

MEMORANDUM TO INTERESTED PARTIES

FROM: JAMES KVAAL, POLICY DIRECTOR

SUBJECT: ROMNEY AND SANTORUM TAX AND BUDGET PLANS INCREASE THE DEFICIT BY TRILLIONS OF

DOLLARS

Governor Mitt Romney and Senator Rick Santorum claim they will champion spending cuts deep enough to cut taxes and balance the budget. In fact, they have both proposed irresponsible and reckless tax plans that would drive up the deficit by trillions of dollars, while their claims to balance the budget through spending cuts are completely unrealistic. Romney's plan would increase the deficit by at least \$175 billion a year.

Romney told the Conservative Political Action Conference earlier this month, "As president, I will not just slow the growth of government, I will cut it. I will not just freeze government's share of the total economy, I will reduce it. And, without raising taxes or sacrificing America's military superiority, I will finally balance the budget." Similarly, Santorum proposes \$5 trillion in cuts over five years, claiming to reach a balanced budget in the fifth year.

But the numbers don't add up. Both Romney and Santorum are proposing policies that would add trillions of dollars to the national debt over the coming decade. In analyzing Romney's plans, we pay particular attention to 2016, the only year for which the Romney campaign has released its own deficit reduction estimates. Both the Republican plans would:

- Add Trillions to the Deficit over 10 Years: Romney would spend hundreds of billions of dollars on tax cuts, expanded tax expenditures, and a defense buildup increasing the deficit by at least \$175 billion in fiscal year 2016 alone, even if he enacts his deficit reduction proposals. Santorum who has proposed even larger tax cuts and made even fewer specific proposals to reduce the deficit would create even higher deficits.
- Rely on Promises to Cut Spending that Are Not Credible: Romney's and Santorum's claims to balance the budget
 are unrealistic. Romney's budget would require cutting all non-defense spending by nearly 25 percent in 2016,
 according to the Center on Budget and Policy Priorities, and by 48 percent if Social Security and Medicare are
 spared.³ Santorum's claims are even less realistic.
- Return to Trickle-Down, Boom-and-Bust Economics: Like their budgeting, the rest of Romney and Santorum's economic policies return to the trickle-down, boom-and-bust economics that failed in the past. Romney and Santorum's plans would leave the middle-class paying a higher share of the tax burden, increase the risk of future economic crises, gut investments in middle-class security, reverse efforts to reduce our reliance on foreign oil, and let the housing crisis "hit the bottom."

These proposals stand in stark contrast to the budget proposed by President Obama, which includes resources to jumpstart job creation now and lay a foundation of educating, innovating, and building for future prosperity. The president's budget would achieve more than \$4 trillion in balanced deficit reduction over the next decade, including \$1 trillion in savings from living within tight spending caps set by the Budget Control Act, and stabilizing the national debt at a sustainable level.

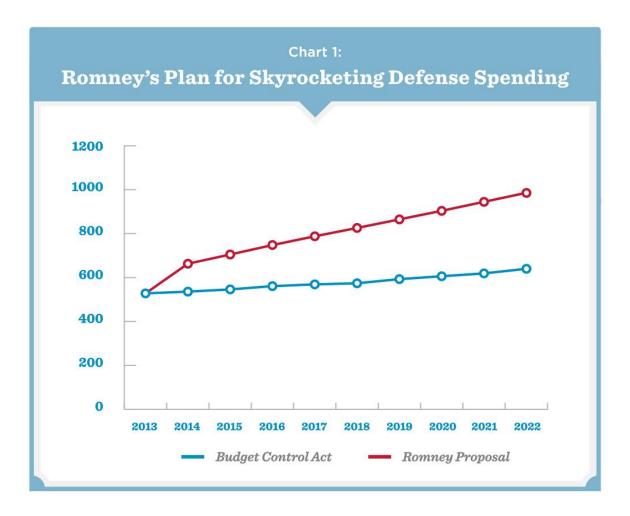


Romney's Calls for Record Deficit Spending

Romney repeatedly promises to balance the budget, but his platform not only fails to reach that goal — it would actually increase the deficit and drive up the debt. The cost of his tax cuts and defense increases will total approximately \$375 billion in Fiscal Year 2016, the year Romney chose as the benchmark for his budget plans. Those figures are shown in Table 1.

