 2010, the Treasury Department has been drawing upon this established credit to make up the shortfall between Social Security spending and dedicated revenue sources with general revenues. The gap will grow worse in the coming years as America’s population ages: the Social Security Administration (SSA) projects that the ratio of workers paying the benefits for each beneficiary will be just 2.3 to 1 in 2035, compared to 3.4 to 1 in 2000.

Without reform, the Social Security trustees project the programs’ trust funds will be depleted by 2035. At that point, the program will only be able to pay out benefits equal to its incoming revenues, resulting in an across-the-board benefit cut of 20 percent (Fig. 13). The prospect of such a steep and sudden benefit cut makes it difficult for current workers to plan for retirement and risks throwing many vulnerable seniors who are already retired today into poverty.

PPI’s proposals would prevent a sudden benefit cut from occurring through a package of gradually phased-in reforms that would improve retirement security for millions of seniors and strengthen Social Security’s standing as an earned-benefit program Americans can depend on. In addition to shoring up Social Security’s finances, these reforms would strengthen the program by increasing benefits for those most at risk of falling into poverty in old age, such as low-income workers, widow(er)s, and people with above-average lifespans who are likely to outlive their savings. We also restructure the program to address inequities in the current benefit structure, including provisions that create unfair gender disparities or penalize work at a time when policymakers should be encouraging more of it.
22. Calculate Benefits Based on Years Worked Instead of Lifetime Earnings

Social Security benefits are currently calculated based on the average of an individual’s 35 highest-earning years (adjusted for wage growth). The monthly benefit for someone who claims benefits at the normal retirement age in 2019 is equal to 90 percent of the first $926 in average monthly earnings, plus 32 percent of those earnings between $926 and $5,583, and 15 percent of those earnings above $5,583.\textsuperscript{173} The system is somewhat progressive because Social Security replaces a higher proportion of pre-retirement income for lower-earners than higher-earners, but it nevertheless awards higher benefits to those who need them least.

Another problem with the current formula is that it provides poor incentives to remain in the labor force. Because benefits are only based on an individual’s 35 highest-earning years, additional work years only increase benefits if earnings in those additional years are higher than in previous ones. Because most long-career workers will have already maximized their lifetime earnings in the high-replacement rate brackets, there is a low return to additional work.\textsuperscript{174} These broken
Incentives result in diminished savings, a smaller workforce, and increased government spending on retirees who don’t need it. The average woman’s Social Security benefit is also over 20 percent lower than the average man’s benefit, resulting in women having a lower standard of living in retirement than men. This discrepancy stems from the fact that women’s average annual earnings are only about 85 percent of what the average man earns, and because women take more time out of the workforce to serve as caregivers than men do.

PPI proposes to replace the current system with a “work credit” benefit structure. Beneficiaries would receive a monthly benefit based on how many years they worked rather than how much they earned. To qualify for a work credit, a beneficiary must have earned the equivalent of 40 hours per week working at minimum wage for 52 weeks. Workers who do not earn enough for a full work credit can earn a proportional partial credit rounded to the nearest tenth. For example, if someone earned the equivalent of 12 hours per week working at minimum wage for 52 weeks in a given year, they would be awarded 0.3 credits for that year. The threshold for earning work credits would be tied to the federal minimum wage, while the value of the credit in retirement for each cohort would be indexed to average wage growth.

The monthly benefit awarded for each work credit would depend on how many years a beneficiary has previously worked. The first 20 years would be awarded at the “Basic Credit” level, which we estimate should be set at approximately $60 in 2019 dollars for someone retiring at the maximum benefits age (currently age 70). Years 31-50 would be awarded “Standard Credits,” which would be equal to 80 percent of the Basic Credit. After accumulating 50 years of work credits, additional “Bonus Credits” would continue to be awarded at 25 percent of the Basic Credit level (Fig. 14).
PPI also proposes to allow caregivers to receive up to five years of work credit for the purposes of benefit calculation. While workers pay for Social Security with the taxes on their earnings, parents contribute to the program’s long-term sustainability by providing the economy with future workers. It makes little sense not to provide benefits in return for this contribution. Caregiver credits can be awarded on a partial basis, so part-time caregivers can benefit from the credit for more than 5 individual years. For example, if a part-time caregiver would be eligible to receive only a half credit based on their earnings, they would actually be awarded one full credit for that year. The caregiver credit would continue to benefit this caregiver for 10 years of this arrangement instead of 5 because they are only claiming half a caregiver credit in each year.

The transition to a work-and-caregiver credit formula would slightly reduce average benefits because the aggregate benefit reductions for high earners and short-career workers would exceed the aggregate benefit increases for low earners and long-career workers (Fig. 15).
However, benefits could actually increase for workers with median earnings and years spent working or caregiving. By PPI’s estimates, the median male worker in 2019 could see his benefits increased by roughly 2 percent relative to the current benefit schedule and 28 percent relative to what benefits would be payable after the trust funds are exhausted. The median female worker would see an even greater benefit increase: 12 percent relative to scheduled benefits and 40 percent relative to payable.

**FIGURE 15. BENEFITS FOR HYPOTHETICAL WORKERS**

Note: This chart compares benefits for three hypothetical workers at different income levels under the current formula with PPI’s proposed work-credit benefit formula. Figures are in 2019 wage-indexed dollars and assume each worker had constant earnings throughout his career. Projections under the current formula do not account for the 20-percent benefit cut that would occur under current law in 2035. Calculations do not include the impact of other Social Security proposals besides the transition to a work-credit benefit structure.

Sources: Social Security Administration and PPI calculations
Beneficiaries who turn age 62 in 2023 would have benefits calculated under both the old and new system, then be awarded a benefit equal to 10 percent of the work-credit benefit plus 90 percent of their benefit under the current formula. The proportion of the benefit based on the new formula would increase by 10 percent per year until it reached 100 percent in 2032.

### 23. Adjust the Retirement Age to Improve Simplicity and Equity

Social Security benefits are adjusted based on when they are claimed by a beneficiary to ensure that, on average, lifetime benefits collected are the same no matter when the beneficiary chooses to begin claiming them. Someone who claims benefits at the normal retirement age, which will be 67 for anyone born after 1955, receives 100 percent of the benefit as calculated above. But people can claim benefits as early as age 62, with reduced monthly benefits, and as late as 70, with increased monthly benefits.\(^\text{182,183}\)

A key driver of Social Security’s financial challenges is rising life expectancy. Since Social Security was created in 1935, the life expectancies of a 65-year-old man and woman have both increased by nearly half and are projected to continue growing further.\(^\text{184}\) The result is that retired Americans are collecting benefits for many more years than Social Security’s creators initially envisioned.

To address this problem, PPI’s plan eliminates the unnecessary normal retirement age for new retirees and indexes the minimum and maximum benefits ages to longevity. Beginning in 2023, the maximum benefit retirement age would increase by one month every two years. The early retirement age would increase by two months in 2023 and every year after until such time that it equaled the maximum benefits age minus six years, after which it would increase at the same rate as the maximum benefit retirement age. PPI’s plan would also ensure that the minimum and maximum benefit payments, as well as those claimed in between, would be actuarially adjusted to ensure equal overall benefits for Americans regardless of when they retire.

Although Americans are living longer overall, life expectancy gains have not been evenly shared. For example, for men born in 1930, the gap in life expectancy at age 50 between the top 20 percent of the income distribution and the bottom 20 percent of the income distribution was 5.1 years, while for men born in 1960 this gap rises to 12.7 years.\(^\text{185}\) Additionally, low earners work long careers in thankless jobs and can have difficulty finding employment towards the end of their working life. To enable these workers to enjoy a secure retirement, PPI proposes to allow beneficiaries to receive the average of their maximum and minimum benefit beginning at age 62 so long as:

- This benefit would be enough to replace 100 percent or more of their pre-retirement earnings (measured as an average of their last 10 years of earnings); and
- The beneficiary meets an asset test similar to the one that currently exists for Supplemental Security Income (SSI).\(^\text{186}\)

For example, someone who earned the minimum wage their entire lives would be able to claim Social Security after 35 years, because at that point their average annual benefit would be greater than the amount they would earn working 40 hours for 52 weeks at the minimum wage. The same would be true for someone who earned a high wage for 30 years but then could no longer find employment above the minimum wage for several years after that. Individuals...
who earn wages above the median in their 50s and early 60s, however, would not be able to claim benefits before the minimum benefits age because the average of their minimum and maximum benefits would not replace 100 percent of their current income.

PPI’s adjustments to the early retirement age are designed to discourage beneficiaries from claiming benefits too early to give them sufficient lifetime incomes or from retiring early when they can continue to have productive working lives. At the same time, our plan would strengthen the safety net for those most in need. It would also allow earlier retirements for long-career workers because their averaged benefit will be higher than the averaged benefit of short-career workers.

24. Change Cost-of-Living Adjustments

After a beneficiary begins collecting Social Security benefits, their benefits rise each year to account for rising prices. Currently, these cost-of-living adjustments (COLAs) are calculated based on the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W). Many economists, however, believe the more appropriate measure of inflation is a measure called “chained CPI.” Unlike CPI-W, the chained CPI takes the substitution effect of price increases into account.\(^\text{187}\) When the price of one good goes up, consumers will substitute towards purchasing other goods whose prices remain the same, lowering the impact of the price increase on overall cost of living. Chained CPI grew about one quarter of one percentage point more slowly than did CPI-W from 2009 to 2018.\(^\text{188,189}\)

We propose re-indexing COLAs to this chained CPI beginning in 2022. We would also impose a dollar-value cap on COLAs that is equal to the post COLA benefits that a person with 50 work credits could receive under the new formula. This measure will cut costs — particularly for the wealthiest beneficiaries — and prevent Americans who retired under the current system with high lifetime incomes from receiving higher COLAs than the vast majority of Americans who retire under the new system.

The biggest concern about switching to chained-CPI COLAs is that savings from the switch compound into excessively large benefit reductions for beneficiaries with above-average lifespans (who are also more likely to outlive their savings).\(^\text{190}\) We propose to negate this problem by re-indexing COLAs to average wage growth, which grew 0.7 percentage points more quickly than the chained CPI from 2009 to 2018, after an individual has been eligible for Social Security benefits for 15 years.\(^\text{191,192}\) The age at which the COLA boost starts for OASI beneficiaries would increase along with the retirement ages, while the boost for DI would always be 15 years after an individual began receiving DI benefits. This enhanced COLA bump-up would take effect in 2038, when the first retirees under the new system will have been eligible for Social Security for 15 years. Unlike the standard COLA, there would be no cap on the boosted COLA.

