



McCain's Deficit Problem

May 2008

Senator John McCain's current fiscal plan would create the largest federal deficits in 25 years, plunge the United States into the deepest debt since the second world war, and gut government revenues.

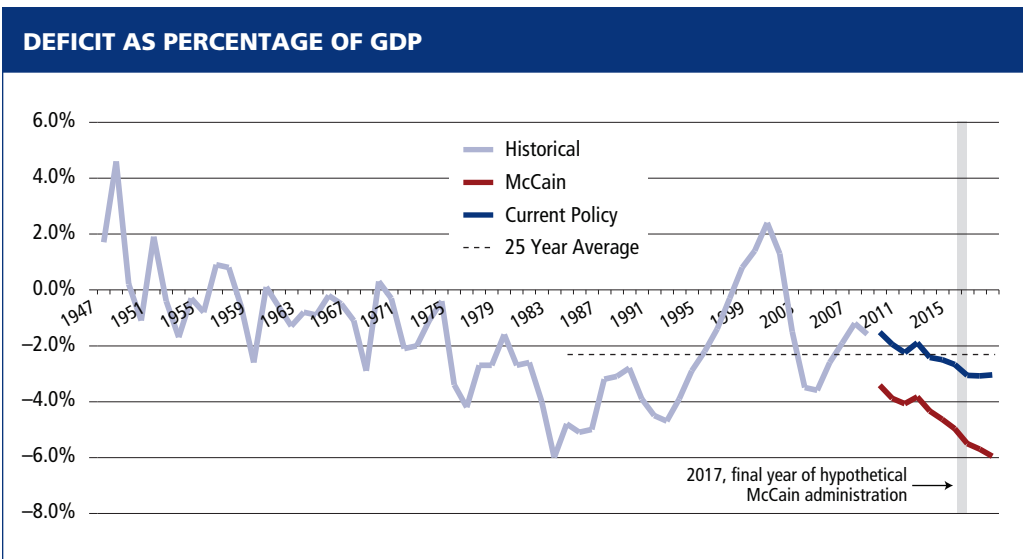
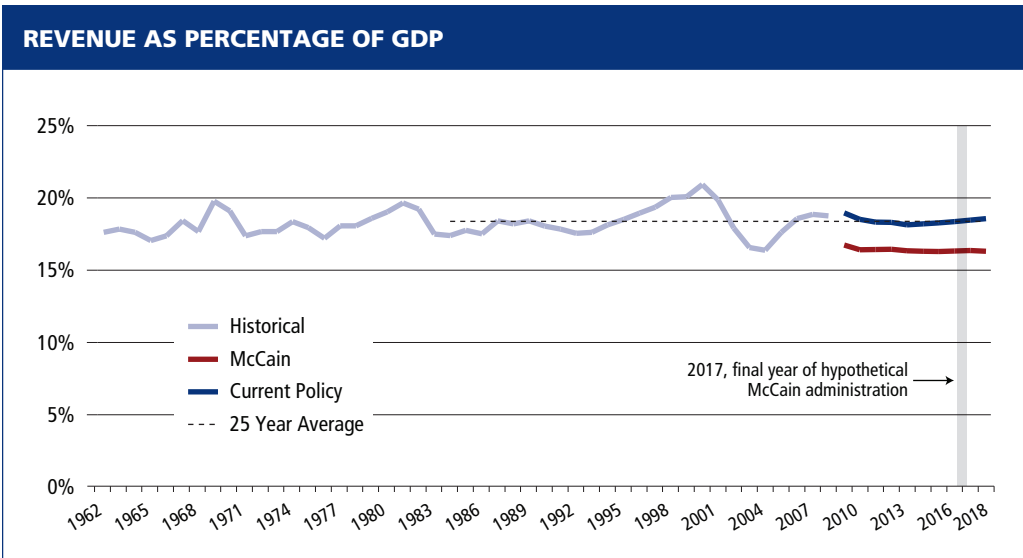
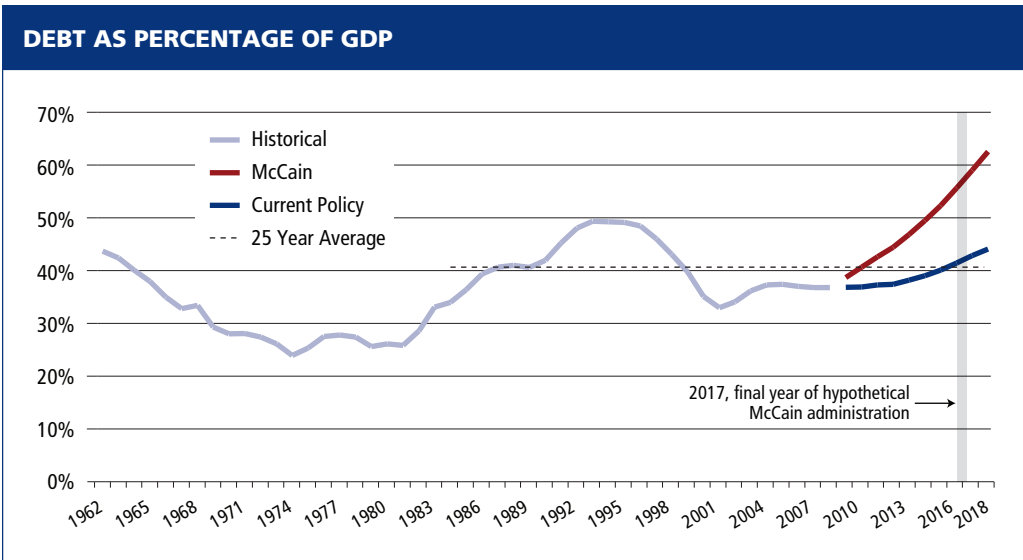
According to our calculations, McCain's economic plan, which includes a corporate tax cut, a full repeal of the alternative minimum tax, and an extension of the Bush tax cuts, would leave a national debt of \$12.7 trillion by the end of a two-term presidency. Based on the Congressional Budget Office's GDP estimates, this would total 59 percent of the projected GDP in 2017, the highest levels of debt since 1951 when America was still paying off the costs of World War Two.

