Toward a Potential Grand Bargain for the Nation

July 2024

INDEPENDENT REPORT

The views expressed in this report are those of the individual authors who collectively constitute the Grand Bargain Committee. This report was sponsored by the Center for Collaborative Democracy and was prepared independent of influence from the center and from any other outside party or institution. It is being published by the Bipartisan Policy Center as an example of how people with diverse views and political leanings can find common ground. The recommendations are strictly those of the policy experts and do not necessarily reflect the views of any organization or those of the BPC. All data are current as of November 2023.

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Introduction

The United States faces serious economic and social challenges, including:

- The underlying economic growth rate has slowed, as have opportunities for people to move up the economic ladder.
- Our education system fails too many children and leaves many more with fewer opportunities than they deserve.
- The nation is not rising to the challenge of addressing climate change.
- Both our health care system and the health of our population need improvement.
- Our income tax system is broken, generating tax revenue in an inefficient and unfair manner.
- And the national debt is growing at an unsustainable pace, threatening long-term economic growth, crowding out needed investments in economic opportunity, and placing the nation's ability to respond to a future crisis at risk.

To address these problems, the Center for Collaborative Democracy commissioned subject matter experts—progressives, centrists, and conservatives—to develop a "Grand Bargain" encompassing all six issues. The policy debate typically puts these problems into silos, and within each silo, powerful forces support the status quo. This report seeks to break down these silos. Dealing with them all at once—in a Grand Bargain—is a more promising strategy than dealing with them individually, because it allows for different parties to strike deals across policy issues, not just within a single issue.

For example, implementing a carbon tax to address climate change seems impossibly difficult. So does increasing accountability for teacher performance. Trading one for the other might be easier than pursuing both in isolation. Fixing the structural budget deficit by reducing entitlement spending is an enormous political challenge. So is increasing spending on programs that advance economic opportunity. Doing both at the same time could be more politically feasible than addressing them separately.

In this context, the group of experts met for several months in 2023 to share perspectives and ideas and to come up with sensible policies in each of these areas: economic growth and mobility; education; environment; health; taxes; and the federal budget. The end result is this report, which is being published by the Bipartisan Policy Center as an example of how people with diverse views and political leanings can find common ground.

This report is short, consisting of less than 30 pages of text. Its brevity is by design. This constraint forced the group to stay focused on issues and recommendations that matter the most. The focus of the report is on concepts. It is designed to answer such questions as, "How should the nation's approach to education or to the federal budget change? What fundamental reforms are required to increase the underlying rates of economic growth and upward mobility?" Focusing on concepts means not focusing on policy details, including the details of implementing our recommendations and of transitioning across policy regimes. Our lack of attention to policy details does not mean we do not recognize their importance. Of course, we do, and many members of the group have spent much of their careers studying and designing public policies. Instead, we focus on concepts because we believe the United States needs to return to a discussion of first principles. This report advances that objective.

Not every member of the group agrees with every recommendation in this report. That is not surprising given the diversity of views in the group, and the difficulty and complexity of many of the issues we address. Despite this disagreement, we were able to have an informed and constructive discussion about these economic issues, to find compromises, and to come up with a set of recommendations that we believe, on balance, would greatly strengthen the country and improve people's lives.

We believe in the importance of a market economy. Free markets have led to unprecedented growth and innovation, along with rising incomes, over the past three centuries. But government also has a role to play. To unleash more growth, we need to curtail unneeded or overly costly regulations and to create a tax system that encourages investment spending and innovation. To bring prosperity to more people, we need policies that will enable more people to benefit from economic growth through investment in their education and skills. For this reason, we put a great deal of emphasis on improving education for children, on training or retraining for adult workers, and on subsidizing the earnings of low-wage workers when necessary while maintaining a safety net for those who cannot work.

Our proposals are designed to advance certain underlying values and themes: Work and savings should be rewarded, investment should be encouraged over consumption, public assistance should be better targeted to those most in need, the tax system should be more progressive, and the nation should invest relatively more in the young and spend relatively less on the elderly.

Our specific proposals in each area are as follows:

- **On economic growth and mobility**, we recommend investing in the education and training of workers, through community colleges and apprenticeships. We call for a more skill-based immigration system and for more immigrants; for encouraging innovation by investing more in basic research; for reducing taxes on new investment; for curbing unneeded regulation; for reducing the national debt; and for encouraging participation in economic life by increasing the generosity of earnings subsidies for low-wage workers.

- **On education**, we recommend improving the teacher workforce at the K-12 level; paying teachers more but strengthening the link between pay and performance; maintaining educational standards and accountability while narrowing gaps by race and class; expanding school choice; and recognizing the role that parents and families must play in students' learning.
- **On the environment**, our main recommendation is to adopt a carbon tax. We also call for reducing methane emissions; expanding federal authority in the planning, siting, and permitting of the national electric transmission system; and repealing the renewable fuel standard that requires refiners to blend corn ethanol into the fuel they sell.
- **On health**, we call for giving more attention to the social determinants of poor health with a focus on the need for better nutrition, for rationalizing existing subsidies for health care, and for reducing health care costs.
- **On taxes**, we call for increasing tax revenue as a share of annual gross domestic product (GDP), and for that revenue to be raised in a manner that is more progressive, efficient, and simple than under current law, while also increasing the incentive to save and invest. For the business sector, that means allowing the expensing of investment expenditures and moving toward equal treatment of the corporate and noncorporate sectors.
- **On the federal budget**, we recommend putting the debt as a share of annual GDP on a sustainable trajectory with a comprehensive package of reforms made up of a rough balance between tax increases and spending cuts in the initial years, phasing into a much larger share of the savings coming from spending cuts over time.

Most of these recommendations are at the federal level, but some are at the state and local level, particularly our education recommendations.

In the spirit of a Grand Bargain, these recommendations advance common goals and values through compromises both within and across policy areas. For example, one of our values is reflected in the goal of refocusing government spending on those who truly need it, and another is to restore fiscal responsibility. To accomplish this, we call for slower growth in Social Security and Medicare benefits for affluent seniors to reduce the major driver of the national debt, but we also protect vulnerable seniors and spend more on the education of children and on earnings subsidies for the working poor. We recommend adopting a carbon tax because it will simultaneously advance our goals of supporting the environment, increasing tax revenue, and boosting dynamism by encouraging innovation in the energy sector.

We believe the analysis and recommendations in this report point a path forward for the nation, but we offer them in a spirit of humility, understanding that others will disagree. We hope that this report catalyzes a much needed debate about the future of our nation.

Chapter 1: Growth and Mobility

To ensure long-term prosperity, the United States needs rapid economic growth and increased social mobility. Serious challenges loom for both. On growth, demographic headwinds and an uncertain outlook for productivity have led to lackluster estimates of the economy's underlying ability to increase the production of goods and services. The Congressional Budget Office estimates potential GDP growth of 1.8% per year over the coming decade and 1.6% per year over the next three decades—about 1 percentage point lower than the growth rate over the three decades before the COVID-19 pandemic.[1]

We must increase the rate of upward economic mobility. The rate is lower than in the past, in part because of a slowdown in the rate of economic growth and in part because whatever growth we have had has not been widely distributed.[2] Although economic mobility statistics show that America remains an upwardly mobile society, more children—particularly those raised in low-income and working-class households—should enjoy greater upward mobility.[3] And among certain demographic groups—e.g., Black men—rates of upward mobility are much too low.[4] Finally, wealth inequality has increased significantly over the past few decades, and in a later chapter we suggest higher taxes on inherited wealth as one way to improve intergenerational mobility.[5]

Economic growth is important because it drives increases in living standards and fosters a climate in which innovation can improve the quality of life for all Americans. Mobility is important because its absence leaves talent, ambition, and energy untapped. Beyond economics, growth fosters a more tolerant society and encourages pluralism and the type of pro-social economic policy that can boost mobility.[6] In a society without growth, for me to do better someone else has to do worse. In a society with growth, I can do better without others doing worse.

In sum, we need more economic growth and more economic mobility.

OUR STRATEGIES FOR IMPROVING GROWTH AND MOBILITY

We have identified five major strategies to increase growth and mobility. First, a Grand Bargain should foster a climate conducive to more innovation, the fundamental source of long-term growth. Second, it should boost business investment to enable those innovations to be applied, to make workers more productive, and to ensure that each generation is better off than the previous one. Third, it should increase national savings by reducing the national debt (as a share of annual economic output) and freeing up public resources for growth and mobility-enhancing purposes. Fourth, it should encourage participation in economic life for all Americans. Fifth and very importantly, it should create a more highly skilled workforce, including those who have been left behind in recent decades.

