Center for American Progress

Making the Right Choice for Fiscal Stability

Balancing the Budget, Growing the Economy, and Cutting Poverty is the Best Path

Donna Cooper August 2012

Introduction

Our nation's federal budget is the most tangible expression of our national priorities. At its root it's a moral document. Unfortunately, the degree to which the federal budget is meeting its core moral obligations—to provide for the national defense, boost economic output, ensure equal opportunity, and where necessary, alleviate suffering—is in serious doubt.

In the coming months, Congress and the Obama administration are expected to make tough budget choices in an effort to reign in the federal deficit. This issue brief summarizes the key elements of a Center for American Progress budget plan for long-term deficit reduction that provides sufficient resources to substantially spur economic growth and simultaneously cut poverty.

A key tenant of the CAP budget plan is to spur economic growth by funding new investments in all levels of education, renewable and clean energy technologies, transportation and infrastructure, and basic scientific research and development even while balancing the budget—investing an annual average of about $70 billion above current levels starting in 2017. Some of these targeted investments will also have the benefit of reducing the number of families in poverty over time, including the expansion of early childhood education and the expansion of job training and grants for college. (see Table 1)

TABLE 1

Investing in economic growth

CAP's balanced budget plan provides for necessary investments in economic competitiveness

Federal investment	Scale of increase over 20 years
Basic science and technology research	100%
Transportation Infrastructure	20%
Clean energy technology research and deployment	100%
Early childhood education	100%
Public Education	300%
Pell and other postsecondary grants	25%
Job training	50%

Source: Budgeting for Growth and Prosperity, Center for American Progress, May, 2011, http://www.americanprogress.org/issues/2011/05/budgeting_for_growth.html

The CAP budget plan also employs a strategy to increase wages among the lowest income earners and reduce poverty. The plan lowers the tax burden on low-income working families in 2017 so they keep more of their earnings. In addition, it helps low-income families reduce child-care expenses, the cost of food, school meal costs, and housing costs. Moreover, additional federal funds ensure that the incomes of blind and disabled households are above the poverty line. (see Table 2)

TABLE 2

Investing in an opportunity society

Minimum wage and targeted investments can significantly reduce poverty by providing a hand up into the middle class

Federal program/policy to reduce poverty	Number of poor households or Individuals receiving additional assistance
Minimum wage increase	28 million individuals affected, with an estimated 2.2 million projected to rise out of poverty
Expanded earned income tax credit- maintains American Recovery and Reinvestment Act expansion	500,000 households
Child and dependent tax credit	5.2 million households
High-quality affordable child care	600,000 children
School breakfast/lunch	10.8 million children
Supplemental Nutrition Assistance Program	8.1 million individuals
Supplemental Security Insurance for Blind, Disabled Adults and Youth	6 million households
Housing Subsidies	1.4 million households

Sources for data for impact of investments: Bureau of Labor Statistics, Characteristics of Minimum Wage Workers: 2011; Economic Policy Institute, A Rising Tide for Minimum Wage Increase, 2012; Urban Institute Technical Report, Estimating the Anti-Poverty Effects of Changes in Taxes and Benefits, April 2007; Center for Budget and Policy Priorities, Studies Show Earned Income Tax Credit Encourages Work and Success in School and Reduces Poverty, June 2012;Tax Policy Center, Taxation and the Family: What is the Child Tax Credit? and Reduce Child Tax Credit Refundability Threshold to $0, Distribution of Federal Tax Change by Cash Income Level, 2010; Department of Health and Human Services, Administration for Children and Families, Characteristics of Families Served by Child Care and Development Fund (CCDF),Based on Preliminary FY 2010 Data; U.S. Department of Agriculture, Food and Nutrition Services, School Breakfast and Lunch Participation Fact Sheets, 2011; U.S. Department of Education, Department of Agriculture, Characteristics of Supplemental Nutrition Assistance Program Households: Fiscal Year 2010; Koenig, Melissa and Kalman Rup. "SSI Recipients in Households and Families with Multiple Recipients: Prevalence and Poverty Outcomes." Social Security Bulletin. 65 (2) (2003-2004); Decade of Neglect Has Weakened Federal Low-Income Housing Programs, New Resources Required to Meet Growing Needs by Douglas Rice and Barbara Sard. February, 2009 .

The sum total impact of these investments beginning in 2017 are projected to relatively quickly reduce the ranks of the poor by at least 8 million households due to the minimum wage increase combined with the number of households impacted by the increase in the Supplemental Security Income increase and the expansion in federal subsidized housing. Many more families are likely to be lifted out of poverty by these changes, as well. So let's look at the details.