25. Reform Survivors Benefits

When a Social Security beneficiary dies, their spouse is entitled to a survivor benefit. Under the current formula, a surviving spouse gets the larger of the couple’s two Social Security benefits.\(^\text{193}\) This structure presents a huge problem for couples with comparable lifetime earnings, who can see household benefits cut in half upon the death of the spouse even though household consumption doesn’t fall by an equal amount. PPI proposes to allow the surviving spouse to keep 75 percent of the couple’s Social Security benefits when the other spouse dies. Initial benefits for couples would be reduced by roughly 10 percent to ensure that the average
couple receives the same lifetime benefits under the new survivors benefit as it would under the current one. These changes are particularly important because widow(er)s have far higher poverty rates among the elderly than do married couples (who have the lowest).¹⁹⁴ It also further strengthens retirement security for women, who are more likely to outlive their spouses than are men. The reforms to survivor benefits would only apply to the dependents of beneficiaries turning age 62 in 2023 or later.

26. Reduce Spousal Benefits
Lower-earning spouses receive benefits that are at least equal to half those of the main breadwinner. This spousal benefit was created for an era in which fewer women worked, but the role of women in the workplace has changed dramatically over the past decades: the share of adult women who work has grown by more than two thirds since 1950.¹⁹⁵ With women now having far more employment opportunities than they did when Social Security was created, far more couples are two-earner households. The current spousal benefit now discourages work by providing a windfall to single-earning couples, especially those with higher incomes.¹⁹⁶ These high-income couples are most likely to benefit from the spousal benefit in the first place because they can afford to have only one earner. Under PPI’s proposal, spousal benefits claimed at the maximum retirement age would be capped at $1,000 per month in 2023 (with actuarial reductions for those who claim earlier) and would be means-tested based on assets and income to reduce unnecessary subsidies to the wealthy. This cap would grow with chained CPI instead of the average wage index after implementation. As with survivors benefits, the reforms to spousal benefits would apply to beneficiaries turning age 62 in 2023 or later.

27. Improve Disability Insurance
Social Security DI benefits are based on the same formula used to calculate OASI benefits, so the program will require some changes to conform with the work-credit benefit formula PPI proposes using for OASI.¹⁹⁷ Some policies in this package will also likely increase demand for DI benefits. Although this plan provides an exemption to our proposed increase in the early retirement age for low-income workers, not every worker in physically demanding jobs will qualify, meaning some older workers will claim DI benefits when they would have otherwise claimed OASI benefits. To address these issues, PPI would reroute some savings from other provisions to increase DI funding. We also recommend that policymakers use some of this funding to address structural problems with DI that discourage beneficiaries from seeking work, such as a “cash cliff” that suddenly cuts benefits to zero if a beneficiary earns above a certain threshold.¹⁹⁸

28. Increase Taxes on High-Income Social Security Benefits
Most proposed reforms to Social Security don’t make changes to benefits for people currently collecting from the program. This principle is important for preventing the disruption of retirement security for people living on fixed income, but it also prevents older generations from contributing their fair share to Social Security solutions. But through taxation of benefits, policymakers can wring out some contribution from wealthy retirees without hurting the most vulnerable. Under current law, individuals for whom the combination of their adjusted gross income, non-taxable interest income, and half of their Social Security benefits totals more than $25,000 must pay taxes on up to 85 percent Social Security benefits.¹⁹⁹
PPI proposes to make benefits 100 percent taxable for individuals with higher combined incomes (Fig. 16).

**FIGURE 16. TAXATION OF SOCIAL SECURITY BENEFITS**

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<thead>
<tr>
<th>PERCENT OF SOCIAL SECURITY BENEFITS SUBJECT TO INCOME TAX</th>
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<td>85%</td>
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<tr>
<td>PPI PROPOSAL</td>
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V. TRANSFORM THE TAX CODE TO REWARD WORK OVER WEALTH

The goal of tax reform should be to raise adequate revenue for government services in the most efficient and equitable way possible. On these measures, the Republican “tax reform” law of 2017 was a near-total disaster. At a time when federal government needs more revenue to support our aging population and public investments in America’s future prosperity, Donald Trump and his Republican allies in the 115th Congress instead chose to slash federal revenues to the lowest level they’ve been during an economic expansion since the 1950s. Although some individual provisions had merit, the net effect of the legislation was a massive giveaway to the wealthy at the expense of workers and future generations who will have to bear the burden of the debt used to finance it. After taking into account the impact of this debt financing, the net economic impact of the law is expected to effectively be a net tax increase on the middle class (Fig. 17).

FIGURE 17. NET IMPACT OF DEFICIT-FINANCED TRUMP TAX CUTS

Note: Impact of deficit-financing assumes tax cuts would be paid for with equal-per-household increases in taxes or reductions in benefits. Source: Tax Policy Center.
29. Repeal the Payroll Tax
The payroll tax is a highly regressive tax on workers’ wages. It imposes a flat rate of over 15 percent on most wages, but less than 4 percent on earnings above $132,900. Because of the lower marginal rate for earnings above that threshold, lower- and middle-earners pay far higher effective payroll-tax rates than high-earners do. 

When the payroll tax was first imposed in 1937, it was set at a rate of just 2 percent on the first $3,000 of income ($54,487 in 2019 dollars). But as Social Security and Medicare have expanded over the years, the tax has become an enormous burden on workers: the Joint Committee on Taxation (JCT) expects that it will account for the vast majority of net revenues raised from workers who earn less than $75,000 this year.

The tax served an important political purpose by establishing that Social Security (and later Medicare) were earned-benefit programs by creating a link between a worker’s lifetime contributions and the benefits they drew upon in retirement. But the link between program contributions and benefits has become increasingly tenuous, as reflected by the fact that dedicated revenues are insufficient to fund promised benefits. Many popular proposals to shore up the programs would either further strain the link between contributions and benefits or impose an even greater burden on workers.
Now that Social Security is already dependent on general revenues to pay its bills, there is no point in retaining a regressive and anti-growth tax when it can’t even serve the purpose for which it was created. PPI’s work-credit benefit structure cements a stronger link between work and benefits earned without the need to rely on an outdated and inefficient funding mechanism. Medicare, meanwhile, already receives most of its revenue from sources besides payroll taxes and premiums, yet remains politically popular. These realities render the payroll tax unnecessary as a financing mechanism.

Accordingly, PPI proposes to phase out both the Social Security and Medicare payroll tax over five years. Policymakers would have a number of options available for financing Social Security without relying on payroll taxes. Congress could retain the use of trust fund accounting by earmarking a new revenue source to replace the lost payroll tax revenue. Alternatively, policymakers could replace the trust fund with a global budget that lets them dictate program spending instead of relying on payroll tax revenue to determine what resources are available to pay benefits. As long as the program stays on a sustainable fiscal trajectory, the existence of this separate budget would remove Social Security from the annual budget process and protect it from cuts just as the trust fund currently does.

The options available to policymakers for Medicare are the same as they are for Social Security. Importantly, PPI’s proposal to transition Medicare Parts A, B, and D into a consolidated Medicare One benefit would result in the creation of one unified Medicare global budget or trust fund. The one thing politicians should not do is provide an open-ended subsidy for these programs while they remain unsustainable through general revenue transfers – doing so would result in these programs drawing even more resources away from other important public investments.

30. Adopt a Dynamic Value-Added Tax (VAT)

Many developed countries, including Canada and all of those in the European Union, raise revenues through a consumption tax collected incrementally at each step in a product’s supply chain, known as a value-added tax (VAT). Producers pay a VAT on their total sales, but they can deduct the tax that was paid on the supplies they bought to create their product. Thus, each business in a supply chain only pays the VAT on the value that it adds to the products it sells. The VAT is ultimately paid entirely by the final purchaser of the good, the consumer.

Economists prefer consumption taxes over income taxes because consumption taxes encourage people to build wealth and reward consumers for saving money rather than spending it, which makes money available to invest in growing the economy. Further, VATs are self-enforcing because businesses deduct the VAT that was already paid on their supplies, meaning they pay more if they buy from suppliers that did not pay the VAT themselves.

PPI proposes to phase in a 15 percent VAT over five years on spending on all goods and services except for education, government health-care programs, charitable services, and services provided by state and local governments. The VAT would be more progressive than the payroll tax it replaces because there is no “taxable maximum” on a VAT that slashes the rate for high-earners. A VAT is also neutral to the treatment of capital and labor, which means employers will be making hiring and investment
decisions based on economic benefits rather than favorable tax treatment.

We also propose a unique component to our VAT that makes it a strong automatic stabilizer. Although the standard VAT rate would be set at 15 percent, this rate would adjust automatically to the state of the economy, much in the same way that emergency unemployment insurance benefits are triggered by a rise in the unemployment rate. During recessions, this structure provides tax relief to workers and low-income people. As the economy recovers, the VAT rate would rise back to 15 percent. Because consumers will know the tax cut is temporary, the dynamic VAT will stimulate demand and consumption when the economy needs it most.

31. **Turn the Earned Income Tax Credit into a Living Wage Tax Credit**

Although the switch from taxing payrolls to taxing consumption will be good for most workers, low-income and non-workers spend a higher share of their income on consumption than do wealthier Americans and thus could pay a greater share of their income to these taxes than the well-off would.\(^{219}\) To ensure that doesn’t happen, PPI proposes to replace the Earned Income Tax Credit (EITC) with a much larger Living Wage Tax Credit (LWTC). The LWTC would function similarly to the EITC, which provides a credit to low-income workers that grows with earnings and family size up to a certain threshold. The EITC is refundable, meaning that eligible workers can receive a payment from the government if the tax credit reduces their tax liability below zero. This structure has proven to be an effective tool for promoting work and reducing poverty.\(^ {220}\)

The LWTC, however, would provide far greater benefits that stretch further up the income distribution, particularly to childless adults who are currently the only group pushed into poverty by the American tax code (Fig. 18).\(^ {221}\) While the EITC is only available to workers up to age 65, workers up to age 70 could receive the LWTC as a means to encourage older Americans to remain in the workforce and delay claiming Social Security benefits. The LWTC would also give more generous benefits to childless individuals and a flat benefit to people with no earnings. This base benefit will function as a VAT and carbon tax rebate for non-earners.

The differences between the current EITC structure and the LWTC structure would be phased in evenly over five years, starting in 2022. This is the same phase-in timeline as the VAT that the LWTC will compensate workers for. PPI also would let workers reduce their tax withholding by up to 50 percent of their expected expenses. Lower withholding will keep money in peoples’ pockets and smoothly replace the income they are spending on the VAT.
In addition to the LWTC, PPI’s budget would offer low-income working parents a more progressive Child Tax Credit (CTC). Like the EITC, the CTC is a refundable, but it is only available for the parents of children under the age of 17. Parents who have no income tax liability can get a refund worth up to 15 percent of their income above a "refundability threshold," until the refund hits a maximum refund value of $1,400.

Republican lawmakers also required that the children through whom parents claim the CTC must have Social Security numbers as a means to deny the credit to parents of immigrant children. PPI would repeal the requirement for claimants to produce a Social Security number, and would keep a modified expansion of the CTC that, unlike the current credit, is indexed to grow with inflation and allows low-income families to access the full value of the credit. The CTC and the LWTC should also be harmonized so that they phase-in and phase-out together and do not create a benefit cliff when implemented concurrently.

