



Romney's Fiscal Agenda for the 1 Percent

The Republican Presidential Candidate's Tax and Budget Proposals Ask the 99 Percent to Pony Up for the Wealthy

By Michael Linden

December 2011

Introduction

The fiscal plan offered by Republican presidential candidate Mitt Romney would deliver huge tax cuts to the wealthiest Americans while simultaneously forcing massive cuts to public services and social insurance benefits on which the middle class relies. And though the cuts to Social Security, Medicare, and Medicaid would be devastating for all but the richest Americans, Romney's promise of trillions of dollars in tax cuts skewed toward the wealthy and corporations means that, overall, his plan will not come close to balancing the budget.

In short, it is a fiscal framework that appears to be designed specifically to reward the wealthy and punish the middle class for not being wealthy.

Romney's draconian spending plan

Mitt Romney's approach to federal spending is blunt: He would impose a cap on overall annual federal spending at 20 percent of the nation's gross domestic product—the broadest measure of total economic activity. This approach allows him to avoid detailing precisely which programs would fall under the ax while still being able to claim credit for advocating big cuts. But as good as it might sound in a press release, capping federal spending at 20 percent of GDP would necessarily impose huge cuts to popular and critical programs such as Social Security, Medicare, and Medicaid.

In August the [Congressional Budget Office](#) projected that in fiscal year 2016 federal spending would be about \$4.25 trillion, or about 22.2 percent of GDP. That projection, however, assumes that the wars in Iraq and Afghanistan continue indefinitely. It also assumes Congress will not move to prevent enormous cuts to Medicare doctors currently

scheduled to take effect under the “Sustainable Growth Rate” formula, and it does not include the effect of the additional spending cuts triggered by the inability of the so-called “super committee” to reach a compromise deal. After adjusting to reflect the planned drawdown in overseas military operations, the “doc-fix,” and the automatic spending cuts, the 2016 estimate of spending declines to \$4.07 trillion, or about 21.3 percent of GDP. In order to cut that down to 20 percent of GDP, Romney will need to find \$250 billion to cut.

Four ways to cut spending in order to comply with the Romney cap

Pick your poison, there is no plausible way to reduce spending to 20 percent of GDP without slashing vital middle-class programs and services

	Budget #1 Across-the-board		Budget #2 Protect domestic discretionary from additional cuts		Budget #3 Protect Social Security and domestic discretionary		Budget #4 No cuts to seniors	
	2016	2020	2016	2020	2016	2020	2016	2020
Social Security	15%	21%	18%	25%	0%	0%	0%	0%
Medicare and Medicaid	15%	21%	18%	25%	29%	40%	0%	0%
Other mandatory programs	15%	21%	18%	25%	29%	40%	41%	65%
Nondefense discretionary	15%	21%	0%	0%	0%	0%	41%	65%

Source: Author's calculations based on Congressional Budget Office data

At first glance, you could be forgiven for thinking that it shouldn't be all that difficult to cut \$250 billion out of a budget of more than \$4 trillion. And if it were that simple, perhaps you would be right. But there are three important complicating factors. First, nearly \$450 billion of total spending in 2016 will go toward interest payments on the debt. Unless Romney wants the country to default, he can't cut that. That leaves just \$3.6 trillion in noninterest spending from which Romney needs to find his \$250 billion.

If he were to cut everything equally, that would mean a 7 percent cut to everything the federal government does, from veterans' benefits to border security to food stamps. But Romney has already said he doesn't want to cut everything equally. In fact, he's actually promised to spend more in one area in particular: defense. That's the second complicating factor. Under current projections (with the adjustments described above), defense spending will be about \$560 billion in 2016, or about 2.9 percent of GDP. But Romney has promised to ensure defense spending never drops lower than 4 percent of GDP. Keeping that promise will add more than \$200 billion in additional federal spending in 2016.

With that additional spending, Romney will now need \$450 billion in spending cuts to get overall spending levels down to 20 percent of GDP, and of course none of those cuts can come from the Pentagon. A \$450 billion across-the-board cut to everything but defense would reduce all programs, including Social Security, Medicare, and Medicaid,

