



U.S. House of Representatives
Washington, DC 20515

The People's Budget

Budget of the Congressional Progressive Caucus

Fiscal Year 2012

Executive Summary

Budgets are more than collections of numbers; they are a statement of our values. The Congressional Progressive Caucus Budget is a reflection of the values and priorities of working families in this country. The “People’s Budget” charts a path that keeps America exceptional in the 21st century, while addressing the most pressing problems facing the nation today. Our Budget eliminates the deficit and stabilizes the debt, puts Americans back to work, and restores our economic competitiveness.

The CPC Budget addresses these problems by listening to the American people. In poll after poll, they are telling us, their representatives in the American government, that they want to preserve Social Security, Medicare, and Medicaid, to make higher education more affordable, to expand job-training programs, to cut taxes burdening the middle class, to subsidize affordable housing, and to provide financial assistance for those struggling to prevent foreclosures.

The majority of America thinks cuts to Social Security, Medicare and Medicaid, K-12 education, heating assistance to low-income families, student loans, unemployment insurance, and scientific and medical research are completely unacceptable. In contrast, Americans find a progressive tax policy very acceptable. The overwhelming majority of America supports additional taxes on millionaires and billionaires, eliminating unnecessary weapons systems, eliminating tax credits for the oil and gas industries, phasing out Bush tax cuts, and eliminating subsidies for new nuclear power plants. Poll after poll give voice to what Americans are asking of us.

Our Budget, in response, listens to what the American people are telling us. It does all of the above in a fiscally responsible way that dramatically reduces our borrowing from banks and foreign governments and ensures our long-term economic competitiveness. It does all of the above recognizing that in order to compete, we need every American to be productive, and in order to be productive, we need to raise the skill level of every American and meet the basic needs of every working family. It does all of the above while remaining rooted in fairness, recognizing that America works only when everyone has an opportunity to make it in America.

Our Budget Eliminates the Deficit by 2021

The CPC budget eliminates the deficit in a way that does not devastate what Americans want preserved, specifically, Medicare, Medicaid, and Social Security. Instead of eroding America’s hard-earned retirement plan and social safety net, our budget targets the true drivers of deficits in the next

decade: the Bush Tax Cuts, the wars overseas, and the causes and effects of the recent recession. By implementing a fair tax code, by building a resilient American economy, and by bringing our troops home, we achieve a budget surplus of over \$30 billion by 2021 and we end up with a debt that is less than 65% of our GDP. This is what sustainability looks like.

Our Budget Puts America Back to Work & Restores America's Competitiveness

The CPC budget rebuilds America and makes it competitive again. We put America back to work. We rebuild our roads and bridges, ensuring that those who use it help pay for it. We rebuild our dams and waterways with seed money for shipping systems that can compete with the rest of the world. We rebuild our education system by training more and better teachers, restoring schools, helping each student graduate, and supporting community colleges. This is what competitiveness looks like.

Our Budget Creates a Fair Tax System

The CPC budget implements a fair tax system based on the American notion that fairness and equality are integral to our society. Our budget restores fairness to a system that unfairly benefitted the richest few while hurting the majority of America. Our budget heeds America's call to end the Bush Tax Cuts including the estate tax and create fair tax brackets for millionaires and billionaires while maintaining credits for the middle class and students. It ensures that the banks that wrecked our economy pay a modest financial responsibility fee and that exotic trading by Wall Street traders who gambled away America's savings is levied a tax. It guarantees that hedge fund managers (and those who use them) do not get special treatment by taxing capital gains and dividends as ordinary income. It eliminates charity to oil companies making record profits from prices paid at the pump by the American people, given that it is unfair that the American people must also give these oil companies billions of dollars in handouts. Finally, our budget taxes US corporate income as it is earned, in much the same way Americans are taxed. This is what fairness looks like.

Our Budget Brings Our Troops Home

The CPC budget responsibly ends our wars that are currently paid for by American taxpayer dollars we do not have. We end these wars not simply to save massive amounts of money or because the majority of America is polling in favor to do so, but because these wars are making America less safe, are reducing America's standing in the world, and are doing nothing to reduce America's burgeoning energy security crisis. The CPC budget offers a real solution to these fiscal, diplomatic and energy crises, leaving America more secure, both here and abroad. The CPC budget also ensures that our country's defense spending does not continue to contribute significantly to our current fiscal burden – a trend we reverse by ending the wars and realigning conventional and strategic forces, resulting in \$2.3 trillion worth of savings. This is what security looks like.

