radically pragmatic

Paying for Progress:

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

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Table of Contents

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INTRODUCTION

During President Joe Biden's administration, the U.S. economy experienced its longest period with an official unemployment rate below 4% since the 1960s.[1] Yet many economic challenges persist or have even gotten worse. Well-paying jobs are out of reach for too many without costly college degrees.[2, 3] Child care is often either unavailable or unaffordable.[4] The ratio of the median home sale price to the median wage is higher now than at any point since the metric began being tracked in the early 1970s.[5] Many feel as though they cannot afford to save enough for retirement, or count on the benefits being promised by Social Security.[6] Health-care expenses are rising faster than wages.[7] At a time when everything seems to cost too much, working families are feeling the squeeze and having to make hard choices.

How our government chooses to allocate public resources has a huge impact on each of these challenges. A budget is not merely a spreadsheet full of numbers — it is how people choose to prioritize limited resources among these many competing demands. Our government's budget is a reflection of what we as a society value. Every election, we choose leaders who are supposed to levy taxes and use the revenues they collect to fund programs that benefit society as a whole. The principle that our leaders allocate public resources consistent with the values of the people who elect them is often known as "fiscal democracy."

> **"Don't tell me what you value. Show me your budget and I'll tell you what you value."**
>
> **— President Joe Biden**

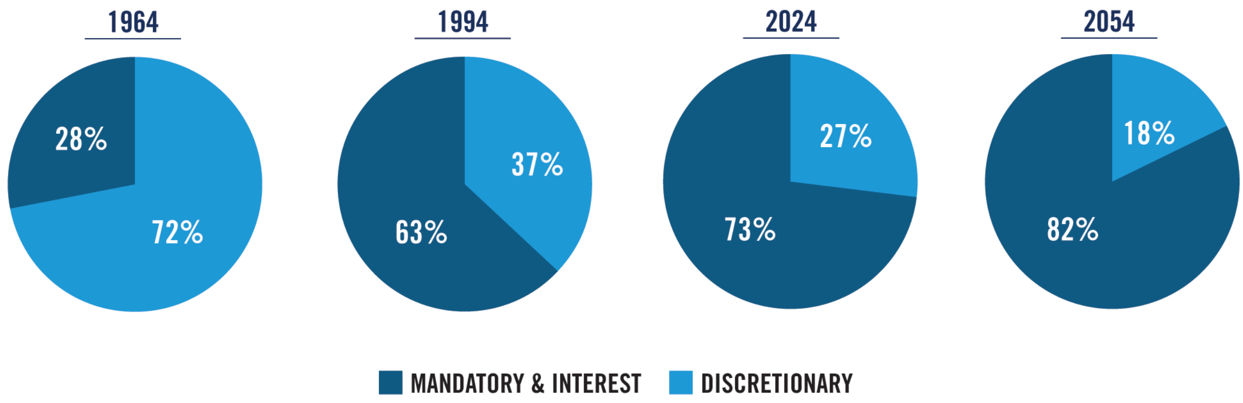
The Fiscal Challenge We Face

Regrettably, in the United States today, fiscal democracy has deeply eroded. Last year, Congress only voted on how to allocate roughly one out of every four dollars spent by the federal government — a category of the budget known as "discretionary spending." The remainder, most of which is considered "mandatory spending," was spent automatically based on decisions made by previous generations of policymakers. This dynamic has not always been the case: only in the last 50 years has the majority of federal money been spent on autopilot **(Fig. 1)**.[8] Fiscal democracy cannot function if most of the budget is already locked in before the winners of an election are even sworn in.[9]

In addition to undermining fiscal democracy, the squeeze on discretionary spending has gutted critical public investments in our future. More than half of discretionary spending goes towards national defense, and what's left is responsible for funding everything from food safety to highway maintenance. Today, federal spending on public investments in education, infrastructure, and scientific research — investments that lay the foundation for economic growth — is less than two-thirds of what it averaged as a percent of gross domestic product (GDP) between 1965 and 1980.[10] Instead of investing in the future, most federal spending now goes to supporting present consumption.

The explosive growth of mandatory spending is primarily due to health-care and retirement programs such as Social Security and Medicare. These programs are not only the largest in the federal budget, together comprising more than half of all non-interest spending by the federal government, they are also the fastest growing.[11] As life expectancy rises and birth rates decline, older Americans are increasingly relying on a relatively smaller pool of taxpayers to fund more benefits for a greater number of years in retirement. While there were 3.4 workers paying

FIGURE 1. MANDATORY VS. DISCRETIONARY SPENDING OVER TIME



Sources: Congressional Budget Office[12, 13] and PPI calculations.

taxes to fund the benefits of each retiree in 1989, today that ratio is just 2.7 to 1 — and it's continuing to shrink further.[14]

Instead of preparing for this demographic tsunami by slowing the growth of benefits or raising taxes to pay for them, policymakers from both parties made the problem worse by repeatedly cutting taxes for voters who typically rewarded this behavior at the ballot box. As a result of this unchecked borrowing, today our national debt is roughly equal to the total value of all goods and services produced by the U.S. economy in a given year — and half of that debt is due to tax cuts enacted within the past 25 years.[15] For most of that time, the consequences of our mounting debt were seen as only being a problem for the future.

However, it's increasingly clear Americans are starting to feel the effects of unchecked deficits now — and even commentators who spent the better part of two decades arguing for inaction are finally changing their tune.[16, 17] While temporary borrowing to support the economy through a downturn such as the 2008 financial crisis or the COVID-19 pandemic can help make up for the loss of demand from the private sector, deficits become counterproductive during good economic times. If the government spends too much more than it collects in taxes when private demand for goods and services is high, it simply fuels inflation by pumping more dollars into the economy that bid up the prices of a fixed supply of resources.

In the three years since the COVID-19 vaccine became widely available, annual deficits have averaged more than $1.7 trillion, or 6.5% of GDP, despite rebounding private demand.[18, 19, 20] By comparison, that's nearly three times the average deficit-to-GDP ratio from 1946 to 2019.[21] Although much of the inflation experienced following the COVID-19 pandemic was due to supply-chain issues and other unique circumstances, several independent estimates have concluded overspending added 2-4 percentage points to inflation.[22, 23, 24]

The Federal Reserve has largely brought inflation under control over the past 27 months through interest rate hikes, which help cool demand for goods and services by making spending more costly today relative to the future.[25, 26] While this approach is ideal for slowing consumption during periods of high demand, it also raises the cost of capital for sorely-needed investments. For example, even as our country faces a housing shortage, building new housing has become increasingly expensive.[27]

Higher interest rates also raise the cost of servicing our mounting national debt. The federal government now spends more than 3.2% of GDP on annual interest payments — the highest level in U.S. history, and more than it spends on national defense. The more our debt grows, the more our government has to spend servicing that debt. If current policies continue, interest on the debt will surpass Social Security as the single largest line item in the federal budget within the next 30 years.[28]

If our debt is too large, the Federal Reserve may lose its ability to combat inflation through interest rate increases because any resulting reduction in private spending will be more than offset by an increase in deficit-financed government spending on interest payments — a dynamic known as "fiscal dominance."[29] As the government borrows more money each year to finance ever-growing interest payments, it increases the risk of entering a vicious debt spiral. In the worst-case scenario, bondholders could lose confidence in our government's ability to repay debts without massively inflating away their value. Nobody knows if or when exactly a fiscal crisis would happen, but the unpredictability of interest rates on government debt means that it could come quickly and unexpectedly.

Even in the best case scenario, large debt stifles our economy by crowding out long-term investments by both the private and public sector. The nonpartisan Congressional Budget Office (CBO) estimates that per-capita incomes will be $5,400 lower (in 2024 dollars) in 2054 on our current trajectory than they would be if our national debt were stable relative to the size of our economy.[30] But the larger it gets, the more our debt has the potential to become an even greater existential threat.

In addition to these economic consequences, mounting debt undermines faith in government – a major obstacle for progressives who believe government should be doing more to solve the nation's many social and economic problems. Voters are unlikely to support an expanded role for any government that they believe can't even pay for the promises it's already making.[31] This is particularly true of working-class voters, who represent the decisive swing vote in the pivotal states that determined the winners of the last two presidential elections. Polling commissioned by the Progressive Policy Institute within the last year found that these voters overwhelmingly saw inflation as the biggest challenge facing the country, that they believe overspending is the primary cause of it, and that more fiscal responsibility is one of the biggest changes they want to see from both the Democratic and Republican parties.[32] Our leaders must take notice and act accordingly.

American Fiscal Policy is at a Crossroads

The next president and Congress will be confronted by a unique confluence of fiscal deadlines that present an opportunity to change course. Early next year, lawmakers will have to address the expiration of a measure passed in the Fiscal Responsibility Act of 2023 that temporarily suspended the federal debt limit — a mechanism that limits the government's ability to finance old debts rather than its ability to incur new ones.[33] Failure to act in a timely manner would force the U.S. government to default on its obligations for the first time in history, sending borrowing costs through the roof and potentially sparking a global economic catastrophe. Policymakers will also need to decide whether to extend or modify caps on discretionary spending that were paired with the previous debt limit suspension.

At the end of next year, trillions of dollars in tax cuts enacted as part of the Tax Cuts and Jobs Act (TCJA) in 2017 will expire. Although this bill took many positive steps towards making the tax code simpler and more internationally competitive, the Republicans who passed it on a party-line basis prioritized cutting taxes for the rich over adequately funding our government. Permanently extending all expiring TCJA provisions without offset would add $4.5 trillion to our already unsustainable deficits over the next 10 years.[34] Other policies subsequently enacted by the Biden administration, such as an expansion of health-care premium subsidies, are also set to expire at the same time, making it a clear moment of fiscal reckoning for the country.[35]

Finally, many of the federal trust funds used to finance Social Security, Medicare, and highway spending are on track to be depleted within the next decade. These trust funds are internal government accounting mechanisms that attempt to clarify the link between program spending and taxes that are ostensibly used to fund them, but each of these programs now consistently spends more than it collects in dedicated revenue sources. At the moment, the Treasury covers the shortfalls by taking on general government debt to account for previous years, when annual trust-fund surpluses reduced the need for public borrowing to finance general government deficits. But when the funds are depleted, current law requires future spending to be automatically limited to the amount payable with incoming revenue.[36] If lawmakers don't begin phasing in changes to modernize these programs soon, they will be forced to choose between allowing automatic across-the-board cuts to take effect or forcing young Americans to foot the bill for previous generations' mistakes.

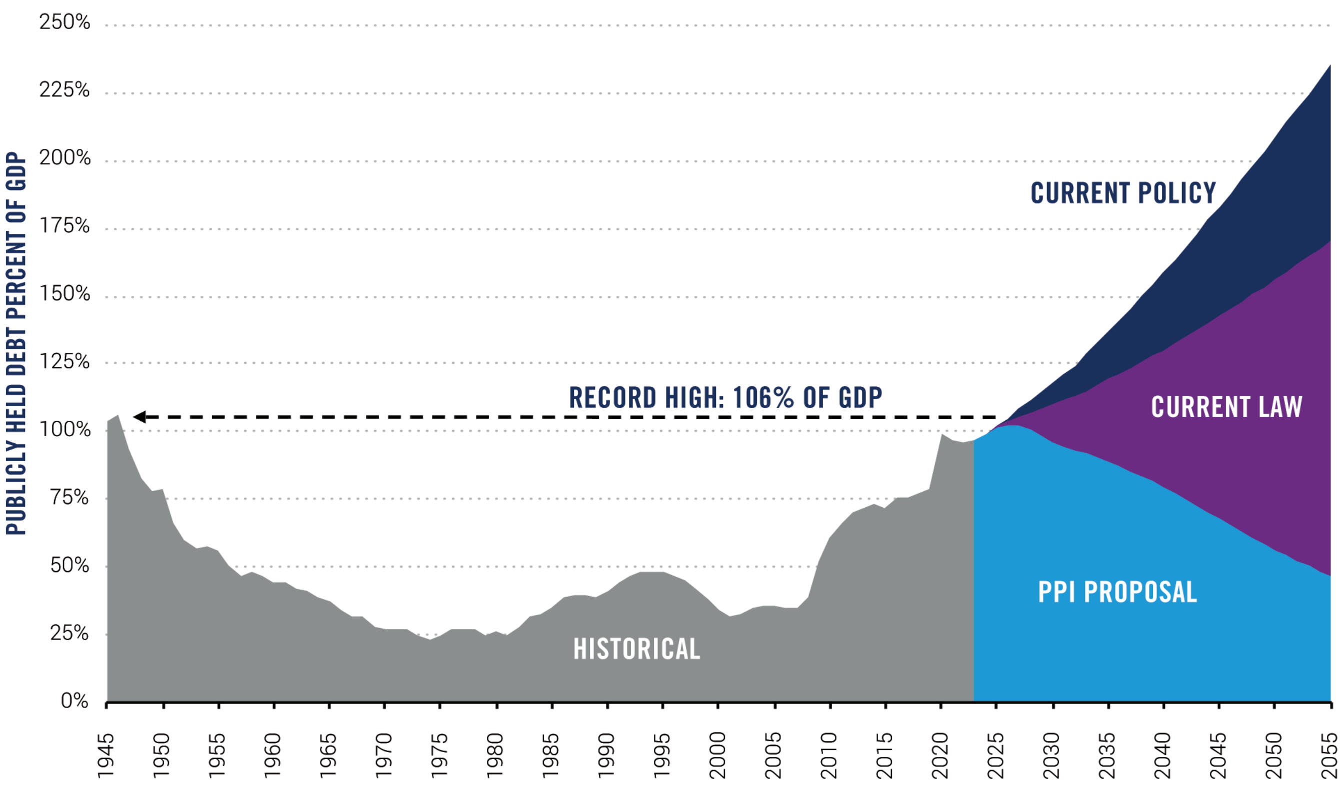
Unfortunately, neither party's current leadership thus far has shown any real willingness to tackle these challenges. President Biden successfully led the country in revitalizing major public investments during the first half of his administration, but before withdrawing from the 2024 presidential race he also repeatedly pledged to neither accept any cuts to Social Security or Medicare nor raise taxes on 98% of American households to help pay for them. As previous PPI analysis has demonstrated, even taxing income not protected by the pledge at revenue-maximizing rates would be insufficient to support the Biden administration's proposed spending levels without debt continuing to grow faster than the economy.[37]

Donald Trump is even worse. He is campaigning to not only extend but expand the unaffordable tax cuts his administration enacted in 2017.[38, 39] Whereas previous conservative leaders like Mitt Romney and Paul Ryan understood that Social Security and Medicare could not be sustained by our current tax code, let alone one that collects less revenue, the self-proclaimed "king of debt" has led his party in taking reform off the table.[40] In fact, recent GOP proposals would likely lead to more total spending than those proposed by President Biden.[41]

These irresponsible policy promises are not only a recipe for more debt and less growth — they sever the crucial link between citizens' demands for more government spending and their willingness to pay for it, which is essential for fiscal democracy to function. If most voters who can contribute to funding public programs are unwilling to do so at the level needed to sustain them, those programs don't have a true democratic mandate to continue as they are. Only by reckoning with the tradeoffs can we craft public budgets that reflect our values as a society.

Republicans, so long as they are captivated by Trumpism, are only likely to break government and worsen societal problems by adopting fiscally irresponsible budgets that don't add up. But as Democrats craft a new agenda for the post-Biden era, they have the opportunity to offer a better alternative: A budget that pairs robust public investments with the fiscal restraint necessary to prevent those investments from being snuffed out by ballooning interest payments. Demonstrating to voters that they have an ambitious vision to cut costs, boost growth, and expand American opportunity — along with a realistic plan to pay for it — would help our leaders restore confidence in the government's ability to tackle big problems. In this report, the Progressive Policy Institute offers policymakers a "radically pragmatic" blueprint for achieving these goals so they can create a more prosperous society for all **(Fig. 2)**.

FIGURE 2. IMPACT OF PPI PROPOSALS ON PROJECTED FEDERAL DEBT



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 Fiscal Year 2026 and that any projected surpluses would be split evenly between tax cuts and spending increases.

Sources: Office of Management and Budget,[42] Congressional Budget Office,[43, 44] Committee for a Responsible Federal Budget,[45] and PPI calculations.

SUMMARY OF RECOMMENDATIONS

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.

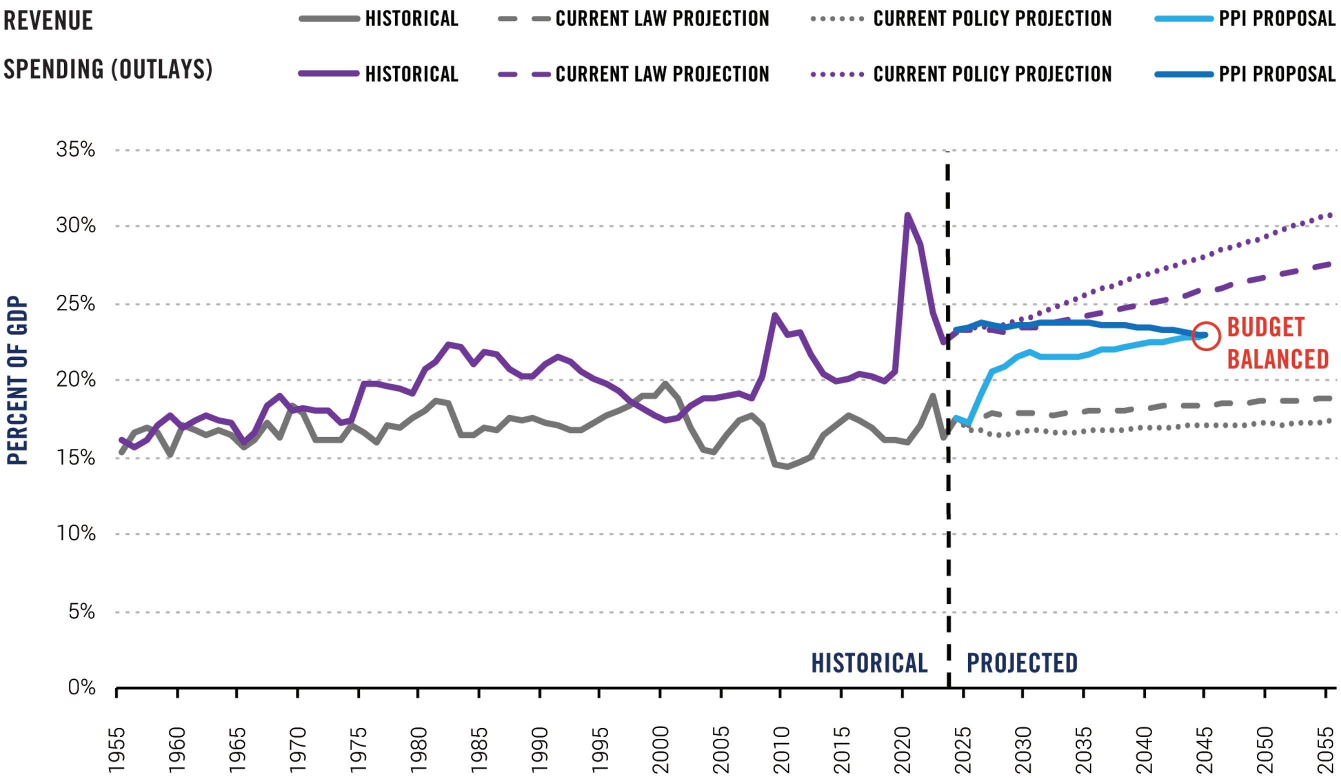
The Progressive Policy Institute (PPI) believes that the best way to promote opportunity for all Americans and tackle the nation's many problems is to reorient our public budgets away from subsidizing short-term consumption and towards investments that lay the foundation for long-term economic abundance. 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. 3)**. 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 meets 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 proposals to cut costs, boost growth, and expand American opportunity 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 3. FEDERAL REVENUES V. 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,[46] Congressional Budget Office,[47, 48, 49] Committee for a Responsible Federal Budget,[50] and PPI calculations.

The roughly six dozen federal policy recommendations in this report are organized into 12 overarching priorities, which are summarized below, followed by an appendix with scores for each individual policy:

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.

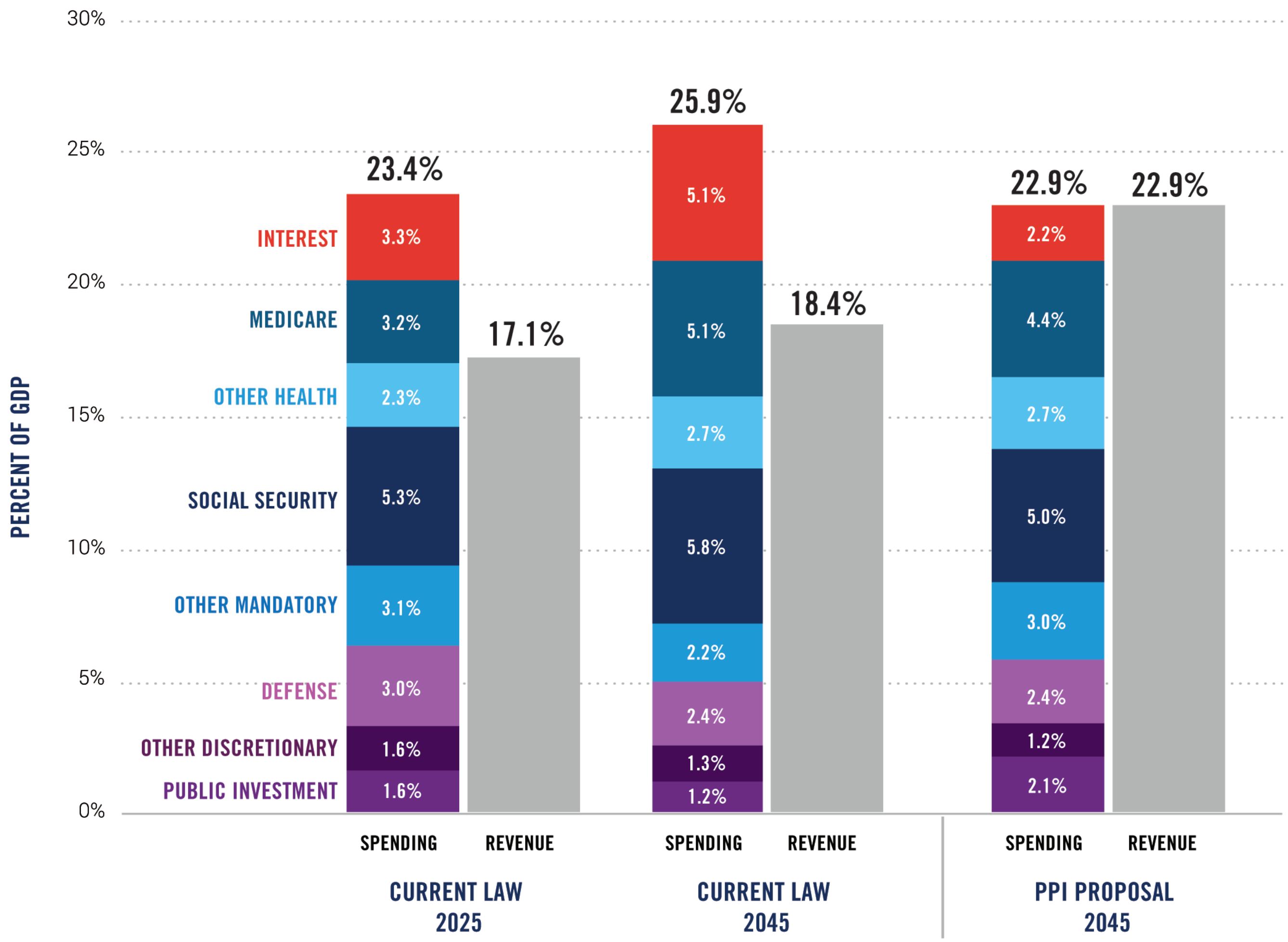
XI. Improve Public Administration

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. 4)**. 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 4. 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,[51, 52] Office of Management and Budget,[53] and PPI calculations.

I. REPLACE TAXES ON WORK WITH TAXES ON CONSUMPTION

The goal of a good tax system should be to raise adequate revenue for government services in the most efficient and equitable way possible. On these measures, the Tax Cuts and Jobs Act (TCJA) largely did more harm than good. At a time when the federal government needed 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. To artificially reduce TCJA's sticker price and ease its passage through Congress, Republicans set many of the bill's provisions to expire at the end of 2025.[54] Although this approach increased complexity and made costly tax cuts seem less expensive than they truly were, it also gives the next president and the 119th Congress a unique opportunity to correct those mistakes.

PPI believes now is not just the right time to think about the future of these expiring TCJA provisions, but also to re-evaluate on a more fundamental level what the ideal tax code for our government should look like. The federal income tax code is ostensibly progressive, meaning that people with higher incomes pay a higher percentage of that income in taxes. But this progressivity is heavily undermined by the fact that over a third of federal revenue comes from regressive taxes that apply only to wage income.[55] Meanwhile, people who never worked a day in their lives can inherit millions of dollars without paying a penny in taxes. This dynamic is backward and at odds with our nation's meritocratic ideals.

Given the needs of our aging population, the unfortunate reality is that most Americans — not just the very rich — will need to contribute more.[56] Public programs that benefit the vast majority of Americans can only work if the vast majority of Americans are willing to make some contribution to them. But those contributions can be collected in ways that are fairer, more efficient, and less harmful to economic growth than our current system. PPI proposes a package of ambitious reforms to do just that by shifting the burden of taxation from working and savings to consumption and unearned income.

Although some critics contend that consumption taxes are inherently regressive because lower-income people spend a higher proportion of their income on consumption, previous PPI analysis has demonstrated that consumption taxes are distributionally neutral when their impact is measured over a lifetime.[57] Moreover, PPI's blueprint includes many tax and spending provisions that together more than offset the impact of new consumption taxes on the most vulnerable Americans in any given year, adding to the progressivity of our tax system rather than reducing it. And if these consumption taxes lead to any increases in the price of necessities, those effects will be offset for vulnerable Americans by cost-of-living adjustments in both new and existing programs.[58, 59]

1. Repeal the Payroll Tax

The payroll tax is a highly regressive tax on workers' wages. It imposes a flat rate of 15.3% on most wages, but less than 4% on earnings above $168,600. 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.[60] The payroll tax also suppresses wages because although employers nominally pay half of all payroll taxes, employers pass most of the impact of employment taxes along to their workers in the form of lower wages (and self-employed workers are required to pay the entire tax themselves).[61, 62, 63]

When the payroll tax was first imposed in 1937, it was set at a rate of just 2% on the first $3,000 of income ($66,453 in 2024 dollars).[64, 65, 66] 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) estimated in 2023 that it would account for more than 95% of net revenues raised from workers who earn less than $80,000 that year.[67]

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 dedicated revenues are insufficient to fund promised benefits.[68]

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. For example, eliminating the Social Security payroll tax "cap" and taxing all income above $168,600 at the full 12.4% rate — while providing no additional benefits to those who are now making substantially increased contributions — would only close about half of Social Security's financing gap even as it constrains lawmakers' ability to raise taxes on high-income households to fund other policy priorities.[69] Alternatively, simply raising the payroll tax rate would make young Americans foot the entire bill for beneficiaries who did not contribute enough to finance the program during their working lives.

Since 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. As discussed in Section V of this report, PPI's Social Security proposals would cement 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 taxes over five years. Policymakers would have a number of options available for financing Social Security and Medicare 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 funds 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 and Medicare from the annual budget process and protect it from cuts, just as the trust funds currently do.

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.

2. Adopt a Value-Added Tax

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. [70] 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. A VAT is also neutral with respect to the treatment of capital and labor, which means employers can make hiring and investment decisions based on economic benefits rather than favorable tax treatment. 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.[71]

To replace revenue lost from the payroll tax repeal, PPI proposes to phase in a 15% VAT over five years that applies to spending on all goods and services except for education, government health-care programs, charitable services, and services provided by state and local governments.[72] 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.

State and local governments that currently raise revenue through sales taxes could piggyback off of federal VAT administration and enforcement to collect that revenue more efficiently.[73] Existing sales taxes are often a burden to administer, and they exempt various goods and services which makes administering them even more difficult. States and localities that harmonize their sales tax bases with the federal VAT base could maximize efficiency simply by allowing the federal government to collect all the revenue and then return to the state or locality its share. But even those that choose to have slightly different tax bases could benefit from administrative efficiencies, much like how state income tax collectors can benefit from synergy with the federal income-tax code.[74]

3. Enact a Carbon Tax

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. One way to address these negative "externalities" is to subsidize the production and consumption of a substitute good that doesn't have such negative effects. In the context of climate change, this was the approach taken by President Biden's Inflation Reduction Act (IRA) and Infrastructure Investment and Jobs Act

(IIJA), which, by investing hundreds of billions of dollars in renewable energy production, electric vehicles, and more, marked the largest investments in combating climate change by any government in world history.[75, 76, 77]

However, direct subsidies such as those in the IRA are costly and tend to reduce emissions by less per dollar spent when they favor specific technologies over others.[78] Moreover, the IRA's subsidies and tax credits are set to begin to phase out or expire in the early 2030s, at which point lawmakers will need to weigh options for how to balance continuing to cut greenhouse gas emissions amongst their many budgetary priorities.

To spur innovation and achieve emissions reductions in an economically efficient and fiscally responsible way, PPI proposes to enact a broad-based carbon tax on energy- and manufacturing-related greenhouse gas emissions. 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 source type, so carbon taxes would make clean energy producers compete on efficiency.

Resources for the Future's model, which the Environmental Protection Agency uses in its social cost of carbon estimates, projects that a metric ton, or tonne, of carbon-dioxide equivalent emitted in 2030 will impose a social cost of $104.[7980] However, immediately imposing a carbon tax at the full social cost of carbon would be overly disruptive to consumers and the economy. Thus, if enacted in 2026, PPI's proposed carbon tax rate would start out at $36 per tonne of carbon-dioxide equivalent, rise with inflation through 2031, and then grow with inflation plus 5% each year afterward until the carbon tax reaches the estimated social cost of carbon. We anticipate that the carbon tax rate will reach the social cost of carbon in 2056, after which point the rate will be adjusted with inflation plus any annual change in the social cost of carbon.

