



CHAPTER 1:
ECONOMY



THE WINNING ARGUMENT: John McCain's Economic Plan

I. John McCain's tax plan is hugely expensive and highly regressive.

- John McCain wants to double George Bush's tax cuts. He is proposing an additional \$300 billion a year in tax cuts on top of keeping Bush's tax cuts permanent.
- McCain's tax cuts deliver \$175 billion a year to corporations, including:
 - \$45 billion a year for the top 200 corporations in America (the *Fortune 200*) (report forthcoming)
 - \$1.4 billion a year for Wal-Mart (forthcoming)
 - \$1.2 billion a year for ExxonMobil
 - \$4 billion a year for the top 5 oil companies in the U.S.
 - \$2 billion for the top 10 health insurance companies in the U.S.
 - \$3 billion for the top 10 energy and utility companies in the U.S.
- McCain's tax cuts deliver nearly half of their benefits to the top 1 percent of taxpayers, and the bottom 80 percent get less than 20 percent of the benefits. McCain's "80/20 rule" makes his tax cuts even more regressive than Bush's.
- McCain's tax cuts provide virtually no benefit for the 36.5 million Americans living in poverty.
- Paying for McCain's tax cuts would require massive reductions—from 20 to 40 percent—in popular domestic programs such as Head Start, Pell Grants, Title I school funding, and nutrition aid for mothers and children.
- In 2001, a time of relative peace when the U.S. enjoyed huge budget surpluses, John McCain opposed President Bush's tax cuts because he believed they were unfairly tilted to the rich and fiscally irresponsible. Today, in a time of war when the U.S. is running huge deficits, McCain is running for president on a tax plan that is less fair and more fiscally irresponsible than the Bush tax cuts he once opposed.

II. John McCain's fiscal plan is highly irresponsible.

- McCain has accounted for only about ten percent of the money he needs to pay for his tax plan. Experts estimate that McCain has identified a maximum of \$33 billion in savings to pay for his \$300 billion per-year tax cut package. (McCain has admitted that his savings accounting "disagrees with the experts.")



- McCain's claim to save \$60 billion by cutting earmarks was described to the Wall Street Journal as "so intellectually dishonest it's outrageous" by a former Reagan administration tax official. The most credible effort at earmark accounting in recent years, conducted by Taxpayers for Common Sense, totaled earmarks at \$18.3 billion in the FY2008 budget. The Heritage Foundation puts the number at \$9 billion. McCain has not clarified how he arrives at \$60 billion.
- McCain's current fiscal plan would create the largest federal deficits in 25 years, and plunge the U.S. into the deepest debt since World War II. McCain's policies 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.
- McCain's plan would slash government revenues to their lowest levels since before 1962. Government revenues have averaged 18.3 percent of GDP for the past 25 years, but would average only 16.3 percent of GDP for the duration of McCain's two terms. Under current Bush policy, revenues would remain above 18 percent of GDP.



McCain Adopts ‘Entire’ Norquist Agenda, Will Double The Bush Tax Cuts

Our guest bloggers are [Robert Gordon](#) and [James Kvaal](#), Senior Fellow and Domestic Policy Advisor, respectively, at the Center for American Progress Action Fund.

Everyone knows that John McCain has [reversed](#) himself on the Bush tax cuts, which he once said came “at the expense of middle-class Americans.” What’s not yet well known is that McCain has offered his own massive tax cuts, mostly for corporations, that are as costly as Bush’s tax cuts and even more regressive.

McCain has won the heart of far-right tax activist Grover Norquist, who only three years ago was calling McCain “[the nut-job from Arizona](#)” and a “gun-grabbing, tax-increasing Bolshevik.” But here’s what [Norquist says about McCain](#) now:

[John McCain] campaigned on being very good on taxes in this election cycle... that he will continue to make [the Bush tax cuts] permanent, that he will veto any tax increase, period, that he wants to cut the corporate rate from 35 percent to 25 percent, that he wants to have full expensing, that he wants to abolish the AMT **In addition to being the Americans for Tax Reform’s entire agenda, that is a very pro-growth set of policies he has put forward**, and he articulates why they are important.