Our Budget's Bottom Line

- Deficit reduction of \$5.6 trillion
- Primary spending cuts of \$869 billion
- Net interest savings of \$856 billion
- Total spending cuts of \$1.7 trillion
- Revenue increase of \$3.9 trillion
- Public investment of \$1.7 trillion
- Budget surplus of \$30.7 billion in 2021, debt at 64.1% of GDP.

The Baseline

The CPC Budget baseline includes both a ten-year doc fix and Alternative Minimum Tax Patch.¹ The adjusted deficit, which was the starting point for this proposal, is compared with the CBO current law deficit below. We have calculated an adjusted debt level to reflect adjusted deficit levels. We have also calculated the net deficit impact of various policies to include interest adjustments based on net interest levels identified in the CBO’s March budget update.

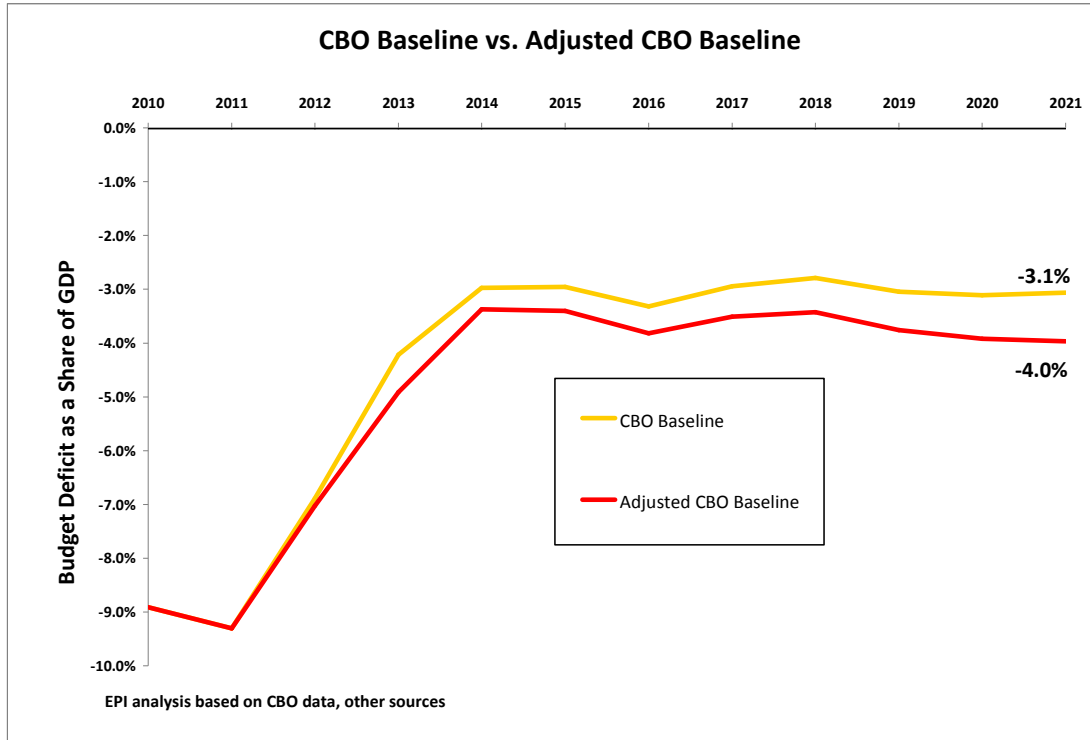


Chart by the Economic Policy Institute

¹ Note: Not patching the AMT would save \$683 billion over ten years. Not maintaining the doc fix would save \$298 billion over ten years. The cost of maintaining these policies amounts to just under \$1 trillion over ten years, but not including these costs would amount to budget gimmickry.

