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BUDGET ISSUE UPDATE

CAMPAIGN ESTIMATES OF BUDGET AND ECONOMIC POLICIES

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(5 pages)

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Both the Bush and Gore Campaigns now have released their estimates of the cost of their policies. We have spoken with aides in both camps regarding their cost estimates and our earlier analysis.

The tables at pages 3 and 4 of this update illustrate the campaigns' views of their programs. We have made only three kinds of adjustments to their numbers

- ◆ We don't count unspecified savings;
- ◆ We show the outlays from EITC, Child and Dependent tax credits and Retirement Savings Plus as spending; and
- ◆ Our estimates include our own interest calculations.

Rather than re-price the campaigns' programs, as we attempted to do in our earlier analysis, we limit ourselves to comments that can assist our readers in comparing the numbers.

Both campaigns are very close to using the entire projected non-Social Security Trust Fund surplus. This is consistent with our earlier prediction that either would use up the on-budget surplus, and Congress likely will go along no matter which political party controls either or both Houses.

We suggest one key question for both candidates. If surpluses are smaller than anticipated or if the new President's tax and spending programs prove to be more costly than these estimates suggest, would either or both candidates pare back their programs or would they dip into the Social Security surplus to fund their policy agendas?

The Big Picture—Mirror Images

The campaigns' numbers *and* policies are virtually reciprocal. The Vice President proposes to increase spending by amounts nearly equal to the Governor's proposed tax cuts. Their approaches to Social Security and Medicare are almost polar opposites. The Vice President proposes benefit expansions, promises no benefit cuts and uses bookkeeping gimmicks to "extend the life of trust funds", abjuring real reforms. The Governor promises to continue existing benefits for today's elderly. He tiptoes around reductions in benefits for future retirees, but dares to talk of systemic reforms in both programs. He cites plans that rely more on market mechanisms and do include trade offs for baby boomers between real reductions in Social Security benefits and individual accounts.

Stress Testing the Numbers

Both campaigns use an inflation-adjusted baseline to prepare their estimates. Both say they intend the inflation adjustments in the base to fund large increases for high priority items, little or no increase for lower priorities, and some program eliminations (though lists of programs to be eliminated are nowhere to be found).

Likely pressure points in the Governor's program are easy to identify. They are the tax initiatives Republicans have introduced in Congress and the Governor has endorsed, most notably Alternative Minimum Tax reforms, Social Security transition and Anti Ballistic Missile Defense costs. The Governor's campaign assumes that an anti-ballistic missile defense system and Social Security transition costs can be funded from the nearly \$1 Trillion included in the base for inflation. That would require extraordinary restraint on the rate of growth in existing discretionary programs and well could prove impossible, especially given the upward pressure on spending in recent appropriations cycles.

An Aide to the Gore campaign said I could charge them with AMT reform if we were going to add an AMT adjustment to the Bush numbers. We don't know what version of AMT reform the candidates or the campaigns might embrace. We therefore left the cost of AMT reform out of both plans, though Alternative Minimum Tax could cancel out much of the relief both campaigns mean to deliver to the middle class.

Other likely pressure points in the Vice president's plan are harder to spot and cannot be described in one sentence. The Gore plan drops some popular tax cut proposals that the VP endorses as part of the President's budget. His most ambitious initiatives are big new health care entitlements and history suggests that the cost of such legislation could be exponentially higher than anticipated. Gore campaign's \$200 billion/ten year projection for the Retirement Savings Plus plan is inconsistent with the goal of doubling the number of families with \$50,000 nest eggs. Cost estimates for the plan range upward to \$750 billion over ten years. The top end of the range seems more consistent with the savings goal. The Gore plan includes substantial tax increases that have been included in Clinton budgets—some for several years. None received serious congressional consideration. Campaign staff point out that the Gore campaign could use part of the inflation adjustment in the base to cover additional costs.

Ten Year Guestimates

No one knows how large surpluses will be over the next ten years and nobody knows how much either campaign agenda really would cost over a decade. The economy and the budget have grown so large that ten-year estimates could be off by half a trillion dollars (\$500 billion) and still be described as incredibly prescient. We do have “official” estimates for proposals that are included the President’s budget, legislation already introduced and priced by CBO and the Governor’s tax cut which has been priced by the Joint Committee on Taxation. As for the rest—these are campaign proposals and we have about as much detail about them as we do most candidates’ plans.

