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Floor Statement of Senator Chuck Grassley:  
Deficit Impacts of Senators McCain and Obama's tax plans  
Delivered Friday, Sept. 26, 2008

Starting in the third week of July, I've come to the floor to compare the tax plans of Senators McCain and Obama, our two Presidential candidates. I've talked about the relationship between party control and the likelihood of a tax hike or tax cut. I've used this chart, the tax hike thermometer. I talked about the 1992 campaign promise of a middle class tax cut and the 1993 tax legislation that contained a "world record" tax increase. I've used this chart, which depicts 16 years of tax hike amnesia and Rip van Winkle.

In our first week back, I discussed the effects of the proposed 17% to 33% increases in the top two rates. I focused on small business activity. Last week, I discussed the impact of Senator McCain's and Obama's tax plans on seniors.

Today, I'd like to focus on the fiscal impact of both tax plans. It is particularly timely considering the recent Treasury activity and proposals to resolve the problems in our nation's financial sector. Needless to say, from a fiscal policy standpoint, we are sailing into uncharted waters.

I'm sure everyone realizes that there is always a large gap between what a Presidential candidate promises and what that candidate is able to deliver on if elected, but we still need to carefully examine the plans that both of my colleagues are putting forward. While neither plan is likely to be enacted exactly as laid out in the campaign, we can evaluate how realistic they are and also gain some insight in the candidates' vision of the tax code.

For a long time now I've been saying that we should stop calling the tax relief enacted in 2001 and 2003 the Bush tax cuts and call it bipartisan tax relief. Both bills, especially the 2001 bill, were passed with Democratic support in Congresses where the Republican majority was very narrow.

In the case of the 2003 tax relief bill, Republicans passed the bill in the Senate only due to Vice-President Cheney's tie-breaking vote. So the implication that President Bush or Republicans were able to impose this legislation by themselves is ridiculous. The 2001 and 2003 bipartisan tax relief bills became law only with the support of members of both political parties.

In confirmation of what I have been saying, in that the 2001 and 2003 tax relief bills were both bipartisan, we find that both major campaigns have adopted what is essentially the meat and potatoes of both bills.

To illustrate how both campaigns have adopted significant parts of the 2001 and 2003 tax relief, I present this chart, taken from the Tax Policy Center. This chart shows the fiscal impact of how both plans would change current law. As you can see, the Tax Policy Center shows that Senator McCain's plan to prevent widespread tax increases would lose revenue of \$4.2 trillion over 10 years. Senator Obama's plan, which would include some widespread tax increases, would also contribute the deficit. The Tax Policy Center says that number would be \$2.9 trillion over 10 years.

I have another chart here. This chart, assumes current law levels of tax relief in effect, and compares Senator McCain's and Senator Obama's plans. The Tax Policy Center also produced the data in this chart. This chart shows Senator McCain's plan would raise \$600 billion less than current tax policy. Senator Obama's tax plan would raise \$600 billion more than current policy.

Now, I respect the veteran analysts at the Tax Policy Center. They have worked hard to develop a lot of data for policy makers, like those of us in this body, to use. If, however, we were processing legislation, it would have to be scored by the non-partisan Joint Committee on Taxation. So, the Tax Policy Center data is helpful, but we must note that that Joint Tax will be the decisive scorekeeper of any tax legislation that either candidate would propose in their budgets.

The Tax Policy Center has acknowledged that both candidates' plans lack details. Necessarily, then the analysis and conclusions reached by the Tax Policy Center are qualified. There's a key caveat in these totals. Both plans assume revenue raising offsets that lack the specificity to be scored.

Senator Obama has specified about \$100 billion in defined revenue raising proposals. That is close to the most aggressive accounting of revenue raisers in the Congressional inventory. I'm going to refer to a snapshot of revenue raisers the House Ways and Means Committee has developed. It is in what I've referred to as the revenue raising well chart.

As this chart shows roughly \$90 billion in revenue-raising offsets that have been defined, scored, and approved by the Ways and Means Committee. That figure is considerably higher than the revenue raisers approved by the Senate Finance Committee. Some of these offsets will be used in legislation that we hope to pass shortly. This well chart gives us a rough snapshot of what is available. Let's give the candidates the benefit of the doubt and round that up to \$100 billion. Let's also look at the track record of the tax writing committees over the last few years. If you look at that history, you'll find the committees generate about \$1 billion per month. So, let's gross-up the defined revenue raisers to \$220 billion.

Now, if you take that conservative number of \$220 billion, how do the plans stack up? Senator Obama's tax plan contains \$920 billion in unspecified, unverified tax increases. If we net that number against the \$220 billion, we find that Senator Obama's plan is short on specified revenue raisers by \$700 billion. To be even-handed, Senator McCain is carrying \$365 billion in

unspecified revenue raisers. If we net that number against the known revenue raiser number of \$220 billion, we find that Senator McCain's plan is short of revenue raisers by \$145 billion. Let's step back a moment. It means that the deficit impact of Senator McCain's plan is understated by about \$145 billion. It means that the deficit impact of Senator Obama's plan is understated by \$700 billion.