Table 1. Romney's Policies Cost \$375 Billion	
Increase base defense spending to 4 percent of GDP	\$187 billion
Romney tax plan	\$188 billion
Cost of Romney Policies So Far	\$375 billion

Sources: Based on Congressional Budget Office and Tax Policy Center. See Appendix.



Massive Defense Increases: The levels of core defense spending provided under the Budget Control Act and the president's budget remain near the highest levels since World War II, continue to grow in every year after 2013, and remain far higher than provided by a number of bipartisan deficit-reduction proposals including Bowles-Simpson. Defense spending will remain greater than the next 10 nations combined. In contrast, defense spending under Romney would skyrocket – far above the peak of Cold War spending in 1985 and reaching an arbitrary level that is not tethered to any articulated national security needs.



- **Huge Tax Cuts for Corporations:** Romney's tax plan promotes corporate profits and investor returns. The largest tax cut he proposes would reduce corporate taxes by \$100 billion a year with no plan or even commitment to pay for it. The tax burden on U.S. corporations is already among the lowest among industrialized nations due to the many corporate tax exclusions, deductions, credits and other special provisions.⁵
- More Tax Cuts for Investors: Romney would also completely eliminate the estate tax, eliminate taxes on capital gains, dividends, and interest for couples making less than \$200,000 a year, and expand the tax exclusion for health insurance premiums. He opposes closing the "carried interest" loophole that lets hedge fund and private equity millionaires including Romney himself pay a lower tax rate than millions of middle-class families, and his campaign said that he "didn't want to raise anyone's taxes."

In total, Romney's tax plan would increase the deficit by \$188 billion in 2016. The tax cuts are worth \$146,000 a year to individuals earning more than \$1 million a year. A typical middle-class family with children would actually pay \$34 more.⁷

Deficit Reduction Proposals Fall Short: Romney has proposed deep cuts to Medicaid and other programs, but even these cuts fall \$175 billion short of paying for Romney's tax cuts and defense spending – and they do not come close to balancing the budget.

Table 2 displays the deficit reduction steps proposed by the Romney campaign, which it claims total about \$225 billion in 2016. We have adjusted the figures for health reform, as explained below, for a total deficit reduction of \$197 billion. With the exception of health reform, the table relies on figures provided by the Romney campaign even though some of the claims are implausible and lack specificity. They claim to eliminate \$60 billion in waste and fraud, for example, without proposing any new actions to do so.

Table 2. Romney's Deficit Reduction Totals \$197 Billion	
Block grant Medicaid, worker training, and "other areas"	Over \$100 billion
Claimed reduction in waste and fraud	\$60 billion
Cut federal employee compensation	\$47 billion
Repeal Davis-Bacon to cut contractor pay	\$11 billion
Reduce the federal workforce by 10 percent	\$4 billion
Privatize Amtrak	\$1.6 billion
Reduce funding for National Endowments for the Arts and Humanities, the	\$0.6 billion
Corporation for Public Broadcasting, and the Legal Services Corporation	
Eliminate Title X Family Planning	\$0.3 billion
Reduce foreign aid	\$0.1 billion
Consolidate and streamline federal agencies	NA
Repeal the Affordable Care Act	(\$28 billion)
Total Impact on the Deficit, 2016	\$197 billion

Sources: Based on Romney for President and Congressional Budget Office. See Appendix.

The Romney campaign claims that repealing the Affordable Care Act would save \$95 billion. However, that figure ignores the deficit reduction included in that law. ⁹ It also double-counts the Medicaid provisions, which are included in Romney's \$100 billion in Medicaid savings. Repealing the ACA would increase the deficit by \$28 billion in 2016, based on our adjustments to Congressional Budget Office figures and as explained in the Appendix. And the repeal would increase the deficit by over \$500 billion over 10 years.

