MEMORANDUM

TO: The Administration and Congressional Leaders
FROM: Bipartisan Policy Center
DATE: June 11, 2019
SUBJECT: Putting America Back on Track: A Bipartisan Approach to Fiscal Policy Solutions

INTRODUCTION

The United States is at a fiscal tipping point. This year, a full decade into the current economic expansion, the federal government is at risk of running a $1 trillion budget deficit. Without action, debt held by the public will surpass the size of the economy in the coming years. At the Bipartisan Policy Center (BPC), we have long been concerned with the trajectory of our nation’s debt burden. Further, we believe that the U.S. finds itself on this unsustainable fiscal path because the cost of our major social insurance programs—especially health and Social Security—are not aligned with the revenue brought in by our tax code.

To address the disconnect, BPC offers realistic, bipartisan, and politically viable solutions to our nation’s fiscal problems. The net result: our plan would stabilize debt-to-GDP while maintaining crucial public programs, increasing public investment, and raising revenues in a balanced and sustainable manner.

TOP THREE POLICY RECOMMENDATIONS

Tax Reform

Under any realistic scenario, funding the federal government in the coming decades will require more revenue than is projected under current law, especially in the wake of the 2017 Tax Cuts and Jobs Act (TCJA). To the extent possible, however, BPC believes new revenues should be tied to specific priorities, such as added payroll taxes to shore up Social Security, or a carbon tax to cover natural disaster spending. In that spirit, BPC’s tax plan recommends several changes with the goals of incentivizing work, simplification, and increasing fairness and equity in the tax system.

To summarize some of the highlights of BPC’s plan, we propose: simplifying and expanding the earned income and child tax credits; implementing a carbon tax to address climate change and bring disaster spending “on-budget”; increasing the marginal corporate tax rate to 25 percent (still a 10-percentage
point cut relative to the pre-TCJA baseline); and finally, extending TCJA’s individual tax provisions, with some adjustments to the brackets and thresholds.

BPC’s plan also focuses on how tax policies will be administered. Tax implementation and administration is often overlooked in discussions of tax policy, despite being an integral component of the tax system. Therefore, BPC recommends an increase in IRS funding and several changes to the tax administration system to improve efficiency.

Modernizing and Enhancing Social Security
Policymakers have no choice but to address the structural imbalance in Social Security’s finances. Refusing to do so soon will only worsen the financial and political consequences as the program’s trust funds become depleted, potentially causing millions of retirees to face immediate benefit cuts. BPC’s Social Security proposal includes a balanced set of policies to reduce spending growth and increase revenue.

This comprehensive set of proposals is too wide-ranging to list here, but independent analyses of BPC’s plan confirm it would restore long-term solvency, enhance the adequacy of the system for those who rely on it most, and dramatically improve equity and fairness in the benefit formula. Recent projections from the Social Security trustees suggest that the program’s trust funds could be depleted by 2035, at which point disruptive benefit reductions, tax increases, or likely both would be necessary to restore financial stability. We advise policymakers to act as soon as possible to reform the program. The policy options for viable reform narrow as we inch closer to the cliff.

Immigration Reform
BPC has long recognized that immigration reform in the United States is decades past due. Among the benefits would be enhanced economic growth, improved fiscal status of the federal government, and the establishment of a policy that upholds the integrity of the system and the dignity of the people in it. To reflect BPC’s support for reform, our proposal includes the so-called “Gang of 8” immigration bill from 2013. This plan represented a serious bipartisan effort to balance the need for comprehensive legal immigration reform with legalization of the undocumented and enhanced border security. BPC’s Immigration Project continues to develop proposals for legislative reforms that can improve the system by any means, including solutions for DREAMers and DACA recipients, and advance pragmatic border security.

NEAR-TERM POLICY ISSUES
In the near-term, BPC proposes lifting the Budget Control Act spending caps, and allowing discretionary spending to increase with inflation. To deal with the nation’s crumbling infrastructure and rapidly depleting highway trust fund, BPC’s plan includes an increase in infrastructure spending funded by increasing and indexing the federal gas tax.

Finally, for nearly a decade, BPC has informed policymakers about the risks and costs associated with the debt limit, which must be dealt with again later this year. Policymakers have recently allowed this once innocuous threshold to put the U.S. economy at risk, time and time again. Instead of simply extending the debt limit again this year, our plan recommends dramatically reforming the limit, minimizing the possibility of default, aligning the debt limit with budget decisions, and ultimately, providing a dedicated process for policymakers to debate options for reducing the federal debt.
CONCLUSION

If policymakers fail to take action soon, a fiscal crisis of one variety or another will become unavoidable. We should not ignore our debt problems and force the next generation to bear the responsibility for our inaction. The tradeoffs involved and the hard choices that need to be made will only get more difficult with each passing year.

It is our responsibility to take action now. BPC’s proposed reforms reflect important priorities of both political parties—including equity, competitiveness, investment, and fiscal responsibility—and represent achievable changes to the structures in place today.