Overview of Our Policies

Individual Income Tax Policies

- Allow the Bush-era tax cuts to expire at the end of 2012, but extend marriage relief, credits, and incentives for children, families, and education
- Immediately rescind the upper-income tax cuts in December's tax deal
- Index the AMT for inflation for a decade (the AMT patch is fully paid for)
- Schakowsky millionaire tax rates proposal (adding 45%, 46%, 47%, 48%, and 49% top rates)
- Tax all capital gains and qualified dividends as ordinary income
- Progressive estate tax (Sanders' estate tax, repeal of Kyl-Lincoln)
- Limit the rate at which itemized deductions can reduce tax liability to 28% for high earners
- Replace the tax exclusion for interest on state and local bonds with a subsidy for the issuer

Corporate Tax Reform

- Tax U.S. corporate foreign income as it is earned
- Eliminate corporate welfare for oil, gas, and coal companies
- Enact a financial crisis responsibility fee
- Financial speculation tax (derivatives, foreign exchange)
- Reinstate Superfund taxes

Health Care

- Enact a public option
- Negotiate Rx payments with pharmaceutical companies
- CMS program integrity and other Medicare and Medicaid savings in the president's budget
- Prevent a cut in Medicare physician payments for a decade (maintain doc fix)

Social Security

- Raise the taxable maximum on the employee side to 90% of earnings and eliminate the taxable maximum on the employer side
- Increase benefits based on higher contributions on the employee side

Defense Savings

- End overseas contingency operations emergency supplementals starting in Fiscal Year 2013, providing \$170 billion in FY2012 to fund redeployment, while saving more than \$1.8 trillion from current law spending levels over ten years
- Reduce baseline defense spending by reducing strategic capabilities, conventional forces, procurement, and R&D programs

Comprehensive Jobs Program

- Invest \$1.45 trillion in job creation, education, clean energy and broadband infrastructure, housing, and R&D
- Infrastructure bank
- Surface transportation reauthorization bill (\$213 billion)

