

Backgrounder

No. 1797
September 21, 2004



Published by The Heritage Foundation

Would Senator Kerry's Budget Really Reduce the Deficit?

Brian M. Riedl

Democratic presidential candidate John Kerry recently pledged that, if elected, he would cut the budget deficit in half by 2008. Given the projected \$422 billion budget deficit in 2004, his pledge translates into a \$211 billion budget deficit in the next four years.¹

Realistically, Senator Kerry's current tax and spending proposals would actually *increase* the budget deficit. Third-party estimates project that Senator Kerry's proposals would raise the 2008 budget deficit to \$525 billion. Even a rosy projection that, whenever possible, relies on the Kerry campaign's own numbers reveals a 2008 budget deficit of \$443 billion.

This budget deficit is merely a symptom of the runaway spending disease. By focusing on reducing the short-term budget deficit, Senator Kerry ignores the mountain of impending Social Security and Medicare debt that, if left unreformed, will dwarf any temporary savings that could be achieved.

When former President Bill Clinton's campaign promises proved incompatible with his deficit reduction pledge, he used tax increases to bridge the gap. Should Senator Kerry choose the same route, he would have to raise taxes by \$2,090 to \$2,829 per household (depending on which budget estimates are used) *in addition to* his current proposed tax increases.

Senator Kerry's Proposals

A closer look at Senator Kerry's proposed budget reduction strategy reveals the following:

Talking Points

- Democratic presidential candidate John Kerry's current tax and spending proposals would actually *increase* the budget deficit, despite his promise that, if elected, he would cut the budget deficit in half by 2008.
- A rosy estimate that, whenever possible, uses the Kerry campaign's own budget estimates reveals a 2008 budget deficit of \$443 billion, which is \$232 billion higher than the campaign's target.
- A skeptical estimate based on third-party cost projections reveals a 2008 budget deficit of \$525 billion.
- Unless he scales back his ambitious spending plans, Senator Kerry would need to raise taxes by between \$2,090 and \$2,829 per household—on top of his current proposed tax increases—in order to fulfill his deficit reduction pledge.
- Senator Kerry's budget proposals ignore the mountain of impending entitlement debt that, if left unreformed, will dwarf any achievable savings.

This paper, in its entirety, can be found at:
www.heritage.org/research/budget/bg1797.qfm

Produced by the Thomas A. Roe Institute
for Economic Policy Studies

Published by The Heritage Foundation
214 Massachusetts Avenue, NE
Washington, D.C. 20002-4999
(202) 546-4400 • heritage.org

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Table I B 1797

Even Under Rosy Estimates, Senator Kerry's Budget Does not Meet His 2008 Target of a \$211 Billion Budget Deficit

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2005-2014
CBO Baseline Surplus/Deficit	-422	-348	-298	-308	-318	-312	-298	-200	-70	-75	-65	-2292
Kerry Proposals												
Tax plan		-8	9	26	41	28	40	-67	-146	-145	-144	-364
AMT fix		-7	-20	-27	-36	-46	-56	-47	-27	-33	-40	-340
New spending		-101	-103	-105	-108	-110	-113	-115	-118	-120	-123	-1116
Net interest from proposals		-4	-10	-16	-23	-29	-41	-57	-73	-89	-106	-448
Total Effect of Proposals		-120	-124	-122	-125	-157	-170	-286	-363	-387	-413	-2269
Kerry Surplus/Deficit		-468	-422	-430	-443	-469	-468	-486	-433	-462	-478	-4561

*All amounts in billions.

Note: Senator Kerry's tax plan refers mostly to policies altering the Bush tax cuts. Proposed targeted tax policies, such as those related to health and education, are included in the spending line.

