Budgeting For America's Middle Class:

A Report Card Comparing Federal Budget Proposals

The American middle class did not create itself in the 20th century. Rather, a post-war model of robust public investment in our nation's people and institutions (despite high deficits) led to unprecedented shared prosperity. But if current trends continue, the middle class may not be recreated in the 21st century. Average American families are losing jobs, benefits, income and wealth, and for the first time, the majority of Americans believe their children will not be better off than them. The debate over our fiscal future provides an opportunity to chart a new course, one that will reverse the decline of the middle class. It is against this backdrop that Dēmos has measured the comparative effectiveness of five leading fiscal proposals. We evaluate the plans in eight categories: jobs and public investment; health care affordability; Social Security income; education; defense policy; fair and adequate revenues; and long-term debt reduction. The highest-scoring plans prioritize immediate stimulus over deficit reduction in order to put millions of Americans back to work. They address the long-term debt problem by modernizing the revenue base and reducing unnecessary spending while investing in our future prosperity. For there are many ways to bring the federal budget into balance, but only a few proven ways to create a middle class.

OVERALL GRADES

OUR FISCAL SECURITY "INVESTING IN AMERICA'S ECONOMY" BLUEPRINT	CONGRESSIONAL PROGRESSIVE CAUCUS "PEOPLE'S BUDGET"	BOWLES-SIMPSON "MOMENT OF TRUTH"	OBAMA DEFICIT REDUCTION PROPOSAL, 2012 BUDGET AND APRIL 13, 2011 SPEECH	HOUSE COMMITTEE ON THE BUDGET "THE PATH TO PROSPERITY"
A-	A-	D+	C	F

JOB GROWTH AND PUBLIC INVESTMENT

The best way to reduce the deficit is to put Americans back to work. With 29 million Americans unable to find enough or any work, and five unemployed job seekers for every job opening, plans are graded on their commitment to proven stimulus strategies: an expansionary fiscal policy to make up for slack demand in the short-term and targeted public investments proven to increase growth in the long-term. Any near-term tax increases or spending cuts should come from incomes or sectors with less simulative impact.

OUR FISCAL SECURITY "INVESTING IN AMERICA'S ECONOMY" BLUEPRINT	CONGRESSIONAL PROGRESSIVE CAUCUS "PEOPLE'S BUDGET"	BOWLES-SIMPSON "MOMENT OF TRUTH"	OBAMA DEFICIT REDUCTION PROPOSAL, 2012 BUDGET AND APRIL 13, 2011 SPEECH	HOUSE COMMITTEE ON THE BUDGET "THE PATH TO PROSPERITY"
A	A-	D-	C-	F
Creates jobs with $2.5 trillion in added public investment over a decade, as compared to Obama 2012 budget proposal.	Creates jobs with $1.7 trillion in added public investment over the next 10 years, as compared to current CBO baseline.	Discretionary freeze for FY 2012 at 2011 levels and decrease to 2008 levels for FY 2013.	Five-year discretionary freeze plus $200 billion additional cuts over 10 years for a total of $295 billion less than CBO baseline, 2% of total discretionary spending.[1]	Reduces public investment by $2.3 trillion over 10 years.
Over $200 billion additional investment per year in child care, public transit, roads, health IT, rural broadband, research and development.	Jobs investment package includes education, clean energy, broadband, infrastructure bank, housing and research and development.	Estimated to lead to a loss of 4 million job-years by 2015.	Spares education and low-income programs from "debt trigger" spending cuts after 2014.	Estimated to lead to 900,000 net jobs lost in 2012, 1.38 million fewer jobs in 2013 than under the President's 2012 budget.
Public investment at 7.4% of GDP* in 2016 and 6.7% of GDP in 2021.	Public investment at 6.1% of GDP in 2016 and 5.3% in 2021.	Public investment at 5.5% of GDP in 2016 and 4.8% of GDP in 2020.	Public investment at 6.1% of GDP in 2016 and 5.4% in 2021.	Public investment at a paltry 2.9% of GDP in 2022.
"6 for 6 Trigger": no fiscal contraction until full recovery with at least 6 months of unemployment below 6 percent.		Spending cuts estimated to decrease GDP by $114 billion in 2012; $227.7 billion in 2013; $345 billion in 2014.	Additional investments in education, energy innovation, and infrastructure.	
Defense spending decreases begin immediately. Defense spending has been shown to generate fewer jobs per dollar invested than education, health care, transit, weatherization or cuts to individual income taxes.				

