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The Budget for All:
An Analysis of Congressional Progressive Caucus Budget

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Summary

The Congressional Progressive Caucus Fiscal Year 2013 budget, *Budget for All*, offers an important alternative to both the Obama Administration's budget and that presented last week by Paul Ryan and the House Budget Committee. The CPC budget would accomplish several important goals at once: 1) Increases public investment that stimulates near-term growth and job creation, while bolstering the nation's foundation for long-term prosperity; 2) Preserves and strengthens crucial domestic safety net programs; and 3) Raises revenues and achieves substantial deficit reduction, reducing debt to 62.3 percent of GDP by 2022 – the same level as the Ryan plan. The CPC budget demonstrates that the U.S. can achieve fiscal security in ways that do not compromise investment in future prosperity or unduly penalize the poor. Moreover, the CPC budget acknowledges the fact that real public interest legislation cannot be passed if the wealthy continue have outsized influence in politics, and so calls for the adoption of public financing for elections.

In some areas, though, this budget proposal could be bolder: It could more substantially reform the tax code and further curtail tax expenditures that disproportionately benefit the affluent. In addition, by only rolling back the Bush tax cuts for top earners, this proposal leaves the U.S. with a narrower and weaker revenue base than existed before the large tax cuts of 2001.

Public Investment and Job Creation

The CPC budget gives urgent priority to strengthening the economy and reducing levels of unemployment. This makes sense given the historic dimensions of the U.S. job crisis, with the longest period of high rates of unemployment since the Great Depression.

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The budget revives a proposal that the CPC made last year to put 2 million people to work in the next two years through a variety of measures, including large scale public jobs initiatives to rehabilitate schools, improve parks, and strengthen communities. This proposal goes far beyond any measures included in President Obama's budget and are appropriate to the scale of the unemployment problem facing the nation. Demos supports direct public job creation because, as we noted in a March 2011 report, this kind of spending is the most cost-effective way to create jobs – as opposed to indirect stimulus where job creation results from new economic growth. Moreover, direct job creation is good policy because it can more intentionally target specific workers (e.g., young adults) and geographic areas (e.g., the Midwest) that most need assistance, whereas indirect stimulus spending is less easily targeted.

By comparison, Paul Ryan's budget proposal released last week would result in the *loss of 4.1 million jobs* over the next two years. And while this is certainly a disturbing consequence, it should not come as a surprise: Ryan's budget would cut discretionary spending by $120 billion and mandatory spending by $284 billion over the next two years alone. Extreme levels of public divestment such as this can only result in substantial job losses across the labor force – indeed, multiple nation-wide polls reveal in clear terms that the main factor preventing small business owners from expanding their payrolls is suppressed consumer demand, which aggressive public divestment would only exacerbate.

The CPC budget also includes spending on a number of domestic investments that would both stimulate growth and foster future prosperity. It supports a six-year $556 billion surface transportation reauthorization bill – significantly greater than even the $476 billion included in the Obama administration's proposal – which over ten years would increase transportation funding by a total of $241 billion. This boost in spending makes sense given the huge backlog of needed repairs to roads and bridges and the many unemployed workers with the skills to do this work. Furthermore, the longer we delay making crucial infrastructure repairs, the more costly these projects will become.

The CPC also proposes an infrastructure bank, an idea that the Obama Administration put forth as part of the American Jobs Act last year but which Congress never enacted. The CPC estimates that its infrastructure bank proposal could mobilize $625 billion in funding for new roads, railroads, bridges, public works projects, and broadband access. Demos strongly supports this proposal, given the important role that infrastructure plays in supporting economic growth and major investments that leading U.S. competitors are making in this area, particularly China. In addition, spending on infrastructure is among the most cost-effective ways to stimulate growth and new jobs, and helps construction workers – a part of the labor force with the highest levels of unemployment.

Another important feature of the CPC's investment spending is that it devotes significant funds – through tax incentives – to help spur clean energy and technological innovation in the private sector, which the CPC rightly sees as crucial to foster a competitive U.S. economy that will create good jobs and rebuild the middle class. Several of the CPC's proposals are ideas that President Obama has previously put forth. Demos does have one strong concern about this part of the CPC proposal, which is that it relies on expanding tax breaks for the private sector to achieve its goals. This strategy has risks, given that it perpetuates a troubling nexus between industry and government where politically well-connected players can easily get unfair advantages and oversight can be lax. Creating new tax breaks for certain sectors also complicates another goal of the CPC budget, which is to reform the corporate tax code and reduce such breaks overall.

Income and Corporate Taxes

Wealthy Americans now enjoy some of the lowest tax rates since the 1920s. Like the Obama Administration, the CPC appropriately calls for letting the Bush tax cuts for high earners – the top 2 percent -- lapse by law at the end of 2012. But the CPC would go well beyond the Administration's proposals by allowing the 28 percent and 25 percent brackets to sunset once the economy is on solid footing, in 2017 and 2019, respectively, and by imposing additional taxes on the very highest earners in America.