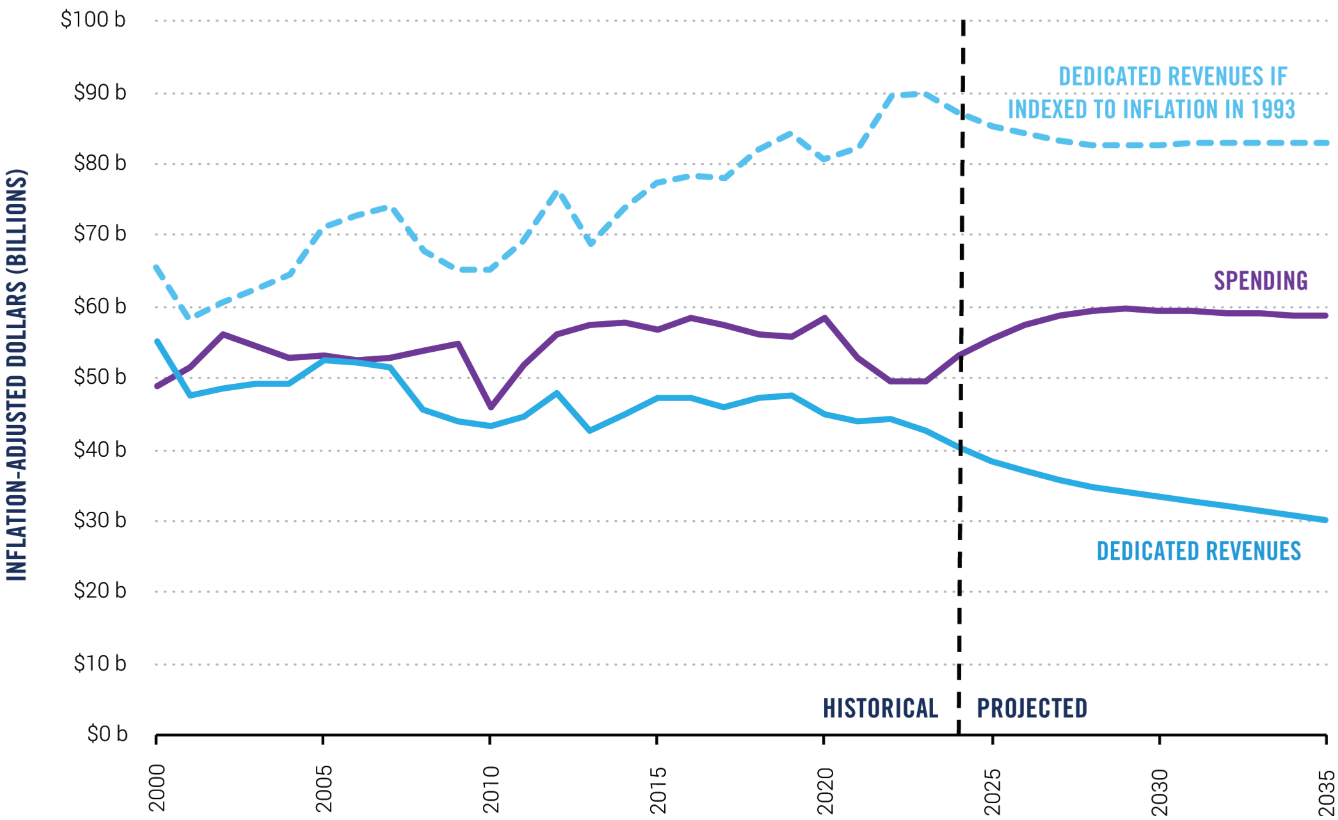
Under this plan, many companies will be incentivized to switch to cleaner sources of energy sooner rather than later because they can take advantage of the IRA's generous tax subsidies and face a lower carbon tax rate for their remaining emissions. As the rate gets closer to the social cost of carbon, the carbon tax will incentivize producers in harder-to-decarbonize sectors to develop clean technologies that may not currently exist in an economically viable form but which would benefit society overall. With this structure, the temporary IRA subsidies and permanent carbon tax work like a "carrot" and "stick," respectively, to accelerate the clean-energy transition.

PPI's proposed carbon tax would also feature a border adjustment mechanism that levels the playing field for domestically and internationally produced goods by taxing imports from countries that lack an equivalent domestic carbon price and refunds U.S. producers who are exporting goods to countries without a carbon tax. For any imported good, the Treasury would take into account the firm making the product, the type of product itself, and the country in which it was made when estimating the carbon emissions resulting from the good's production. Then, if the good was produced in a country that lacks an equivalent carbon tax, it would apply a tax equal to the difference between the tax that would be owed if it were produced in the United States and any carbon taxes paid to the country of origin. This structure prevents American businesses from being put at a competitive disadvantage and ensures our policy reduces emissions rather than simply outsourcing them to other countries with lower standards.

4. Replace the Gas Tax with a Vehicle-Miles Traveled Tax

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.[81] 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

FIGURE 5. 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,[82] Congressional Budget Office,[83, 84] Bureau of Labor Statistics,[85] and PPI calculations.

(Fig. 5).[86] As a result, Congress has increasingly relied on general revenue transfers to maintain highway funding. In the future, the user-fee base for funding infrastructure will further erode as the vehicle fleet becomes electrified.

Reversing the erosion of user fees in funding infrastructure would both discourage the overuse of resources that are expensive to maintain and guarantee that the revenue available to fund that maintenance rises with need. To make achieving this goal possible, the Infrastructure Investment and Jobs Act (IIJA) passed in 2021 included funding for a national pilot program to help develop a mechanism for taxing the number of miles that a car travels, known as a vehicle miles-traveled (VMT) tax. Many states have already been conducting similar pilots for years. [87]

PPI supports replacing existing fuel taxes with a VMT tax set at the level necessary to fully fund the highway trust fund when the national pilot concludes in 2026. The tax could also potentially incorporate the weight of the vehicle being driven to account for the fact heavier vehicles do more damage to roads than lighter ones.[88] This approach would more directly link the amount that someone drives to how much they must pay for the roads that they drive on compared to the gas tax. The change would also be progressive because the average fuel efficiency of vehicles in rural and low-income communities has historically been lower than in urban or wealthier communities.[89] Although replacing a fuel tax with a mileage tax in isolation would reduce incentives for improving fuel efficiency, PPI's proposed carbon tax preserves and strengthens the incentive for decarbonization already created by the IRA tax credits. And as more people shift from buying gas vehicles towards hybrid and electric cars due to these incentives, a VMT tax will ensure that these drivers are paying for the costs of infrastructure upkeep.

5. Turn the EITC into a Living-Wage Tax Credit

Although the switch from taxing payrolls to taxing consumption would be good for most workers in the long-run, there would be some years in which low-income and unemployed workers whose consumption nearly equals or exceeds their earnings bear a disproportionate burden if no other changes are made to the tax system.[90, 91] To ensure the tax code's progressivity is maintained and improved upon, 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 and has proven to be an effective tool for promoting work and reducing poverty.[92]

The LWTC, however, would provide far greater benefits that stretch further up (and down) the income distribution, particularly to childless adults — currently the only group that taxation can leave with post-tax income below the federal poverty level even if their pre-tax income was above it (Fig. 6).[93] By expanding upon the EITC's pro-work design, the LWTC can make work pay for low-income workers while keeping costs down for consumers. For example, despite their societal importance, wages in the child- and elder-care industries can often be quite low, creating weak incentives to stay in these professions.[94] This dynamic leads to chronic staffing shortages for employers and higher prices for consumers.[95, 96] PPI's LWTC makes

FIGURE 6. PPI'S PROPOSED LIVING-WAGE TAX CREDIT

SINGLE FILER

	NO CHILD	1 CHILD	2 CHILDREN	3+ CHILDREN
BASE BENEFIT (BENEFIT AT 0 EARNINGS)	$800	$800	$800	$800
PHASE-IN RATE (APPLIES TO EARNINGS)	11%	43%	67%	70%
PHASE-IN ENDS	$12,727	$12,791	$12,836	$12,857
MAXIMUM BENEFIT	$2,200	$6,300	$9,400	$9,800
PHASEDOWN BEGINS	$27,500	$27,500	$27,500	$27,500
PHASEOUT RATE	6%	10%	12%	12%
PHASEOUT ENDS	$64,167	$90,500	$105,833	$109,167

MARRIED, FILING JOINTLY

	NO CHILD	1 CHILD	2 CHILDREN	3+ CHILDREN
BASE BENEFIT (BENEFIT AT 0 EARNINGS)	$1,600	$1,600	$1,600	$1,600
PHASE-IN RATE (APPLIES TO EARNINGS)	7%	44%	69%	69%
PHASE-IN ENDS	$12,857	$12,955	$12,754	$12,754
MAXIMUM BENEFIT	$2,500	$7,300	$10,400	$10,400
PHASEDOWN BEGINS	$29,500	$29,500	$29,500	$29,500
PHASEOUT RATE	7%	12%	13%	13%
PHASEOUT ENDS	$65,214	$90,333	$109,500	$109,500

Note: Chart shows illustrative values (in 2023 dollars) for the LWTC in 2026 if PPI's reforms took effect immediately rather than phasing in over time. Values are indexed to chained CPI on an annual basis.

work in lower-wage industries such as these pay well, incentivizing people to enter and stay in these professions without raising prices for services. Moreover, by phasing out slower than the current EITC does, the LWTC would create better incentives for low-wage workers to find higher-paying jobs without fear of quickly losing the income from the tax credit.[97]

PPI would phase in the differences between the current EITC structure and the LWTC over the same timeframe as our VAT and payroll tax changes to mitigate the impact of these policies on households with little-to-no earnings. However, in the absence of those policies, we would call for an EITC expansion that is significantly pared down from the above parameters.

We also propose several structural changes to improve on the current design. While the EITC is only available to workers up to age 65, workers up to age 70 who are not collecting Social Security benefits could receive the LWTC as a means to encourage older Americans to remain in the workforce and delay claiming. Like the EITC, the LWTC would be fully refundable, meaning that eligible workers can receive a payment from the government if the tax credit reduces their tax liability below zero. PPI would also give workers the option to reduce their income tax withholding by up to the full value of their expected LWTC throughout the year to help pay their monthly expenses. Finally, the rules for claiming a child under both the LWTC and the modified Child Tax Credit PPI proposes in Recommendation 46 of this report would be harmonized to prevent any fraud or mistakes when claiming either credit.[98]

6. 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, roughly 60% of all wealth in the United States comes from inheritance.[99] Moreover, most inherited wealth comes in the form of extremely large inheritances: 40% of all inherited wealth came from the 2% of inheritances worth over $1,000,000.[100] Upon death, the federal government taxes wealthy individuals' estates at a rate of up to 40% before the proceeds are passed on to heirs. Under current law, the estate tax only applies to the value of individual estates over $13.6 million per person (or $27.2 million for couples), meaning that more than 99.9% of all estates paid no estate tax.[101] This high exemption means that an individual who inherits up to $27 million from their deceased parents in 2024 will pay no taxes on that income.[102]

There is no reason a wealthy heir should pay lower taxes than a middle-class schoolteacher or an entrepreneur who earns wealth through their own hard work. PPI proposes to replace the current estate tax with a progressive inheritance tax that levels the playing field by preventing heirs from accumulating massive amounts of wealth simply because they were lucky enough to be born into it. The tax would subject inherited income above a lifetime exemption of $1 million to an heir's personal income tax rate plus a 15% surtax. We would also close several loopholes related to the treatment of trusts and accounting of assets that allow wealthy families to avoid the current estate tax. Every dollar raised from this proposal is a dollar we would not need to raise by taxing work or investments.

Our proposal has several advantages over the current estate tax. Although the burden of the estate tax is borne by heirs, the tax is technically paid by the decedent's estate. This has led to Republicans lambasting it as a "death tax," which has no doubt sown public confusion.[103] Our proposal shifts the payment of the tax to the heir and makes clear that this is a tax on unearned income, not a tax on the dead. It is also a more equitable point of taxation: whereas the exemption threshold under the estate tax is unaffected by the number of beneficiaries, the amount of money that can be passed along tax-free under an inheritance tax depends on how much is left to how many heirs. In other words, an inheritance tax structure deconcentrates wealth in America.

To prevent heirs who are otherwise middle-income from being taxed at the same rates as the ultra-wealthy, heirs would be allowed to amortize their inheritance over the year it is received plus the four previous tax years. In other words, the inheritance would be subject to tax as if it was received in parts over that five-year period rather than as a lump sum. Heirs with annual incomes that already place them in the highest tax bracket would still be subject to the top rate on inherited income whether or not they avail themselves of this provision, but lower-earners who receive large inheritances would benefit from a greater share of the inheritance being taxed in lower brackets. The heir would be required to disregard net operating losses in this calculation when both amortizing or not, so they cannot artificially concentrate business losses in years when they receive inheritances to lower their inheritance tax rate.

To further protect those who inherit illiquid assets like a family farm or business, recipients would be allowed to amortize their tax over a period of up to 30 years, inclusive of a market-level interest rate. Our approach ensures no one will have to sell a profitable farm or family business just to pay the tax bill, while still leveling the playing field between those who have to build such businesses from scratch and those whose family history gives them a head start.

II. MAKE THE INDIVIDUAL INCOME TAX CODE SIMPLER AND MORE PROGRESSIVE

Although some of the individual income tax provisions in the Tax Cuts and Jobs Act (TCJA) 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.[104] It also did little to reduce the complexity of our tax code. Each year, the federal government loses more than $1.5 trillion to tax expenditures, which are provisions in the tax code that reduce the tax liability of taxpayers who engage in certain preferred behaviors (such as buying a home).[105] Whereas real tax reform would have simplified the tax code by curtailing these tax expenditures, there are currently about as many tax expenditures in law as there were in 2017.[106] Tax expenditures are effectively spending in the tax code and are a major reason why Americans spend an estimated 6.5 billion hours and more than $280 billion each year on tax compliance.[107]

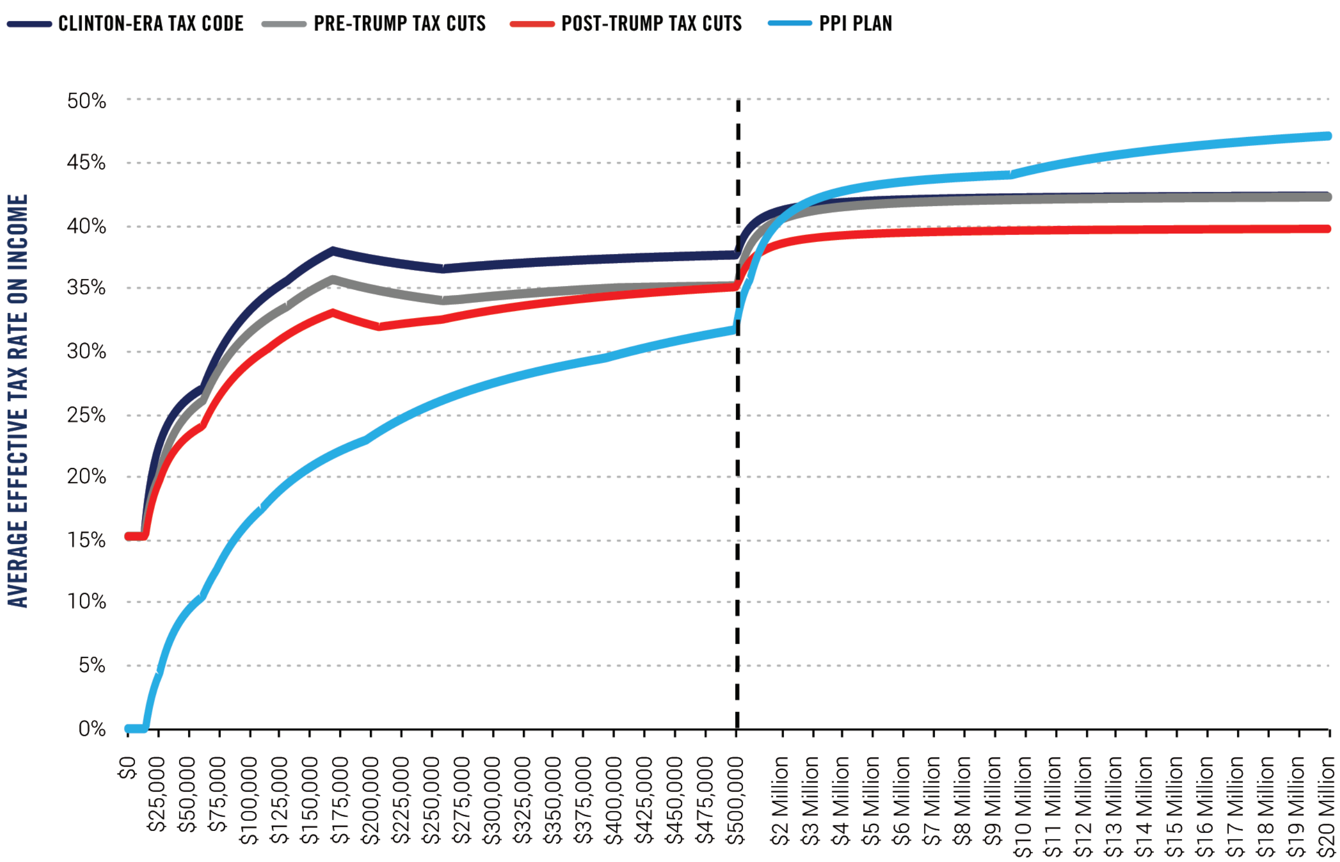
Fortunately, most of TCJA's individual income tax provisions are set to expire at the end of next year. But lawmakers will no doubt engage in an intense debate over which provisions, if any, to extend. If all expiring provisions are extended in their entirety, they will add another $4.5 trillion to our national debt that we cannot afford.[108] Thus, PPI proposes to extend only the few provisions that improve tax simplicity and equity while raising more than enough revenue to offset the cost. In the process, our proposed reforms would make the individual income tax code simpler and more progressive than it was before or after the passage of TCJA.

7. Raise Individual Income and Capital Gains Tax Rates

The most expensive part of TCJA was its cuts to individual income tax rates, which disproportionately benefited the highest earners. Making just these rate cuts permanent would cost an additional $3.4 trillion over the coming decade.[109] 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 both the pre- and post-TCJA rate structure **(Fig. 7)**. 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.

Our proposed rate structure would include two new brackets on high-earners: a top marginal income tax rate of 45% for income over $1 million and 50% for income over $10,000,000, the thresholds for which would not be indexed to inflation for the first ten years after enactment **(Fig. 8)**. High marginal tax rates for the highest incomes will help further combat the United States' dramatic growth in income inequality. From 1979 to 2019 (the last year prior to the COVID-19 pandemic), average incomes for the top fifth of income earners rose by 114%, compared to just 45% for the lowest fifth.[110] Raising more revenues from extremely high-income people lets the government raise less money, taxing the incomes of lower and middle-class people who need the extra money for necessities. These higher rates also make up for the 3.8% net investment income tax and Medicare payroll tax on earnings above $200,000 that PPI proposes to repeal in Recommendation 1.[111, 112]

FIGURE 7. EFFECTIVE TAX RATES UNDER DIFFERENT INCOME TAX SYSTEMS



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 2024. Earlier tax brackets are adjusted for inflation. Values over $500,000 are compressed to better display the impact of reforms on the top 1% of income earners without obscuring the impact of reforms on the bottom 99%.

Sources: Tax Foundation,[113, 114, 115] Congressional Budget Office,[116, 117] Tax Policy Center,[118, 119, 120] and PPI calculations.

Additionally, policymakers should raise more revenue from people who get their money from capital gains, which are profits made by selling an asset for a higher price than the original price at which it was purchased. 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.[121] Long-term capital gains are taxed at lower rates than earned income both because the value of the taxable capital gain includes the effects of inflation and, in the case of corporate stocks, because the federal government already taxes the profits that give the stock value as corporate income.[122]

Capital gains are a major source of income for high-earners: capital gains account for 26% of income for households in the top 1% of the income distribution, compared to just 0.5% of income for households in the bottom fifth of the distribution.[123] Raising capital gains tax rates is thus essential for creating a fair and progressive tax system.

FIGURE 8. PPI'S PROPOSED INCOME TAX BRACKETS

TAX RATE		BRACKET BEGINS AT . . .		
ORDINARY RATE	CAPITAL GAINS	SINGLE	JOINT	HEAD OF HOUSEHOLD
10%	0%	$0	$0	$0
15%	0%	$12,140	$24,290	$17,360
24%	15%	$49,100	$98,200	$49,100
27%	15%	$61,240	$122,480	$61,240
30%	20%	$100,310	$200,620	$100,310
36%	25%	$190,060	$380,110	$190,060
40%	30%	$395,950	$791,900	$395,950
45%	36%	$1,000,000	$1,250,000	$1,000,000
50%	36%	$10,000,000	$12,500,000	$10,000,000

Note: All of the brackets are for the year 2026. All bracket thresholds except for the top two brackets are adjusted annually using chained CPI-U starting in 2026. The top two brackets are frozen through 2035 and then indexed to chained CPI-U beginning in 2036.

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.[124, 125] PPI recommends raising capital gains taxes on income over $1 million to the rate that would raise the maximum possible revenue, given the other parameters of our tax reform.

8. Close Capital Gains Tax Loopholes

PPI would further improve equity in the tax code by closing several loopholes in the current capital gains tax structure. Under current law, people who sell assets they inherited rather than purchased themselves only pay capital gains taxes on the increase in its value from when they inherited it, not when the decedent bought it. This “step-up basis” loophole creates an enormous incentive for taxpayers to hoard their assets until death. PPI would end this practice by requiring anyone who sells an inherited asset to pay capital gains tax on the difference between the sale price and the price at which it was acquired by the original owner. In instances where records of the original purchase price have been lost, the taxable gain would be reverse-engineered using a benchmark growth rate calculated by the IRS that estimates how much an asset is likely to have appreciated since its original purchase date. To avoid double taxation, any inheritance tax paid on an inherited asset with unrealized capital gains would be added onto the basis subtracted from the sale price to calculate the gain.

PPI would also repeal the Qualified Small Business Stock exclusion, which allows founders and other early employees of successful startups to avoid ever having to pay capital gains taxes when they sell early-issued stock.[126] This provision was created to incentivize more startups by increasing the ultimate payout for founding a successful one. However, there is little evidence that this exclusion actually creates more innovative startups than would naturally happen without it.[127] Furthermore, because the tax benefit grows with the success of the business, the largest tax benefits are going to the people who need them least.

In addition, our plan would close loopholes that allow investors to avoid tax by engaging in multiple trades at once. "Wash-sale" rules prevent the recognition of a loss from selling an asset if the same or a substantially identical asset is purchased 30 days before or after the sale.[128] This rule stops people from gaming their capital gains tax by selling stocks at a loss, rebuying the same thing right away, and then writing off the realized loss on that year's taxes. We believe this rule should also apply to digital assets, which are currently exempt, to prevent them from receiving an undue tax advantage relative to traditional securities like stocks. Similarly, we also propose to eliminate the "like-kind exchange" loophole that lets wealthy investors avoid paying capital gains taxes on real property if they accept a similar property as payment for the sale of the first.[129]

Another tax-avoidance trading tactic PPI would eliminate is the "heartbeat trade" loophole that exclusively benefits exchange-traded funds (ETFs). ETFs are investment vehicles that can be bought and sold like individual stocks but are structured to track things like commodity prices or the S&P 500. ETFs are able to defer capital gains tax when they realize a stock gain if they use that stock to pay off an investor withdrawing from the fund, creating a massive tax advantage on hundreds of billions of dollars in stock trades.[130] PPI proposes to eliminate this loophole by recognizing the gain on these trades and taxing them the same as similar investment vehicles like mutual funds.

Finally, PPI proposes to eliminate the "carried interest" loophole that lets many investment fund managers pay capital gains tax rates on their share of the mutual fund's profits, even though this income represents compensation for their services rather than a return on capital they've invested.[131] Tax systems are generally more efficient when they treat similar activities the same for tax purposes and there is no justification for taxing the earned income of some of the wealthiest Americans at a lower rate than their middle-class peers. Removing this special-interest loophole would subject fund managers to the same tax rates on their labor that everyone else pays on theirs.

9. Make Permanent Changes to the Standard Deduction and Personal Exemptions

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 2023, more than 70% of households with adjusted gross income over $1 million itemized deductions, whereas less than 3% of households below $100,000 did.[132] More high-income households itemize their deductions than lower-income households because those 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.[133, 134] 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. PPI would make the expansion permanent to cut taxes for middle-income Americans while reducing the impact that distortionary tax preferences have on our economy.

However, we would further simplify the standard deduction by eliminating an additional standard deduction that can be claimed only by individuals over age 65.[135] Although seniors typically have lower incomes than their working-age counterparts, they are more likely to have accumulated assets such as a paid-off home and receive Social Security benefits that only partially count as taxable income.[136, 137] As a result, seniors are generally better off than their working-age counterparts who have the same taxable income and are taxed at the same rates. There is little justification for giving seniors even lower tax rates through a higher standard deduction, especially considering that today's working-age Americans will already have to pay more in taxes to support programs such as Social Security and Medicare than today's seniors did when they were working.[138]

10. Limit the Value of All Itemized Deductions

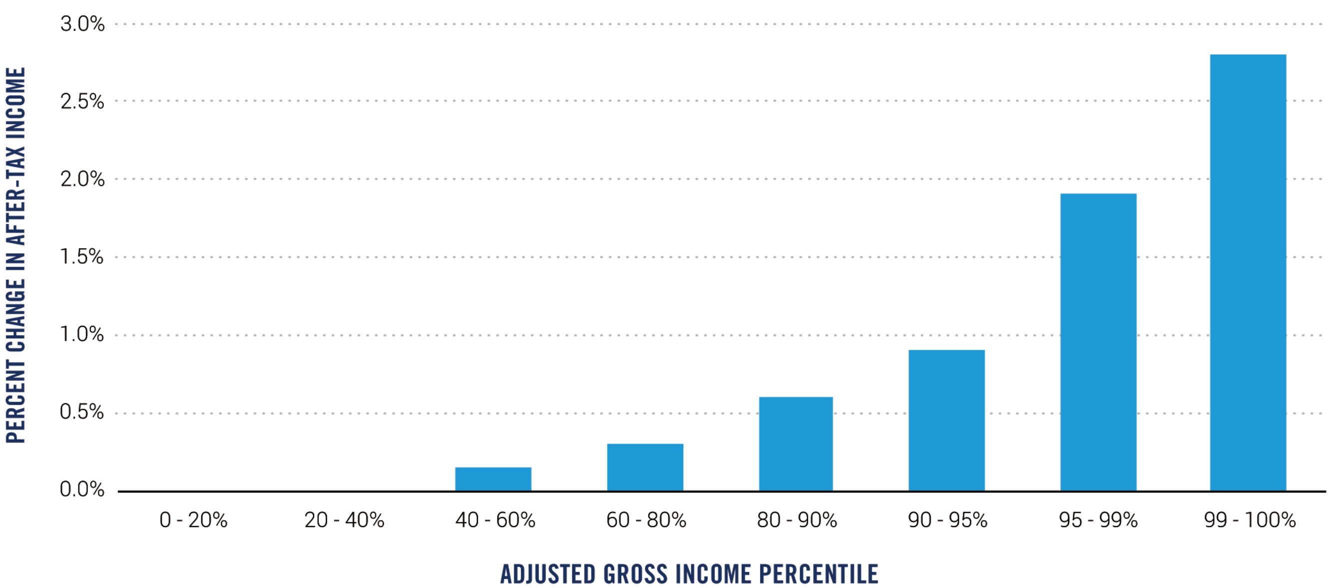
The alternative minimum tax (AMT) and Pease limitation require wealthy taxpayers to calculate their tax liability under both the normal income tax system and another formula, then pay the higher of these two tax burdens. These provisions were intended to prevent wealthy taxpayers from eliminating their 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, TCJA simply slashed taxes on the rich by drastically increasing the exemption threshold and the income at which it phases out to reduce the number of people who pay this tax.[139]

PPI proposes to 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 cents for each dollar of eligible expense. For example, if a taxpayer facing a 25% marginal rate deducts $100 of eligible expenses from their income, their tax liability is reduced by $25. However, under current law, that same deduction is worth $40 for a taxpayer in a 40% bracket. With PPI's cap in place, the taxpayer in the 40% bracket would only be able to reduce their tax liability by $30, meaning they will still pay $10 in taxes on the $100 they claimed as an itemized deduction. 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.

11. Replace Indirect Tax Subsidies for State and Local Governments With Direct Grants

There are two tax provisions in current law that indirectly subsidize state and local government activities: the state and local tax (SALT) deduction and the tax exemption for municipal bond interest. The SALT deduction allows itemizers to deduct the amount they paid in property taxes plus either income or sales taxes at the state and local level from their income, up to a temporary cap of $10,000 established by TCJA. This deduction theoretically enables states to maintain a progressive tax structure without fearing the loss of high-income constituents to other states.[140] Meanwhile, by offering investors safe, tax-free returns, the tax exemption for municipal bond interest allows

FIGURE 9. BENEFITS OF AN UNCAPPED SALT DEDUCTION BY INCOME



Note: Chart shows the average increase in after-tax income that a household in each part of the income distribution receives from an uncapped SALT deduction under a scenario in which the rest of TCJA is extended in 2025.

Sources: Tax Foundation[141] and PPI calculations.

state and local governments to debt-finance public goods such as infrastructure at below-market interest rates.[142] As such, defenders of each provision argue that they are vital instruments through which state and local governments can fund important priorities.[143]

However, both the SALT deduction and the tax exemption for municipal bond interest are regressive tax provisions that are at best inefficient mechanisms to support public spending. Because higher-income families benefit most from the SALT deduction because they tend to pay more in state and local taxes and are more likely to itemize their taxes, the SALT deduction is highly regressive — and would become even more so if the cap expires at the end of 2025.[144] The after-tax income of the average household in the middle fifth of the income distribution would increase by less than 0.2% if the SALT cap were removed and state and local taxes were fully deductible in 2025 while the current standard deduction is extended. By contrast, the after-tax income of the average household in the top 1% would increase by 2.8% in this scenario (Fig 9).[145] The top fifth of income earners would receive 96% of the tax benefits from allowing the SALT cap to expire, with over half the benefit going to the top 1% alone, making it a massive tax cut for the well-off.[146]

This indirect subsidy for state and local governments also comes at a hefty cost to the federal government — if the TCJA cap expires, the SALT deduction will worsen deficits by $1.9 trillion over a decade.[147] And out of the roughly $40 billion of revenue lost annually to the tax exemption for municipal bond interest, some estimates have concluded that as little as 7% of the value may be captured by state and local governments.[148, 149] The remaining value of the tax expenditure flows to individuals, with larger benefits going to individuals with higher incomes and higher marginal tax rates. Finally, the subsidy nonetheless encourages municipalities to finance infrastructure spending by taking on debt (at artificially low interest rates) instead of raising taxes on residents.