* "Public Investment" category includes non-defense discretionary plus mandatory programs excluding Social Security and health care. We use this simplified definition in order to make it possible to compare across proposals.

LONG-TERM DEBT REDUCTION

Creating a society of broadly shared prosperity with a vibrant middle class will require a public sector with sound finances. To that end, plans are graded on their ability to bring the long-term debt to a sustainable level and reduce the deficit in a fair and measured way. Precipitous deficit reduction targets can actually lead to new job losses and deficit increases: as the US experienced in 1937 and the UK has experienced this year, austerity can be self-defeating.

OUR FISCAL SECURITY "INVESTING IN AMERICA'S ECONOMY" BLUEPRINT	CONGRESSIONAL PROGRESSIVE CAUCUS "PEOPLE'S BUDGET"	BOWLES-SIMPSON "MOMENT OF TRUTH"	OBAMA DEFICIT REDUCTION PROPOSAL, 2012 BUDGET AND APRIL 13, 2011 SPEECH	HOUSE COMMITTEE ON THE BUDGET "THE PATH TO PROSPERITY"
PASS	**PASS**	**PASS**	**PASS**	**INCOMPLETE**
Achieves primary balance by 2018, and debt at a stable proportion of GDP by 2026.	Achieves primary balance in 2014, and overall debt declines as a share of GDP after 2013.	Achieves primary balance in 2015, after which overall debt declines as a share of GDP.	Achieves primary balance in 2015, after which overall debt declines as a share of GDP	Claims to achieve primary balance by 2015 and complete balance by 2040.
		Achieves balance with a regressive formula of 2 dollars of program cuts for every 1 dollar of increase in taxes. Foregone program dollars are likely to drag the economy down more than increasing taxes.	Includes interest payments with spending cuts in 3-1 spending/revenue formula, for net 2 dollars of program cuts for every dollar increase in taxes.	Because Ryan does not specify the revenue increases which would be required to balance the budget, his proposal receives an incomplete.
			Includes a "debt-failsafe" trigger that includes spending through the tax code (which overwhelmingly benefits higher incomes and businesses) and safeguards Social Security, Medicare benefits and low-income programs.	

ADEQUATE AND FAIR REVENUE

With federal tax receipts at the lowest share of the economy in three generations due to a combination of low rates and the recession, any legitimate deficit reduction plan must raise considerable revenue. Tax increases should be concentrated among those who have benefited most from recent economic policies: wealthy individuals, heirs and corporations. Plans are graded on detail, revenue adequacy and progressivity.

OUR FISCAL SECURITY "INVESTING IN AMERICA'S ECONOMY" BLUEPRINT	CONGRESSIONAL PROGRESSIVE CAUCUS "PEOPLE'S BUDGET"	BOWLES-SIMPSON "MOMENT OF TRUTH"	OBAMA DEFICIT REDUCTION PROPOSAL, 2012 BUDGET AND APRIL 13, 2011 SPEECH	HOUSE COMMITTEE ON THE BUDGET "THE PATH TO PROSPERITY"
A	A	C+	C-	F
In 2016, revenue would be 20.3% of GDP. In 2021, it would be 21.3% of GDP.	In 2016, revenue would be 21.5% of GDP. In 2021, it would be 22.3% of GDP.	In 2016, revenue would be 19.7% of GDP. In 2020, it would be 20.6% of GDP.	In 2016, revenue would be 19% of GDP. In 2021, it would be 19.3% of GDP.	In 2016, revenue would be between 15 and 18.3% of GDP. In 2021, it would be 18.3% of GDP.
Caps itemized deductions at 15%, excluding charitable giving.	Caps itemized deductions at 28%.	Unlike most deficit reduction plans, permanently caps revenue at 21% of GDP (the average from 1971 to 2010).	Reduced revenues stem from reducing the number of individuals subject to the estate tax and reducing the number of taxpayers subject to the Alternative Minimum Tax.	Dramatic reduction in revenue, $1.8 trillion less than the President's 2012 proposed budget.
Ends the Bush tax cuts for the top 2% of earners while extending Bush-era rates for the middle class.	Ends the Bush tax cuts for the top 2% of earners immediately and allows middle-class Bush rates to expire.	Offers various alternatives to limit tax expenditures and lower marginal rates.	Ends the Bush tax cuts for top 2% of earners in 2012.	Proposal lacks significant information on how it is phased in. It indicates that revenue rises steadily as a share of GDP to a maximum of 19%.
Expands the Earned Income Tax Credit and permanently extends "Making Work Pay" credit.	Continues other middle class provisions, including marriage-penalty relief, expanded child tax credit, education incentives, and other incentives for children and families.		Reforms corporate taxes without raising additional corporate revenue at a time when corporations contribute just 9% of federal revenue.	Delivers large tax cuts to the wealthy. Someone earning $1 million will receive an average annual tax cut of $125,000.
Imposes millionaires' surcharge of 5.4% and taxes capital gains and dividends as ordinary income.	Adopts Rep. Schakowsky's addition brackets above $1 million, and taxes capital gains and dividends as ordinary income.			Eliminates taxes on the first $10 million of inheritances.
Adopts Sen. Sanders' progressive estate tax.	Adopts Sen. Sanders' progressive estate tax.			
Creates a financial speculation tax.	Creates a financial speculation tax.			
Closes foreign subsidiary and corporate debt tax loopholes.	Closes foreign subsidiary loophole.			