The corporate tax cut and full repeal of the alternative minimum tax make McCain's plan significantly more severe than if he merely extended current Bush administration policies. Extending Bush's policies would on its own leave a debt of \$9.2 trillion (43 percent of projected GDP); repealing the AMT and enacting the corporate tax cut would add an additional \$3.5 trillion to the debt.

For the past 25 years, deficits have never been higher than 3.5 percent of GDP, and surpluses have been as high as 1.1 percent of GDP in the year 2000. Yet yearly deficits under McCain would increase sharply beginning with a deficit of \$505 billion in FY2009 (3.4 percent of GDP), growing to a \$1.2 trillion deficit (5.7 percent of GDP) by FY2017. These deficits would be larger than any recorded in the CBO's historical figures going back to 1962.¹ Current Bush policies would keep annual deficits to \$660 billion (3.1 percent of GDP) in 2017.

McCain's plan would slash government revenues, which have averaged 18.3 percent of GDP for the past 25 years, to their lowest levels since before 1962. Revenues would average only 16.3 percent of GDP for the duration of his two terms. Under current Bush policy, revenues would remain above 18 percent of GDP.

This analysis currently incorporates the most generous possible savings McCain has offered thus far: an \$18 billion cut of wasteful earmarks and a \$15 billion "freeze" in wasteful spending, with the savings grown at the rate of GDP growth over his presidency. Not included are the costs of McCain's "optional simple alternative tax," which, if it is anything like a similar program proposed by Sen. Fred Thompson (R-TN), would cost a staggering "\$6.6 trillion over 10 years (\$6.3 trillion starting in FY2010)."² McCain's plan has not yet been detailed, and so is difficult to quantify.



