Investing in America's Economy

A Budget Blueprint for Economic Recovery and Fiscal Responsibility

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About this report

This report was prepared for *Our Fiscal Security*, a collaborative effort of Demos, the Economic Policy Institute (EPI), and The Century Foundation (TCF). The project is dedicated to promoting an economic path that achieves fiscal responsibility without undermining our national strength. The primary authors of the report are Becky Thiess (EPI) and Andrew Fieldhouse (EPI), under the guidance of Greg Anrig (TCF), Tamara Draut (Demos), and John Irons (EPI). Heather McGhee (Demos) contributed to the section on defense spending, Maggie Mahar (TCF) to the section on health care, and Josh Bivens (EPI) to the section relating pubic investments to economic growth.

This report reflects the belief that the first priority for our nation is to secure the fundamentals of the economy: strong growth and good jobs. In order to reduce our long-term national debt we must refuel the engine of our economy: the middle class. We strongly oppose the idea that America's fiscal challenges should be solved by cutting longstanding social insurance programs that have brought security and prosperity to millions of Americans. Throughout the "Great Recession" and its painful aftermath, those programs have proven to be effective mechanisms for limiting widespread catastrophic hardship.

We believe that a sound fiscal path must follow some basic guidelines:

1. **Jobs first.** Jobs and economic growth are essential to our capacity to reduce deficits, and there should be no across-the-board spending reductions until the economy fully recovers. In fact, efforts to spur job creation today will put us on a better economic path and create a solid revenue base. We believe there should be no consideration of overall spending reductions until unemployment has fallen to 6% and remained at or below that level for six months (Irons 2010a).
2. **Stabilize debt.** Over the long term, national debt as a share of the economy should be stabilized and eventually brought onto a downward trajectory.
3. **Build on economy-boosting investments.** We must build and maintain initiatives that directly support long-term job and economic growth. Failing to invest adequately in these efforts – or sacrificing them to short-term deficit reduction – would be a dereliction of sound public management.
4. **Target revenue increases.** Revenue increases should come primarily from those who have benefited most from the economic gains of the last few decades.
5. **No cost shifting.** Debt reduction must be weighed against other economic priorities. Policies that simply shift costs from the federal government to individuals and families may improve the government's balance sheet but would worsen the condition of many Americans, leaving the overall economy no better off.

Putting our nation on a path of broad prosperity will require generating new jobs, investing in key areas, modernizing and restoring our revenue base, and greatly increasing the cost efficiency of the health care system. Achieving these goals, however, will require an informed and engaged public to help set national priorities.

This report puts forth a blueprint that invests in America and creates jobs now, while putting the federal budget on a long-term sustainable path. We document the hard choices that need to be made and suggest specific policies that will yield lower deficits and a sustainable debt while preserving essential initiatives and investments.

Executive summary

Today, the United States faces grave economic problems. Some arose from the recession that began in 2007. Others are part of a long-term trend toward inequality and insecurity that pre-dated the immediate crisis. Currently, nearly one in 10 workers is unemployed. Millions of families that have jobs have exhausted their savings and are living paycheck to paycheck. Worried about job security and incomes, families have cut back on spending, putting further downward pressure on the economic recovery. Even very low interest rates have not induced banks to lend or businesses to invest because of a lack of overall demand.

In this context, the country is having a serious national debate about the best path to restore economic growth and shared prosperity – and the relationship of that core economic challenge to the need for better fiscal balance. The issues include the timing and composition of spending and taxing decisions. If we choose the right path, we can accelerate recovery. But the wrong approach could deepen the slump, inflict more economic pain on families, and make it more difficult to restore fiscal balance.

The federal budget is more than a bunch of numbers in a ledger in an office in Washington D.C. The federal budget represents one of the most concrete and measurable embodiments of the nation's values and priorities. As a nation, the American people value hard work and responsibility. We know that we must all work hard to succeed, and we trust that our fellow citizens – our family and friends, our neighbors, and communities – will do so as well. We ask much of each other: that we be informed voters, that we are responsible consumers and business leaders, and that we pay our fair share of taxes. It is all part of the nation's social compact. Budgetary decisions help to secure that social compact: they can offer solutions to national problems, create economic security for those in need, and expand opportunities for millions.

America's economically vibrant years owe much to the national policies in the postwar era that enabled most workers to share in productivity gains. Investments in infrastructure, technology, public education, and housing – as well as monetary policy that facilitated low unemployment – led to the creation of an unprecedented American middle class. This strong middle class benefited not only the working families within it but the overall economy.

