Committee for a Responsible Federal Budget

Memo to: Board and Members
From: Carol Cox Wait
Date: September 7, 2000

Subject: Campaign Promises and Costs

GORE CAMPAIGN PROPOSALS

The Vice President's Campaign released a detailed description of their proposals to spend the surplus over the next ten years—and they would spend the entire non-Social Security Surplus—plus a little—if you count their Medicare "Lock Box" and "Solvency Transfer" proposals as they do.

Accounting Gimmicks and Unrealistic Assumptions

In fact, the lock box and solvency transfers are accounting gimmicks that would have no real budgetary or economic impact. If we were to adjust for their real impact, the Vice President's proposals would total $1670 or about half a trillion less than the non-Social Security surplus.

However, the Vice President proposes substantial tax increases (more than the President's budget). The last three budgets contained similar increases. None of those proposals demonstrated any "legs" and none of the tax increases in the VP's plan seem likely to be enacted. The campaign proposal and the President's budget depend on $152 billion in new Medicare prescription drug premiums that are to be deducted from beneficiaries' Social Security checks. Existing Medicare beneficiary premiums fall far short of initial expectations. The Vice President's proposal includes the Administration's Medicare cuts and other savings that we believe to be unrealistic. And finally, we believe that current estimates almost certainly understate the cost of health care proposals. Thus we think the cost of the entire package would equal or exceed non-Social Security surplus projections.

We should note here that we, along with most experts, believe that most of the Gore tax cuts are more like spending programs than revenue policies.

GOVERNOR BUSH'S PROPOSALS

We know more about the Governor's proposed across-the-board tax cut than about his plans to increase spending. We have official estimates of the cost of the tax proposal from the Joint Committee on Taxation. (CBO relies on the Joint Committee for revenue estimates.) We conclude that the Governor's proposals, including his new prescription drug proposal, would subsume all but $172 billion of the non-Social Security Trust Fund surplus. Campaign staff/National Taxpayers' Union materials show costs $484 billion lower than CRFB estimates. The reasons for the differences are three: AMT reform, interest costs, and $17.6 billion in projected savings from unspecified government reforms, which we ignore.

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BOTTOM LINE

The analysis above and recent history suggest that the entire amount of any projected non-Social Security surplus likely will be consumed by spending increases and tax cuts, no matter who is elected President and no matter which party controls the House or Senate or both.

This analysis makes one additional point crystal clear. If elected the Vice President will spend a lot more money. He proposes to expand the role of government in all our lives, and across the economy generally, more than any President since Lyndon Johnson. Governor Bush, on the other hand, seems committed to a more limited Federal government, more reliance on States and local governments to meet public service needs, and more individual responsibility. The Bush campaign sees the emphases on tax cuts and on individual responsibility as two sides of the same coin.

The Vice President's campaign is making a virtue of the inevitable when they boast about the "specifics" of their proposals. It did not matter whether the campaign released the information, we have specifics for the lion's share of the Vice President's proposals—those contained in the president's budget. The campaign's materials on elements not contained in the president's budget are as vague and hard to cost as the Bush campaign proposals. For example, cost estimates for the RSP proposal range from $200 billion to $750 billion over ten years.

In addition, the Vice President's campaign expressly includes in the base nearly $1 trillion increased spending to offset inflation in discretionary programs. There is no indication whether the Vice President expects that all existing programs will benefit equally from those increases or whether he would increase some more, and cut back or eliminate others.

Our analysis also includes that inflation adjustment in the base for the Governor's proposals. The Governor's campaign might quarrel with that assumption, and might therefore argue that spending would not grow so fast in a Bush administration. But lacking more detail about their proposed spending plans we adopted this approach for consistency.

LONG TERM OUTLOOK

The fact is that both the candidates' fiscal policy plans fail forthrightly to address the very real longer-term challenges we face. The Vice President says flatly that he intends to continue and expand Social Security and Medicare. That implies very large cuts in other programs and/or very large tax increases, and/or huge budget deficits when the baby boom generation retires and begins to draw promised benefits. The Governor hints at reductions in statutory benefits for future retires, as a trade off against personal accounts in his Social Security Reform proposal. He explicitly embraces sweeping changes in Medicare, along the lines described by a majority of members of the Bipartisan Commission on Medicare Reform. But transition details and costs are only hinted at in the campaign. We all know the devil is in the details; and $1 trillion/10-year transition costs may seem reasonable once we take a long, hard look at the alternatives. And all of the above ignores tax reform. Indeed, both candidates' proposals could further complicate an already too-complex internal revenue code.

See attachments: Three (3) pages