Because of their regressivity, inefficiency, and costliness, we propose to repeal the SALT deduction and municipal bond interest exemption entirely. We recommend the federal government instead support states and localities directly by offering Payments to Encourage Progressive Policy Reforms (PEPPR). PEPPR would provide population-weighted block grants whose total value nationally is roughly equal to 50% of the combined value of the repealed tax expenditures (based on savings estimates for the first full year following enactment). In future years, the value of the PEPPR grant would generally grow with inflation and population changes in each state. But to help moderate the impact of recessions on state budgets and the economy overall, PPI recommends the exact value of a state's PEPPR grant in a given year vary depending on macroeconomic circumstances. Any increase in generosity during downturns should be offset by tighter spending during economic recoveries and expansions.

PEPPR grants would be available for states and localities to spend on a variety of purposes, such as schools and infrastructure, that currently benefit indirectly from revenue sources subsidized by the municipal bond interest exemption and SALT deduction. The federal government could also place performance-based conditions on the PEPPR grant to ensure it is being wisely spent on important public investments and services by the governments that receive it. To qualify for PEPPR, states must not enable individuals and businesses to avoid paying federal income taxes by enacting any new SALT workarounds once it is repealed, such as recent laws that allow pass-through entity owners to avoid the $10,000 cap under current law.[150]

This grant more directly helps state and local governments to finance important public investments, while removing incentives for them to prefer debt or less-efficient tax systems. Importantly, states and localities would still be able to raise taxes or borrow from the private bond market to meet any needs not met by this grant, they would just be doing so without further federal subsidy.

12. Extend Limits on 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.

TCJA made numerous changes to the way these entities are taxed. The biggest provision was one that gave pass-through business owners the ability to deduct up to 20% of their income from taxation. Known as the 199A deduction, this large regressive giveaway was ostensibly created to reduce taxes on "small businesses." However, since over half of all pass-through income goes to people in the top 1% of the income distribution, it functioned as nothing more than a giveaway to the wealthy.[151]

While TCJA's changes to pass-through taxation were regressive overall, one particular provision is worth making permanent. This provision limits pass-through owners from deducting net operating losses in a business from other forms of unrelated non-business income, preventing pass-through owners from gaming the losses of businesses to avoid paying taxes on other incomes.[152] PPI proposes to extend this provision from TCJA while allowing the regressive 199A deduction to expire as scheduled in 2026.

13. Temporarily Freeze Retirement Contribution Limits and Close Loopholes

Current law allows taxpayers to contribute to several different tax-advantaged retirement plans that cost the Treasury hundreds of billions of dollars in foregone revenue each year.[153] Encouraging working Americans to save for retirement is a worthy public policy goal, but these tax preferences disproportionately benefit high-earners as currently structured. According to CBO, the top quintile of households reap 63% of the benefits of these tax-advantaged plans, with a whopping 87% of the benefit going to the top two quintiles combined.[154] One reason for this dynamic is that typically wealthier households are the only ones that ever get close to maximizing their contributions, which can be up to $23,000 per person per year in traditional 401(k) plans.[155] The limits are even higher for Americans over the age of 50, who are allowed an additional $7,500 in "catch-up contributions."[156] According to an analysis by Vanguard, only around 15% of those participating in one of their retirement plans hit the maximum contribution limit in a year, meaning that few working Americans are likely to receive the maximum tax advantage.[157] Instead, these high contribution limits merely give wealthy Americans additional tax advantages on money they were already likely to save anyway.

Moreover, there are a number of loopholes that savvy taxpayers can use to get around intended contribution limits. For example, taxpayers who have already maximized their annual 401(k) contribution can get additional tax benefits by opening a traditional IRA, making a non-deductible contribution of up to $7,000 into it, and immediately converting the balance into a Roth IRA. This "backdoor Roth" loophole allows wealthy savers to avoid ever having to pay capital gains tax on savings well in excess of normal 401(k) limits, even though direct contributions to Roth IRAs are supposed to be limited to individuals with annual income below $161,000 and couples with a combined income below $240,000.[158, 159]

Because so few people actually hit the contribution limits, there is room to tighten them without harming the retirement security of low- and middle-income Americans. PPI proposes to freeze contribution limits for workplace plans like 401(k)s for five years to allow their real value to naturally erode with inflation. To make sure that catch-up contributions are only benefiting older Americans who did not have the opportunity to save adequately for retirement in their youth, PPI would prohibit anyone with retirement assets in excess of $2 million from making use of them. Finally, PPI would close the backdoor Roth loophole and others like it that serve as little more than tax giveaways to the rich.

III. REFORM THE BUSINESS TAX CODE TO PROMOTE GROWTH AND INTERNATIONAL COMPETITIVENESS

The Tax Cuts and Jobs Act (TCJA) aimed to make our business tax code more attractive for international investment by reducing what was then the highest corporate income tax rate in the Organisation for Economic Co-Operation and Development (OECD) and paying for it by closing inefficient loopholes. But it didn't eliminate enough of those loopholes to offset the cost of the rate cut, leaving our tax code flawed and our country further in debt. Moreover, it only temporarily fixed provisions that penalized investments while permanently making others worse than they were before. Instead of building upon TCJA's progress by repealing additional tax expenditures that didn't make sense, lawmakers in 2022 took a shortcut by imposing a "corporate alternative minimum tax" that created a second set of complicated tax parameters with which businesses must comply. Meanwhile, other countries are champing at the bit to exploit these weaknesses and claim tax revenue from U.S. companies that should be paid to our treasury instead.

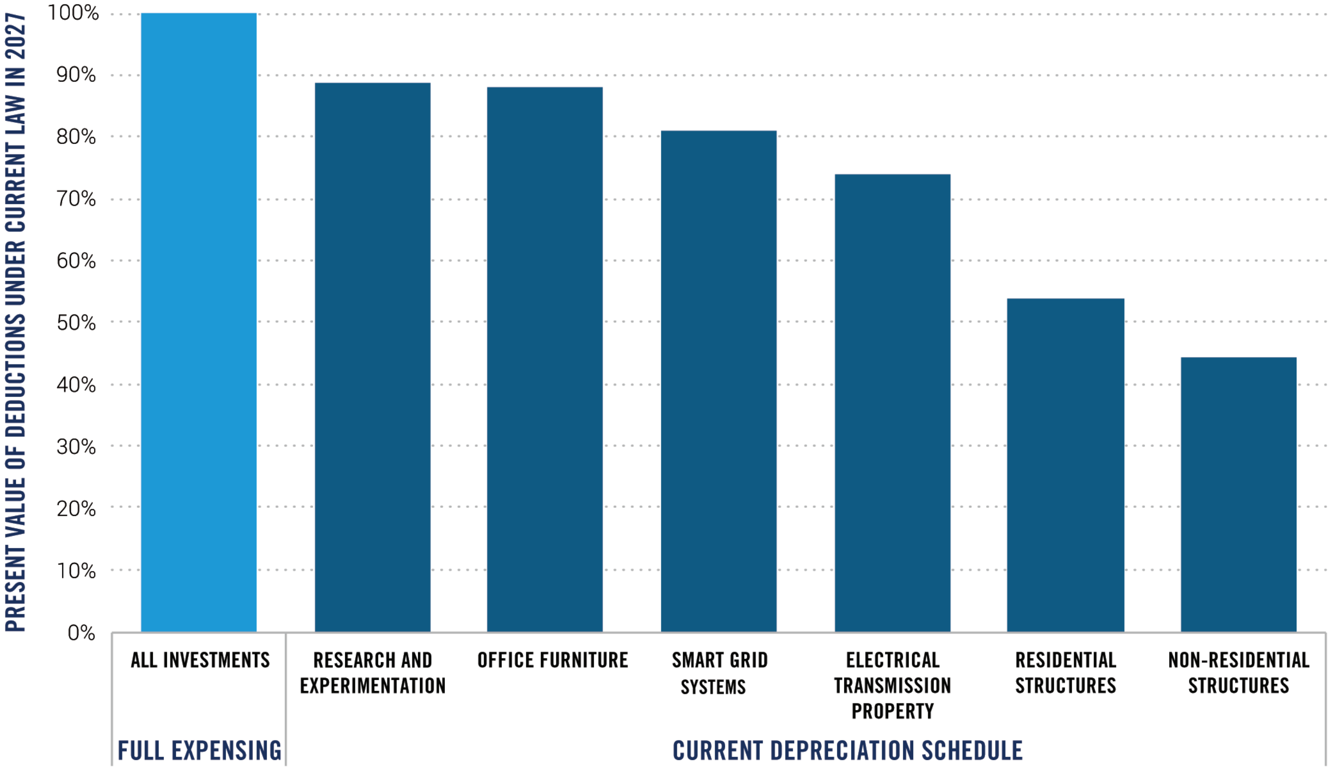
PPI would overhaul the business tax code by moving to a full-expensing system that promotes rather than penalizes investments that grow our economy. Our plan would also recoup the revenue loss of TCJA by modestly increasing the corporate income tax rate and tackling the myriad of loopholes that special interests use to avoid it. These changes will make the U.S. tax code more internationally competitive and strengthen America's economic leadership now and in the future.

14. Allow Immediate Deductions for Investment Instead of Interest

Although businesses can deduct most ordinary expenses from their taxable income the year in which those expenses are incurred, different rules apply for many capital investments. Prior to the TCJA, 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. And because of inflation and businesses' preference for income now over an equal amount of income in the future, tax deductions that are spread out into the future are worth less than if they were immediately expensable **(Fig. 10)**. Because companies cannot capture the full value of the tax deduction for capital investment, the tax code incentivizes present consumption in the form of dividends and stock buybacks over long-term investment — ultimately coming at the cost of lower economic growth.[160]

TCJA 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 construct 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.[161] And the provision began phasing out in 2023, limiting its ability to spur long-term investments over time. The tax treatment of research and development (R&D) spending, meanwhile, moved in the

FIGURE 10. VALUE OF TAX DEDUCTIONS FOR SELECT INVESTMENTS RELATIVE TO FULL EXPENSING



Note: Chart shows the net present value of future tax deductions for different investments under current depreciation schedules, after all temporary expensing provisions phase out at the end of 2026 as scheduled under current law. Net present-value calculations assume a discount rate of 3% and annual inflation of 2%.

Sources: Internal Revenue Service,[162, 163] Thompson Reuters[164] Tax Foundation,[165] and PPI calculations.

opposite direction and businesses must now amortize costs they could previously expense.[166] This shortsighted budget gimmick was not originally intended to take effect, but when Congress failed to prevent it from taking effect in 2021, the United States became the only developed country to require R&D amortization.[167]

Although businesses cannot deduct their spending on investments, they can deduct the interest they pay on loans they take out to finance those investments — or any other expense — up to 30% of the company's earnings before interest and taxes (EBIT).[168] This structure provides a tax preference for raising capital by borrowing money rather than issuing equity, because dividends paid to shareholders cannot be deducted from taxable income. It also creates a strong incentive for businesses to take on what would otherwise be unnecessary debt, whether or not that debt is used to finance productive investments.[169]

PPI would transform our corporate tax code to more directly promote growth by making full expensing permanently available for virtually all private investments and offsetting the cost over 30 years by phasing out the deductibility of business interest. One straightforward method of doing so would be to reduce the 30% of EBIT limitation on the interest deduction by one percentage point per year until it reaches zero. Alternatively, policymakers could simply prohibit all interest on only new loans from being deducted, which would prevent any investment from getting the benefit of both full expensing and interest deductibility.

In addition to promoting economic growth broadly, moving to a full-expensing regime will also help the United States address other policy problems. For example, energy generation is extremely capital intensive, so removing the tax penalty for such investments will make more clean energy projects economically viable on the margin.[170] Full expensing can also encourage companies to invest in more energy-efficient technologies and retrofit their buildings because those investments, which save energy costs over many years, are more likely to pass cost-benefit analysis if the full value of their costs can be immediately deducted.[171] But perhaps the biggest impact of this change would be helping to end our national housing shortage: allowing businesses to deduct the costs of building residential structures immediately, rather than forcing them to spread those deductions out over nearly three decades (as the current depreciation schedule requires), will make housing construction more profitable, expand the housing supply, and cut costs for potential homeowners.[172] In short, full expensing will help the United States achieve many important policy objectives in a pro-growth manner.

15. Raise the Corporate Income Tax Rate to 25%

There was broad bipartisan agreement before the passage of TCJA that the 35% 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.[173] 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.[174] 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.[175]

Real corporate tax reform would have lowered the corporate income rate and paid for it by broadening the tax base. However, by cutting the rate to 21%, TCJA gave away more revenue than it raised through eliminating tax expenditures. The Joint Committee on Taxation (JCT) at the time estimated that the rate cut would cost the federal government $1.3 trillion in the decade after the law was passed, while all offsetting provisions amounted to just $780 billion.[176] 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% of U.S. corporate stock, pay no U.S. capital gains tax, and pay lower taxes on corporate dividends than American investors do.[177]

Corporate income tax cuts are also less effective at encouraging investment than full expensing is. Some economists have estimated that, over a 10-year period, increasing capital stock by 1 percentage point costs 10.7% of corporate income tax revenues if done through lowering the marginal effective tax rate on corporate income, but only 2.6% of corporate revenues if achieved through immediate expensing.[178] Lower corporate income tax rates also cut taxes on an investment's return, providing a windfall to people earning returns on investments that were already made rather than incentivizing future investments. Immediate expensing, on the other hand, is a much more targeted pro-investment tool because it specifically eliminates taxes on making new investments.[179]

For these reasons and more, we propose to raise the corporate income rate to 25%. This rate is within three percentage points of the OECD average statutory rate and would be sufficient to have made the TCJA corporate reforms revenue-neutral.[180, 181, 182, 183] Corporations located in states with additional corporate income taxes would face somewhat higher marginal rates, but our proposal in Recommendation 11 to replace deductions for state and local taxes paid by households and businesses with direct support would likely reduce their use. Moreover, our proposal to permanently extend full expensing for all business investment will make up for a slightly higher corporate rate and strengthen the United States' international economic competitiveness.

16. Equalize the Tax Treatment of Dividends and Stock Buybacks

When corporations want to distribute profits to shareholders, they mainly have two options for doing so: paying out those profits directly to shareholders as dividends, or buying back shares of their stock, which increases the value of outstanding shares. Income from dividends is taxed at the appropriate capital gains tax rate when a shareholder receives it. But when that income takes the form of higher share values, no tax is owed until the shares are sold.[184] This tax advantage has helped fuel a surge in stock buybacks over the past few decades.[185]

Despite what populists say, there is nothing inherently wrong with share buybacks. When businesses distribute profits through them, they are giving capital back to investors to use for more productive investments.[186] They can also serve as a tool for protecting against "corporate raiders" — aggressive shareholders who attempt hostile takeovers of a company.[187] Despite these important uses, there is also no reason that share buybacks should enjoy a tax advantage over dividends.

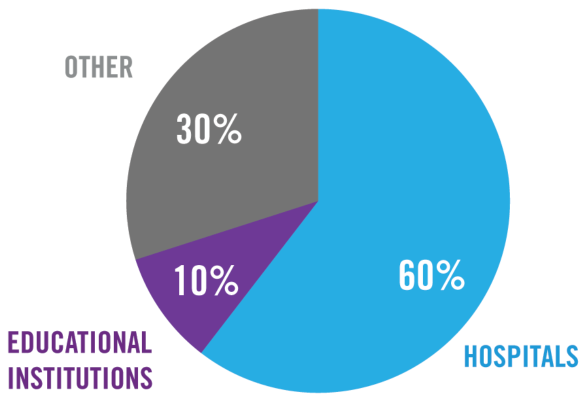
The Inflation Reduction Act (IRA) took a small step in the right direction by enacting a 1% excise tax on share buybacks, but the policy change merely reduced rather than eliminated the tax advantage.[188] PPI proposes to eliminate the reminder of this advantage and achieve full tax parity between buybacks and dividends. One way to do this would be to raise the existing excise tax to at least 4%, an idea recently proposed by the Biden administration.[189, 190] However, this is merely one option for achieving parity, with other methods such as an imputed dividends tax also being viable solutions.[191] PPI ultimately supports any such method for achieving tax parity with minimal economic disruptions.

17. Reform the Tax Treatment of Nonprofits

Nonprofit organizations often do invaluable work for society, providing public services that would otherwise have to be provided by the government. Organizations that provide food to the hungry, beds for the homeless, or truly charitable health care often make important contributions to the general welfare with relatively limited budgets and a reliance on charitable donations.

However, there are also far larger nonprofit organizations that rake in billions in profits a year yet continue to benefit from a tax-exempt status.

FIGURE 11. SHARE OF NONPROFIT TAX BENEFITS BY SECTOR



Sources: Tax Policy Center [192] and PPI calculations.

Due to outdated features of the American tax code, these “nonprofit” organizations are, for all intents and purposes, businesses. They often get paid for the programs and services they provide, like a university charging students tuition, or earn investment income that greatly exceeds their costs. Such organizations cost the Treasury billions of dollars in annual revenues and, because they sometimes directly compete with for-profit businesses, create inefficiencies in markets.[193] While they theoretically are obligated to pay unrelated business income tax (UBIT) on net income unrelated to their charitable mission, current UBIT rules are riddled with loopholes. For example, a nonprofit selling t-shirts for a profit is not required to report it as income if it has any “educational” quality. Royalties are also entirely excluded from the income computation, which benefit large organizations like the NCAA that consistently lend out their brand for revenue.[194]

Some of the biggest beneficiaries of this system are nonprofit “charity” hospitals and other health care nonprofits, which reap roughly 60% of the total benefit from the existence of tax-exempt status **(Fig. 11)**.[195] Yet since they face few guardrails from the IRS, most tend to operate as for-profit actors, with one estimate finding that, controlling for size, nonprofit hospitals on average contribute only around half the charity care that their for-profit counterparts do.[196] Kaiser Hospitals managed to make around $800 million in excess of their costs in 2022, with surpluses in the billions of dollars for years prior.[197] Ascension Health Alliance, at a mere fraction of the size of Kaiser, managed to generate revenues nearly double their operating expenses, leaving $1.73 billion of profit in 2022.[198]

Universities are also major beneficiaries of tax-exempt status, especially elite schools with massive endowments. While investing for the future is an important tool for planning ahead, the money should be spent on an organization's actual mission, not growing in perpetuity. There is clearly room for some schools to spend more for education or research: in 2022, Princeton University managed to bring in over $5 billion in revenue, which was more than double its costs.[199] Other elite institutions often look very similar, generating far more revenue than they actually spend on program costs. While TCJA attempted to dissuade this practice by instituting a small 1.4% excise tax on endowment’s net investment incomes, it has proven insufficient to dissuade their growth.[200]

PPI proposes to curtail the abuse of nonprofit status by taxing all program service revenue and investment income in excess of costs at the corporate income tax rate. This reform would incentivize charities to spend any profits they make. Importantly, this calculation would exclude charitable gifts from income to prevent true nonprofit institutions from having to pay any tax. Alternatively, policymakers could achieve a similar goal by closing loopholes in and expanding the application of UBIT rules.

18. Repeal Special-Interest Tax Expenditures

PPI offers several specific proposals in Sections II, III, VIII, and IX of this blueprint to modify or eliminate many of the larger tax expenditures that overly complicate the tax code. However, the tax code is still littered with very small tax expenditures that merely support special interests rather than promoting growth or equity. In addition to lacking any coherent policy rationale, every dollar of revenue lost from these smaller tax expenditures is a dollar that has to either be raised from increasing taxes on the majority of Americans or added to the debt burden facing future generations. While the revenue raised from each individual provision is small, they cumulatively can add up to make a tangible budgetary impact, as demonstrated by a PPI report published last year.[201] PPI's plan would make the tax code more equitable by repealing several of these small tax expenditures that benefit specific industries or professions at the expense of all other Americans.

For example, fossil-fuel producers benefit from several niche provisions that have no broader economic justification beyond propping up their industry. Fossil-fuel producers alone reap half the benefit of the "last in, first out" (LIFO) accounting method, which 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, thereby reducing taxable profits when prices are rising. Companies that derive 90% or more of their income from fossil fuels and other depletable natural resources benefit from an automatic partnership classification that reduces their tax liability.[202] Independent extraction-based fuel producers also get 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 — a practice known as percentage cost depletion.[203] PPI proposes to end these and all other special-interest carve-outs in the tax code.

19. Reform the Corporate Alternative Minimum Tax and Protect Our International Tax Base

Our international tax system is in the middle of a once-in-a-generation transformation. Prior to 2017, the U.S. tax code did not tax foreign income of U.S. multinational corporations' foreign subsidiaries until that income was repatriated to the United States.[204] This design encouraged companies to indefinitely delay repatriating foreign profits so they wouldn't have to pay those taxes, and it also encouraged companies to relocate their headquarters and intellectual property to other countries — eroding the United States' tax base and undermining our economic competitiveness.[205]

Amongst many changes, TCJA made three major reforms to international taxation to shore up the U.S. corporate tax base. The first is a new tax on "global intangible low-taxed income" (GILTI) which discourages companies from relocating their intellectual property to low-tax countries by imposing a minimum tax of 10.25% (13.125% after 2025) on foreign profits that exceed a "normal" 10% rate of return, after accounting for foreign taxes paid.[206] A second TCJA provision also encourages companies to locate intellectual property in the United States by taxing profits made off of exports that came from domestically-held intellectual property (Foreign-Derived Intangible Income, or FDII) at a special rate of 13.125% (rising to 16.406% after 2025). Finally, the Base Erosion Alternative Minimum Tax (BEAT) of 10% (12.5% after 2025) limits corporations' ability to lower their U.S. tax liability by deducting payments made to affiliates in lower-tax jurisdictions.[207]

On top of these 2017 reforms, Congress created the Corporate Alternative Minimum Tax (CAMT) in 2022 in an attempt to prevent corporations from reducing their tax liability to unfairly low levels through the claiming of deductions.[208] Under CAMT, a corporation would owe in taxes the minimum of 15% of its worldwide financial statement income (less allowable deductions) and the liability owed under existing tax laws.[209] But instead of removing loopholes and deductions that allow companies to reduce their tax liabilities too low, the new law's vagueness added complexity to the corporate tax code. Despite being scheduled to take effect at the start of 2023, the Treasury Department has yet to finalize rules regarding how CAMT will actually work.[210]

All of these provisions leave our international tax system with room for improvement — and recent efforts between OECD countries to establish a new standard for global taxation in the 21st century creates urgent pressure to do so. These agreements, known as Pillar I and Pillar II, would create a standardized process for assigning profits to countries and mechanisms for enforcing a proposed global minimum tax rate of 15%. Amongst these, many enforcement mechanisms include rules allowing participant countries to scoop up profits that are being undertaxed by the country to which the revenue is owed. The Joint Committee on Taxation estimates that the United States stands to lose more than $60 billion in tax revenue over the next decade if it doesn't implement reforms to make existing corporate tax laws, mainly CAMT and GILTI, compliant with Pillar II or adopt rules to preempt countries from collecting taxes that should be owed to the United States.[211]

PPI supports the OECD's goal of preventing a "race to the bottom," where countries' individual incentives to attract corporations collectively erode the global corporate tax base. But we also believe it is essential that the United States prevent other countries from collecting taxes that U.S. companies should be paying to our Treasury instead. We encourage Congress to pursue deficit-neutral reforms that overhaul CAMT and protect our tax base in the least cumbersome way possible.

IV. SECURE AMERICA'S GLOBAL LEADERSHIP

In recent years, a wave of isolationism and "America First" politics has prompted calls for our country to focus inward and shirk its global responsibilities. Supporters have advocated abandoning our democratic allies around the world, closing off our economy from trade, and shutting our borders. [212] They claim that the United States cannot both solve its domestic problems while maintaining an active role on the international stage. But these neo-isolationists couldn't be more wrong: active global engagement is not a zero-sum game, but a mutually beneficial way to strengthen America's security and prosperity while promoting our values around the globe.

At a time when authoritarian powers in Russia, China, and Iran have increased geopolitical tensions and threatened the democratic order, the United States must reinforce rather than retreat from its role as the leader of the free world in what could potentially be a second Cold War. PPI's blueprint would support these objectives by maintaining a smart national security spending strategy and encouraging pragmatic reforms to our procurement, trade, and immigration systems. These reforms would strengthen partnerships abroad, support our beleaguered allies in Ukraine and Taiwan, and provide large benefits for the American economy.

20. Increase Appropriations to Meet Our Research and Development Goals

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. These investments not only make the United States more internationally competitive by keeping it on the cutting edge of technology and advancement but also reinforce our advantages over foreign adversaries such as China and Russia. The last time the United States found itself in a Cold War, the federal government spent as much as 1% of GDP on non-defense R&D as it fought to win the space race and put a man on the moon. Unfortunately, this commitment to science has eroded over time, with today's federal spending on non-defense R&D having fallen by over two-thirds from this historic high.[213]

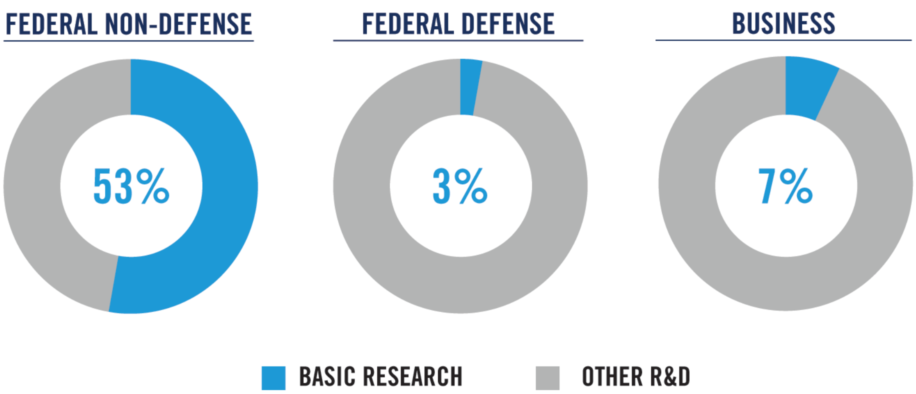
In efforts to partially reverse this long-term trend and better position the United States in any potential future conflicts with China, lawmakers passed the bipartisan CHIPS and Science Act of 2022. In addition to the billions of dollars in tax incentives for companies to build semiconductors in the United States, it also authorized a total of $200 billion in additional funding for the National Science Foundation, National Institutes of Standards and Technology, and the Department of Energy Office of Science. These planned scientific investments promised to strengthen the U.S. position as a global leader in developing the technologies of the future and restore America's commitment to scientific advancement. [214]

Yet while the money for semiconductors managed to make its way out the door, the increased funding for research has not. Congressional appropriations for these three science agencies not only failed to meet the higher amounts authorized by the CHIPS and Science Act in 2023 and 2024 — they fell below appropriations from the year before the legislation even passed.[215] This failure was in part due to the Fiscal Responsibility Act, a bipartisan budget bill in 2023 that imposed discretionary spending caps and limited the growth of any discretionary appropriations. Rather than take steps to remedy structural drivers of debt, policymakers cut vital public investment into the nation's future. Worse yet, authorization for these investments is set to expire after 2027, at which point public investment is likely to continue its pre-CHIPS trend towards historic lows as a fraction of economic output.

PPI proposes to massively expand federal support for research and development to bring it back to its historical average. This funding would be more than enough to fully appropriate the authorized CHIPS and Science programs and extend that funding to support scientific research in perpetuity. But we would go even further by using this additional funding to massively expand federal support for basic research activities — those that explore foundational scientific principles with no explicit commercial objectives in mind. Basic research is 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. Yet unlike applied research and development, the other two stages in the R&D process, the private sector has little incentive to focus on basic research because individual businesses are generally unable to predict or capture the benefits for themselves **(Fig. 12)**.

Past federal investments into basic R&D have proved enormously successful. For example, a study of NIH's Human Genome Project estimated that the project generated an astonishing $178 for every $1 spent, resulting in nearly $1 trillion

FIGURE 12. BREAKDOWN OF RESEARCH & DEVELOPMENT FUNDING BY SOURCE



Note: Government figures reflect federal budget authority in 2021 (the most-recent year for which the data is available) and which may not be reflective of federal outlays in a particular year.

Sources: National Science Foundation [216, 217, 218] and PPI calculations.

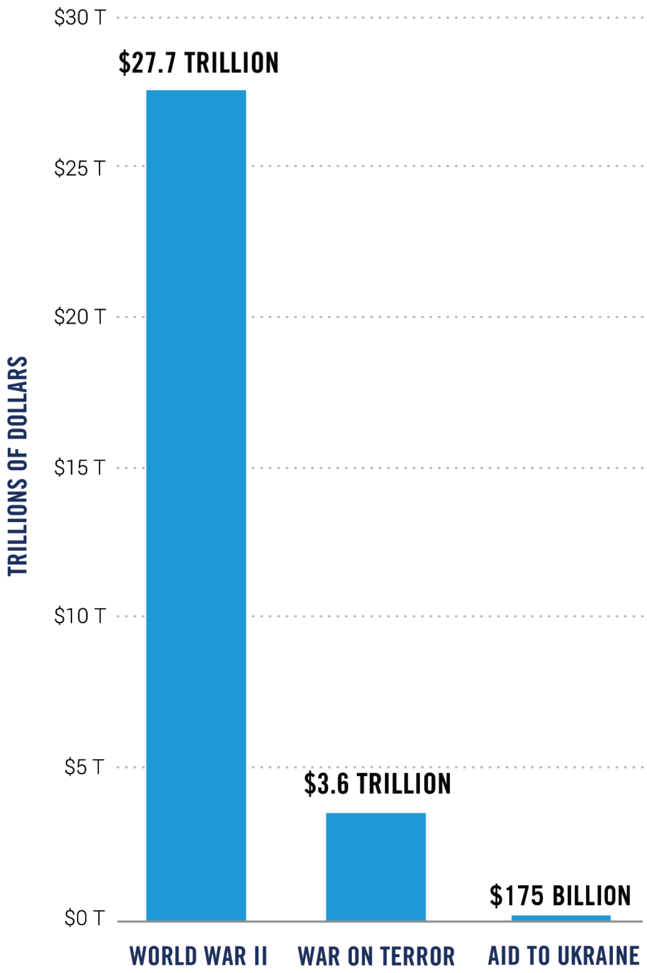
of additional economic growth.[219] Although few public R&D projects will generate such immense gains, other analyses have estimated an average return between 150% and 300% on nondefense R&D investment.[220] Similarly, investing more into basic research will enable the United States to successfully take a lead on emerging technologies of tomorrow, such as artificial intelligence. Beyond fueling buzzworthy chatbots, artificial intelligence (AI) is already being used in self-driving cars, in discovering new drugs and diagnosing diseases, and in improving the electrical grid.[221] Keeping our country at the forefront of research into AI and other promising technologies is good for both economic growth and national security.