The CPC proposes two important measures for new taxes on high earners. First, it would enact the Fairness in Taxation Act, proposed last year by Representative Jan Schakowsky, which would add a new set of top tiers to the income tax code for those earning millions of dollars, setting the highest bracket at 49 percent. Demos has applauded the Fairness in Taxation Act in the past because this proposal acknowledges vast disparities in earnings among the affluent. Current law taxes a couple making $350,000 at the same rate as a billionaire making tens times that amount, which doesn't make sense. The Fairness in Taxation Act would remedy that with its additional top brackets.

The CPC proposal would also tax all capital gains and qualified dividends as ordinary income, eliminating an unfair disparity in the tax code that allows people who live off wealth – included inherited wealth – to pay lower taxes than people who work for a living. Both the Fairness in

Taxation Act and the reforms to capital gains taxation proposed by the CPC go well beyond the President's call for adherence to the "Buffett Rule," which requires millionaires to pay no less than 30 percent of their income in taxes.

And while the CPC budget and the President's budget responsibly raise new revenue by adjusting the tax code to account for the rapid growth of wealth at the top, the Ryan plan does the opposite: His proposal leaves the costly Bush tax cuts fully in place, cuts taxes on corporations, and consolidates the tax code into two brackets – 10 percent and 25 percent. In all, the Ryan budget delivers $3 trillion in tax cuts to the wealthy and corporations, giving each millionaire in the U.S. a new $187,000 average cut to their taxes. Modifying the tax brackets in this manner while preserving preferential tax treatment of capital gains would make the U.S. tax code substantially more regressive and accelerate the already-rapid growth of inequality.

Perhaps the CPC's most controversial tax proposal is to impose a new tax on wealth – a 0.5 percent surcharge on all net worth exceeding $10 million for ten years, which the CPC estimates would yield $319 billion in revenue through 2022. Taxes on assets have been enacted at different points in a number of European countries and are not unprecedented in the United States. Property taxes, after all, are a form of wealth taxation. But the federal government has never imposed a wealth tax of the form that the CPC recommends and there are important questions that need to be resolved about how such a measure would be implemented. Still, we applaud the CPC for adding a wealth tax to the policy menu of revenue options, as such a measure could raise significant revenues from households that have accumulated wealth in recent years thanks to historically low tax rates on the affluent that, in retrospect, the federal government could not afford given wartime spending and an illusory belief in continuing budget surpluses. In effect, a wealth tax would allow the government to recoup revenue lost to imprudent tax cuts that should never have been implemented.

The CPC tax proposal would also maintain the expanded refundable tax credits initiated in the 2009 stimulus – including a more generous version of the Earned Income Tax Credit, the Child and Dependent Care Credit, and the American Opportunity Tax Credit, which helps students and their parents pay for college. Continuing these expanded tax credits makes sense, both as a form of near-term stimulus and as a longer effort to assist low-income Americans. The Ryan budget, by comparison, actually reduces the generosity of the EITC, the Child Tax Credit, and the American Opportunity Tax Credit, facilitating a redistribution of income away from Americans most in need of support toward those who are already on top.

On corporate taxes, the CPC preserves certain key components of the Obama administration's tax reform guidelines – such as the elimination of special perks for oil, gas, and coal companies and the creation of a Financial Crisis Responsibility Fee – while offering several new proposals aimed at rightsizing Wall Street and spurring energy innovation. First, the CPC budget would impose a "financial speculation tax," which would be a small tax on the very same risky and opaque transactions that spiraled out of control to start the financial crisis. Specifically, this policy would tax all stock transactions and option premiums at 0.25 percent, with bond and foreign exchange transactions taxed at 0.004 percent.

Such a tax is now being seriously discussed in Europe and could raise significant new revenues for the federal government if enacted here in the United States: The CPC estimates that its version of such a tax would raise $849 billion through 2022. This tax could also have the beneficial effect of reducing volatility in the stock market and would mainly penalize high-volume speculative trading, as opposed to ordinary investors whose stocks aren't traded very often.

In addition, perhaps the most notable feature of the CPC corporate tax plan is that it would impose a carbon tax, or otherwise "price" carbon, which could greatly incentivize the development of clean technology and energy conservation steps. The CPC would buffer low and moderate income households from the negative effects of a carbon tax with rebates. Still, the CPC estimates that its carbon tax proposal would raises $897 billion through Fiscal Year 2022. Another element of the CPC's tax plan related to energy is that, like the Obama Administration, it would eliminate tax breaks for the fossil fuel industry, with savings of $25 billion.

A shortcoming of the CPC tax proposals is that the caucus does not present a bold vision of progressive tax reform, even as many signs suggest that Congress is like to take up tax reform next year. The CPC's proposal to restructure tax expenditures are relatively modest, even though these breaks and credits annually cost the federal government $1 trillion a year according to a recent study by the Congressional Research Service. The CPC would cap the value of itemized deductions at 28 percent, which is less aggressive than other proposals, including the fiscal blueprint released by Demos, the Economic Policy Institute, and the Century Foundation in November 2010. The CPC would also deny the home mortgage interest deduction for vacation homes and yachts, a largely symbolic step that would only raise $13 billion in revenue through 2022.