The most pressing economic problem today is the recession. Among our longer-term problems is the unsustainability of the national budget. Bush-era tax cuts and a shrinking economy have led to significant budget deficits. These deficits are expected to decline as the economy recovers; however, national debt is projected to grow to unsustainable levels in the coming decades as rising health care costs lead to rapidly increasing federal expenditures.

National economic policy should be designed to address these dual considerations – the need to create jobs and invest in America today, and the need to place the federal budget on a sustainable path for the future.

Our Fiscal Security (OFS), a collaborative effort of Demos, the Economic Policy Institute, and The Century Foundation, proposes a budgetary path to achieve these goals. This path stabilizes debt as a share of the economy without demanding draconian cuts to national investments or to vital safety net programs. In fact, we believe that job creation and long-term investments should be enhanced now to ensure a strong economy in the future.

Any realistic solution to the long-term budget outlook must confront the real drivers of the growth of the national debt, namely the rapid rise in health care costs and the lack of adequate revenue. Projected increases in health care costs are not just a threat to the national budget, but also to the viability of American businesses and the health of family budgets. We propose a variety of policies that will reduce the growth in health

care costs. These changes would not only help reduce the deficit, but could also improve the quality of care and reduce costs for businesses and families.

On the revenue side, changes in tax policy have significantly eroded federal receipts over the past decade. We cannot face national challenges and meet national priorities without adequate funding. Our suggested path demands responsibility by rebalancing the tax code and increasing tax revenue from those most able to pay. The plan also reduces or eliminates tax preferences while maintaining or increasing tax reductions for low- and moderate-income families.

Our budget path acknowledges that the future path of the economy is uncertain. Beginning deficit reduction too soon risks prolonging high levels of unemployment. The overall stance of policy must thus be expansionary until unemployment is sustained at lower levels; we suggest a benchmark of unemployment at or below 6% for at least six months.

A viable plan must also hit reasonable budget targets. Plans that call for overzealous austerity threaten our currently fragile economy. Deficit reduction and immediate job creation do not have to be competing priorities, but a strong and rapid recovery will not come about if austerity is pursued too early or too quickly. In fact, an immediate reduction in the deficit will harm the already weakened economy and lead to greater job losses. Instead, job creation and greater investment today can contribute to a solid tax base and a strong and growing economy in the future, both of which would help reduce the deficit in the medium term.

Our suggested budget blueprint achieves lower deficits in the medium term and balances the primary federal budget (the year's current revenue and spending, not counting interest payments on past debt) in less than a decade. This path recognizes the need to increase revenue while targeting certain areas for reductions in spending; in particular, our proposed path reallocates spending away from the Department of Defense by adopting common sense spending reductions. Finally, the blueprint protects core priorities such as Social Security and health care from economically counterproductive reductions in benefits.

The net impact of the spending and revenue adjustments we put forth in this blueprint will produce the following short- and long-term results:

- Substantial and sustained increased funding for job creation and investments, especially in the near term;
- A budget path that significantly improves the 10-year budget window;
- A transition from a primary deficit to a primary surplus in 2018, and sustainable debt levels by the end of the decade;
- An improvement in the path for public debt in the long term (stabilizing debt as a share of the economy beyond 2025);
- A solid footing for Social Security, Medicare, and Medicaid for the long term;
- A modernized tax code that raises adequate revenue fairly and efficiently.

Just as an investment-oriented federal policy helped to create a thriving middle class in the postwar period, an ideology of disinvestment has helped to erode it over the past 30 years. Another path is not only possible, but necessary. Although there are many paths to fiscal balance – some of which include drastic spending and entitlement cuts and the continuation of a regressive tax system – only a path that fosters broadly shared economic growth and security will be sustainable in the long run.

The path to a balanced primary budget and sustainable debt

Our Fiscal Security's path begins with targeted revenue increases in order to reduce the deficit and fund public investments. Our plan succeeds in reaching a sustainable budget deficit level and a balanced primary budget by 2018, and also puts public debt on a long-term sustainable trajectory while increasing investments in the economy. Our plan is able to do this because it raises adequate levels of revenue and slows excess health care cost growth beyond 2025.