Methodology

This analysis adjusts the Congressional Budget Office's projected revenues and deficits based on contingencies also provided by the CBO, and by our own calculations.

Revenue adjustments via the Tax Policy Center's analysis of John McCain's plan:³

- Permanently extending all non-estate tax provisions of the Economic Growth and Tax Relief Reconciliation Act and Jobs and Growth Tax Relief Reconciliation Act.
- Repealing the individual alternative minimum tax.
- Doubling the dependent exemption.
- Adding a \$5 million estate tax exemption at a 15 percent rate.
- Establishing a gas tax holiday.

Adjustments via the CBO's contingencies (Table 1–5):

- Extending expiring tax provisions.

Additional adjustments:

- Cutting the corporate tax and changes to corporate expensing: According to Reuven Avi-Yonah, McCain would cut the revenue from corporate taxes in half between his corporate rate cut and his expensing deduction.⁴ These measures would reduce the CBO's expected corporate tax revenue by half.
- Freezing non-defense discretionary spending for one year and growing with GDP: McCain has pledged to freeze non-defense, non-veterans spending for one year.⁵ Beyond this, it is likely that actual discretionary spending will grow with GDP in following years. Thus, this analysis adds the savings of the freeze and subtracts the costs associated with growing discretionary spending by GDP based on CBO figures.
- Eliminating wasteful earmarks: We have taken McCain at his word when he promises to cut \$18 billion in wasteful earmarks and save \$15 billion by freezing "wasteful" spending.⁶ Like discretionary spending, this analysis grows these savings over time at the rate of GDP growth.
- Debt interest: These values calculate the additional interest costs borne from increases to the debt by multiplying the difference between the baseline debt and McCain's debt by the CBO's forecasted interest rate (4.7 percent to 5.2 percent over the decade, an average estimate held at 5 percent).⁷

Bush policy estimates:

We used the CBO's contingency numbers for extending the Bush tax cuts, extending the other expiring tax provisions, and growing discretionary spending at the rate of GDP.⁸ For both Bush and McCain, we maintained the CBO's baseline costs for continued U.S. presence in Iraq.

