



# Paying for Progress:

## A Pragmatic Blueprint to Cut Costs, Boost Growth, & Expand American Opportunity




*SUMMARY OF RECOMMENDATIONS*

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## SUMMARY OF RECOMMENDATIONS

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The next administration must confront the consequences that the American people are finally facing from more than two decades of fiscal mismanagement in Washington. Annual deficits in excess of \$2 trillion during a time when the unemployment rate hovers near a historically low 4% have put upward pressure on prices and strained family budgets. Annual interest payments on the national debt, now the highest they've ever been in history, are crowding out public investments into our collective future, which have fallen near historic lows. Working families face a future with lower incomes and diminished opportunities if we continue on our current path.

The Progressive Policy Institute (PPI) believes that the best way to promote opportunity for all Americans and tackle the nation's many problems is to reorient our public budgets away from subsidizing short-term consumption and towards investments that lay the foundation for long-term economic abundance. Rather than eviscerating government in the name of fiscal probity, as many on the right seek to do, our "Paying for Progress" Blueprint offers a visionary framework for a fairer and more prosperous society.

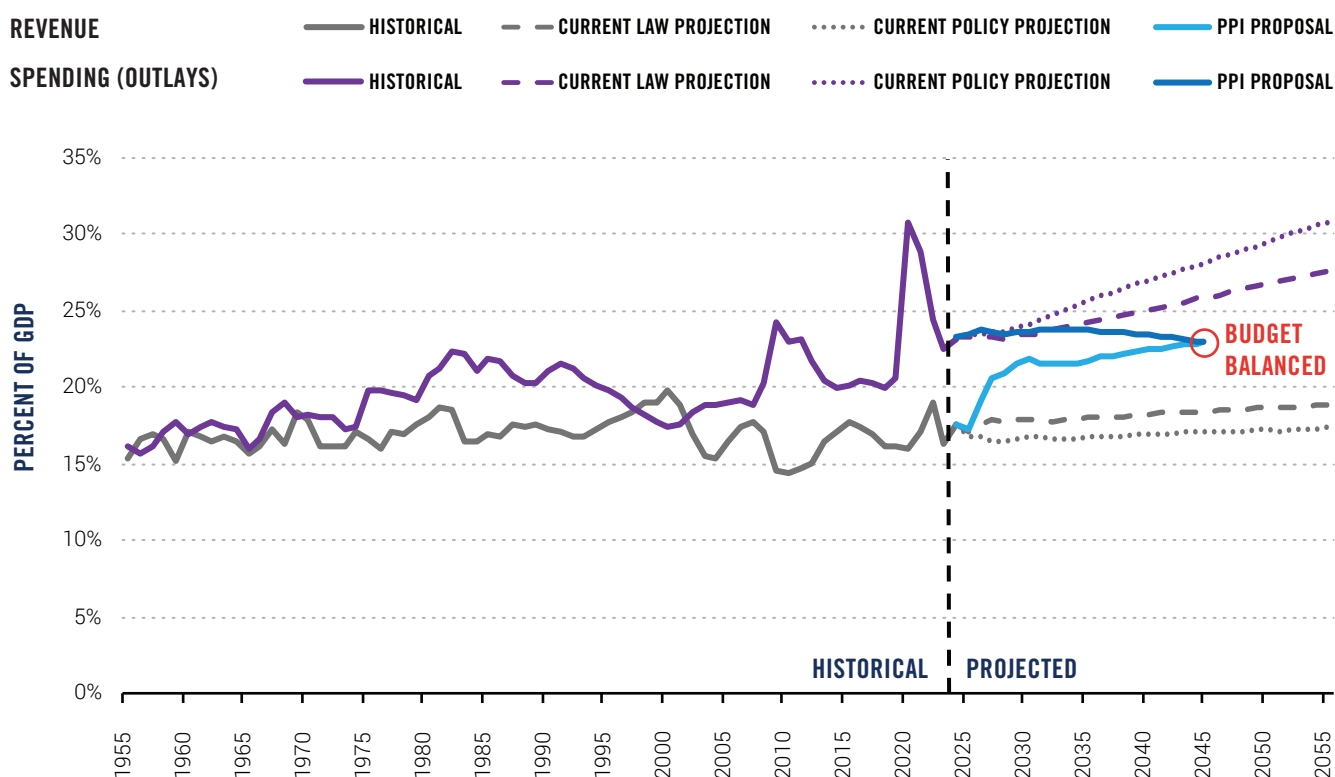
Our blueprint would raise enough revenue to fund our government through a tax code that is simpler, more progressive, and more pro-growth than current policy. We offer innovative ideas to modernize our nation's health-care and retirement programs so they better reflect the needs of our aging population. We would invest in the engines of American innovation and expand access to affordable housing,