21. Defend Democracy with Smarter Military Spending

National security is one of the federal government's most fundamental responsibilities, especially in an era of growing geopolitical tensions and great-power rivalry. In Europe, Putin's invasion of Ukraine has brought war right to NATO's doorstep for the first time in decades.[222] In the Indo-Pacific, increased Chinese belligerence has challenged our democratic allies and threatened the independence of Taiwan.[223] As major powers act more aggressively, dangerous non-state actors also remain a threat, as evidenced by Hamas's terrorist attack on October 7, 2023.[224]

The United States must be prepared for an era of emboldened geopolitical adversaries. This not only means preparing our own military for potential conflict, but making investments in our allies abroad such as Ukraine. If Putin were to overrun Ukraine, victory might embolden him and other autocrats to pursue more of their

FIGURE 13. U.S. MILITARY SPENDING ON AID TO UKRAINE COMPARED TO OTHER MAJOR CONFLICTS



Note: Spending on past conflicts reflects contemporary spending as a percent of U.S. GDP multiplied by projected U.S. GDP at the end of 2023. War on Terror spending includes Overseas Contingency Operations from 2001-2021. World War II spending includes defense spending from 1942-1946 in excess of 1941 level as a percent of GDP.

Sources: Council on Foreign Relations,[225] Congressional Research Service,[226] Office of Management and Budget,[227] Congressional Budget Office[228] and PPI calculations.[229]

antagonistic ambitions. China might be convinced by this success to attack Taiwan, potentially entangling the U.S. military in a great power conflict. This outcome would be not just horrific in its toll on human lives, but also tremendously expensive — a conflict on the scale of World War II would cost U.S. taxpayers roughly 160 times as much as all the aid it has sent to Ukraine over the past three years **(Fig. 13)**.[230] Improving military readiness at home, and funding the protection of democracy abroad, are sound moral and fiscal investments in global and national security.

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.[231] Policymakers shouldn't undermine these crucial investments, or shortchange our allies in maintaining our military's qualitative superiority just to save the federal budget a few pennies on the dollar.

But none of these realities mean the Pentagon needs a blank check, as some leading Republican lawmakers have proposed.[232] Congress consistently appropriates billions a year in defense money for parochial projects with sometimes tenuous connection to national security objectives.[233] In fact, as recently as 2023, appropriators gave the Pentagon $43 billion more than they even asked for.[234, 235] Cutting out money the Pentagon doesn't even want is low-hanging fruit for fiscal savings.[236]

Likewise, there is clearly space for the Pentagon to make smarter spending decisions. 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.[237] More recently, other reports from the Government Accountability Office and the Department's own Inspector General have likewise noted areas for smarter procurement and spending decisions.[238, 239]

Accordingly, PPI supports largely maintaining our baseline defense spending trajectory but reallocating that spending to better support our national-security objectives. We recommend establishing a commission of retired military and civilian defense officials to identify common-sense savings from wasteful procurement practices and unnecessary personnel expenses.[240, 241] This commission could be structured like the Base Realignment and Closure Commissions (BRAC) that led the process for shutting down old or unneeded military bases up until 2005. BRAC made recommendations based on objective, transparent criteria and those recommendations were automatically implemented unless stopped by Congress, which improved its chances of success by not forcing any members of congress to actively vote for shuttering facilities in their district.[242] A similar process today could help identify wasteful spending that would be better spent aiding the defense of global democracy. If geopolitical tensions continue to rise and necessitate additional spending beyond what can be offset by cutting inefficiencies, the fiscal space created by other recommendations in this blueprint will give policymakers the flexibility they need to meet those challenges.

22. Cut Tariffs and Make Trade Deals

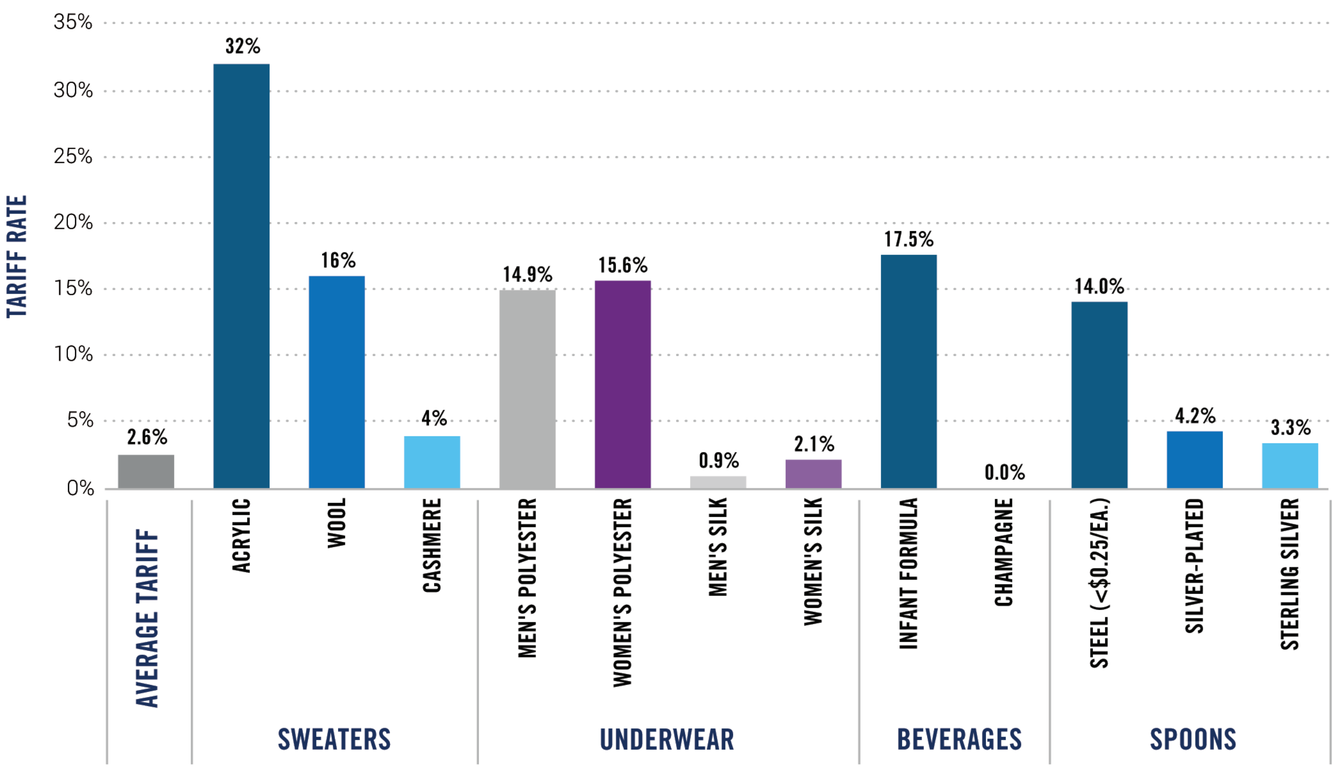
Taxes on imported goods, known as tariffs, can serve a strategic purpose in some limited contexts. For example, targeted and temporary tariffs can create leverage for the United States in negotiating freer trade with foreign countries that have their own barriers. They can also be a tool for pushing back against unfair trade practices such as intellectual property theft or export subsidies, protecting national security interests, or shielding infant domestic industries as they gain expertise and develop the economies of scale needed to compete in the global marketplace.[243]

But the tariffs implemented by the Trump administration — and largely continued by the Biden administration — principally raised costs for working Americans without forming the basis for any comprehensive trade strategy.[244] Instead of enhancing national security or helping negotiate better deals, Trump's trade wars alienated partners at the very moment in which the United States should have been looking for new export markets and forging a stronger coalition to roll back abusive Chinese policies such as coerced technology transfer and mass-scale subsidization of manufacturing.[245] Several analyses show that the U.S. actually lost manufacturing and construction jobs, and also farm income, as a result of the Trump tariffs. In addition to provoking the European Union, the United Kingdom, India, China, and others to place "retaliatory" tariffs on American exports, the Trump tariffs directly raised those industries' input costs and therefore eroded their competitiveness.[246, 247, 248, 249]

Even the pre-Trump tariff schedule contains a mess of antiquated provisions which do nothing to concretely further working Americans' interests, often single them out for especially high taxation, and are ripe for far-reaching reform.[250] The Harmonized Tariff Schedule contains over 11,000 separate lines taxing everything from infant formula to playing cards.[251] Beyond being opaque and excessively complicated, they're also discriminatory and regressive. Many women's clothing items, for example, are explicitly taxed at higher tax rates than men's.[252] And items like spoons and sweaters face higher tariff rates if they're made out of cheaper materials like steel and acrylic, respectively, than if they're made from expensive materials like sterling silver or cashmere **(Fig. 14)**.[253] As a result, lower-income and working Americans must bear these higher costs of maintaining a century-old tariff system.

Yet despite these problems, Trump has proposed to make them dramatically worse by replacing all income taxes with tariffs.[254] Tariffs in general are a poor form of taxation because they raise prices by much more than the government receives in revenue and damage some parts of the economy to protect others.[255] For these reasons, no successful economy, apart from extremely small island states such as the Bahamas, relies on tariffs for much of its revenue. Trump's proposed 10% global tariff and even higher tariffs on Chinese-made goods, added on top of the current system, would likely yield an average tariff rate around 12%. That would be in the range of Zimbabwe's 11.4% average tariff, Iran's 12.0%, and Venezuela's 13.6% — hardly suitable models for U.S. tax policy.[256] If implemented, this disastrous approach would raise taxes on the average American household by up to $5,000 while cutting taxes on families in the top 0.1% by

FIGURE 14. TARIFF RATES ON SELECTED HOME GOODS



Sources: Office of Management and Budget,[257] United States International Trade Commission,[258, 259] and PPI calculations.[260]

300 times as much, blow up our national debt, and likely induce shortages of goods from energy to shoes.[261, 262]

Instead of destroying our economy by isolating it from the world, the United States should encourage open rules-based trade and create new markets for American goods. Policymakers should start by immediately eliminating the Trump-era tariffs on critical inputs such as steel and aluminum, as well as tariffs on Chinese goods that are not critical for national security or the result of unfair state subsidies. Next, they should sunset all tariffs on goods that aren't produced in the United States because in those instances there is no domestic industry to protect. Policymakers should also eliminate the outright discrimination in our tariff schedule by equalizing rates on gendered items such as clothing or eliminating said tariffs altogether. Finally, the schedule for any remaining tariffs should be dramatically streamlined to consolidate categories, simplify rates, and reduce regressivity.

PPI also urges the next administration to re-enter or forge new trade agreements with our partners abroad. Easy opportunities include rejoining the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and concluding a free trade agreement with the United Kingdom. These agreements strengthen our partnerships internationally, promote production and sale of U.S. goods through larger markets, and lower costs for the American consumer. Even more importantly, agreements such as the CPTPP will help the United States meet the China challenge by building alliances that give us the upper hand in setting international trade law in the Pacific for the 21st century on issues ranging from market access to subsidization, digital trade, and intellectual property rights.[263]

While reducing tariffs and strengthening our trade relationships would create jobs and benefit Americans overall, there are inevitably some workers and communities for whom the costs outweigh the benefits. But it is shortsighted and wrong for policymakers to put the needs of the few above the needs of the many by abandoning the broad benefits of trade. Instead, PPI encourages them to complement trade deals with other policies in Section VIII of this report that would strengthen the social safety net and expand skills-based programs to help all displaced workers — whether their displacement is caused by trade, automation, or some other factor — find good, well-paying jobs.[264]

23. Repeal Counterproductive Protectionist Policies

Public procurement regulations are laden with a host of protectionist policies that prioritize or require agencies to purchase American goods and services over foreign-produced counterparts, even if those foreign goods are offered at a lower price for equal quality by American allies. These protectionist "Buy American" requirements come at significant cost to both current and future generations: one study found that, in 2019, "Buy American" requirements led American taxpayers to pay almost 6% more for publicly procured goods on average than they would have if government agencies had been allowed to choose the most price-competitive option among goods meeting safety, quality, security, and other specifications.[265] If these costs aren't borne by present-day Americans through higher taxes, they are imposed on future generations through reduced public capital and infrastructure. Moreover, because each additional dollar that goes to purchasing American-made goods above the free-trade equilibrium is a dollar that is not spent creating jobs elsewhere in the economy, "Buy American" requirements cost jobs and the American economy overall.[266]

To make sure taxpayers can get the greatest bang for their buck on public investments, PPI proposes to repeal all "Buy American" requirements in public procurement and contracting that are not essential for national security. We would also repeal the Foreign Dredge Act and the Jones Act, which require dredges and ships operating in U.S. waters to be built, registered, and staffed in America. Contrary to helping the American shipping industry's development, these outdated laws unnecessarily increase the cost of transporting goods by water, harm the industry and act as a broader drag on the American economy.[267, 268] The fact that, as of 2022, U.S. shipping yards were building only five commercial vessels while the EU was building 315, South Korea was building 734, and China was building 1,794 is evidence that we need a new approach.[269] Repealing these outdated laws will help boost the returns on our public investment spending, improve economic productivity, cut costs for consumers, and generate savings for taxpayers in the form of discretionary spending savings that don't undermine our economic future.

24. Modernize Our Immigration System for the 21st Century

America is both a nation of immigrants and a nation of laws. An unprecedented rise in unauthorized border crossings have strained our asylum system and put pressure on cities that must handle the rapid influx of people.[270] At the same time, the flow of deadly fentanyl that is coming across the southern border is destroying communities and the lives caught in its wake.[271] It is clear that policymakers need to put better policies and more resources in place to secure our border and enforce our nation's immigration laws.

However, taking steps to secure the border should be complementary to, not exclusive of, reforming those laws to secure the clear economic benefits that more legal immigration could bring. The U.S. labor market has been tight since the end of the pandemic, with more jobs available than workers to fill them. At its peak in mid-2022, there were two job openings per unemployed worker and today that ratio sits at 1.2.[272] This persistently tight labor market has both increased demand for goods and services, because workers are able to negotiate higher wages that they then spend, and prevented employers from meeting that demand. These forces together put upward pressure on inflation. Rather than take jobs from Americans, allowing skilled workers to come and fill these roles would provide Americans with more goods and services at lower cost. Immigrants also contribute to the dynamism and innovation of the nation's economy. Despite being merely 14% of all American citizens, immigrants account for a quarter of its patents, and they start businesses at higher rates than their native-born counterparts.[273]

In addition to boosting economic growth, immigration reform can help directly mitigate the long-term fiscal challenges of an aging native-born population. Only 59% of native-born Americans are considered "working-age" (between 18 and 64), compared to 77% of foreign-born people.[274] While native-born Americans' participation in the labor force will decline in future years as a result of a higher average age, the working-age immigrant population will hold steady and the number of working-age children of immigrants will grow.[275] By reinforcing our workforce, these immigrants and first-generation Americans will help shore up Social Security and Medicare's finances. Policymakers should not wait to modernize our immigration system so that it prioritizes both border security and welcoming more skilled workers to grow our economy and reduce inflationary pressures.

V. STRENGTHEN SOCIAL SECURITY'S INTERGENERATIONAL COMPACT

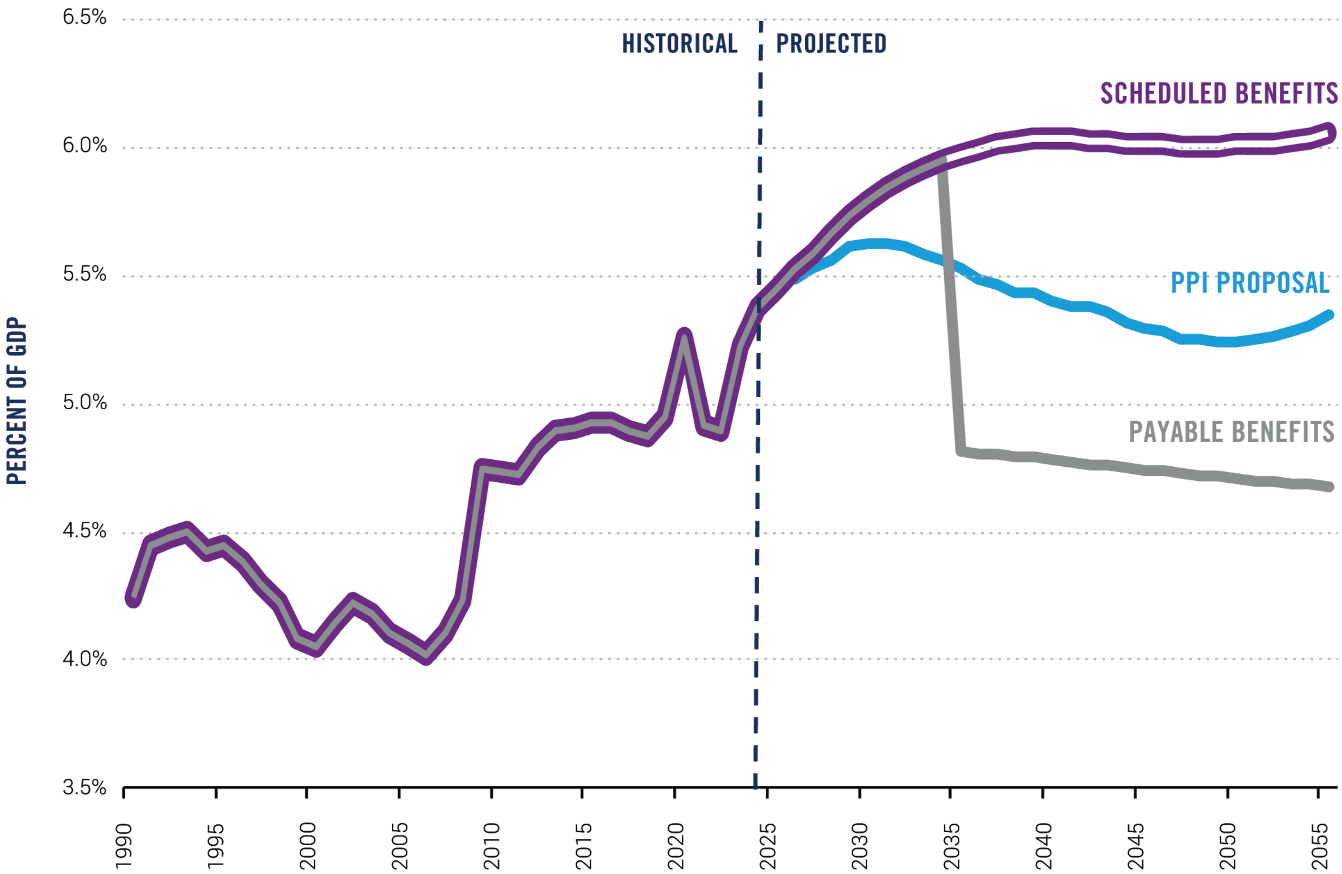
Social Security is the largest program in the federal budget and consists of two components: Old Age and Survivors Insurance (OASI) and Disability Insurance (DI). OASI provides monthly income to old-age beneficiaries who worked in jobs covered by Social Security for 10 years or longer, as well as their spouses and children under the age of 18. In 2023, OASI paid $1.23 trillion in benefits to 53 million retired workers and 6 million surviving relatives, while DI paid $152 billion in benefits to 9 million beneficiaries.[276] Social Security was designed to be an "earned-benefit" program, with the idea that dedicated payroll taxes serve as a worker's contribution into Social Security and establish a link between contributions and benefits. But in reality, the payroll taxes paid by the current generation of workers and retirees have not been enough to pay for the benefits they've supposedly earned.

In years when 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.[277] 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.[278] 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 2040, compared to 3.4 to 1 in 2000.[279]

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 at least 20% **(Fig. 15)**.[280] 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 into poverty.[281] 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 face many financial challenges that their elders 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 younger workers and older beneficiaries.

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, surviving spouses, and people with above-average lifespans who are likely to outlive their savings. We also restructure the program to address inequities in the current

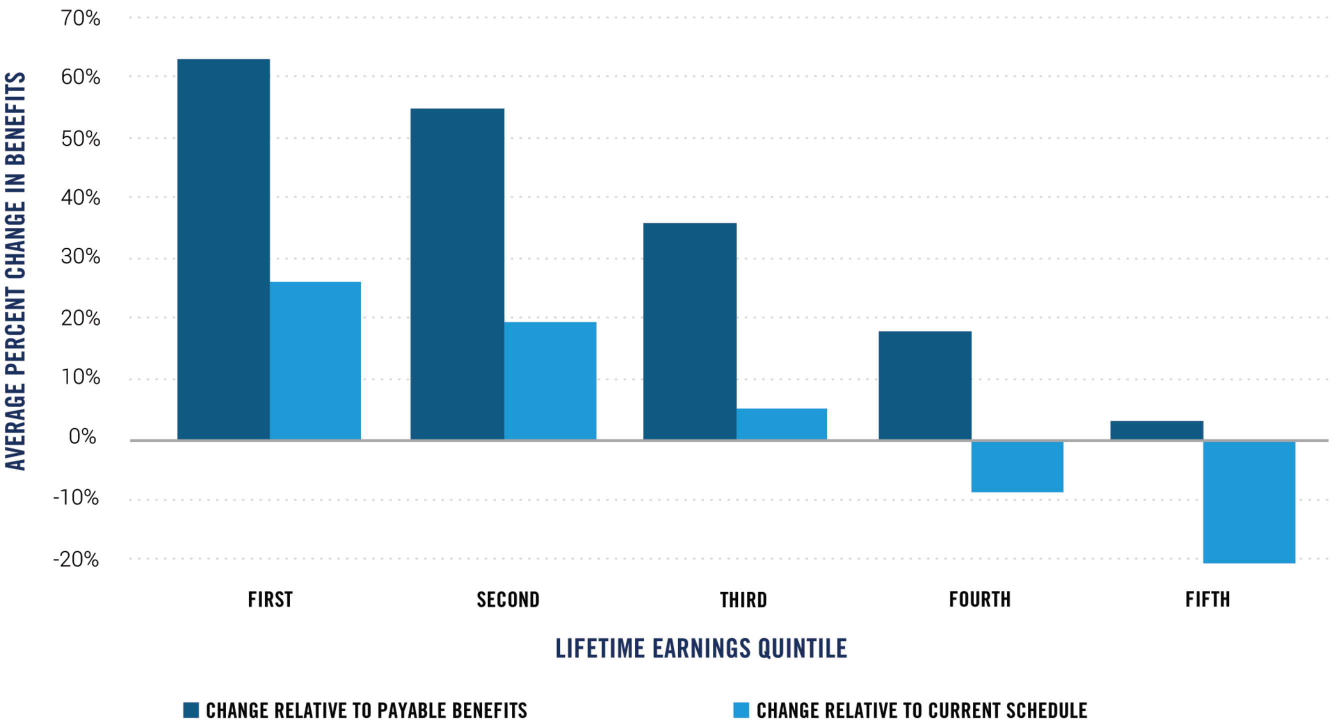
FIGURE 15. SOCIAL SECURITY SPENDING



Note: Chart depicts projections using the assumptions of Social Security's trustees, which differ from those of the Congressional Budget Office. It does not include the effects on program outlays from proposals outside the Social Security section of this report. The Scheduled Benefits scenario assumes benefits continue to be paid based on the current formula even after the trust funds are exhausted. The Payable Benefits scenario assumes benefit payments are limited to dedicated revenue after the exhaustion of the trust funds, which is what would occur automatically under current law.

Sources: Social Security Trustees ,[282] Urban Institute DYNASIM,[283] and PPI calculations.

FIGURE 16. PPI PLAN COMPARED TO PAYABLE AND SCHEDULED BENEFITS



Note: Chart shows the average benefit change under PPI's plan for OASI beneficiaries who are claiming benefits under the new PPI formula in 2055. The Scheduled Benefits scenario assumes benefits continue to be paid based on the current formula even after the trust funds are exhausted. The Payable Benefits scenario assumes benefit payments are limited to dedicated revenue after the exhaustion of the trust funds, which is what would occur automatically under current law.

Sources: Urban Institute DYNASIM,[284] Social Security Trustees,[285] PPI calculations.

benefit structure, including provisions that create unfair gender disparities or penalize work at a time when policymakers should be encouraging more of it.

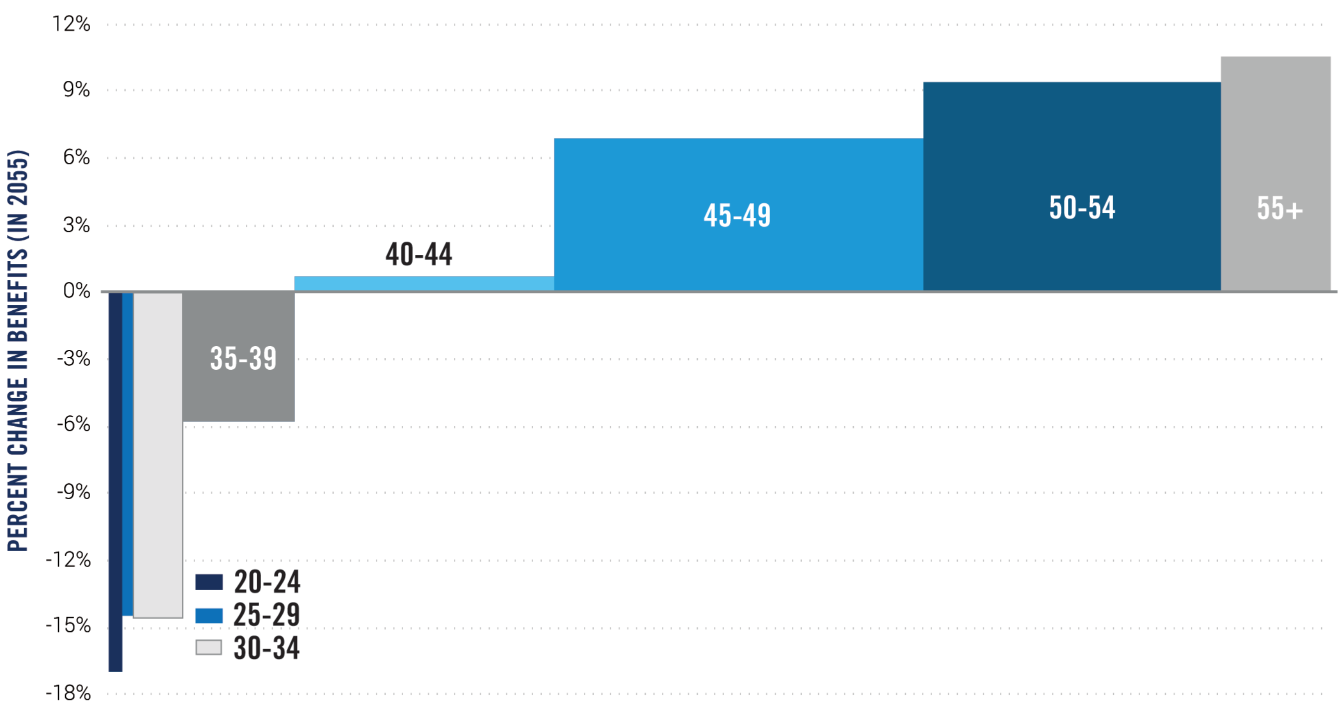
Altogether, PPI's proposed reforms are the equivalent of fixing roughly half of the program's shortfall over the next 30 years through benefit changes and half through greater contributions from workers. Beneficiaries in the top fifth of the lifetime earnings distribution would absorb cuts relative to the current formula that are on average comparable to the ones already slated to occur under current law **(Fig. 16)**. By contrast, workers in the bottom quintile would receive monthly benefits that are roughly a quarter higher than they could receive under the current formula once they retire. And while the median-income worker would receive a small cut if they work a shorter-than average career, they would receive an increase in benefits over the current schedule if they stayed in the labor force longer **(Fig. 17)**. By 2055, PPI's plan would reduce the poverty rate for Americans 70 years or older by roughly 10% relative to current policy, and more than 40% relative to the scenario in which policymakers do nothing to shore up Social Security's finances.[286] In short, PPI's Social Security reforms would make the program substantially more progressive and pro-work while generating savings that can be invested in younger generations.

25. 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 2024 is equal to 90% of the first $1,174 in average monthly earnings, plus 32% of those earnings between $1,174 and $7,078, and 15% of those earnings above $7,078.[287] 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. Benefits are only based on an individual's 35 highest-earning years, so 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

FIGURE 17. PPI PROPOSAL IMPACT ON THE AVERAGE MIDDLE-QUINTILE BENEFICIARY BY YEARS WORKED



Note: Chart shows the average benefit change relative to scheduled benefits for a worker in the middle fifth of the lifetime earnings distribution in 2055 once that beneficiary begins claiming benefits. The Scheduled Benefits scenario assumes benefits continue to be paid based on the current formula even after the trust funds are exhausted. Changes in relative benefits are disaggregated by the number of years the beneficiary has worked. The width of each bar is proportional to the approximate percentage of middle-quintile earners with each range of work years. Fewer than 1% of beneficiaries with median quintile lifetime earnings are projected to work fewer than 20 years so the effects on their relative benefit change were omitted.

Sources: Urban Institute DYNASIM [288] and PPI calculations.

