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The Romney Economic Agenda and Its Effect on the Middle Class and Growth



How His Economic Proposals Depend on the Failed Bush Strategy of Enriching the Wealthy at the Expense of Everyone Else

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Introduction and summary

It is no exaggeration to say that the linchpin of former Massachusetts Gov. Mitt Romney’s economic strategy is to further enrich the richest 1 percent of Americans. Nearly every element of his economic agenda revolves around what would be good for the richest people and the biggest corporations in the United States. This shouldn’t truly surprise anyone. His approach is very much in line with the dominant conservative economic theory of the last three decades, “supply-side economics,” and shares numerous characteristics with the economic policies of the George W. Bush administration.

Indeed, there is little, if anything, in the economic agenda of the current Republican presidential aspirant that would be considered particularly revolutionary among adherents of the supply-side theory. But what is notable is the degree to which Gov. Romney doubles down on that theory and on the policies of President George W. Bush to produce a plan that would dramatically favor the very rich over the interests of everyone else. It’s especially notable given how badly that theory and those policies fared during the past decade.

Supply-side economic theory holds that the best way to ensure prosperity is to, as much as possible, minimize taxation and government regulation on those who (in the view of supply-side theorists) are the most likely to produce growth: the rich. The often-used epithet, “trickle-down economics” is actually not far off from the central idea of supply-side theory. Reward wealth, allow the rich the freedom to use their money as they see fit, give corporations a free hand in how they treat their workers and customers and the result will be eventual prosperity for everyone. This idea is why adherents of supply-side theory so often like refer to rich people as “job creators.” They honestly believe it.

The problem for supply-siders in general, and for Gov. Romney in particular, is that we have repeatedly tried using their policies and those policies have repeatedly failed—and rather spectacularly at that. The presidency of George W. Bush is, of course, the prime example. By almost any standard, economic performance

under President Bush was awful, especially compared to his predecessor President Bill Clinton, who, in direct contravention to his supply-side critics, raised taxes on the rich.¹ In fact, economic performance under President Clinton outpaced even that of the patron saint of supply-side theory: President Ronald Reagan.²

The empirical evidence is very clear. Supply-side theory may sound good on paper, but it hasn't worked in practice. Instead of prosperity trickling down, wealth seems to flow up.³

Unfortunately, Gov. Romney does not appear to have taken any lessons from the Clinton and Bush presidencies. Instead, his economic plan is chock-full of policies that will make the very rich—and by extension, supply-siders—very happy.

This report takes a close look at the core of Gov. Romney's economic agenda and describes just how just how targeted it is for the benefit of the few at the expense of the many in our nation. In brief, Gov. Romney's plan for the economy can be summed up in four main points. His plan is built on:

- A tax plan solely for the 1 percent, raising taxes on nearly everyone else
- Massive yet unspecified spending cuts that threaten our economic competitiveness, future prosperity, and public safety
- Fiscal policies that will only exacerbate our federal budget challenges
- Extreme plans to exempt businesses from adhering to the most basic safety, health, environmental, and workplace rules and regulations

A tax plan solely for the 1 percent

The key element of any good supply-side economic plan is lower taxes for the rich and Gov. Romney's blueprint absolutely delivers. The main element of his tax proposals consists of massive cuts for those at the very top. The total magnitude of the Romney tax cuts exceeds even that of the Bush tax cuts, a fact made all the more startling when you realize that Gov. Romney wants his new tax cuts *in addition to*, not instead of, the Bush tax cuts.

The Romney tax plan also reflects an unfortunate corollary of supply-side's main argument—since the rich are the key to prosperity, everyone else doesn't matter very much. In essence, supply-siders believe while tax cuts for everyone would be nice, it's really only the ones for the top that matter. Though Gov. Romney's

specific proposals would, in fact, give everyone a tax cut, he has also promised to keep overall revenues where they were under President George W. Bush's tax policies. Though Gov. Romney declines to explain how he would accomplish this feat, under any reasonable assumptions (and even most unreasonable ones) taxes for the middle class would have to go up.

The Republican presidential candidate's tax plan, therefore, is a perfect illustration of supply-side theory—dramatically lower taxes for the rich, higher taxes for everyone else.

Promises of massive unspecified spending cuts

Gov. Romney combines his specific tax cut proposals with promises of extremely vague spending cuts. Instead of detailing which programs should be reduced or eliminated and which should be maintained, he sets forth a broad target for federal spending: 20 percent of gross domestic product, the broadest measure of overall economic activity. Gov. Romney proposes a handful of specific spending cuts but by and large, he declines to explain how he would meet that target.