AFFORDABLE HEALTH CARE FOR ALL

Health care costs are the primary driver of our long-term national debt. Proposals are graded on their ability to lower government costs without shifting costs onto families, and to expand the number of people with insurance coverage.

OUR FISCAL SECURITY "INVESTING IN AMERICA'S ECONOMY" BLUEPRINT	CONGRESSIONAL PROGRESSIVE CAUCUS "PEOPLE'S BUDGET"	BOWLES-SIMPSON "MOMENT OF TRUTH"	OBAMA DEFICIT REDUCTION PROPOSAL, 2012 BUDGET AND APRIL 13, 2011 SPEECH	HOUSE COMMITTEE ON THE BUDGET "THE PATH TO PROSPERITY"
A-	A	C-	B-	F
Preserves guaranteed benefits under Medicare, Medicaid and the Affordable Care Act (ACA) for seniors, people with disabilities, children and families. Controls costs without imposing additional burdens on beneficiaries.	Like the OurFiscalSecurity.org plan, preserves and builds on Medicare, Medicaid and the ACA. Adds a public option under the ACA in order to better control costs.	Emphasizes cost control without adequate concern for the impact on beneficiaries.	Preserves guaranteed benefits in Medicare, Medicaid, and the ACA.	Large cuts to health insurance leading to millions of seniors, people with disabilities, and families losing health insurance and/or paying more for care.
Builds on Affordable Care Act (ACA). The ACA will lead to 34 million Americans having health insurance who would otherwise have been uninsured.	In addition, allows federal government to use market power to negotiate lower drug prices on behalf of all Medicare beneficiaries. This will save $157.9 billion from 2012-2021.	In the long term, cuts to Medicare, Medicaid, CHIP and ACA would be required after 2020 to keep federal health spending from rising any more than GDP+ 1%.	Aggressive goal for limiting cost increases in Medicare to just GDP per capita +0.5%, a more restrictive target than Bowles-Simpson.	Abolishes the ACA, leading to 34 million Americans losing health insurance coverage.
Creates a public option in the ACA which would save about $68 billion from 2010-2020, without increasing costs for beneficiaries.		Would force low-income seniors into managed care plans that reduce choice and could lower care quality.	However, principles for cost controls indicate no cost-shifting or reductions in access, unlike Bowles-Simpson.	$1.4 trillion cut from Medicaid over 10 years in comparison with CBO baseline, restricting access to long-term care and health insurance for moderate-income Americans.
Public plan premiums would be 5-7% lower than private competitors in insurance exchanges and would negotiate lower drug prices from the big drug companies.		Recommends a range of structural changes if costs are not contained, from single-payer to voucherization.	Gives Independent Payment Advisory Board automatic funds sequestration if costs rise faster than the target rate.	Turns Medicare into a voucher system in 2022, doubling seniors' and people with disabilities' health costs.
Aggressively scales up pilot programs that demonstrate Medicare/Medicaid savings without decreasing the quality of care.				Raises Medicare eligibility from 65 to 67.

