

The People's Priorities to Rebuild the American Dream

The Congressional Progressive Caucus would like to reiterate our support for certain key components to be included in deficit reduction legislation including job creation, raising revenue and protecting Medicare, Medicaid and Social Security.

The number one focus of this Congress must be job creation. Employing Americans is essential to reducing our deficit and restoring our economic competitiveness. The majority of Americans believe that cutting Social Security, Medicare, Medicaid, unemployment insurance, education and research is completely unacceptable. At the same time, Americans overwhelmingly support a progressive tax policy. The majority of Americans support making millionaires and billionaires pay their fair share in taxes, eliminating unnecessary weapons systems, eliminating tax giveaways to the oil and gas industries and phasing out the Bush tax cuts. In a crisis driven by lack of consumer demand, unemployed Americans must have the means to create demand for American businesses while they search for work.

Given the magnitude of the jobs crisis, the Progressive Caucus job creation framework should be implemented on a large scale, alongside deficit reduction options from the CPC People's Budget, to return prosperity and opportunity to the Americans people. Job creation, raising revenue and protecting essential programs are not independent measures. They constitute a comprehensive policy model that will rebuild an America that works for everyone, not just the wealthiest one percent.

Job Creation

Make it in America Again

We must begin with a strategy to revive manufacturing in the United States. This requires developing something every other industrial nation has – a national plan for manufacturing. When people see the words "Made in America" they know that they are getting the highest quality manufactured goods money can buy. We need a policy that reopens our factories and lets Americans do what they do best: produce the highest quality products in the world.

Rebuild America

With the cost of borrowing near zero, the construction industry flat on its back, and America's decrepit infrastructure not only a competitive burden, but a threat to lives and safety, there is no better time to launch a major initiative to rebuild America. Create a national investment bank to leverage private capital and ensure that major projects are determined by merit, not by political muscle. Rebuild our half century old roads, bridges, locks and dams, while spurring creation of the roads of the future by connecting and empowering our country with fiber optic cable.

Jobs for the Next Generation

There is no shortage of work to be done in America and no shortage of workers to do it. One in four teenagers are officially unemployed, including nearly half of young African Americans and Latinos. We are witnessing a generation of crushed hopes, and we are squandering the talent of young Americans. Destructive cuts in public education threaten America's economic success and we are now falling behind. We must increase federal support for hiring teachers as a catalyst for job creation and immediate and future economic development. We must invest in the finest public education and job training in the world, education is no longer a guarantee of work. Let us make the guarantee of a good American job real for every young person. We should provide direct employment in the public sector

and incentives for hiring in the non-profit sector and private sector. In addition, the caucus supports a "Train me and pay me" program which would give stipends to workers and young people who are enrolled in job training programs.

Lead the Green Industrial Revolution

A centerpiece of our economic strategy must be to create good jobs now by capturing the lead in the industrial revolution that is sweeping the world – starting with clean energy, electric cars, and efficient appliances. We need to invest in research and innovation so that America remains on the cutting edge of global technologies. Provide investment incentives to companies to create jobs here at home. Build a modern smart grid that can deliver efficiency and clean energy.

Not Just Jobs – Good Jobs

American workers want good American jobs, not poverty level wages without benefits that make it impossible to support a family or save for the future. We can start by making sure that middle-class Americans are free to organize and have a voice and a seat at the table again. If corporations can join together to hire an army of lobbyists, working Americans must come together and use their strength in numbers to protect the rights of middle class Americans. We must ensure that businesses obey our labor laws and reward those that create good paying American jobs that protect our rights to equal opportunity and equal pay. Programs like TANF ECF have been proven to put people to work. While, we work on building these good jobs, we must ensure the long-term unemployed receive the full assistance and services they need so they can continue contributing to the economy.

Raising Revenue^[1]

Replacing Bush Tax Cuts and Estate Tax with Responsible Policies

The Bush-era tax cuts were and continue to be costly and ineffective at fostering economic growth. Of all the post-war business cycles, the economic expansion of 2001-07 saw the worst growth in gross domestic product, investment, employment, total compensation, wages and salaries, and labor force participation (measured trough to peak: 2001Q4 to 2007Q4). The Bush-era tax cuts were also objectively regressive, conferring a disproportionate benefit to high earners capturing a majority of new income. Additionally, the increased the estate tax exemption to \$5 million (\$10 million for married couples) and reduced the maximum tax rate above that exemption to 35% represents a tax cut that benefited only the wealthiest one-quarter of one percent of households. The Progressive Caucus has longed called for ending this period of irresponsible spending on tax giveaways to the very wealthiest in our society. Unpaid for tax cuts has been the single largest driver of deficits over the last decade; any serious deficit reduction proposal must address these irresponsible policies.