The McCain plan may please Norquist, but what does it mean for middle-class families? According to a [new analysis released today](#) by the Center for American Progress Action Fund, McCain’s new proposals would do the following:

- **Double the size of the Bush tax cuts**, costing more than \$2 trillion in their first decade.
- **Do virtually nothing for the middle class**: only 9 percent of the tax cuts will go to the bottom 80 percent of households, while 58 percent will go to the top 1 percent of households.
- **Follow Norquist’s blueprint** that’s been called a “stealth approach to tax reform” – and that aims to abandon progressive taxation in favor of a wage tax imposed mainly on low- and middle-income households.

<http://thinkprogress.org/wonkroom/2008/03/21/mccain-norquist-agenda/>



What You Need To Know About McCain's Economic Plan

Our guest bloggers are [Robert Gordon](#) and [James Kvaal](#), fellows at the Center for American Progress Action Fund.

Earlier today, Sen. John McCain outlined a series of [economic proposals](#) in a Pittsburgh speech. Here is reaction to his speech:

Corporate Tax Cuts Are Still Front and Center: By far, the biggest and most expensive part of McCain's tax agenda remains his [\\$1.7 trillion tax cut](#) for corporations. There is little evidence that taxes are hurting American competitiveness; corporate taxes are the [fourth-lowest](#) in the industrialized world as a share of the economy.

Tax Cuts Blow a Hole in the Budget: McCain's tax cuts now total approximately \$300 billion a year (in addition to the cost of making the Bush tax cuts permanent). But McCain's proposals to pay for these tax cuts fall far short. For example, he specified only budget cut — charging higher premiums for the Medicare drug benefit — and that would save [only \\$1 billion](#) a year.

The Gas Tax Break Is Temporary: Unlike McCain's corporate tax cuts, the gas tax rebate would apply only in 2008 — before McCain could be president and implement these ideas. While offering some help to drivers, it would add \$11 billion to the deficit.* A better approach would replace those revenues by repealing special tax breaks for oil companies.

Deliver Most of Its Benefit to the Top: Before today, McCain was running on an extremely regressive tax agenda that delivered [58 percent](#) of its benefits to the top 1 percent of taxpayers and only 9 percent to the bottom 80 percent. Doubling the dependent exemption — while not as regressive as McCain's earlier plan — still gives less to regular families than to high-income families in higher tax brackets:

- It is worth \$1225 per child for a high-income earner.
- It is worth \$525 per child for a middle-income earner.
- It is worth nothing to many members of the working poor, who do not pay income taxes (despite paying thousands in payroll and other taxes).

The Wonk Room's more detailed analysis of the McCain speech is available [here](#).

* Because the gas tax is earmarked for investments in infrastructure, the post originally expressed concern of the negative impact on transportation and mass transit. However, this afternoon the McCain campaign clarified that the its proposal would continue to pay for transportation investments out of general revenue.

<http://thinkprogress.org/wonkroom/2008/04/15/mccain-econ-speech/>



McCain Would Give America's 200 Largest Corporations \$45 Billion In Tax Breaks

Ben Furnas

If you're a CEO of one of America's largest corporations and have enjoyed the Presidency of George W. Bush, a contribution to the McCain campaign is looking like a pretty good investment.

A [new report](#) from the Center For American Progress Action Fund finds that a key piece of John McCain's tax plan — cutting the corporate tax rate from 35% to 25% — would cut taxes by almost \$45 billion every year for America's 200 largest corporations as identified by Fortune Magazine.

Eight companies — Wal-Mart Stores Inc., Exxon Mobil Corp., ConocoPhillips Co., Bank of America Corp., AT&T, Berkshire Hathaway Inc., JPMorgan Chase & Co., and Microsoft Corp. — would each receive over \$1 billion a year.

The following table shows the tax savings to America's five largest firms. See a full list of all 200 companies and their savings under McCain [here](#):

Center for American Progress Action Fund		
MCCAIN'S TAX CUTS FOR AMERICA'S LARGEST COMPANIES		
	WORLDWIDE PROFITS IN 2007	MCCAIN TAX CUT
Wal-Mart Stores	\$13 billion	\$1.4 billion
Exxon Mobil	\$41 billion	\$1.3 billion
Chevron	\$19 billion	\$400 million
General Motors	-\$39 billion	\$110 million
ConocoPhillips	\$12 billion	\$1.1 billion
Total, Top 200 Companies	\$508 billion	\$44.5 billion

These giveaways are just one part of McCain's [doubling of the Bush tax cuts](#) for corporations and the wealthy which would create the [largest deficits in 25 years](#) and drive the United States into the deepest deficits since World War II.