The People's Budget Eliminates the Deficit Achieves Budget Surplus by 2021

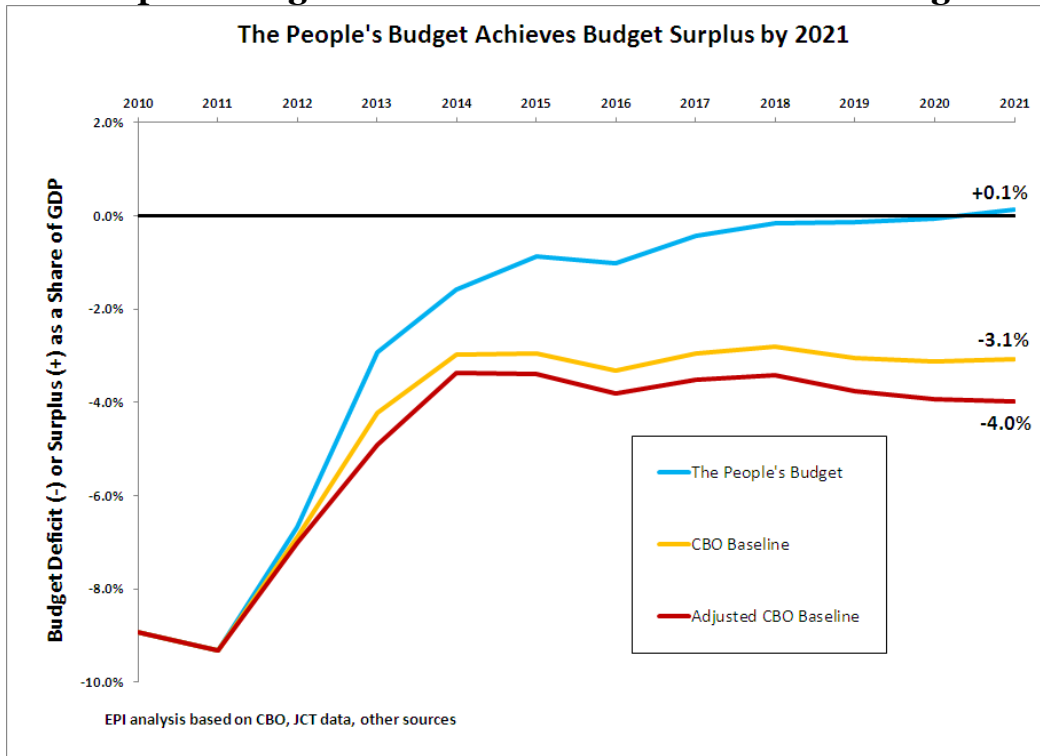


Chart by the Economic Policy Institute

The People's Budget Brings Debt Below 65% of GDP by 2021

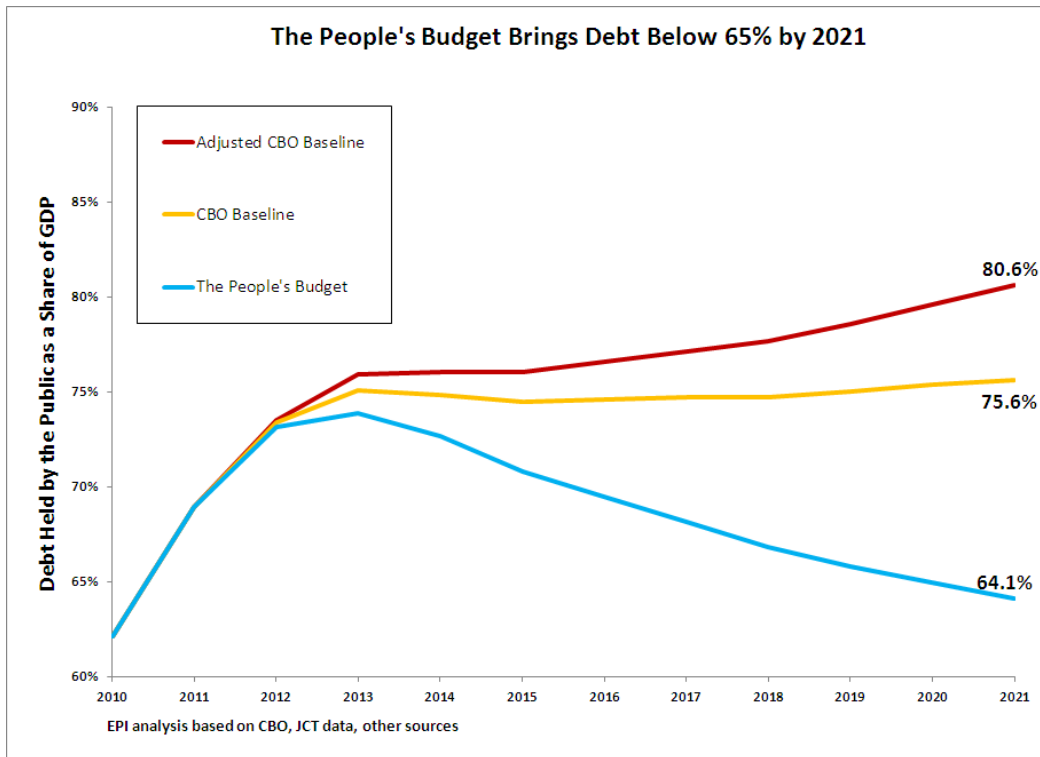


Chart by the Economic Policy Institute

The People's Budget Offers a More Sustainable Path for *Deficits*

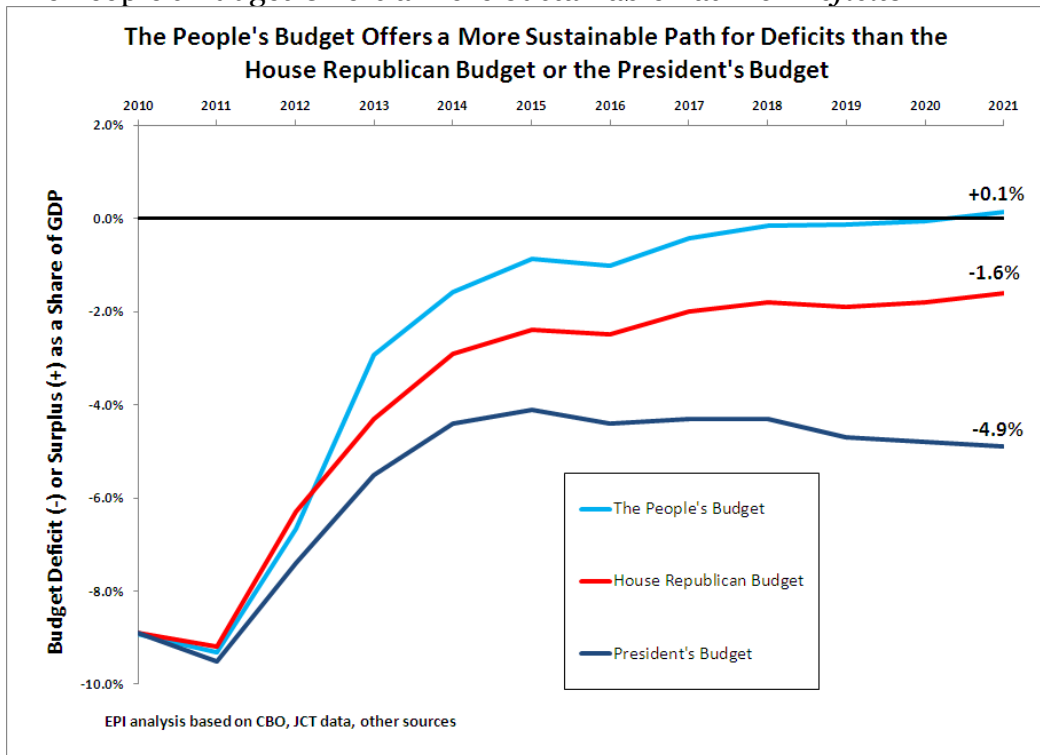


Chart by the Economic Policy Institute

The People's Budget Offers a More Sustainable Path for *Public Debt*

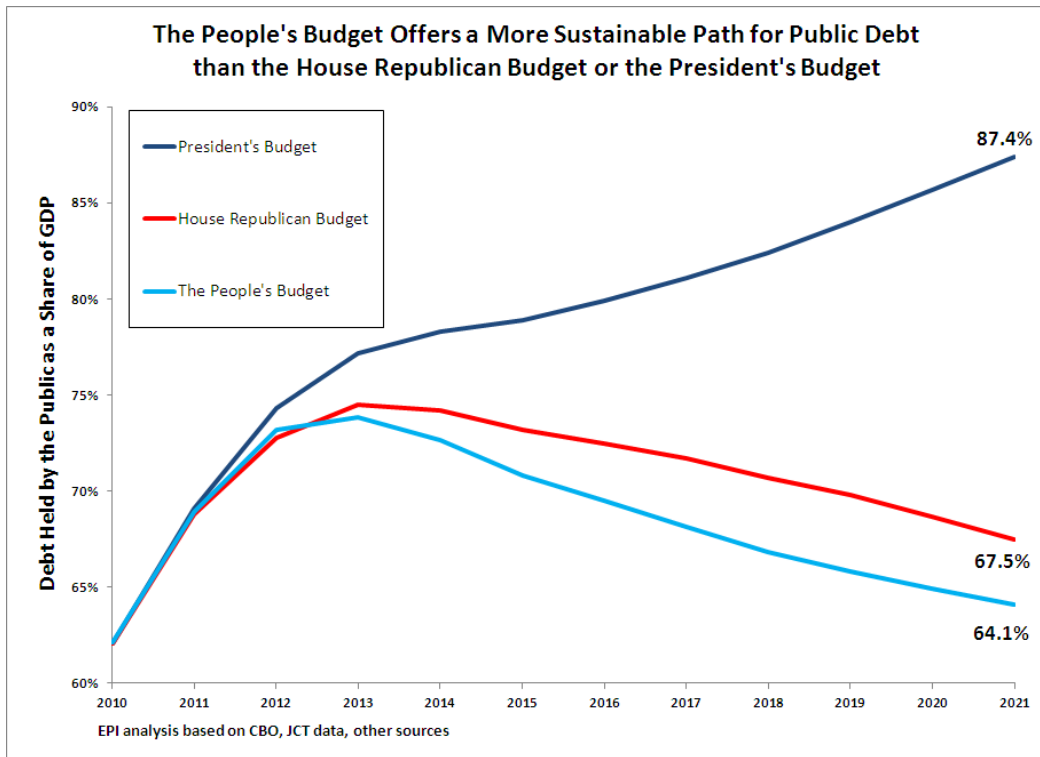


Chart by the Economic Policy Institute

Putting America Back to Work and Restoring American Competitiveness

Education In addressing the nation’s long-run fiscal challenges, investments in education enhance the long-term growth potential of the economy by investing in the skills of our present and future workforce. The nation’s human capital can be increased in many ways, including through formal and informal education, experience gained over time on a job, and training in the workplace. Front-end investment in Pre-K, K-12 and higher education is the most important contribution we can make to our economic growth in the long run. A more skilled workforce can produce more, and higher-skilled workers tend to earn higher wages.

Transportation Rebuilding our highways and waterways will create jobs in the short term and is at the heart of our international competitiveness in the long term. Our budget dramatically increases transportation outlays through a surface transportation reauthorization bill as outlined in the president’s 2012 budget request.