We especially want to emphasize this last point. During the 20th century, the United States led the world in educating its population, but it has now slipped badly as documented in our chapter on education. Without a skilled workforce, a nation will find it difficult to maintain its technological lead, to provide rising levels of compensation for workers and incomes for their families, and to reduce burdens on the public sector for various forms of assistance. Although we support significant additional investments in education and training, we are also recommending that these investments be more effective and evidence-based with accountability for performance, as detailed in our chapter on education and in the final section of this chapter.

Some policies, such as encouraging the creation of innovative technologies, would permanently increase the rate of GDP growth, and others, such as tax reform, would increase the level of GDP, which would lead to a temporary increase in the growth rate as the economy converged to a higher level of output. Both are important.

More Innovation

To increase innovation in the economy, the government should increase its support for basic research. Basic research is distinct from the types of subsidies associated with industrial policy, in which the government picks winners and losers or supports the development of specific technologies. Instead, motivated by the strong social benefits associated with the creation of new ideas, we support a substantial increase in funding for basic research in which the government would distribute funds to scientists on the basis of their qualifications and potential creativity.

Through various agencies, the federal government currently allocates roughly $100 billion in support for basic research.[7] We propose doubling that over the next 10 years.

We also support more immigration, but with a greater emphasis on the skills that immigrants bring to the United States. High skilled immigrants are a key driver of innovation. Some of the most innovative companies in America were founded by immigrants—Google is one example.

Immigrants are also more likely than native-born workers to start businesses of all sizes. Roughly 18% of the owners of businesses with employees are immigrants, and immigrants own more than one-third of businesses with employees in the accommodation and food service sector. Nearly half of transportation and warehousing businesses without employees are owned by immigrants.[8]

One obvious policy solution is to stop sending away foreign-born graduates of American colleges and universities. According to the National Science Foundation, foreigners earned over 17,000 doctorates in science and engineering in 2022—more than one-third of all doctorates granted in that category that year.[9] Foreigners earned over half of all doctorates in every engineering field (except biomedical engineering), computer science, physics, and economics.[10] The situation is similar for master's degrees.

These numbers highlight the encouraging fact that the United States is still a global magnet for some of the most ambitious and talented people born all over the world. Unfortunately, only a fraction of them are allowed to stay in the United States after graduating. Rather than sending these graduates away when their education is finished and they can begin making social and economic contributions, the United States should do everything it can to keep them here. Graduates should be offered a green card when they receive their degree.

The United States should go even further to welcome additional highly skilled immigrants. Over the past few decades, the nation has issued around 1 million green cards per year. The current immigration system is heavily weighted toward family reunification. Over half of green cards issued annually over the past decade have gone to the immediate family members (spouses, children, and parents) of U.S. citizens. The second-largest share goes to extended family members of U.S. citizens. In the years before the pandemic, less than 15% of green cards were issued each year for employment-based reasons. Green cards for refugees, asylees, and winners of the diversity lottery combined typically outnumber employer-based green cards.[11]

To increase workforce and economic growth, fuel innovation, and increase the nation's stock of human capital, we propose doubling the number of employment-based green cards issued each year. This would make it the second-largest category of green cards, behind the reunification of immediate family members.

Boosting Business Investment

In a later chapter on taxes, we call for fundamental reforms, including a structure that will support not only raising the revenues needed to reduce deficits and boost investments in skills and education but will also encourage more investment in businesses.

The key proposal here is to allow the direct and immediate expensing of business investment. This proposal would be coupled with eliminating deductions for interest expenses, putting debt and equity financing on an equal footing.

In addition, the United States needs a smarter approach to regulation. Since 2005, 6,523 new rules have been finalized and the federal regulatory burden has increased by a dramatic $1.5 trillion, an average of $83 billion per year.[12] More recently, the growth of the regulatory burden has been even more dramatic, with $201 billion in new costs in 2021 and $117 billion in 2022. The period 2017–2020, however, showed a total estimated growth of only $64 billion, proof that the regulatory state can be controlled. This situation has spawned a spate of proposals for regulatory reform.[13] Although no consensus proposal exists, legislation could update the regulatory process to improve future rules, require removal of existing outdated and unnecessary regulations, and revisit the roles of Congress versus administrative agencies in rulemaking.

Increasing National Saving by Reducing the Debt-to-GDP Ratio

One reason that faster GDP growth is important is that it makes the burden of the national debt more sustainable. But it is also the case that reducing that debt will help to spur growth itself. For this reason, we have an entire chapter on how to reduce deficits and debt. As detailed in that chapter, national savings have plummeted. Rising rates of public borrowing to cover annual deficits in the federal budget—deficits that are high now, even in good economic times—is helping to keep interest rates high and absorbing saving that could otherwise be devoted to private investment or to high-priority growth and mobility-enhancing public investments such as basic research or education. We are therefore calling for less borrowing by the federal government and a reallocation of existing budgetary resources away from consumption and toward investment and growth. Currently, the nation's debt is not only unacceptably high but is also in danger of careening out of control if interest payments on the debt grow faster than the economy.

Encouraging Participation in Economic Life

As noted earlier, immigration is good for growth because of its effects on innovation. But it is also critical to supplying the workers who are needed in a growing economy. Beyond entrepreneurship and innovation, the United States needs more immigrants to increase the underlying rate of economic growth. Workforce growth is a key driver of overall economic growth. Low and falling U.S. fertility rates mean that workforce growth will increasingly need to come from higher levels of immigration.

America's safety net also needs more emphasis on work. We recommend an expansion of earnings subsidies. Under current law, the Earned Income Tax Credit (EITC) has increased the workforce participation rates of targeted groups.[14] In addition, the EITC lifts millions of Americans—including several million children—out of poverty each year.[15] A further increase in earnings subsidies for low-income workers would do even more to bring them into the workforce, putting them on a path to self-sufficiency and the dignity that earned success provides, increasing their incomes, and reducing poverty.

The EITC currently offers only a few hundred dollars to childless workers. Economic mobility rates among some childless workers are much too low.

Recent demonstrations, despite results suggesting that increasing participation among childless workers will be a challenge, offer optimism that a sizable increase in earnings subsidies could draw many from the sidelines and into the workforce.[16] A recent report from the National Academy of Sciences calls for an increase in the EITC because of its proven ability to improve intergenerational mobility.[17]

Creating a More Highly Skilled Workforce

In addition to our other strategies, it is imperative to increase the nation's stock of human capital. A major increase in high skilled immigration would go some way toward meeting this goal. But increasing growth and upward mobility is also about improving the skills of the native-born population, especially for workers without college degrees.

The value of high quality STEM workers for innovation and technological progress is well-known. But producing high quality STEM workers (along with high quality workers in other areas) depends crucially on laying the foundation of basic skills, and that means focusing on K-12 education, which we discuss in our chapter on education.

In addition to improving primary and secondary education, the nation should make better use of community colleges as institutions to retrain workers who are displaced by technological advances or to help prepare young people for well-paid jobs. We propose creating a federal grant program to provide funding to community colleges, contingent on institutional outcomes.[18] This public investment in community colleges would promote the policy goals of: (1) increasing the supply of college-educated workers; (2) expanding opportunities for midcareer skill development and training; and (3) providing better pathways into the workforce for non-college-educated workers. The goal of this program—and the outcomes on which individual community colleges would be judged—is not just access to community colleges but also completion and post completion outcomes, including making community colleges more responsive to the needs of local employers.

We also propose increasing work-based learning, such as apprenticeships or employer-based training programs. Financing such programs through a training tax credit would ensure that employers did more of it and that the training was linked to what businesses need. To make hiring apprentices more attractive by lowering the costs of employing them, local employers should be exempt from certain labor market regulations. Without such help, employers will continue to underinvest in training because, given high employee turnover, the benefits often accrue to their competitors rather than to them.[19] Under apprenticeships or other employer-driven systems, workers are trained in skills that are valuable to businesses—a shortcoming of traditional job training efforts in the public sector. Apprenticeship programs should also feature partnerships between community colleges and businesses, so that apprentices accrue real-world experience and a formal credential concurrently. Wraparound services should be offered as well, including training in "soft skills."

"Sectoral programs" have also shown promise. These programs train workers for jobs in specific industries and occupations that do not require a bachelor's or associate's degree and for which there is strong demand among local businesses. Several of these programs—including Year Up, Per Scholas, and Project Quest—have been evaluated recently and found to be effective at increasing the earnings of participants.[20] The programs that have been most successful tend to combine intensive upfront screening, specific occupational training, and more general career readiness skills, soft-skills training, and wraparound services.[21] Economists do not have a good understanding of how to "scale up" these programs, so we recommend additional experimentation with rigorous evaluations.