The CAP plan to grow the economy, balance the budget, and cut poverty

The CAP plan, as detailed in Budgeting for Growth and Prosperity, achieves "primary balance" by 2015, with the federal budget in the black except for payments on the national debt. The budget is fully and permanently balanced by 2030, and reduces the debt to just over 40 percent of gross domestic product by 2035. The plan delivers two-thirds of the deficit reduction from spending cuts, and one-third from revenue increases.

The plan is unique because it makes room for crucial investments, protects middle-class services, and fights poverty. It does so beginning in 2017 by funding substantial new investments in all levels of education, renewable and clean energy technologies, transportation and infrastructure, and basic scientific research and development even while balancing the budget—investing an annual average of about $70 billion above current levels. The plan also includes substantial, targeted boosts to successful antipoverty programs funded as of 2017 that cut the poverty rate significantly in short term.

The plan controls health care costs for everyone, not just those in the public programs. It strengthens existing cost-containment measures in the Affordable Care Act and fully pays for a reasonable and predictable reimbursement rate increase for doctors who accept Medicare patients. The plan builds in a cost-containment "failsafe" to slow the growth of health care costs across the entire economy while ensuring the quality of care.

Our plan sets "discretionary" spending at responsible levels. It brings defense, homeland security, and the State Department into one unified budget to better meet our 21st century national security needs and delivers strategic cuts to defense to bring spending down to peak Cold War levels, adjusted for inflation. The plan also sets limits to nonsecurity discretionary spending that, over time, contribute to deficit reduction, but also make room for necessary investments.

The plan addresses taxes as well as spending. The plan delivers comprehensive income tax reform so the tax code is simpler, fairer, and raises enough revenue. It creates a single 15 percent income tax bracket for 80 percent of Americans. It turns tax deductions into flat credits so that every taxpayer gets the same benefit. It returns the top ordinary income tax rate to levels under President Bill Clinton. It also includes a temporary 5 percent surtax for millionaires that expires in 2030 when the budget balances and caps the top capital gains rate on realized investment income at the level signed into law by President Ronald Reagan.

The plan eliminates or reforms dozens of "tax entitlements" such as oil-and-gas industry subsidies and special benefits for hedge fund managers. The benefits of the plan's approach is that 90 percent of taxpayers get an income tax cut or no change at all in their income tax bill. Our plan improves the stability of U.S. financial markets by enacting a modest financial transactions tax to discourage short-term speculation and encourage long-term investment.

Our plan also combats climate change and reduces our dependence on foreign oil. It establishes a price on carbon emissions, with any higher costs for lower- and middle-income families more than offset, on average, by our income tax cuts and rebate program. It levies a $5-per-barrel fee on foreign oil imports.

The CAP plan proposes additional strategic investments that start to roll out in 2017 in infrastructure and research and other activities that stimulate private-sector job growth. (see Table 1) In addition, it provides added spending for job training and education programs to boost the skills of our workforce, which will enable more workers to improve their employment opportunities.

Under the CAP plan some of these growth-oriented investments reach the desired level of funding quickly. For instance, a 20 percent increase in infrastructure spending is achieved from 2017 through 2020. Other investments are stretched out over longer periods of time, such as the CAP proposal to triple federal education spending over 15 years from 2017 and 2032 so that the investments can be calibrated to the capacity of the school systems to effectively direct the new funds for optimal results. Among the many positive benefits of this approach, an estimated 3 million individuals are expected to get the skills needed to command a good paying job and as a result leave the ranks of the poor.

More immediate strategies to address poverty

These stimulative, longer-term investments that boost U.S. competitiveness and workforce capacity are essential ingredients in strengthening the middle class and reducing poverty. Likewise, the CAP plan recognizes that more immediate measures are needed to increase household incomes, especially for those families struggling to pay the bills and keep food on the table and a roof over their heads. The CAP plan boosts wages, lowers taxes on low-income households, and increases household income for low-income families by targeted increases in government spending. The purpose: to give these families an opportunity to join the ranks of the middle class.