McCAIN FISCAL POLICIES WOULD BRING DRAMATIC DEFICIT INCREASE

McCAIN BUDGET	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Base Revenue	\$2,817.00	\$2,907.00	\$3,182.00	\$3,442.00	\$3,585.00	\$3,763.00	\$3,941.00	\$4,131.00	\$4,334.00	\$4,548.00
Extend non-estate tax provisions of Bush tax cuts	\$0.43	\$(9.64)	\$(132.04)	\$(178.95)	\$(195.72)	\$(213.35)	\$(224.21)	\$(229.83)	\$(236.46)	\$(243.54)
Repeal the individual AMT	\$(90.86)	\$(105.52)	\$(123.40)	\$(139.54)	\$(157.99)	\$(177.72)	\$(198.88)	\$(222.80)	\$(248.91)	\$(295.50)
Double the dependent exemption	\$(37.64)	\$(40.47)	\$(41.49)	\$(43.58)	\$(45.47)	\$(46.99)	\$(48.85)	\$(50.86)	\$(53.06)	\$(55.37)
\$5 million estate tax exemption, 15% rate	\$(17.44)	\$(12.45)	\$3.85	\$(36.28)	\$(39.86)	\$(42.53)	\$(45.89)	\$(49.88)	\$(54.32)	\$(59.14)
Cut corporate tax To 25% + expensing	\$(178.00)	\$(167.00)	\$(166.50)	\$(178.50)	\$(163.50)	\$(171.00)	\$(175.00)	\$(180.50)	\$(187.00)	\$(194.00)
Extend expiring tax provisions	\$(14.00)	\$(22.00)	\$(31.00)	\$(38.00)	\$(44.00)	\$(49.00)	\$(53.00)	\$(58.00)	\$(63.00)	\$(67.00)
Gas tax holiday	\$(10.00)									
Net Revenue	\$2,469.49	\$2,549.92	\$2,691.41	\$2,827.16	\$2,938.47	\$3,062.41	\$3,195.16	\$3,339.12	\$3,491.26	\$3,633.44
Base Outlays	\$(3,015.00)	\$(3,148.00)	\$(3,299.00)	\$(3,355.00)	\$(3,524.00)	\$(3,666.00)	\$(3,824.00)	\$(4,037.00)	\$(4,183.00)	\$(4,325.00)
Freeze non-defense discretionary spending one year	\$7.39									
Grow by GDP in following years		\$(27.85)	\$(66.38)	\$(111.36)	\$(140.53)	\$(174.65)	\$(207.98)	\$(237.26)	\$(275.87)	\$(320.72)
Eliminate wasteful earmarks	\$18.00	\$18.70	\$19.50	\$20.54	\$21.65	\$22.72	\$23.76	\$24.83	\$25.92	\$27.05
Freeze wasteful spending	\$15.00	\$15.58	\$16.25	\$17.12	\$18.04	\$18.93	\$19.80	\$20.69	\$21.60	\$22.54
Debt Interest		\$(14.71)	\$(32.27)	\$(59.35)	\$(96.19)	\$(137.82)	\$(185.94)	\$(240.40)	\$(301.35)	\$(369.67)
Net Outlays	\$(2,974.61)	\$(3,156.28)	\$(3,361.90)	\$(3,488.05)	\$(3,721.02)	\$(3,936.81)	\$(4,174.36)	\$(4,469.14)	\$(4,712.70)	\$(4,965.80)
Surplus/Deficit	\$(505.12)	\$(606.36)	\$(670.49)	\$(660.89)	\$(782.55)	\$(874.40)	\$(979.20)	\$(1,130.02)	\$(1,221.44)	\$(1,332.36)
Surplus/Deficit %GDP	-3.41%	-3.89%	-4.08%	-3.83%	-4.34%	-4.64%	-4.97%	-5.50%	-5.70%	-5.96%
Debt	\$(5,737.12)	\$(6,343.49)	\$(7,013.97)	\$(7,674.86)	\$(8,457.42)	\$(9,331.82)	\$(10,311.01)	\$(11,441.03)	\$(12,662.47)	\$(13,994.83)
Debt %GDP	-38.73%	-40.66%	-42.65%	-44.48%	-46.87%	-49.49%	-52.38%	-55.70%	-59.10%	-62.60%
Revenues % GDP	16.67%	16.35%	16.37%	16.38%	16.29%	16.24%	16.23%	16.26%	16.29%	16.25%
CURRENT POLICY BUDGET										
Base Revenue	\$2,817.00	\$2,907.00	\$3,182.00	\$3,442.00	\$3,585.00	\$3,763.00	\$3,941.00	\$4,131.00	\$4,334.00	\$4,548.00
Extend EGTRRA and JGTRRA	\$(3.00)	\$(6.00)	\$(147.00)	\$(254.00)	\$(281.00)	\$(292.00)	\$(304.00)	\$(316.00)	\$(329.00)	\$(344.00)
Extend other expiring tax provisions	\$(14.00)	\$(22.00)	\$(31.00)	\$(38.00)	\$(44.00)	\$(49.00)	\$(53.00)	\$(58.00)	\$(63.00)	\$(67.00)
Net Revenue	\$2,800.00	\$2,879.00	\$3,004.00	\$3,150.00	\$3,260.00	\$3,422.00	\$3,584.00	\$3,757.00	\$3,942.00	\$4,137.00
Base Outlays	\$(3,015.00)	\$(3,148.00)	\$(3,299.00)	\$(3,355.00)	\$(3,524.00)	\$(3,666.00)	\$(3,824.00)	\$(4,037.00)	\$(4,183.00)	\$(4,325.00)
Discretionary spending at rate of GDP	\$(9.00)	\$(33.00)	\$(64.00)	\$(95.00)	\$(125.00)	\$(154.00)	\$(184.00)	\$(214.00)	\$(246.00)	\$(280.00)
Debt service adjustment discretionary spending		\$(1.00)	\$(4.00)	\$(8.00)	\$(13.00)	\$(21.00)	\$(30.00)	\$(41.00)	\$(55.00)	\$(70.00)
Debt service adjustment extend Bush tax cuts			\$(4.00)	\$(14.00)	\$(28.00)	\$(43.00)	\$(60.00)	\$(78.00)	\$(98.00)	\$(119.00)
Debt service adjustments extend tax provisions	\$(1.00)	\$(1.00)	\$(3.00)	\$(5.00)	\$(7.00)	\$(10.00)	\$(12.00)	\$(16.00)	\$(20.00)	\$(24.00)
Total Outlays	\$(3,025.00)	\$(3,183.00)	\$(3,374.00)	\$(3,477.00)	\$(3,697.00)	\$(3,894.00)	\$(4,110.00)	\$(4,386.00)	\$(4,602.00)	\$(4,818.00)
Deficit	\$(225.00)	\$(304.00)	\$(370.00)	\$(327.00)	\$(437.00)	\$(472.00)	\$(526.00)	\$(629.00)	\$(660.00)	\$(681.00)
Deficit % GDP	-1.52%	-1.95%	-2.25%	-1.89%	-2.42%	-2.50%	-2.67%	-3.06%	-3.08%	-3.05%
Debt	\$(5,457.00)	\$(5,761.00)	\$(6,131.00)	\$(6,458.00)	\$(6,895.00)	\$(7,367.00)	\$(7,893.00)	\$(8,522.00)	\$(9,182.00)	\$(9,863.00)
Debt % GDP	-36.84%	-36.93%	-37.28%	-37.42%	-38.21%	-39.07%	-40.10%	-41.49%	-42.85%	-44.12%
Revenue % GDP	18.90%	18.46%	18.27%	18.25%	18.07%	18.15%	18.21%	18.29%	18.40%	18.51%

