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## BUDGET ISSUE UPDATE CAMPAIGN BUDGET AND ECONOMIC POLICIES

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### Don't Get Hung Up On the Numbers

We published two earlier analyses of the Bush and Gore campaigns' economic and budget proposals. Almost always, when we distribute something like this, we receive complaints, questions, criticism and suggestions from the campaigns and their supporters. This has been no exception. We have made some adjustments to reflect comments and criticism. We cannot hope to keep up with announcements both candidates make almost every day—almost all of which would add to the cost of their programs. But there really is no need to do so. The numbers are not right. They won't be right. They cannot be right. The ten-year budget estimates depend on assumptions about the economy. The economy and the budget are so big that if any of these numbers prove to be accurate within *half a trillion dollars* the economists and prognosticators will look like geniuses.

### Why and How do CRFB Estimates Differ from the Campaigns?

The tables at pages 6 and 7 of this update illustrate the campaigns' views of their programs with the following kinds of adjustments to the numbers in the CRFB column.

- ◆ We don't count unspecified savings. We don't count items such as savings from competition in Medicare or from the Quadrennial Defense Review, or from "closing corporate loopholes", or from various approaches to raising tobacco revenues. We have seen too many similar proposals in too many budgets (Republican and Democratic) over the years. Almost inevitably, they are dead on arrival on Capitol Hill. In addition, and in the current environment, any savings anyone can find in defense or health care likely will be redirected to help pay for new/expanded program spending.

- ◆ We show the outlays from Earned Income Tax Credit (EITC), Child and Dependent Tax Credits and Retirement Savings Plus as spending.
- ◆ Our estimates include our own interest calculations, so they are based on the same methodology for both proposals. If you assign interest costs separately to spending and revenue proposals, the totals would be—

Vice President Gore	Spending Increases	1533
	Revenue Reduction	<u>280</u>
	Total	1813
Governor Bush	Spending Increases	556
	Revenue Reduction	<u>1549</u>
	Total	2105

The Vice-President’s plan contains the largest spending increases since LBJ’s Great Society. Nonetheless, the Gore plan would reduce debt held by the public about \$270 billion more over 10 years than the Bush plan would do. (See calculation at the bottom of page 6). The Governor’s proposal emphasizes a large tax cut. It would require very substantial spending restraint compared to recent experience—and his numbers do not appear to reflect the priority his campaign places on defense.

### **The Big Picture—Mirror Images**

Just as the Vice President’s spending increases are very similar in size to the Governor’s tax cuts, the candidates’ views about the role of government are virtually mirror images.

The Gore campaign argues the scope and role of the Federal government—and Federal spending—must expand to meet the needs of our citizens. They are committed to continue current law Social Security and Medicare benefits. Their proposals to use non-Social Security Surpluses to buy down debt today—and use interest savings and general revenues to help meet Social Security and Medicare commitments in the future—reflect that priority.

The Governor stresses individual responsibility and a smaller, more limited Federal government. The Governor’s broad-based tax cuts are intended to increase the capacity of those who can take care of themselves—and expect them to do so. The Bush campaign proposes systemic reforms to both Social Security and Medicare. The campaign does not flesh out the details for proposed reforms. They say it will be necessary to forge bipartisan consensus to change these big popular programs. They promise no cuts in benefits for current beneficiaries. But the Governor offers, as examples of policies he could embrace, proposals that would reduce benefits for baby boomers when they retire as a trade-off against individual accounts as part of Social Security reform.

The two candidates’ prescription drug proposals could be metaphors for their basic differences.

The Vice President proposes to extend universal prescription drug coverage to all seniors through a voluntary Medicare add-on beginning in 2002. Phase-in is to be completed by 2008. Participants would pay premiums to the Federal government—\$23.40 per month in 2002, rising to \$55.20 per month in 2010. Most premiums would be deducted from Social Security checks. People with incomes below 135 percent of poverty would not pay premiums. Those with income between 135 and 150 percent of poverty get premium subsidies on a sliding scale. The program would pay one-half of cost of prescriptions up to a cap. After \$4,000 in out-of-pocket expenses—to be indexed after 2002—the program would pay all drug costs

The Governor's proposed grants to States would provide immediate drug benefits for low-income seniors. The Bush Medicare reforms follow along lines recommended by a majority on the Bipartisan Commission on Medicare Reform. Seniors would purchase coverage from private plans. Any plan that participated in Medicare would be required to provide drug coverage. Government would pay the entire cost for poor elderly and sliding-scale subsidies for those who are better off, underwriting at least 25 percent of prescription drug premiums for all seniors. Catastrophic coverage would cover all out of pocket costs over \$6,000 per year.

### **Stress Testing the Numbers**

It seems entirely likely to us—given recent experience and the rhetoric of this year's campaigns—that both major party candidates would use the entire non-Social Security surplus for new spending and tax cuts, no matter which party controls the House and/or the Senate. Even so, it is important to note that if they use the entire Social Security Trust Fund Surplus to pay down debt held by the public that will result in the most restrained fiscal policy that anyone alive today can remember.