FIGURE 18. PPI'S PROPOSED WORK-CREDIT BENEFIT STRUCTURE

CREDIT LEVEL	YEARS EARNED	MONTHLY BENEFIT
Basic Credit	1 to 20	$100.00
Standard Credit (80% of Basic)	21 to 50	$80.00
Bonus Credit (25% of Basic)	51+	$25.00

Note: Figures are in 2024 wage-indexed dollars and assume Social Security is claimed at the maximum benefits age.

in the high-replacement rate brackets, there is a low return to additional work.[289] 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% lower than the average man's benefit, resulting in women having a lower standard of living in retirement than men.[290, 291] This discrepancy stems from the fact that women take more time out of the workforce to serve as caregivers than men do and, even among full-time workers, women's average annual earnings are only about 84% of what the average man earns.[292, 293]

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 income that is roughly equivalent to working 40 hours per week for 50 weeks at a wage of $13 per hour (which is the 5th percentile of hourly wages for full-time workers, meaning 95% of full-time workers would qualify for a full work credit in a given year).[294, 295] 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 40 hours per week working at federal minimum wage for 50 weeks in a given year, they would be awarded 0.6 credits for that year. Similarly, if someone earned the equivalent of 12 hours per week working at $13 per hour for 50 weeks in a given year, they would be awarded 0.3 credits for that year. Both the threshold for earning work credits and the value of the credit in retirement for each cohort would be tied to the average wage index.

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 would be set at $100 in 2024 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% of the Basic Credit. After accumulating 50 years of work credits, additional "Bonus Credits" would continue to be awarded at 25% of the Basic Credit level **(Fig. 18)**. With these benefit amounts, anyone who works at least 20 years will receive a benefit that keeps them out of poverty.

Basing benefits on work instead of income would make the system more progressive by ensuring a low-skilled worker and their college-educated boss receive the same benefit in retirement if they work for the same number of years, despite the fact that the former had much lower lifetime earnings. This structure will cut costs by reducing benefits to retirees who have earned high incomes over their lifetimes, while alleviating poverty among lower-income retirees. Offering higher benefit credits for the first 20 years also provides additional support to low-income workers, who generally work shorter-than-average careers.[296] Additionally, the new system incentivizes Americans to work longer to accumulate more work credits and receive higher benefits. To encourage "partial retirements" that have a myriad of social and health benefits, Americans can continue to earn work credits after claiming Social Security. Partial retirement helps keep older workers, who tend to be well-qualified and productive, in the labor force for longer and smooths the harsh transition individuals face when they move from full-time work to retirement.[297]

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.

We propose that the new formula be gradually phased in for new beneficiaries over 10 years. Beneficiaries who turn age 62 in 2027 would have benefits calculated under both the old and new system, then be awarded a benefit equal to 10% of the work-credit benefit plus 90% of their benefit under the current formula. The proportion of the benefit based on the new formula would increase by 10 percentage points per year until it reached 100% in 2036 (when the transition to the work-credit system is complete).

26. 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 in 1960 or later, receives 100% of the benefit as calculated above.[298] But people can claim benefits as early as age 62, with reduced monthly benefits, and as late as 70, with increased monthly benefits.[299, 300]

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.[301, 302] 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 proposes to index the minimum and maximum benefits ages to longevity. Beginning with beneficiaries who turn age 62 in 2027, the maximum-benefit retirement age would increase by one month every two years. The minimum-benefit retirement age would increase by two months every year after until such time that it equaled the maximum-benefit retirement 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 would be actuarially adjusted to ensure equal overall benefits for Americans regardless of when they retire. The concept of a "normal" retirement age between the minimum and maximum benefits age is unnecessary and so would be eliminated under our plan to reduce any signal that suggests people should claim benefits before they need to.[303]

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% of the income distribution and the bottom 20% of the income distribution was 5.1 years, while for men born in 1960 this gap rises to 12.7 years.[304] Additionally, chronically 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 a price-adjusted average of the previous 10 years of earnings); and
- The beneficiary meets an asset test similar to the one that exists for Supplemental Security Income (SSI).

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 the average of their minimum and maximum benefits would be greater than the amount they would earn working full-time. 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% of the average of their last 10 years of income.

PPI's proposed 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.

27. 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). For the reasons explained in Recommendation 62, we believe it would make more sense for future COLAs to be based on a measure called the Chained Consumer Price Index For All Urban Consumers (C-CPI-U) that grew about 0.24 percentage points per year more slowly than did CPI-W over the past decade.[305, 306]

We would also impose a dollar-value cap on COLAs for current beneficiaries, such that the maximum COLA received by any OASI recipient will be equal to the COLA that a person who retired at the maximum benefits age with 50 work credits could receive under the new formula. This measure will cut costs — particularly in the form of benefits 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 C-CPI-U 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).[307] We propose to negate this problem by re-indexing COLAs to average wage growth, which grew 1.08 percentage points more quickly than C-CPI-U over the past decade, 24 years after the beneficiary has reached the minimum benefits age.[308, 309] This change will result in COLAs which are more generous for beneficiaries who have lived longer than the approximate median life expectancy at the earliest eligibility age.[310] The enhanced COLA bump-up would take effect when the first retirees under the new system will have been eligible for Social Security for 24 years. Unlike the standard COLA, there would be no cap on the boosted COLA.

28. Reform Survivor Benefits to Reduce Poverty

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.[311] 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% of the couple's Social Security benefits when the other spouse dies. Initial benefits for couples would be reduced by 10% 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).[312] 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 2027 or later.

29. 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 70% since 1950.[313] 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.[314] 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-benefit retirement age would be capped at $1,200 per month in 2027 (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 2027 or later.

30. 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.[315] 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 a physically demanding job 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.[316]

31. Increase Taxes on High-Income Social Security Benefits

Most proposed reforms to Social Security (except those relating to COLAs) don't make changes to benefits for people currently collecting benefits from the program. This principle is important for preventing the disruption of retirement security for people living on a 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% Social Security benefits.[317] PPI proposes to also make benefits 100% taxable for individuals and couples with combined incomes above $45,000 and $58,000, respectively **(Fig. 19)**.

FIGURE 19. TAXATION OF SOCIAL SECURITY BENEFITS

PERCENT OF SOCIAL SECURITY BENEFITS SUBJECT TO INCOME TAX		IF BENEFICIARY HAS INCOME ABOVE. . .	
		INDIVIDUALS	COUPLES
Current Law	0%	$0	$0
	50%	$25,000	$32,000
	85%	$34,000	$44,000
PPI Proposal	100%	$45,000	$58,000

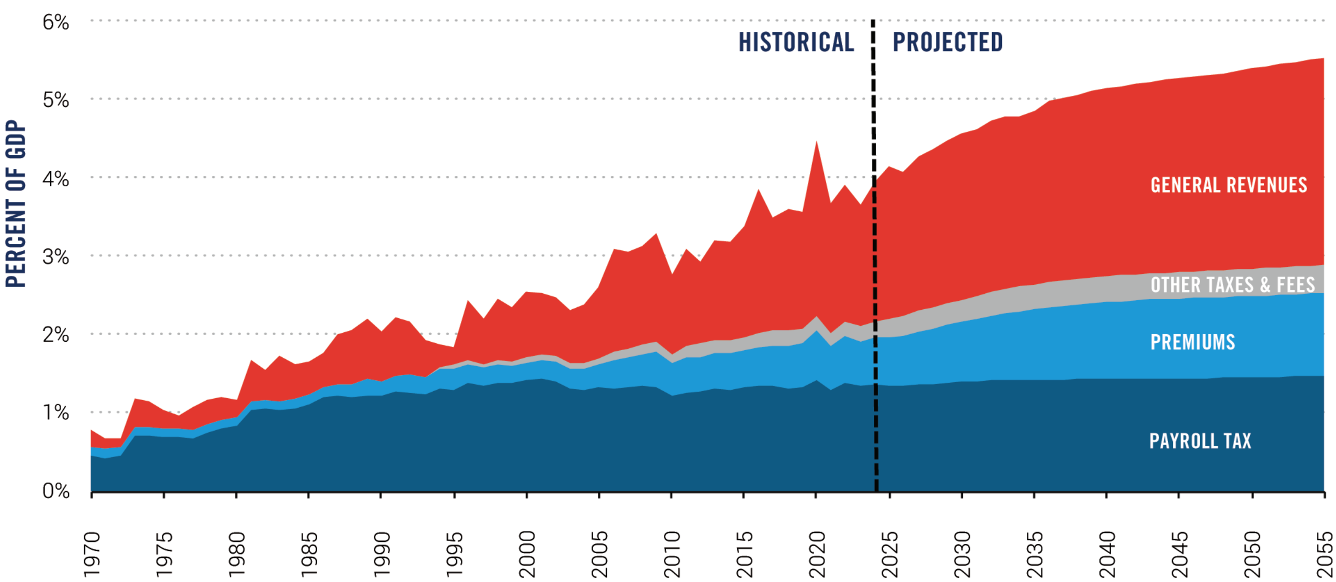
Note: Unlike many provisions of our tax code, neither the current-law thresholds nor PPI's new thresholds would be indexed to grow with inflation.[318]

VI. MODERNIZE MEDICARE

Medicare is the largest health insurer in the United States, covering nearly 67 million Americans aged 65 and older and/or receiving Social Security Disability Insurance benefits in 2023.[319] Outside of net interest payments, it is also the fastest-growing line item in the federal budget, with spending as a percent of GDP expected to increase by 70% over the next 30 years.[320] Two-thirds of this increase is due to rising per-person health costs, while one third is due to the aging of our population.[321] By 2055, there will be nearly 50% more Americans aged 65 and older than there were in 2022, and close to three times as many Americans aged 85 and older.[322] The number of working-age Americans, meanwhile, will only increase by 4%.[323] 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 next section of this report (Section VII) details ways to control the underlying 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.[324] This disjointed structure creates complexity for beneficiaries and misaligned incentives for providers. Moreover, because only about half of Medicare spending is currently 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. 20)**.[325]

FIGURE 20. SOURCES OF REVENUE FOR MEDICARE



Note: Projections are based on current law.

Source: Medicare Trustees Report.[326]

PPI's proposed 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 at or below what they are projected to be under current law. These reforms would be a win for beneficiaries and taxpayers alike.

32. 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% payroll tax. Beneficiaries must pay an initial copayment 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% 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.[327]

The 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.[328]

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 the Center for Medicare and Medicaid Services (CMS) that has one set of reimbursement rates (as opposed to the current system, where reimbursement rates differ between Parts A and B).[329] The combined AB plan would then be paired with the prescription drug benefits package of an enrollee's choice. Enrollees' premiums and deductibles for a Medicare One plan would be set based on the package of prescription drug benefits. PPI's proposal also leaves open the option for lawmakers to add additional benefits, such as coverage for hearing, vision, and/or dental services — which many Medicare Advantage plans already provide — to Medicare One, but only if they are fully financed with income-based premiums rather than higher taxes on working Americans.[330]

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 would 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.[331] This proposal would also strengthen incentives for Medicare to make investments and improve benefit designs to 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% of coinsurance/copayment rates.

33. 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% 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).[332] Taxpayer subsidies for Medicare Advantage plans are based on a statutory benchmark set between 95% and 115% 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.[333]

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 Medicare Advantage patients was an average of 12% less than spending on traditional Medicare patients in 2022, adjusted for health risk factors.[334] 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. 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 83.5% 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.

Moving subsidies from being plan-specific to being based on a benchmark would better incentivize plans to pursue greater efficiency in managing care because doing so would no longer reduce the subsidy they receive from taxpayers.[335] 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.[336]

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 0.3 percentage points per year for the first five years until it reaches 82%, and by 0.05 percentage points per year thereafter until reaching 80% 50 years later. Even with this provision, PPI estimates that average Medicare premiums paid by enrollees will not increase compared to current law, ensuring that our policy will not create additional burdens for seniors.

34. Create a Budget-Neutral 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. A Medicare buy-in regime would reduce costs on the private insurance market by taking sicker people, who add risk to the insurance pool, out.[337] 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 at least 80% 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 Affordable Care Act (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.

35. Expand the Use of Site-Neutral Payment Policies

Every year, Medicare pays tens of billions more for services performed in a hospital than it does for the same services performed in an outpatient clinic. While this distinction might make sense in some limited circumstances, such as select operations in long-term care hospitals for which the unique challenges for providing care can potentially justify the higher rate, there is usually no good reason for taxpayers to pay more for the same service just because of where it is delivered.[338, 339] The current structure not only increases costs to taxpayers, but to beneficiaries as well, increasing cost sharing for Medicare beneficiaries by an estimated $1.5 billion annually.[340] It has also encouraged large hospital systems to buy up private physician offices for the primary purpose of charging higher reimbursement rates, creating more anti-competitive monopolies in the health-care sector.[341]

Thankfully, lawmakers are beginning to take action. The bipartisan Site-based Invoicing and Transparency Enhancement (SITE) Act introduced in 2023 would equalize reimbursement rates between independent physician offices and hospital outpatient departments that are located outside their hospitals' main campuses.[342] This legislation would remove a clause that previously allowed these off-campus clinics or emergency rooms to charge the higher hospital rate for services, despite the services being nearly identical to what they would receive at an independent physician office. It would also improve the tracking of provider billing by giving them a unique identifier number that differs from their off-campus settings.

PPI supports these reforms, but believes they should only be a first step. Our plan would build upon the SITE act by applying site-neutral standards to as many payments as possible, including routine outpatient services that can be performed in both a hospital and a smaller clinic, such as imaging, routine check-ups, or fulfilling drug prescriptions. The same rules would apply to all surgical operations that can be safely administered in an independent physician's office, with payment being equivalent regardless of where it was done.[343]

36. Rebase Medicare Payment Rates on Current Levels

In 2013, the Budget Control Act of 2011 triggered a 2% 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 as an offset for other policies with fiscal costs.[344] It's clear this cut is here to stay, but current-law projections nevertheless show it expiring after 2031 (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 permanently reset provider reimbursement rates at the level they would be if the Medicare sequester were extended in perpetuity after 2031.

37. Expand Telehealth Access in Medicare

For nearly two decades before the COVID-19 pandemic, Medicare only allowed beneficiaries who lived in rural areas to use telehealth health care services — health services which are done via telecommunication technologies rather than any in-person setting. Even then, Congress only allowed telehealth coverage for nine types of services. Patients needing to see a mental health professional or a speech pathologist, for example, had to see a physician in-person, regardless of where they lived. Policymakers were concerned that expanding access to telehealth would lead Medicare beneficiaries to consume more health-care services, and that this increase would outweigh any per-visit savings in health-care costs.[345]

But amid the widespread social-distancing measures adopted during COVID-19, Congress and the president granted the Department of Health and Human Services (HHS) the power to relax Medicare's restrictions on telehealth access. During this period, HHS expanded telehealth eligibility to an additional 240 types of services, accessible by rural and non-rural Americans alike, and allowed patients to receive care through phone calls, text messages, email, and video calls. As a joint PPI and Americans for Prosperity report demonstrated, the number of Medicare recipients receiving telehealth services increased by 7,400% between January and June of 2020. But rather than substantially consuming more health care and driving up costs, the number of doctors' appointments made by patients who used telehealth versus patients who didn't was not statistically different across most conditions (the few exceptions being visits for mental health and communicable diseases).[346]

Despite these promising results, the expanded telehealth access for Medicare beneficiaries ceased when the COVID-19 state of emergency ended. PPI would authorize HHS to restore the COVID-era rules that expanded telehealth coverage to Medicare beneficiaries. However, we would reimburse these services at slightly lower rates than in-person visits because they impose fewer costs on providers and require patients to meet their normal deductible before accessing benefits (which was not the case under COVID-era rules).[347] We also support empowering CMS to detect and prevent fraud and excessive spending within telehealth services, by allowing greater scrutiny for clinicians that are outliers in telehealth billing and requiring in-person visits before expensive services are ordered.[348] We believe this approach would expand choice and flexibility for Medicare patients across the country, without significantly increasing program costs.

38. 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.[349] Analyses have consistently found that the formula for IME payments overstates the actual indirect cost to teaching hospitals of hosting residents.[350, 351] PPI thus proposes cutting IME spending by as much as President

Obama proposed doing in his FY 2017 budget, adjusted for inflation since then.[352]

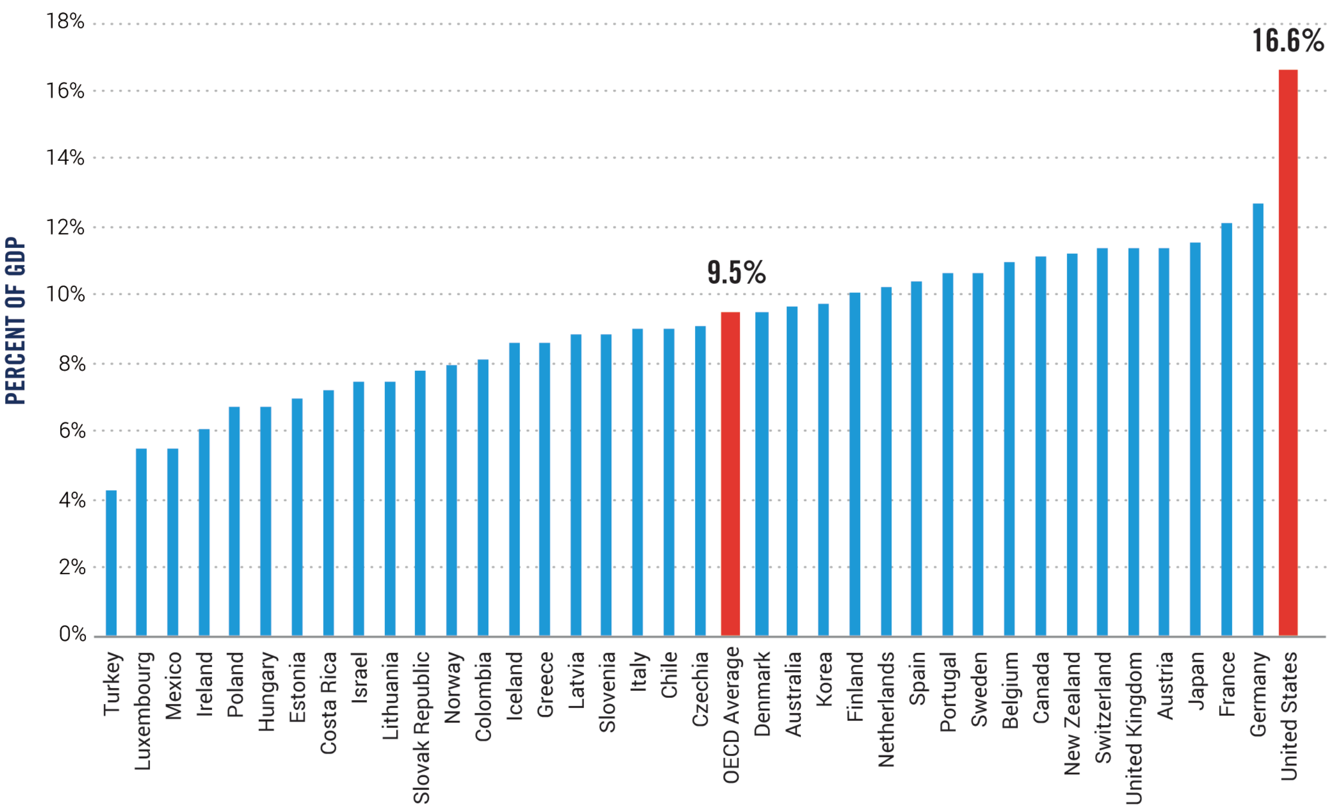
Additionally, we support reforming GME to ensure that the outcome standards of residency programs are held to accomplish the program's goal of training medical students to provide high-quality health care. If revising these standards saves money, Medicare should use the savings to expand the number of residency slots to meet the rising medical demands of our aging society — one study found the United States is expected to face a shortage of roughly 124,000 doctors by 2034 if current trends continue.[353]

VII. CUT HEALTH-CARE COSTS AND IMPROVE OUTCOMES

The American health-care system has materially improved since the Affordable Care Act (ACA) was passed in 2010. This transformative law helped reduce the uninsured rate from 16% in 2010 to 7.6% in 2023 and improved health outcomes on measures ranging from maternal health to cancer treatment for vulnerable populations that lacked coverage prior to its passage.[354, 355, 356] In addition to expanding insurance coverage, the law also had some modest success in curtailing the growth of health-care costs.[357] While national health expenditures still grew in the years after the ACA passed, they did so at a far slower rate than in the decade preceding it.[358]

But despite the ACA's successes, the United States still spends more on health care than almost any other country in the world — nearly 18% of GDP — and ranks near the bottom in access, equity, and overall health status when compared to other OECD countries **(Fig. 21)**.[359, 360] One reason is that several of the law's most promising cost-control mechanisms, such as the "cadillac" tax on expensive health plans, were delayed for years before being ultimately repealed.[361] Other provisions sought to promote a shift in payments from a "fee-for-service" model, where cost is based on quantity of care, to "value-based" care, where payment is based

FIGURE 21. NATIONAL HEALTH-CARE SPENDING IN 2022



Source: Organisation for Economic Co-operation and Development [362] on its quality. But fee-for-service still remains the primary metric for 60% of total payments.[363] Americans are also stymied by a lack of competition and transparent prices in the health-care system that prevent them from shopping around for cost-effective care.[364, 365]

Policymakers' failure to rein in these persistently high costs have left millions of households collectively shouldering more than $200 billion of medical debt. [366] PPI's proposals would tackle the drivers of this problem directly by building upon the ACA to better control costs so that all Americans have access to affordable health care. At the same time, our approach 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.

39. Set a Maximum Rate on What Providers Can Charge for Out-of-Network Care

The United States has higher health-care costs per person than most other developed countries. These costs generally 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.[367] 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. [368] 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 about two-thirds as quickly as spending did in the private system between 2008 and 2022.[369]

Some on the far 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.[370]

Instead, PPI proposes to 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, similar to the cap on charges for some emergency services created by the No Surprises Act.[371] But our proposal would be far more expansive: 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.[372] Providers would be prohibited from passing the costs of this care onto consumers through balance billing for any emergency or 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 concentration, and population density. CMS can subject provider monopolies to tighter rate caps, thereby discouraging these monopolies from further acquisitions and even potentially encouraging break-ups to promote competition in pursuit of higher payment rates.[373] Meanwhile, 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 (but these caps should not be set so high as to encourage monopoly pricing or incentivize consolidation in rural areas where competition currently exists).[374] Our plan proposes that the average rate cap under this policy should start at 200% of current Medicare rates then be reduced by 5 percentage points per year until the default price reaches 125% of Medicare reimbursement rates 15 years later.

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.[375] 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.

40. Make Prescription Drugs More Affordable

One of the greatest concerns Americans have about health care is the cost of prescription drugs.[376] Unlike many other areas of health care, Congress has actually taken steps in recent years to get them under control. The 2019 CREATES Act promoted greater competition by permitting generic drug developers to sue brand manufacturers who restrict access to samples needed for FDA testing, which helps facilitate the entry of more generic alternatives into a market.[377] The IRA also made substantial changes to bring down drug prices. Most notably, it permitted Medicare to set its purchase prices for certain drugs, bringing down their costs for the federal government and beneficiaries.[378] In addition, the IRA imposed a $2,000 annual out-of-pocket spending limit for Medicare beneficiaries, while reducing their required coinsurance rates for prescription drugs after reaching this "catastrophic zone."[379]

PPI believes policymakers should wait a few more years to determine if the IRA's price-setting policy has any adverse effects on innovation before expanding it to cover more drugs. But there are more steps than can be taken in the interim. Congress should prohibit "pay-for-delay" patent settlements, in which brand-name manufacturers pay generic companies not to bring lower-cost alternatives to market. This anticompetitive behavior keeps margins high for brand-name manufacturers at the expense of the American consumer. One 2019 study by the Federal Trade Commission found that the reduced competition resulting from these agreements costs consumers and taxpayers $3.5 billion in higher drug costs each year.[380] A more recent study found an even higher cost at $6.2 billion annually.[381] PPI also supports banning "evergreen patents," which allow a company to extend their exclusivity period for a drug by releasing a variant with minimal biological changes just prior to a cheaper generic alternative reaching the market.[382] Finally, Congress should reverse the problematic incentives they created for drug development by offering longer price protections to costly biologic drugs over potentially cheaper alternatives.[383] Taking these steps to increase the availability of generics will help control the rising costs of prescription drugs.

41. Create a Public Health Security Fund

Developing treatments for public health emergencies is enormously expensive and risky for pharmaceutical companies. There is often a mismatch between individuals' willingness to pay for new treatments and the high value of that innovation for saving lives. Or there may be cheaper existing alternatives that outcompete their innovations, even if a more-diverse set of treatments would be valuable. These factors push prices down and dissuade companies from making investments whose high costs they are unlikely to recoup.[384] Treatments and vaccines should be inexpensive and generally available for all in the middle of a public-health crisis, but this market failure means that the government has a critical role to play in funding research and development of new technologies that provide societal benefits well beyond those for the individual.

COVID-19 is the clearest example of why it is so important to be better prepared for public-health emergencies. The virus killed over one million Americans and nearly six million people abroad.[385, 386] The economic consequences were also devastating — the COVID-19 virus cost the U.S. economy at least $14 trillion in lost output, added trillions to the U.S. national debt, and could permanently reduce the next generation's wages because of academic learning loss.[387, 388] The enormous human and economic costs of COVID-19 should spur policymakers to invest much more in preparing for and preventing future pandemics, particularly when epidemiologists estimate that the annual probability of extreme epidemics is increasing each year from factors including increased globalization and climate change.[389]

Though we don't know when the next pandemic will happen, we do know that the world already faces a similar threat with the rise of bacteria and fungi that may eventually render our current antimicrobials useless. When antimicrobials are used, some individual bacteria or fungi may survive the treatment and reproduce.[390] Over time, natural selection creates strains that resist our best treatments if our technologies do not advance.[391] Antimicrobial resistance is already a problem — around 35,000 Americans died from resistant strains in 2019 — and it will get even worse if health-care providers can't access more advanced antimicrobials to supplement the ones currently available.[392] But creating new antimicrobials is very expensive, and the market for them is small because they would only be deployed after all currently available treatments have failed.[393] As with pandemic risks, there just aren't strong enough market incentives for private companies to invest in preventing "super" bacteria and fungi from evolving and killing many Americans.

There are also ongoing examples of public-health problems that the market has not stepped up sufficiently to solve. Opioid overdose deaths have risen steadily over the past few decades, claiming the lives of roughly 106,000 Americans in 2022 alone.[394] Nine million more Americans struggle with opioid addiction.[395] The consequences for affected individuals, their families, and their communities are devastating. But because opioids are extremely effective at reducing pain and are cheap to manufacture, private pharmaceutical companies haven't had enough incentive to create alternative pain-management medications despite the clear societal need.[396]

To address these and other market failures, PPI proposes to establish a permanent Public Health Security fund within the National Institutes of Health. This fund would invest $100 billion over the first 10 years, starting with vaccine development, new monitoring and early disease warning systems, and cutting-edge air filtration technologies to help prepare for future pandemics. It would also sponsor research into developing new antimicrobials, pain-management alternatives to opioids, and other innovations that would be clear public goods. Considering the economic costs of COVID-19 alone, if the fund can help reduce the deadliness of the next pandemic by just 3%, it will be money well spent.[397] But preventing pandemics, combating antimicrobial resistance, and solving the opioid crisis isn't just about economic benefits — it's about saving lives. This small investment in public health technologies will drastically improve and protect the lives and wellbeing of those living in the United States and abroad.

42. Permanently Smooth the ACA Subsidy Cliff

The ACA provides subsidies, through the premium tax credit, 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% of the federal poverty level (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.[398] Consumers can then use this subsidy to help purchase any eligible plan on the exchange.

But in the subsidy structure originally established by the ACA, the cap did not apply for consumers with incomes even one dollar over 400% of FPL, 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.[399] The American Rescue Plan and the IRA both temporarily solved the cliff by applying the cap to all consumers above 400% of FPL and allowing them to claim the premium tax credits. These bills also made the subsidies more generous for all beneficiaries by reducing the share of income the lowest-income recipients had to pay and setting the cap at 8.5% after 400% of FPL, as opposed to the previous cap of 10%.[400]

Although fixing the subsidy cliff was a positive change, the way the cap is currently applied gives sizable subsidies to families much further up the income ladder than the premium tax credit was ever intended for. This approach made the expansion far more expensive than a simple fix to the subsidy cliff should have been, costing taxpayers $64 billion over just five years to give benefits well in excess of what was needed to provide everyone with access to affordable health insurance.[401, 402] And because the expansion is temporary, it sets up the return of a subsidy cliff in 2026.

PPI proposes a path that is more fiscally responsible and more progressive by providing fewer benefits to those higher up the income ladder while permanently eliminating the subsidy cliff. Under PPI's proposed plan, the income shares for those under 300% of FPL would be more generous than under current law but less generous than the IRA's massive subsidies, reducing costs for those at the very bottom of the income ladder in a fiscally responsible manner. However, the plan differs from the current temporary IRA expansion by continuing to grow as income rises, requiring that recipients pay more of their income for an exchange plan as they get wealthier. This creates a gradual phase-out to replace the steep cliff without a costly expansion for relatively well-off households.

43. 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, which provided the foundation for the ACA four years later.[403] 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 HHS for exemptions to certain Medicaid rules, so long as they are not expected to compromise care.[404]

The waiver system is conducive to innovation. 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 support provided under this system proved successful in early evaluations: the 15 CCOs saved roughly $2 billion over five years.[405]

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.

44. Curtail Medicaid Financing Gimmicks

Unfortunately, not every state "innovation" in Medicaid has been positive. One such example is the abuse of health-care provider taxes, which are levied on hospitals, clinics, nursing homes, or physician practices to artificially inflate federal matching funds. States will use the money raised from a provider tax to capture federal payments for increased payment rates that states have set for those same providers, in effect allowing states to increase their federal Medicaid match at no additional cost to themselves.

Consider a hypothetical state that wanted to increase its federal Medicaid match. To do so, this state doubles its Medicaid provider payments from $100 million to $200 million. Because the state receives a 50% match from the federal government, $50 million of that extra $100 million in new spending will come from the federal government. After enacting the higher payments, the state then enacts a tax on those same providers, expected to raise $50 million in revenue.

