Policy Matters Ohio

Executive Summary
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Principles for a better budget deal

President Obama and Congress have the chance to make smart budget decisions that can stabilize families, raise resources from those most able to pay, and keep in place important programs that reduce poverty and build the middle class. As we navigate those choices, here are two novel ideas to keep in mind: don't make a deal that increases inequality and don't make a deal that impoverishes more children.

Key findings

- Federal policy must not increase poverty or inequality.
- Tax rates on the wealthiest are among the lowest since the 1930s; they should go back to levels in the high-growth 1990s.
- We can't allow cuts – to education, extended unemployment, safety net programs, or the Earned Income Tax Credit – that would hurt millions of Ohioans.
- Spending caps in the Budget Control Act of 2011 already dramatically reduce the deficit.
- Smart choices will improve our economy, reduce poverty, and build the middle class.

What pundits have been referring to as a "fiscal cliff" refers to automatic tax increases and spending cuts that will begin if a deal is not reached by January 2. Tax rates on the wealthiest are almost as low as they've been since the 1930s. These are set to go back to the still-low rates that prevailed in the high-growth 1990s, and they should. Tax rates on the middle class are also set to increase without action. Those rates should be kept low.

Congressional leaders are promoting an approach to taxes and spending that would get rid of unemployment insurance for thousands of Ohio families, create deep cuts in programs that support individuals, families and communities, and eliminate cuts that have reduced taxes for middle-class and poor families.

As they move toward an agreement, policymakers must ensure that deficit reduction:

- Includes significant revenues, raised from the wealthiest;
- Does not increase poverty or inequality;
- Supports economic growth and job creation;
- Does not shift costs to states;
- Preserves tax cuts for the middle class.

A bad deal – one that would hurt families and children, deepen poverty and hardship, and increase inequality – is worse than no deal at all. Policymakers must take the time to craft a plan that will strengthen economic growth and protect families in Ohio and across the country.

The following recommendations would reduce the deficit without sacrificing economic growth.

Strive for balance

Significant new revenues from those most able to pay would support economic growth and well-being for all Americans. Allowing the high-income tax cuts to expire and the estate tax to revert to 2009 rules would generate $1 trillion. More is needed, however, to shrink the deficit without starving the government of resources needed to support economic growth, help with education, protect public health, assist the less fortunate, and promote opportunity.

Don't make poverty worse

It is essential that Congress and the president reject any proposal that would increase poverty or reduce opportunities for families to climb out of poverty. Domestic programs are slated for deep cuts as a result of the spending limits imposed by the Budget Control Act of 2011. Automatic cuts to these programs, also known as non-defense discretionary funding, will start in January unless Congress replaces them with a more responsible deficit reduction package. The current approach would see Ohio lose $316 million in 2013, and each year thereafter, through 2021. Fully one-quarter of overall non-defense discretionary funding goes directly to states and local governments for a wide array of services ranging from classroom teaching to clean-water infrastructure. Also at risk are core safety net programs such as Medicaid, Supplemental Nutrition Assistance Program, Supplemental Security Income, and subsidies that would enable people to afford health coverage and to access health care through the new insurance exchanges. All major deficit reduction packages in recent decades have protected the core safety net; this year's framework for deficit reduction must adhere to this principle.

Don't deepen inequality

We need to raise tax rates on the wealthiest Americans and preserve tax cuts for middle-income families. Policymakers must also protect the Earned Income Tax Credit and the low-income component of the Child Tax Credit from cuts. These programs lift families out of poverty, make work pay, and send federal dollars to local communities. Failure to maintain these programs would push many low-income parents and children below the poverty line and many others deeper into poverty.

Maintain extended unemployment benefits

Tens of thousands of unemployed Ohioans who have been out of work and unable to find a job for more than six months will be affected if Congress fails to extend unemployment insurance benefits. These benefits not only help families – since jobless workers are likely to spend nearly all of their benefits, UI helps local economies too. During the first nine months of 2012, the federal program paid more than $788 million to unemployed Ohioans.[1] Congress should continue federal support for UI benefits; both short- and long-term unemployment remain too high to end this support.

Make smart choices

We must raise marginal tax rates on those most able to pay, to the still-low levels we had in the high-growth 1990s. We should keep in place middle-class tax cuts, as middle-income families continue to struggle. We need to retain important spending that helps us educate our children, train our workforce, protect our communities and provide a basic safety net. Smart choices now will mean less poverty, a stronger and larger middle class, and a healthier economy in Ohio and all over our nation.

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[1] Policy Matters Ohio analysis of data available from the U.S. Department of Labor at http://1.usa.gov/X6GT7s.