education, and child care to cut the cost of living for working families. And we propose changes to rationalize federal programs and institutions so that our government spends smarter rather than merely spending more.

Many of these transformative policies are politically popular — the kind of bold, aspirational ideas a presidential candidate could build a campaign around — while others are more controversial because they would require some sacrifice from politically influential constituencies. But the reality is that both kinds of policies must be on the table, because public programs can only work if the vast majority of Americans that benefit from them are willing to contribute to them. Unlike many on the left, we recognize that progressive policies must be fiscally sound and grounded in economic pragmatism to make government work for working Americans now and in the future.

If fully enacted during the first year of the next president's administration, the recommendations in this report would put the federal budget on a path to balance within 20 years (**Fig. 1**). But we do not see actually balancing the budget as a necessary end. Rather, PPI seeks to put the budget on a healthy trajectory so that future policymakers have the fiscal freedom to address emergencies and other unforeseen needs. Moreover, because PPI's blueprint proposals meet such an ambitious fiscal target, we ensure that adopting even half of our recommended savings would be enough to stabilize the debt as a percent of GDP. Thus, our blueprint will remain a strong menu of options for policymakers to draw upon for years to come, even if they are unlikely to be enacted in their entirety any time soon.

FIGURE 1. FEDERAL REVENUES VS. SPENDING



Note: Current law projections assume many policies in place today will expire if they are scheduled to in the law as currently written. Current policy projections assume 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 Fiscal Year 2026. Chart does not show revenue or spending levels for PPI's budget after it is projected to achieve balance because the snowballing savings from compounding surpluses would create a misleading depiction of implausible outcomes.

Sources: Office of Management and Budget, Congressional Budget Office, Committee for a Responsible Federal Budget, and PPI calculations.

The full version of this report contains roughly six dozen federal policy recommendations organized into 12 overarching priorities, which are summarized below to give readers a complete overview of our blueprint. The main body of the full report offers a greater level of detail about each recommendation for those who are interested. At the end of the report is an appendix with 10-year and 30-year fiscal estimates for each individual policy. Although a separate report with additional technical detail could be written about every one of these ideas, this report is designed to give policymakers a strong starting point for developing better

economic policies that would cut costs, boost growth, and expand opportunity for all Americans.

### I. Replace Taxes on Work with Taxes on Consumption and Unearned Income

PPI proposes a package of ambitious reforms to shift the burden of taxation from working and savings to consumption and unearned income. We would start by repealing the regressive payroll tax that depresses wages without actually paying for the Social Security and Medicare benefits it was ostensibly created to finance. In its place, we call for a 15% value-

added tax and a border-adjusted carbon tax to reduce both the deficit and greenhouse gas emissions. We would also replace the antiquated gas tax with a new vehicle-miles traveled tax to sustainably fund our nation's transportation infrastructure. Finally, PPI would replace the estate tax with a progressive inheritance tax that ensures that no one pays a higher tax rate on hard-earned wage income than on income they inherit. Together, these changes would raise far more revenue while promoting growth by rewarding work over wealth.