Currently CBO estimates an extension of the Bush Tax cuts with the AMT indexed for inflation and an extension of current estate tax rates would add \$3.95 trillion to the deficit from 2012-21.^[ii]

Enact the Fairness in Taxation Act

The *People's Budget* would adopt Representative Jan Schakowsky's (D.-Ill.) Fairness in Taxation Act (H.R 1124), which would create several new tax brackets for high-income earners: \$1-10 million would be taxed at 45%; \$10-20 million, 46%; \$20-100 million, 47%; \$100 million to \$1 billion, 48%; \$1 billion and over would pay 49%. The bill would also tax capital gains and dividend income as ordinary income for those taxpayers with income over \$1 million. Citizens for Tax Justice (CTJ) estimate that the Fairness in Taxation Act would generate \$748.2 billion over the 2011-20 period. Extrapolating from this score, Rep. Schakowsky's Fairness in Taxation Act is projected to generate \$401.5 billion in revenue over the 2012-16 period and \$872.5 billion over the 2012-21 period.

Savings \$872.5 billion

Eliminate Fossil Fuel Tax Preferences

The president's budget requests have repeatedly proposed eliminating a handful of tax preferences

carved out for fossil fuel producers over the years. Eliminating this tax code spending would help level the playing field between renewable energy sources and fossil fuels. The *People's Budget* would eliminate fossil fuel tax preferences as detailed by the president's budget. Specifically, this policy would repeal exploration and development expensing, preferential tax treatment of royalties, and domestic manufacturing deductions, among other tax preferences, for oil, natural gas, and coal producers. Repeal would save \$21 billion over the 2012-16 period and \$41 billion over the 2012-21 period.

Savings \$41 billion

Reinstate Superfund Taxes

The Environmental Protection Agency's Superfund program, once largely funded by dedicated taxes, is now largely funded by general revenue. Having a stable source of funding, rather than relying on year-to-year appropriations, would help plan multi-year cleanup of hazardous chemical waste. The *People's Budget* would reinstate the Superfund excise taxes that expired in 1995 in order to finance cleanup of hazardous waste. Specifically, this policy would re-impose an excise tax of \$0.22 to \$4.87 per ton on various chemicals, an excise tax of 9.7 cents per barrel of crude or refined petroleum, and a corporate income tax of 0.12% on modified alternative minimum corporate income above \$2 million. According to the CBO, this policy option would generate \$19.4 billion over the 2012-21 period.

Savings \$19.4 billion

Financial Crisis Responsibility Fee

The *People's Budget* would impose a fee on large financial institutions. Specifically, the budget would impose a leverage tax (0.15% of covered liabilities) on large banks with more than \$50 billion in assets (as proposed in the president's budget request). According to the CBO, imposing such a tax could generate \$31.3 billion over the 2012-16 period and \$70.9 billion over the full 2012-21 period, recouping more than three-fold the net taxpayer cost of the Troubled Asset Relief Program (TARP). The fee would provide an incentive for large firms to decrease their liabilities, helping to rectify the problem of "too big to fail" financial institutions that was made all too apparent during the financial crisis. The proposal would also help to level the playing field between small financial institutions (which do not benefit from an implicit government guarantee because they are not viewed as "systemically important" by credit markets) and larger financial institutions.

Savings \$70.9 billion

Tax Preference for Municipal Bonds

Bonds issued by state and local governments receive preferential tax treatment. The current tax treatment also confers a disproportionately larger tax benefit for upper-income earners. The *People's Budget* would replace the tax exclusion for interest with a direct subsidy to borrowers (i.e., state and local governments), which would be a more cost-effective way of reducing their borrowing costs. Under this policy, state and local governments would make taxable interest payments to borrowers and receive a 15% subsidy from the federal government for the interest paid on those bonds. This would simplify the tax code, increase budgeting transparency, and more cost-effectively subsidize borrowing by state and local governments. According to the CBO, this policy would generate \$30.5 billion over 2012-16 and \$142.7 billion over 2012-21.

Savings \$142.7 billion

Derivatives and Speculation Tax

The *People's Budget* would impose a small tax on transactions of exotic financial products. Assuming a 25% behavioral reduction in transactions resulting from a tax, Dean Baker and Robert Pollin estimate that various taxes on financial derivative products (financial instruments deriving their value from some other underlying asset, such as a stock, currency, or index) could generate upwards of \$63.5 billion annually. Specifically, a tax on swaps (taxed at 0.01% per year to maturity and assuming an average life to maturity of 1.5 years)—including credit default swaps—could generate roughly \$34.8 billion. A tax of 0.01% on each side of futures and forwards transactions could generate roughly \$10.7 billion. A 0.5% tax on option premiums (the right to purchase a stock at a set price at a future date) could generate roughly \$6.3 billion. Additionally, a 0.01% tax on all foreign exchange spot transactions could generate roughly \$11.7 billion annually (this latter option is a proper "Tobin tax,"

rather than a derivatives tax). The tax rates on derivative and speculative financial products proposed by the *People's Budget* would represent a smaller relative increase in transactions costs, so a 25% reduction in transactions seems reasonable, if not conservative. A larger behavioral response would decrease revenue relative to projected levels, but would conversely further the policy goal of taming speculation and encouraging more productive investment. Assuming a larger 50% reduction in transaction, Baker and Pollin estimate that these speculation taxes would raise \$43.2 billion annually.