The 2017 GOP tax law doubled the maximum CTC, more than doubled the maximum income a parent can have to receive a full credit, and lowered the income needed to qualify for the refundable credit from $3,000 to $2,500 between 2018 and 2025. But while prior to the tax law the CTC was fully refundable, the tax law limited the maximum CTC refund to $1,400. This regressive change limits low-income parents with very little income tax burden to a smaller credit than the one that can be claimed by higher-income parents. In fact, many low-income parents do not qualify for the credit at all because their income is below the $2,500 refundability threshold.

PPI would repeal the requirement for claimants to produce a Social Security number, and would keep a modified expansion of the CTC that, unlike the current credit, is indexed to grow with inflation and allows low-income families to access the full value of the credit. The CTC and the LWTC should also be harmonized so that they phase-in and phase-out together and do not create a benefit cliff when implemented concurrently.
32. Raise the Top Individual Income Tax and Capital Gains Tax Rates

The GOP’s 2017 tax bill lowered individual income tax rates, which JCT estimated would reduce revenues by over $1.2 trillion in the decade after the GOP tax law was enacted.\(^{226}\) The actual cost is likely even higher since the reductions to individual income tax rates in the 2017 GOP tax cut were scheduled to expire in 2025 (with the expectation that future policymakers would extend them). PPI proposes to reverse these unaffordable income tax cuts by implementing a new income tax rate structure that raises adequate revenue and is more progressive than the pre-2017 tax law rate structure was (Fig. 19). Our aim is not to “soak the rich” out of spite but to restore the power of progressive taxation to reduce extreme income inequality in America.

**FIGURE 19. EFFECTIVE TAX RATES UNDER DIFFERENT INCOME TAX SYSTEMS**

![Graph showing effective tax rates under different income tax systems](image)

*Note: Chart shows the share of income that would be paid in payroll and income taxes by a single filer who receives all their incomes from wages and claims the standard deduction under each tax code if it were law in 2019. Earlier tax brackets are adjusted for inflation. Values over $500,000 are compressed to better display the impact of reforms on the top 1 percent of income earners without obscuring the impact of reforms on the bottom 99 percent.*

*Sources: Tax Policy Center,\(^{227,228}\) Internal Revenue Service,\(^{229,230}\) Congressional Budget Office,\(^{231}\) and PPI calculations*
This rate structure would include two new tax brackets on high-earners top marginal income tax rates of 45 percent for income over $1 million and 50 percent for income over $10,000,000 that would not be indexed to inflation for the first 10 years after enactment (Fig. 20). High marginal tax rates for the highest incomes will help combat the United States’ dramatic growth in income inequality. Over the past 30 years, average income after taxes and government benefit payments more than tripled for those in the top 1 percent of the income distribution even as it grew by less than half for the middle 60 percent.232 Raising more revenues from extremely high-income people lets the government raise less money from lower- and middle-income people who need to spend more of their income on basic necessities. These higher rates also make up for the repeal of two other taxes on the wealthy that PPI proposes to roll back: the 0.9 percent additional Medicare payroll tax on earnings over $200,000 and a 3.8 percent net investment income tax.233, 234

**FIGURE 20. PPI’S PROPOSED INCOME TAX BRACKETS**

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<tr>
<th>TAX RATE</th>
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*Note: Brackets are for the year 2022.*
Additionally, policymakers should raise more revenue from people who get their money from capital gains, or profits made by selling an asset for a higher price than one bought it for. Although gains from assets held for less than a year are taxed as ordinary income, gains on assets held for one year or longer are taxed at a preferential rate. Long-term capital gains are taxed at lower rates than earned income both because the value of the taxable capital gain does not account for inflation and, in the case of corporate stocks, because the federal government also taxes the profits that give the stock value as corporate income.

Capital gains are a major source of income for high-earners: capital gains account for 38 percent of income for households in the top 1 percent of the income distribution, compared to just 1 percent of income for households in the lowest-earning 40 percent. Raising capital gains tax rates is thus essential to creating a fair and progressive tax system.

But while raising capital gains tax rates can increase revenue for the government, high rates can actually reduce revenue if they result in investors no longer believing the return on investment is worth the risk. Capital gains are sensitive to taxation, and some analyses have found that taxing capital gains as ordinary income would likely cost the government money. PPI recommends raising capital gains taxes to the rates that would raise the maximum possible revenues, given the other parameters of our tax reform.

We would further improve equity in the tax code by ending the preferential treatment for some types of income that unnecessarily benefit from the capital gains tax structure. PPI proposes to eliminate the “carried interest” loophole that lets many investment fund managers pay capital gains tax rates on their share of the fund’s profits, even though this income represents compensation for their work rather than a return on capital they’ve invested, and tax the income shareholders receive as dividends at ordinary rates. We also propose to eliminate the “like-kind exchange” tax loophole that lets investors avoid paying capital gains taxes on real property if they accept a similar property as payment for the sale of the first.

33. Replace the Estate Tax with a Progressive Inheritance Tax

Underpinning the American Dream is the belief that success should come from your personal initiative and hard work, not from being born to wealthy parents. But today, almost a third of all wealth in the United States comes from inheritance. Moreover, most inherited wealth comes in the form of extremely large inheritances: 40 percent of all inherited wealth came from the 2 percent of inheritances worth over $1,000,000.

Upon death, the federal government taxes wealthy individuals’ estates at a rate of up to 40 percent before the proceeds are passed on to heirs. Prior to the passage of the Republican tax bill, the estate tax only applied to the value of individual estates over $5 million (or $11 million for couples), meaning that 99.9 percent of all estates paid no estate tax. Nevertheless, Washington Republicans slashed taxes on the top 0.1 percent of ultra-rich heirs by dramatically increasing the exemption threshold to $11 million per person in their tax bill. As a result, a single child who inherits $25 million from his deceased parents in 2019 will now pay an effective tax rate of roughly 3.5 percent on that income.
Finally, PPI’s inheritance tax proposal would also repeal the step-up basis loophole that allows wealthy people to avoid paying capital gains taxes indefinitely. Under current law, the only tax applied to inherited assets is the estate tax even if those assets include unrealized capital gains that would have been taxed had the assets been sold before the owner’s death. If the heir later sells the asset, they only pay capital gains taxes on the increase in its value from when they inherited it, not when the decedent bought it. This creates an enormous incentive for wealthy taxpayers to hoard their assets until death. PPI would charge the applicable capital gains taxes on gains unrealized at the time of death, then subject the remaining wealth that heirs receive to the inheritance tax. Just like under current law, the very few people who inherit illiquid assets and may have trouble paying the tax up-front could pay it over a period of time so that the tax does not compel them to liquidate their inheritance.246

34. Allow Full Expensing of Business Investment

Although businesses can deduct most ordinary expenses from their taxable income, different rules apply for many capital investments. Prior to the 2017 tax law, these expenses had to be deducted over the useful life of the investment instead of during the year in which the money was spent. This practice, known as depreciation, limits investment by taxing businesses on their investment spending rather than on the returns generated by those investments in the future. Such tax treatment can hamstring economic growth by incentivizing present consumption in the form of dividends and stock buybacks over long-term investment.247
The GOP tax bill expanded the ability of businesses to deduct the full cost of an investment in the year in which it is made, a practice known as full expensing. But there were several flaws: the law excluded structures from the provision, so businesses pay more taxes if they decide to build or expand a building than if they make other investments that might be less profitable. Some industries were excluded entirely from full expensing, such as electrical energy and water or sewage disposal systems. And the provision was scheduled to begin phasing out in 2023, limiting its ability to spur long-term investments over time. The tax treatment of research and experimentation spending, meanwhile, moved in the opposite direction and businesses must now amortize costs they could previously expense. PPI would fix these flaws by making full expensing permanently available across the board. We would also repeal the deductibility of interest for all investments that are eligible for full expensing to help offset the cost and prevent the government from subsidizing debt-funded investment twice.

**35. Raise the Corporate Income Tax Rate to 28 Percent**

While the GOP tax law’s corporate tax changes included some valuable first steps towards incentivizing private investment, it did not do nearly enough and gave away too much revenue in the process. There was broad bipartisan agreement before the tax law that the 35 percent federal corporate income tax rate needed to be reduced; it was the highest rate in the OECD, and businesses could pay lower taxes by moving their operations overseas. Yet despite having the developed world’s highest rate, the U.S. corporate income tax raised slightly less than the OECD average because of a slew of tax expenditures. These expenditures distorted the economic playing field by giving a leg up to companies who could take advantage of them over those who could not. Real corporate tax reform would have lowered the corporate income rate and paid for it by broadening the tax base.

In this sense, the GOP tax bill was merely a tax cut, not real corporate tax reform. JCT estimated that the rate cut would cost the federal government $1.3 trillion in the decade after the law was passed, while the net impact of business tax breaks curtailed by the law was over $780 billion. The roughly $520 billion difference was an unaffordable tax giveaway to the wealthy. Even worse, much of these benefits flow out of the United States to foreign investors, who own about 35 percent of U.S. corporate stock, pay no U.S. capital gains tax, and pay lower taxes on corporate dividends than American investors do.

Corporate income tax cuts are also less effective at encouraging investment than full expensing is, and full expensing weakens the pro-investment effect of a corporate income tax cut. Lower corporate income tax rates cut taxes on an investment’s return, which does not make investing cheaper and provides a windfall to people earning returns on investments that were already made. Immediate expensing, on the other hand, is a much more targeted pro-investment tool because it specifically eliminates taxes on making new investments.

For these reasons and more, our budget proposes to raise the corporate income rate to 28 percent, which is the level that President Obama proposed in his final budget. Policymakers should also make deficit-neutral changes to close loopholes in our international tax system that multinational businesses can
exploit to avoid paying this higher rate. For example, a combination of poorly designed provisions in the 2017 tax law allows businesses to lower their tax liability by moving assets out of the United States.258 We need a tax code that incentivizes businesses to bring investment into America instead of pushing it out.

36. End the Trump Trade Wars and Cut Regressive Tariffs
Donald Trump’s senseless trade wars are a disaster for hardworking Americans. The Trump administration has imposed reckless taxes on imported goods, known as tariffs, that hurt many consumers and businesses. These tariffs include a 25 percent tax on steel and a 10 percent tax on aluminum, as well as taxes on hundreds of billions of dollars of goods imported from China. Although action is needed to curtail unfair trade practices like intellectual property theft, these tariffs are not a part of any comprehensive trade strategy and simply raise the cost of doing business with our largest trading partners.259 Tariffs raise the price of everyday goods for American consumers and hurt exporting industries by provoking other countries to place “retaliatory” tariffs on American exports.260 Together, the Trump administration’s announced tariffs, threatened future tariffs, and retaliatory tariffs imposed by foreign governments could cost the American economy over 2 million jobs and $200 billion in long-term growth.261

Instead of isolating our economy from the world, the United States should encourage open rules-based trade and create new markets for American goods. This means not only repealing the abusive tariffs that President Trump has put into place, but also eliminating antiquated tariffs that predate the Trump administration. Although shoes and clothing made up only 6 percent of American imports in 2017, over half of the $35 billion worth of tariffs that the United States raised in that year were from these goods.262 Over 90 percent of the footwear and apparel bought in the United States is imported, demonstrating the failure of these long-standing tariffs to protect domestic industry.263 All the tariffs do is raise the price of goods, especially for lower-income people, making them a highly regressive tax.264 PPI’s plan would put more money in workers’ pockets by repealing these archaic taxes and promoting additional opportunities for trade.