## **II. Make the Individual Income Tax Code Simpler and More Progressive**

The 2017 Tax Cuts and Jobs Act was a massive giveaway to the wealthy at the expense of workers and future generations, who will have to bear the burden of paying the debt used to finance it. PPI proposes to fix these flaws by replacing TCJA's individual income tax rate structure with one that is more progressive, including two new tax brackets for individuals with annual incomes over \$1 million and \$10 million. We would tax capital gains in these brackets at the revenue-maximizing rate and close a myriad of loopholes that allow wealthy people to delay or avoid ever paying those taxes. To further promote tax simplicity and progressivity, we propose to permanently expand the standard deduction to reduce the number of households that have to itemize and cap the value of deductions for those who still do. PPI also proposes specific reforms to curtail or eliminate the most expensive and regressive of these tax preferences, such as replacing tax subsidies for state and local governments that inefficiently flow through high-income households with grants to support them directly.

## **III. Reform the Business Tax Code to Promote Growth and International Competitiveness**

TCJA did include some positive reforms to broaden our corporate income tax base and make the rate more internationally competitive, but lawmakers overshot when they slashed the rate from 35% to 21%. Our plan would recoup the lost revenue by raising the federal corporate income tax rate to 25%, which is still competitive with other OECD countries. We propose a transformational shift to a full-expensing system that would promote economic growth and international competitiveness by allowing businesses to immediately deduct the cost of investments they make in equipment, construction, and research like they already do for most other expenses. We also propose reforms to equalize the tax treatment of stock buybacks with dividends, curtail the abuse of nonprofit status by profitable businesses, and cut other inefficient tax loopholes left in place by TCJA. Finally, we urge policymakers to fix the broken Corporate Alternative Minimum Tax and adopt international tax reforms that prevent other countries from collecting taxes that U.S. companies should be paying to our Treasury instead.

## **IV. Secure America's Global Leadership**

Contrary to the claims of "America First" neo-isolationists, America is stronger and more prosperous when it stands with our democratic allies and engages with global markets. Our plan to secure America's global leadership begins with dramatically increasing funding for scientific research to fulfill the promise of the CHIPS and Science Act and maintain our country's technological edge in areas such as artificial intelligence. PPI believes the baseline defense spending trajectory should largely be



maintained, but that cutting waste can free up resources to better support our allies in defending democracy and deter direct conflict with Russia and China in what could be the early days of a new Cold War. To cut costs, we recommend eliminating protectionist policies such as “Buy America” provisions and unnecessary tariffs that are regressive, discriminatory, and inflationary. We support measures to secure our border from illegal immigration but also recognize that, at a time when there are more job openings than unemployed Americans looking to fill them, our country must lean into its history as a nation of immigrants by inviting them in to help reduce inflationary pressures and shore up the finances of programs like Social Security and Medicare.

## **V. Strengthen Social Security's Intergenerational Compact**

Social Security's finances are strained by a growing number of retirees depending on a relatively smaller pool of taxpayers to fund their benefits. Our innovative framework for strengthening the program would improve retirement security for millions of seniors without placing an undue tax burden on young Americans. Under a more-egalitarian benefit formula developed by PPI, benefits would be based on how many years an individual worked rather than how much they earned. Parents would also receive up to five years of credit for caregiving to better reflect their contributions to future Social Security solvency. We would index both the ages at which someone can claim reduced and maximum monthly benefits to longevity, but create a special exemption for low-income workers because the gains from longevity have not been evenly shared. We would also change cost-of-living adjustments to track inflation more accurately

but boost benefits for the oldest beneficiaries most at risk of outliving their savings. And we would reform spousal and survivor benefits to better protect widow(er)s from falling into poverty. These changes would make Social Security far more progressive and fiscally sustainable than the current benefit structure while cementing its ethos as an “earned-benefit” program.

## **VI. Modernize Medicare**

Medicare suffers from a disjointed benefit structure and inadequate financing that does a disservice to beneficiaries and taxpayers alike. PPI proposes to fix the problem by consolidating the three parts of traditional fee-for-service Medicare — Hospital Insurance (Part A), Supplemental Medical Insurance (Part B), and Prescription Drug Coverage (Part D) — into a simplified “Medicare One” benefit with one premium, one annual deductible, one copayment or coinsurance rate for spending above that deductible, and an out-of-pocket cap. We would leverage competition to reduce inefficiencies and cut costs by basing the taxpayer subsidy for Medicare premiums on a weighted average of Medicare One and Medicare Advantage coverage costs. Americans ages 55-64 who do not receive employer-sponsored insurance would be allowed to buy into Medicare at a premium sufficient to make this buy-in deficit-neutral. Together with proposed reforms to Medicare reimbursement rates, these policies would reduce government spending without increasing costs for the average beneficiary.