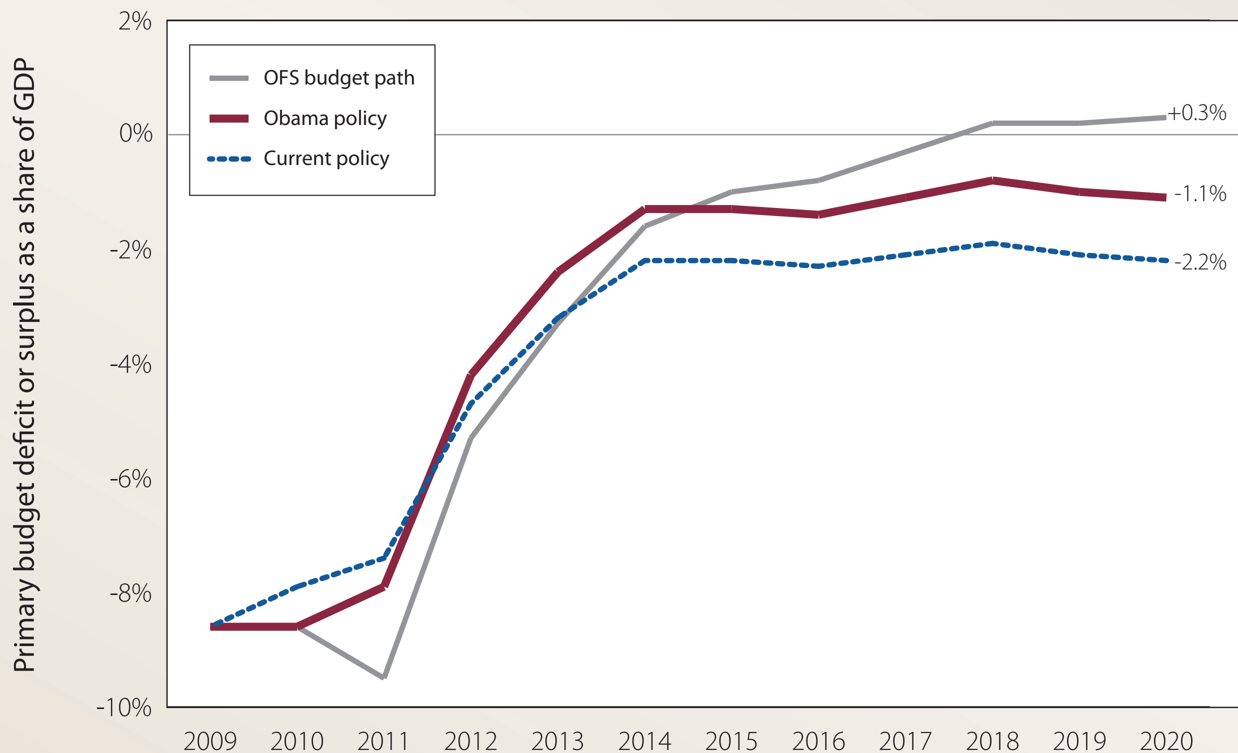
Our path for overall spending and revenues over the next decade, illustrated in the accompanying table, includes an increase in public investment, making good on our stated desire to fund short-term job creation and long-term investments to grow the middle class. We also show savings from the Department of Defense, which begin gradually and are phased in over time.

***Our Fiscal Security's* budget path, 2011-20** ($ billions, relative to President Obama's FY2011 budget proposal)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Public investment	250	200	212	225	236	248	259	270	282	294
Defense savings	-17	-35	-52	-70	-87	-105	-122	-140	-157	-175
Revenue increases	0	0	0	100	200	250	300	350	400	450
Total adjustment to Obama policy deficit	-233	-165	-160	-56	51	107	163	219	275	331

Source: Authors' analysis.

Our Fiscal Security's budget path achieves primary budget balance by 2018



Sources: CBO (2010a), OMB (2010a), Auerbach and Gale (2010), and OFS calculations.

The accompanying figure contrasts the primary deficit under our proposed path with the deficit as proposed by President Obama's 2011 budget and with a scenario that represents current policy, which includes the full extension of the Bush-era tax changes.

Our revenue increases (net of what is included in the Obama budget proposal) do not begin until 2014 and are phased in over time. By 2020, overall revenue would reach 21.7% of the economy, while all federal spending would reach just over 25%, leaving deficits

at a manageable level. We recognize that there are a number of ways to raise this amount of revenue from the proposals identified in more detail below. The revenue increases assumed in the overall path shown here are much smaller than the total savings from the combined policies we recommend below, meaning that policy makers have room to modify the specific policy parameters we propose.