This scheme allows the states to recoup their share of the spending but retain the additional federal support, creating a strong incentive for states to enact provider taxes at great expense to federal taxpayers.[406] Although there are currently some provisions in place to limit the ability of states to profit from provider-tax gimmicks, they still inflate federal Medicaid spending by tens of billions of dollars each year.[407] Provider taxes also remain a large component of how states fund their Medicaid programs, second only to general-fund revenue.[408]

We believe the federal government should reform Medicaid reimbursement formulas to eliminate the incentives for provider-tax gaming and other similar financing gimmicks. If state governments truly need the revenue to meet their Medicaid obligations, that support should be provided through intentional changes to matching and reimbursement rates rather than back-door gimmicks. Any residual savings from curtailing these taxes should be used to help address other pressing public health crises facing populations predominantly served by Medicaid. For example, using savings to expand medication-assisted treatment and better enforce benefit parity for behavioral health coverage could help address the nation's opioid crisis that impacts 9 million Americans, who are disproportionately Medicaid-eligible populations.[409] Likewise, savings could be spent to reduce the nation's unacceptably high maternal mortality rate, which currently sits at 22 deaths per 100,000 live births, compared to an OECD average of roughly 11 deaths.[410]

VIII. SUPPORT WORKING FAMILIES AND ECONOMIC OPPORTUNITY

Working families have been left in the lurch by years of economic policy decisions that have favored the priorities of retirees, affluent elites, and special interests. As a greater and greater share of spending by the federal government goes to support the elderly, parents are facing costs of raising children that have never been higher.[411] Access to well-paying jobs is increasingly reserved for those who pursue expensive college degrees that can leave them drowning in debt. Children from disadvantaged backgrounds simply don't get the same opportunities to build wealth as their privileged peers.

Continuing the status quo would not only be unfair, it would be bad for our economy. Chronically low birth rates across the United States imperil the future of our retirement and health-care programs, and they require future generations to shoulder increasingly large tax burdens just to fund current benefits.[412] Some on the right seem to believe that taking away family-planning tools and forcing births is the solution.[413] Pragmatic progressives, however, believe that the government should empower prospective parents with choice by giving them the support needed to raise the children they want to have.

The Build Back Better (BBB) agenda pursued by Democrats during the first year of the Biden administration sought to address many of these problems and more. But BBB was hobbled by a refusal to prioritize: rather than limit new spending to the amount they were willing to raise in new revenues, Democratic leaders sought to make the bill seem cheaper using budget gimmicks.[414] If the policies in the bill had all been enacted on a permanent basis, they would have added more than $2 trillion to deficits over a decade and likely made inflation even worse than it was already near its peak.[415] The bill collapsed as a result, and only a fraction of its ambitious goals were later achieved by the Inflation Reduction Act.

In this blueprint, PPI seeks to achieve similar goals to BBB, but with better-targeted proposals that truly are fully paid-for. Our reforms would put affordable child care in reach for all families, expand public education to include preschool, and give those children many different pathways to a well-paying job instead of the "one-size-fits-all" approach of college for everyone currently promoted by federal policy. Taken together, these well-targeted proposals will empower parents to fulfill all their children's needs while ensuring those children have opportunities to achieve the American dream regardless of their background.

45. Provide Paid Parental Leave Benefits

Parents should not have to choose between their livelihood and their family. While the Family Medical Leave Act guarantees parents twelve weeks of unpaid leave after their child is born, the United States is the only OECD country that does not guarantee paid leave for new parents.[416,417] Accordingly, only about 23% of workers in the United States get any paid family leave at all from their employer.[418] This benefit is often a luxury for those at the top, with 40% of workers in the top tenth of income earners having access to paid leave, compared to just 6% for the lowest tenth of income earners.[419]

Expanding access to paid leave for everyone would have several economic and social benefits. New parents who have paid-leave benefits are more likely to return to work after giving birth, which will both increase their family income and help ease labor market tightness. For example, after California implemented its own paid family leave policy in 2004, 10% more of its working mothers returned to the labor force in the year after their child was born than before the law was passed.[420] In addition, workers who are already considering having children may be more likely to do so if they face fewer tradeoffs between professional and child-rearing goals, which can help with the long-term financing challenges of Social Security and Medicare. For example, one study found Quebec's expansion of paid parental leave in 2006 increased fertility by 23.5% among eligible recipients relative to their non-eligible counterparts.[421]

One cost-effective option would be for the federal government to create a universal paid leave benefit that replaces between four-fifths and two-thirds of wages up to $15 an hour for up to 12 weeks after the birth of a child. This approach would guarantee at least a basic income for all new parents to keep paying their bills, and employers could supplement the benefit to replace more lost wages for higher earners. Alternatively, the federal government could offer employers a tax credit that subsidizes continued payment of some proportion of a new parent's previous wage. The subsidy rate would decline as the employee's wage rises to ensure the benefit is targeted towards working parents most in need. Under either approach, PPI would index the benefit with wage growth to preserve its value as a wage-replacement mechanism in the future.

However, many states have already led the way by establishing state paid-leave programs of their own — several of which are even more generous than the one we've proposed. To encourage state innovation, PPI would allow states with paid-leave programs that meet minimum coverage standards to receive 95% of the estimated cost to provide their population with federal paid-leave benefits as a block grant instead.

46. Expand the Child Tax Credit

The Child Tax Credit (CTC) is a refundable tax credit that allows the parents of children under the age of 17 to reduce their tax liability by up to a set amount per child. Moreover, parents who have no income tax liability can get a refund worth up to 15% of their income above a "refundability threshold," until the refund hits a maximum refund value.[422] The CTC is an especially great way to support families because it empowers parents to decide how to best spend resources for their kids rather than leaving those decisions up to bureaucrats.

The 2017 Tax Cuts and Jobs Act (TCJA) made many temporary changes to the CTC, such as doubling the maximum per-child CTC from $1,000 to $2,000 and lowering the income needed to qualify for the refundable credit from $3,000 to $2,500, increasing the generosity for many lower-income and working families. Yet the law also limited the CTC's refundability to $1,600 while more than doubling the maximum income a parent can have to receive the full credit.[423] These regressive changes limited 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.[424]

The American Rescue Plan (ARP) passed in 2021 addressed these shortcomings by temporarily increasing the CTC to $3,000 per child, making it fully refundable and available to parents of 17-year-olds, and allowing parents to receive monthly payments instead of a lump-sum payment at tax time. It also increased the maximum benefit to $3,600 per child under six years old.[425] However, these changes expired at the end of 2021, as will the TCJA changes at the end of 2025. While the ARP CTC significantly reduced childhood poverty, it would cost $1.6 trillion over 10 years if made permanent.[426] Better-targeted reforms could achieve much of the poverty reduction at a fraction of the cost.

PPI's proposed expansion of the CTC would build upon both policies to make the benefit more generous to low- and middle-income families in a fiscally responsible way. We would make permanent TCJA's $2,000 per-child CTC but make the credit fully refundable (a provision which by itself was responsible for roughly half of the ARP credit's poverty impact despite only comprising 17% of the cost).[427] We would also make the credit available to parents of 17-year-olds and available in monthly installments. To ensure the credit value doesn't erode over time, we would index the credit's value to grow with inflation. PPI's modified CTC would begin phasing out at a 5% rate for individuals and couples whose incomes exceed $125,000 or $250,000, respectively (down from the TCJA thresholds of $200,000 and $400,000).

To help parents better afford child care at the time it's most expensive, we would increase the maximum CTC to $5,000 for children under the age of three. We would partially pay for our proposed CTC expansion by repealing the Child and Dependent Care Tax Credit (CDCTC), a more-complicated tax credit which allows families to reduce their tax burden if they have qualified child care expenses. Because the CDCTC is nonrefundable, it primarily benefits more-affluent families who have large income tax liabilities, as opposed to working-class families who do not.[428] Offering a generous flat benefit to parents of young children instead will both simplify their taxes and help them cover the high costs of taking care of infants and toddlers in the way that makes the most sense for their families.

47. Expand Public Education to Include Preschool

Investing in children is an investment in the future health of our economy and our society. Nobel-prize winning economist James Heckman estimated that investing in a child's pre-kindergarten education generates 7% to 10% 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.[429] But the cost of pre-kindergarten programs and child care has substantially outpaced overall inflation in recent decades, putting it out of reach for many low- and middle- income families.[430] As a result, only about 50% of 3- and 4-year olds are enrolled in some form of early childhood education. Furthermore, because enrollment rates decrease at lower incomes, the children most in need of quality preschool are often unable to access it.[431]

Preschool also functions as child care for many working families, allowing them to maintain jobs that support their children. When working parents cannot afford child care, they often need to sacrifice time they would otherwise spend working to mind their children. According to one survey, a majority of mothers who are not looking for work cited difficulty finding adequate child-care arrangements as a reason for staying out of the labor market. Many of these mothers say that they would look to enter the workforce or for a higher paying job if they had access to adequate child care.[432] Guaranteeing access to all-day preschool would provide free child care to working families in need while giving all of America's children a substantial investment into their future.

PPI proposes to make preschool universal by encouraging states, who have the primary responsibility for public education in our federalist system, to expand public education so that it begins at age 3 instead of age 5. The federal government would begin by subsidizing state spending on seats for low-income students, similar to how Title I education funding currently operates, before expanding to become universal. The federal government would pay 95% of the cost in the first year for each seat it funds and gradually phase down to shouldering two-thirds of the cost after 6 years. States that have existing public preschool programs will be able to use those programs as credits for this match, assuming that they meet the same quality standards. Federal standards would also allow for some waivers, similar to those available for Medicaid, to allow states to innovate on the cost and quality of their programs. Finally, the federal government should encourage states to seek innovative approaches to providing families with different options and choices of child care providers and settings. This would complement families' growing demand for public school choice in K-12 education.[433]

48. Replace Regressive Tax Subsidies for Higher Education with a "Super Pell" Program

America's model for financing higher education is broken. The combined costs of federal spending and tax subsidies for higher education has swelled since 2000.[434] Yet over the same period, the price of education for consumers grew even faster than the cost of health care.[435] Part of the problem is that these subsidies reinforce a systemic bias in federal policy that favors traditional four-year bachelor's degrees as the solution for all individuals. In recent years, the federal government has spent more than four times as much on postsecondary degree programs as it has on programs that provide other workforce-focused education, employment, and training assistance.[436, 437] The glut of college spending also encourages employers to make bachelor's degrees a requirement for many jobs that simply do not need them.[438] To ensure all Americans have pathways to well-paying jobs, federal policy must shift the focus from pursuing degrees to providing skills.

The first step towards fixing our broken higher education system is changing how we pay for it. The current system of federal support for higher education is far too reliant on regressive tax subsidies that disproportionately benefit wealthier Americans. One clear example is the 529 plan, an investment account that exempts 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 $89,250 already do not pay any taxes on capital gains and dividends, 529 plans provide little to no benefit at all to those with lower incomes while roughly 70% of the tax benefit accrues to households making over $200,000.[439] Similarly, other tax benefits such as the exclusion of student loan interest primarily accrue to wealthier households as well, since those with the highest debt and interest balances tend to be advanced degree holders such as doctors and lawyers.[440]

PPI proposes to eliminate these regressive tax subsidies and redirect the savings to fund an expanded "Super" Pell Grant. Unlike tax subsidies to upper-income families, the Pell Grant program provides direct aid for students from lower-income families who otherwise could not afford higher education. Under PPI's framework, annual funding for Pell would nearly double, 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.[441] This approach removes the unnecessary complexity of miscellaneous tax subsidies while directly supporting more students from lower and middle income backgrounds. PPI would also expand the range of programs eligible for Super Pell funding to include shorter-term workforce oriented programs that meet certain quality standards.[442]

49. Expand Educational Pathways to High-Quality Jobs

PPI's Super Pell proposal would provide students more resources for higher education as well as more choices, including postsecondary options that are industry-aligned and lead to immediate employment. But the government must also do more to expand these and other high-quality career-connected learning opportunities, which begins with reinventing how we educate students in high school so that they are better prepared for whatever is next. For example, Career and Technical Education (CTE) programs are highly effective in preparing students for the workforce and producing graduates that earn more than their peers.[443, 444] Yet while many of our nation's high schools emphasize preparing for college, career preparation is often overlooked and under-resourced.[445] One in four high schools don't offer CTE at all, and only 3 million of the roughly 15 million public high school students nationwide completed at least three CTE course credits.[446]

PPI proposes reforming the CTE system to ensure students are prepared for college or a career when they leave high school. This means increasing federal funding for CTE programs, aligning career and academic instruction in CTE, and making sure every young person has a work-based experience (such as a youth apprenticeship, pre-apprenticeship, or internship) so they learn the technical skills as well as the employability skills that are necessary for success throughout their career.

In addition to high-school reform efforts, the United States also must increase high-quality alternatives to a four-year degree so individuals who don't pursue college can access post-secondary education to achieve well-paying employment. One of the most proven models is apprenticeship, an "earn and learn" training model that allows people to get paid for the work they do in the field while they learn the critical skills necessary for good careers. Individuals who complete an apprenticeship earn an average annual salary of $77,000 compared to the national average of $55,000, and they earn an average of $300,000 more over the course of their careers.[447] Yet despite these large economic benefits for working Americans, the United States has merely a tenth of the apprenticeships that other countries, such as the United Kingdom, Germany, or Australia have, when compared as a percentage of the labor force.[448] PPI proposes to close the gap by having the federal government sponsor 1 million new two-year apprenticeships each year until there are 4 million apprentices sponsored annually — a massive increase from the just under 600,000 total apprenticeships in our country today.

The federal government also currently operates 47 different federal programs focused on workforce development across 15 different agencies.[449] These programs provide support for eligible individuals to access job training, job placement and other career services and their target populations range from the long-term unemployed or workers who lost their jobs based on economic shifts to farm workers and others in specific industry sectors. This constellation of programs is expensive to administer, difficult to navigate, and offers inconsistent outcomes.[450] PPI proposes $2 billion in new funding over 5 years to create an Advanced Research Projects Agency for Labor (ARPA-L) that would conduct cutting-edge research on what works and what doesn't in public and private job training and placement programs. Then, we propose the federal government use these findings to consolidate existing programs into a streamlined system for matching skilled workers with employment that matches their skill sets and interests. Doing so will both expand opportunity for working Americans and boost our economy by giving employers the workers with the skills needed to power growth.

50. Control the Cost of College

Many Americans will want to pursue a traditional four-year college degree, regardless of what alternative pathways are available. But programs are extremely expensive: The average cost for an in-state student at a public university is roughly $108,000 over 4 years, with private school and out-of-state costs rising even higher.[451] The Biden administration and progressive left have largely settled on debt cancellation as the primary mechanism for reducing the "cost" of college. But rather than cutting the cost of college, this approach merely passes it onto taxpayers — most of whom earn less than the typical college graduate.[452]

Even worse, debt cancellation is also likely to further drive up prices, as schools absorb the financial windfall from more federal aid by simply raising prices further: One study by the Federal Reserve Bank of New York found that rather than cut college costs, expansions of subsidized loan maximums increased college prices by 60 cents on the dollar.[453] Instead of improving educational outcomes, this extra money has largely fueled administrative bloat. On a per-student basis, there are now three times as many administrators and other professionals (not including university hospital staff) as there are faculty at the nation's leading schools.[454]

Instead of giving universities more taxpayer subsidies to drive costs up, PPI proposes that the federal government should hold colleges accountable to bring costs down. Schools should have to demonstrate the returns they offer for their students to continue qualifying for federal aid because allowing loans to flow to colleges that offer few to no prospects to their students is a costly mistake for both the federal government and students themselves. The Biden administration took a strong step in the right direction by recently implementing a "gainful employment rule" that would cut off federal aid for for-profit schools that fail to demonstrate labor market results for their median graduate.[455] But at a minimum, this rule should be expanded to include nonprofit universities as well. An even more ambitious reform would require universities to pay some of the costs when their students are unable to repay loans they took out for programs that were supposed to boost their earning potential.[456]

Another way to cut college costs would be to help students graduate faster by encouraging colleges to move from four-year to three-year degrees, which are standard in much of Europe.[457, 458] The most aggressive way to implement this reform would be to give colleges and universities up to 10 years to adjust their curriculums before limiting or cutting off federal aid (including student loans) to students attending those schools. This approach would force universities to review their curriculums and cut unnecessary requirements that don't add to the value of their degree. A more modest option would be requiring schools to accept more coursework from both community colleges and advanced high-school courses such as Advanced Placement and International Baccalaureate classes.[459] As part of PPI's push to reinvent high schools, we support federal funding to expand access to this advanced coursework in underprivileged communities where students do not always have the opportunities to excel academically.

51. Reform Income-Driven Repayment

Even if all of PPI's previous proposals for transforming higher education were enacted, there would likely still be some students who are saddled with debt for pursuing degrees from which they did not benefit. The best-targeted and most fiscally responsible tool to help these struggling borrowers is an income-driven repayment (IDR) plan. Instead of calculating monthly payments based on the size of a borrower's outstanding loan balance, IDR plans cap those payments as a percentage of the borrower's monthly income. If the borrower makes these payments for a certain number of years, any outstanding balance at the end of the repayment period is canceled.[460] If designed correctly, this structure ensures debt relief is limited only to those with crushing debt burdens who never experience the income boost necessary to pay it off.

Last year, the Biden administration dramatically expanded IDR when it created the SAVE plan. Among its major provisions, the plan cut the share of income that borrowers must pay on their monthly payments from 10% to just 5%, while expanding the exclusion of income considered for this calculation from 150% FPL to 225%. In addition, it stops the accrual of monthly interest as long as payments are being made, and forgives the debts of low-balance borrowers on a more lenient timeline.[461]

Unfortunately, the SAVE plan dramatically overshot by turning the IDR system from a safety net for struggling borrowers into a mass

FIGURE 22: STUDENT LOAN BURDENS UNDER DIFFERENT IDR PLANS

MEDIAN EARNINGS, COLLEGE GRADUATE WITH MAXIMUM FEDERAL STUDENT LOAN DEBT ($57,500)			
	PRE-SAVE IDR	SAVE PLAN	PPI'S IDR PLAN
Average Monthly Payment	$358	$141	$333
Time in Repayment (years)	18.5	20	20
Percent of Principal Repaid	139%	59%	139%
Lifetime Cost (2024 $)	$81,698	$34,676	$79,992
Cost as a % of 20-year Real Income	6.6%	2.8%	6.5%

MEDIAN EARNINGS, COLLEGE DROPOUT WITH TWO YEARS OF MEAN UNDERGRADUATE DEBT ($15,769)			
	PRE-SAVE IDR	SAVE PLAN	PPI'S IDR PLAN
Average Monthly Payment	$97	$19	$28
Time in Repayment (years)	16	5	16
Percent of Principal Repaid	119%	7%	52%
Lifetime Cost (2024 $)	$19,232	$1,139	$8,135
Cost as a % of 20-year Real Income	3%	0.2%	1.3%

Note: Calculations are based on data from the U.S. Census Bureau, the Congressional Budget Office (CBO), and the Bureau of Labor Statistics. Interest rates were set at 5.56%, consistent with 2023 CBO projections. Income assumptions were pulled from Census data on the median earnings of those with different educational backgrounds while the loan amounts were taken from CBO analysis on average debt burdens in the student loan system.

Sources: Progressive Policy Institute,[462] Congressional Budget Office,[463, 464] Census Bureau,[465, 466] and Department of Education.[467]

giveaway that actually encourages debt-financing education. Previous PPI analysis found that the typical graduate enrolled in SAVE would only be required to pay back roughly three-fifths of the amount they initially borrowed and not one dollar of interest. In addition, SAVE would put the taxpayer on the hook for almost the entirety of a typical college dropout's debt burden.[468] Although this is exactly the population that IDR should help, keeping them from facing any financial obligations for their decisions is irresponsible policy that takes their skin out of the game entirely.

The SAVE plan has since been held up in court, demonstrating the perils of pursuing unilateral executive action on student loans rather than engaging with Congress to pursue real reforms.[469, 470] But despite this legal setback, the Biden administration is seeking to compound the problems created by the SAVE plan by piling on even more student debt cancellation through additional unilateral executive actions, which would simply drive college costs higher by giving universities even greater windfalls of student aid.[471]

Our proposal would curtail the SAVE plan's excess by implementing a graduated rate structure for income-driven repayment that removes giveaways for wealthy Americans but still provides greater relief for truly struggling borrowers than previous IDR plans **(Fig. 22)**. Like under previous law, income up to 150% FPL would be excluded from income calculations. But graduates would only be required to contribute 5% of their income between 150% FPL and 250% of FPL to their monthly payments, instead of the previous 10%. We would require 10% of income above 250% of FPL to go towards monthly payments, and apply a new 15% rate on even higher incomes to offset 80% of our IDR expansion's cost relative to pre-SAVE policy. Unlike the SAVE plan, which allows everyone to contribute 5%, this graduated rate system allows for the IDR system to work as intended, and give the most relief to those that need it most without substantial giveaways for high earners. We also urge lawmakers to enact safeguards that prevent future presidents from unilaterally doling out more than $600 billion in debt cancellation without explicit approval from Congress, as the Biden administration has done over the past three years.[472]

52. Create Child Opportunity Accounts

American children born into lower-income households are rarely blessed with the same opportunities as their wealthier counterparts. Children of wealthy parents often have assistance paying for school without loans, making a down payment on a house, making lucrative professional connections, and a familial safety net that allows them to take greater entrepreneurial risks. It is far more difficult for children from families without wealth to access these same opportunities, and even when they succeed in doing so, these Americans often lack the money-management skills that affluent parents and communities pass down to their kids.[473]

PPI proposes to equalize opportunity by creating "Child Opportunity Accounts" that would not only help level the playing field for young Americans' by giving them access to "startup capital" in early adulthood, but arm them with the skills to grow it as well. Every child would receive an account at birth with a $700 balance administered by private financial institutions contracted by the federal government. The universality of these accounts makes them easily incorporated into educational curricula, as children see the power of compound interest grow their balance. Every year on the child's birthday up to their 16th birthday, the government will make additional contributions of up to $700 for households with family income below 150% of the federal poverty level. These government contributions would be gradually reduced as income rises until being fully phased-out for households with family income above 400% of federal poverty, or roughly $120,000 for a family of four. The account beneficiary, their parents, and any other interested party can make voluntary contributions with after-tax dollars.

Some similar "baby bonds" proposals would "invest" the account balance in low-yield Treasury securities to create the appearance of growth. [474] But if the government is both making contributions to an account and paying interest on those contributions, any perceived growth is merely an intragovernmental accounting gimmick — nobody builds wealth by paying interest to themselves. Instead, PPI's proposed Opportunity Accounts would be automatically invested into a diversified target-date fund to generate substantial real returns on the investment **(Fig. 23)**. Beginning at age 18, the account holder may choose to redirect their investment into another pre-approved investment vehicle.

To help young Americans build financial capability, information about important topics such as budgeting, saving, investing, retirement planning, and taxation will be embedded into the access portals for the accounts. Account holders who pass a financial literacy assessment will be able to withdraw up to 25% of the balance per year between ages 18 and 25 to use for education, health care, a down payment for a house or car, and/or select moving expenses. Beginning at age 25,

FIGURE 23. PROJECTED ACCOUNT BALANCES FOR HYPOTHETICAL CHILDREN FROM FOUR-PERSON FAMILIES

	AGE 18	AGE 25	AGE 60
CHILD FROM LOW-INCOME FAMILY (<$47K)	$23,600	$35,300	$261,000
CHILD FROM MIDDLE-INCOME FAMILY ($98K)	$9,500	$15,500	$114,300
CHILD FROM HIGH-INCOME FAMILY (>$125K)	$1,900	$3,200	$23,300

Note: All figures shown are in 2024 dollars rounded to the nearest $100 and assume no voluntary contributions, no prior withdrawals, and an 8% average nominal rate of return (similar to that of the Federal Government's Thrift Savings Plan).

Sources: Thrift Savings Plan [477] and PPI calculations.

account owners can withdraw any remaining funds without restrictions. The account will also include an option to roll balances over into a Roth IRA, which are counted against and capped at the beneficiary's normal IRA contribution limits each year.

Upon withdrawal, account holders with annual incomes high enough to owe capital gains tax on other investments (which would be singles who earn more than $64,365 in 2026 and claim the standard deduction under the income tax structure PPI proposes in Section II) must pay the same tax rate on any gains in excess of contributions. This structure ensures that, unlike many tax-advantaged savings vehicles, the benefit of these accounts will primarily accrue to lower- and middle-income children as they withdraw funds.

By providing children of all backgrounds a starting base of wealth and the skills to grow it themselves, these accounts will give America's children an opportunity to achieve self-sufficiency and economic security, boosting growth and reducing dependence on traditional welfare programs.

53. Increase Funding for Community Development Financial Institutions

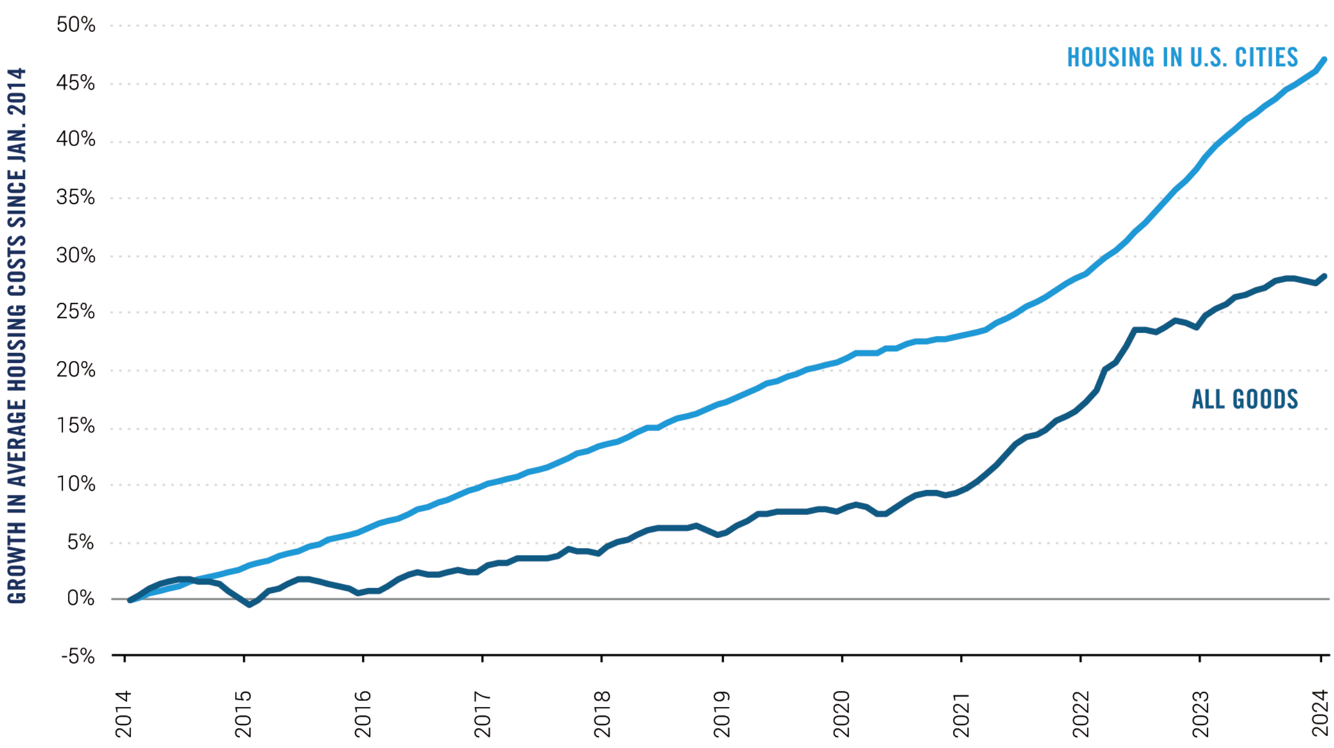
Access to the financial system offers access to credit, capital, and savings vehicles that can be essential for achieving self-sufficiency in adulthood. But many Americans, particularly those most in need, remain stuck outside of the financial system and all the benefits it can offer. According to a survey from the Federal Deposit Insurance Corporation (FDIC), 4.5% of Americans are completely unbanked, including almost 20% of households making under $15,000.[475] One important tool to remedy this gap are Community Development Financial Institutions (CDFIs), which focus on providing financial services to low-income households. While often operating through private actors and financial institutions, CDFIs receive funding from the federal government through its CDFI Fund.[476] Yet despite federal funding, CDFIs are currently unable to fully meet demand for their services, with common constraints being insufficient operating funding, staffing and lending capital. PPI's plan expands capacity by increasing funding for CDFIs up to three times its current funding level. Doing so will enable these important institutions to expand the availability of their services and plug more households into the financial system.

IX. MAKE HOUSING AFFORDABLE FOR ALL

The biggest cost most families face is housing — and it's one that has become increasingly unaffordable in recent years. Over the past decade, the average cost of housing in U.S. cities has grown by 47% compared to 28% for all goods. And even as post-pandemic inflation has cooled overall, the cost of housing has continued to soar **(Fig. 24)**.[478, 479] Furthermore, these numbers hide disparities in geography, as several large metropolitan areas across the west and northeast have experienced far higher cost growth.[480] The high cost of housing affects all areas of American life, from putting people at greater risk of homelessness to decreasing mobility for working families.[481, 482]

This housing affordability crisis is fundamentally a housing supply crisis. Population growth has greatly outstripped housing construction over the past decade and put upward pressure on prices — especially in many of America's most dynamic cities.[483, 484] The biggest obstacles to fixing the problem are local land-use policies that, among other unnecessary restrictions, mandate minimum lot sizes, require parking spots, ban denser housing types, or give existing community members veto power over new housing construction.[485] These regulations prevent housing from being built

FIGURE 24. INFLATION IN AVERAGE HOUSING COSTS IN U.S. CITIES VS. ALL GOODS



Note: Inflation in all goods is measured using the Chained Consumer Price Index for All Urban Consumers.

Source: Federal Reserve Economic Database [486, 487] where people want to live and make whatever housing does get built take longer and cost more. Without alleviating these supply constraints, well-intentioned attempts to increase housing affordability for Americans through broad-based demand-side subsidies, such as tax incentives for homebuyers, do nothing more than drive up prices — at large cost to the government and most households.[488] Rent controls make the problem even worse by reducing the incentive for landlords or developers on the margin to provide more units where they can.