Not only do Romney's spending cuts fail to reduce the deficit, but they also contain a large human cost. Repealing the Affordable Care Act would leave Americans with serious illnesses unable to purchase insurance, seniors unable to afford



their drugs, and millions of Americans without access to preventive care like checkups. Together with the Medicaid cuts, it could deny health coverage to between 42 million and 52 million people, including young mothers with children, senior citizens in nursing homes, and adults with disabilities.¹⁰

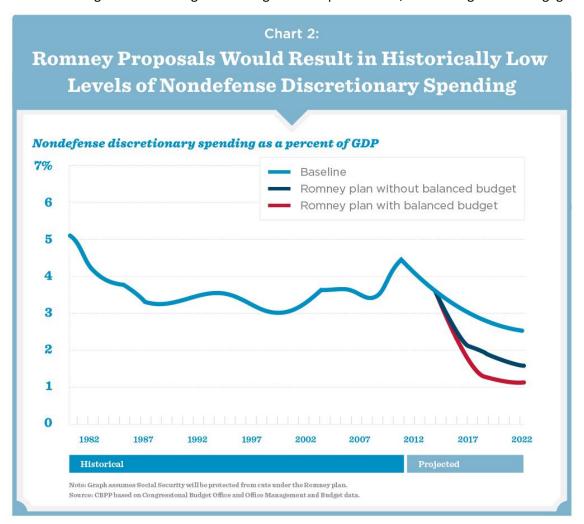
Romney's Claim to Balance the Budget Is Not Credible

Romney claims that he will balance the budget, while cutting taxes and increasing defense spending, solely through cuts in other parts of the budget. The Center on Budget and Policy Priorities has looked at what it would take to meet these promises.¹¹ In 2016, Romney's promise to balance the budget would require cutting domestic programs:

- By nearly 25 percent if no programs were spared;
- By nearly 35 percent if Social Security was spared; and
- By 48 percent if Social Security and Medicare were spared.

Moreover, the needed cuts would only grow over time. The total cuts would reach 38 percent in 2022 or 81 percent if Social Security and Medicare were spared. These cuts – averaging over \$1 trillion a year -- dwarf the already-deep spending cuts Romney proposes. It is simply not plausible that Romney can achieve such large spending cuts.

Whatever cuts he will make are likely to fall heavily on domestic discretionary spending. This category includes investments in the strength of the middle class like education, innovation, and our roads and bridges. These public investments are vital to long-run economic growth and global competitiveness, and cutting them mortgages our future.





Santorum: Even Larger Deficits

With its even larger tax cuts, the Santorum plan would drive up the deficit even higher. Santorum has proposed \$900 billion in tax cuts in 2015. 12

- Large Corporate Tax Cuts: Santorum would cut the corporate tax rate to 17 percent and eliminate corporate taxes entirely for manufacturers. He would also allow permanent full expensing of equipment and allow overseas profits to be returned tax-free under certain conditions.
- Individual Tax Cuts Shift Burden onto Middle Class: For individuals, the Santorum plan would collapse the tax code into two brackets, 10 percent and 28 percent. He would also triple the exemption for dependent children, cut the top tax rate on capital gains and dividends to 12 percent, repeal the estate tax, and repeal the alternative minimum tax.
- "Massive" Increases in the Deficit: Santorum's plan would raise the deficit by about \$900 billion in calendar year 2015, according to the Tax Policy Center. "The Santorum tax plan would, by any metric, lead to a massive increase in the deficit," according to Alex Brill of AEI. And like other Republican proposals, it is regressive, delivering 36 percent of its tax relief to the top 1 percent of taxpayers.
- **Spending Cuts Don't Add Up:** Santorum has promised to cut \$5 trillion in federal spending over five years. ¹⁶ He claims this approach, with larger cuts each year, will reach a balanced budget within five years. ¹⁷ But savings of this magnitude are not realistic, and the specific steps he has proposed do not even come close. Even if Santorum achieves nearly a trillion dollars a year in savings, nearly all of those savings would be needed to finance Santorum's tax cuts, leaving little or nothing for deficit reduction. The cost of Santorum's tax plan in 2017, which would be his fifth year in office, would equal about \$990 billion, not including additional interest costs.