Our plan also puts public debt on a long-term sustainable trajectory while increasing investments in the economy. Over the long term, reductions in the growth rate of health care costs are the only way to achieve sustainability: our proposed reforms to health care would help to constrain those costs. Under the proposed path, debt levels would reach 83% of GDP in 2020 and then be stabilized at about 90% of GDP in 2025 and thereafter. Debt at these levels is within historical and international experience, and has not been shown to represent a drag on economic growth.

The spending path

In constructing a spending path our goal was not to rework the entire federal budget, but instead to present an illustrative path for spending, focusing on defense and non-defense spending, health care, and retirement policies. We constructed our spending path while keeping in mind that income inequality has worsened not only over the last decade but over the last 30 years, and also that public investment must be a key priority, not only because of the jobs it will create but because of the growth that investing in human and physical capital will create.

Health care

Over the long term, increases in health care costs are the prime driver of unsustainable structural deficits. We propose a variety of specific measures to contain the growth of these costs, many of which build on the recently enacted health care legislation. While this legislation was a good first step toward cost control, additional reforms are not only needed but have the potential to realize significant savings in the future.

These reforms include encouraging or expanding the formation of accountable care organizations, programs to bundle payments, incentives to increase patient safety in hospitals, and comparative effectiveness research. Acting on recommendations of the Independent Payment Advisory Board would constrain costs as well. To further reduce costs, we also recommend enacting a robust "public option" plan and increased investments in health care information technology.

The proposals would, in many cases, not only reduce the cost of health care but also improve the quality.

Social Security

For 75 years, Social Security has provided an economic lifeline for millions, and it helps to stabilize the U.S. economy during down times when the income of workers is diminished. Currently, 53 million people – not just retirees but also spouses, survivors, and the disabled – receive an average benefit of $14,000 per year. Among those 65 and older, Social Security benefits are the major source of income for 57% of families.

Social Security is funded by payroll tax receipts and does not yet put pressure on the overall budget. Under current law and based on current projections, full benefits will be paid until 2037, when the trust fund is projected to be exhausted; at that time, benefits will be adjusted to fall in line with payroll receipts. With no changes to policy, income from the program, in 2037, will be sufficient to cover 78% of scheduled benefits after the exhaustion. To prevent a reduction in benefits when the trust fund expires will require additional revenue, either from payroll tax changes or an infusion of general funds.

For these reasons – as well as the projections that future retirees will have less private pension and saving income to supplement Social Security than retirees have now – we do not propose an overall cut to benefits. Rather, we propose raising the cap on earnings subject to Social Security tax. Currently, wage income above a taxable maximum (currently $106,800) is not taxed at all. Increasing the cap to cover 90% of economy-wide earnings on the employee side and 100% of earnings on the employer side (keeping all of this revenue in the Social Security system) would eliminate about three-fourths of the projected shortfall in Social Security, extend the solvency of the trust fund by decades, and protect promised benefits. We also identify other Social Security options that, if taken together, could more than close the entire shortfall.

Department of Defense

Our Fiscal Security suggests common sense reductions in military spending. Because major military actions and force modernizations over the last decade have caused a substantial increase in defense spending, and because the wars in Iraq and Afghanistan are winding down, a reduction in defense spending is not only warranted but reflects smart budgeting. Overall, the United States spends more than the next 19 highest-spending countries combined on defense (SIPRI 2010). There is broad agreement that the Pentagon has operated without a budget constraint for too long and that substantial savings can be achieved without sacrificing national security. We follow the spending levels as recommended by the bipartisan Sustainable Defense Task Force. The SDTF report identifies targeted cuts in strategic capabilities, conventional forces, operational expenses, procurement strategies, and research and development totaling $960 billion.

Strategic public investment

A sound fiscal path must acknowledge that public investments are essential for near-term job creation and for the promotion of long-run economic growth. The recession has led to increased levels of unemployment and poverty, while putting downward pressure on wages and family incomes. Targeted investments would strengthen the economy for the future while repairing the infrastructure systems that serve the country.

The blueprint details a number of areas where we believe increased investment is not only needed, but would boost long-term growth and productivity. These include:

- Early childhood education
- Quality child care
- Infrastructure
- Public transit
- Rural broadband connectivity
- Research and development

Putting increased funds toward these areas would yield a significant return on investment. Our path includes increased levels of public investment in both the short run and over time. These pro-growth investments will not only strengthen the middle class but will also provide much needed human and physical capital to help rebuild an economy that works for all Americans.