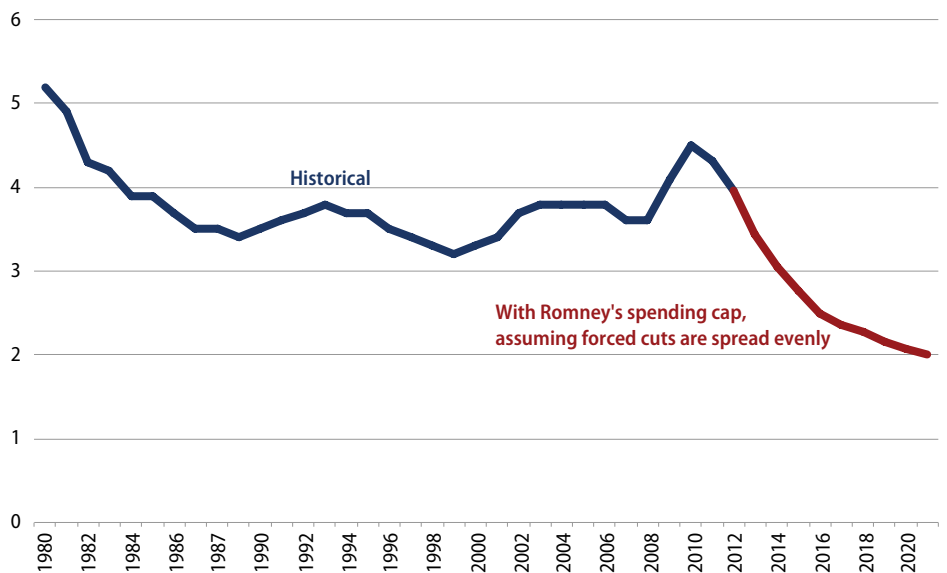
by about 15 percent. That would mean shaving one out of every seven dollars from each and every service, benefit, and program.

But of course Romney has not committed to cutting every nondefense program equally. Nor should he. Surely some programs must be more important than others and should therefore be cut less. But that brings us to our third complicating factor. For every program Romney saves from a 15 percent cut, he'll have to cut another one by even more.

Take the category of spending known as “nondefense discretionary.” Because of the Budget Control Act (better known as the debt-limit deal from August) and because of the automatic cuts triggered in the wake of the super committee’s demise, spending in this category has already been cut by about \$75 billion in 2016 alone, a nearly 12 percent reduction. As a result, nondefense discretionary spending will be just 2.9 percent of GDP in 2016. That’s lower than it’s ever been since the federal government started using that category nearly 50 years ago in 1962.

Romney spending cap will likely lead to lowest levels of domestic investment in decades

Federal spending on nondefense discretionary spending, as a share of GDP, 1980-2021



Source: Author's calculations based on Congressional Budget Office data

In comparison, nondefense discretionary spending averaged 4 percent of GDP under President Ronald Reagan and 3.7 percent of GDP under President George W. Bush.

Despite its bland and jargon-laden name, the category of nondefense discretionary spending is actually home to a wide variety of investments, services, and programs that are critical to the middle class and to low-income families. Virtually all federal support for public kindergarten-through-12th-grade education is housed in this category. As is almost all federal funding for medical and scientific research. Investments in improving and building highways, public transportation systems, and airports come out of this category of spending. So does housing assistance, veterans’ health care, and law enforcement grants. Pell Grants; the Special Supplemental Nutrition Program for Women, Infants and Children; and Head Start are all found in the nondefense discretionary category. And that is on track to be reduced to its lowest level in half a century already, even before Romney’s 20 percent cap.

If Romney applies the full 15 percent cut to this already depleted category, the cuts in this area will total 25 percent compared to what we would have spent had we merely continued funding at today's levels, adjusted for inflation. That would reduce total spending on nondefense discretionary to below 2.5 percent of GDP, fully 22 percent lower than it has ever been.

If, however, Romney decides that the existing 12 percent cut is plenty, and saves this critical category from further cuts, he will need to cut everything else by 18 percent. That's 18 percent from Social Security, 18 percent from Medicare and Medicaid, 18 percent from veteran's disability, 18 percent from unemployment benefits, 18 percent from school lunch programs, and so on. If Romney wants to spare Social Security as well, the cuts to everything else increase to almost 30 percent.

Or Romney could decide that it's preferable to save Social Security, Medicare, and Medicaid from huge cuts and instead focus them entirely on everything else. In that case, "everything else," including nondefense discretionary, would have to be slashed by 42 percent. And the cuts would have to grow even more pronounced with each passing year.

