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Obama's and McCain's Budget Proposals Lack Detail

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Presidential candidates Barack Obama and John McCain have both promised to rein in the federal budget. Obama has pledged adherence to Pay-as-You-Go (PAYGO) rules mandating that any tax cuts and new entitlement expansions be fully offset. McCain has pledged to balance the budget by 2013.

Neither candidate has sufficiently spelled out their plans for achieving such goals. Tax revenue models from the Heritage Foundation's Center for Data Analysis¹ confirm other independent analyses showing that Obama depends on nearly \$1 trillion over 10 years in tax revenues from largely unspecified sources to meet his PAYGO target. His budget plan also lacks sufficient detail on proposed budget savings. Similarly, McCain's balanced budget plans require reducing more than \$600 billion from projected 2013 spending levels. He has not produced a blueprint detailing cuts of that magnitude.

The candidates' short-term budget goals are less important to the nation's future than the long-term challenge of financing the Social Security, Medicare, and Medicare costs of 77 million retiring baby boomers. Obama's pledge to pay for any additional entitlements that he creates does nothing to address the unaffordable entitlement programs America already has—and must deal with. Similarly, McCain's promise to balance the budget by 2013 may be of little significance if entitlements drive budget deficits into the trillions of dollars in 2014 and beyond. That said, McCain's budget is more likely to restrain the long-term cost of entitlements than Obama's budget is.

Budget Context. Since 2001, federal spending has leapt 30 percent faster than inflation, to over \$25,000 per household. In that time, spending has risen across the board, especially in areas such as defense (65 percent above inflation), veterans' benefits (59 percent), education (58 percent), and health research and regulation (55 percent).² With tax revenues slowing down along with the economy, the 2008 budget deficit soared to an estimated \$438 billion.

Yet today's spending levels and budget deficits are small compared to future projected levels. The retirement of 77 million baby boomers, combined with steeply rising health care costs, will push Social Security, Medicare, and Medicaid spending to unsustainable levels. These entitlements are projected to drive the federal budget deficit to \$577 billion by 2013 and \$969 billion by 2018—and even higher thereafter.³ Absent reform, paying all promised retiree benefits would require either (a) doubling all tax rates, (b) eliminating every other federal program, including defense and education, or (c) running massive budget deficits that would eventually collapse the economy.⁴ And every year of delay raises the final cost of reform by trillions of dollars. America's long-term budget picture overwhelm-

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ingly depends on how—or whether—Congress and the President address Social Security, Medicare, and Medicaid.

Barack Obama's Budget Plan

Reinstate PAYGO Rules: Obama and Biden believe that a critical step in restoring fiscal discipline is enforcing pay-as-you-go (PAYGO) budgeting rules which require new spending commitments or tax changes to be paid for by cuts to other programs or new revenue.

—Obama for America official website

Obama has pledged adherence to PAYGO rules.⁵ but he has not promised to balance the budget, and even adhering to PAYGO would not stop the budget deficit from expanding during his presidency, because (1) discretionary spending increases—which comprise 40 percent of federal spending—are exempt from PAYGO, and (2) PAYGO applies only to future entitlement expansions, not to the current entitlement programs, which are growing an average of 7 percent annually. PAYGO does nothing to slow the automatic annual growth in the current Social Security, Medicare, and Medicaid programs.

Pledging to follow PAYGO rules—rather than restrain spending or even to reduce the budget deficit—may be considered rather unambitious. Yet Obama's budget plan has difficulty meeting even that standard. It redefines PAYGO to exempt certain proposals and then depends on vague spending

cuts and nearly \$1 trillion in largely unspecified revenue increases.