Infrastructure The new Infrastructure Bank will provide loans and grants to support individual projects and broader activities of significance to our nation’s economic competitiveness. For example, the IBank could support improvements in road and rail access to a West Coast port that benefits farmers in the Midwest, or a national effort to guarantee private loans made to help airlines purchase equipment in support of the Next Generation Air Transportation System (NextGen). A cornerstone of the IBank’s approach will be a rigorous project comparison method that transparently measures which projects offer the biggest value to taxpayers and our economy. This marks a substantial departure from the practice of funding projects based on more narrow considerations.

Energy Independence With only 3% of the known oil reserves in the world, the United States cannot become energy independent or measurably affect the world price of oil simply by drilling more within our borders. We need to set loose the clean energy industry that is ready to take hold if we make the public investments in transportation and storage. Our budget will unleash American ingenuity and talent to build a new clean energy economy in which the United States will regain its rightful place as a world leader, move energy independence and address our global warming challenges.

Housing The middle of a historic recession and a “jobless recovery” is not the time to cut support for affordable housing. Investments in housing are one of the most potent job creation tools we have, because every dollar invested in housing creates two dollars and twelve cents in additional economic activity and induces as much as seven additional dollars in indirect economic activity. Providing housing not only reduces the rate of homelessness, which costs state, local and federal governments tens of thousands of dollars for every homeless family, but provides the vital backbone for creating long-term economic viability for every family in America: a place to call home.