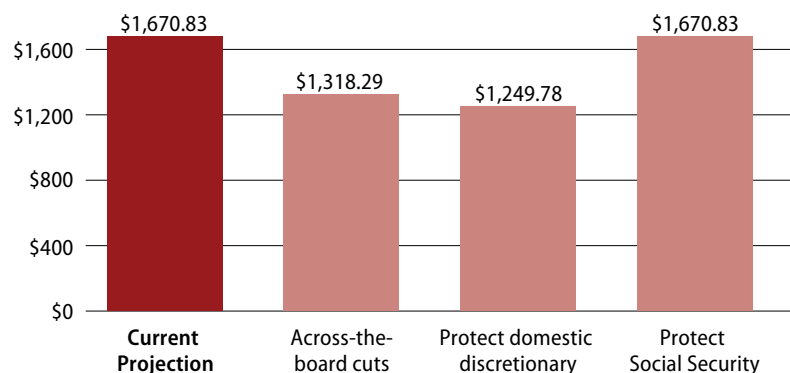
The simple truth is that federal spending is projected to grow, not because of President Obama's policies, or some imagined commitment to "bigger government," but because our nation's population is aging and the cost of health care is rising for everyone. Put those two trends together and it means higher costs for the federal government, mostly in the form of higher spending on Social Security, Medicare, and Medicaid. As a result, it is going to become more and more painful to keep federal spending at 20 percent of GDP as the years go by.

Whereas in 2016 it will require "merely" a 15 percent across-the-board cut to bring federal spending in line with Romney's cap, by 2020 the required across-the-board cut will rise to more than 21 percent. Cuts of that magnitude would bring nondefense discretionary spending down to just 2.1 percent of GDP. If Romney tries to go easy on those programs, he'll have to cut one out of every four dollars from everything else, including Social Security, Medicare, and Medicaid.

The bottom line is that there is no scenario in which Romney's spending plan doesn't result in enormous and painful cuts to programs that middle-class and low-income households rely on heavily. Certainly, higher-income households benefit from Social

Romney spending cap will likely lead to significantly lower Social Security benefits

Projected monthly social security benefit in 2020 for a retiree with "medium earnings", in 2011 dollars



Source: Social Security Trustees Report

Security and Medicare, and of course they also enjoy the societal benefits that come from adequate law enforcement, investing in education, and having safe bridges and roads. But there's no denying that the cuts required to bring spending in line with Romney's draconian cap would harm the 99 percent far more than the 1 percent.

The 1 percent can get by just fine without quality public schools because they can always send their children to elite private schools. They already have millions of dollars in savings for retirement and the loss of some Social Security benefits wouldn't faze them. They can afford expensive private health insurance if Medicare and Medicaid are gutted. No, the brunt of the burden of Romney's cuts would necessarily fall on the rest of America.

Romney's "welfare for the wealthy" tax plan

Just as Romney's spending plan would place enormous burdens on America's middle class by necessitating massive cuts to critical social protections, basic government services, and key economic investments, his tax plan would further skew the code in favor of the wealthy and corporations. Romney's tax platform consists of three major planks:

Permanently extending the Bush tax cuts

It's certainly true that everyone got a tax cut from President George W. Bush but the extremely wealthy got the lion's share of the benefit. In 2010 fully half of the entire benefit of the Bush tax cuts flowed to the richest 5 percent of Americans. Permanently extending them all will lock that disparity into place and cost the country \$4 trillion over the next 10 years.

Eliminating the estate tax

The middle class and lower-income households would reap some benefit from extending the Bush tax cuts, however meager compared to tax cuts going to the rich, but eliminating the estate tax would truly benefit exclusively the super wealthy. Right now, only a tiny fraction of estates—less than 0.2 percent—owe any estate tax at all. Only the very richest Americans have to even consider the tax in their estate planning. Eliminating it would cost the country \$175 billion and the benefit would go solely to a fraction of the richest 1 percent.

Dramatically cutting corporate taxes

Similarly, Romney's call to reduce the corporate tax rate would cost the country more than \$900 billion and of course would only benefit businesses that pay the corporate tax rate. Small businesses of course would not benefit. Nor would ordinary Americans. In other words, it's another huge giveaway to the very wealthy.

The consequences of Romney's fiscal plan for the 1 percent

These massive tax cuts aimed at the 1 percent would accelerate a decades-long trend of falling tax rates for the very rich. In the early 1990s the average millionaire paid a little more than 30 percent of his or her income in federal income taxes. By 2007, the last year before the recession, that rate was down to less than 23 percent. The richest 400 taxpayers in the country have fared even better. Their income tax rate dropped to under 17 percent, down from just less than 30 percent in the early 1990s.