The path for tax expenditures

Our Fiscal Security's blueprint calls for modernizing the tax code by addressing its $1 trillion worth of deductions, credits, and preferences. The value of these tax expenditures, as a whole, tends to benefit those with higher incomes. We identify savings by eliminating several of these benefits for corporations and individuals and by limiting the value of deductions for those with higher incomes.

Despite having a higher-than-average statutory tax rate, because of preferences embodied in the tax code the United States collects just 2% of GDP in corporate tax revenue, compared with 2.5% across other developed nations. We suggest several changes that would broaden the tax base for corporations, including eliminating fossil fuel production tax credits, limiting the deductibility of financial corporate debt interest payments, closing the dividend loophole for foreign source income, and removing active financing tax deferral for financial firms.

For low-income taxpayers, we suggest making fully refundable the child tax credit and increasing the earned income tax credit. Our recommended tax expenditure reforms are summarized below.

Tax capital gains and dividends as ordinary income
Savings in 2015: $88.1 billion

Taxing both long-term capital gains and qualified dividends as normal income would generate considerable revenue while removing a major distortion of compensation choices from the tax code. Under the current tax code, the wealthiest pay only 15% on their income derived from wealth, while middle-income taxpayers typically pay higher rates, especially once payroll taxes are included. Subjecting capital gains and qualified dividends to the progressive income tax schedule would improve equity by eliminating tax arbitrage opportunities that encourage non-wage compensation; case in point: the "carried interest" earnings of private equity and hedge fund managers that are taxed not as income, but as capital gains.

Cap the benefit on itemized deductions at 15%, expand the charitable giving credit
Savings in 2015: $87.9 billion

For taxpayers opting out of the standard deduction, the value of their itemized deductions increases with their marginal tax rate, and hence their income. For high-income earners in the top tax bracket, the benefit (the amount by which their tax liability is reduced) is equal to 35% of their itemized deductions (39.6% if the top marginal tax rate reverts back as scheduled at the end of 2010). These tax code preferences provide no benefit to the majority of taxpayers, predominantly lower-income filers, who take the standard deduction. The president's budget proposes limiting the tax benefit on itemized deductions to 28%, but *Our Fiscal Security's* budget path proposes a further restriction to a 15% marginal benefit on itemized deductions and converting two major itemized deductions – the charitable deduction and the mortgage interest deduction – to refundable credits available to all tax filers.

We propose converting the deduction for charitable giving to a refundable credit at a flat 25% rate, making it available to non-itemizers. This would result in a net increase in the tax incentive to give for more than three-quarters of the population. This proposal would also replace the mortgage interest deduction with a fully refundable tax credit. Under current law, homeowners can deduct interest payments on up to $1 million in mortgage debt and up to an additional $100,000 in other loans, such as home equity loans, regardless of their use. The value of this benefit goes disproportionately to upper-income homeowners because of the greater value of their mortgages and because they receive a larger benefit per dollar of mortgage. Making the deduction a refundable credit on up to $500,000 in mortgage debt would also increase the value of the credit for many homeowners.

Expand the Earned Income Tax Credit
Cost in 2015: $1.6 billion

The EITC is the largest cash assistance program, and it plays a critical role in providing opportunity to working families and in fighting poverty. We propose expanding the EITC in three ways: permanently extend the tier created by the Recovery Act for families with three or more qualifying children, permanently extend the marriage relief provision of the Recovery Act, and increase the credit for filers with no qualifying children.

Make the Child Tax Credit fully refundable
Cost in 2015: $4.1 billion

The Child Tax Credit (CTC) is a means-tested, partially refundable tax credit targeted to families with children under 17. The Recovery Act lowered the earnings threshold for the refundable portion of the tax credit to $3,000 (the threshold was scheduled to increase from $8,500 to $12,550 in tax year 2009), greatly expanding access to a partial credit and increasing the number of families receiving the full value of the credit. The president's budget proposed maintaining the CTC threshold at the $3,000 level. We propose a further expansion to make the credit refundable regardless of earnings.

