Center for American Progress

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The First Step

A Progressive Plan for Meaningful Deficit Reduction by 2015

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Introduction and summary

We can do this. Addressing the long-term federal budget deficit is a daunting challenge, no doubt, but it is not an insurmountable one. In this paper we offer plans to take the first big step toward a fiscally sound budget—the step needed to get the federal budget into primary balance in 2015. Bringing total government revenues to equal total government spending, with the exception of interest payments on the national debt, is achievable and would pave the way for a federal budget on a sustainable, responsible, path.

Getting to primary balance

The Center for American Progress previously published three other reports on federal budget deficits that point the way to this goal, and feature some of the means to reach it—details that are fully laid out in this report. In September 2009 we released *Deal With It*, in which we examined the descent from federal budget surpluses in the years 1998 through 2001 to a steady stream of deficits that, with the coming of the Great Recession, spiked upwards in 2009. We were not critical of the deficits of 2009, 2010, or the years that will immediately follow as we dig ourselves out of our economic hole. Instead, we looked with alarm at the longer-term deficit projections. It is those deficits of the future that are unsustainable and pose substantial risks.

In December of 2009, we released *A Path to Balance,* in which we suggested a framework for deliberate, steady progress toward fiscal balance. We called for an intermediate goal of primary balance. In February of this year, President Barack Obama signed an executive order establishing the National Commission on Fiscal Responsibility and Reform, and set out for them the goal of reaching primary balance by 2015 as well as a long-term goal of meaningful deficit reduction.

Then, in September this year, we published *A Thousand Cuts: What Reducing the Federal Budget Through Large Spending Cuts Could Really Look Like*. In this paper we launched into hitting the primary balance goal—which we estimate will require deficit reduction of $255 billion in 2015. This estimate begins from the baseline of President Obama's most recent budget plan. If the various measures included in that plan to reduce the deficit, most notably the proposal to allow the Bush tax cuts to expire on income over $250,000 for married couples ($200,000 for singles), are not adopted, then the amount of deficit reduction needed to reach the goal will be even higher.

In *A Thousand Cuts* we offered an array of spending cut plans to achieve 33 percent, 50 percent, 67 percent, and 100 percent of the deficit reduction necessary to achieve primary balance. These correspond to $85 billion, $127 billion, $170 billion, and $255 billion in cuts. The goal was to find the spending cuts that we would implement if we had to hit those targets, while simultaneously trying to protect the most vulnerable Americans, continuing crucial economic investments, and adequately funding other national priorities—all while considering the reality that any deficit reduction will necessarily have to take into account a wide range of views on what our national spending priorities should be.

Cutting spending, raising taxes

Now we turn to the revenue side of the equation—offering revenue options that fill in the spending cut plans from *A Thousand Cuts.* In this paper we present five complete plans for hitting primary balance in 2015.

In *A Thousand Cuts,* not surprisingly, as the target level increased so did the draconian nature of the cuts. In the final plan, which would achieve primary balance through spending reductions alone, the cuts are quite widespread and very deep. They include a 40 percent cut to highway funding, a 20 percent reduction to immigration and customs enforcement and customs and border protection, a 40 percent cut to the Office of Safe and Drug-Free Schools, a 50 percent reduction to the Universal Service Fund that brings telecommunications services to rural and underserved areas, and close to $100 billion in defense cuts.

These are not the sorts of cuts that the country would be able to absorb without real pain and significant adjustments. But these are exactly the kinds of cuts we will be forced to make if we try to achieve primary balance without generating any new revenue.

Thus the need for revenue. In this report we offer revenue-generating plans that will hit four deficit-reduction targets: 33 percent of the way to primary balance in 2015, then 50 percent, 67 percent, and 100 percent. The most far-reaching of the revenue plans, the 100 percent tax revenue option, relies on seven distinct tax increases. This plan would generate $255 billion in new revenue by:

- Implementing a graduated surtax on adjusted gross income for households making more than half a million dollars per year
- Imposing a $10 per barrel fee on imported oil
- Returning the estate tax to pre-Bush tax cut levels—a $1 million exemption and a 55-percent rate
- Removing the cap on the employer side of the Social Security payroll tax
- Indexing the entire tax code to a better measure of inflation
- Increasing the top rate on capital gains and dividends
- Increasing the ordinary income tax rates on tax brackets between $140,000 and $380,000

Most of these revenue raisers drop out of the other plans we present in this paper as the revenue target decreases. The first to go are the ordinary income tax rate increases and the more robust estate tax. Then the new measure of inflation indexing and the capital gains rate increase drop out. Finally, in the 33 percent revenue plan, all we are left with is a small income surtax on adjusted gross income above $1 million, and the elimination of the cap on the employer side of the payroll tax.

These tax revenue plans are the complements to those spending cut plans outlined in our previous report. Taken together, these are five separate tax and spending plans that would put the federal budget into primary balance in 2015. The major difference between them, of course, is the varying ratio of spending cuts to revenue increases. In the abstract, some might prefer a solution that is completely, or mostly, spending cuts. With the details laid out, however, such a course seems foolish and politically impossible. The other extreme, getting to primary balance solely with new revenue, is also a highly unlikely outcome.

In this paper we argue that, after balancing the needs of the country and the range of divergent views on the path forward, the 50-50 plan we offer represents the most reasonable compromise. Under this plan, spending would be 22.7 percent of GDP, down from 24.8 percent of GDP in fiscal year 2010, and revenue would be 19.8 percent of GDP, still lower than the 20.6 percent of GDP raised at the end of the Clinton administration.

We are *not* endorsing a 50-50 split for reaching primary balance as a matter of principle. What we are endorsing is our specific approach to doing so. A 50-50 proposal that decimated programs that help the neediest or promote economic growth, or raised taxes in ways that were unfair and discouraged productive investment could be worse than no plan at all.

In fact, we acknowledge that even the plan we endorse leaves the country with important unmet needs. We need to invest more, not less, in infrastructure, in domestically produced clean energy, and in education. But given the tight budget situation, it is going to be a constant struggle to make these needed investments.

Which is why, in addition to cutting spending and raising revenue, it is absolutely crucial that the government improve its efficiency so that it can do more with less. Government must embrace a culture of accountability and drive for greater public-sector productivity. Every dollar we save in improved government operations is a dollar we put to more productive use.

Any deficit reduction plan is a balancing act between spending cuts, tax increases, the needs of the nation, and the wide range of views on which of these are most important. This report offers five different balances for getting to the 2015 target of primary balance. We believe the 50-50 plan, accompanied by a crusade to deliver government services more efficiently and effectively, offers the best option.

The Center for American Progress is a nonpartisan research and educational institute dedicated to promoting a strong, just and free America that ensures opportunity for all. We believe that Americans are bound together by a common commitment to these values and we aspire to ensure that our national policies reflect these values. We work to find progressive and pragmatic solutions to significant domestic and international problems and develop policy proposals that foster a government that is "of the people, by the people, and for the people."

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