## **VII. Cut Health-Care Costs and Improve Outcomes**

The United States spends more money on health care than almost any country in the world but doesn't have the superior outcomes to show for it. We propose to tackle the problem

of high prices directly by setting maximum rates (based on a multiple of Medicare One reimbursement rates) for what providers can charge for out-of-network care. We would also build upon recent legislation to make prescription drugs more affordable by expanding the availability of generic alternatives. To promote medical innovation and prepare the country for costly public health emergencies like the COVID-19 pandemic, we propose to establish a forward-thinking Public Health Security Fund. To guarantee all Americans have access to affordable health insurance, we propose a fiscally responsible premium tax credit expansion to permanently fix the “cash cliff.” Meanwhile, our reforms to Medicaid would streamline the waiver process to support state innovation, eliminate financing gimmicks, and improve health care for needy populations.

### **VIII. Support Working Families and Economic Mobility**

PPI’s blueprint offers a well-targeted, fiscally responsible way to advance many of the goals from the Biden administration’s unsuccessful Build Back Better agenda. Our plan would provide basic paid-leave benefits to all new parents so they don’t have to choose between starting a family and paying their bills. We would put affordable child care within reach for all families by expanding the Child Tax Credit for children under age three and supporting states that expand public education to include all-day preschool for children ages three and four. To equip students with the skills they need to succeed in our workforce, PPI would replace regressive tax subsidies with a “Super Pell” program and expand non-college pathways to well-paying jobs instead of railroading them into

four-year college degrees. For those who do still choose to pursue college, PPI’s blueprint would cut costs and reform income-driven payments to protect low-income borrowers without giving billions in taxpayer subsidies to affluent elites. We also propose to better connect underserved communities to the financial system and create “Child Opportunity Accounts” that teach financial management skills through experience and help children from disadvantaged backgrounds access the same opportunities as their wealthier peers.

### **IX. Making Housing Affordable for All**

The skyrocketing cost of housing is one of the biggest burdens on working families today. Because this problem is fundamentally caused by a lack of housing supply in high-demand areas, PPI would create a competitive grant program that rewards state and local governments for relaxing restrictive land-use policies and successfully boosting housing availability. We also propose to capitalize a housing construction bank that would help insulate housing construction from higher interest rates that tame inflation by reducing output throughout the economy. To take some pressure off demand in this supply-constrained market, we would phase out ineffective tax subsidies for homeownership, such as the mortgage interest deduction, that benefit higher-income households at the expense of the Treasury, renters, and homebuyers who take the standard deduction on their taxes. As supply increases, we would phase in reforms to housing choice vouchers that tighten eligibility criteria but increase funding so that everyone who is eligible for rental assistance is able to receive it.

## **X. Rationalize Safety-Net Programs**

PPI's blueprint includes several other reforms to improve the social safety net in a fiscally responsible way. We would reduce penalties for working and saving in the Supplemental Nutrition Assistance Program (SNAP) and Supplemental Security Income (SSI) so that beneficiaries have fewer obstacles to escaping poverty. As we do with Social Security, PPI proposes to index cost-of-living adjustments for all government benefits to a more-accurate measure of inflation. We would also reform agricultural subsidies to save taxpayers money while rationalizing our food supply chains. With the savings from these changes, plus funds repurposed from other ineffective poverty-reduction programs, we would pay for better-designed benefits that increase support for the neediest Americans.