A recent analysis by the Public Campaign Action Fund found that John McCain's campaign has received [\\$5.6 million](#) from the PACs and executives of the Fortune 200.

Over the past eight years, under George W. Bush, American workers have seen their [wages stagnate](#) as [corporate profits have skyrocketed](#). John McCain's misguided priorities show he's more of the same: the same \$45 billion in tax cuts for America's 200 largest companies could be used to [lift over 9 million Americans out of poverty](#).

<http://thinkprogress.org/wonkroom/2008/06/26/fortune-200-report/>

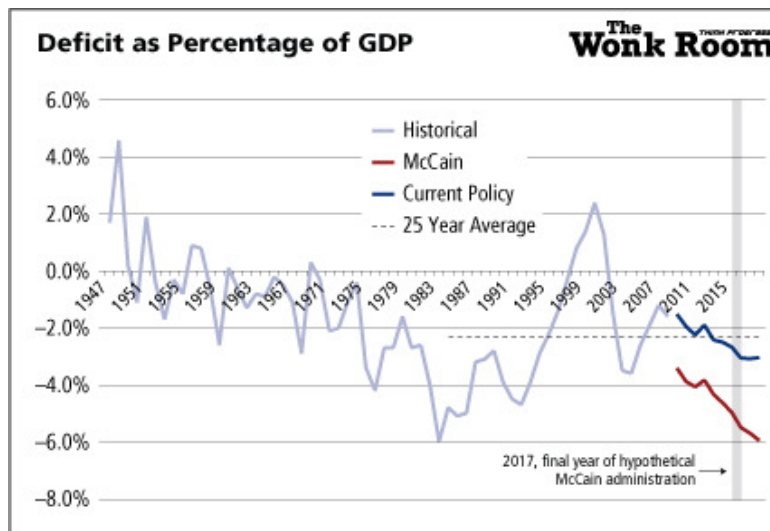


McCain's Budget Would Create Largest Deficit In 25 Years, Largest Debt Since WWII

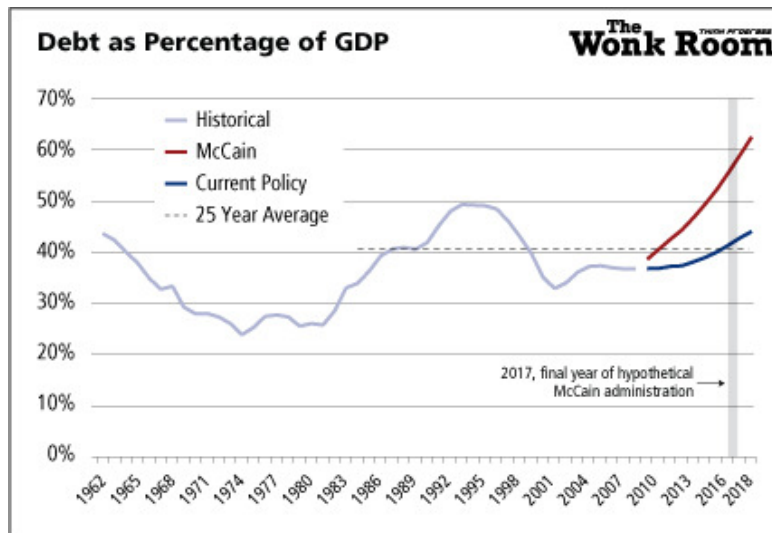
Ben Furnas

Sen. John McCain [promises](#) that, as president, he would “cut taxes and balance the budget.” But his current economic plan would create deficits as deep as 5.7% of GDP by the end of a two term presidency — the highest federal budget deficit in 25 years — and would accumulate the [biggest debt](#) since the second World War, according to a [new analysis](#) by the Center for American Progress Action Fund. McCain's current fiscal plan would recklessly exacerbate the fiscal irresponsibility of the Bush Administration further by gutting revenues far below the average level of the past 25 years.