Redefining the Baseline. Obama's plan adheres to PAYGO only by promising to exempt his proposed extension of many of the 2001 and 2003 tax cuts, as well as continued patching of the Alternative Minimum Tax (AMT) from PAYGO rules.⁶ Current PAYGO rules do not exempt these proposals. Obama deserves credit for acknowledging that simple extensions of current tax policies into the future are not “new” tax cuts that need to “paid for” with tax increases elsewhere.⁷ His position is shared by President Bush and most congressional Republicans, and it is opposed by most congressional Democrats. It is also consistent with current congressional rules that do not require that the simple renewal of current entitlement programs be offset. If these tax policy extenders were subject to PAYGO, they would require more than \$200 billion in other tax hikes or entitlement cuts just to keep current tax policies in place.⁸

Large, Unspecified Tax Increases and Spending Savings. Obama's budget combines specific entitlement spending hikes and targeted tax cuts with vague spending offsets and tax increases. For example, he balances a proposed \$115 billion health coverage expansion with \$50 billion in vague savings from health care efficiencies. Additionally, Obama would pay for an expensive increase in Medicare drug subsidies with Medicare reforms that are not fully specified.⁹

1. William W. Beach *et al.*, “The Obama and McCain Tax Plans: How Do They Compare?” Heritage Foundation *Center for Data Analysis Report* No. CDA08–09, October 15, 2008, at <http://www.heritage.org/Research/Economy/cda08-09.cfm>.
2. Brian M. Riedl, “Federal Spending by the Numbers: 2008,” Heritage Foundation *WebMemo* No. 1829, February 27, 2007, at <http://www.heritage.org/Research/Taxes/wm1829.cfm>.
3. Brian M. Riedl, “New CBO Budget Baseline Shows Entitlements Driving Budget Deficits Higher,” Heritage Foundation *WebMemo* No. 2057, September 10, 2008, at <http://www.heritage.org/Research/Economy/wm2057.cfm>.
4. Brian M. Riedl, “A Guide to Fixing Social Security, Medicare, and Medicaid,” Heritage Foundation *Background* No. 2114, March 11, 2008, at <http://www.heritage.org/Research/Budget/bg2114.cfm>.
5. Obama for America, “Plan for Restoring Fiscal Discipline,” at <http://www.barackobama.com/issues/fiscal> (October 10, 2008).
6. David Clarke and Richard Rubin, “Obama Tax Plan Veers from Pay-as-You-Go,” *CQ Today*, September 15, 2008, at <http://www.cqpolitics.com/wmspage.cfm?parm1=5&docID=news-000002949967> (October 10, 2008).
7. See J. D. Foster, “Obama to CBO Revenue Baseline: Nuts—and He's Right!” Heritage Foundation *WebMemo* No. 2019, August 11, 2008, at <http://www.heritage.org/Research/Budget/wm2019.cfm>.
8. See Beach *et al.*, “The Obama and McCain Tax Plans: How Do They Compare?”
9. “Promises, Promises: A Fiscal Voter Guide to the 2008 Election,” US Budget Watch, updated October 7, 2008, p. 16, at <http://www.usbudgetwatch.org/files/crfb/USBW%20Voter%20Guide%20October%205%202008.pdf> (October 10, 2008).

Most audaciously, Obama's tax plan relies on \$924 billion over 10 years in additional unspecified tax collections that the nonpartisan Tax Policy Center describes as "unverifiable" and possibly more of "an aspirational goal" than a specific plan.¹⁰ Without these tax revenues, there is no way Obama's budget can both fully fund his new spending proposals and comply with PAYGO. Skeptics of Obama's pledge to cut taxes for 95 percent of American workers may point to this \$924 billion revenue gap as justifying their skepticism.

John McCain's Budget Plan

John McCain will balance the budget by the end of his first term.

—McCain-Palin 2008 official website

Rather than focus on PAYGO, McCain has ambitiously pledged to balance the budget by 2013.¹¹ Yet like Obama, his budget does not provide a sufficiently detailed blueprint to get there. In addition to extending all of the successful 2001 and 2003 tax cuts and patching the AMT, McCain proposes cutting corporate tax rates and doubling the income tax exemption for dependents. Also like Obama, McCain's health plan relies on generally unspecified efficiency savings within current government health care programs. After pledging additional education and defense spending, McCain's budget plan achieves some savings by gradually reducing the troop presence in Iraq, eliminating earmarks, freez-

ing many discretionary program budgets for one year, and pledging unspecified entitlement reforms and cuts in wasteful spending.¹² Given the \$577 billion budget deficit currently forecasted for 2013,¹³ and the additional tax relief proposed, McCain does not specify enough reforms to come close to balancing the budget.