Romney and Santorum Return to Failed Policies of the Past

The Romney and Santorum plans are not the first time Republican presidential candidates have abandoned the laws of arithmetic and argued that we can pay for large tax cuts through unspecified and implausible future spending cuts. During the 1980s this approach resulted in large deficits and nearly doubled our nation's debt from 26 percent of the economy to 49 percent. During the 2000s, the approach took the country from large budget surpluses back to large deficits. We cannot afford to repeat these mistakes.

Romney and Santorum's plans would drive up the deficit – but that is not their only similarity with the failed economic policies of the past. Similar policies not only contributed to the largest economic crisis since the Great Depression, but also to years of middle-class income stagnation and soaring income inequality. Romney and Santorum would:

- Shift the tax burden onto the middle class. Romney's tax plan would provide an average \$146,000 tax cut to taxpayers making more than \$1 million a year. A typical middle-class family with children would actually pay \$34 more. An estimated 22 million people would pay higher taxes than they do today. Santorum's plan would cut taxes by \$442,000 for people making more than \$1 million a year. Both plans would leave the middle class paying a higher share of income taxes.
- Repeal Wall Street reform. Both Romney and Santorum would let Wall Street write its own rules once again, bringing back "too big to fail" financial institutions making risky bets, repealing procedures to protect taxpayers from paying to bail out banks ever again, and putting our economy at greater risk of future economic busts. They would



also repeal rules protecting families against hidden fees and unfair terms on mortgages, credit cards, payday loans, and student loans.

- Halt efforts to reduce our dependence on foreign oil. Romney and Santorum would return to the failed energy policies that have left us reliant on oil imported from other parts of the world. Romney has opposed efforts to raise fuel economy standards and both candidates oppose investments in advanced vehicles that run on electricity and natural gas.
- Let the foreclosure process "hit the bottom." Romney opposes efforts to help the 10 million families at risk of foreclosure. He is turning a blind eye as mortgage defaults devastate families and neighborhoods, drive down home prices, and continue to slow our economic recovery.



APPENDIX: METHODOLOGY FOR ROMNEY ANALYSIS

Defense spending: Romney promises to set the core defense budget at 4 percent of the economy, excluding the cost of overseas wars.¹⁹ Base defense spending is projected to be 3 percent of the economy in 2016 under the Budget Control Act, excluding additional potential cuts that could be triggered.²⁰ Meeting Romney's target would require a \$187 billion increase in 2016 alone.

Tax policies: Romney's tax plan would cut taxes by \$180 billion in calendar year 2015 above the cost of continuing the Bush tax cuts, according to the Tax Policy Center. We have adjusted this figure to fiscal year 2016 under the assumption that it grows with the economy—the same assumption that the Center on Budget and Policy Priorities used in its calculations. ²²

The TPC figure includes Romney's plans to cut the corporate tax rate from 35 percent to 25 percent, make the research and experimentation credit permanent, eliminate capital gains taxes for couples making less than \$200,000 a year, and eliminate the estate tax. Romney would also raise taxes on middle-class families by eliminating the American Opportunity Tax Credit for college expenses and reducing the tax credits for children and earned income. The TPC analysis understates the cost of Romney's tax plans by excluding Romney's proposal to expand the income tax exclusion for health insurance.²³

Spending cuts: Romney detailed his plans to cut the federal budget in a November speech to Americans for Prosperity and an accompanying fact sheet.²⁴ We have accepted those estimates, except for health care, even though in some cases the savings claims appear to be exaggerated. For example, the Romney campaign claims that he would reduce waste and fraud by \$60 billion without proposing any specific steps to accomplish that goal. Its savings claims related to compensation for federal workers and contractors appear to be based upon disputed Heritage Foundation estimates.²⁵

Health care: Romney would repeal the Medicaid expansion in the Affordable Care Act. He would convert the remaining Medicaid funding into a block grant provided to states and limit its growth to the Consumer Price Index plus one percentage point each year. He claims that these changes will save over \$100 billion in 2016 and over \$200 billion by the end of the decade. We assume that Romney does not achieve significant amounts of savings from other block grants because the only area he has specified – job training – is relatively small at \$3 billion a year. ²⁷