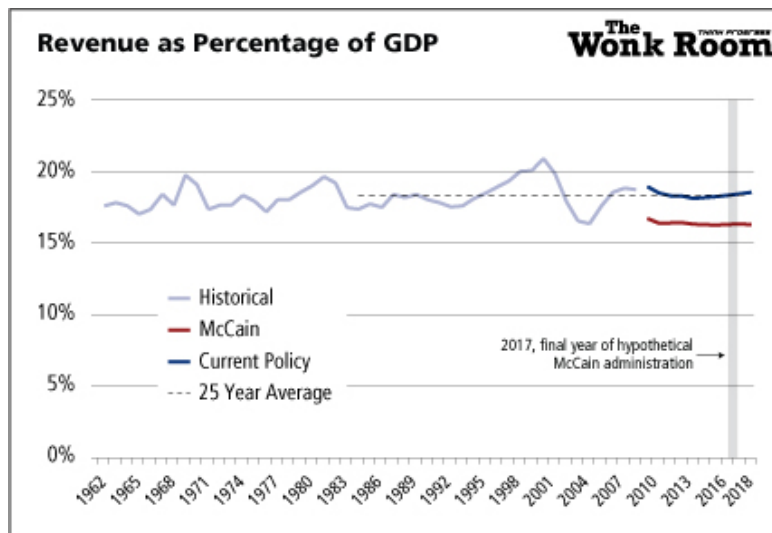
For the past 25 years, deficits have [never been more severe](#) than 5% of GDP, with [surpluses](#) as high as 2.4% of GDP in the year 2000. Under McCain, yearly deficits would increase sharply, beginning with \$505 billion in FY2009 (3.4% of GDP) and skyrocket to \$1.2 trillion (5.7% of GDP) by FY2017. In 2018 these deficits would reach 6% of GDP, tied with the largest deficits since WW2 in 1983. Current Bush policies [would keep the deficit](#) in 2017 to \$660 billion (3.1% of GDP).



According to the study, McCain's economic plan, (which includes a corporate tax cut, a full repeal of the AMT, and an extension of the Bush tax cuts) would leave a debt of \$12.7 trillion (the highest [since 1951](#) when America was still holding debt from WW2) by the last budget of a two term presidency starting in 2009 (FY2017). This debt is \$3.5 trillion more severe than the one resulting from an extension of current Bush policy, which would leave a debt of \$9.2 trillion (43% of projected GDP).



McCain would slash government revenues, which have averaged 18.3% 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. These “savings,” which come nowhere near paying for his reckless tax cuts, already include “[heavy cuts](#) in after-school programs, student aid, public broadcasting, and job training.” To fill the gaping remaining hole, McCain supporters have suggested policies that would lead to “[massive cuts](#)” in Social Security.

<http://thinkprogress.org/wonkroom/2008/05/15/mccain-deficit/>



Earmark Accounting Leaves Two Thirds Of McCain Tax Proposal Unfunded

Our guest blogger is [Scott Lilly](#), a Senior Fellow at the Center for American Progress Action Fund.

Alright, so maybe a candidate for President of the United States doesn't need to know the first thing about the Federal Budget. That's a job for staff—right? But what if a candidate for President doesn't know anything about the budget and can't hire someone who does?

That appears to be the situation that John McCain is in, based on the background provided today by his "Director of Economic Policy" Douglas Holtz-Eakin [told reporters](#) recently:

We have \$60 billion in discretionary spending that was sourced to earmarks.

Holtz-Eakin says that money could be used to fix the repeal the alternative minimum tax. The problem is that virtually no one can find even a third that much money in the annual spending bills in earmarks.

The most credible effort at earmark accounting in recent years was completed recently by the Taxpayers for Common Sense. They did an exhaustive review of the 2008 spending bills and reported [\\$18.3 billion in earmarks](#). The White House Office of Management and Budget scrubbed the twelve 2008 appropriation bills and came up with only \$16.9 billion. Where does McCain's other \$41.7 billion come from?

There is virtually no explanation. Did Congress spend money in other areas that McCain is counting but neither Taxpayers for Common Sense for the White House counts? That seems to be a hard argument to make. For 2008, the President's request totals \$932.8 billion (not counting the pending supplemental.) The Congressional Budget Office scores the action taken by the Congress on the 2008 appropriation bills at \$932.8 billion—exactly the amount requested.

There were some areas that Congress spent more than the President requested and other areas where Congress spent less than the request. But McCain would find it difficult in most instances to object to the judgments made by Congress, for instance the \$3.8 billion to improve the quality of health care for returning veterans which was included in the final Military Construction—Veterans bill but not contained in the President's request.

It is even difficult to imagine that McCain would want to get rid of all of the earmarks. \$1.2 billion of which was for better housing and facilities for servicemen and their families at military installations around the world.