Sources: Tax data from Leonard E. Burman and Jeffrey Rohaly, "Senator Kerry's Tax Proposals," Urban Institute, July 23, 2004, www.urban.org/url/print.cfm?ID=8820 (September 15, 2004), as well as yearly data provided by the study's authors. Spending data come from Eric Engen and Kevin Hassett, "An Analysis of the Ten-Year Costs of Senator Kerry's Spending Proposals," American Enterprise Institute, August 12, 2004, at www.aei.org/docLib/20040812_KerryB2.pdf (September 15, 2004). AMT estimates provided by the Congressional Budget Office and net interest was calculated by the Heritage Foundation.

Taxes. Senator Kerry has proposed repealing the Bush tax cuts for households earning over \$200,000 annually while making permanent the recent middle-class tax cuts. In addition, Senator Kerry has called for new tax credits for health insurance and higher education, a series of business tax changes, and a fix to prevent the alternative minimum tax (AMT) from steeply raising taxes for millions of middle-class families.²

Spending. Senator Kerry has proposed a new comprehensive health care plan that aims for 95 percent overall health coverage and 100 percent coverage for children. He has also called for sharp spending increases in areas such as education, aid

to states, homeland security, defense, Head Start, veterans' benefits and health care, and combating global AIDS.

Budget Deficit. Senator Kerry recently pledged to halve the budget deficit by 2008. Given the current Congressional Budget Office (CBO) estimate of a 2004 budget deficit of \$422 billion, his pledge translates into a \$211 billion budget deficit in 2008.³

Calculation 1: A Rosy Estimate

Whenever possible, this budget estimate relies on either the Kerry campaign's own estimates or the rosiest estimates widely available. Beginning with the CBO's 10-year budget deficit baseline,⁴ Senator

1. This represents the CBO baseline as of September 2004. See Congressional Budget Office, "The Budget and Economic Outlook: An Update," September 2004, p. 4, at www.cbo.gov/showdoc.cfm?index=5773&sequence=0 (September 15, 2004).

2. Proposals can be found at www.johnkerry.com/issues/ (September 15, 2004).

3. See www.johnkerry.com/pdf/budget.pdf (September 2, 2004).

4. CBO baseline as of September 2004. See Congressional Budget Office, "The Budget and Economic Outlook: An Update."



Table 2

B 1797

A Skeptical Calculation of Senator Kerry's Budget Proposals Reveals a 2008 Budget Deficit of \$525 Billion

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2005-2014
CBO Baseline Surplus/Deficit	-422	-348	-298	-308	-318	-312	-298	-200	-70	-75	-65	-2292
Kerry Proposals												
Tax plan		7	11	19	30	14	24	-96	-147	-149	-151	-438
AMT fix		-7	-20	-27	-36	-46	-56	-47	-27	-33	-40	-340
New spending		-157	-160	-164	-168	-171	-175	-179	-183	-187	-191	-1734
Net interest from proposals		-6	-14	-24	-33	-44	-55	-72	-92	-111	-133	-586
Total Effect of Proposals		-163	-183	-196	-207	-248	-263	-394	-449	-481	-515	-3098
Kerry Surplus/Deficit		-511	-481	-504	-525	-560	-561	-594	-519	-556	-580	-5390

*All amounts in billions.

Note: Senator Kerry's tax plan refers mostly to policies altering the Bush tax cuts, as well as Senator Kerry's business tax proposals. Proposed targeted tax policies, such as those related to health and education, are included in the spending line.

Sources: Tax data from the Heritage Foundation tax model calculations. Spending data come from Eric Engen and Kevin Hassett, "An Analysis of the Ten-Year Costs of Senator Kerry's Spending Proposals," American Enterprise Institute, August 12, 2004, at www.aei.org/docLib/20040812_KerryB2.pdf (September 15, 2004). AMT estimates provided by the Congressional Budget Office and net interest was calculated by the Heritage Foundation.