Overall, we recommend greater investment in basic research, more skill-based immigration, lower taxes on new business investment, a reduced debt burden, careful screening of new and existing regulations, earnings subsidies that encourage work, and greater investment in education and training. While all these recommendations have merit, we believe that more, and more effective, investments in the nation's human capital—including the research of scientists that could lead to innovation—are the most important.

Chapter 2: Education

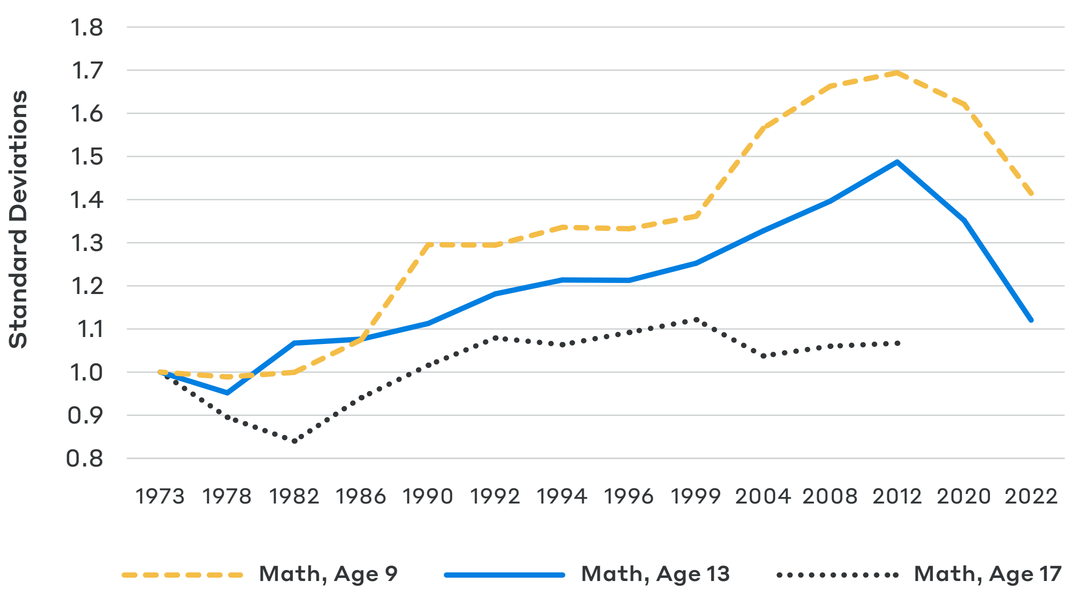
THE EDUCATION PROBLEM

The current educational system is not working well. It is failing to achieve both its economic and social goals, and without reforms it will continue to hinder progress in other areas. The skills of the population are the driver of long-term growth and are a consistent determinant of individual incomes.[22] Therefore, the well-being of the United States is highly dependent on the performance of its schools.

Student Performance

The United States has a long tradition of assessing student performance through the National Assessment of Educational Progress (NAEP), which is often called the Nation's Report Card. Figure 1 shows changes in math scores for different age groups relative to the initial scores in 1973. Scores of all age groups improved over the past 50 years, but the improvements were smallest for the 17-year-olds who are the students closest to leaving high school and entering college or careers.

Figure 1. Math Performance Relative to 1973 by Age

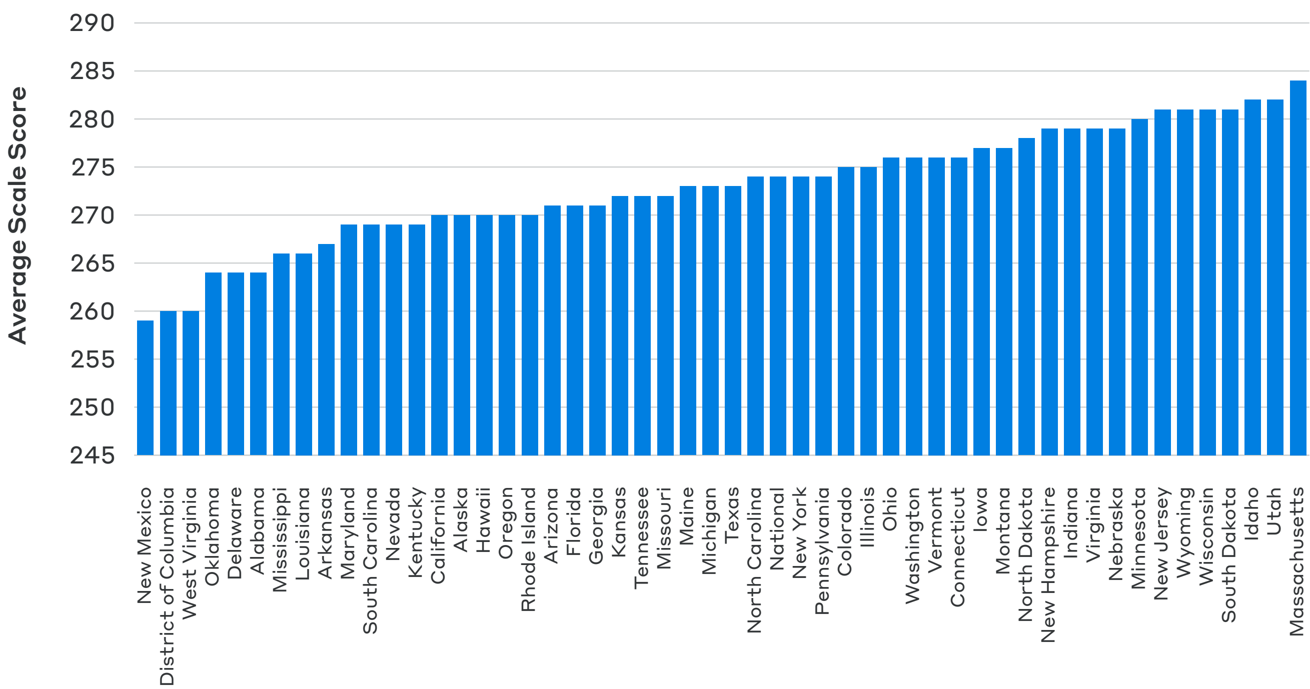


Source: https://www.nationsreportcard.gov/

The scores for all age groups dropped sharply in most recent years. Although disruptions from the pandemic were responsible for significant falls in performance, it is important to note that scores began declining before COVID-19. This longer period of decline coincides with the loosening of federal accountability regimes from the No Child Left Behind Act (2002) to the Every Student Succeeds Act (2015).

The national achievement data masks the fact that achievement across states varies dramatically. Figure 2 arrays the eighth grade math performance on the NAEP tests for each state in 2022. The differences in performance across states are very large. By conventional estimates, the difference in performance between Massachusetts (the top performing state) and New Mexico (the bottom performing state) translates to two or two-and-a-half years of education by the eighth grade.

Figure 2. NAEP Scores by State, Math in Grade 8, 2022

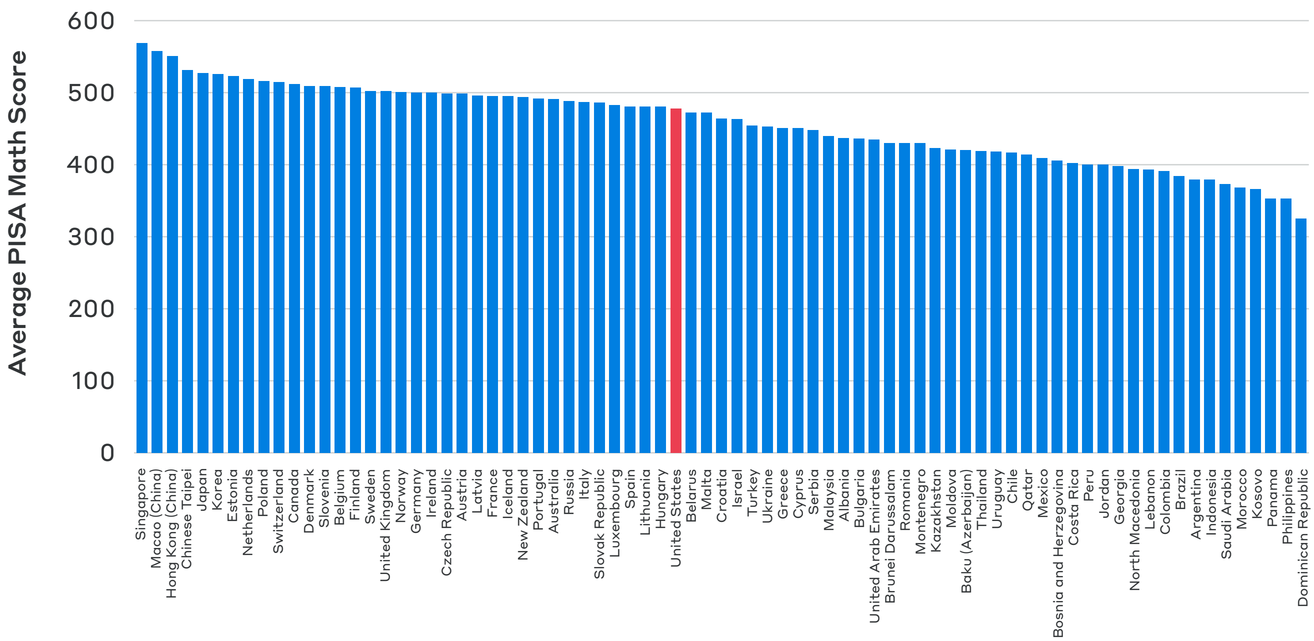


Source: https://www.nationsreportcard.gov/

Some observers have posited that rising income inequality contributes to expanding achievement gaps by socioeconomic status.[23] That concern, however, appears unfounded, as test information that is linked over time shows a slow shrinking of gaps for birth cohorts born between 1961 and 2001.[24]