The Long-Term Outlook. Whether PAYGO is strictly followed or the budget is balanced in 2013 is secondary to the vital question of how America will deal with the financial tsunami that will soon result from the Social Security, Medicare, and Medicaid costs of 77 million retiring baby boomers. America's economic future may be determined by how it responds to this challenge.

Obama's budget would likely worsen the problem. By expanding Medicare drug subsidies, his proposal would add even more debt to a drug benefit that already faces an \$8 trillion debt over the next 75 years.¹⁴ On Social Security, Obama has reportedly ruled out raising the retirement age and adjusting benefit levels.¹⁵ That leaves only tax increases, and Obama is considering eventually raising Social Security payroll taxes by 4 percentage points for upper-income taxpayers.¹⁶ This would slow down the economy without closing more than 15 percent of the long-term Social Security funding gap.¹⁷

McCain, by contrast, has pledged to modernize Social Security, Medicare, and Medicaid in ways that

10. Robertson Williams and Howard Gleckman, "A Updated Analysis of the 2008 Presidential Candidates' Tax Plans: Executive Summary of the August 15, 2008 analysis," Tax Policy Center, September 15, 2008, page 7, line 14, at http://www.taxpolicycenter.org/UploadedPDF/411750_updated_candidates_summary.pdf (October 10, 2008). "Aspirational" quote from Brett Ferguson et al, "Obama Says Tax Plan Offers More Tax Cuts; Some Analysts Question Revenue Estimates," *BNA Daily Report for Executives*, August 29, 2008.
11. McCain-Palin 2008, "Reforming Washington to Regain the Trust of Taxpayers," at <http://www.johnmccain.com/Issues/Job sforAmerica/reform.htm> (October 10, 2008).
12. *Ibid.*
13. This deficit figure already incorporates the extension of current tax policies.
14. U.S. Department of the Treasury, "Fiscal Year 2007 Financial Report of the United States Government, December 2007," p. 46, at <http://www.gao.gov/financial/fy2007/07frusg.pdf> (October 10, 2008).
15. Perry Bacon, Jr., "Candidates Diverge on How to Save Social Security," *The Washington Post*, July 8, 2008, at http://www.washingtonpost.com/wp-dyn/content/article/2008/07/07/AR2008070702773_pf.html (October 10, 2008).
16. Jason Furman and Austan Goolsbee, "The Obama Tax Plan," *The Wall Street Journal*, August 14, 2008, at <http://online.wsj.com/article/SB121867201724238901.html> (October 10, 2008).
17. R. Glenn Hubbard, "We Can't Tax Our Way Out of the Entitlement Crisis," *The Wall Street Journal*, August 21, 2008, at <http://online.wsj.com/article/SB121927694295558513.html> (October 10, 2008).

bring long-term sustainability to their costs. His campaign has expressed openness to adjusting the Social Security retirement age and paring back benefit hikes.¹⁸ In a recent presidential debate McCain endorsed the creation of a bipartisan entitlements commission that would propose a long-term fix and then require a congressional vote on it.¹⁹

Both candidates promise to slow growing health care costs (which would in turn save money for Medicare and Medicaid), yet McCain would likely produce more savings because he has not echoed Obama's call to expand the Medicare drug entitlement. Even though both candidates are light on specifics, McCain's approach to long-term entitlement reform would likely do the most to save future taxpayers from devastating tax increases or budget deficits.

Fundamental Differences. Both Obama and McCain have produced budget plans that focus on short-term goals, and both their plans lack detail on how to achieve those goals. However, short-term budget deficits are not the most important budgetary challenge America faces. Today's \$5 trillion public debt is dwarfed by the \$41 trillion debt faced by Social Security and Medicare over the next 75 years. While neither candidate's budget gives sufficient focus to this long-term challenge, McCain's approach would likely avoid digging the hole deeper and may lead to significant reforms. Obama's plan would add new entitlement obligations while ruling out many reforms that would bring long-term sustainability to these entitlement programs.

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18. Bob Davis, "McCain's Economy Platform: Big Tax Cuts, With Caveats," *The Wall Street Journal*, March 3, 2008, at <http://online.wsj.com/article/SB120451614688707083.html> (October 10, 2008).

19. A transcript of the debate is available at <http://www.cnn.com/2008/POLITICS/10/07/presidential.debate.transcript> (October 10, 2008).