Kerry's tax proposals are incorporated using estimates from the Tax Policy Center, a joint venture of the Urban Institute and the Brookings Institution.⁵ They project that the proposed income and estate tax changes (excluding targeted tax proposals, such as health care and education, which are counted on the spending side) would increase the budget deficit by \$364 billion over 10 years.⁶

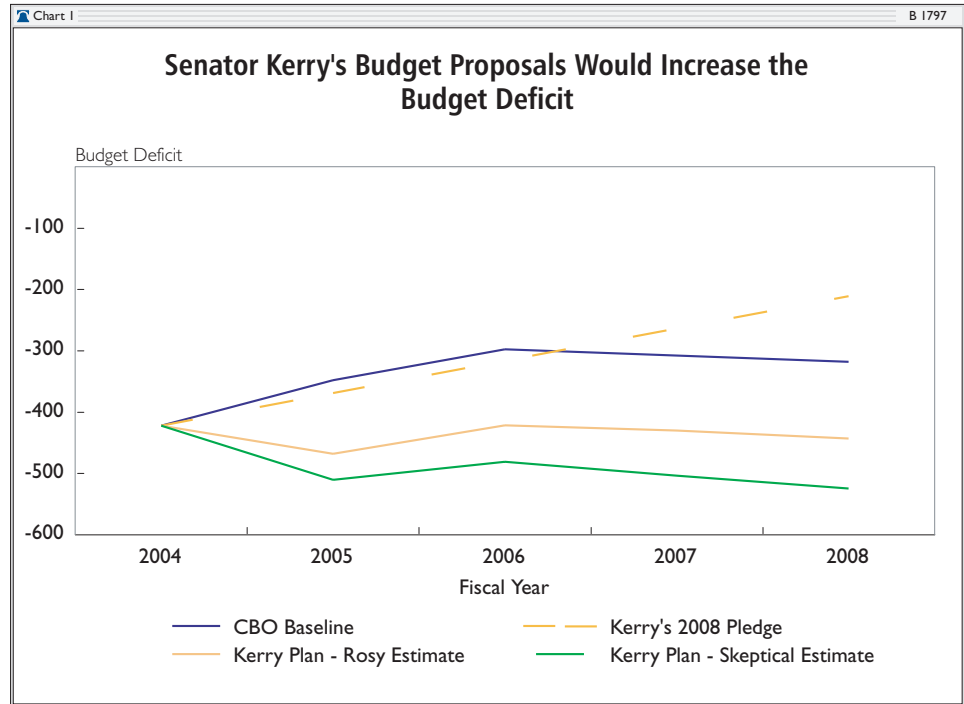
This estimate excludes Senator Kerry's pledge to fix the AMT; therefore, the CBO estimate of \$340

billion over 10 years must be added as well.⁷ This estimate also accepts Senator Kerry's controversial contention that his business tax proposals would be revenue neutral.

Regarding spending, American Enterprise Institute (AEI) analysts summed up all of Senator Kerry's spending proposals (as well as his targeted tax proposals) using the Kerry campaign's own cost estimates whenever possible.⁸ This estimate totals \$1.116 trillion over the next decade.

- Leonard E. Burman and Jeffrey Rohaly, "Senator Kerry's Tax Proposals," Urban Institute, July 23, 2004, at www.urban.org/urlprint.cfm?ID=8820 (September 15, 2004), as well as yearly data provided by the study's authors.
- The CBO baseline assumes that all of the Bush tax cuts are allowed to expire. By making some of the tax cuts permanent, the Kerry plan reduces overall tax revenues, albeit by less than would be the case if all tax cuts were made permanent.
- See Congressional Budget Office, "The Budget and Economic Outlook: An Update," p. 17.
- Third-party estimates were used for Kerry campaign proposals not accompanied by cost estimates. See Eric Engen and Kevin Hassett, "An Analysis of the Ten-Year Costs of Senator Kerry's Spending Proposals," American Enterprise Institute, August 12, 2004, at www.aei.org/docLib/20040812_KerryB2.pdf (September 15, 2004). Yearly estimates were created by taking AEI's 10-year estimate ("Kerry 2: Kerry's Totals") and breaking it down annually by assuming that each program grows by the inflation rate over the decade.

