Budgeting for Growth and Prosperity

A Long-term Plan from the Center for American Progress to Balance the Budget, Grow the Economy, and Strengthen the Middle Class

Michael Ettlinger, Michael Linden, and Seth Hanlon May 2011

The highlights

• Achieves “primary balance” by 2015, with the federal budget in the black except for payments on the national debt
• Hits full and permanent balance by 2030, and reduces the debt to just over 40 percent of gross domestic product by 2035
• Delivers two-thirds of the deficit reduction from spending cuts, and one-third from revenue increases
• Is the only long-term plan for sustained balanced budgets that invests in the middle class rather than asking them to bear the brunt of deficit reduction

Our plan makes room for crucial investments, protects middle-class services, and fights poverty

• Makes room for 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
• Includes substantial, targeted boosts to successful antipoverty programs that cut the poverty rate in half by 2030

Our plan controls health care costs for everyone, not just those in the public programs

• Strengthens existing cost-containment measures in the Affordable Care Act
• Fully pays for a permanent “Doc Fix” for Medicare
• 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

- Brings defense, homeland security, and the State Department into one unified budget to better meet our 21st century national security needs
- Delivers strategic cuts to defense to bring spending down to peak Cold War levels, adjusted for inflation
- Sets limits to nonsecurity discretionary spending that, over time, contribute to deficit reduction, but also make room for necessary investments

Our plan delivers comprehensive income tax reform so the tax code is simpler, fairer, and raises enough revenue

- Creates a single 15 percent income tax bracket for 80 percent of Americans
- Turns tax deductions into flat credits so that every taxpayer gets the same benefit
- Returns the top ordinary income tax rate to levels under President Clinton
- Includes a temporary 5 percent surtax for millionaires that expires in 2030 when the budget balances
- Caps the top capital gains rate on realized investment income at the level signed into law by President Reagan
- Eliminates or reforms dozens of “tax entitlements” such as oil and gas industry subsidies and special benefits for hedge fund managers
- Results in 90 percent of taxpayers getting an income tax cut or no change at all in their income tax bill
- Results in the after-tax income of the richest 1 percent of taxpayers remaining at least 46 percent higher than it was in 2001

Our plan combats climate change and reduces our dependence on foreign oil

- 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
- Levies a $5 per barrel fee on foreign oil imports

Our plan improves the stability of U.S. financial markets

- Enacts a modest financial transactions tax to discourage short-term speculation and encourage long-term investment

*Read the full report, “Budgeting for Growth and Prosperity” at our website.*