On international tests, U.S. students perform well below their peers in other advanced countries. Figure 3 shows the math performance of U.S. 15-year-olds compared with those in other countries. Students in Spain, Italy, and 32 other countries are outperforming U.S. students. In an absolute sense, this is not a desirable position for U.S. citizens. Because the quality of the labor force is important for long-term growth, this outcome for students does not bode well for the future.[25]

Figure 3. Average Performance on PISA Text, 2018

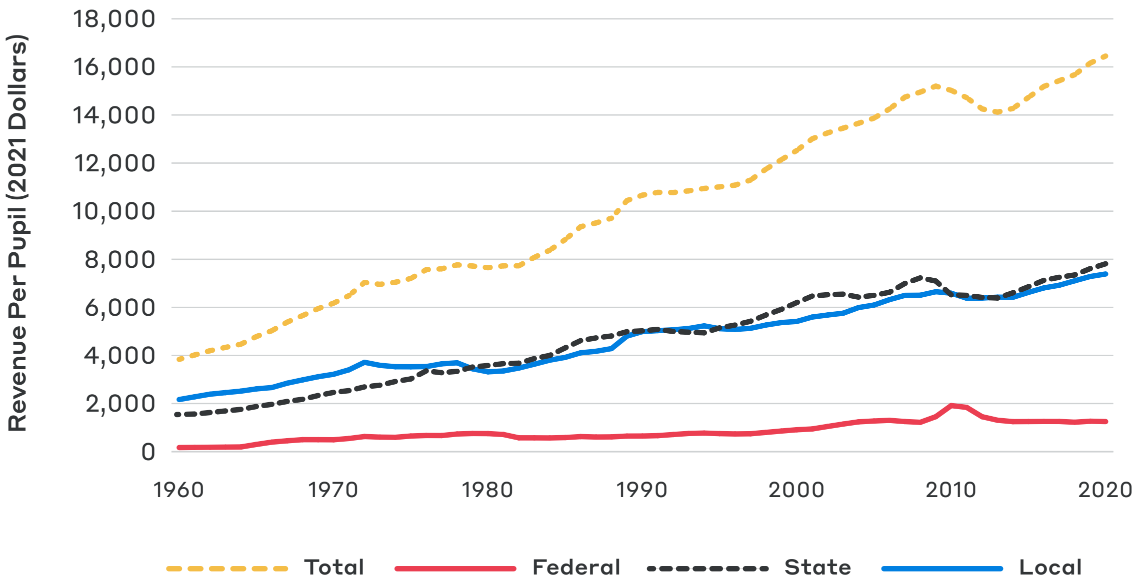


Source: OECD (2019)

The United States has tried to deal with schooling problems by adding to the funding of schools—sometimes through specific programs like reducing class sizes and sometimes by just increasing overall funding. Figure 4 shows revenues for the public schools from 1960–2019.

State and local revenues each comprise roughly 45 percent of per pupil funding. The federal share is quite small. The federal government did contribute large additional amounts of temporary funds (about $190 billion) with the onset of the pandemic in 2020 (not shown).

Figure 4. Revenues by Source, 1960–2019



The steady increase in per pupil funding over the entire period means that public school revenues per student in 2019 were over four times that in 1960 in real terms. In fact, except for the dip in school revenues after the end of federal support during the 2008 recession, real per pupil spending has risen continuously for over 100 years.[26] State revenues come from a variety of sources that differ across the states. At the same time, with few exceptions, property taxes remain the dominant source of local revenues.

The aggregate data hides wide variation across the country. Northeastern states spend over $15,000 per student, significantly higher than the $9,000–$11,000 per pupil spent by the majority of Southern states.

Implications for the Economy

The learning losses from the pandemic alone are estimated to have a present value of $29 trillion in lost earnings.[27] They will cost the average member of this student cohort 5%–6% of their lifetime earnings.[28] The losses are noticeably larger for disadvantaged students. And they hit very unevenly across the states, with Utah students hurt least and Delaware and Oklahoma students hurt most. Unfortunately, learning was also on the decline before the pandemic, suggesting that future economic growth will be endangered.

OUR CONCLUSIONS ON THE STATE OF U.S. SCHOOLING

Based on the above facts and the relevant research literature, the subcommittee concluded:

- The current educational system badly needs strengthening.
- The biggest problems involve K-12 education, which is the building block for both later education and careers.
- The education system faces the twin problems of a low level of overall skills and too wide a distribution of performance by class and race.
- The education system has moved away from a focus on overall academic achievement and labor market skills to a focus on equity issues. We must maintain a focus on both.
- The problems are not centrally a lack of resources, although changing the performance will require added resources to implement reformed systems.
- The pandemic has led to obvious learning losses, but both the level of performance and the trajectory of the schools before the pandemic were problematic.

Primary Recommendation

Our primary recommendation centers on improving the effectiveness of the teacher workforce. Teachers have varied effects on student test scores as well as other outcomes, such as attendance.[29] These differences in teacher effectiveness have important long-run effects on students' success in college and the labor market.[30] This, of course, has been the subject of much discussion and many policy initiatives. We see this recommendation as a focal point of the Grand Bargain: significantly enhanced teacher salaries accompanied by a tilt in compensation toward more effective teachers. Failure to reach such a bargain will almost certainly result in continuing to underpay teachers and produce uncompetitive student achievement, thus threatening the nation's economic future.

Although the details are important, the key is that the most effective teachers would receive higher pay in order to retain them and to provide other incentives to teach at the K-12 level. The least effective teachers would be let go. This approach has been shown to work at scale with the IMPACT program in Washington, DC, and the Teacher Excellence Initiative in Dallas.[31] These programs should be subject to improved evaluation of their results.[32]

Teachers' unions must be part of the process of designing new and more accountable pay systems. However, school systems themselves have been slow to adopt such programs. It does appear that districts will move toward such policies if incentives are offered.

Other Recommendations

School policies are complex, and policies that go beyond simple teacher and personnel policies are important and can aid in developing school quality. First, we must maintain and support testing and school accountability. There has been pressure to drop both testing and accountability, which would be harmful to students. Reporting and accountability must emphasize the value-added of schools.

We support expanded school choice. The current evidence shows that charter schools on average now outperform their traditional public school alternatives, although poorly performing charter and traditional schools should be closed.[33] The amount of parental choice had been increasing before the pandemic but was accelerated by the pandemic. Charter school enrollment, private school enrollment, and homeschooling all increased during the pandemic, although this rise could be temporary.

Technology continues to offer promise, although the broad application of technological solutions in the classroom has not proved very productive to date. The current application with the broadest positive effects has been aids to more personalized learning. Continued development both of new applications and of strategies for their successful use is likely to be very important.

Other, currently available ways to change the effectiveness of the teacher corps include support for the National Board for Professional Teaching Standards (NBPTS) and for Teach for America. NBPTS is a national screening and evaluation organization that some states have used to offer monetary incentives to retain high quality teachers. The evidence on student impact is mixed but tends to show that NBPTS identifies teachers with above average effectiveness.[34]

Expanding both prekindergarten and community colleges has appeal, but the issues of quality dominate any policy moves in either area. Head Start evaluations consistently show poor outcomes in the short run, although longer-run evaluations suggest more success.[35] We address the role of community colleges in workforce training in our chapter on growth and mobility.

Parents and communities need to be engaged in supporting their children in schools.