37. Make the Expanded Standard Deduction Permanent
The government allows taxpayers to deduct the cost of some activities from their income when they calculate their income tax liability, effectively making the money spent on those activities tax-free. Taxpayers can choose between itemizing their individual income tax deductions or taking a “standard deduction” that is the same for everyone, though there are a few deductions that taxpayers may claim even if they do not itemize. In 2017, more than 90 percent of households with income above $500,000 itemized their deductions, but less than 10 percent of households with adjusted gross income below $30,000 did.265 More high-income people itemize their deductions than lower-income people because people with high incomes are more likely to have expenses that both qualify for itemized deductions and are large enough to make itemizing more beneficial than taking the standard deduction.

Prior to the 2017 GOP tax law, taxpayers could also claim a personal exemption that reduced their tax burden regardless of whether they claimed the standard deduction or itemized their deductions. The tax law consolidated the personal exemption into a new standard
deduction that was almost twice the size of the old one. By increasing the size of the standard deduction, lawmakers made itemizing attractive to fewer taxpayers and slashed taxes on those who already had not been itemizing their deductions.\textsuperscript{266, 267} Accordingly, the percentage of taxpayers who chose to itemize fell from 26 percent in 2017 to 10 percent in 2018 as a result of the law's expanded standard deduction and limits to some itemized deductions.\textsuperscript{268}

Like many of the law's individual income tax policies, the new standard deduction is scheduled to expire in 2025. PPI would make the expansion permanent to cut taxes for lower- and middle-income Americans and reduce the impact that distortionary tax preferences have on our economy.

38. Limit the Value of Itemized Deductions to 30 Percent
The alternative minimum tax (AMT) and Pease limitation require wealthy taxpayers to calculate their tax liability under both the normal income tax system and another formula, then pay the higher of these two tax burdens. These provisions were intended to prevent wealthy taxpayers from eliminating their tax liability through the use of tax expenditures, but they are complex and make tax compliance even more cumbersome. Rather than reform the system to improve simplicity and equity, the 2017 GOP tax law simply slashed taxes on the rich by eliminating the Pease limitation and exempting people with incomes between $70,300 and $54,300 ($109,400 and $84,500 for married couples) from the AMT.\textsuperscript{269, 270}

PPI would replace the AMT with a simpler but stronger mechanism for ensuring the rich do not disproportionately benefit from itemized deductions. We would limit the value of itemized deductions to 30 percent of the taxpayer's taxable income. Because itemized deductions are worth more to taxpayers in higher tax brackets, this limitation would reduce the inherently regressive nature of itemized deductions in addition to ensuring some minimum tax is paid by high-income taxpayers. For example, if a taxpayer facing a 25 percent marginal rate deducts $100 from their income, their tax liability has been reduced by $25. However, under current law, that same deduction is worth $40 for a taxpayer in a 40 percent bracket. With the proposed limit in place, that second hypothetical taxpayer would still owe $10 in taxes on the $100 they deducted.

39. Make the SALT Cap Permanent While Eliminating the Marriage Penalty
Taxpayers who choose to itemize their deductions can deduct the amount they paid in property taxes plus either income or sales taxes at the state and local level from their income. The 2017 tax bill imposed a cap limiting the amount any households can deduct for state and local taxes (SALT) to $10,000. Lawmakers from heavily Democratic states such as California, New York, and New Jersey, where state taxes and spending tend to be higher, believe this provision of the GOP tax bill intentionally targets their constituents and are advocating for its repeal.\textsuperscript{271, 272} But doing so would be misguided: 96 percent of the benefits from repealing the SALT cap would go to the households in the top 20 percent of the income distribution, with 57 percent of benefits going to those in the top 1 percent.\textsuperscript{273}
The SALT cap shouldn’t be repealed, but there is room to provide some tax relief without losing federal revenue. As presently structured, every household is limited to $10,000 in SALT deductions. The practical implication of this policy is that married couples now get only half of the SALT deduction benefit per person ($5,000 each) that they would if they filed as two single taxpayers. Throughout the rest of the tax code, married couples operate under higher thresholds appropriate for two people rather than one to avoid creating a “marriage penalty.” PPI would eliminate this marriage penalty by setting the cap for couples at 1.5 the amount applied to singles. The singles cap would be reduced proportionately to ensure this change is deficit-neutral. The current SALT cap is also one of many tax provisions scheduled to expire in 2025 – instead, this reformed SALT cap should be made a permanent part of the tax code.

40. Phase Out Subsidies for Real Estate

PPI proposes to phase out the regressive and ineffective deduction for the interest homeowners pay on their mortgage. There is little evidence the mortgage interest deduction increases homeownership rates, and homeowners earn more than twice what renters do. In a weak attempt at reform, the 2017 tax law reduced the maximum amount of home mortgage debt on which a taxpayer may deduct interest paid from $1 million to $750,000. It also barred taxpayers from deducting interest on home equity loans, non-disaster casualty losses, and some other expenses. But these modest changes apply only to new mortgages and are set to expire in 2025, limiting their impact. Our budget proposes to make permanent the repeal of deductions for interest on home equity loans, non-disaster casualty losses, and other miscellaneous expenses, while gradually phasing out the mortgage interest deduction. Beginning in 2022, the value of the deduction would be limited to 30 percent of mortgage interest paid, consistent with the cap PPI proposes to place on all itemized deductions. The cap on mortgage interest deductions would then gradually fall by 2 percentage points every year until the deduction is fully phased-out in 2037.

41. Repeal Giveaways to Wealthy “Pass-Through” Business Owners

Pass-through business structures such as sole-proprietorships, partnerships, and S-corporations allow businesses to classify their profits as personal income earned by the business’ owner(s) rather than as corporate income. Doing so ensures that the profits are only taxed once as personal income, rather than being taxed first as corporate income and then as a dividend. The 2017 Republican tax law gave the owners of many pass-throughs even more favorable tax treatment by granting them the ability to deduct up to 20 percent of their income from taxation. This policy, known as the 199A deduction, was ostensibly created to reduce taxes on “small businesses,” but in reality, it is just another massive tax giveaway to the wealthy: over half of all pass-through income goes to people in the top 1 percent of the income distribution. In addition to being regressive, the 199A deduction is incredibly complex because the value varies by industry. Policymakers should be making the tax code more progressive and less complicated – the 199A deduction was a step in the opposite direction and should be repealed. They should also make permanent a provision of the tax bill that temporarily limited the amount pass-through businesses can deduct from the taxes they pay on personal income unrelated to the business.
42. Deschedule and Tax Marijuana
Eleven states have voted to legalize the purchase and consumption of marijuana for recreational purposes, and 34 states have done the same for marijuana used for medical purposes. But the Drug Enforcement Agency (DEA) still considers marijuana a Schedule 1 drug, which is reserved for drugs with "no currently accepted medical use and a high potential for abuse" and prevents its sale from being legal under federal law. The time has come for the federal government to step out of the way and allow states to regulate marijuana policy within their borders. Descheduling marijuana would remove regulatory barriers that currently limit scientists’ ability to conduct research on marijuana’s medical benefits and risks, allow marijuana-related businesses to access normal banking services, and make marijuana businesses eligible for normal business treatment under the tax code.

43. Increase Funding for IRS Enforcement
The IRS estimated that taxpayers failed to pay an average of over $400 billion in tax obligations annually between 2008 and 2010, the most recent time period for which the IRS has published such an estimate. But instead of trying to reclaim that money by spending more on tax law enforcement, Congress has cut the IRS’ budget in inflation-adjusted dollars by nearly 20 percent since then. The IRS is now 80 percent less likely to audit people earning over $10 million than it was in 2011, and while taxpayers in the highest-earning 1 percent used to be about four times as likely to be audited as a low-income EITC recipient, today they are both equally likely to be scrutinized. Spending more money on tax enforcement will help the IRS crack down on tax evasion by the wealthy and reduce federal budget deficits.
There are many similarities between our changing climate and our growing national debt. Both are challenges past and present political leaders failed to address effectively, leaving young Americans to face mounting risks and fiscal burdens. Without action, the consequences of failing to check climate change will be severe. Global sea levels are expected to rise by up to four feet in the next 80 years, with 6-8 additional inches of sea-level rise likely on the east coast of the United States this century. The risks posed by climate change are not hypothetical - they are real changes to the environment that are already underway. The incidence of wildfires in the western United States correlated with climate-related factors has risen since the 1980s at levels too dramatic to be caused by natural variations. Earlier spring melt and less snowpack are already limiting access to fresh water in some parts of the country. Curtailing and reversing global climate change is one of the most important goals of the 21st century.

Some on the left have argued tackling climate change requires the adoption of an incredibly expensive “Green New Deal” that spends trillions of dollars on policies that have nothing to do with climate change, including a multi-trillion-dollar federal jobs guarantee. Any worker who is hired only because of this guarantee is by definition not contributing to the government’s effort to decarbonize the economy, and some may even detract from it. Meanwhile, many on the right have succumbed to President Trump’s denial of climate science – the “Flat-Earthism” of our times.

PPI offers a comprehensive plan that would leverage the powers of market competition and public investment to decarbonize the American economy. It would make greenhouse gas producers pay for the costs they impose on society through a carbon tax, giving producers a strong incentive to cut emissions. Our budget reinvests the revenue from that tax into green R&D and infrastructure investments that will power America’s transition towards a clean economy. We also propose to restructure tax incentives to end subsidies for fossil fuels and redirect them towards green investments. PPI’s approach tackles both our climate and our debt problems simultaneously on behalf of young Americans and future generations.

**44. Tax Carbon Emissions**

When the price of a good does not reflect all of the undesirable outcomes the product causes to society, people will produce and consume more of the product than is most economically efficient. Incorporating the cost of these negative externalities into the good’s price ensures that people will only consume the good when its total benefits actually exceed its total costs. The Carbon Pricing Leadership Commission estimates that to keep the increase in global temperatures below 1.5 degrees Celsius, as nearly 200 countries agreed to do through the Paris Climate Agreement, carbon taxes would need to equal $50-$100 by 2030. Placing a tax equal to the social cost of carbon on producers puts those social costs on the emitter and ensures that carbon is only emitted when the benefits outweigh the true costs.

This approach harnesses the power of market competition to cut emissions: carbon-intensive businesses would pay higher taxes for producing more carbon and businesses that invest in reducing their emissions would gain a
competitive advantage. Similarly, carbon taxes reward consumers for using low-emissions energy sources regardless of the type, so carbon taxes do not give any clean energy industry an advantage and would make clean energy producers compete on efficiency.