Eliminate fossil fuel production credits
Savings in 2015: Already included in Obama policy and our baseline

The president's budget proposed eliminating a handful of tax expenditures that have been carved out over the years for the oil, natural gas, and coal industries. Eliminating these preferences would help clean-energy industries compete on an even playing field with their fossil-fuel competitors, and thus help to create sustainable, green manufacturing jobs. Along with a cap-and-trade system of carbon emission allowances and a higher excise tax on motor vehicle fuel, this proposal would help rebalance the economy away from dependence on fossil fuels and toward a clean-energy economy. The president's budget estimates that eliminating the credit would raise $4 billion in 2015.

Limit the deductibility of corporate debt interest payments for financial firms
Savings in 2015: $77.1 billion

When planning investment strategies, corporations take advantage of a tax preference that encourages debt-financed projects over projects financed by other means. While there are many legitimate reasons for firms to take on debt, limiting the so-called "debt tax shield" for financial firms would generate significant revenues and discourage destabilizing high ratios of financial leverage, which have proven to impose widespread

economic costs. We propose limiting the tax preference on corporate debt interest payments for financial firms to 25%, below the top corporate tax rate of 35%, by making the preference an after-tax credit of 25% rather than a pre-tax expense.

Close dividend loophole for foreign source income
Savings in 2015: $34.1 billion

The tax deferral on earnings from U.S.-controlled foreign subsidiary corporations (incorporated overseas) enables firms to avoid repatriating foreign earnings. Rather than repatriating earnings from abroad as earned (and subjecting them to U.S. corporate tax rates), firms are taxed only when foreign earnings are received by the U.S. parent company as dividends. We propose eliminating the deferral of income from U.S.-controlled foreign subsidiary corporations.

Close "active financing" tax deferral for financial firms
Savings in 2015: $6.0 billion relative to current policy

The "active financing" exception for foreign source income allows multinational financial firms to avoid tax on their worldwide income when they establish "captive" foreign financing subsidiaries. Like the dividend loophole for foreign source income, this tax code carve-out deprives the United States of both revenue and business investment. A similar active financing exception was repealed under the Tax Reform Act of 1986 but was reinstated in 1997.

The revenue path

One of the root causes of the structural deficit problem, besides health care cost growth, is the lack of adequate revenue to fund national priorities. By targeting revenue increases on the people who can best afford to pay, we are able to reduce the deficit while maintaining critical investments. We propose a variety of reforms to the tax code that would increase revenue from those most able to afford it, while protecting the vast majority of Americans from any tax increase.

We identify several changes that would, in total, be more than enough to reduce deficits to sustainable levels. These are summarized below.

Repeal Bush-era tax cuts for top earners
Savings in 2015: Already included in Obama policy and our baseline

The Bush-era tax cuts disproportionately benefited the highest earners at a cost of nearly $2 trillion over a decade. The president's budget request proposed allowing the Bush tax cuts for top earners – joint filers with incomes above $250,000 and individuals with incomes above $200,000 – to expire. These high-income individuals have seen the largest gains in income over the past three decades and can best afford an increase in their tax share.

Enact an estate tax with a progressive schedule of marginal tax rates
Savings in 2015: $4.5 billion

The Bush-era tax cuts expanded the exemption for the estate tax from a planned increase to $1 million ($2 million for married couples) to $3.5 million ($7 million for married couples) and lowered the rate from 55% to 45% in 2009. The estate tax was also fully repealed in tax year 2010, though scheduled to return in 2011 with a $1 million exemption and a 55% rate. The Obama administration proposes extending the estate tax at the 2009 level. We propose lowering the exemption to $2 million ($4 million for married couples) and enacting a graduated rate structure that increases from 45% to 50% for the taxable portion of estates exceeding $10 million and 55% on the portion of estates worth more than $50 million. A similar graduated estate tax, sponsored by Senator Bernie Sanders (I-Vt.), included a higher exemption of $3.5 million ($7 million for married couples) and a 65% tax bracket for the portion of estates worth more than $500 million.

Permanently extend the Making Work Pay tax credit
Cost in 2015: $36.0 billion

The Making Work Pay (MWP) refundable tax credit, enacted as part of the 2009 Recovery Act, increased the take-home pay of 95% of tax filers and had expended $73.0 billion as of the second quarter of 2010. The credit replaces 6.2% of income up to a maximum of $400 for working individuals who are not claimed as dependents ($800 for joint filers), and is gradually phased out at a rate of 2% of adjusted gross income over $75,000 ($150,000 for joint filers). A permanent extension of

Making Work Pay helps to maintain the take-home pay of low- and moderate income taxpayers in the aftermath of the recession.