Both campaigns are working off an inflation-adjusted baseline that includes nearly \$1 trillion in discretionary spending increases over the next 10 years. Since the advent of budget surpluses, discretionary spending has grown much faster than inflation. Nonetheless, both campaigns assume that some of the \$1 trillion in the base for inflation adjustments is available to offset the cost of high priority initiatives. Both assume that lower priority programs will be cut or eliminated, though lists of proposed program eliminations are scarce as hens' teeth in any political season.

#### *The Bush Plan*

- ◆ The Bush defense agenda certainly appears more costly than the Vice President's. The big cost difference of course is Missile Defense, but Bush/Cheney campaign criticisms of current defense policy generally suggest substantial upward pressure on spending. Nonetheless the Governor would increase defense less than the Vice President proposes. As noted above, the plan calls for much smaller discretionary spending increases than have prevailed since government began running surpluses. Discretionary includes popular programs such as Education, law enforcement, and transportation. Thus the discretionary spending restraint implied by the Bush plan could prove very difficult to achieve.

- ◆ Congressional Republicans have introduced a number of tax cuts that the Governor has endorsed but not included in the campaign plan. It is not clear whether a Bush Administration would adjust the size of the tax cut to accommodate some or all of those proposals.
- ◆ The Governor's proposed Social Security Reforms could divert \$1 trillion from the Social Security Trust Fund Surplus into individual accounts over the next ten years. The Bush campaign points out that those amounts would go into savings. Thus they would not have the same impact as spending or tax cuts on the economy or on total national saving. But diverting FICA taxes to individual accounts would widen the gap between benefit commitments and dedicated receipts when the baby boom generation retires. And dedicated receipts under current law will not cover those commitments. Campaign spokesmen say that the "transition costs associated with their proposed reforms would be funded through a "bridge loan".

Neither plan includes Alternative Minimum tax reform. Absent AMT reform, the Alternative Minimum Tax could cancel out much of the benefit both campaigns mean to deliver to the middle class through tax cuts. The Vice President's campaign says we can charge them with AMT reform if we similarly add that cost to the Governor's program. We charge neither, as we do not know what reform proposal either would embrace.

#### *The Gore Plan*

- ◆ The Vice President's plan excludes some popular tax cuts that he endorses as part of the President's budget.
- ◆ New and expanded health care entitlements are the largest initiatives in the plan. The estimates assume premiums will cover half the cost of the prescription drug plan. That hasn't worked out in the past. Medicare Part B premiums are 25% of cost today, though the initial legislation would have charged 50%. History suggests that the cost new health care entitlement legislation could be exponentially higher than anticipated.
- ◆ The \$200 billion/10 year estimated cost for Retirement Savings Plus could prove to be very low, given the generous match and wide range of withdrawals permitted after only five years without penalty. Indeed, the campaign goal of doubling the number of families with \$50,000 savings appears to be more consistent with cost estimates for the RSP program as high as \$750 billion over ten years.

## **Strengths of the Two Plans**

The thing we like best about the Vice President's proposal is the plan to use some non-Social Security surpluses for debt reduction. We are not fans of the Administration's and the Gore campaign's budgetary gimmickry—running surpluses through the Medicare and Social Security Trust Funds on the way to buying down debt. We worry about the perception that these schemes make Social Security and Medicare more affordable in future years. We are concerned about the mortgage on general revenues to pay future benefits. But in the near term, more debt reduction is a very good thing.

The best thing about the Governor's proposal is his attempt to lay the groundwork for systemic Social Security and Medicare reforms. Current law benefits cannot be funded through dedicated payroll tax receipts. The Governor will not go so far as to spell out details during the campaign season, but we welcome the emphasis on real reform, and we would have bet that no one would talk about changing either program during a national campaign.

We heartily endorse the President's and Congress'—and both campaigns'—seemingly solemn commitments to use 100% of Social Security Trust Fund surpluses to retire debt. There is no particular magic to the amounts of Social Security Trust Fund Surpluses. But more is better when it comes to debt reduction. If our political leaders really do use 100% of Social Security Trust Fund surpluses to retire debt over the next ten years, they would impose a degree of restraint unheard of in modern memory.

## **Conclusion**

It seems almost silly to make this point at the end of five pages of analysis—but the big difference between the two major party Presidential candidates and their economic and budget plans comes down to this. The Vice President wants to increase spending a lot; the Governor supports a big tax cut.

Tax cuts are no more risky, dangerous or likely to blow a hole in the surplus than spending increases. What matters is total amount of spending increases plus tax cuts. And we cannot repeat often enough that ten-year projections are guesstimates at best. Thus the most important question for both candidates is this. What are your plans, if the surpluses are not as large as projected, or if your program costs more than your plans suggest? Will you scale back the program; or will you dip into the Social Security surplus to pay for your proposals?