There are several policies throughout this blueprint that would make housing easier to build and more affordable. For example, our proposal in Recommendation 14 to create a full-expensing tax system for all investments — including construction — will help spur development by allowing deductions to be claimed sooner when they are more valuable.[489] The Child Opportunity Accounts described in Recommendation 52 would give children from all backgrounds the resources they need to save up for a down payment. But in this section, PPI offers a package of proposals that would encourage zoning reform, mitigate the impact of higher interest rates on construction, cut regressive subsidies for the rich to bid up housing prices, and streamline programs to guarantee access to affordable housing for people from all backgrounds. Together, PPI's proposals will help achieve greater housing abundance and affordability for all Americans.

54. Create a "Race-to-the-Top" Zoning Grant

One of the core causes of our housing affordability crisis has been the exclusionary zoning that localities place on the development of new housing. The excessive restrictions some states and localities put on land use, especially regarding multi-family housing construction, has perpetuated shortages and artificially kept down housing supply. These policies price many working families out of homeownership and put upward pressure on rents.

While there are myriad ways in which state and local governments restrict housing development, one notorious example is single-family exclusive zoning, which reserves large swaths of American metro areas only for development of detached single family homes. Roughly 75% of land zoned for housing in most American cities is subject to single-family exclusive zoning rules.[490] This restriction prevents the construction of denser developments such as duplexes or apartments, which could provide more affordable housing options for more residents. Opponents of density will employ any number of tactics or rules beyond single-family exclusive zoning, including parking requirements, environmental reviews, or invoking "historical" preservation. While some of these laws are not inherently bad, they are typically employed to block denser developments.[491]

PPI would tackle these restrictive policies by creating a temporary race-to-the-top zoning grant for states to pursue more inclusionary zoning policy. While many localities are often tied to the preferences of their loudest Not-In-My-Backyard (NIMBY) constituents, states have shown a greater willingness to act on spurring more housing construction. This grant program would incentivize states to preempt restrictive zoning rules and allow housing of various types to be constructed. Like the Obama-era race-to-the-top grants that encouraged education reform, these grants would be awarded on a competitive basis through a multi-year process as a result of material improvements in zoning policy and affordability. States could then use the grant money itself for a flexible array of housing-related issues.

55. Capitalize a Housing Construction Bank

The Federal Reserve raises interest rates to help fight inflation by reducing the availability of resources that can be borrowed to bid up the prices of goods and services. But a significant drawback of this approach is that it makes solving our housing challenges harder. Home builders are highly sensitive to macroeconomic conditions and interest rates. When the financing costs are too high to justify the low return of low-income tenants, developers will not build affordable housing.

To prevent higher interest rates that are meant to cool demand from stifling efforts to increase supply in the housing market, PPI proposes to create a federally financed Housing Construction Bank. The bank would be structured as a government-sponsored enterprise that lends money at favorable interest rates to developers who construct multi-family housing units. By lending during the construction phase of a project, the bank could dictate some terms on the type of housing being built and substantially beat the market rate charged by typical lenders. Once construction is completed and a building is being leased with tenants, the bank can use various tools to convert the loan into equity and take a majority stake in the project. This approach allows the bank to monitor conditions on affordability while maintaining consistent future income flows to lend to even more projects.

There is already some evidence that this "social housing" model can inexpensively produce affordable housing. A similar model has been pioneered in Montgomery County, Maryland, allowing the production of municipality-financed affordable housing by the county's housing agency at very low cost.[492] When combined with other housing-friendly provisions in this blueprint, such as the full expensing of structures, the cumulative impact of these policies would dramatically expand supply.

Over the long-run, this Housing Construction Bank would be mostly self-financing while consistently producing below market rate units. However, it would require an initial capitalization for their loan authority. One potential way to offset a portion of this cost would be to sell off public housing units, which have long been a stigmatized and chronically underfunded part of the American safety net, typically located in low-opportunity-areas.[493] Because of these characteristics, public housing reinforces economic segregation and helps concentrate poverty, leading to negative outcomes for the families and youth that live there.[494] By selling off units as current tenants leave the program, the federal government can use the profit to fund higher-quality affordable housing. All the housing slots that would have gone to future tenants will instead be given to low-income Americans as housing choice vouchers. To speed up the process, the federal government could deficit-finance the initial capitalization at whatever level it expects to make back through the sale of public housing.

56. Phase Out Regressive Tax Subsidies for Real Estate

Under current law, homeowners who itemize their taxes can deduct, up to a certain limit, the interest they pay on their mortgage. Proponents claim this mortgage interest deduction puts purchasing a home within the grasp of many middle-class American families. In reality, there is little evidence the mortgage interest deduction increases homeownership rates.[495] And because itemizers tend to be wealthy — particularly after the Tax Cuts and Jobs Act (TCJA) increased the standard deduction in 2017 — the mortgage interest deduction largely does not benefit middle-class families. Even worse, empirical research suggests that the deduction may make housing even more expensive for renters and lower- and middle-income homeowners, because it encourages itemizers to take on more debt, buy larger homes, and bid up prices.[496, 497]

In a limited attempt at reform, TCJA 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.[498] But these modest changes apply only to new mortgages and are set to expire in 2025, limiting their impact. More importantly, the mortgage interest deduction is a demand subsidy, so even reforms to make the mortgage interest deduction less regressive, such as further lowering the cap or turning the deduction into a tax credit, wouldn't address the fundamental problem of the United States having insufficient housing supply.

PPI thus proposes to phase out the regressive and ineffective deduction for the interest homeowners pay on their mortgage. We propose that the value of the deduction initially be limited to 30% of mortgage interest paid, consistent with the cap PPI proposes to place on all itemized deductions in Recommendation 10. But the cap on the mortgage interest deductions would then gradually fall by 2 percentage points every year until the deduction is fully phased-out in 15 years. Our plan also proposes to make permanent the repeal of deductions for interest on home equity loans, non-disaster casualty losses, and other miscellaneous expenses.

57. Reform and Phase In an Expansion of Housing Choice Vouchers

Broad subsidies for demand generally drive up costs rather than cut them, especially in supply-constrained markets like housing. But even after supply has been liberalized to meet demand, households with extremely low incomes and minimal assets will need government assistance to afford housing.[499] Before they can even think about saving and building wealth to eventually buy a home, poor Americans need to stay stably housed long enough to access better economic opportunities and communities, rather than constantly struggling to keep a roof over their heads.

Currently, the largest federal program for addressing these at-risk households is the Housing Choice Voucher (HCV) program. This program is open to all people who make under 50% of an area's median income (AMI), a metric calculated by the Department of Housing and Urban Development (HUD) for each metro area. Over three quarters of existing vouchers are also required to go to households making under 30%, a population that HUD classifies as "extremely low income." Once a household receives a voucher, the federal government will subsidize the difference between a household's rental costs and 30% of their income, which is HUD's metric for affordable housing.[500]

HCVs are highly effective at reducing homelessness, especially for families.[501] By giving families flexibility to find housing, HCVs also offer families the ability to move to higher opportunity areas, which has very positive long-term effects on young children and their economic mobility as adults.[502] Moving to these areas also provides more labor market opportunities for adults themselves, who can leverage more job opportunities to work towards buying their own home and building wealth.

However, federal housing subsidies do not receive nearly enough funding to cover the population they are intended to help, with only about 1 in 4 households who are eligible actually receiving a voucher. This dynamic creates long waiting times for families before they can access a subsidy, typically lasting multiple years.[503] As a result, many extremely-low-income families that are unable to access a voucher can end up on the streets, in a shelter, or forced to double up with other families.

PPI proposes to tighten eligibility standards for HCVs but expand funding so that eventually everyone who meets the program's new eligibility criteria can receive a voucher. We would phase in this new funding gradually over 15 years to avoid subsidizing increased demand before supply is able to meet it. Our reformed HCV would cost the same as guaranteeing vouchers to all households with incomes below 30% AMI and none above it, but we would also support additional adjustments to prevent benefit cliffs and improve incentives.

X. RATIONALIZE SAFETY-NET PROGRAMS

On top of our reforms to housing choice vouchers in Recommendation 57, PPI's blueprint includes common-sense reforms to improve other safety-net programs. Good safety-net programs provide a hand up for truly vulnerable individuals and families that have fallen on tough economic times, acting not just as nets to catch their fall, but as ladders to help them climb back up to economic stability. Unfortunately, the myriad programs that comprise America's safety net often do not work this way.

Whether due to the political context in which they were created or just poor design, many safety net programs offer benefits that are not well-targeted towards the Americans that need them the most. When these programs are poorly targeted, they undermine the rationale for the safety net and put a financial strain on programs while providing very little societal return. Safety net programs also often include penalties for accumulating even meager assets, increasing one's income, or even getting married.[504, 505] While some form of these provisions can be an essential guardrail to ensure that benefits are well-targeted to people that need them most, those provisions can create large benefit "cliffs" if they are too stringent and cause recipients to lose out on substantial benefits after earning slightly more income.[506] As a result of these penalties, the very programs that are meant to help people in tough circumstances can make it difficult for them to leave.

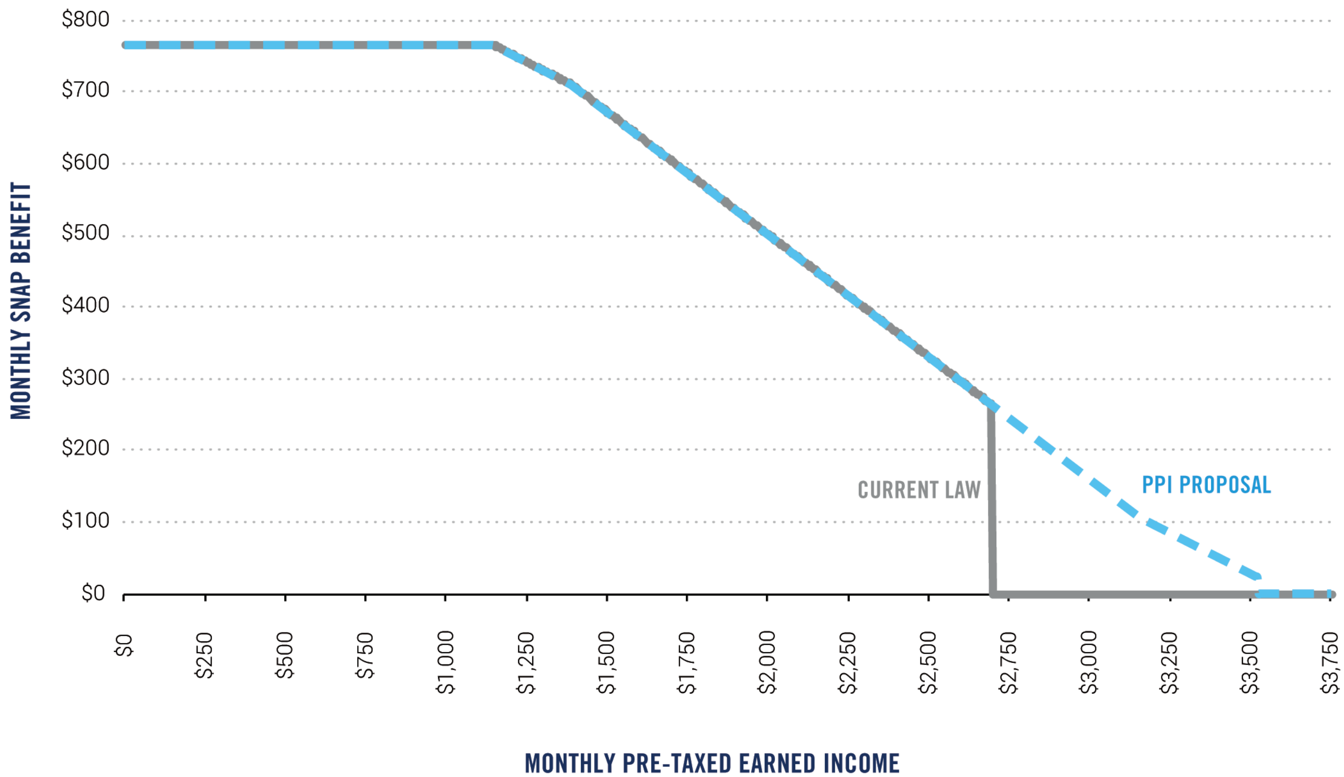
PPI believes that America's safety net should cost-effectively provide the truly vulnerable with the resources they need to get through hard times and get back on their feet, without hindering their attempts to do so. Our blueprint reforms various safety net programs to better target and tailor them to the goal of moving people into self-sufficiency and economic security.

58. Smooth the SNAP Benefits Cliff

The Supplemental Nutrition Assistance Program (SNAP) is the federal government's main tool for helping low-income families afford a healthy diet. The maximum amount of benefits that a family can receive is based on how much a representative low-cost healthy diet plan, known as the "Thrifty Food Plan," would cost. Currently, the contents and assumptions that go into creating the Thrifty Food Plan are left up to the U.S. Department of Agriculture (USDA) to determine. In 2021, the Biden administration's USDA made changes to the Thrifty Food Plan that increased the maximum benefit amount by 21% and increased the projected cost of SNAP by up to $300 billion over 10 years.[507]

Although this change will help more families afford food during times of economic distress, it also has some unintended consequences. SNAP benefits slowly phase out with income, but the law authorizing SNAP also cuts benefits off altogether for beneficiaries with gross incomes over 130% of FPL or adjusted incomes over 100% of FPL (after taking into account deductions for other living expenses). By dramatically increasing the maximum benefit but not the phase-out rate or range, the Biden administration exacerbated the program's "benefits cliff," where earning a dollar more in income would cause a family to see a substantial drop in post-tax and transfer income **(Fig. 25)**.[508, 509]

FIGURE 25. MONTHLY SNAP BENEFIT FOR A FAMILY OF THREE



Note: Calculations reflect a family of one adult and two children living in the continental United States, earning all of its income through labor. Calculations assume that the family spends the median amount for its household size on shelter and child care copays,and has no child support or qualifying medical expenses.

Sources: United States Department of Agriculture,[510] Center on Budget and Policy Priorities,[511] National Women's Law Center,[512] and PPI calculations.

PPI recommends raising the income limits to phase SNAP benefits out much more gradually and improve their effectiveness as a safety net program. We also recommend that lawmakers and regulators review the asset limits and deductions within the SNAP benefits calculation to improve its work incentives and phaseouts without increasing spending or harming individuals in poverty.[513] And although PPI supports maintaining the Biden administration's 2021 increase in SNAP benefits, we believe Congress should put guardrails on the USDA's ability to update SNAP benefit levels so that future administrations cannot unilaterally increase spending by considerable amounts without going through ordinary budget procedures and getting Congressional approval.

59. Increase Asset Caps for Supplemental Security Income

Established in 1972, the Supplemental Security Income (SSI) program makes cash payments to top-up the incomes of individuals who are either disabled or elderly and have low incomes and few assets. Under current law, SSI beneficiaries completely lose their eligibility for this vital income support if the value of all their assets (such as vehicles and bank account balances) exceeds $2,000 for individuals and $3,000 for couples — limits that have remained unchanged in nominal dollars since the last update in 1989.[514] As a result, very low-income individuals who would have qualified for SSI in prior decades due to their age, disability, and income no longer are eligible simply because of inflation.[515] This massive "cash cliff" discourages beneficiaries from getting married or saving money and directly counteracts the program's purpose of combating poverty.[516] Moreover, because the asset caps are not indexed for inflation, the work penalty gets more punitive each year.[517]

PPI supports mitigating this structural issue with SSI by increasing the asset caps to $10,000 for single individuals and $20,000 for married couples. These new asset caps should account for the inflation the U.S. has seen since the program was initially established in 1972, and remove the marriage penalty for couples.[518] In future years, these caps would grow with inflation to prevent the eligibility from becoming increasingly strict over time again.

60. Repurpose TANF Funds

When it was established in 1996, the Temporary Assistance for Needy Families (TANF) program aimed to promote self-sufficiency, encourage work, and ensure that needy families received the benefits they needed to stay afloat. The program it replaced, Aid to Families with Dependent Children, was widely considered a flawed program that disincentivized work with massive benefit cliffs that dwarf any currently in existence today.[519] In fact, the program originated in the 1930s with the explicit goal of keeping mothers at home with their children instead of the workplace.[520] To address these shortcomings, TANF focused on providing flexibility for states to innovate by giving them a block grant with few restrictions, while imposing more stringent work requirements and time limits on receiving assistance.

However, as a result of the autonomy afforded to them by the block-grant structure, states have frequently used TANF as slush funds to fill gaps in the state budget rather than to support needy families.[521] Barely more than a fifth of funding is used for cash assistance — the original purpose of the program.[522] Furthermore, when TANF funding is used for programs other than basic assistance, the programs are not always well-targeted to those that need it the most, often supporting families with a questionable connection to poverty instead.[523] In the worst-case scenario, the lack of effective guardrails on funding create wide openings for fraud and abuse, such as when state officials in Mississippi embezzled $94 million in TANF funds in 2016.[524, 525] Rather than spending money on needy families as the program intends, these funds were spent on various pet projects and programs to benefit well-off families, including the payment of lucrative speaking fees to former NFL quarterback Brett Favre and the building of a college volleyball gymnasium at his request.[526]

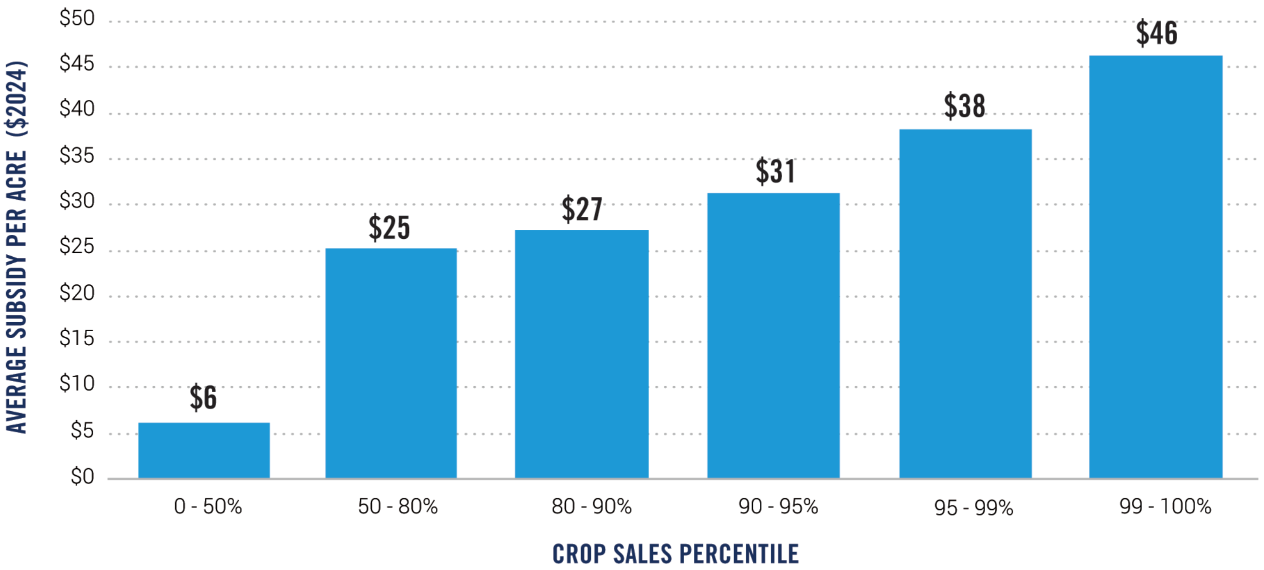
Because of these failures, PPI proposes to repurpose TANF funds to support a myriad of other social programs — detailed throughout the earlier sections of this report — that will offer more cash or cash-like assistance to the needy families TANF was created to help. Furthermore, other parts of this blueprint will directly support programs that are currently being infused with TANF money, such as state preschool programs that would be supported by Recommendation 47.[527] Any beneficial state programs currently funded by TANF and not explicitly funded by another provision in this blueprint, such as direct investments into child care and child welfare systems, could be rolled into the PEPPR grant proposed in Recommendation 11.

61. Reform Agriculture Subsidies

Since the 1930s, Congress has created and expanded a variety of programs to protect farmers and the U.S. food supply from uncontrollable events like natural disasters and sudden market shocks. The three main components of the "farm safety net" are Federal Crop Insurance Program (FCIP), Price Loss Coverage (PLC), and Agricultural Risk Coverage (ARC).[528] The largest program, FCIP, provides a roughly 60% average premium subsidy to farmers for purchasing crop insurance and reimburses private insurance companies for costs associated with administering the program.[529, 530] PLC and ARC, on the other hand, provide cash payouts to farmers when prices or revenues fall below benchmark levels set for their specific crop and county.[531]

Maintaining an adequate food supply through a farm safety-net program is an important federal policy goal, but the current suite of farm subsidy programs have grown to be regressive and economically distortionary. Rather than merely helping small family farmers stay afloat, FCIP subsidies are not means-tested at all.[532] As a result, farms in the top 10% of crop sales received over 56% of all subsidies between 2012 and 2019.[533] And this disparity isn't just due to

FIGURE 26. AVERAGE CROP INSURANCE SUBSIDY PER ACRE BY FARM SIZE, 2012 TO 2019



Note: Estimates reflect only Federal Crop Insurance Program premium subsidies, and do not include indemnity payments or subsidies for other farm safety net programs. Crop sales percentile reflects the relative ranking of a farm's gross revenue from selling crops.

Sources: American Enterprise Institute,[534] U.S. Bureau of Labor Statistics,[535] and PPI calculations.

these farms being larger — the top 10% of farms received more than 7 times as much crop insurance subsidy per acre as farms in the bottom 50% of crop sales did **(Fig. 26)**.[536] Additionally, the private insurance administrators' 14.5% guaranteed rate of return is well above the approximate 9.6% returns that other insurance providers receive without subsidization.

Large crop subsidies also reduce farmers' incentives to manage risk through diversifying crop types and location.[537] And because only some commodities are eligible for the various programs, farmers can be encouraged to plant crops that are less healthy for consumers or worse for the environment than others.[538] These programs come at a hefty cost to American taxpayers, too: the current crop insurance and commodities programs are already projected to cost more than $180 billion dollars over the next decade and early versions of the 2024 Farm Bill would increase that spending by up to $50 billion more.[539, 540, 541] During a period of record high farm profits and soaring federal deficits, lawmakers should rethink these proposed expansions and comprehensively review the effectiveness of the existing farm safety net programs.[542]

Other countries, like New Zealand, have managed to maintain the same share of agriculture in their economy as the United States while eliminating nearly all subsidies for producers.[543, 544, 545] While we wouldn't go so far, PPI recommends that Congress make reforms to agricultural support programs that cut costs by at least 20% relative to current policy. One way Congress could cut the cost of farm subsidies by up to 9% is by reducing the government-subsidized share of FCIP premiums from an average of 60% to 40%.[546] Lawmakers could save an additional 3% by reducing the guaranteed rate of return for insurance providers to the average levels received by other insurance industries.[547] Finally, Congress could get more than halfway towards the 20% savings target by eliminating the PLC and ARC programs without significantly harming farmers who are already covered by crop insurance.[548] Because the current set of programs mainly benefit high-income farms, there are many potential ways to create a more level playing field for farms while saving money for taxpayers.

62. Replace All Cost-Of-Living Adjustments Indexed to CPI-W with Chained CPI-U

Currently, nearly all federal programs that provide cash support to beneficiaries are annually adjusted for inflation using 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 the Chained-Consumer Price Index For All Urban Consumers (C-CPI-U). Unlike CPI-W, C-CPI-U takes the substitution effect of price increases into account.[549] 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. C-CPI-U grew about 0.24 percentage points per year more slowly than CPI-W did over the past decade, making the transition to it a potential source of significant budgetary savings relative to current law.[550, 551, 552]

Lawmakers already took a step in the right direction in 2017 by indexing all tax provisions designed to increase with inflation to C-CPI-U.[553] PPI proposes they complete the transition by doing the same for government spending programs. Although doing so will reduce spending on programs relative to the current-law baseline, this change represents the rescission of a stealth increase in benefits over time rather than a cut to benefits that are in place today. If policymakers want to increase support for low-income Americans, as PPI believes they should, those increases should come as a result of deliberate policy choices rather than the use of flawed inflation measurements. The savings from this change will help make possible the myriad of expanded supports for low-income households proposed earlier in this report.

XI. IMPROVE PUBLIC ADMINISTRATION

In addition to the many large policy changes and ambitious programs in this blueprint, PPI has long been committed to "reinventing government" for the modern age.[554] Whether this is re-evaluating when policies don't work, or making small but important technical changes to federal programs, policymakers should be constantly aiming to create a more modern and rational system of government. Under current policy, there are myriad programs and policies that reflect long-fractured political lines or antiquated policy assumptions, rather than what actually benefits society.

Our plan remedies these irrational or outdated policies through various changes to the way the government operates, seeking to reinvent government for what works best. Through common-sense reforms to programs and institutions, our plan seeks to encourage smarter, more rational policymaking based on what actually works, reinventing the government for a modern world.

63. Restore and Reform IRS Enforcement Funding

The Internal Revenue Service (IRS) estimates that Americans fail to pay roughly $540 billion a year in taxes they legally owe — an amount known as the tax gap.[555] To address this problem, the IRA expanded the funding available for the IRS by $80 billion over a 10-year period, helping to reverse the decades-long decline in the agency's budget.[556] The vast majority of this money was earmarked to increase enforcement of existing tax law and help catch wealthy tax cheats who avoided paying their fair share. The money has already started to make an impact, with the IRS moving to double its audit rate on the wealthiest Americans.[557]

But since the passage of the IRA, Republicans have led a crusade to reverse these efforts. Time and again they've proposed deep cuts to IRS spending ostensibly to reduce the deficit. The first bill passed by the House of Representatives when the Republicans took control in 2022 would have cut billions of dollars in enforcement funding to give the agency a "reckoning."[558] But in actuality, cutting the IRS funding from the IRA would actually increase deficits because revenue collections would fall by $238 billion more than agency spending.[559] Unfortunately Republicans partially got what they wanted in the FRA and have vowed to go even further if they win electorally in 2024.[560]

PPI would reverse this counterproductive defunding of our nation's tax police. We propose to restore IRS funding to the levels originally envisioned by the IRA and make those levels permanent to help close our nation's tax gap over time. But we also believe there are other steps the IRS can take to spend its money more effectively in advancing its mission. Although supporting enforcement should be the top priority for IRA funding, activities such as modernizing antiquated technology systems and improving customer service can help boost revenue by increasing voluntary tax compliance.[561] These steps will allow the IRS to fill its essential role for the nation's tax system in enforcing the rule of law.

64. Stop Processing Claims for the Employee Retention Tax Credit

At the start of the COVID-19 pandemic, Congress created the Employee Retention Tax Credit (ERTC) for qualifying businesses to keep their employees on payroll despite their revenue losses. Businesses who lost 20% of their revenue during the height of the pandemic, yet kept staff on payroll, could claim a refundable credit worth up to $14,000 per employee.[562] While this policy was a well-intentioned tool to help struggling employers, it has been widely abused by promoters peddling the credit to scores of businesses long after the pandemic's economic impact subsided.[563] In response to the large volume of these fraudulent claims, the IRS ceased to accept any new applications for the ERTC submitted after September 2023, issuing a moratorium as they evaluated how many truly eligible claims existed.[564] Since that moratorium, the IRS has concluded that up to 70% of unprocessed claims have "unacceptable levels of risk" for fraud, with merely 10-20% being estimated as coming from qualified small businesses.[565] But even those few businesses who are legally eligible have little justification for seeking benefits so many years after the pandemic ended.

To prevent tens of billions in taxpayer dollars from being irresponsibly awarded to businesses who are no longer affected by COVID-19 or outright fraudsters, PPI proposes that Congress statutorily disallow payment for any claims submitted after September 14, 2023 (the date on which the IRS moratorium went into effect).[566] This approach should reduce deficits by at least as much as the Tax Relief for American Families and Workers Act, which would have disallowed payment for claims submitted after January 31, 2024.[567] PPI also supports the bill's provisions to increase penalties for fraudulent ERTC promotion and extend the statute of limitations for assessing ERTC claims and prosecuting those that are fraudulent.

65. Deschedule and Tax Marijuana

Twenty-four states have voted to legalize the purchase and consumption of marijuana for recreational purposes, with another 14 states doing the same for marijuana used for medical purposes.[568] But up until very recently, the Drug Enforcement Agency (DEA) considered marijuana a Schedule I 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.[569] The Biden administration's decision to lower the schedule for Marijuana to Schedule III was an important step in the right direction, allowing for relaxed restrictions on marijuana related research.[570] But despite this important change, restrictions remain in place as long as it is scheduled.

The time has come for the federal government to completely 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.[571, 572, 573] PPI would deschedule marijuana and allow states to determine whether it should be legal in their jurisdictions. In states that choose to legalize purchases of the drug, marijuana sales should be subject to the same federal excise tax that currently applies to loose tobacco.[574, 575]

66. Improve Competition Enforcement to Cut Costs for Consumers

Competition in a market-based system is essential for encouraging businesses to keep prices low and wages high, innovate, and improve the quality of goods and services. Excessive consolidation and high concentration in markets, however, can stifle competition. This happens when dominant firms or "tight oligopolies" of just a few firms work to limit competition, and when mergers reduce competition in a market.

Concentrated market power leads to high prices and lower innovation, quality, and choice for essential goods and services. High barriers to entry in markets that are dominated by powerful firms can prevent small, entrepreneurial businesses from competing. And workers can be limited by anticompetitive restraints on their mobility, wages, and benefits.

An effective enforcement agenda ensures that no single firm or small group of firms illegally stifles competition. Enforcers at the U.S. Department of Justice (DOJ) and Federal Trade Commission (FTC) work with limited budgets to "referee" competition in markets. They make tough choices about how to allocate resources across different areas of the law and sectors, and how they coordinate between the two agencies.

Concentration is currently high in a number of critical sectors — health care and pharmaceuticals, food and agriculture, wireless telecommunications, airline transportation, and others in which consumers are feeling squeezed by rising prices and workers see low wages and benefits.[576] While merger enforcement remains strong, the vast majority of resource-intensive anti-monopoly cases pursued by antitrust enforcers over the past few years have been in the digital tech sector, where the effects of market power are felt less directly in "paychecks and pocketbooks" than in more consumer- and worker-facing markets.[577, 578, 579, 580]

Devoting disproportionate resources to anti-monopoly enforcement in only one sector also takes away from fixing other pressing market-power problems. Moreover, with the DOJ and FTC each taking responsibility for investigations in different markets that make up some complex, interconnected supply chains, there is a risk that the agencies do not coordinate, jeopardizing enforcement in those sectors.