## **XI. Improve Public Administration**

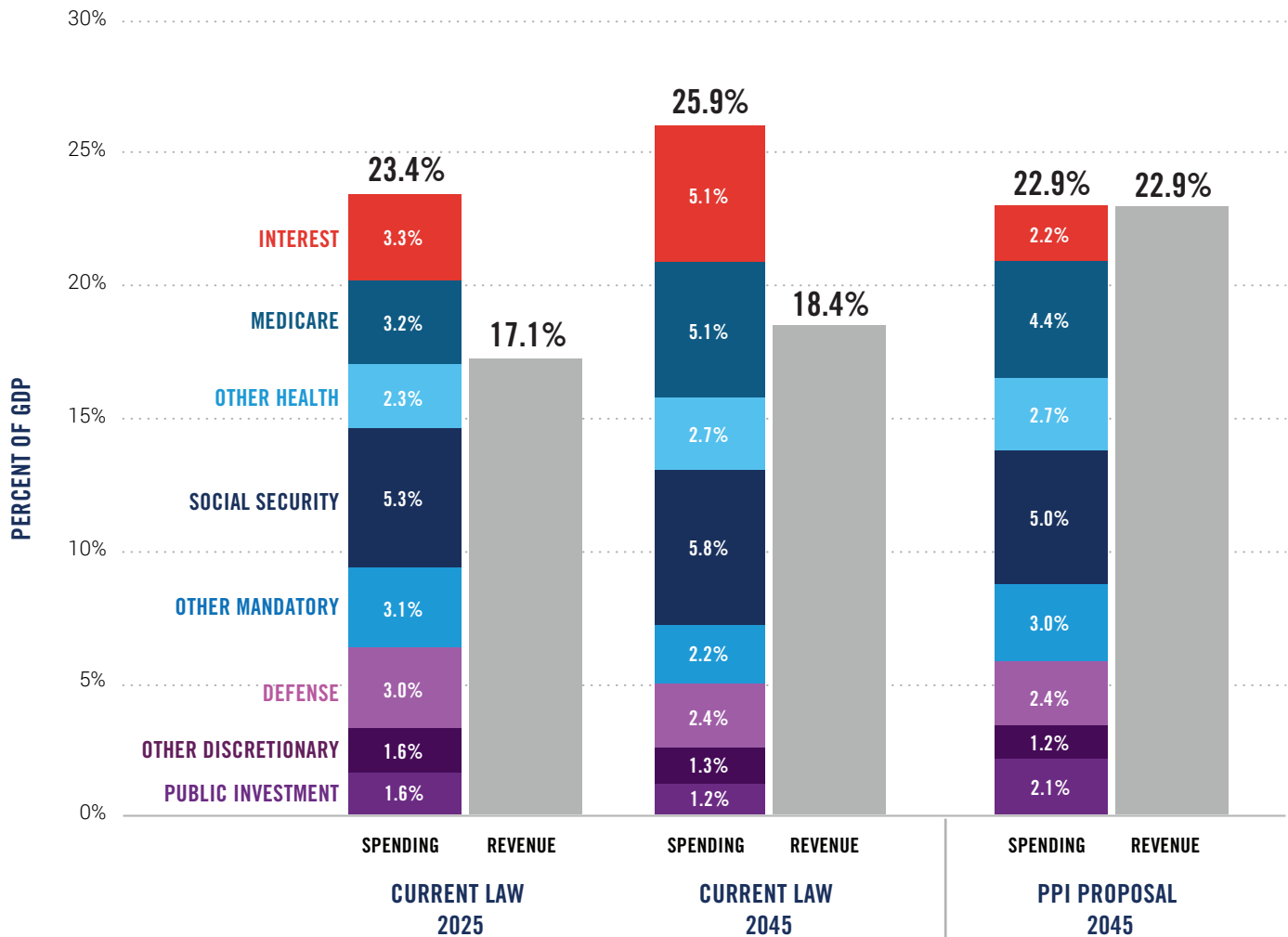
Whether by re-evaluating when policies don't work, or making small but important technical changes to federal programs, PPI believes policymakers should be constantly working to "reinvent government" to work better for their constituents. We would restore and reform IRS spending increases to improve customer service while making it harder for wealthy tax cheats to escape paying the taxes they legally owe. Improving coordination between agencies charged with enforcing antitrust laws and requiring them to prioritize sectors where consumers face the highest costs will help increase competition and affordability for consumers. The federal government could also use its leverage to encourage state and local governments to raise revenue through progressive taxes instead of regressive fees.