ADEQUATE SOCIAL SECURITY INCOME FOR FUTURE GENERATIONS

Working-age Americans face a $6.6 trillion retirement deficit due to the failures of the 401(k) system. Social Security benefits will actually need to be higher for most future retirees to sustain current living standards. Absent major reform of our private retirement system, any benefit cut is unacceptable and unnecessary. Taxing a greater proportion of high earnings will significantly extend the sustainability of the program.

OUR FISCAL SECURITY "INVESTING IN AMERICA'S ECONOMY" BLUEPRINT	CONGRESSIONAL PROGRESSIVE CAUCUS "PEOPLE'S BUDGET"	BOWLES-SIMPSON "MOMENT OF TRUTH"	OBAMA DEFICIT REDUCTION PROPOSAL, 2012 BUDGET AND APRIL 13, 2011 SPEECH	HOUSE COMMITTEE ON THE BUDGET "THE PATH TO PROSPERITY"
A	A	D	INCOMPLETE	INCOMPLETE
Maintains current benefits by restoring the payroll cap on the employee side to 90 percent of economy-wide earnings (up from $106,800 in 2011 to $170,000 in 2012) and eliminating the payroll cap on the employer side. Also increases benefits based on higher employee contributions.	Maintains current benefits by restoring the payroll cap on the employee side to 90 percent of economy-wide earnings (up from $106,800 in 2011 to $170,000 in 2012) and eliminating the payroll cap on the employer side. Also increases benefits based on higher employee contributions.	Significantly cuts benefits. The 2050 retirement benefit of a median earner (someone earning about $43,000 in today's terms) would be 13 percent below current benefits.	Encourages bi-partisan negotiations parallel to deficit reform, with the following principles: • No privatization • Restore long-term solvency • Strengthen retirement security for low-income, the vulnerable, persons with disabilities and survivors • No basic benefit reductions for current beneficiaries (open to Cost-of-Living Adjustment changes) • No "slashing" future retiree benefits (leaves opening for some reductions)	Would create process to force Congress to make changes to the program any time the program is not "sustainable," based on 75-year projections.

A SECURE, SUSTAINABLE DEFENSE POLICY

The 100 percent growth in the defense budget over the past decade now undermines our ability to protect America's core national strength: our people, our economy, and our infrastructure. Defense reduction plans are graded against the consensus from the bi-partisan Sustainable Defense Task Force (SDTF), which found $960 billion in ten-year cuts based on a fundamental rebalancing of our security priorities.

OUR FISCAL SECURITY "INVESTING IN AMERICA'S ECONOMY" BLUEPRINT	CONGRESSIONAL PROGRESSIVE CAUCUS "PEOPLE'S BUDGET"	BOWLES-SIMPSON "MOMENT OF TRUTH"	OBAMA DEFICIT REDUCTION PROPOSAL, 2012 BUDGET AND APRIL 13, 2011 SPEECH	HOUSE COMMITTEE ON THE BUDGET "THE PATH TO PROSPERITY"
A	**A**	**B+**	**C-**	**C-**
Endorses SDTF's targeted cuts in strategic capabilities, conventional forces, operational expenses, procurement strategies, and research & development.	Ends deployments in Iraq and Afghanistan in 2013.	From 2013 through 2020 base defense spending would rise at half the projected rate of inflation.	Increases the base defense budget but holds spending growth below inflation	Follows the President's proposal.
Total defense spending would be 3.0% of GDP in 2016 and 2.3% in 2021.	Total defense spending would be 2.8% of GDP in 2016 and 2.4% in 2021.	Total defense spending[2] would be 2.9% of GDP in 2016 and 2.5% of GDP in 2020.	Total defense spending would be 3.5% of GDP in 2016 and 3.1% in 2021.	
	Reduces growth in all the services and cancels the acquisition of obsolete weapons systems.	Cuts defense spending at the same rate as non-defense, excluding overseas contingency operations.		

INVESTING IN FUTURE GENERATIONS

We must not shortchange future generations as we deal with the current one's misguided fiscal priorities. Plans are graded on their investments in the social infrastructure that will pay off in future economic growth, particularly grant-based higher education and affordable child care in the 0-5 years. Early childhood education multiplies from $6 to $13 for every dollar invested.