PPI recommends mandating that the DOJ and FTC improve their coordination, which could include measures such as shifting all merger reviews for a single sector to a single agency. This improved coordination is particularly important in sectors where supply chains are "bottlenecked" by a few players with significant market power in critical markets for intermediaries, such as processing and manufacturing in food, and pharmacy benefit managers in health care.[581] PPI also proposes that the agencies allocate no more than 30% of their annual budgets to anti-monopoly enforcement in any single sector to ensure that other sectors in need of greater scrutiny are not being neglected. These changes will help refocus enforcement actions on the areas where greater competition could cut costs for consumers and help workers the most.

67. Incentivize Fair Fines and Fees at the Local Level

Many local governments have increasingly come to rely on revenue from speeding tickets, public defender fees, crime lab fees, and more, to finance their criminal justice systems.[582] For some priorities like infrastructure, user fees can be an important and efficient financing mechanism by imposing the cost of maintaining public infrastructure on those who benefit from it. But when criminal courts become responsible for their own financing, it encourages them to prioritize rigorous fee collection over fair administration of justice and other more important public safety issues.[583]

Even worse, defendants are often charged fees that go well beyond what is needed to cover the costs of maintaining the criminal justice system: for example, convicted individuals in Florida can be required to pay for prison room and board for every day of their sentence even if they're not incarcerated.[584] As a result, several local and state governments have even come to rely on fines and fees in their criminal justice system to fund unrelated public programs, like schools and infrastructure.[585] This is a far more regressive system than simply taxing the general population. Not only are fees and fines taking a higher percentage of income from the low-income households likely to be affected by the criminal justice system, they are doing so at a rate that is likely higher than would be required with alternative funding systems. This dynamic makes fines and fees an especially regressive revenue source when compared to most revenue sources like a sales tax, where cities could raise the same amount of money at a lower rate by expanding the tax base and ensuring that everyone pays a share of their income.

These fees and fines are often automatically imposed without taking into account an individual's ability to pay and, in some states, failure to pay can result in confiscation of one's driver's license, suspension of voting rights, and even incarceration — unfairly hindering offenders' ability to earn income to pay for the fines in the first place.[586]

To remedy the perverse incentives and unfair impact of these local revenue structures, PPI proposes that the federal government condition 10% of federal aid for states' and localities' criminal justice systems on recipient governments putting in place fair fines and fees systems. The standards for compliance would be set by the Department of Justice and could include setting objective ability-to-pay standards that can be used by courts when determining the fines and fees individuals have to pay.[587]

68. Equalize Retirement Contributions for Federal Employees Hired Before and After 2013

The Federal Employees Retirement System (FERS) provides defined-benefit annuities to retired civilian federal employees who contributed to the system during their careers. Over 98% of federal employees participate in FERS, with most of them contributing 0.8% of their salary toward their future annuity. To improve the finances of both FERS and the federal government more broadly, a 2012 budget agreement increased required contributions to 4.4% — but only for those who were hired after 2013.[588, 589]

The rationale for exempting existing employees was that it would be "unfair" to change the rules on them after they already began federal service. But it is far more unfair to have a system where concurrently serving civil servants pay different rates for the same benefits based solely on an arbitrary hiring date. Legacy federal employees already reaped a windfall relative to new hires because they were able to accrue the same annuity benefit for a much lower contribution rate in previous years. PPI believes the right approach now is to require all federal employees to make the same 4.4% contribution to accrue additional benefits going forward.

69. Extend the Window for Using Loan Programs Office Appropriations

The Loan Programs Office (LPO) within the Department of Energy (DOE) spurs clean energy innovation through providing direct loans and loan guarantees to promising new technologies. In doing so, the LPO provides a pathway for private investors to take over the role of financing future projects when the initial loans were a demonstrated success. For example, Tesla was one of the first recipients of LPO assistance, as were the first large utility-scale solar projects, before private capital had made significant investments in each.[590] The IRA expanded the Department of Energy's loan authority by approximately $350 billion to finance clean energy projects and fuel-efficient vehicles. However, this expanded loan authority is set to expire by 2028 even if all the appropriations for credit subsidy have not been expended by then.[591] PPI proposes to remove the expiration dates and allow the loan authority to remain until all of the additional $350 billion in appropriations for credit subsidy have been expended. Doing so will not cost the federal government any additional money, and it will ensure that the LPO has the necessary time to choose projects that promise the highest returns to society.

XII. MANAGE PUBLIC DEBT RESPONSIBLY

Debt is not inherently evil. Debt can be a good tool when used to fund public investments that grow the economy and raise future revenues by more than the cost of interest needed to finance it. It can also serve a vital purpose in helping respond to temporary, unforeseen emergencies, such as a national security threat or economic recession. These temporary deficits — known as "cyclical deficits" — are generally acceptable or even desirable. The problem with our current fiscal policy is that we are running massive structural deficits that persist in both good times and bad times, causing our debt to grow faster than our economy in perpetuity.[592]

The other recommendations in this report would, if adopted in their entirety, eliminate structural deficits 20 years after implementation. In this last section, PPI proposes reforms to better manage cyclical deficits and public debt so they support our economic future rather than burdening it. Our proposals would ensure that the United States maintains the fiscal capacity needed to address any event that demands a vigorous federal response. At the same time, PPI's blueprint would bring public investment spending back up to historical averages as a share of economic output. This thoughtful approach demonstrates that fiscal responsibility and robust public investments are not contradictory goals, but rather complementary components of an economic abundance agenda.

70. Improve Automatic Stabilizers

One of the most important roles for fiscal policy is to moderate the business cycle. During economic downturns, increased public spending — financed by public borrowing — helps compensate for the lack of private demand to keep the economy afloat. Then, during expansions, higher taxes and lower spending both help pay down these debts and keep the economy from overheating.

Unfortunately, policymakers flubbed this responsibility repeatedly over the past 15 years. In the immediate aftermath of the 2008 financial crisis, Congress proved too stingy with stimulus spending. The result was an unnecessarily anemic recovery in the decade that followed, with one study finding that GDP growth was 0.6 percentage points lower every year than if federal spending had matched historical levels.[593] Having internalized this lesson, lawmakers during the COVID-19 pandemic threw caution to the wind and passed nearly $6 trillion of stimulus spending in just two years, despite warnings from many experts that this amount was excessive and would likely spur inflation (which it ultimately did).[594]

The best way to prevent a repeat of these mistakes would be to strengthen so-called "automatic stabilizers," which are policies designed to increase spending or reduce revenue during recessions and do the opposite during expansions without requiring additional action from Congress that may not be sufficiently timely.[595] Many existing government policies already have this feature: if a worker earns less during a recession, they fall into a lower tax bracket and face a lower marginal income tax rate. A worker who is laid off becomes eligible for unemployment insurance, which increases government spending on the economy and bolsters their household income.

PPI called for making improvements to automatic stabilizers before the COVID pandemic. Had those calls been heeded, many policy mistakes made since could have been avoided. For example, the American Rescue Plan dedicated $350 billion to shoring up state and local government services in anticipation of shortfalls in tax receipts. However, budgetary shortfalls did not materialize for most states and municipalities. As a result, increased federal funding was largely used to cut taxes or fund inflationary stimulus payments instead of being used to prevent cuts in existing services.[596, 597] Putting in place systems in advance to base federal support for state and local governments on real-time indicators would have been far more prudent.

Automatic stabilizers would also help improve benefit administration. During COVID, the federal government supplemented unemployment insurance by $600 per week across the board due to insufficient technical capability for state agencies to target payments, which led to three-quarters of workers eligible for unemployment insurance being qualified for payments above 100% of lost income.[598] This overly generous benefit both discouraged work and was profoundly unfair to the front-line workers who kept our country afloat in its most desperate time. In contrast, automatic stabilizers would be disbursed through existing programs, circumventing the need to build capacity during crises. Better targeting of aid would also have reduced overall outlays over the past three years and subsequent inflationary pressures that resulted from too much stimulus.

Many of our other proposals, such as the PEPPR grant in Recommendation 11 or the package of reforms in Section X of this report, would establish new or strengthen existing automatic stabilizers. But policymakers should go further by pursuing a whole-of-government approach to making public policy more responsive to macroeconomic needs. To that end, we propose to establish a bipartisan commission of experts tasked with reviewing the federal government's fiscal and monetary policy in the lead-up to, and aftermath of, the 2008 financial crisis and the 2020 COVID-19 pandemic.[599] The commission would also be charged with developing policy recommendations that can be put in place now to help better prepare for, and recover from, future downturns, with the goal of minimizing inflation and unemployment while maximizing economic opportunity for all Americans.

71. Reform the Debt Limit

Before World War I, every issuance of debt and the parameters of that debt — such as the time until bonds matured or the rate of interest paid over that time — was subject to a vote from Congress. Beginning in 1939, Congress authorized the Treasury Department to manage debt and borrow as needed to finance deficits up to a limit known as the "debt limit." This move was designed to give the executive better flexibility to implement the tax and spending policies passed by Congress. Because the debt limit is set at a nominal dollar amount, it regularly needs to be increased to account for inflation and the costs of supporting a growing economy. Congress did this with little fanfare for many decades, frequently pairing increases with modest policy changes to keep deficits in check.[600]

But in recent years, Republicans have held the debt limit hostage by using the threat of default to demand unrealistic cuts to vital public programs. If Congress fails to raise or suspend the debt limit in a timely manner while it continues to approve spending in excess of revenues, the U.S. government will default on paying many obligations, from government salaries to Social Security. Importantly, just the possibility of the United States defaulting on its debt can produce economic instability and raise borrowing costs.[601] Debt-limit brinkmanship is akin to threatening not to pay our credit card bill because we are unhappy about how much we charged to it. Such tactics are dangerous for our economy, posing risks far greater than any potential benefits.

Debt-limit brinkmanship has also done little to fix our debt trajectory. Neither of the debt limit standoffs in 2011 or 2023 led to any reforms that reversed unaffordable tax cuts or curtailed the growth of mandatory spending — the two main drivers of our debt. Instead, they imposed tight caps on discretionary spending, the part of the budget that Congress appropriates each year. Discretionary spending barely represents one quarter of the federal budget today, and it's projected to shrink even further in the coming years.[602]

Congress should reform the debt limit so it no longer poses a threat to our economic future and replace it with better mechanisms to promote fiscal restraint. One easy step would be to set the debt limit at a certain percent of GDP rather than a nominal dollar amount to reflect the fact that a bigger economy can support a bigger debt burden (similar to how a million-dollar mortgage is far more manageable for a household with a $500,000 annual income than a $50,000 annual income). Another option would be passing legislation such as the Responsible Budgeting Act, which would set fiscal targets and automatically suspend the debt limit when either Congress passes a budget resolution that hits those targets on when the president submits a proposal to do so.[603]

Congress could also establish a bipartisan fiscal commission comprised of independent experts and elected officials that has the power to fast-track deficit-reducing recommendations for a vote in Congress when fiscal targets are not being met.[604] To promote adoption of the commission's recommendations or an alternative proposal, lawmakers could put in place a "trigger" for deficit-reduction measures that automatically take effect if no agreement is enacted by a certain date. Although such triggers have not always been successful, there is evidence that they increased the probability of reaching compromise in past budget negotiations.[605]

PPI believes a trigger will have a better chance of leading to compromise or meaningful deficit reduction if it includes a balanced mix of changes in tax policy and mandatory spending in addition to the discretionary spending programs that make up just one quarter of one side of the federal ledger. For example, lawmakers could enact a version of the tax deduction cap proposed in Recommendation 10 of this report that is automatically set at whatever level is projected to hit the trigger's revenue target. They could also cap or suspend cost-of-living adjustments in benefit programs until mandatory savings targets are met.

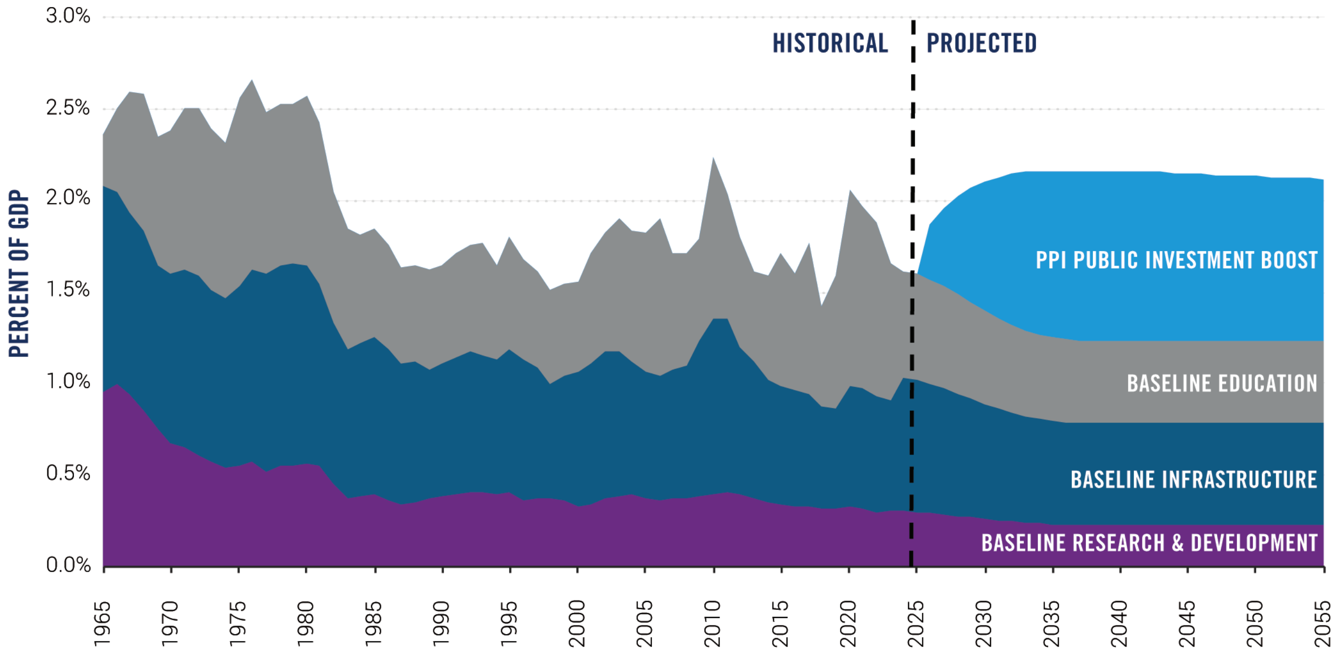
Although none of the solutions mentioned in this recommendation are ideal or preferable to Congress just doing its job and governing responsibly, they are far more rational than threatening the full faith and credit of the United States.

72. Create a Durable Public Investment Budget

Federal spending on discretionary programs has shrunk from 9.6% of GDP 40 years ago to 6.2% of GDP today, and under current law, it's projected to fall to the lowest level in modern history in just a few short years.[606, 607] The decline of discretionary spending is particularly alarming because of what it funds. Discretionary spending covers a wide array of government functions, split roughly in half between defense and nondefense "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.[608] By setting tight caps on discretionary spending, as Congress did most recently in 2011 and 2023, lawmakers cut investment into our economic future rather than address structural drivers of debt through tax and/or entitlement reform.[609]

FIGURE 27. FEDERAL PUBLIC INVESTMENT SPENDING UNDER PPI POLICIES



Note: Projected future public investment uses 2023 public investment spending as a fraction of total non-defense discretionary spending, after subtracting out student debt cancellation policies that have occurred since 2020. PPI public investment spending includes the new public investment budget caps as well as other proposed changes to education, infrastructure, and research spending.

Sources: Office of Management and Budget,[613] Congressional Budget Office,[614, 615] and PPI calculations.

Together, the other recommendations in this blueprint (primarily found in Sections IV and VIII) would raise public investment spending as a percent of GDP back to where it was 40 years ago. In dollar terms, this increase represents a more than 50% 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.

It is time for policymakers to safeguard and prioritize important public investments, rather than make them casualties of the budget process. To do so, we propose the creation of a public investment budget separate from all other non-defense discretionary spending the way defense spending already is. Existing guidelines from the Office of Management and Budget (OMB) should determine what qualifies as public investment to prevent politicians from using the designation to give preferential treatment towards favored non-investment spending.[610]

We propose that spending on this new public investment budget (inclusive of our new initiatives) should grow with GDP to ensure that a consistent share of economic resources is devoted to pro-growth spending **(Fig. 27)**. PPI would also exempt public investment spending from any across-the-board spending cuts in the future because of its role in promoting growth. Meanwhile, we propose to grow other domestic spending with population growth plus inflation to ensure that current levels of service quantity and quality can be maintained.

73. Restore Fiscal Democracy

Next year, the federal government will spend roughly $1 trillion — more than it spends on the entirety of our national defense — just to pay interest on our national debt. At 3.4% of GDP, these payments will have reached their highest level in American history.[611] And it's only on track to get worse: under current law, interest costs are set to double as a percent of GDP over the next 30 years.[612] This is spending that gets locked in place decades in advance, forcing contemporary taxpayers to cover the cost without having any say through the democratic process.

Enacting all the recommendations from this report would restore fiscal democracy by cutting projected interest payments 30 years from now by more than 75% relative to current law. Those savings, combined with those from all the other policies in this report, would put the federal budget on a path to balance within 20 years and result in growing surpluses thereafter if no further policy adjustments are made.

But in reality, we know such an outcome is neither realistic nor desirable. When the budget was last balanced, nobody could have predicted the need for new spending in response to the War on Terror, the 2008 financial crisis, or the COVID-19 pandemic. New problems will arise, and those problems will often require resources to resolve.

PPI's budget controls costs so that future policymakers have the fiscal space needed to address those challenges without harming growth. We believe the choice of how to spend any additional spare funds created by PPI's blueprint — our plan's "fiscal democracy" dividend — should be left up to future generations and the policymakers they elect.

Fiscal Impact Estimates

PPI staff estimated the fiscal impact of every proposal in our "Paying for Progress" Blueprint using a combination of government datasets, independent modeling, and advice from outside experts. Scores for most of this blueprint's tax and immigration provisions are based on estimates produced by the Urban-Brookings Tax Policy Center (TPC), while scores for Social Security provisions are based on an estimate of the total package from the Urban Institute's Dynamic Simulation of Income (DYNASIM) model. DYNASIM's estimates include the effects on work and claiming behavior from Social Security changes. TPC's estimates include dynamic effects from changes in tax policy, immigration policy, and government debt levels on interest rates, revenue collections, and GDP growth. PPI also adjusted some spending estimates based on the macroeconomic changes projected by TPC and other policy interactions.

All policy proposals were measured as changes from a modified version of the Congressional Budget Office's extended current law baseline, as published in the March 2024 Long-Term Budget Outlook. PPI adjusted this baseline to account for the national security supplemental bill that passed after its publication and two other technical issues. First, we removed the effects of one-time spending from the Infrastructure Investment and Jobs Act that CBO assumes will continue indefinitely. Second, we incorporated the "side deal" made by appropriators that allowed some limited spending outside of the Fiscal Responsibility Act's official budget caps, which are the basis for CBO's spending projections.

The following tables offer estimates for each proposal in this report. The breakdown in these tables differs slightly from the recommendations in the main body of the report because some recommendations incorporate multiple policy changes. The first estimate shows how much a policy would save or cost the federal government in nominal dollars over the first 10 years, which is how CBO would score legislation based on the proposal, rounded to the nearest $5 billion. These scores reflect estimates for Fiscal Years 2026-2035 because, as the first full fiscal year of the next administration, FY 2026 is likely the earliest any of the policies in this document could be enacted.

The second set of estimates show the budgetary impact a policy would have in select years as a percent of GDP. 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 macroeconomic effects were applied. The breakdown of policies in these tables differs slightly from the main body of the report because some recommendations incorporate multiple policy changes.

Estimates of an individual policy's impact do not include interest savings/costs, but may include the effects of a policy's interactions with other proposals. An asterisk in place of a score indicates that PPI estimates the policy to be roughly deficit-neutral or that its effects are accounted for in another score. Total interest savings are calculated assuming long-run balance rather than snowballing surpluses after the budget achieves projected balance in 2045.

BUDGET IMPACT RELATIVE TO CURRENT LAW BASELINE	10-YEAR SAVINGS ($BILLIONS)	ANNUAL SAVINGS (+) OR COST (-) AS A PERCENT OF BASELINE GDP		
		2035	2045	2055
REPLACE TAXES ON WORK WITH TAXES ON CONSUMPTION				
Repeal Social Security and Medicare Payroll Taxes	-$15,295	-5.32%	-5.33%	-5.44%
Adopt a Value-Added Tax	$18,620	6.13%	6.22%	6.18%
Enact a Carbon Tax	$1,065	0.32%	0.45%	0.66%
Replace the Gas Tax with a Vehicle-Miles Traveled Tax	$410	0.12%	0.12%	0.12%
Turn the EITC into a Living Wage Tax Credit	-$960	-0.34%	-0.35%	-0.38%
Repeal Current Gift and Estate Taxes	-$490	-0.16%	-0.17%	-0.19%
Enact a Progressive Inheritance Tax	$755	0.23%	0.25%	0.28%
MAKE THE INDIVIDUAL INCOME TAX CODE SIMPLER AND MORE PROGRESSIVE				
Raise Individual Income Tax Rates	$1,135	0.33%	0.39%	0.45%
Repeal the Net Investment Income Tax	-$215	-0.07%	-0.07%	-0.09%
Raise Capital Gains Tax Rates	$235	0.08%	0.09%	0.09%
End Step-Up Basis for Inherited Assets	$235	0.09%	0.10%	0.11%
Close Other Capital Gains Loopholes	$275	0.08%	0.08%	0.08%
Extend TCJA Standard Deduction and Personal Exemption	$1,155	0.32%	0.28%	0.25%
Eliminate the Extra Standard Deduction for Ages 65+	$95	0.03%	0.03%	0.03%
Repeal the Alternative Minimum Tax	-$760	-0.24%	-0.25%	-0.29%
Place 30% Limit on Itemized Deductions	$645	0.19%	0.18%	0.21%
Repeal the SALT Deduction	$2,205	0.59%	0.54%	0.61%
Repeal the Municipal Bond Interest Exemption	$675	0.19%	0.18%	0.19%
Create a PEPPR Block Grant for States and Localities	-$1,400	-0.36%	-0.32%	-0.28%
Extend Limits on Wealthy Pass-Through Owners	$290	0.12%	0.11%	0.12%
Adjust Retirement Contribution Limits	$35	0.01%	0.01%	0.01%

BUDGET IMPACT RELATIVE TO CURRENT LAW BASELINE	10-YEAR SAVINGS ($BILLIONS)	ANNUAL SAVINGS (+) OR COST (-) AS A PERCENT OF BASELINE GDP		
		2035	2045	2055
REFORM THE BUSINESS TAX CODE TO PROMOTE GROWTH AND INTERNATIONAL COMPETITIVENESS				
Allow Full Expensing of Business Investment	-$1,175	-0.22%	-0.16%	-0.15%
Phase Out Interest Deductibility for Business Loans	$215	0.10%	0.21%	0.32%
Raise the Corporate Income Tax Rate to 25%	$765	0.20%	0.20%	0.20%
Equalize the Tax Treatment of Dividends and Buybacks	$195	0.05%	0.05%	0.05%
Reform the Tax Treatment of Nonprofits	$285	0.08%	0.08%	0.08%
Repeal Special-Interest Tax Expenditures	$150	0.03%	0.03%	0.03%
Reform the Corporate Alternative Minimum Tax	*	*	*	*
SECURE AMERICA’S GLOBAL LEADERSHIP				
Increase Appropriations to Meet R&D Goals	-$615	-0.21%	-0.21%	-0.21%
Defend Democracy with Smarter Military Spending	*	*	*	*
Cut Tariffs and Make Trade Deals	-$750	-0.20%	-0.21%	-0.21%
Repeal Counterproductive Protectionist Policies	$480	0.13%	0.12%	0.12%
Modernize Our Immigration System for the 21st Century	$260	0.09%	0.22%	0.54%

BUDGET IMPACT RELATIVE TO CURRENT LAW BASELINE	10-YEAR SAVINGS ($BILLIONS)	ANNUAL SAVINGS (+) OR COST (-) AS A PERCENT OF BASELINE GDP		
		2035	2045	2055
STRENGTHEN SOCIAL SECURITY'S INTERGENERATIONAL COMPACT				
Base Benefits on Years Worked, Not Lifetime Earnings	$130	0.08%	0.38%	0.44%
Adjust the Retirement Age	$420	0.23%	0.18%	0.15%
Change Cost-of-Living-Adjustments	$185	0.10%	0.17%	0.19%
Reform Survivor Benefits to Reduce Poverty	-$145	-0.04%	-0.04%	-0.04%
Reduce Spousal Benefits	$35	0.02%	0.04%	0.05%
Improve Disability Insurance	-$15	-0.02%	-0.05%	-0.09%
Increase Taxes on High-Income Social Security Benefits	$835	0.26%	0.29%	0.31%
MODERNIZE MEDICARE				
Consolidate Medicare A, B, and D into "Medicare One"	$190	0.06%	0.07%	0.07%
Base Medicare Premium Subsidies on Average Bids	$625	0.21%	0.25%	0.26%
Reset Medicare Premiums	$200	0.07%	0.08%	0.10%
Create a Medicare Buy-in for People Ages 55-64	*	*	*	*
Expand the Use of Site-Neutral Payment Policies	$210	0.08%	0.09%	0.10%
Rebase Medicare Payment Rates on Current Levels	$150	0.10%	0.12%	0.12%
Expand Telehealth Access in Medicare	-$25	-0.01%	-0.01%	0.00%
Reform GME and IME Payments	$30	0.01%	0.01%	0.01%
CUT HEALTH-CARE COSTS AND IMPROVE OUTCOMES				
Set a Maximum Charges for Out-of-Network Care	$445	0.17%	0.27%	0.33%
Make Prescription Drugs More Affordable	$15	0.00%	0.00%	0.01%
Create a Public Health Security Fund	-$95	0.02%	0.02%	0.02%
Permanently Smooth the ACA Subsidy Cliff	-$100	-0.03%	-0.04%	-0.04%
Encourage State Innovation in Medicaid	*	*	*	*
Curtail Medicaid Financing Gimmicks	*	*	*	*
Expand Substance Abuse Treatment Availability	-$45	-0.01%	-0.01%	-0.01%

BUDGET IMPACT RELATIVE TO CURRENT LAW BASELINE	10-YEAR SAVINGS ($BILLIONS)	ANNUAL SAVINGS (+) OR COST (-) AS A PERCENT OF BASELINE GDP		
		2035	2045	2055
SUPPORT WORKING FAMILIES AND ECONOMIC OPPORTUNITY				
Provide Paid Parental Leave Benefits	-$150	-0.04%	-0.04%	-0.03%
Expand the Child Tax Credit	-$1,390	-0.35%	-0.26%	-0.19%
Repeal the Child and Dependent Care Tax Credit	$50	0.01%	0.01%	0.01%
Expand Public Education to Include Preschool	-$280	-0.09%	-0.10%	-0.08%
Repeal Regressive Education-Related Tax Expenditures	$365	0.10%	0.08%	0.07%
Expand Pell Grants to Create a "Super Pell" Program	-$330	-0.09%	-0.07%	-0.06%
Expand Early College and CTE in High-School	-$35	-0.01%	-0.01%	-0.01%
Expand Apprenticeships	-$105	-0.03%	-0.03%	-0.02%
Control the Cost of College	*	*	*	*
Reform Income-Driven Repayment	$175	0.04%	0.04%	0.04%
Create Child Opportunity Accounts	-$290	-0.07%	-0.05%	-0.04%
Increase Funding for CDFIs	-$10	0.00%	0.00%	0.00%
MAKE HOUSING AFFORDABLE FOR ALL				
Create a "Race-to-the-Top" Zoning Grant	-$60	0.00%	0.00%	0.00%
Capitalize a Housing Construction Bank	*	*	*	*
Phase Out Regressive Tax Subsidies for Real Estate	$1,140	0.46%	0.65%	0.75%
Reform and Gradually Expand Housing Choice Vouchers	-$220	-0.10%	-0.14%	-0.12%
RATIONALIZE SAFETY-NET PROGRAMS				
Smooth the SNAP Benefits Cliff	-$55	-0.01%	-0.01%	-0.01%
Increase Asset Caps for Supplemental Security Income	-$10	0.00%	0.00%	0.00%
Repurpose TANF Funds	$165	0.04%	0.03%	0.02%
Reform Agriculture Subsidies	$60	0.01%	0.01%	0.01%
Index All Cost-Of-Living Adjustments to Chained CPI-U	$150	0.04%	0.04%	0.03%

BUDGET IMPACT RELATIVE TO CURRENT LAW BASELINE	10-YEAR SAVINGS ($BILLIONS)	ANNUAL SAVINGS (+) OR COST (-) AS A PERCENT OF BASELINE GDP		
		2035	2045	2055
IMPROVE PUBLIC ADMINISTRATION				
Restore and Reform IRS Enforcement Funding	$210	0.11%	0.06%	0.03%
Stop Processing Employee Retention Tax Credit Claims	$80	0.00%	0.00%	0.00%
Dechedule and Tax Marijuana	$180	0.06%	0.06%	0.06%
Improve Competition Enforcement	*	*	*	*
Incentivize Fair Fines and Fees at the Local Level	*	*	*	*
Equalize Retirement Contributions for Federal Employees	$50	0.01%	0.00%	0.00%
Extend the Window for Loan Programs Office Appropriations	*	*	*	*
MANAGE PUBLIC DEBT RESPONSIBLY				
Improve Automatic Stabilizers	*	*	*	*
Reform the Debt Ceiling	*	*	*	*
Grow Public Investment Spending with GDP	-$905	-0.35%	-0.38%	-0.38%
Index Other Discretionary Spending to Population Growth + Inflation	-$475	-0.14%	0.01%	0.17%
Impact of Deficit Reduction on Revenue and Interest Costs	$1,945	0.96%	2.99%	5.35%

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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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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.

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