Numerous studies have shown that more affluent households are the prime beneficiaries of tax breaks for employer-provided healthcare, retirement savings, and home mortgage interest. These top three tax breaks together cost the government $400 billion a year. A bolder vision of progressive tax reform would spell out in greater detail how to reform these and other tax expenditures to bring greater fairness to the tax code.

Likewise, while the CPC does suggest imposing a tax on carbon pollution, it does not offer a bigger framework for shifting taxation to focus more taxing bad things – like pollution and consumption – and away from taxing good things, like wealth and work. More ambitious green taxes, and a progressive consumption tax, should be considered in future CPC proposals. And while we recognize the fairness of taxing capital gains and dividends as ordinary income, progressives should ultimately seek a tax code that relies less on taxing wealth creation, which is a positive activity.

Defense Spending

With the United States fast winding down its wars abroad, and Al-Qaeda significantly weakened, the CPC appropriately advocates reducing defense spending in coming years. This proposal goes well beyond the Ryan budget, which seeks to shield the Pentagon from major cuts – including those already mandated by law – and also beyond the Obama Administration's proposal.

In addition to reducing emergency war funding, with the goal of more rapidly extricating U.S. forces from war zones overseas, the CPC would make cuts to force structure and weapons system, particularly advanced or nuclear weapons and infrastructure – which are unnecessary in the face of current threats. Notably, the CPC budget would not achieve any savings through cuts to military wages, pensions or healthcare benefits. While it's fair that defense cuts should not unduly hurt military personnel, it seems unrealistic to put reforms to the military healthcare system entirely off limits, given the fast exploding costs in this area.

Health Care and Social Security

The CPC budget offers several bold proposals to expand access to health care, even as the future of the Affordable Care Act remains uncertain. Most significantly, the CPC proposal would allow the Secretary of Health and Human Services to offer a public health insurance option "ensures choice, competition, and stability in affordable, high-quality coverage" throughout the U.S. The creation of a public option would save $104 billion over 10 years.

As Demos emphasized in a report last fall, rapidly-escalating costs of health care have been squeezing middle class pocketbooks for the past two decades. Between 2000 and 2010 alone, workers' contributions for family health insurance coverage increased almost 150 percent to close to $4,000. Today, over half of employees pay more than 25 percent of the total cost of their insurance premiums. Given these price hikes, it should come as no surprise that out-of-pocket medical expenses are one of the primary causes of bankruptcy for middle class families. A public option would help significantly in controlling costs, allowing working Americans to save more of their paycheck.

The CPC budget proposes two important policies to ensure that Social Security remains in existence and delivers sufficient benefits for future generations. By phasing out the cap on the payroll tax for earnings over $110,000, the CPC proposal would raise vitally important new revenue on fair and equitable terms. The CPC also calls for increasing the benefits provided by Social Security, by indexing the cost of living adjustments to the Bureau of Labor Statistics Consumer Price Index for Elderly Americans. This index provides a more accurate measure of the real costs that seniors face on a daily basis through greater sensitivity to their disproportionately higher medical expenses.

As Demos documented in a series of reports last year, American seniors have been suffering from serious levels of retirement insecurity even before the economic shock of the Great Recession. From 2004-2008, economic insecurity among senior households increased by one-third, from 27 percent to 36 percent. Moreover, the legacy of gender and racial inequality in the U.S. has made retirement insecurity an even more severe phenomenon among women and seniors of color -- 90 percent of Latino and 83 percent African-American senior households have insufficient retirement assets to last throughout their expected life spans. This same condition holds true for no less than 70 percent of senior single women.

While we share the CPC's commitment to improving the Social Security program, it will take even more from policymakers to ensure real retirement security for all Americans: for example, Demos supports increasing access to asset-building opportunities, particularly for marginal groups, while also pursuing more reliable pension provisions to ensure the stability of employer and employee investments.

Deficit Reduction

While the CPC budget clearly prioritizes job creation and public investment, it is important to note that it also delivers significantly better long-term deficit reduction than the proposals offered by the Obama administration and by Congressman Ryan. By 2022, the White House budget reduces deficits as a share of GDP to 2.8 percent, while the Ryan proposal would lower deficits to 1.2 percent of GDP – the CPC budget, however, offers substantially greater long-term fiscal security by reducing federal deficits to 0.7 percent of GDP by 2022.

Furthermore, the CPC would reduce the projected public debt as a share of GDP to 62.3 percent – the exact same level as the Ryan budget. By achieving equal levels of debt reduction over the next 10 years, the CPC budget exposes the lie behind conservative claims that regressive budget cuts are non-negotiable prerequisites for long-term fiscal stability, and restores the values of middle class security and economic opportunity to their rightful place at the front of America's fiscal policy agenda.