Immediately imposing a carbon tax equal to the full social cost of carbon, however, could be overly disruptive to the economy. PPI thus proposes to impose a tax of $30 per ton of carbon dioxide emitted, as well as on the amount of other greenhouse gases that has the same greenhouse effect as one ton of carbon, and index the tax to grow by inflation plus 5 percent each year. This accelerated growth rate would ensure the tax eventually captures the full social cost of carbon and rises to a higher level sufficient to make up for the additional greenhouse gases emitted in the interim. Our Living Wage Tax Credit also helps shield low-income people – who spend a higher proportion of their income on energy consumption than do the wealthy – from the potentially regressive effects a carbon tax can have on the economy.299

45. Fund R&D for Renewable Energy and Climate Mitigation

Although a carbon tax will help internalize the costs of carbon consumption and push consumers to buy goods that are less carbon-intensive, businesses and consumers need to have affordable technology available to help facilitate the transition. Like basic R&D, green technology is a clear public good because the benefits that accrue to society far exceed those that accrue to the firm that develops the technology and consumers who purchase it. PPI therefore proposes to dedicate 20 percent of carbon tax revenues to a green-technology fund for clean energy, carbon capture, and climate adaptation research and development.

The Department of Energy already has a proven track record of making productive investments in energy efficiency and renewable energy that protect our environment and save billions of dollars in energy costs each year.300 The Office of Energy Efficiency and Renewable Energy, for example, estimated $33 in economic benefits were generated for every $1 spent by the Office on R&D.301 Business leaders have recognized green energy’s ability to grow the economy at large and have advocated for the federal government to at least triple funding for research into green energy.302

Investments should not only focus on preventing future emissions but also reducing the deep carbon footprint humanity has already left on our atmosphere. Although so-called “carbon capture” technology can already isolate and store carbon as it is produced, this technology can cost as much as $70-$110 per ton of carbon, depending on the industry.303 Technology that captures carbon already in the atmosphere, known as "direct air capture," is still in its infancy but has the potential to not only slow but actually reverse climate change.304 More research into these technologies could spark innovations that make them more cost-effective to adopt on a national or even a global scale.

Technological innovation is an especially important component of any plan to combat climate change because it is the most effective mechanism by which the United States can help decarbonize other countries. The United States only accounts for 15 percent of global emissions – even if our great nation were to disappear off the face of the Earth, global temperatures would continue to rise.305 Exporting affordable clean technology is essential for bringing the rest of the global economy, particularly developing countries, up to speed in the fight against climate change.
46. Modernize America’s Infrastructure to Reduce Emissions

PPI’s proposal dedicates 55 percent of the carbon tax’s revenue to help fund our $1 trillion infrastructure package, which would include reducing emissions as a core goal of modernization. Buildings, and the energy needed to heat and cool them, contribute 40 percent of total greenhouse gas emissions. Retrofitting public buildings to improve energy efficiency could reduce emissions and save the government money on its operational expenses. Our aging electrical grid, meanwhile, was built on the assumption that most energy would come from large energy producers using combustion fuel, and must be updated to accommodate needs that are unique to alternative energy producers. For example, solar energy production varies depending on the amount of sun available and is often produced at the building instead of at a central energy producer, so it requires more energy storage infrastructure than combustible energy does. Policymakers should make the investments necessary to seamlessly integrate renewable energy into the electrical grid.

Surface transportation alone causes 26 percent of all greenhouse gas emissions in the United States. Unlike traditional diesel-fuel vehicles, electric vehicles do not directly emit any greenhouse gases at all, and the electricity used to power them produces less than 40 percent of the greenhouse-gas emissions that would be produced by fueling a car with gasoline. To facilitate the adoption of electric vehicles, policymakers should invest in developing electric vehicle refueling stations along transportation networks. The International Council on Clean Transportation estimates that the United States will need to build almost 200,000 more electric vehicle refueling stations by 2025 to serve the 3 million electric vehicles that they expect to be driving the streets by that time.

Policymakers should also work to make natural ecosystems and man-made infrastructure more resilient to the effects of climate change. “Climate adaptation” practices vary widely depending on the ecosystem and can include reforesting mountainous areas to slow run-off caused by extreme rainfall, planting drought-resistant trees and shrubs in dryland to hold water in the soil, or maintaining coastal plant life and preserving dunes to minimize the impact of rising sea levels on coastal communities. In urban and suburban areas, the Environmental Protection Agency (EPA) recommends practices, such as water-permeable paving materials and green spaces, that regulate groundwater and minimize the impacts of both floods and droughts. One study estimated that implementing these policies in a residential watershed area in New York City could reduce stormwater in the soil by up to 42 percent. The EPA also recommends that cities invest in trees and rooftop gardens that control rainwater and absorb heat.

47. Create Clean Tax Incentives for Private-Sector Modernization

Transitioning to a clean economy will require society-wide change, not just government intervention. To incentivize private businesses and researchers to help mitigate the impact of the changing climate, PPI proposes to dedicate 25 percent of carbon tax revenues to private-sector tax incentives. Because transportation is the largest source of greenhouse gases in the United States, the government could provide tax incentives for the use of rail, buses, or electric cars that help reduce transportation-related
emissions. The government could also reduce agriculture-related greenhouse gas production by incentivizing farmers to sell their farm’s waste to energy producers to turn into biomass fuel.

As a “carrot” to supplement the “stick” of carbon taxes, policymakers can also directly subsidize clean energy with targeted tax breaks. Incentives could subsidize the use of specific renewable energy sources such as solar, wind, or nuclear power. Alternatively, if policymakers want to avoid advantaging any one renewable energy resource over another, they could also consider technology neutral tax incentives that reward individuals or businesses for cutting emissions regardless of the means they use to do so.

48. Repeal Fossil-Fuel Tax Preferences
In addition to providing subsidies for clean energy, the government should cut existing subsidies to the fossil fuel industry. When calculating the value of their sales, “last in, first out” accounting (LIFO) lets companies with large inventories count the newest addition to their inventories as the items that they sold while counting their older products as maintained inventory, which reduces taxable profits when prices are rising. One third of the total LIFO tax benefit goes to energy producers. PPI proposes to disallow the use of this accounting method among fossil fuel producers for tax purposes. PPI would also end the ability of companies to immediately deduct costs related to exploration for fuel from their tax liability. Lastly, we would repeal percentage cost depletion, which allows independent extraction-based fuel producers to deduct a fixed percentage of their revenues as their expense instead of actually determining the value of the natural resources they own, have located, and have extracted.
Almost 40 million Americans lived in poverty in 2017, an experience that is associated with more health risks, higher crime rates, and lower labor-force participation. Poverty is often both a cause and an effect of these negative outcomes, so it can naturally reinforce itself. Poverty has especially persistent effects on children, whose brains are still developing and are highly influenced by their environment. People who were persistently impoverished as children are less likely to finish high school by age 20 and are almost half as likely to be consistently employed by age 25-30 as people who were never poor.

To break this self-perpetuating cycle, the government offers supports to empower disadvantaged Americans to lift themselves from poverty, whether it be by replacing a laid-off worker’s wages while he gets back on his feet or helping a struggling mother feed her children when the family is at its most vulnerable. These policies helped 12 million people climb out of poverty in 2017, but were not enough to help the 45 million people (including 12 million children) who remained in poverty. PPI’s budget would dedicate a portion of the additional revenue raised by replacing the payroll tax with a VAT to expanding and improving these programs, making them more effective automatic stabilizers, reducing wealth inequality, and fostering inclusive growth. Finally, we propose to support not just native-born workers and families but also immigrants through comprehensive immigration reform.

49. Improve Low-Income Supports
The United States provides some low-income Americans with benefits that help pay for essential goods. These programs include the Supplemental Nutrition Assistance Program (SNAP), which helps people afford food; SSI, which helps the very elderly, sick or disabled pay their bills; Temporary Assistance for Needy Families (TANF), a federal block grant to states that finances cash benefits or services for low-income families; and others. Low-income supports are effective at mitigating poverty. SNAP helped 3 million people escape poverty in 2017, over 40 percent of whom were children, while SSI and TANF brought 3 million and half a million out of poverty respectively. Spending directly on people with low or no incomes also helps keep demand strong during recessions by replacing some of the income that people may lose.

However, many of these programs do not have sufficient resources to adequately address the needs they serve. Over half of SNAP beneficiaries still struggle with food insecurity even with their benefits. Fewer elderly and disabled people are starting to receive SSI than have in 22 years. TANF spending has been constant in nominal dollars since 1997 because the program wasn’t indexed to grow with inflation or population growth. PPI believes policymakers should commit more resources to strengthening anti-poverty programs and should consider ways to ensure the programs reduce poverty in a cost-efficient manner.

50. Strengthen Employment Support Programs in Severe Recessions
Unemployment Insurance (UI) replaces the incomes of workers who have lost their job through no fault of their own and are actively seeking another job, which helps them pay for their day-to-day expenses so that they can take the time they need to find a job that matches their skills. During recessions, UI plays an
especially important role in maintaining demand by ensuring that people who have lost their income still have money to spend. Each state administers its own UI program in accordance with federal standards and with some federal funding, and the length and value of someone’s benefits depends on their state’s rules, their prior wage, and their work history. The average maximum duration of unemployment benefits is 26 weeks in most states during normal economic times.\footnote{330}

Extended unemployment benefits become available when states undergo temporarily high unemployment. These extended benefits provide an additional boost to demand during modest recessions and help stabilize local economies.\footnote{331} But these extended benefits were insufficient to grapple with the scale of job losses following the 2008 financial crisis: the number of unemployed people per job opening nearly quadrupled from 1.7 in December 2007 to 6.4 just after the recession ended in July 2009.\footnote{332} The percentage of unemployed people who had been unemployed for at least 27 weeks rose from 17 percent to 34 percent in the same time period, and rose as high as 46 percent by April 2010.\footnote{333} In response to this growing need, Congress relaxed the requirements for states to qualify for extended benefits and extended UI eligibility for up to 99 weeks in states with particularly high unemployment.\footnote{334}

Nearly twice as many UI beneficiaries would have fallen into poverty during the recession had they not received any UI benefits in 2009.\footnote{335} Extended benefits also stimulated the economy: the Department of Labor estimated that GDP was $82 billion larger in the third quarter of 2009 than it would have been without extended benefits and the other benefit extensions that Congress passed.\footnote{336} But in spite of these outcomes, as well as appeals from Senate Democrats and President Obama, Republicans in the House of Representatives let the benefit extensions expire at the end of 2013.\footnote{337} At that time, 37 percent of unemployed people had been unemployed for at least 26 weeks, more than at the end of the Great Recession.\footnote{338} Cutting off these benefits did not make many people find a job, but it did compel a small number of job seekers to quit looking altogether, as they no longer needed to seek a job to qualify for the benefits.\footnote{339}