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

	VP Campaign	CRFB Estimates
<b>Baseline Surplus Projections</b>	<b>5744</b>	<b>5744</b>
<b>Adjustments from Baseline with Appropriations Freeze to Baseline with Discretionary Inflation</b>		
Discretionary Inflation	969	969
Interest	40	40
Proceeds from Investing Excess Cash	173	173
<b>Baseline Budget Projections</b>	<b>4561</b>	<b>4561</b>
<b>Social Security Trust Fund Surpluses</b>	<b>2388</b>	<b>2388</b>
Medicare Debt Reduction Lockbox	360	360
<b>On-budget Surplus</b>	<b>1813</b>	<b>1813</b>
Tax cuts <sup>1</sup>	480	493
Medicare Prescription Drug Premiums <sup>2</sup>		152
Tax cuts minus Prescription Drug Premiums		341
<b>Program Spending</b>		
Medicare Prescription Drugs and other Medicare Policies <sup>3</sup>	340	517
Improving-Expanding Quality Health Care <sup>4</sup>	120	225
Education and Social Services <sup>5</sup>	115	157
Environment and Energy	120	120
National Security	100	100
RSP Outlays <sup>6</sup>	0	40
"Other Priorities" <sup>7</sup>	-90	77
<b>Subtotal Program Spending</b>	<b>705</b>	<b>1236</b>
Interest	253	236
<b>Totals Spending Increases plus tax Cuts</b>	<b>1438</b>	<b>1813</b>
Reserve	300	0
Medicare Interest and Solvency Transfers	<b>75</b>	<b>75</b>

Vice president Gore's plan would reduce debt about \$270 billion over 10 years more than Governor Bush. The additional debt reduction results from transfers to the Medicare Trust fund. Those transfers have no effect on the economy or on our ability to pay future benefits—but if the money is not used for spending or tax cuts it will reduce debt. (Whether spending or tax cuts are on-budget or off-budget makes no difference. If money is used for spending or tax cuts it cannot be used to reduce debt.)

	Gore	CRFB
Social Security Trust fund Surplus minus off-budget spending for Elderly Women	2266	2266
Medicare Solvency Lockbox	463	459
Surplus Reserve fund	300	0
<b>Total</b>	<b>3029</b>	<b>2725</b>

Gore debt reduction \$2725-Bush debt reduction \$2456=\$269

<sup>1</sup> Tax cuts, less outlays for EITC and Child and Dependent Care and RSP, and adjusted for "loophole closers" that we do not count (see text).

<sup>2</sup> Consistent with current budget conventions, the Gore campaign subtracts proposed "Part D" premiums from projected prescription drug outlays and shows net outlays in their plan. We show the premiums as receipts and projected spending as outlays.

<sup>3</sup> Medicare Prescription Drug Outlays—does not count "Medicare Reform and Other Savings"

<sup>4</sup> Includes "Other" Health Care Entitlements from President's Budget, that Gore campaign says are assumed in their program but not in their numbers, and adjustment for doubling medical research based on current outlays (from the Budget Appendix) and discussions with the campaign.

<sup>5</sup> Includes outlays for EITC and Child and Dependent Care

<sup>6</sup> Outlays for RSP are 80% of program costs according to Gore campaign

<sup>7</sup> "Other Priorities" include welfare, childcare, dislocated workers, crime, hunger, disability, etc. We do not count "Youth Smoking", QDR savings, and other Miscellaneous Offsets.

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

	<b>Bush Campaign 5744</b>	<b>CRFB Estimates</b>
<b>Baseline Surplus Projections</b>		
<b>Adjustments from Baseline with Appropriations Freeze to Baseline with Discretionary Inflation</b>		
Discretionary Inflation	969	
Interest	40	
Proceeds from Investing Excess Cash	173	
<b>Baseline Budget Projections</b>	<b>4561</b>	<b>4561</b>
<b>Social Security Trust Fund Surpluses</b>	<b>2388</b>	<b>2388</b>
<b>Remaining Surplus</b>	<b>2173</b>	<b>2173</b>
<b>Tax Cuts <sup>1</sup></b>	<b>1317</b>	<b>1321</b>
<b>Program Spending<sup>2</sup></b>		
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 <sup>3</sup>	31.7	32
Proposed savings from Government Reform	-196.4	0
<b>Subtotal Program spending</b>	<b>278.3</b>	<b>476</b>
Interest	312.5	308
<b>Subtotal</b>	<b>590.8</b>	<b>784</b>
<b>Total Spending Increases Plus Tax Cuts</b>	<b>1907.8</b>	<b>2105</b>
<b>+/- Non-Social Security Trust Fund Surplus</b>		<b>-68</b>

<sup>1</sup> 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.

<sup>2</sup> 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.

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