Endnotes

- 1 Congressional Budget Office, "The Budget and Economic Outlook: Fiscal Years 2008 to 2018," January 2008. Appendix F: Historical Budget Data. Available at http://www.cbo.gov/ftpdocs/89xx/doc8917/01-23-2008_BudgetOutlook.pdf.
- 2 Len Burman, "Scoring McCain's Tax Proposals," Tax Policy Center, April 17, 2008, available at http://taxvox.taxpolicycenter.org/blog/_archives/2008/4/17/3644448.html.
- 3 Tax Policy Center, "Elements of Senator John McCain's Proposed Tax Plans, Impact on Tax Revenue," April, 16, 2008. Available at <http://www.taxpolicycenter.org/numbers/displayatab.cfm?DocID=1786>.
- 4 Reuven Avi-Yonah, "Senator McCain's Corporate Tax Proposals," (Washington: Center for American Progress Action Fund, 2008). Available at http://thinkprogress.org/wonkroom/wp-content/uploads/2008/04/corporate_tax.pdf.
- 5 John McCain, "Reforming Washington to Regain the Trust of Taxpayers," available at <http://www.johnmccain.com/Informing/Issues/4dbd2cc7-890e-47f1-882f-b8fc4cfec78.htm#reform>.
- 6 James Kvaal and Robert Gordon, "Five Easy Pieces and Two Trillion Dollars: The Bush-McCain-Norquist Tax Agenda," (Washington: Center for American Progress Action Fund, 2008), available at http://www.americanprogressaction.org/issues/2008/pdf/tax_agenda.pdf.
- 7 Congressional Budget Office, "The Budget and Economic Outlook: Fiscal Years 2008 to 2018," January 2008. Chapter 3. "The Spending Outlook: Net Interest," p75, available at http://www.cbo.gov/ftpdocs/89xx/doc8917/01-23-2008_BudgetOutlook.pdf.
- 8 Congressional Budget Office, "The Budget and Economic Outlook: Fiscal Years 2008 to 2018," January 2008, Table 1-5.