Bringing Our Troops Home and Reducing Defense Spending

End emergency war funding beginning in FY 2013 The CBO baseline assumes that all discretionary funding—including emergency war funding—grows with inflation (from a starting point of \$159 billion in 2011) when projecting future discretionary spending. Eliminating all emergency defense funding starting in 2013 would save \$674 billion over 2012-16 and \$1.6 trillion over 2012-21 relative to this baseline.

Reduce base discretionary defense spending Our budget institutes a realistic reduction in defense spending on conventional and strategic forces and capabilities that would not compromise our national security interests or capabilities. Savings would accrue from decreasing routine deployment of U.S. troops overseas (ignoring overseas contingency operations), reducing the size of the Army and Marine Corps as the wars in Iraq and Afghanistan wind down, reducing the fleet size of the U.S. Navy, reducing the number of Air Force squadrons, and canceling outdated cold-war weapon systems (including variations of the F-35, MV-22 Osprey, and Expeditionary Fighting Vehicle), among other savings.

This proposal does not touch Tri-Care.

A Fair Tax System

Individual Income Tax Policies

Allow the Bush-era tax cuts to expire at the end of 2012 (allowing rates to revert to Clinton-era levels), but extend marriage relief, credits, and incentives for children, families, and education Our budget maintains marriage penalty relief (standard deduction, EITC phase-out, and the 15% bracket), the expanded CTC, education incentives, and other incentives for children and families.