To better contain the economic damage from future recessions, PPI proposes to codify a greater automatic expansion of UI benefits. But we also recommend policymakers explore innovative ways to make sure programs like UI don’t just catch workers when they fall in recessions, but also lift them back up. One proposal offered by President Obama in his final budget was wage insurance: when a displaced worker accepts a new job that pays less than the one they lost, the federal government would pitch in up to half of the difference to both help the worker pay their bills through the transition and incentivize them to pursue opportunities in other fields that may require some period of retraining.\footnote{340} Today’s leaders need to adopt this sort of creative thinking to turn our social safety net programs into social empowerment programs.
51. Create a Paid Family-Leave Program

Parents should not have to choose between their livelihood and their family. PPI supports implementing a paid family-leave program that helps parents care for their children and keeps mothers attached to the labor force if they choose to be. While the Family Medical Leave Act guarantees parents twelve weeks of unpaid leave after their child is born, the United States is one of only two countries on Earth that does not guarantee paid leave for new parents.341, 342 Only about 14 percent of civilians in the United States get any paid family leave at all from their employer.343 Current policy treats paid leave as a luxury for higher-income parents: 74 percent of leave-takers with incomes above $75,000 have access to paid family leave, while just 37 percent of leave takers with incomes under $30,000 do.344

The lack of access to paid family leave, particularly among poor families, is alarming because access to paid leave leads to better health outcomes for the child and better economic opportunities for the mother. For example, after California passed paid family leave, hospital admissions among infants fell 3-6 percent and fell even further for causes that are associated with inadequate child care.345 Paid family leave also gives working mothers a reason not to quit their jobs before they give birth, which saves them the trouble of finding another job if they want or need to return to the workforce later. Ten percent more working mothers in California returned to the labor force in the year after their child was born after the state implemented its paid leave policy.346

52. Promote Asset-Building and Savings

While many people who are concerned about economic inequality focus on income inequality, wealth inequality is even more dramatic: while Americans in the top 1 percent of the income distribution earned 23.8 percent of all income in 2016, the wealthiest 1 percent of Americans owned nearly 40 percent of the wealth in the United States.347 Fourteen percent of Americans say that they could not afford a sudden $400 expense if they had to make it today.348 Wealth is also highly unequal among people of different races; the median white household’s net worth was almost 10 times the median black household’s in 2016.349 Wealth inequality can be self-perpetuating because the wealthy can reinvest their assets and earn more capital income to grow their wealth, while those without wealth have little or nothing to invest in the first place.

Encouraging people to build wealth will help level this unequal distribution. Building wealth also gives people resources that they can draw from to pay their bills if they suddenly experience a loss of income. The government already facilitates some wealth-building by letting people contribute money to tax-free or tax-deferred accounts that can be used to pay for expenses related to retirement, health care, education, or disability.350, 351 The government also subsidizes low- and middle- income people savings through the Savers Credit, which is a nonrefundable tax credit worth a percentage of what someone contributes to tax-advantaged accounts that can be used to pay for expenses related to retirement, health care, education, or disability.350, 351 Prior to the GOP tax law, only contributions to retirement accounts were eligible for the Saver’s Credit, but the bill expanded the credit to include deposits in accounts used to pay for disability-related expenses, a change PPI would make permanent.

Lawmakers should implement more policies that encourage people to build wealth. These policies could include changes to the Savers Credit, such as making it refundable for savers with very low incomes or expanding eligibility to higher-income savers. Lawmakers should incentivize young people in particular to save, as each dollar that a
young person saves has more time to compound and grow into real wealth than savings by older people do.\textsuperscript{353} Policymakers should also consider providing Americans with the option of a retirement account that they keep through their lives, both to serve people who cannot access retirement accounts through work and to reduce the bureaucracy people face when rolling their accounts over.\textsuperscript{354} PPI proposed one possible framework for “American Development Accounts” in 2018, which would help lower- and middle-income workers build wealth not only for retirement but also other needs such as buying a home or starting a business.\textsuperscript{355}

Policymakers can better promote savings by relaxing the asset limits that apply to some social safety net programs and make it harder for people who have built modest wealth to get federal benefits if the worker’s income falls, perhaps by excluding retirement account balances from asset limits.\textsuperscript{356} Policymakers could also incentivize businesses to create employee stock ownership plans (ESOPs), which compensate employees with stock in their own company and have been found to both increase workers’ wealth and decrease wealth inequality.\textsuperscript{357,358}

53. Enact Comprehensive Immigration Reform
Fixing America’s broken immigration system can be a significant counterweight to the fiscal impacts of the aging American population in the coming years. While just 59 percent of native-born Americans are considered “working-age” (between 18 and 64), 78 percent of foreign-born people are.\textsuperscript{359} Pew Research Center predicts that immigration will be the primary source of labor force growth until at least 2035. While the number of working-age people whose parents were both U.S. citizens will fall in the coming years, the working-age immigrant population will hold steady and the number of working-age children of immigrants will grow.\textsuperscript{360} By constituting a greater proportion of the workforce than they did in the past, these immigrants and first-generation Americans will pay a greater share of the taxes that support Social Security and Medicare’s finances than these groups historically have, and their taxes will be a vital part of maintaining the programs’ financial footing.

But despite the clear value that immigrants bring to our economy, the Trump administration has made it harder for people to legally immigrate to the United States.\textsuperscript{361} In addition to cutting the legal limits of refugees and temporary protected status beneficiaries from troubled regions, President Trump signed executive orders that encouraged United States Citizenship and Immigration Services to unnecessarily increase scrutiny for skilled workers who have been hired in the United States. These dilatory policies slow the immigration process and make it harder for businesses to find foreign workers with unique skills, which can negatively impact everyone who interacts with these businesses.\textsuperscript{362} The situation would become even worse if the president was allowed to waste $60 billion of taxpayer money on an ineffectual wall across America’s southern border.\textsuperscript{363}

Policymakers should instead enact comprehensive immigration reform that grows our economy by welcoming skilled workers instead of turning them away. CBO estimated in 2013 that comprehensive immigration reform would bring in over 1 million new immigrants a year who would skew “younger and healthier” than the general population, which would be good news for programs like Social Security and Medicare that need more young workers to contribute to the program.\textsuperscript{364} Federal spending and tax revenue would both rise after reforming
our immigration system, but because revenue would increase by more than spending, budget deficits would fall. Moreover, the rate of economic growth would increase by more than the rate of growth in federal taxes and spending, meaning revenue and spending would fall as a percent of GDP even though they would rise in nominal dollars (Fig. 21).

**FIGURE 21. IMPACT OF IMMIGRATION REFORM ON THE BUDGET**

<table>
<thead>
<tr>
<th>REVENUE</th>
<th>SPENDING</th>
</tr>
</thead>
<tbody>
<tr>
<td>5%</td>
<td>0%</td>
</tr>
<tr>
<td>4%</td>
<td>1%</td>
</tr>
<tr>
<td>3%</td>
<td>2%</td>
</tr>
<tr>
<td>2%</td>
<td>3%</td>
</tr>
<tr>
<td>1%</td>
<td>4%</td>
</tr>
</tbody>
</table>

**Sources:** Tax Policy Center, Committee for a Responsible Federal Budget, and PPI calculations
Acknowledgements

The Progressive Budget for Equitable Growth was produced by the staff of PPI’s Center for Funding America’s Future in consultation with several experts over a nine-month process. We would like to thank the following individuals and organizations who assisted and advised us with researching, developing, and modeling the policy proposals compiled in this report:

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PPI Interns Justin Schweitzer, Avi Lipton, Jordan Westendorf, and Roman Darker
Marc Goldwein and Adam Rosenberg, Committee for a Responsible Federal Budget
Bobby Kogan and Richard Phillips, U.S. Senate Committee on the Budget Democratic Staff
William Gale, Senior Fellow at the Brookings Institution
Barry Anderson, Former Acting Director of the Congressional Budget Office
Syl Scheiber, Former Chair of the Social Security Advisory Board
Jeff Lemieux, Horizon Government Affairs
Eric Toder and his team at the Tax Policy Center
Kyle Pomerleau, Director of Tax and Economic Modeling for the Tax Foundation
Richard Jackson, President of the Global Aging Institute
Robert Inman, Professor at the Wharton School of the University of Pennsylvania

We hope to engage even more experts and stakeholders in the coming months as we refine and promote the policies introduced in this document.

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Appendix

PPI’s policy proposals were measured as changes from the Congressional Budget Office’s extended current law baseline. Some estimates were produced by PPI staff in consultation with outside experts while others were modeled by independent organizations. All proposals were evaluated using static scoring, which means the estimates do not account for behavioral changes that could result from a policy being enacted. While we believe a dynamic score that fully incorporates the benefits of our pro-growth tax reform and public investment policies would yield more favorable figures, we declined to use such estimates because they are inherently more uncertain and subjective.

There are, however, two ways in which the economic assumptions used to model PPI’s budget differ from those in the extended baseline produced by CBO in its long-term budget outlook. In CBO’s extended baseline, rising government debt leads to higher borrowing costs and reduced economic growth. Because PPI’s budget would prevent the national debt from reaching the unsustainable levels projected in CBO’s baseline, we adjusted our estimates using an alternative CBO data set that does not incorporate these negative macroeconomic effects. The change results in higher GDP, higher revenues, and lower interest costs under PPI’s plan.

We also adjusted our projections of GDP to account for the effects of comprehensive immigration reform. As explained in the report, increasing immigration would fundamentally alter our economy by changing the demographic composition of American society. Ignoring the effects these policy changes would have on GDP, while incorporating the higher revenues and spending they would produce, would artificially inflate summary figures that are shown as a percent of GDP.

This appendix includes four summary tables. The first three tables compare the top-line numbers in PPI’s budget to those of the extended current law baseline and a current policy baseline, which assumes that today’s tax and spending policies remain in place even if they are scheduled to change under current law.

The fourth table provides two sets of estimates for individual policies proposed in this report. The first estimate is how much a policy would save or cost the federal government in nominal dollars over the first 10 years, which is what CBO would produce if a member of Congress introduced the policy as legislation. The second estimate shows the impact a policy would have on the budget in selected years.