Table 1 shows that even these lower-end projections reveal a 2008 budget deficit of \$443 billion—which is \$232 billion higher than the Kerry campaign’s \$211 billion target. Far from being a deficit reduction plan, Kerry’s plan actually *increases* the 2008 budget deficit above the CBO baseline. Unless he scales back his ambitious spending plans, Senator Kerry would need to raise taxes by an additional \$232 billion—or \$2,090 per household—on top of his current proposed tax increases in order to fulfill his deficit reduction pledge.



Calculation 2: A Skeptical Estimate

Campaigns typically understate the cost of their spending proposals. In addition, tax rate increases, such as those proposed by Senator Kerry, reduce incentives to work, save, and invest, thereby reducing economic growth and leaving less income to tax. Consequently, it is likely that Senator Kerry’s spending proposals will cost more than advertised and that his proposed tax increases will produce less revenue than projected.

A skeptical estimate adjusts for these factors. On the tax side, The Heritage Foundation’s tax model estimates that Senator Kerry’s income, estate, and business tax proposals would *increase* the budget deficit by \$438 billion over the next decade (excluding his targeted tax proposals, which are counted on the spending side in this analysis).⁹ Senator Kerry’s business tax provisions account for most of the difference between the Heritage Founda-

tion and Tax Policy Center estimates. The Tax Policy Center analysis excluded this policy (which the Kerry campaign claimed would be deficit neutral), yet the Heritage Foundation calculated a \$38 billion revenue loss over the decade.

In addition to its earlier calculation, AEI also added up the Kerry spending (and targeted tax) proposals by relying primarily on third-party sources. This method calculated \$1.734 trillion in new spending over the decade, which is significantly higher than the earlier \$1.117 trillion estimate that relied heavily on the Kerry campaign’s estimates.¹⁰ Most of the \$617 billion difference between the two estimates can be found in Senator Kerry’s proposals to provide mandatory funding for veterans’ health care (estimates range between \$26 billion and \$300 billion over 10 years); near-universal health care (\$653 billion to \$850 billion); and education (\$403 billion to \$492 billion).¹¹

9. Heritage Foundation tax model calculations.

10. Even this “skeptical” estimate may be low. The \$850 billion 10-year cost of Senator Kerry’s health plan is \$650 billion less than a new American Enterprise Institute cost estimate. See www.aei.org/publications/pubID.21166.filter.all/pub_detail.asp (September 15, 2004).

Overall, this skeptical estimate of Senator Kerry's proposals projects a 2008 budget deficit of \$525 billion, which is \$314 billion above Kerry's \$211 billion deficit target. (See Table 2 and Chart 1.) Unless he cuts spending, closing that gap would require a tax increase of \$2,829 per household in addition to Senator Kerry's current tax increase proposals.

Conclusion

Senator Kerry has promised to halve the budget deficit to \$211 billion by 2008. However, by any reasonable calculation, his budget proposals would increase the budget deficit well above the current CBO baseline. A rosy calculation reveals a 2008 budget deficit of \$443 billion, while a more skeptical calculation shows a \$525 budget deficit. The deficit,

however, is merely a symptom of the budget problem of runaway federal spending, which cannot be solved without addressing runaway entitlements.

If elected, Senator Kerry might be tempted to follow former President Clinton's lead by choosing steep tax increases to fulfill his deficit reduction pledge. Depending on which budget estimates are used, that approach would require additional tax increases of between \$2,090 and \$2,829 per household. Given that federal spending already tops \$21,000 per household, those tax increases would be a painful price for taxpayers to pay.

—Brian M. Riedl is Grover M. Hermann Fellow in Federal Budgetary Affairs in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation.

11. Eric Engen and Kevin Hassett, "An Analysis of the Ten-Year Costs of Senator Kerry's Spending Proposals." Yearly estimates were created using AEI's 10-year estimate ("Kerry 2: Our Totals") and breaking it down annually by assuming that each program grows by the inflation rate over the decade.