Rescind the upper-income tax cuts in the tax deal Repealing the 33% and 35% tax brackets, reinstating the limitation on itemized deductions and personal exemption phase-out, ending capital gains and dividends tax cuts, and returning the estate tax to 2009 parameters would save roughly \$95 billion over 2012-14 (tax-year 2012 spills into FY2013 and the capital gains tax cut spills into FY2014).²

Index the AMT for inflation for a decade The Alternative Minimum Tax (AMT) was designed to keep wealthy taxpayers from using loopholes to avoid paying taxes. But because it is not automatically updated for inflation, more middle-class taxpayers are getting hit with the AMT. While we need a long-term solution to this problem, until one exists we have to be honest about our obligations to the middle class families in this country. Our budget fully pays for the AMT patch for the next decade.

Schakowsky millionaire tax rates proposal (adding 45%, 46%, 47%, 48%, and 49% top rates) The Schakowsky plan creates five additional income tax brackets, starting at 45 percent for married couples making over \$1 million dollars a year and increasing to 49 percent for people making \$1 billion and over. The current top tax rate is 35 percent for people making \$379,150 a year or more.

Progressive estate tax Our budget rescinds the estate tax in the tax deal and replaces it with Sen. Sanders' progressive estate tax. The policy would include a \$3.5 million exemption followed by a progressive series of marginal tax rates as follows: a 45% rate on the taxable portion of estates up to \$50 million, a 55% rate on the portion of estates up to \$500 million, and a 65% rate on the portion of estates worth over \$500 million.

Tax capital gains and qualified dividends as ordinary income This policy would eliminate the preferentially low rates on long-term capital gains and qualified dividends (currently 15%) and again tax all capital income as ordinary income under the marginal tax rate structure. The tax rate on long-term capital gains is scheduled to rise to 20% in 2013 and dividends are scheduled to be taxed again as ordinary income.

Cap the benefit on itemized deductions at 28% For itemizing tax filers, the value of itemized deductions rises with their marginal tax rate (the rate on the last dollar earned), which makes many tax code preferences regressive (let alone the fact that non-itemizers see no benefit). This policy would limit the tax benefit of itemized deductions (home mortgage interest, etc.) to 28%.

² Assumes these three tax cuts expire for *all* tax filers, not just those making above \$200,000/\$250,000. The estate tax is treated separately.

Replace the tax exclusion for interest on state and local bonds with a subsidy for the issuer.

The budget would replace the tax exclusion for interest income on state and local government bonds with a direct subsidy to borrowers (i.e., state and local governments), which would be a more cost-effective way of reducing their borrowing costs. Under this policy, state and local governments would make taxable interest payments to borrowers and receive a 15% subsidy from the federal government for the interest paid on those bonds. This would simplify the tax code, increase budgeting transparency, and more cost-effectively subsidize borrowing by state and local governments.

Corporate Tax Reform

Tax U.S. corporate foreign income as it is earned Taxing the earnings of U.S.-controlled foreign subsidiary corporations (incorporated overseas) as earned rather than when earnings are repatriated to the United States would increase domestic investment and make it harder for firms to offshore jobs. The tax deferral on earnings from U.S.-controlled foreign subsidiary corporations enables firms to indefinitely avoid repatriating foreign earnings, because firms are taxed only when foreign earnings are received by the U.S. parent company as dividends. Our budget eliminates the deferral of income from U.S.-controlled foreign subsidiary corporations. Foreign tax credits (reducing U.S. tax liability by the amount of tax paid to foreign governments) would still be allowed, although the credit limits would be treated differently. The U.S. parent corporation would no longer split domestic and foreign expense activities, so the credit would only be allowed against tax liability to foreign governments. Additionally, because all earnings would be treated identically, the differentiation between active and passive foreign income would no longer matter.

Eliminate corporate welfare for oil, gas, and coal companies Our budget repeals exploration and development expensing, preferential tax treatment of royalties, and domestic manufacturing deductions, among other tax preferences, for oil, natural gas, and coal producers.

Reinstate Superfund taxes. The Environmental Protection Agency's Superfund program, once largely funded by dedicated taxes, is now largely funded by general revenue. Having a stable source of funding, rather than relying on year-to-year appropriations, would help plan multi-year cleanup of hazardous chemical waste. The budget would reinstate the Superfund excise taxes that expired in 1995 in order to finance cleanup of hazardous waste.