Given the uncertainty of the numbers, the normal fluidity of campaigns and the inevitable compromises that occur after elections are over, it is silly to take too seriously ten-year differences—even over a few hundred billion dollars. It is far more important to recognize that these two plans represent very different approaches to governance and far different views of the appropriate role for the Federal government. The Governor trusts States and local governments more. The Vice President prefers national, Federal government solutions. The Governor trusts the private sector and competition more, the Vice President puts more trust in governmental solutions. Their spending and tax policies reflect those differences.

Debt Reduction—Commitment to Real Restraint

The Gore campaign claims greater debt reduction than the Bush campaign. Both campaigns say that they will use 100% of Social Security Trust Fund Surpluses to reduce debt. There is no magic in the exact amount of Social Security Trust Fund surpluses used to retire debt. What matters is: number is huge; and everybody seems to agree that these surpluses are untouchable. That is tremendous news.

This may be the most important promise either campaign has made this year. If kept, it would produce the most restrained fiscal policy in memory. That could make the challenges we will face when the baby boom retires more manageable. In the last instance, we will buy down debt with any surpluses that are not subsumed by spending or tax cuts. As we said at the outset, both candidates and both parties are more likely than not to use the entire non-Social Security Surplus. As we say above, the numbers are guestimates at best. But this commitment to debt reduction is a welcome change from the fiscal policies that prevailed from the 1970’s through most of the 1990’s.

Vice President Gore's Fiscal Policy Proposals
Fiscal Years--\$ in Billions--Totals May Not Add due to Rounding

	VP Campaign	CRFB Estimates
Baseline Surplus Projections	5744	
Adjustments from Baseline with Appropriations Freeze to Baseline with Discretionary Inflation		
Discretionary Inflation	969	
Interest	40	
Proceeds from Investing Excess Cash	173	
Baseline Budget Projections	4561	4561
Social Security Trust Fund Surpluses	2388	2388
Medicare Debt Reduction Lockbox	360	360
Medicare Interest and Solvency Transfers	75	75
Remaining Surplus	1749	1749
Taxes	480	278
Program Spending		
Medicare Prescription Drugs and other Medicare Policies	340	338
Improving-Expanding Quality Health Care	120	225
Education and Social Services	115	157
Environment and Energy	120	140
National Security	100	100
Unallocated	10	10
Justice	0	3
RSP Outlays	0	160
Offsets ²	-90	0
Interest	253	225
Reserve	300	0
Subtotal	1268	1358
Totals	1749	2095
Plus or Minus Non-Social Security Surplus	10	-78
Add reserve to our numbers	300	
Total	2183	2395
Plus or Minus Non Social Security Surplus with Reserve		222
Plus or Minus CRFB	-212	212

¹Earlier this month, the Gore campaign released estimates for their economic and budget policies. These numbers are based on those estimates, adjusted for proper budgetary treatment of outlays associated with the refundable portions EITC, Child and Dependent Care tax credit, outlays for the RSP proposal, and interest costs.

²"Other Priorities, Offsets and Reducing Youth Smoking"--campaign materials.

Governor Bush's Fiscal Policy Proposals
Fiscal Years--\$ in Billions--Totals May Not Add due to Rounding

	Bush Campaign	CRFB Estimates
Baseline Surplus Projections	5744	
Adjustments from Baseline with Appropriations Freeze to Baseline with Discretionary Inflation		
Discretionary Inflation	969	
Interest	40	
Proceeds from Investing Excess Cash	173	
Baseline Budget Projections	4561	4561
Social Security Trust Fund Surpluses	2388	2388
Remaining Surplus	2173	2173
Tax Cuts¹	1317	1321
Program Spending²		
Medicare	198.3	198
Agriculture	7.6	8
Crime	0.7	1
Defense	45	45
Education	47.6	48
Environment	5.3	5
Health Care	131.9	132
Housing	6.6	7
Other ³	31.7	32
Interest	312.5	308
Proposed savings from Government Reform	-196.4	0
	590.8	784
Subtotal		
Total	1907.8	2105
Over/Under Non-Social Security Surplus	-265.2	-68
Governor's Campaign +/CRFB	-197	197

¹ The Congressional Joint Committee on Taxation estimated the cost of the Governor's tax cut plan. The Congressional Budget Office Relies on the Joint Committee for revenue estimates. It is most unusual for the Joint Committee and/or CBO to price campaign proposals. The CRFB column Is identical to the Joint Committee estimate.

² On September 5, the Bush Campaign put up on its web site more detailed cost estimates for the Governor's proposals. These numbers are from the campaign web site.

³ This includes Bush Campaign categories "Compassion/Charity" and "Other Domestic"