Romney has also claimed that repealing the Affordable Care Act would save \$95 billion in 2016, and his campaign referred reporters to a Congressional Budget Office report.²⁸ However, that figure ignores the deficit reduction included in the law, and it double-counts the Medicaid savings Romney has already claimed. We adjust the CBO score by removing the Medicaid savings. We also remove the CLASS Act, which CBO has removed from its baseline because it is not currently being implemented.²⁹ Finally, we exclude the changes to payroll taxes that are included in the Tax Policy Center analysis of Romney's tax plans. We conclude that repealing the remaining provisions of the ACA would increase the deficit by \$28 billion in 2016. It would also drive up the deficit in the years to come.

Interest costs: These figures present only the primary deficit impact of Romney's proposal. It does not include the potential for increased interest costs resulting from higher deficits. Because his plan would add trillions to the national debt over the coming decade, these additional interest costs would be significant.

Social Security and Medicare: These figures do not include Romney's far-reaching changes to Social Security and Medicare because they will have virtually no impact on the deficit in 2016. However, his plans would hollow out the guarantee of retirement security in the years to come.

Romney has proposed restoring solvency to the Social Security trust fund solely through cutting benefits through price indexing for many retirees and raising the retirement age.³⁰ This approach would cut benefits for current workers by up to 40 percent, according to a Social Security Administration analysis of a similar congressional proposal.³¹



Romney would also fundamentally transform Medicare by giving seniors a voucher to buy health insurance.³² He has not released critical components of his proposal, like how the value of the vouchers would be determined or how much he expects to save the federal government.³³ The similar proposal designed by Rep. Paul Ryan would raise a typical 65-year-old's health care costs by nearly \$6,500 a year, according to the Congressional Budget Office.³⁴

http://www.taxpolicycenter.org/taxtopics/romney-plan.cfm.

¹ "Mitt Romney Delivers Remarks at CPAC" Mitt Romney: Blog. February 10, 2012, http://m.mittromney.com/blogs/mitts-view/2012/02/mitt-romney-delivers-remarks-cpac.

² "Transcript: GOP primary candidate Rick Santorum's speech to the Detroit Economic Club." *Detroit Free Press.* February 18, 2012. http://www.freep.com/article/20120219/OPINION05/202190367/Transcript-GOP-primary-candidate-Rick-Santorum-s-speech-Detroit-Economic-Club-?odyssey=mod|newswell|text|FRONTPAGE|s.

³ Richard Kogan and Paul N. Van de Water. "Romney Budget Proposals Would Require Massive Cuts in Medicare, Medicaid, and Other Nondefense Spending. *Center on Budget and Policy Priorities.* February 16, 2012. http://www.cbpp.org/cms/index.cfm?fa=view&id=3658&emailView=1 ⁴ Lawrence J. Korb, Max Hoffman, and Alex Rothman. "Panetta's Trimmed Defense Budget Is a Good First Step-but It Isn't Enough." *Center for American Progress.* January 27, 2012. http://www.americanprogress.org/issues/2012/01/panetta_defense_budget.html.

⁵ Roberton Williams, "Romney's Tax Plan Really Does Favor the Rich," *TaxVox*. January 30, 2012.

http://taxvox.taxpolicycenter.org/2012/01/30/romneys-tax-plan-really-does-favor-the-rich; and "Corporate Income Tax Rates: International Comparisons" *Congressional Budget Office*. November 2005. http://www.cbo.gov/ftpdocs/69xx/doc6902/11-28-CorporateTax.pdf.

⁶ John D. McKinnon, Laura Saunders, and Mark Maremont. "Romney Rethinks Key Income-Tax Break" *The Wall Street Journal*. January 25, 2012. http://online.wsj.com/article/SB10001424052970203806504577180811581675618.html.

⁷ "The Romney Plan." *Tax Policy Center: Urban Institute and Brookings Institution.* January 5, 2012.

⁸ "Romney Presents Plan to Turn Around the Federal Government." Mitt Romney Press. November 4, 2011. http://mittromney.com/blogs/mitts-view/2011/11/romney-presents-plan-turn-around-federal-government.