Enact a financial crisis responsibility fee Our budget levies a leverage tax (0.15% of covered liabilities) on the large banks with more than \$50 billion in assets (as proposed in the President's 2011 budget request).

Wall Street Gaming Tax A tax on derivatives, credit default swaps and other exotic financial products, including both sides of futures and forwards, option premiums and foreign exchange spot transactions. This is a tax levied directly against the types of opaque, complex trades that Wall Street manipulators used to inflate their profits and were the direct cause of the financial crisis.

Reducing tax avoidance and evasion through better compliance and enforcement For our tax system to operate efficiently, we must ensure taxpayers truly fulfill their obligations, this includes and will focus on corporations that notoriously dodge taxes. Revenues will reduce the deficit even further than currently scheduled.

Functional Increases by Proportional Formula for FY12

After recouping significant savings and reforming the tax code so that it is in line with the values of working families, the CPC budget provides a portion of additional discretionary spending with which to increase investment in domestic and international priorities. The following proposed formula would dictate how CPC's additional discretionary spending is allocated by functional category in the alternative budget. Even with additional discretionary spending over current law, the CPC budget still eliminates the deficit within ten years and provides a budget surplus by Fiscal Year 2021.

Function 150: International Affairs

(15% Allocation of budget increase over baseline as a plus-up)

- SMART Security
- Foreign Assistance
- U.S. Institute of Peace
- McGovern-Dole International Food for Education and Child Nutrition Program
- Bilateral Global HIV/AIDS Programs (PEPFAR)
- Global Fund to Fight AIDS, Tuberculosis, and Malaria (The Global Fund)
- Global Health and Child Survival – USAID, Maternal Health, Child Health, and Nutrition Programs; USAID, President's Malaria Initiative; USAID, Family Planning and Reproductive Health; USAID, Bilateral Tuberculosis Programs

Function 270: Energy (10% plus-up)

- Renewable energy technology and deployment

Function 300: Natural Resources and Environment (5% plus-up)

- Reestablishment of the Civilian Conservation Corps
- Natural Resources Conservation Service
- Wetlands Reserve Program
- Conservation Stewardship Program

Function 450: Community and Regional Development (5% plus-up)

- Community Development Block Grant (CDBG)
- Community Development Fund

Function 500: Education, Training, and Social Services (20% plus-up)

- ESEA
- IDEA
- Drop-out prevention
- Head Start
- Job Training and Workforce Development
- Youth Summer Jobs
- Social Services Block Grants (SSBG)
- On-the-Job Training
- Early Learning Challenge Fund
- Dislocated Workers Program

Functional Increases by Proportional Formula for FY12 (con.)

Function 500: Education, Training, and Social Services (con.)

- Senior Community Service Employment Program
- Green Jobs Innovation Fund
- National Endowment for the Humanities
- Pell Grants
- TRIO
- National Endowment for the Arts

Function 550: Health (10% plus-up)

- Domestic HIV/AIDS
- Maternal Health
- Enhanced Federal Medical Assistance Percentages (FMAP)
- Community Services Block Grant (CSBG)
- National Institutes of Health (NIH)
- Global Fund to Fight AIDS, Tuberculosis, and Malaria (The Global Fund)
- Mentoring of Children of Prisoners
- Community Health Centers

Function 600: Income Security (20% plus-up)

- Extend and Safeguard Unemployment Insurance
- Child Nutrition
- Supplemental Nutritional Assistance Program (Food Stamps)
- Food and Nutrition Service (including WIC)
- Temporary Assistance for Needy Families (TANF)
- Low Income Housing Energy Assistance Program (LIHEAP)
- Child Care and Development Block Grant (CCDBG)
- Tenant Based Rental Assistance
- Project Based Rental Assistance
- Public Housing Capital Fund
- Public Housing Operating Fund
- Affordable Housing Trust Fund
- Section 8 Housing Vouchers

Function 700: Veterans Benefits and Services (10% plus-up)

- Veterans & Military Families
- Wounded Warriors K-9 Corps

Function 750: Administration of Justice (5% plus-up)

- State and Local Law Enforcement
- Juvenile Justice
- DOJ Administrative Review and Appeals