The disturbing point here, however, is that even by the loose rules of budget discipline used in Washington in recent years this accounting is completely off the wall. Revenue cuts that are offset by phony spending reductions simply add to the deficit and the nation's long term debt burden. Senator McCain needs to detail his figures in a manner similar to the materials provided by OMB and Taxpayers for Common Sense.

<http://thinkprogress.org/wonkroom/2008/04/16/earmarks-mccain-proposal/>



Sen. McCain's HOME Plan: Late to the Party with a Flawed Plan

By Sarah Rosen Wartell

Attempting again to respond to critics about his weak grip on economic issues and the absence of an economic strategy, Senator John McCain (R-AZ) today offered a kitchen sink of economic proposals, including a long-awaited response to the housing and credit crises.

In his remarks, Sen. McCain makes clear that he continues to oppose providing “funds to purchase homes in foreclosure.” What he fails to understand is that foreclosed properties in a neighborhood depress the home values of innocent neighbors who happen to live down the street or around the corner from a foreclosed property—or increasingly a slew of foreclosed or abandoned homes. In addition to attracting crime and vandalism, foreclosed and abandoned properties will effectively evaporate the home equity savings of millions of American families—savings that they hoped to use to send a child to college, for retirement, or for a job loss or medical emergency.

The vast majority of Sen. McCain’s colleagues understand this fundamental point. The bipartisan legislation that passed the Senate today by a vote of 84-12 includes \$4 billion for such a Neighborhood Stabilization fund. Both House Financial Services Committee Chairman Barney Frank (D-MA) and Senate Banking Committee Chairman Christopher Dodd (D-CT) include community stabilization resources in their legislation. And the idea is taking off around the country. Governor Deval Patrick of Massachusetts included the same proposal in an economic recovery package he [announced yesterday](#). But states are calling upon the federal government for resources for this need, as evidenced by a [bipartisan letter](#) from the National Governor’s Association.

Senator McCain’s HOME Plan: Late to the Party with a Flawed Plan

Sen. McCain finally recognizes what Treasury Secretary Henry Paulson, federal regulators, and the Bush administration-inspired HOPE NOW Alliance figured out 12 months ago—we need to encourage lenders to write down at-risk mortgages to a value that is both sustainable for the borrower and relates to the current value of the property. Unfortunately, the administration’s efforts to extort lenders to do this on their own have failed. The time has come for more powerful government action to drive mortgage restructurings. If not, we face the prospect of a more radical government intervention like direct government ownership of failed assets, as in the savings-and-loan crisis of the 1980s.



Sen. McCain's proposal to get there doesn't make the grade. By the McCain campaign's own (highly optimistic) estimates, his plan would help 200,000 to 400,000 borrowers—when 2.2 million homeowners today face foreclosure. And the plan explicitly excludes those who were victims of predatory lending from participating. Eligibility criteria requires that borrowers were creditworthy at the time the original loan was made, yet many of those steered to high-risk mortgages were not “creditworthy” for a loan of that size and terms.

The key issue today is whether borrowers currently show the capacity to repay the loan at a new principal amount. Why should those who were most victimized by the worst subprime mortgage practices be the first excluded from help?

Then there's the fact that Sen. McCain's plan would be available only to those with an original subprime loan. Today's mortgage crisis extends far beyond the subprime market as more and more prime borrowers are “underwater,” owing far more on their homes than the property is worth. If we cannot restructure the loans of viable borrowers into new mortgages, then the larger goal of stabilizing housing prices and restoring credit market liquidity won't be reached.

Finally, the senator's plan relies on the homebuyer to apply for the refinancing. Alas, as the administration's own failed voluntary efforts reveal, far too few borrowers will seek out available assistance. And a loan-by-loan approach is not realistic given the scale of the problem.

The Center for American Progress has proposed [a concept](#) included in legislation proposed by Chairmen Frank and Dodd that would allow for bulk transfers of pools of loans to new owners without the conflicts of interest and legal liability concerns of current securitization trusts. These new owners could triage the pools, hold what works, work with borrowers to terminate loans that are not salvageable, and restructure the remainder quickly through streamlined procedures.

That's the right approach. After all, by the time Sen. McCain's new HOME Plan is up and running and borrowers apply, it would be too late.