These scores are shown as a percent of GDP to better depict how a policy’s impact on the federal budget changes over time. We used CBO’s baseline GDP as the denominator for the estimates in this table because each policy was scored individually on a static basis before the macroeconomic changes discussed above were applied. The breakdown of policies in Table 4 differs slightly from the recommendations in the main body of the report because some recommendations incorporate multiple policies while other recommendations were consolidated into one policy for modeling purposes.
<table>
<thead>
<tr>
<th>PERCENT OF GDP</th>
<th>2020</th>
<th>2025</th>
<th>2030</th>
<th>2035</th>
<th>2040</th>
<th>2045</th>
<th>2050</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>16.6%</td>
<td>20.8%</td>
<td>21.6%</td>
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<td>22.5%</td>
<td>22.8%</td>
<td>22.9%</td>
</tr>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public Investment</td>
<td>1.5%</td>
<td>2.0%</td>
<td>2.0%</td>
<td>1.9%</td>
<td>1.9%</td>
<td>1.9%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Defense</td>
<td>3.1%</td>
<td>2.9%</td>
<td>2.7%</td>
<td>2.5%</td>
<td>2.5%</td>
<td>2.5%</td>
<td>2.4%</td>
</tr>
<tr>
<td>Other Non-Defense Discretionary</td>
<td>1.6%</td>
<td>1.6%</td>
<td>1.5%</td>
<td>1.4%</td>
<td>1.4%</td>
<td>1.3%</td>
<td>1.2%</td>
</tr>
<tr>
<td><strong>MANDATORY SPENDING</strong></td>
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<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social Security</td>
<td>5.0%</td>
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<td>5.5%</td>
<td>5.5%</td>
<td>5.4%</td>
<td>5.3%</td>
<td>5.2%</td>
</tr>
<tr>
<td>Medicare</td>
<td>3.0%</td>
<td>3.2%</td>
<td>3.7%</td>
<td>4.0%</td>
<td>4.3%</td>
<td>4.4%</td>
<td>4.6%</td>
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<tr>
<td>Medicaid and Other Health</td>
<td>2.2%</td>
<td>2.5%</td>
<td>2.7%</td>
<td>2.8%</td>
<td>3.0%</td>
<td>3.1%</td>
<td>3.3%</td>
</tr>
<tr>
<td>Other Mandatory</td>
<td>2.6%</td>
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<td>3.0%</td>
<td>2.9%</td>
<td>2.8%</td>
<td>2.6%</td>
<td>2.5%</td>
</tr>
<tr>
<td>Interest</td>
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<td>2.5%</td>
<td>2.6%</td>
<td>2.4%</td>
<td>2.3%</td>
<td>2.0%</td>
<td>1.7%</td>
</tr>
<tr>
<td>Deficit (-) or Surplus (+)</td>
<td>-4.5%</td>
<td>-2.4%</td>
<td>-2.1%</td>
<td>-1.3%</td>
<td>-0.9%</td>
<td>-0.3%</td>
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<tr>
<td>Debt Held by the Public</td>
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<td>81%</td>
<td>77%</td>
<td>70%</td>
<td>62%</td>
<td>53%</td>
<td>43%</td>
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<tr>
<td>Memo: GDP (Billions)</td>
<td>$22,120</td>
<td>$26,930</td>
<td>$33,120</td>
<td>$40,700</td>
<td>$49,940</td>
<td>$61,480</td>
<td>$75,800</td>
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Note: Projection for FY 2020 assumes the adoption of PPI’s proposed spending caps in 2019. Future projections assume all proposed policies either take effect or begin a scheduled phase-in in FY 2022.
<table>
<thead>
<tr>
<th>PERCENT OF GDP</th>
<th>2020</th>
<th>2025</th>
<th>2030</th>
<th>2035</th>
<th>2040</th>
<th>2045</th>
<th>2050</th>
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<tbody>
<tr>
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<tr>
<td>Public Investment</td>
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<td>1.2%</td>
<td>1.2%</td>
<td>1.2%</td>
<td>1.2%</td>
</tr>
<tr>
<td>Defense</td>
<td>2.9%</td>
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<td>2.5%</td>
<td>2.5%</td>
<td>2.5%</td>
<td>2.5%</td>
<td>2.5%</td>
</tr>
<tr>
<td>Other Non-Defense Discretionary</td>
<td>1.5%</td>
<td>1.3%</td>
<td>1.3%</td>
<td>1.3%</td>
<td>1.3%</td>
<td>1.3%</td>
<td>1.3%</td>
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<tr>
<td><strong>MANDATORY SPENDING</strong></td>
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</tr>
<tr>
<td>Social Security</td>
<td>5.0%</td>
<td>5.5%</td>
<td>6.0%</td>
<td>6.2%</td>
<td>6.3%</td>
<td>6.2%</td>
<td>6.2%</td>
</tr>
<tr>
<td>Medicare</td>
<td>3.0%</td>
<td>3.6%</td>
<td>4.3%</td>
<td>4.8%</td>
<td>5.3%</td>
<td>5.7%</td>
<td>6.2%</td>
</tr>
<tr>
<td>Medicaid and Other Health</td>
<td>2.2%</td>
<td>2.4%</td>
<td>2.6%</td>
<td>2.8%</td>
<td>3.0%</td>
<td>3.2%</td>
<td>3.4%</td>
</tr>
<tr>
<td>Other Mandatory</td>
<td>2.6%</td>
<td>2.4%</td>
<td>2.2%</td>
<td>2.2%</td>
<td>2.1%</td>
<td>2.1%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Interest</td>
<td>2.1%</td>
<td>2.7%</td>
<td>3.0%</td>
<td>3.5%</td>
<td>4.2%</td>
<td>5.0%</td>
<td>5.9%</td>
</tr>
<tr>
<td><strong>Deficit (-) or Surplus (+)</strong></td>
<td>-4.0%</td>
<td>-4.5%</td>
<td>-4.8%</td>
<td>-6.0%</td>
<td>-7.0%</td>
<td>-8.0%</td>
<td>-9.3%</td>
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<td>Debt Held by the Public</td>
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<td>93%</td>
<td>103%</td>
<td>117%</td>
<td>132%</td>
<td>149%</td>
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<tr>
<td>Memo: GDP (Billions)</td>
<td>$22,120</td>
<td>$26,660</td>
<td>$32,210</td>
<td>$38,910</td>
<td>$47,000</td>
<td>$56,920</td>
<td>$69,130</td>
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*Note: Current law projection assumes many policies in place today will expire if they are scheduled to in the law as currently written.*
TABLE 3. CURRENT POLICY BASELINE

<table>
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<th>PERCENT OF GDP</th>
<th>2020</th>
<th>2025</th>
<th>2030</th>
<th>2035</th>
<th>2040</th>
<th>2045</th>
<th>2050</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>16.6%</td>
<td>17.0%</td>
<td>17.0%</td>
<td>17.1%</td>
<td>17.3%</td>
<td>17.4%</td>
<td>17.6%</td>
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<td><strong>DISCRETIONARY SPENDING</strong></td>
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</tr>
<tr>
<td>Public Investment</td>
<td>1.5%</td>
<td>1.5%</td>
<td>1.4%</td>
<td>1.4%</td>
<td>1.4%</td>
<td>1.4%</td>
<td>1.4%</td>
</tr>
<tr>
<td>Defense</td>
<td>3.2%</td>
<td>3.0%</td>
<td>2.8%</td>
<td>2.9%</td>
<td>2.9%</td>
<td>2.9%</td>
<td>3.0%</td>
</tr>
<tr>
<td>Other Non-Defense Discretionary</td>
<td>1.6%</td>
<td>1.5%</td>
<td>1.4%</td>
<td>1.5%</td>
<td>1.5%</td>
<td>1.5%</td>
<td>1.5%</td>
</tr>
<tr>
<td><strong>MANDATORY SPENDING</strong></td>
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<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Social Security</td>
<td>5.0%</td>
<td>5.5%</td>
<td>6.0%</td>
<td>6.2%</td>
<td>6.3%</td>
<td>6.3%</td>
<td>6.2%</td>
</tr>
<tr>
<td>Medicare</td>
<td>3.0%</td>
<td>3.6%</td>
<td>4.3%</td>
<td>4.8%</td>
<td>5.3%</td>
<td>5.7%</td>
<td>6.1%</td>
</tr>
<tr>
<td>Medicaid and Other Health</td>
<td>2.2%</td>
<td>2.4%</td>
<td>2.6%</td>
<td>2.8%</td>
<td>3.0%</td>
<td>3.2%</td>
<td>3.4%</td>
</tr>
<tr>
<td>Other Mandatory</td>
<td>2.6%</td>
<td>2.4%</td>
<td>2.2%</td>
<td>2.2%</td>
<td>2.1%</td>
<td>2.1%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Interest</td>
<td>2.1%</td>
<td>2.9%</td>
<td>3.5%</td>
<td>4.6%</td>
<td>5.9%</td>
<td>7.6%</td>
<td>9.6%</td>
</tr>
<tr>
<td>Deficit (-) or Surplus (+)</td>
<td>-4.6%</td>
<td>-5.7%</td>
<td>-7.4%</td>
<td>-9.2%</td>
<td>-11.1%</td>
<td>-13.2%</td>
<td>-15.7%</td>
</tr>
<tr>
<td>Debt Held by the Public</td>
<td>80%</td>
<td>93%</td>
<td>108%</td>
<td>129%</td>
<td>156%</td>
<td>188%</td>
<td>225%</td>
</tr>
</tbody>
</table>

Memo: GDP (Billions) | $22,120 | $26,660 | $32,170 | $38,810 | $46,730 | $56,170 | $67,400 |

Note: Current policy projection assumes that today’s tax and spending policies remain in place even if they are scheduled to change under current law.
## TABLE 4. BUDGETARY IMPACT OF PPI PROPOSALS

