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## **Parrott: President Biden's Bold Budget Tackles Long-Standing Problems**

*CBPP today released a statement from Sharon Parrott, President, on President Biden's budget for fiscal year 2022:*

President Biden's new budget proposal provides our first comprehensive view of the Administration's aggressive agenda for addressing many of the nation's long-standing problems — exposed and exacerbated by the pandemic — and building toward a more equitable economy where everyone can thrive. Its policies are designed to make significant progress in reducing racial and ethnic disparities, rooted in racism and other forms of discrimination, that for generations have resulted in deeply unequal access to jobs, education, housing, and health care.

First, the budget includes a set of investments designed to build toward a strong and equitable recovery — first laid out in the American Jobs Plan and American Families Plan — that would dramatically reduce child poverty and help children thrive; improve our nation's health; expand opportunity in early and higher education; create new workforce development opportunities; bolster households struggling to afford the basics; and allow people to take paid time off from work to meet their own health needs and to provide care for their families. Although bold and broad in scope, these policies are not radical or new. For example, the budget's Pell Grant, tax credit, child care, and nutrition expansions build on established federal policies. Its preschool, free community college, and family and medical leave initiatives would put in place national policies in areas where many states have already moved forward. A growing body of research demonstrates the effectiveness of these investments.

Second, the budget would make critical investments in programs funded through annual appropriations to bolster K-12 education, particularly for disadvantaged students; protect the environment; expand housing assistance; and rebuild basic government functions such as the administration of Social Security and enforcement of revenue systems and civil rights. Many of these investments would begin to address key areas where funding has not kept pace with rising costs, has fallen far short of need, or both — marking an important break from more than a decade of underinvestment caused largely by tight limits on this part of the budget.

Third, the President's budget includes a series of revenue proposals to fund its investments that broaden opportunity — proposals that would build toward the more adequate, sustainable, and equitable tax system we need to support a 21<sup>st</sup> century economy. It would require wealthy people — whose fortunes have surged over decades, including during the pandemic — to pay a fairer amount of tax on their income, much of which never faces income taxes and benefits from long deferrals of taxation and special low rates. It proposes to increase the corporate income tax rate, undoing just a

portion of the huge rate cut corporations received in the 2017 tax law and reducing incentives for U.S. multinational corporations to shift profits and investments overseas. And it boosts funding for the IRS and proposes new reporting requirements on financial institutions to help ensure that wealthy individuals and profitable businesses pay the taxes they owe.

The budget largely reinforces the policies already announced in the American Jobs Plan and American Families Plan that the Administration wants to enact this year. This approach is sensible as the nation emerges from the pandemic, keeping policymakers focused on essential needs for this year. If enacted, the budget would secure landmark achievements in a range of areas.

Policymakers should aggressively pursue the President's agenda. In some cases, they will need to develop details on or strengthen key proposals. For instance, the budget includes a strong commitment to expand health coverage and make it more affordable, including making permanent the American Rescue Plan's enhanced premium tax credits and calling for closing the Medicaid coverage gap, so that 2.2 million uninsured people in states that have refused the Affordable Care Act's Medicaid expansion — nearly 60 percent of whom are people of color — could gain coverage. It also calls for reforms to the nation's unemployment system, to shore up a system in which many unemployed workers get too little or nothing at all, especially low-paid workers and part-time workers, who are disproportionately women and people of color. Congress should include specific policies to address these priorities in recovery legislation this year.

In addition, while the budget includes a significant investment in new housing vouchers for fiscal year 2022, further action is needed to help millions of families with low incomes that are at risk of housing instability and homelessness. The budget states that the President will work with Congress toward the long-term goal of providing Housing Choice Vouchers to all who are eligible. Because the need for housing assistance is urgent, it will be important that recovery legislation advance that goal by providing multi-year, guaranteed funding to make Housing Choice Vouchers available to as many eligible households as possible.

Policymakers should also go beyond the Child Tax Credit provisions in the President's budget. The budget would make permanent the American Rescue Plan's provision that made the full Child Tax Credit available to children whose parents have low or no earnings and the Rescue Plan's expansion of the Earned Income Tax Credit for adults not raising children. But it only extends through 2025 the Rescue Plan's increase in the maximum Child Tax Credit to \$3,000 for most children and \$3,600 for young children. Recovery legislation should make permanent the full Child Tax Credit expansion rather than leave the future of this landmark policy advance to the political winds several years from now.

The President's budget sets forward a realistic and achievable vision for action this year as the nation emerges from the pandemic and economic crisis — addressing large, long-standing problems with critical investments paid for with reasonable revenue measures that begin to bring our revenue system into the 21<sup>st</sup> century.

Some critics will claim that the President's agenda costs too much — effectively, that the United States can't afford to ensure that children thrive, that millions more people have health coverage, and that people working for low wages have the support they need. But these policies are commonplace and work well in other wealthy countries.

And the budget demonstrates fiscal stewardship in several ways. By avoiding a premature shift to austerity, it would ensure that the federal government continues to support a robust and sustainable recovery that reaches all corners of our nation, including narrowing racial and ethnic disparities in the labor market. It takes advantage of the fiscal space afforded by current low interest rates to make investments that will strengthen the nation into the future. It also proposes to pay for these investments over time with well-crafted revenue increases on the wealthy and profitable corporations, and strong tax compliance measures. Indeed, by the end of the decade, the President's budget plan would reduce deficits below where they would be under current law.

Some will claim the budget's revenue increases are too large and will harm the economy, but evidence does not support these claims. Recent research and experience show that tax cuts for the affluent overwhelmingly benefit the affluent, not the broader economy, so there is no reason to believe that undoing those cuts to fund high-return investments would slow growth. The budget would use the revenue from raising taxes at the top and from profitable corporations to finance high-return public investments that promote broadly shared growth. Moody's Analytics found that the investment and revenue proposals' combined effects on the economy would be positive, making the economy's long-term outlook "brighter."

The budget takes important steps to bolster the nation's depleted revenue base, but total taxation (federal, state, and local combined) in the United States will remain below levels in most other wealthy countries. In the next four years, while the 2017 tax law remains in full effect, current-law federal revenues would average just 17.4 percent of GDP. Under the budget proposals, revenues would average 18.6 percent of GDP over those four years and would reach 19.9 percent by 2031 (which assumes that expiring tax cuts are allowed to expire or are paid for if extended). At 19.9 percent, revenues would be roughly equal to revenues as a share of GDP in 2000 (when they stood at 20 percent of GDP). To be sure, 2000 represented a peak for revenues as a share of the economy, but it was also a time when the nation was *under*-investing in key areas that are necessary for opportunity to be more broadly shared. The Biden budget is an important first step to getting to a more responsible revenue system. Basic realities indicate that federal spending and revenues will have to grow in the years ahead. These factors include the aging of the population, rising health care costs, and the continued need to invest in shared prosperity.

Our nation faces significant challenges, which the pandemic has both worsened and laid bare. It is time for an ambitious effort to tackle them. The President's budget meets this moment and Congress should move swiftly to craft legislation that acts on this agenda.

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