Schools have been increasingly called upon to substitute for roles traditionally filled by strong families have traditionally done. Rates of student absenteeism and a failure of parents and communities to support the learning goals of schools are inconsistent with children acquiring the skills they will need to succeed. Teachers are not social workers. Credentials cannot substitute for actual learning.

The evaluation of educational programs is painfully limited given the size, complexity, and importance of educational programs and policies. We favor increasing the work of the Institute of Educational Sciences and building up the evaluation and research capacities of state and local education agencies.

CONCLUSION

In the end, learning requires teachers who are skilled both at imparting knowledge, managing classrooms, and helping the less advantaged achieve their potential. In America's classrooms, too many students deserve better. Both additional financial resources and stronger accountability are needed to unlock the potential of schoolchildren and build the human capital that will provide the foundation for the economy of the future. But teachers and schools cannot carry the full load alone. Parents and communities must support their local schools, including by making sure that students attend school, give serious attention to their studies, and treat education like the investment it is.

Chapter 3: Environment

The most important environmental challenge today is to slow climate change by reducing global greenhouse gas (GHG) emissions, particularly carbon dioxide (CO_2) emissions, and to do so without imposing what could be significant and unnecessary costs on the economy. To that end, our first recommendation is to radically change the nation's approach to CO_2 emissions control to reduce both overall costs and impacts on the federal budget. We also recommend changes to the electric power sector to facilitate CO_2 emissions reductions. In addition, we recommend reform that will sharply cut the emissions of another GHG, methane, at low cost.

Finally, we recommend eliminating the corn ethanol mandate.

RECOMMENDATION 1

Center CO_2 emissions control strategy on a well designed carbon tax and border adjustment.

The 2022 Inflation Reduction Act (IRA) has the single merit that it has stimulated spending on clean energy. But it is demonstrably inefficient—and expensive—to subsidize selected low- or zero-emissions technologies rather than to penalize emissions themselves. As emissions are reduced by subsidies, the subsidy costs needed to produce further reductions will increase.

Moreover, U.S. subsidies invite retaliatory subsidies from other nations, blunting their impact and further reducing their efficiency. Getting to the necessary goal of net-zero emissions will thus be a huge challenge, and budgetary considerations alone make it clear that we cannot subsidize our way there.

We must switch from the IRA's subsidy-based approach to a comprehensive carbon tax. Pricing carbon emissions is necessary to achieve our objectives, and a carbon tax is superior to a comprehensive cap and trade system for several reasons, including the tax revenue it would raise. Globally, this is not a novel policy: The World Bank reports that some 40 nations and 20 cities, states, and provinces already use one of these policies to put a price on carbon emissions.[36] In particular, we support a carbon tax with these characteristics:

a) It taxes carbon (or, if possible, all greenhouse gases) at its entry into the economy, upstream from where it is consumed. The United States emits just under 5 billion metric tons of CO_2 a year from fossil fuel combustion alone,[37] and the U.S. government estimates the social cost of those emissions at $51 per ton, a number that is likely to rise,[38] so with plausible tax rates, the revenue from a well designed carbon tax would be substantial. For example, a carbon tax of $50 per metric ton (with a three-year phase in and 8% real growth after the phase in) would raise $1.5 trillion in its first decade.[39] Putting a price on emissions provides incentives to develop new ways to reduce them—such as inherently safe, compact nuclear reactors. We also favor increased support of basic research aimed at facilitating new emissions-reducing technologies.[40]

b) The carbon tax's adverse effects on low-income and rural residents are addressed through broader reforms of the tax system.

c) It is accompanied by elimination of duplicative, costly regulations to control carbon emissions. There is no reason to solve this problem at twice the necessary cost. Doing so will require statutory modification of many environmental laws such as the Clean Air Act, the Endangered Species Act, and the National Energy Policy Act.

d) It is border-adjusted to levy the tax on imports and rebate the tax on exports. This eliminates the incentive to comply by moving economic activity offshore. We would oppose any sort of carbon border adjustment without a carbon tax as simple protectionism and noncompliant with current rules of the World Trade Organization. A well designed, border-adjusted carbon tax is not a threat to U.S. growth and prosperity; it permits America to move first and provide leadership without any fear of regrets if other nations fail to do their part.

e) It is part of an aggressive global strategy of U.S. leadership on climate. No great progress on greenhouse gases will be made without U.S. global leadership.

RECOMMENDATION 2

In addition to current regulations on methane emissions from oil and gas production, policymakers should hold identifiable owners liable for capping abandoned wells.

Most climate policy discussions focus on carbon dioxide, appropriately since its effects will last centuries. Although methane is a much shorter-lived GHG, it is vastly more powerful than carbon dioxide in the short run (about 80 times greater radiative forcing than CO_2 over the initial 20 years), and reducing methane emissions could have a significant climate impact.[41] At least 2.2 million uncapped oil and gas wells in the United States leak large quantities of methane and other contaminants.[42] Capping the wells would involve pouring cement in the hole at an average cost of around $20,000.[43] The 2021 Bipartisan Infrastructure Law allots $4.7 billion (arguably not enough) to capping *orphaned* wellheads, for which no solvent owner can be identified.[44] But firms have often sold *abandoned* wellheads after a few years of production to small firms that cannot afford to cap them when they are no longer productive. With a Superfund-like regime of joint and several liability, the larger firms could be made to bear the costs of capping the wells they drilled.

RECOMMENDATION 3

Expand federal authority in the planning, siting, and permitting of the national electric transmission system.

All plausible programs for efficiently reducing CO_2 emissions involve massive investment to decarbonize the electric power system and to substitute clean electricity for fossil fuels throughout the economy; this will require a significant, rapid expansion of the electric power sector of at least 150% by 2050.[45] Because of the massive amounts of resources that will be required, cost effectiveness is of paramount importance. An efficient national transmission system is key to avoiding excessive costs.

The costs of wind and solar generation vary considerably within and between regions, and both energy sources require lots of space, perhaps offshore, and thus must be located away from demand centers. To shift to a wind- and solar-dominated system larger than today's fossil-dominated system will require considerably more long-distance transmission that crosses state lines to take advantage of regional differences in wind and solar resources. Despite their growing importance, construction of very-high-voltage transmission lines suitable for long-distance transmission has slowed dramatically in recent years. Challenges include planning and authorization of new lines and obtaining the permits necessary for construction to begin.[46]

a) The Federal Energy Regulatory Commission (FERC) has tried for decades to increase regional and interregional transmission planning without much success. We need a competent national planning agency, similar to the one in the European Union, that can engage in national-level planning, single out nationally important projects that cross state lines and other boundaries, and authorize their construction. FERC now authorizes the construction of interstate natural gas pipelines, but it has no authority to authorize construction of long-distance electric transmission lines. With increased authority provided by new legislation, FERC, with technical assistance from the Department of Energy (DOE), could plan for and authorize construction of nationally important transmission lines.

b) Although FERC can now issue certificates of convenience and necessity authorizing the construction of natural gas pipelines along approved routes, these projects must pass a variety of environmental reviews before they can receive permits that allow them to begin construction. Because many federal and state agencies, statutes, courts, and stakeholders may be involved in this permitting process, important transmission projects can be delayed for a decade or more. The Biden administration has taken important steps to coordinate and streamline federal agency involvement in permitting major electric transmission projects, but there is widespread recognition that Congress needs to act to streamline the process without compromising stakeholder rights. Congress should use the recently issued White House permitting priorities document as the starting point for its deliberations.

RECOMMENDATION 4

Repeal the renewable fuel standard.

In 1978, the United States began subsidizing production of renewable motor vehicle fuels, which then and now are almost exclusively corn ethanol. Since 2005, the subsidy has been replaced by a mandate requiring refiners to blend specified quantities of ethanol in the fuel they sell. (Eliminating the mandate would still permit refiners to use ethanol as a fuel additive if they chose.) The original rationales for the program were to reduce dependence on foreign oil and to lower GHG emissions. Many studies have found that the standard does not in fact reduce GHG emissions.[47] The first rationale has been superseded by the domestic oil boom and the technology-enabled focus on electrification of transportation to eliminate GHG emissions from that sector. In recent years, at least 30% of the corn crop has gone to produce ethanol,[48] so the standard raises food prices and contributes to soil erosion and pollution from agricultural chemicals.

CONCLUSION

Of these four recommendations, the most important is putting a price on carbon. It is the most effective way to combat climate change because it changes the cost-benefit calculation of everyday energy-consumption decisions for every household and business in the nation. It also reinforces the broader, nonenvironmental themes of this report. By increasing the relative price of carbon, it provides incentives for the type of research and development into new and better energy sources that fuels innovation, economic growth, and increases in living standards over the long term. And the revenue it will raise can help address the nation's structural deficit.