<table>
<thead>
<tr>
<th>BUDGET IMPACT RELATIVE TO CURRENT LAW BASELINE</th>
<th>10-YEAR SCORE ($ BILLIONS)</th>
<th>ANNUAL SAVINGS (+) OR COST (-) AS A PERCENT OF BASELINE GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2025</td>
<td>2030</td>
</tr>
<tr>
<td><strong>TAX POLICIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Repeal the Payroll Tax</td>
<td>-$11,050</td>
<td>-3.60%</td>
</tr>
<tr>
<td>Adopt a Dynamic Value-Added Tax</td>
<td>$14,135</td>
<td>4.71%</td>
</tr>
<tr>
<td>Tax Carbon Emissions</td>
<td>$1,442</td>
<td>0.50%</td>
</tr>
<tr>
<td>Turn the Earned Income Tax Credit into a Living Wage Tax Credit</td>
<td>-$1,370</td>
<td>-0.45%</td>
</tr>
<tr>
<td>Modify and Make Permanent the Expanded Child Tax Credit</td>
<td>-$286</td>
<td>-0.01%</td>
</tr>
<tr>
<td>Changes to Individual Income Tax Rates</td>
<td>$2,049</td>
<td>1.41%</td>
</tr>
<tr>
<td>Raise Capital Gains Tax Rates</td>
<td>$352</td>
<td>0.16%</td>
</tr>
<tr>
<td>Repeal the Net Investment Income and Additional Medicare Taxes</td>
<td>-$243</td>
<td>-0.08%</td>
</tr>
<tr>
<td>Replace the Estate Tax with a Progressive Inheritance Tax</td>
<td>$761</td>
<td>0.30%</td>
</tr>
<tr>
<td>Allow Full Expensing of Business Investment</td>
<td>-$1,273</td>
<td>-0.66%</td>
</tr>
<tr>
<td>Raise the Corporate Income Tax Rate to 28 Percent</td>
<td>$803</td>
<td>0.29%</td>
</tr>
<tr>
<td>End the Trump Trade Wars and Cut Regressive Tariffs</td>
<td>-$476</td>
<td>-0.18%</td>
</tr>
<tr>
<td>Make Standard Deduction and Personal Exemption Changes Permanent</td>
<td>$630</td>
<td>0.00%</td>
</tr>
<tr>
<td>Replace the Gas Tax with a Vehicle-Miles Travelled Tax</td>
<td>$237</td>
<td>0.09%</td>
</tr>
<tr>
<td>Create Clean Tax Incentives for Private-Sector Modernization</td>
<td>-$360</td>
<td>-0.12%</td>
</tr>
<tr>
<td>Repeal Fossil-Fuel Tax Preferences</td>
<td>$56</td>
<td>0.04%</td>
</tr>
<tr>
<td>Limit the Value of Itemized Deductions to 30 Percent</td>
<td>$141</td>
<td>0.13%</td>
</tr>
<tr>
<td>Repeal Education-Related Tax Expenditures</td>
<td>$329</td>
<td>0.12%</td>
</tr>
<tr>
<td>Make the SALT Cap Permanent While Eliminating the Marriage Penalty</td>
<td>$816</td>
<td>0.00%</td>
</tr>
<tr>
<td>Phase Out Subsidies for Real Estate</td>
<td>$660</td>
<td>0.06%</td>
</tr>
<tr>
<td>Repeal Giveaways to Wealthy &quot;Pass-Through&quot; Business Owners</td>
<td>$446</td>
<td>0.31%</td>
</tr>
<tr>
<td>Close the Like-Kind Exchange Loophole</td>
<td>$100</td>
<td>0.04%</td>
</tr>
<tr>
<td>Deschedule and Tax Marijuana</td>
<td>$48</td>
<td>0.01%</td>
</tr>
<tr>
<td>Other Minor Tax Changes</td>
<td>-$5</td>
<td>-0.01%</td>
</tr>
<tr>
<td>BUDGET IMPACT RELATIVE TO CURRENT LAW BASELINE</td>
<td>10-YEAR SCORE ($ BILLIONS)</td>
<td>ANNUAL SAVINGS (+) OR COST (-) AS A PERCENT OF BASELINE GDP</td>
</tr>
<tr>
<td>-----------------------------------------------</td>
<td>---------------------------</td>
<td>---------------------------------------------------------</td>
</tr>
<tr>
<td><strong>SOCIAL SECURITY</strong></td>
<td></td>
<td>2025</td>
</tr>
<tr>
<td>Calculate Benefits Based on Years Worked Instead of Lifetime Earnings</td>
<td>$119</td>
<td>0.01%</td>
</tr>
<tr>
<td>Adjust the Retirement Age to Improve Simplicity and Equity</td>
<td>$101</td>
<td>0.02%</td>
</tr>
<tr>
<td>Change Cost-of-Living Adjustments</td>
<td>$337</td>
<td>0.08%</td>
</tr>
<tr>
<td>Reforms to Spousal and Survivors Benefits</td>
<td>$39</td>
<td>0.01%</td>
</tr>
<tr>
<td>Improve Disability Insurance</td>
<td>-$19</td>
<td>0.00%</td>
</tr>
<tr>
<td>Increase Taxes on High-Income Social Security Benefits</td>
<td>$195</td>
<td>0.07%</td>
</tr>
<tr>
<td><strong>MEDICARE</strong></td>
<td></td>
<td>2025</td>
</tr>
<tr>
<td>Consolidate Medicare Parts A, B, and D into &quot;Medicare One&quot;</td>
<td>$190</td>
<td>0.06%</td>
</tr>
<tr>
<td>Base Medicare Premium Subsidies on Average Bids</td>
<td>$575</td>
<td>0.21%</td>
</tr>
<tr>
<td>Create a Medicare Buy-In for People Ages 55-64</td>
<td>$7</td>
<td>0.00%</td>
</tr>
<tr>
<td>Reform Medicare Prescription Drug Reimbursements</td>
<td>$14</td>
<td>0.00%</td>
</tr>
<tr>
<td>Promote Value-Based Care</td>
<td>$4</td>
<td>0.00%</td>
</tr>
<tr>
<td>Expand Medicare Site-Neutral Payments</td>
<td>$346</td>
<td>0.11%</td>
</tr>
<tr>
<td>Adjustments to Medicare Payment Rates</td>
<td>$101</td>
<td>0.00%</td>
</tr>
<tr>
<td>Reform GME and IME Payments</td>
<td>$22</td>
<td>0.01%</td>
</tr>
<tr>
<td><strong>OTHER HEALTH POLICIES</strong></td>
<td></td>
<td>2025</td>
</tr>
<tr>
<td>Stabilize the ACA Marketplace</td>
<td>-$81</td>
<td>-0.03%</td>
</tr>
<tr>
<td>Smooth the ACA Subsidy Cliff</td>
<td>-$125</td>
<td>-0.04%</td>
</tr>
<tr>
<td>Create an Automatic Enrollment System for the Uninsured</td>
<td>-$295</td>
<td>-0.11%</td>
</tr>
<tr>
<td>Set Default Prices to Cap Medical Costs</td>
<td>$302</td>
<td>0.05%</td>
</tr>
<tr>
<td>Repeal the Cadillac Tax</td>
<td>-$329</td>
<td>-0.09%</td>
</tr>
<tr>
<td>Reduce Barriers to Developing Generic Prescription Drugs</td>
<td>$6</td>
<td>0.00%</td>
</tr>
<tr>
<td>Encourage State Innovation in Medicaid</td>
<td>$0</td>
<td>0.00%</td>
</tr>
</tbody>
</table>
### Funding America’s Future: A Progressive Budget for Equitable Growth

#### Budget Impact Relative to Current Law Baseline

<table>
<thead>
<tr>
<th>Public Investment</th>
<th>10-Year Score ($ Billions)</th>
<th>Annual Savings (+) or Cost (-) as a Percent of Baseline GDP</th>
<th>2025</th>
<th>2030</th>
<th>2035</th>
<th>2040</th>
<th>2045</th>
<th>2050</th>
</tr>
</thead>
<tbody>
<tr>
<td>Repeal the Sequester on Public Investment</td>
<td>-$447</td>
<td>-0.16%</td>
<td>-0.16%</td>
<td>-0.15%</td>
<td>-0.15%</td>
<td>-0.16%</td>
<td>-0.16%</td>
<td>-0.16%</td>
</tr>
<tr>
<td>Triple Federal Investments in Basic Research</td>
<td>-$362</td>
<td>-0.10%</td>
<td>-0.18%</td>
<td>-0.19%</td>
<td>-0.19%</td>
<td>-0.19%</td>
<td>-0.19%</td>
<td>-0.19%</td>
</tr>
<tr>
<td>Fund R&amp;D for Renewable Energy and Climate Mitigation</td>
<td>-$288</td>
<td>-0.10%</td>
<td>-0.11%</td>
<td>-0.12%</td>
<td>-0.13%</td>
<td>-0.14%</td>
<td>-0.15%</td>
<td>-0.15%</td>
</tr>
<tr>
<td>Modernize America’s Infrastructure</td>
<td>-$1,000</td>
<td>-0.31%</td>
<td>-0.38%</td>
<td>-0.27%</td>
<td>-0.27%</td>
<td>-0.27%</td>
<td>-0.27%</td>
<td>-0.27%</td>
</tr>
<tr>
<td>Fund “Super Pell” Grants and Other Higher-Ed Reforms</td>
<td>-$329</td>
<td>-0.12%</td>
<td>-0.11%</td>
<td>-0.10%</td>
<td>-0.10%</td>
<td>-0.09%</td>
<td>-0.09%</td>
<td>-0.09%</td>
</tr>
<tr>
<td>Expand Early College, CTE, and Apprenticeships in High Schools</td>
<td>-$33</td>
<td>-0.01%</td>
<td>-0.01%</td>
<td>-0.01%</td>
<td>-0.01%</td>
<td>-0.01%</td>
<td>-0.01%</td>
<td>-0.01%</td>
</tr>
<tr>
<td>Provide Affordable Pre-K for All Children from Families in Need</td>
<td>-$42</td>
<td>-0.01%</td>
<td>-0.01%</td>
<td>-0.01%</td>
<td>-0.01%</td>
<td>-0.01%</td>
<td>-0.01%</td>
<td>-0.02%</td>
</tr>
</tbody>
</table>

#### Other Policies

<table>
<thead>
<tr>
<th>Public Investment</th>
<th>10-Year Score ($ Billions)</th>
<th>Annual Savings (+) or Cost (-) as a Percent of Baseline GDP</th>
<th>2025</th>
<th>2030</th>
<th>2035</th>
<th>2040</th>
<th>2045</th>
<th>2050</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prevent Sudden Cuts to Defense Spending</td>
<td>-$665</td>
<td>-0.28%</td>
<td>-0.17%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
</tr>
<tr>
<td>Increase Funding for IRS Enforcement</td>
<td>$50</td>
<td>0.01%</td>
<td>0.03%</td>
<td>0.03%</td>
<td>0.03%</td>
<td>0.03%</td>
<td>0.03%</td>
<td>0.03%</td>
</tr>
<tr>
<td>Index Other Discretionary Spending to Inflation + Population Growth</td>
<td>-$519</td>
<td>-0.18%</td>
<td>-0.19%</td>
<td>-0.12%</td>
<td>-0.05%</td>
<td>0.02%</td>
<td>0.09%</td>
<td>0.09%</td>
</tr>
<tr>
<td>Increase Funding for Other Social Programs</td>
<td>-$771</td>
<td>-0.28%</td>
<td>-0.32%</td>
<td>-0.32%</td>
<td>-0.31%</td>
<td>-0.32%</td>
<td>-0.31%</td>
<td></td>
</tr>
<tr>
<td>Enact Comprehensive Immigration Reform</td>
<td>$82</td>
<td>0.05%</td>
<td>0.03%</td>
<td>0.06%</td>
<td>0.09%</td>
<td>0.18%</td>
<td>0.30%</td>
<td>0.30%</td>
</tr>
</tbody>
</table>

**Memo: Impact of Deficit Reduction on Revenue and Interest Costs**

<table>
<thead>
<tr>
<th>Annual Savings (+) or Cost (-) as a Percent of Baseline GDP</th>
<th>2025</th>
<th>2030</th>
<th>2035</th>
<th>2040</th>
<th>2045</th>
<th>2050</th>
</tr>
</thead>
<tbody>
<tr>
<td>$658</td>
<td>0.14%</td>
<td>0.39%</td>
<td>1.14%</td>
<td>2.13%</td>
<td>3.48%</td>
<td>4.96%</td>
</tr>
</tbody>
</table>

*Note: 10-Year window covers fiscal years 2022-2031. Estimates of policy impact do not include interest savings/costs but may include the effects of interactions with other proposed policies.*
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ABOUT THE CENTER FOR FUNDING AMERICA'S FUTURE

Launched in 2018, the PPI Center for Funding America's Future works to promote a fiscally responsible public investment agenda that fosters robust and inclusive economic growth. We tackle issues of public finance in the United States and offer innovative proposals to strengthen the foundation of our economy and build shared prosperity.

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