As against the current tax policy baseline, it means the plans aren't as far apart as they might appear. Let's go back to the current policy baseline chart. It means we need to raise Senator McCain's deficit impact number from \$5.3 trillion to \$5.45 trillion. Likewise, we need to raise Senator Obama's deficit impact number from \$3.9 trillion to \$4.6 trillion. Keep in mind that the current policy baseline shows a revenue loss of \$4.7 trillion. That's what the Ranking Republican on the Ways and Means Committee, Mr. McCrery, calls the "reality baseline."

In recent weeks, Senator Obama has indicated he might re-visit the marginal rate increases and increases in tax rates on dividends and capital gains after the election. If elected, Senator Obama indicated he might revisit these tax increases if the economy is in recession. So, the deficit impact of Senator Obama's plan might be further understated.

Now, if the candidates were just proposing tax changes, the deficit impact of their plans would end with these figures. That would assume neither candidate would be doing anything on the spending side.

There is no Congressional Budget Office ("CBO") estimate of the two candidates' spending plans. A non-partisan think tank, the National Taxpayers Union Foundation, has performed analyses and estimates of the two candidates' plans. You can find a comparative analysis at [www.ntu.org/main/page](http://www.ntu.org/main/page).

Let's take a look at Senator McCain's plan first. The National Taxpayers Union ("NTU"), a non-partisan public policy research organization, NTU says Senator McCain's plan would include new spending of \$68.5 billion per year. You can find the document at [www.ntu.org/pdf/P080603McCain\\_SpendingAnalysis.pdf](http://www.ntu.org/pdf/P080603McCain_SpendingAnalysis.pdf).

Senator McCain has made it clear that he wants to cut spending. That's consistent with his career in the Senate. He's been a spending cutter. Sometimes, it's been a lonely fight. And Senator McCain, despite fighting wasteful spending hard, has lost. Sometimes, I've disagreed with his definition of wasteful spending. But one thing is clear, Senator McCain pushes spending cuts. And any honest, non-partisan observer wouldn't quarrel with that point. Senator McCain's overall economic plan continues his principle of cutting spending and keeping taxes low.

Senator Obama's plan on spending is completely different. NTU counted up 158 new Federal spending programs. A conservative estimate of those programs came to \$344.6 billion per year. That's right. We're talking to \$344.6 billion per year. You can look up the NTU analysis at [www.ntu.org/pdf/P080603Obama\\_SpendingAnalysis.pdf](http://www.ntu.org/pdf/P080603Obama_SpendingAnalysis.pdf)

If my friends on the other side have what they feel is a better estimate of Senator McCain's

and Senator Obama's new spending plans, I'd be glad to take a look at it. But, when you look at the NTU analyses, you can see that Senator Obama's spending plans would amount to \$276 billion more per year. Conservatively speaking, it means that, if elected, a President Obama's tax and spending plans, if enacted, would exceed a President McCain's plans, in deficit impact, before the end of the first term, 2012.

Something has to give. Senator McCain has been willing to put spending cuts on the table. It's been a hallmark of his congressional career. He'd have to find a way to get the Congress to follow. It would probably be his greatest challenge, but we know he'd fight the fight to restrain spending.

As a country, we cannot endure a deficit impact as big as would be projected under Senator Obama's tax and spending plan. Where will Senator Obama adjust his plan if elected? Will he abandon the tax cuts he's promised? Will he enlarge the group of Americans he's targeted for tax increases? Will he abandon his ambitious spending plans? Will he cut spending?

Most importantly, a President McCain or a President Obama is likely to be dealing with expanded Democratic majorities on Capitol Hill. The tax increase thermometer tells us that, with a unified Democratic government, taxes are likely to go up. Spending is not likely to go down.

I'd like to review the issues I've raised today. Many folks are asking about the fiscal impact of the tax plans proposed by Senator McCain and Senator Obama. The Tax Policy Center has produced data looking at the proposals against current law. Both candidates implicitly acknowledge current law is not a realistic measure. With that noted, the Tax Policy Center has examined the proposals against the more realistic baseline, current tax policy. If unspecified revenue raisers are deducted from both plans, the deficit impact of both plans grows. Likewise, we find the gap in deficit impact between the two plans narrows.

We cannot ignore the deficit impact of the spending side of each candidate's plan. Senator Obama's plan outspends Senator McCain's plan by over 500 percent. When Senators McCain's and Obama's plans are combined, Senator Obama's plan adds more to the deficit. In this troubled time, the Federal Government has stepped into the breach of the financial sector meltdown. All the more reason we need to closely scrutinize the tax and spending plans of our colleagues, Senators McCain and Obama.