OUR FISCAL SECURITY "INVESTING IN AMERICA'S ECONOMY" BLUEPRINT	CONGRESSIONAL PROGRESSIVE CAUCUS "PEOPLE'S BUDGET"	BOWLES-SIMPSON "MOMENT OF TRUTH"	OBAMA DEFICIT REDUCTION PROPOSAL, 2012 BUDGET AND APRIL 13, 2011 SPEECH	HOUSE COMMITTEE ON THE BUDGET "THE PATH TO PROSPERITY"
A-	**B+**	**D**	**B**	**F**
Creates universal early child care for children under 5, at a cost of $88 billion more per year than Obama 2012 budget proposal.	Increases Child Care and Development Block Grant (CCDBG) funds as part of $280 billion boost over 10 years above CBO baseline to the Income Security budget function).	Current early childhood spending would be subject to across-the-board cuts of 7.1% in 2012 and 12.8% in 2013, as compared to Obama 2011 budget.	Increases funding for CCDBG by $1.3 billion in 2012.	Current early childhood spending would be cut by 14% below the current CBO baseline starting in 2012, under an across- the-board non-defense discretionary spending cut.
Maintains Obama 2012 budget request for investments in college affordability.	Increases Pell Grants and TRIO as part of $290 billion increase in Education, Training & Social Services budget function over 10 years in comparison with CBO baseline.	Cuts college student aid immediately by $5 billion through 2015, $43 billion total from 2012- 2020 in comparison with President's 2011 budget proposal, by eliminating in-school interest subsidies for student loans.	Increases funding for Pell Grants by more than $5 billion in 2012 in order to maintain maximum award of $5,500.	Cuts Pell grants by $4.1 billion in 2012 in comparison to FY 2010. Decreases maximum Pell Grant to $3,040 from current $5,500.
			Education would be protected from deficit reduction spending cuts.	1.4 million students would lose Pell grants entirely.

ENDNOTES

1. This includes $94 billion cut in discretionary spending from the president's 2012 budget released in March and the $200 billion in additional cuts announced by the President in his April 13 speech. The $94 billion figure is from the CBO analysis of the President's 2012 budget proposal and does not include the reduction for surface transportation funding, which was reclassified as mandatory spending by the Administration.

2. Bowles-Simpson actually creates a broader category, "security" spending, which includes non-defense expenditures such as the Department of Homeland Security. For the sake of comparisons we describe the impact of the Bowles-Simpson proposal on "defense" as defined by the CBO.

REFERENCES

OUR FISCAL SECURITY, "INVESTING IN AMERICA'S ECONOMY BLUEPRINT"

Job growth and public investment, pages 26-31
Investing in Future Generations, pages 37-28
Affordable health care for all, pages 4, 12
Adequate Social Security income for future generations, page 25
A secure, sustainable defense policy, pages 19-21
Adequate and fair revenue, page 35-41
Long-term debt reduction, pages 43-47

CONGRESSIONAL PROGRESSIVE CAUCUS, "THE PEOPLE'S BUDGET"

Job growth and public investment, pages 4 and 7
Investing in Future Generations, page 11
Affordable health care for all, pages 4 and 12
Adequate Social Security income for future generations, pages 4 and 12
A secure, sustainable defense policy, pages 4 and 8
Adequate and fair revenue, pages 4 and 9-10
Long-term debt reduction, pages 5-6

NATIONAL COMMISSION ON FISCAL RESPONSIBILITY AND REFORM, "MOMENT OF TRUTH"

Job growth and public investment, pages 20-27
Investing in Future Generations, pages 20-23 and 45
Affordable health care for all, pages 36-42
Adequate Social Security income for future generations, pages 48-55
A secure, sustainable defense policy, pages 21-23
Adequate and fair revenue, pages 28-34
Long-term debt reduction, pages 56-57

HOUSE COMMITTEE ON THE BUDGET, "THE PATH TO PROSPERITY"

Job growth and public investment, pages 29-33 and 36-37
Investing in Future Generations, pages 36-37 and 42-43
Affordable health care for all, pages 30, 39-40, 44-47 and 52
Adequate Social Security income for future generations, page 47-49
A secure, sustainable defense policy, page 28-29
Adequate and fair revenue, page 50-54
Long-term debt reduction, page 56-58

ACKNOWLEDGEMENTS

This report was co-authored by Ben Peck and Heather McGhee of the Dēmos Washington Office.
Sarah Babbage of Dēmos and Andrew Fieldhouse of the Economic Policy Institute provided valuable research assistance.