Green revenue: cap and trade or carbon tax
Savings in 2015: $52.0 billion

A carbon tax would level a charge on energy based upon the carbon content of the fuel source. A cap-and-trade program would either allocate or auction a set quantity of permits to "upstream" energy producers (such as electrical power plants or oil refineries). The president's budget included a deficit-neutral allowance for climate policy with unspecified revenue intended to fully offset the cost of mitigating the impact of climate change and funding investments in a green-energy economy. *Our Fiscal Security's* path, on the other hand, recommends enactment of a climate change bill in which half of the revenue is recycled back to consumers in a way that offsets the regressive nature of rising energy costs. The remaining half is used to fund general deficit reduction and green investment.

Reforms to reduce the tax gap
Savings in 2015: Already included in Obama policy and our baseline

In 2005, the Internal Revenue Service estimated that the gross tax gap – the difference between taxes owed and taxes paid – totaled $345 billion, of which only $55 billion was expected to eventually be collected as late payments or from tax enforcement. The single largest source of the tax gap is underreporting of individual income tax, primarily from income sources not subject to withholding or strict documentation. Closing even a small fraction of this gap would generate significant revenue.

The administration proposed a number of reforms to reduce the tax gap by improving reporting, encouraging compliance, and strengthening enforcement. Major proposals included requiring recipients of rental income to report all major expense payments, requiring a certified taxpayer identification number for contractors, strengthening rules for the classification of employees as independent contractors, and increasing the penalty for failing to file information returns. Beyond income underreporting, international tax evasion drains the Treasury of receipts, and steps can be taken to improve tax compliance and modernize the international tax code.

Financial crisis responsibility fee
Savings in 2015: Already included in Obama policy and our baseline

We recommend adopting the president's proposal to impose a financial crisis responsibility fee designed to recoup taxpayer losses associated with the Troubled Asset Relief Program (TARP), which primarily benefited major financial institutions. The fee would apply only to financial institutions with over $50 billion in assets (estimated at roughly 60 institutions) and would be equal to 15 basis points (0.15%) of a financial institution's covered liabilities.

Financial speculation tax
Savings in 2015: $77.4 billion

While a financial speculation tax would not eliminate speculation or necessarily stave off crises, disincentivizing short-term speculating would be a step toward building a more resilient financial sector. The tax could generate revenue to fund investments to strengthen the economy in the wake of the financial-crisis-induced recession.

Reinstate phase-out of personal exemptions and limit itemized deductions for high-income earners
Savings in 2015: Already included in Obama policy and our baseline

We recommend adopting the president's proposal to reinstate the personal exemption phase-out and the limitation on itemized deductions for Americans making over $200,000 ($250,000 for joint filers). Bush-era changes eliminated a maximum allowance for certain itemized deductions on high-income earners (the limitation was known as Pease, after the former Ohio representative who sponsored it) that had reduced the maximum benefit by 3% of adjusted gross income above a certain threshold, up to a limit.

Surcharge on top earners
Savings in 2015: $53.2 billion

Millionaires have seen their average income rise much faster than that of the general population; the average after-tax income of the top 1% of earners has skyrocketed – surging 281% since 1979 to $1.4 million in 2007. A surcharge on millionaires would raise significant revenue while reinforcing a basic principal of fairness in the tax code: those with more resources should pay proportionally higher rates than others. Such a surcharge on high earners had been included as a revenue offset in the House-passed version of the America's Affordable Health Choices Act but was eventually removed in favor of other offsets. Creating a new marginal tax bracket or "surcharge" for taxpayers with incomes over $1 million would be a pragmatic option for raising revenue. While such a change would not in itself solve the long-term fiscal problem, it would mean less austerity elsewhere in the budget.

Increase the motor fuel excise tax
Savings in 2015: $33.0 billion

Increasing taxes on motor fuels would raise significant revenues while decreasing negative social externalities such as pollution and traffic congestion. Revenue from the tax would recapitalize the highway trust fund, thus providing badly needed funding for the transportation infrastructure.

Conclusion

A recession is not a time for fiscal austerity but rather a time for investing in jobs and the middle class. Our proposed policies work against the erosion of investment that we have seen over the past 30 years, modernize an antiquated and complex tax code, and achieve fiscal sustainability while preserving Social Security and other vital priorities.

We have a choice when it comes to solving our fiscal and economic challenges. Why not choose the path that actively creates jobs, invests in our future, and demands fiscal responsibility?