Sarah Rosen Wartell is the Executive Vice President, Center for American Progress Action Fund and a former official at the Federal Housing Authority

http://www.americanprogressaction.org/issues/2008/home_plan.html



John and Cindy McCain would reap \$373,429 if McCain's tax proposal were enacted

By Faiz Shakir

In a new Center for American Progress Action Fund [analysis](#), Michael Ettlinger documents how much the presidential candidates stand to personally benefit from the McCain and Obama tax proposals. The McCains — who report an annual income of over \$6 million — [would receive well over \\$300,000](#) from John McCain's tax plan. By contrast, both the Obamas and McCains would receive a substantial, albeit much smaller, savings under Obama's tax plan:

	John and Cindy McCain	Barack and Michelle Obama
Savings Under McCain Tax Plan	\$373,429	\$49,329
Savings Under Obama Tax Plan	\$5,641	\$6,124

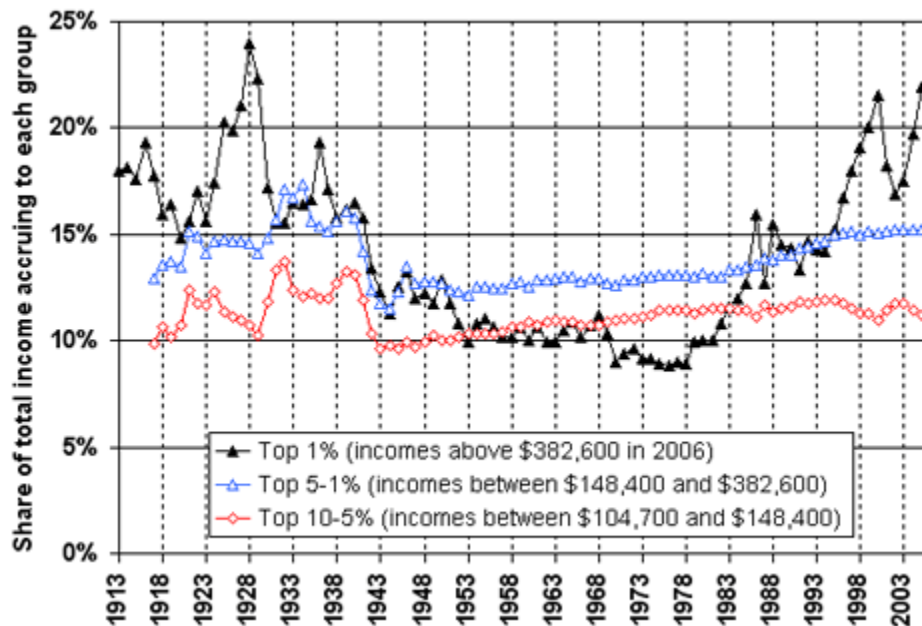
Check out The Wonk Room for [the full details](#), including how the McCain and Obama households fared under the Bush tax cuts.



Income Disparity And Wealth Consolidation Show Eerie Resemblances To 1928

Our guest blogger is [Robert Gordon](#), a Senior Fellow at the Center for American Progress Action Fund.

When you're not checking the stock market today, check out [Emmanuel Saez's](#) recently updated [tables](#) on income inequality. Here's an interesting table:



Look at incomes for the top 1% of earners — the solid black triangles. You'll see that in 2006, their share of the nation's income (22.9%) reached its modern peak. The only year higher? 1928.

Another table shows that the top 10% in 2006 took a bigger share (49.7%) than at any point since 1917. The year 1928 was the runner-up.

Let's hope that 2006 and 1928 don't end up [looking similar](#) in other ways. If they do, it will be a good reminder that growth needs to be shared not just because it's right, but also because it'll last longer.

<http://thinkprogress.org/wonkroom/2008/03/17/1928-resemblances/>



Ex-Reagan Official: McCain Claim On Corporate Expensing Is ‘So Intellectually Dishonest It’s Outrageous’

Think Progress

Last week, the McCain campaign reaffirmed its proposal to allow companies to immediately deduct the full cost of equipment and technology purchases. The campaign [claimed](#) that this proposal has “negligible costs over time,” while the Center for American Progress Action Fund [disagreed](#) and put the cost at \$75 billion a year based on information from Treasury and CBO (more [here](#), [here](#), and [here](#)).

Today, the Wall Street Journal [weighs in](#): [McCain’s] campaign also says there is no cost to a proposal regarding the tax treatment of capital expenses. Outside experts put the cost at tens of billions of dollars a year.