Chapter 4: Health

Americans need better health outcomes. One conventional yardstick for measuring health is life expectancy. That metric has risen considerably in recent decades in most countries but much less so in the United States.[49] Most worrying, U.S. life expectancy has trended down recently, a break with both the historical trend and with other countries.[50] The lags other wealthy nations, in terms of chronic disability and other measures of poor health.[51]

The relatively poor health of our population is even more striking given health care spending. Seventeen percent of U.S. GDP went toward health care in 2017, versus an average of 10% in other developed nations.[52] This suggests the U.S. system is inefficient as well as unusually costly.

The health care system is not only expensive but also contributes relatively little to the overall health of the U.S. population. More important are a constellation of social determinants, such as drug overdoses, suicide, poor nutrition, and poverty.[53] Diet-related risks now account for more deaths than any other factor.[54] Nearly one-half of all babies born in the United States are unplanned and contribute to higher costs for Medicaid and other social programs, lower social mobility, and more poverty-inducing family instability.[55]

Our health care system is in dire need of fundamental reform. The Affordable Care Act (ACA) and the expansion of Medicaid have produced needed improvements in health insurance coverage. Additional coverage of the low-income population and of children would be desirable. But our focus is on health. And the best way to improve the health of the U.S. population is not by expanding health insurance coverage.

Instead, our goal should be to transform what is now a low-value system of sick care to a high-value system of wellness. This change will require a focus on two objectives: preventing illness and controlling costs.

U.S. health care delivery is uniquely heterogeneous. With a profusion of providers—for-profit, nonprofit, religious, municipal, tribal, state, civilian, military, federal, and others—the system is overly complex and confusing for patients and providers alike, as well as inefficient, and costly. Yet in a large country with a diverse population, reforms must accept a good deal of heterogeneity and not pretend it will simply disappear by dictating the “right” business model, staffing, or therapy. Instead, incentives should result in the ability of families and others to more easily and seamlessly navigate among numerous providers. The most powerful lever for change is the large federal payment apparatus—Medicare, Medicaid, ACA subsidies, and federal tax policies.

We recommend a public education and advocacy effort on behalf of healthier lifestyles and preventive health measures. This approach has worked in other areas and could be modeled on the successful efforts to reduce tobacco smoking and teenage pregnancy.

One candidate would be an effort regarding the public health issues of obesity and better nutrition. Obesity is a problem that comes with a laundry list of economic and health liabilities. It is a disease[56]—or at least a manageable one given appropriate intervention strategies and behavioral choices. It is a problem that is growing rapidly, increasing from 31% of adults in 2000 to 42% in 2020. Among children, ages 2 to 19, the rate is around 20%.[57]

Currently, 6 in 10 U.S. adults have a chronic condition and 4 in 10 have more than one, including heart disease, some cancers, stroke, and diabetes.[58] Unhealthy diets account for almost 20% ($50 billion) of annual U.S. health care costs from heart disease, diabetes, and stroke.[59]

Many Americans, to be sure, cannot afford healthy food. According to the U.S. Department of Agriculture, 34 million Americans—or 1 in 10 households—experienced food insecurity in 2021.[60] Black and Hispanic households were disproportionately affected, with food insecurity rates more than double the rate of white households.[61]

The federal government annually provides over $180 billion to support 16 federal food assistance programs, including the Supplemental Nutrition Assistance Program (SNAP or food stamps), child nutrition programs such as the National School Lunch and Breakfast Program, and the Women, Infants, and Children (WIC) program.[62]

We propose two policy initiatives. First, to ensure that low-income children have access to nutritious foods, we propose an expansion of free meals to low-income schools, including summer meals. This would improve the health and nutrition of children, promote equity, and provide economic benefits to society at large.

Second, for the 41 million SNAP recipients, we urge a greater focus on dietary quality, not just caloric intake. This focus is critical to improving long-term health and reducing preventable chronic diseases. Failure to focus on dietary quality in these programs will contribute to premature death and disability, and to increased health care costs. In addition, a major educational effort should be undertaken at the federal, state, and local levels to highlight the benefits of a less sugary diet and less consumption of highly processed foods, along with increased consumption of fresh and frozen fruits and vegetables for all Americans.

To confront the obesity epidemic, policymakers should address the gaps in Medicare coverage of evidence-based obesity treatments. This effort should include expanded research into the effectiveness and development of anti-obesity drugs.

Regardless of the specific public health issue, now is the time for federal, state, and local leaders to reimagine a national initiative to improve Americans' health, not with more health care spending but by paying greater attention to the behavioral and environmental factors that are major determinants of poor health.

RATIONALIZING FEDERAL SUBSIDIES FOR HEALTH INSURANCE

Taxpayers subsidize nearly every health insurance policy in the United States.[63] Excessive subsidies lead to the overuse of health care. The goal should be to make subsidies more efficient and less inequitable while lowering health care costs.

Employer-provided insurance is subsidized by excluding this component of employee compensation from taxation. The subsidy is open-ended and regressive, growing larger with the employee's income. Affordable Care Act insurance is subsidized in a progressive fashion. Medicaid is a sharply progressive subsidy, but it varies across states and is available only to those of limited means.

It seems clear that Americans have decided that health insurance should be subsidized. To the extent possible, policymakers should reform the system to deliver the same federal subsidy to a family of a certain size and income, regardless of the source of their insurance. For example, the employer-sponsored insurance subsidy could be changed from an exclusion to a tax credit, and the credit amounts should be set to reflect the same schedule as in the ACA. Similarly, one could choose a level (e.g., 133% of the federal poverty level) below which insurance is entirely subsidized—whether it be Medicaid or some other source.

A side benefit of this process is that it would generate a debate about the "right" level of subsidy, taking into account both taxpayer costs and improving health. For example, ACA subsidies phase out at 400% of the federal poverty level. Matching this policy in an employer setting would immediately raise the question of how large the subsidy should be and who should be eligible.

REFORMING MEDICARE[64]

The goals of this proposal are to place an overall budget constraint on Medicare, improve incentives to control costs, and provide a subsidy under Medicare consistent with rationalizing subsidies as discussed above. When combined with appropriate quality metrics, the outcome will be higher-value health care delivery to Medicare recipients. Because Medicare's practice patterns contribute significantly to overall patterns of care delivery in the United States, this will contribute to a more efficient delivery system for everyone.

The most important part of this proposal is to put Medicare on a budget. The current system was never designed to be financially self-sufficient, with Parts B, C, and D having an open-ended draw on the treasury. This is bad budgeting (or nonbudgeting); it is also bad health care policy, creating the wrong incentives for both patients and providers. Only when resources are finite will stakeholders have a common interest in providing better health care with the resources available. Under this proposal, each senior will receive a fixed subsidy, which will be larger for those who have greater health needs and/or greater financial needs and will reflect geographic variation in input costs.

Medicare Advantage is the best vehicle for the transition, as 50% of beneficiaries are now in the program and future retirees are likely to prefer it as well.[65] It is geographically diverse, with care tailored to meet the health needs in each area. Most areas have many competing plans, so the plans that do not provide high quality affordable care can be permitted to—and should—fail.

Measuring the quality of the Medicare Advantage plans will need to improve substantially. Plans should be rated on the quality of beneficiary outcomes and not what extra services are provided or the location of delivery.

The movement from a managed employer plan with a network of providers to a needs-based subsidy model in retirement can be made increasingly seamless over time.

CONNECTION TO LARGER THEMES AND VALUES

The proposals outlined above were chosen to align with other themes in this report. A large public health campaign targeted on wellness is central to investing in better health and enhanced productivity for the nation. By focusing on prevention, our proposals give priority to younger Americans and to their future mobility. By rationalizing subsidies for health insurance, we aim for both fairness and efficiency. Finally, the Medicare reforms can contribute to lower deficits and put downward pressure on the debt/GDP ratio, while allocating those resources on the basis of health needs and the effectiveness of care.

Chapter 5: Taxes

No one likes paying taxes. But as Justice Oliver Wendell Holmes once said, "Taxes are the price we pay for civilized society." So, as part of the Grand Bargain, we seek to improve the current tax system, which is too complicated, unfair, and inefficient. In our budget chapter, we recommend major reductions in spending over the next few decades. But to allow these changes to phase in gradually, thereby limiting their immediate impact on vulnerable beneficiaries, we are going to need higher taxes, at least temporarily. Over the longer run, the simple aging of the population (even with curtailed benefits), an increase in climate-driven natural disasters, the public's likely demand for greater economic security, and new foreign threats may necessitate additional revenues.