⁹ "Mitt Romney repeats claim that repealing health law saves \$95 billion a year" *PolitiFact.com.* January 8, 2012. http://www.politifact.com/truth-o-meter/statements/2012/jan/08/mitt-romney/mitt-romney-repeats-claim-repealing-health-law-sav/.

¹⁰ OFA analysis based on Douglas W. Elmendorf, Director of Congressional Budget Office, to Speaker John Boehner 18 February 2011, Congressional Budget Office. http://www.cbo.gov/ftpdocs/120xx/doc12069/hr2.pdf. and John Holahan, Matthew Buettgens, Vicki Chen, Caitlin Carroll, and Emily Lawton. "House Republican Budget Plan: State-by-State Impact of Changes in Medicaid Financing" *The Henry J. Kaiser Family Foundation*. May 2011. http://www.kff.org/medicaid/upload/8185.pdf.

¹¹ Richard Kogan and Paul N. Van de Water. "Romney Budget Proposals Would Require Massive Cuts in Medicare, Medicaid, and Other Nondefense Spending. *Center on Budget and Policy Priorities*. February 16, 2012. http://www.cbpp.org/cms/index.cfm?fa=view&id=3658&emailView=1 ¹² "The Santorum Plan." *Tax Policy Center: Urban Institute and Brookings Institution*. January 18, 2012. http://taxpolicycenter.org/taxtopics/Santorum-plan.cfm.

¹³ Rick Santorum. "End taxes on manufacturing to help restore U.S. economy." *The Detroit News*. February 20, 2012. http://www.detroitnews.com/article/20120220/OPINION01/202200318/End-taxes-manufacturing-help-restore-U-S-economy?odyssey=mod|newswell|text|FRONTPAGE|s.

¹⁴ "The Santorum Plan." *Tax Policy Center: Urban Institute and Brookings Institution.* January 18, 2012.

http://taxpolicycenter.org/taxtopics/Santorum-plan.cfm.

¹⁵ Kim Dixon. "Santorum Plan Would Add to Deficit." *The Fiscal Times*. January 9, 2012.

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¹⁷ "Transcript: GOP primary candidate Rick Santorum's speech to the Detroit Economic Club." *Detroit Free Press*. February 18, 2012.

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¹⁸ "The Santorum Plan." *Tax Policy Center: Urban Institute and Brookings Institution.* January 18, 2012. http://taxpolicycenter.org/taxtopics/Santorum-plan.cfm.

¹⁹ Ashley Parker. "Romney Calls for More Defense Spending" *The New York Times.* October 6, 2011.

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²⁰ "The Budget and Economic Outlook: Fiscal Years 2012 to 2022." Congressional Budget Office. January 2012.

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²¹ "The Romney Plan." *Tax Policy Center: Urban Institute and Brookings Institution.* January 5, 2012. http://www.taxpolicycenter.org/taxtopics/romney-plan.cfm.

²² Richard Kogan and Paul N. Van de Water. "Romney Budget Proposals Would Require Massive Cuts in Medicare, Medicaid, and Other Nondefense Spending. *Center on Budget and Policy Priorities*. February 16, 2012. http://www.cbpp.org/cms/index.cfm?fa=view&id=3658&emailView=1

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²⁴ "Mitt Romney Delivers Remarks on Fiscal Policy" Mitt Romney Press. November 4, 2011.

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²⁵ James Sherk. "Inflated Federal Pay: How Americans Are Overtaxed to Overpay the Civil Service." *The Heritage Foundation*. July 7, 2010. http://www.heritage.org/research/reports/2010/07/inflated-federal-pay-how-americans-are-overtaxed-to-overpay-the-civil-service; and James Sherk "Repealing the Davis-Bacon Act Would Save Taxpayers \$10.9 Billion." *The Heritage Foundation*. February 14, 2011. http://www.heritage.org/research/reports/2011/02/repealing-the-davis-bacon-act-would-save-taxpayers-\$10-9-billion.

²⁶ "Mitt Romney Delivers Remarks on Fiscal Policy." Mitt Romney Press. November 4, 2011.

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