Under that plan, the federal government would take an upfront tax hit and be forced to pay additional interest on a larger national debt, said Ronald Pearlman, a tax professor at Georgetown Law Center and assistant secretary for tax policy under President Reagan.

To say there is no cost to the government is “so intellectually dishonest it’s outrageous,” Mr. Pearlman said. Mr. Bounds, the McCain spokesman, responded: “Clearly there is a difference of opinion here.”

The WSJ provides this handy chart detailing the McCain’s failure to account for his spending:



<http://thinkprogress.org/wonkroom/2008/04/22/expensing-wsj-story/>



Douglas Holtz-Eakin Vs. Douglas Holtz-Eakin On Corporate Expensing

Our guest bloggers are Robert Gordon and James Kvaal, fellows at the Center for American Progress Action Fund.

John McCain has proposed to let corporations immediately deduct (or “expense”) the full cost of equipment and technology purchases, rather than deducting the costs over time. We analyzed this proposal several weeks ago and concluded that it would cost \$745 billion over the next 10 years.

The McCain campaign and its top economic advisor, Dr. Douglas Holtz-Eakin, are now saying that this central provision of his corporate tax cut will cost taxpayers nothing. But the Congressional Budget Office, when led by Dr. Douglas Holtz-Eakin, reached the opposite conclusion.

The McCain campaign is claiming this measure is free because Treasury will lose money at first, then recoup it over time.

On its face, this doesn’t make a lot of sense. We all know \$100 today is worth more than \$10 a year for 10 years. And McCain is saying his plan will increase investment — how could that be if his plan has no cost to the Treasury?

In the past, Holtz-Eakin has recognized that expensing costs money. He signed a cost estimate for making permanent a provision of the 2002 stimulus package that allowed companies to expense 50% of their costs. The estimate is the last line on page 92 here, reproduced below:

92 THE BUDGET AND ECONOMIC OUTLOOK: FISCAL YEARS 2005 TO 2014

Table 4-10.

Effect of Extending Tax Provisions That Will Expire Before 2014

(Billions of dollars)

Tax Provision	Expiration Date	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total, 2005-2009	Total, 2005-2014
Partial Expensing at 50 Percent	12/31/04	3.1	-41.4	-71.1	-66.2	-57.5	-48.4	-39.8	-33.0	-28.2	-26.0	-28.4	-284.6	-440.1

This estimate shows that allowing companies to expense 50 percent of new investments would cost \$440 billion over 10 years. And the costs are still very high, nearly \$30 billion, 10 years after the provision is made permanent. McCain’s proposal for 100 percent expensing would be even more expensive.

If Holtz-Eakin was right then, how can he be right now?

<http://thinkprogress.org/wonkroom/2008/04/18/corporate-expensing/>



The McCain Deficit: Douglas Holtz-Eakin Continues To Debate With Himself

Our guest blogger is [James Kvaal](#), Domestic Policy Advisor at the Center for American Progress Action Fund.

The story so far: Senator John McCain has proposed [\\$300 billion a year](#) in tax cuts, but – as *The Economist* [wrote](#) – “the savings in government spending he promises will not come anywhere close to paying for the tax cuts.”

Yesterday, McCain economic advisor [Douglas Holtz-Eakin defended his McCain budgeting](#) over at the *National Review*, arguing that McCain’s proposals will restrain spending and promote economic growth.

But, as [Ruth Marcus](#) pointed out, two years ago [Holtz-Eakin sounded very different](#). He said then that, realistically, “government will not be getting any smaller” due to widespread public support for government’s activities. Even a “tremendous effort” by Congress to eliminate wasteful spending totaled less than 0.07 percent of the economy. (McCain’s \$300 billion tax cut equals approximately 2 percent of the economy.)

Maybe that is why Holtz-Eakin’s new argument focuses on McCain’s cuts to entitlement programs like Social Security and Medicare. But McCain has already proposed cutting Social Security and Medicare benefits to restore those programs’ solvency. Does he really want even more cuts — hundreds of billions of dollars more — to pay for his tax cuts, [as Angry Bear wonders?](#)

It seems more likely that Holtz-Eakin is changing the subject, preferring to discuss the long-run entitlement problem rather than the short-run deficit problem. But adding hundreds of billions, even trillions, to the debt now will only make our long-run problems worse.

<http://thinkprogress.org/wonkroom/2008/04/23/mccain-deficit-dhe>