These are just a few examples of how PPI proposes to make government work better at the margins.

## **XII. Manage Public Debt Responsibly**

PPI makes a key distinction between temporary "cyclical" deficits that can help resolve national emergencies and "structural" deficits that cause debt to grow faster than GDP in both good times and bad. Our blueprint proposes to strengthen automatic stabilizers so they better support the economy with smart borrowing during downturns and pay down debts during times of prosperity. We would replace dysfunctional debt-limit brinkmanship, which is like refusing to pay our credit card bill after we've already incurred the charges, with a better process for addressing the structural drivers of our debt. Because it is essential that we tackle our debt without undermining the foundations of growth, PPI also proposes to create a durable public investment budget that restores and maintains funding at historical levels. If adopted in their entirety, the recommendations in this blueprint would eliminate structural budget deficits after 20 years and stabilize both government spending and revenue around 23% of GDP. Our blueprint cuts future interest payments by more than half to give future policymakers the fiscal flexibility they need to address any unforeseen challenges (**Fig. 2**). This thoughtful approach demonstrates that fiscal responsibility and robust public investments are not contradictory goals, but rather complementary components of an economic abundance agenda.

FIGURE 2. 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 Fiscal Year 2026. 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: Congressional Budget Office, Office of Management and Budget, and PPI calculations.

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



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## ABOUT THE CENTER FOR FUNDING AMERICA'S FUTURE

Launched in 2018, the Progressive Policy Institute's Center for Funding America's Future works to promote a fiscally responsible public investment agenda that fosters robust and inclusive economic growth. To that end, the Center develops fiscally responsible policy proposals to strengthen public investments in the foundation of our economy, modernize health and retirement programs to reflect an aging society, transform our tax code to reward work over wealth, and put the national debt on a downward trajectory.

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## ABOUT THE AUTHORS

**Ben Ritz** is the Vice President of Policy Development for the Progressive Policy Institute. In this capacity, he helps PPI's policy experts develop analysis and "radically pragmatic" ideas consistent with the organization's mission of supporting innovation, economic opportunity, and the enduring values of liberal democracy. Ben's expert analysis has been published in the Washington Post, the New York Times, the Wall Street Journal, Forbes, and other national news outlets. Ben also serves as the Director of PPI's Center for Funding America's Future.

Prior to joining PPI, Ben staffed the Bipartisan Policy Center's Commission on Retirement Security and Personal Savings and served as Legislative Outreach Director for The Concord Coalition. Ben earned his Master's of Public Policy Analysis; a Graduate Certificate of Public Finance; and a BA in Communication, Legal Institutions, Economics, and Government from American University.

**Laura Duffy** is a Policy Analyst with PPI's Center for Funding America's Future. Prior to joining PPI, Laura was the Executive Research Coordinator at Rethink Priorities and a Community Organizer for Forward Montana in her hometown of Great Falls. She also served on the steering committee for the Center for New Liberalism, a grassroots organization that advocates for center-left policies that will create a more open and prosperous society. Laura graduated from the University of Chicago with a Bachelor of Science in Statistics.

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The Progressive Policy Institute is a catalyst for policy innovation and political reform based in Washington, D.C. Its mission is to create radically pragmatic ideas for moving America beyond ideological and partisan deadlock.

Founded in 1989, PPI started as the intellectual home of the New Democrats and earned a reputation as President Bill Clinton's "idea mill." Many of its mold-breaking ideas have been translated into public policy and law and have influenced international efforts to modernize progressive politics.

Today, PPI is developing fresh proposals for stimulating U.S. economic innovation and growth; equipping all Americans with the skills and assets that social mobility in the knowledge economy requires; modernizing an overly bureaucratic and centralized public sector; and defending liberal democracy in a dangerous world.

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