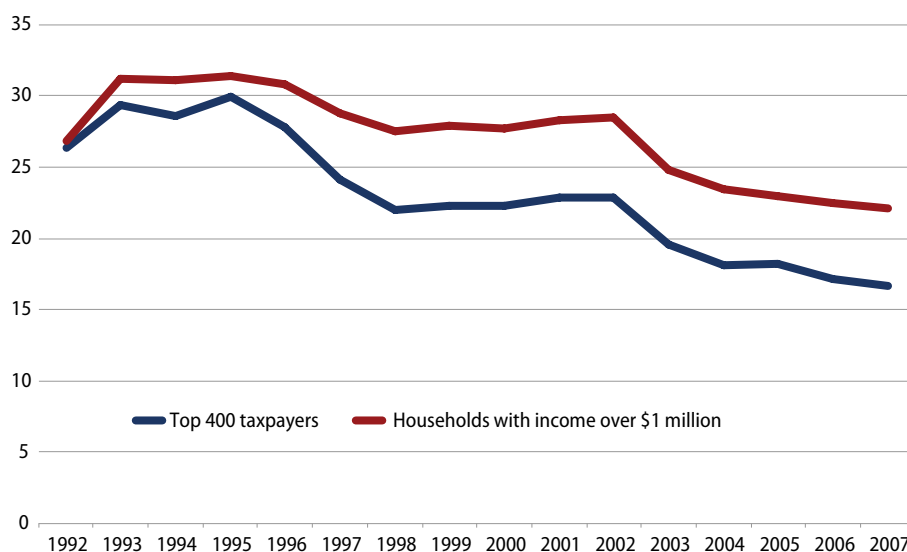
Perhaps in recognition of the fact that the upshot of his fiscal plan is more pain for the middle class, Romney does include a new tax cut that would, ostensibly, help the middle. He calls for the elimination of taxes on capital gains income for households making less than \$200,000. The trouble is that very few middle-class and low-income families have any capital gains income at all. In fact, eliminating capital gains taxes for households making less than \$200,000 would mean a tax cut of precisely \$0 for about three-quarters of those households.

Even for the one-quarter of households who would derive some benefit, the tax cut is quite small, especially compared to the largess that Romney bestows upon the wealthy. Among the 30 percent of households making between \$40,000 and \$50,000 that would get any benefit at all from Romney's "middle-class" cut, the average benefit is only \$216. Compare that to the average \$17,276 benefit that the richest 1 percent would enjoy just from Romney's proposal to permanently extend historically low capital gains tax rates for them.

It should also be noted that Romney has promised to repeal the Affordable Care Act. Besides stripping health care coverage from 30 million Americans, allowing insurance companies to deny coverage based on pre-existing conditions, eliminating small-business subsidies to help them provide care for their employees, and throwing thousands of young Americans off of their parents' health plans, repealing the Affordable Care Act would also reduce taxes on the wealthy. That's because the law was paid for, in part, by taxing high-income individuals. Repealing it means those folks yet get another tax break.

Effective tax rates for the wealthy have already declined precipitously

Federal income tax paid, as a share of income, 1992-2007



Source: Internal Revenue Service

Overall, Romney's tax plan is the perfect analog to his spending plan. It shifts the burdens to the middle class and focuses on helping the top 1 percent. Extending the failed Bush tax cuts, eliminating the estate tax, slashing corporate taxes, and repealing the Affordable Care Act all would reduce the tax bill for the richest 1 percent. Even Romney's supposed "middle-class" tax cut ends up falling flat, and it pales in comparison to the enormous breaks he's proposed for the rich.

Romney's fiscal plan for the 1 percent doubles down on failed supply-side economics

Mitt Romney's fiscal plan stems directly from the failed "supply-side" economic theory of President George W. Bush. The crux of that theory is that the better off rich people are, the better off we all are. Despite the fact that President Bush's supply-side tax cuts failed to deliver what they promised—more jobs, better growth, growing prosperity—Romney's fiscal plan represents a doubling down on that same theory.

If enacted, his plan would force massive cuts to Social Security, Medicare, and Medicaid, and end up with historically low investments in crucial areas such as education, transportation, and basic scientific research. Basic government services that underpin the middle class, among them food safety, law enforcement, pharmaceutical testing, veterans' benefits, and national parks, would come in for major reductions.

And yet, for all the dramatic and inconceivable spending cuts that Romney's 20 percent cap would impose, by cutting taxes even more, his plan would do little to put our country on a sustainable fiscal path. In total, the Romney spending cap would cut overall federal noninterest spending by about \$2.5 trillion from 2013 through 2021, but his tax cuts would cost a whopping \$6.6 trillion in lost revenue.

That \$6.6 trillion would go overwhelmingly to those at the top of the income ladder. Even while asking middle-class and low-income households to tighten their belts—making do with lower Social Security benefits or stingier Medicare and Medicaid benefits—Romney asks nothing of the wealthy. Instead, he promises them massive tax breaks.

This is not a plan designed to bolster the middle class. This is not a plan designed to address growing income inequality or declining income mobility. This is not a plan designed to level the playing field and give every child in America a fair shot at success. This is not even a plan to deal with the federal budget deficit in any kind of responsible way.

This is a plan for the 1 percent.

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