We agree on the need for additional revenue. We also agree that the current income tax system is not fit for the purpose of raising additional revenue. Fundamental tax reform is essential. In a reformed tax system, government should raise additional tax revenue in a way that encourages savings and investment over consumption, increases progressivity—that is, increases the degree to which the burden of taxation falls on those who are best positioned to afford it—simplifies the system, in part by addressing the code's myriad exclusions and deductions, and collects more of the taxes that are owed.

Unfortunately, the current income tax system is politically broken. Both political parties believe that the bottom 98% of households should not see their income tax burden increase, but we believe that taxes must be raised on more than just the top 2% to properly address the nation's fiscal imbalance. We also agree that taxes should be better linked to the ability to pay—that is, the tax system should both raise more revenue and do so in a more progressive manner.

Political forces have also narrowed the income tax base. These narrowing provisions are called "tax expenditures" because in an economic sense they are equivalent to government spending through the tax code. Some, such as the exclusion from taxation of employer-provided health insurance payments, give large benefits to middle-class and upper-income households.

Some, such as the child tax credit, focus more on the middle class but also provide significant benefits to low-income and working-class households. But overall, tax expenditures are highly regressive, providing enormous financial benefits to upper-income households. According to the nonpartisan Congressional Budget Office, in 2019 (the year before the COVID pandemic began), individual income tax expenditures totaled 5.8% of GDP. Around half of income tax expenditures accrued to the top 20% of households by income that year.[66]

The current income tax system is also broken in an economic sense. Substantial increases in revenue from today's incoherent and complicated tax system would cause unacceptable distortions in the functioning of markets, further reducing work effort, savings, investment, and risk taking, and resulting in reductions in economic activity that would lower the welfare of consumers and producers alike.

OUR PROPOSALS

We believe that the best way to address these problems is through fundamental reform that would move the tax system away from an income base and toward a consumption base while retaining a focus on the goals of raising more revenue in a progressive fashion.

Taxes on Business

On the business side, we propose three major changes to current law: allowing businesses to deduct all expenses in the year that they are made; disallowing deductions for interest expenses; and eliminating distinctions between corporate and noncorporate businesses.

Businesses would immediately deduct wages, investment expenses, and purchases from other firms. By not allowing deductions for interest expenses, this reform would put debt and equity financing on equal footing. Current law has complex tax rules that apply separately to C corporations, S corporations, and partnerships. In contrast, the tax system we are proposing would be the same for all types of firms.

By allowing investment to be expensed, this tax system would lead to an increase in investment. As detailed in our chapter on growth and mobility, more investment would boost workers' productivity and wages. The level of economic output would rise, and as the economy transitioned to its new equilibrium, the rate of economic growth would increase.

Taxes on Households

On the household side, we present two illustrative proposals for potential reform, both of which are compatible with our goals of raising more revenue, increasing the progressivity of the tax system, and simplification. One reform option for households would be to eliminate the income tax for all households except the highest-income households and to replace it with a value-added tax (VAT). The VAT would replace income taxes for the middle class. Although the middle class would pay more when they consumed goods and services because of the VAT, they would no longer be required to pay any income tax or deal with the hassle of figuring out how to minimize those taxes. For example, under one such plan, no one would even start paying income taxes until their income topped $100,000.[67]

The VAT is now used in all other advanced countries. In our version, the tax would exclude few goods and services and would be very broad-based. However, to deal with its potentially regressive impact on lower-income households, they would receive a refundable tax credit or more benefits from safety net programs.

A second reform option would tax households on labor earnings only, and not on capital income. Fairness would be ensured by taxing household earnings with a progressive rate structure, so that higher-earning households faced higher rates.[68]

This tax system would be substantially simpler than under current law. Because the top rate of tax applied to household earnings would be set equal to the rate applied to businesses, households would have litte incentive to attempt to reclassify labor earnings as capital income, as happens under current law. This new system would treat households that defer consumption (by saving) the same as those that do not, which satisfies notions of fairness held by many tax experts.

Because both options have the same business tax provisions, both systems would encourage investment relative to current law. Both would simplify taxes for the average household. They could also be designed to produce more revenue than the current system. In addition, both options could address the problem of tax expenditures by eliminating many of them. Indeed, the second household reform option would eliminate nearly all of them.

We recognize that raising taxes in America has become almost impossible. An effort at fundamental reform may be more successful than an effort to make incremental changes to the existing system.

Increasing Intergenerational Mobility

We also make two proposals regarding the intergenerational transfer of wealth. First, we propose shifting from an estate tax system to an inheritance tax system. Whatever tax is paid should be based on the income of the beneficiary. Our proposal is to tax the value of an inheritance at the time it is received by descendants, with a reasonable tax-free exclusion smaller than that in current law, as well as a special exclusion for small businesses and family farms.

Second, we propose replacing “stepped up basis” with “carryover basis.” Under this new rule, descendants who receive an inheritance would be required to pay tax on the gains of assets at the time of sale relative to their original purchase price, rather than relative to their value at the time of inheritance. These proposals are intended not only to make the tax system fairer but also to increase intergenerational mobility, which, as discussed in the growth and mobility chapter, is another goal of the Grand Bargain.

Chapter 6: Budget

The United States faces an extremely challenging fiscal situation. The national debt is growing faster than the economy, and within the next few years the ratio of debt-to-GDP will break the record of 106% set just after World War II. It will continue to grow, and it is projected to reach 115% by 2033 and 181% by 2053.[69] Going into the Great Recession in 2008, debt-to-GDP was below 40%, and it has averaged 47% over the past 50 years.[70]

Annual deficits are projected to exceed $1.5 trillion throughout the coming decade and to reach over $2.5 trillion by 2033.[71] Interest payments are the single-fastest-growing item in the budget. The nation will spend over $10 trillion on interest payments alone over the next decade, rising from more than $5,000 per household per year in 2023 to over $10,000 by 2033.[72] If anything, these projections are optimistic, depending as they do on the assumptions that current programs and policies are maintained and are not expanded as has happened in the past.

The nation's budget problems are not confined to the large amount of borrowing. The manner in which the budget's resources are deployed is also problematic. The budget favors spending on seniors over spending on children—at the federal level, we currently spend $6 per senior for every $1 we spend on children.[73] Likewise, the budget favors consumption over investment, sacrificing the long-term growth that increases future living standards in exchange for satisfying immediate desires for spending. And many areas of the budget, including many of the major entitlement programs and tax expenditures, favor the well-off due to their design.

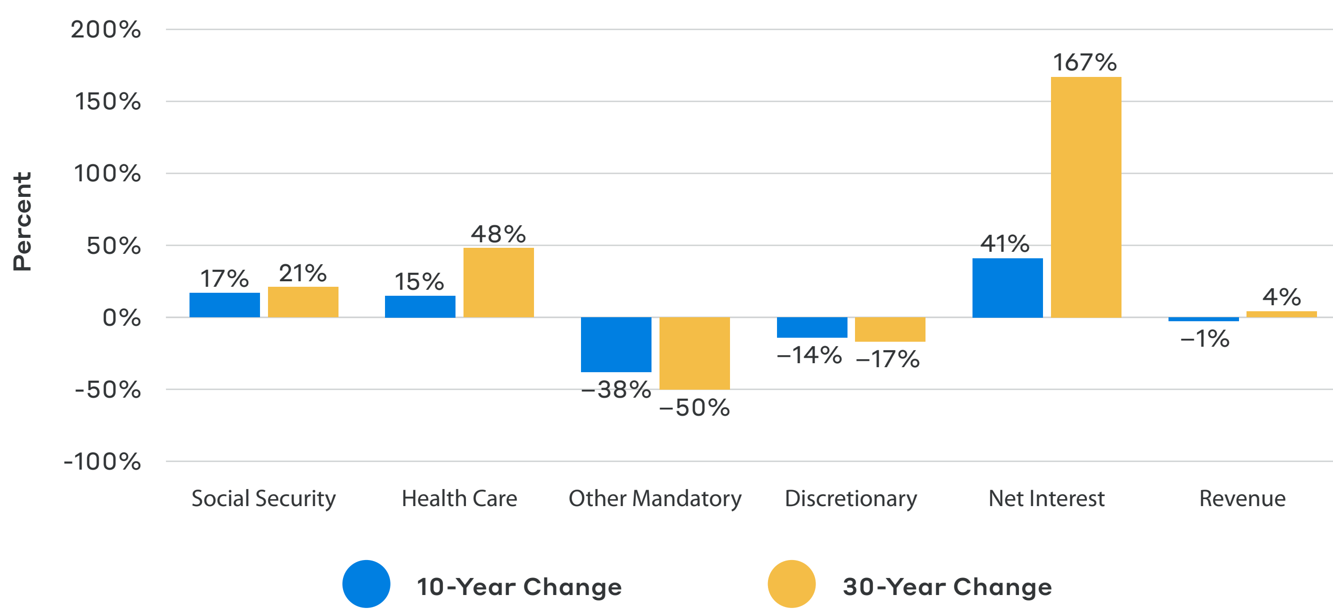
Sustained and excessive borrowing leaves the United States vulnerable in numerous ways. It weakens the economy and crowds out private investment. It leaves the nation less able to borrow during emergencies as our fiscal space decreases. Interest payments crowd out other budget priorities—whether one favors cutting taxes or increasing spending, higher interest payments leave fewer resources for both. We already spend more on interest each year than we do on all spending for children at the federal level, and we will spend more than we do on defense in just a few years. We are dependent on borrowing from other nations, including nations with whom we have an increasingly adversarial relationship. It is no surprise that many national security leaders have pointed to the national debt as the single largest security threat to the nation.