These tax and spending changes proposed take effect in 2017. Our plan assumes a minimum wage increase to $10.25 per hour and it lowers the tax burden on low-income families so they keep more of their earnings. In addition the plan provides for strategic increases in federal spending so that significantly more low-income households can find their feet and begin working toward a better future. Included in these spending boosts are funds to help millions of low-income families cover the costs of child-care expenses, food, school meals, and housing. These proposals also deliver immediate gains to the broader economy. According to the Congressional Budget Office, the economic benefits of direct income transfers helped families make ends meet during the Great Recession via the American Recovery and Reinvestment Act of 2009 while increasing economic activity by $2 for every $1 in public spending.[1]

The importance of the CAP plan for those individual Americans and their families struggling to escape poverty cannot be overstated. In addition the CAP plan boosts the income of blind and disabled households above the poverty line. (see Table 3)

TABLE 3

Extending a hand up to Americans in poverty

Details of CAP plan's direct investments to address poverty in the short-term

Category of federal spending	Amount of additional annual spending to curb poverty compared to FY 2012 budget	Number of struggling households receiving additional assistance annually
High-quality affordable child care	$2.6 billion	600,000 children
School breakfast/lunch	$6 billion	10.8 million children
Supplemental Nutrition Assistance Program	$14 billion	8.1 million individuals
Supplemental Security Insurance for blind, disabled adults and youth	$13 billion	6 million households
Housing subsidies	$10 billion	1.4 million households

Sources of data for impact of investments: Urban Institute Technical Report, Estimating the Anti-Poverty Effects of Changes in Taxes and Benefits, April 2007; Center for Budget and Policy Priorities, Studies Show Earned Income Tax Credit Encourages Work and Success in School and Reduces Poverty, June 2012;; Department of Health and Human Services, Administration for Children and Families, Characteristics of Families Served by Child Care and Development Fund (CCDF),Based on Preliminary FY 2010 Data; U.S. Department of Agriculture, Food and Nutrition Services, School Breakfast and Lunch Participation Fact Sheets, 2011; U.S. Department of Education, Department of Agriculture, Characteristics of Supplemental Nutrition Assistance Program Households: Fiscal Year 2010; Koenig, Melissa and Kalman Rup. "SSI Recipients in Households and Families with Multiple Recipients: Prevalence and Poverty Outcomes." Social Security Bulletin. 65 (2) (2003-2004); Decade of Neglect Has Weakened Federal Low-Income Housing Programs, New Resources Required to Meet Growing Needs by Douglas Rice and Barbara Sard. February, 2009.

Let's review the rational and impact of this approach in greater detail.

Minimum wage

The CAP plan assumes the minimum wage equivalent of the average hourly wage, which was $10.25 in 2011. We suggest that along with boosting the wage rate, increases should be automatic and indexed to either increases in productivity or the average hourly wage. The Economic Policy Institute estimates that an increase in the minimum wage of nearly $10 an hour rolled out from 2012 through 2014 would boost the earnings of at least 28 million individuals.[2]

Not all of these individuals who will benefit from a minimum wage currently have a total household income below the federal poverty level and not every person who receives the boost in their wage will earn enough to be living above the poverty level. To estimate the impact on poverty, CAP relies on the 2007 Center for American Progress report "From Poverty to Prosperity," which detailed the impact on poverty of four major changes in federal policy, including a minimum wage increase.[3] That report found that increasing the minimum wage at that time would have lifted approximately 1.3 million of the 2.2 million workers earning at or below the minimum wage out of poverty.

Today, with 3.8 million workers earning at or below the minimum wage, based on the ratio of workers found to be moved above the poverty level by a minimum wage increase in 2007, as many as 2.2 million workers may be lifted out of poverty by boosting the federal minimum wage to $10.25 an hour. Although the model used at that time to estimate the poverty impact of a minimum wage increase accounted for some for projected job losses due to the increase, other rigorous studies find no job losses associated with increasing the minimum wage, even during weak economic periods.[4]

Tax benefits for working families

In addition to increasing annual direct spending to boost the incomes of poor households, the CAP plan decreases the tax burden on low-income and middle-class families by providing for an expanded earned income tax credit and a new child and dependent tax credit. The earned income tax credit was expanded under the American Recovery and Reinvestment.[5] As a result of this expansion by the end of 2010 the expanded tax credit is estimated to have boosted the incomes of 500,000 Americans, moving them above the poverty line and reducing the severity of poverty for another approximately 7.3 million people, according to the Center for Budget and Policy Priorities.[6]

This expansion of the earned income tax credit, however, will expire at the end of 2012 unless Congress acts. The CAP budget proposal assumes the expanded earned income tax credit remains in place and as result sustains the poverty reductions currently provided by the credit. The revenues foregone by maintaining these provisions are approximately $4.9 billion a year, according to the Joint Tax Commission of the U.S. Congress.[7]

In addition, the CAP plan improves on the child tax credit. Currently when calculating a family's personal income tax liability, the child exemption offers up to a $1,000 refundable credit for families with earnings above $3,000, with the full amount incrementally kicking in as a family's income rises. The CAP plan broadens this credit to help families caring for a child or another dependent such as an aging parent.