Savings \$43.2 billion annually

Responsibly End the Wars in Iraq and Afghanistan

The *People's Budget* accounts for an end to the wars in Iraq and Afghanistan. These operations have cost \$1.3 trillion, excluding debt service. The *People's Budget* provides \$161.4 billion in OCO funding for 2012 (the funding level in the CBO baseline), after which all OCO funding is ended. The Congressional Research Service estimates that this sum would be more than sufficient to safely and deliberately withdraw American soldiers from Afghanistan and Iraq. Responsibly ending the wars in Afghanistan and Iraq will save \$1.6 trillion over the 2013- 21 period, relative to the CBO baseline.

Savings \$1.6 trillion

Realigning Department of Defense Priorities

Over the last two years, a rare consensus has emerged among a wide range of Washington policymakers: any deficit reduction plan must tackle Department of Defense spending. Specific proposals for conventional forces include: reducing active duty Army personnel strength to 427,000 by 2014 (a decrease of 120,000); reducing the Marine Corps personnel strength by 30% to a force of 145,000 by 2014; reducing the Navy by 20% to a fleet of 230 ships; and reducing the Air Force by 15%, reducing the number of squadrons by 18 of 60. These force structure savings would total \$593.7 billion over the 2012-21 period. Specific proposals for strategic capabilities include reducing the U.S. nuclear arsenal, cancelling the Trident II missile, limiting modernization of nuclear weapons infrastructure and research, and selectively curtailing missile defense and space programs. No savings are assumed from TRICARE, the military health care program for active duty personal, military retirees, and their dependents. Overall, these policy proposals would gradually reduce defense appropriations by \$692.2 billion over the 2012-21 period, relative to the CBO baseline. Relative to higher spending levels in the president's budget request, they would represent \$816.7 billion in savings over the next decade. In both cases, the savings are well within the bounds of the savings identified as reasonable by the Sustainable Defense Taskforce (SDTF) report. SDTF, a bipartisan group of defense experts, released a report in June 2010 that detailed a series of options, which, if taken together, would save \$960 billion over a decade.

Savings \$692.2 – \$960 billion

Protecting Social Security, Medicare, Medicaid^[1]

Offer a Public Insurance Option

Beginning in 2014, national health insurance exchanges will be established (as a result of health care reform) through which individuals and families may purchase private coverage, increasing competition in largely fragmented, regional insurance markets. Under this option, the Secretary of the Department of Health and Human Services would administer a public health insurance plan to be offered alongside private plans through the exchanges. The public plan would exploit economies of scale to negotiate payment rates for prescription drugs, would pay physicians roughly 5% more than Medicare reimbursement rates, and would pay hospitals and providers comparable rates as paid under Medicare. Based on the potential for administrative and other savings, the CBO estimates that insurance premiums for the public plan would be roughly 5-7% lower than private plans offered in the insurance exchanges. According to the CBO, this option would lower deficits by \$17.4 billion from 2012 to 2016, and by \$88.0 billion from 2012 to 2021. Over the next decade, outlays would fall by \$26.7 billion (a reduction in targeted subsidies for the purchase of insurance in the exchanges) and a \$61.2 billion increase in revenue (largely resulting from interactions with the tax exclusion for

employer-sponsored health insurance).

Savings \$61.2 billion

Negotiate Drug Prices With Pharmaceutical Companies

The Bipartisan Policy Center's (BPC) report, *Restoring America's Future*, estimated that negotiating drug prices would save \$100 billion over the 2012-18 period. The BPC report proposed ending guaranteed Medicare in 2019 (changing the program to a premium support system similar to vouchers), ending the ability of the government to harness economies of scale to negotiate pharmaceutical drug prices. The budgetary impact of this proposal is extrapolated beyond 2018 by indexing savings to projected per capita health expenditure.¹⁹ Based on this extrapolation, negotiating drug prices with pharmaceutical companies would save an estimated \$157.9 billion over the 2012-21 period.

Savings \$157.9 billion

Strengthening Social Security

Millions of elderly Americans rely on the economic security that comes from the Social Security System. The *People's Budget* does not propose any reductions in benefits. The *People's Budget* raises the taxable maximum to include 90% of economy-wide earnings, and eliminates the maximum that employers pay on behalf of their high-income employees. Under the current system, income above a taxable maximum is not subject to any Social Security tax, meaning that high-income individuals pay less as a share of their income than everyone else. The CBO estimates that increasing the share of total earnings subject to the payroll tax to 90% would require raising the maximum taxable amount to \$170,000 in 2012, up from \$106,800 in 2011. The increase in the taxable maximum on the employee side is gradually phased in over five years. The increase in employer contributions for high earners (those employees earning more than \$106,800) would be phased in immediately. This option maintains the benefits structure as is, and benefit computations would reflect all earnings up to the new taxable maximum on the employee side, although increased employer contributions would not affect benefit computations. This policy raises \$445.0 billion over five years, and around \$1.2 trillion over 10 years. Social Security outlays would increase by \$2.8 billion over 10 years.

Additional savings for Social Security trust fund \$1.2 trillion