PUT THE DEBT ON A DOWNWARD AND SUSTAINABLE PATH

The United States urgently needs to put the ratio of debt to annual GDP on a downward trajectory. It is not necessary to balance the budget on an annual basis to keep the fiscal situation under control, but it is important that the debt does not grow faster than overall economic output. For context, it would take $16 trillion of deficit reduction to reach a balanced budget in 10 years, and it would take $6 trillion—a much more manageable amount—to stabilize the debt-to-GDP ratio so that it does not continue to increase by the end of a decade.[74]

The structural imbalances are so large that stabilizing the debt will realistically require significant changes to both the spending and revenue sides of the budget. The primary focus should be on the largest drivers of the debt. Government spending is projected to grow from 24.2% of annual GDP today to 29.1% in 30 years.[75] Over the previous three-decade period, spending rose from 20.8% of GDP to 24.2%.[76] The bulk of the projected growth in spending will be on health care, Social Security, and interest on the debt, which together account for 87% of the projected growth in overall spending over the next decade.[77]

Figure 5. Change in the Federal Budget Over Ten and Thirty Years



Meanwhile, revenues are relatively low at 16.8% of GDP, but are projected to grow steadily to 19.1% of GDP by 2053.[78] In the previous three decades revenues grew from 17.0% to 18.4% of GDP.[79] Importantly, these projections assume the full expiration of the individual tax cuts from the 2017 Tax Cuts and Jobs Act.

It seems nearly certain that we will need to both spend more and tax more in the coming years than we did in the past due to an aging population, our failure to adjust our safety net to reflect demographic trends and new needs, new risks around the globe, and climate change.

Given this reality, along with the fact that spending drives the bulk of the structural imbalance, we believe that most of the deficit reductions should come from reducing spending growth, though realistically revenues will have to be higher relative to GDP than has historically been the case.[80] But because spending cuts generally need to be phased in more gradually, we suggest a comprehensive package made up of a rough balance between tax increases and spending cuts in the initial years, phasing into a much larger share of the savings coming from spending cuts over time.

AVOID INSOLVENCY IN SOCIAL SECURITY AND MEDICARE

Changes need to be made to the government's two largest programs to avoid insolvency. We discuss our proposed reforms to the Medicare program in the chapter on health care. Here, we discuss Social Security spending, which already exceeds the revenue coming into the program's trust fund from payroll taxes. To pay full benefits, the trust funds are also relying both on interest earned on the trust funds' assets and redemption of those governmental securities.

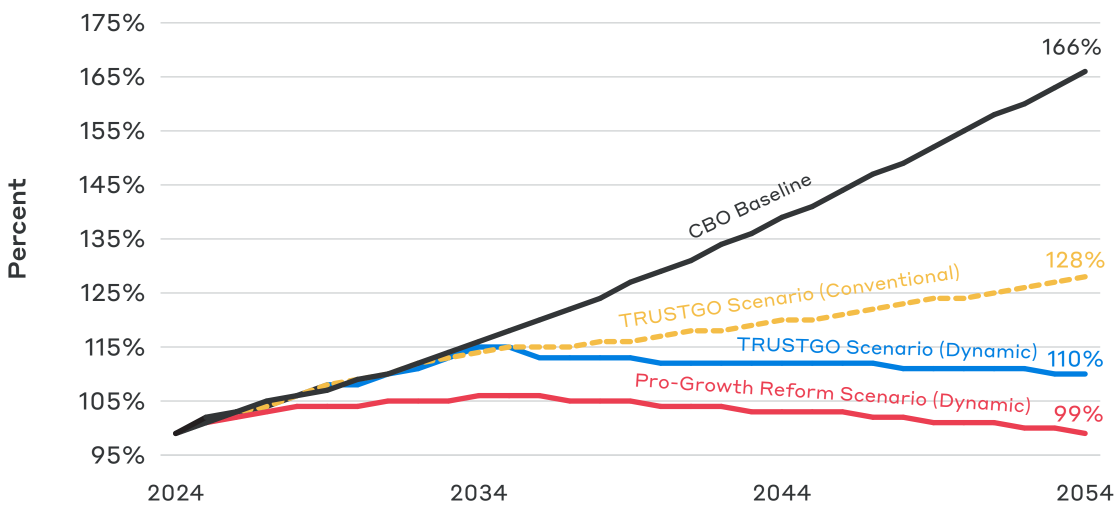
Without reforms, Medicare Part A will become insolvent in 2031 and payments to providers will face an 11% cut. Social Security's Old-Age and Survivors Insurance (OASI) trust fund will become insolvent in 2033, and beneficiaries will face a 23% benefit cut if Congress does not act.[81] In addition, some parts of these programs are automatically commanding increasing shares of general revenue, which could be devoted to other priorities.

We support reforming Social Security in a manner that would make the program sustainably solvent while protecting those who depend on it by making the program more progressive and promoting economic growth. The current system leaves too many seniors in poverty while offering benefits to high income seniors. This is both too costly and insufficiently progressive.

Specifically, we propose altering the benefit structure over time so that the lowest benefit would be increased and benefits for more-affluent retirees would grow more slowly than currently projected. This would gradually move the program in the direction of a flatter benefit structure and would guarantee that anyone who worked a full lifetime was guaranteed income above the poverty line through retirement.

In addition, we should encourage those workers who are able to work longer to do so. One way to achieve this would be to gradually raise the normal retirement age, which serves as a signal to workers that they should work longer if possible, and which was done as part of the 1983 Social Security reforms.[82] Any such initiative should recognize that many workers are unable to extend their working life either due to cognitive or physical limitations, and those who cannot work longer should receive support, ensuring that they have access either to disability or retirement benefits. The higher retirement age could be indexed for growing life expectancies to help keep the program structurally balanced going forward. We would also count all years of work toward benefits rather than relying on the current 35-year lifetime earning formula.

Figure 6. Trust Fund Solvency Would Slow Debt Growth



PAY FOR NEW INITIATIVES AND MAINTAIN BUDGET FLEXIBILITY

One critical element of budgetary reform is reestablishing the norm that increasing spending or reducing taxes involves trade-offs.[83] For years deficit financing has been used as a way to avoid choosing between various priorities and determining how best to pay for them, both of which are central elements of budgeting.

To bring the debt under control, in addition to adopting a package of savings, we need to commit to not increasing the debt unnecessarily going forward. During emergencies or times of severe economic need, large increases in deficit spending may be advisable or even necessary. But routine legislation should be paid for. And deficit spending, when necessary, should be followed by a period in which the ratio of debt to GDP declines over a reasonable period of time.

SHIFT RESOURCES TO REFLECT NATIONAL VALUES

More broadly, we support reorienting the overall budget from its current structure so that it focuses more on younger Americans instead of the elderly; on investing for the future rather than consuming today; and on programs to fight poverty and increase economic opportunity.

These values permeate this short document. Our national budget should embed these values. We understand the need to make any changes to existing programs in a way that does not hurt vulnerable individuals, but we are also calling for putting the programs that protect those individuals on a sustainable fiscal trajectory.

We also recognize that restoring a norm of fiscal responsibility will be politically difficult, but it is the only way the nation can move forward with confidence, make the kind of investments that are needed, and regain control of its future.

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INDEPENDENT REPORT

The views expressed in this report are those of the individual authors who collectively constitute the Grand Bargain Committee. This report was sponsored by the Center for Collaborative Democracy and was prepared independent of influence from the center and from any other outside party or institution. It is being published by the Bipartisan Policy Center as an example of how people with diverse views and political leanings can find common ground. The recommendations are strictly those of the policy experts and do not necessarily reflect the views of any organization or those of the BPC. All data are current as of November 2023.