This new child and dependent refundable credit is a more generous $1,250 and is indexed to inflation and available to all households, even those with earnings under $3,000 per year. While all households that qualify for this tax credit would benefit under the CAP plan, an estimated 5.2 million low-income taxpayers with earnings under $30,000 caring for a child or another qualifying dependent would receive a credit, with many of them receiving a larger tax credit than they currently receive.[8]

Direct spending

The CAP plan includes in this category child care funding, school lunch programs, supplemental nutrition assistance, and supplemental security assistance via Social Security. Here's how the plan would work in each of these categories.

Child care

The CAP plan provides for a 50 percent increase in the Child Care Development Block Grant funding. In doing so, using the estimated cost of the existing program (approximately $5 billion), which serves 1.7 million children, CAP estimates its plan can expand child care to at least 600,000 additional children.[9]

Because access to affordable, reliable child care increases the likelihood of employment, we anticipate more low-income parents will find work or will be able to work more hours.[10] Expanded child care subsidies can also help low-income parents by freeing income for parents who are paying for child care services out-of-pocket to meet other basic household expenses.

School lunch programs

Only 66 percent of eligible children participated in the federally subsidized school lunch programs in 2011, and far fewer children are enrolled in the school breakfast program despite being eligible for this important healthy meal to start the day. There is real need for improvement.[11]

Participation in both school meal programs can be increased by removing program barriers that make enrollment and continued qualification for these meals difficult.[12] The CAP proposal makes all children in families under 185 percent of the federal poverty line—about $42,000 for a family of four—eligible for free meals, and assumes that at least 85 percent of all children are likely to enroll due to the streamlined enrollment made possible by removing the reduced price category of program participation.

Although increased participation in school meal programs was found to have a limited impact on reducing household poverty, rigorous studies find that poor children who have two healthy meals a day are more likely to succeed in school.[13] Consequently, child nutrition programs are an important element of any long-term poverty reduction strategy.

Supplemental nutrition assistance

As of March 2012, 22 million American families were relying on the Supplemental Nutrition Assistance Program to put food on the table. CAP's proposed budget provides for sufficient funds to boost the participation rate in this program from where it currently stands at approximately 72 percent to 85 percent of all eligible families, about 8 million more individuals assisted.[14, 15]

The most recent U.S. Census Bureau data, shows that in 2010 about 13 percent of these families receiving supplemental nutrition assistance were elevated above the poverty level once their supplemental nutrition assistance benefits are factored into the their household income. If the same proportion of families are lifted out of poverty by expanding enrollment in this program as CAP proposes, 1 million fewer Americans could be living in poverty.

Supplemental Security Income

The Supplemental Security Income program is the only cash payment specifically intended to help blind or severely disabled children and adults. The program helps nearly 8 million Americans, including 3 million children.[16] Supplemental Security Income significantly reduces the prevalence of poverty among recipients. Yet even after adding Supplement Security Income payments about 40 percent of recipients remain in poverty.[17]

One way to ensure that all recipients have incomes above the poverty level is to boost the monthly benefit payment to these households. CAP's proposed budget makes that possible and by doing so could move approximately 6 million blind and disabled adults and children out of the ranks of the poor. [18]

Housing

The CAP plan boosts funding for subsidized housing by $10 billion. To put this increase in context, the CAP plan increases housing funds by 30 percent over the level proposed by President Obama's proposed budget for 2013, which spends about $34 billion for rental housing subsidies.[19] Although the supply of federal rental subsidies is very limited, with only 4 million poor families able to rely on federal rent support, the impact of the available subsidies is impressive.[20] About two-thirds of households receiving federal rental subsidies were lifted out of poverty, according to a 2009 study released by the Center for Budget and Policy Priorities.[21]

The CAP plan proposes an increase large enough to expand rental housing support to 1.4 million additional households.[22] Although the rental housing market is much tighter today and poverty is worse than it was in 2009, if the same proportion of families are lifted out of poverty by this federal support, then approximately 900,000 families will be helped to rise above the poverty line.

CAP's plan cuts poverty dramatically and responsibly

In 2007 CAP released the estimated the antipoverty effects of making just four of changes in federal policy—increases in the minimum wage, enhancements in the earned income tax credit, universal access to subsidized child care for working poor families, and a fully refundable child care tax credit would cut poverty by 26 percent over

10 years.[23] The report found that adding in and expanding housing subsidies and the Supplemental Nutrition Assistance Program gets us even closer to the goal of cutting poverty by 50 percent in 10 years.[24]

The CAP balanced budget proposal relies on many of the same expanded supports found to have cut poverty in half in 2007. But this new plan adjusted the scale of the proposed changes.[25]

As a result, the sum total impact of these investments is projected to reduce the ranks of the poor by at least 8 million households due to the minimum wage increase combined with the number of households impacted by the increase in the Supplemental Security Income increase and the expansion in federal subsidized housing. The foundational investments and policies of our plan are estimated to help nearly 3 million more Americans obtain the skills needed to compete for jobs that pay well above the poverty level over time.

The other critical federal investments in direct benefits for low-income families will push many more families out of poverty as well. But we cannot estimate with precision exactly how the proposed expansions will interact.

Conclusion

Escalating rates of poverty rob our nation of one of our fundamental values—the belief that one can achieve success through hard work. In contrast, providing economic opportunities to all Americans reduces poverty and inequality in our country and creates the wherewithal to grow our middle class and future broad-based prosperity.

Dramatically cutting poverty—the goal of the Half in Ten campaign of our sister Center for American Progress Action Fund—is not only within reach but achievable within the strictures of responsible fiscal policy. CAP's budget plan embodies the essential elements necessary to achieve fiscal stability, economic growth, and shared prosperity.

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Endnotes

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3 "From Poverty to Prosperity, A National Strategy to Cut Poverty in Half, Report and Recommendations from the Center for American Progress Task Force on Poverty" (Washington: Center for American Progress, April, 2007) available at http://www.americanprogress.org/issues/2007/04/pdf/poverty_report.pdf, (last accessed August 2012)

4 T. William Lester, David Madland, and Nick Bunker, "An Increased Minimum Wage is Good Policy Even During Hard Times" (Washington: Center for American Progress Action Fund, 2011), available at http://www.americanprogressaction.org/issues/2011/06/higher_minimum_wage.html (last accessed August 2012).

5 The American Recovery and Reinvestment Act of 2009 provided for an expansion of the earned income tax credit to be available to eligible families with three or more children, and ended a reduction in the credit that occurs as married parents earn more—adjusted so that more of these working families receive the maximum credit.

6 Jimmy Charite, Indivar Dutta-Gupta, and Chuck Marr, "Studies Show Earned Income Tax Credit Encourages Work and Success in School and Reduces Poverty" (Washington: Center on Budget and Policy Priorities, 2012), available at http://www.cbpp.org/cms/index.cfm?fa=view&id=3793 (last accessed August 2012).

7 Joint Committee on Taxation, *Description of Revenue Provisions Contained in the President's Fiscal Year 2012 Budget Proposal* (Government Printing Office, 2011).

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9 Administration for Children & Families, *Characteristics of Families Served by Child Care and Development Fund (CCDF) Based on Preliminary FY 2010 Data* (U.S. Department of Health and Human Services, 2012), available at http://www.acf.hhs.gov/programs/occ/data/ccdf_data/data_fact_sheet.htm. The CAP proposal assumes that $300 million will be used to boost the quality of programs. In addition, some funds will meet the pent up demand for inflationary increases in the subsidy paid to child care providers. CAP projects at least $2 billion of the increase will be used to expand slots that are both higher quality and paid commensurate with inflation-adjusted rates.

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22 Paul D. Johnson, Trudi Renwick, and Kathleen Short, "Estimating the Value of Federal Housing Assistance for the Supplemental Poverty Measure." Working Paper 2010-13 (Census Bureau, Department of Commerce, 2010), available at http://www.census.gov/hhes/povmeas/methodology/supplemental/research/SPM_HousingAssistance.pdf (last accessed June 2012). Average cost to the federal government for a rental subsidy in public housing or via a voucher is $682 per household.

23 "From Poverty to Prosperity."

24 Ibid.

25 The 2007 Poverty to Prosperity plan estimated the impact the of earned income tax credit on poverty and included a provision to extend the credit to workers without children, but the CAP balanced budget plan maintains the current tax credit program. The CAP plan expands access to affordable child care and subsidized housing in a more limited fashion than proposed in CAP poverty plan in 2007. On the other hand, the CAP balanced budget plan increases direct household support in ways not estimated in the 2007 approach, including the substantial increase in Supplemental Security Income payments along with the foundational investments in education and job training. It's difficult to estimate the exact numbers of persons lifted out of poverty in this plan because in some cases a person may benefit from more than one of the expanded direct benefits. In other cases, the increased benefit may decrease their eligibility for an expanded benefit. For instance, the increase in minimum wage may decrease the number of families who can enroll in the Supplemental Nutrition Assistance Program.