Unfortunately for the vast majority of Americans, the only way for a Romney administration to hit that target would be to implement massive cuts to most services, programs, benefits, and government assistance—everything from air traffic controllers to food safety inspectors, federal funding for education to investments in basic research and development, as well as a variety of assistance programs that enable low-income Americans to grasp a hand up into the middle class. And though Gov. Romney says he wants to protect Social Security and Medicare for current retirees and those soon to enter retirement, the math simply won't work. Gov. Romney's spending cap will, sooner or later, lead to enormous cuts for those two programs as well.

Rhetoric about fiscal responsibility, but policies that lead to more debt

The age of permanent federal budget deficits started with the first supply-side president, Ronald Reagan, and accelerated with the last one, George W. Bush. Gov. Romney's policies promise another round of supply-side budgeting: big tax cuts financed by more debt. Gov. Romney certainly embraces the rhetoric of

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fiscal responsibility—as, of course, did President Bush—but the actual policies he proposes would inexorably lead to more debt.

An extreme deregulation agenda

After low taxes for the rich, the second tenet of faith among the followers of supply-side theories is that corporations must be as free as possible from regulation and oversight. Gov. Romney's plan embraces that ethos with gusto. His agenda includes proposals to repeal existing regulations, to make it nearly impossible to enact any new regulations, and to allow the executive branch to decline to implement any new rules or requirements that Congress does manage to pass. Gov. Romney also proposes to roll back many environmental regulations and worker protections.

Combined with spending policies that would inevitably slash the operation budgets of many regulatory agencies, Gov. Romney's deregulation agenda would effectively give corporations nearly free reign. These policies flow from the belief that what's good for the bottom lines of the Fortune 500 is necessarily good for everyone. They decidedly reject the notion that fair and efficient markets depend on a level playing field, clear rules, and impartial referees.

Understanding Romney's economic worldview

Each of these elements in Gov. Romney's economic policy proposals, in their own way, seeks to bolster those at the top. After all, that is the underlying premise of supply-side economic theory. Tax cuts that are paid for with middle-class tax hikes and cuts to middle-class programs or else not paid for at all—leaving it to future generations of Americans to pay off the debt. Less oversight of corporations and fewer rules about how those corporations can treat their customers, workers, and even shareholders.

And just as it shouldn't be terribly surprising that Gov. Romney's economic plan is a reflection of supply-side theory, it also shouldn't surprise us when that plan fails to generate growth. After 30 years of economic experimentation, we know that a focus on the rich doesn't yield broad prosperity; it only results in more inequality. Instead, a growing body of economic research points to very different ingredients for growth, chief among them a strong middle class.⁴

But Gov. Romney doesn't have a plan for a strong middle class. Quite the opposite. The middle class would have to pay, one way or the other, for the enormous tax cuts he promises to deliver to the rich. Average Americans would also have to shoulder the burden of any deficit reduction that occurs under a Romney administration. Middle-class workers and those aspiring to join the middle class benefit from the labor standards and fair pay laws and regulations that Gov. Romney would like to see scaled back or eliminated. It is the 99 percent who depend on the environmental protections that Gov. Romney thinks are "job killers." And it's largely the middle class who will be asked to pick up the tab when Wall Street inevitably gets in trouble again after Romney repeals the financial reforms enacted in the wake of the housing and financial crises that nearly brought the world economy tumbling down.

Ultimately, Gov. Romney's economic policies are heavily tilted toward the rich and corporations because that's who he thinks are important for economic growth. The result of implementing those policies would be higher costs, fewer services, and weaker protections for the middle class as well as for lower-income Americans aspiring to the middle class. Gov. Romney believes that the positive effects of lower taxes for the rich and looser regulations for big businesses will more than offset the increased burden for the middle class. Both recent history and empirical economic evidence demonstrate why he's wrong.

Romney's tax plan for the 1 percent

Doubling down on George W. Bush's failed strategy

There is no better example of the failure of supply-side economics than the tax policies of President George W. Bush that have been in effect for more than a decade. The Bush tax cuts not only failed to deliver on the promise of broad-based economic growth but also increased inequality and gravely worsened our country's fiscal health. Despite this experience, Gov. Romney's tax plan doubles down on the Bush tax cuts, extending all of the most lucrative tax breaks for high-income individuals while promising even larger tax cuts for the wealthy and corporations.

How large? A Romney administration would give an average tax break of \$250,000 for millionaires over and above the Bush tax cuts, provide more than \$1 trillion in tax cuts for corporations, and eliminate taxes on large estates. His tax plan is "George W. Bush's plan on steroids," in the words of Pulitzer Prize-winning tax reporter David Cay Johnston.⁵

Vastly more fiscally irresponsible than the Bush tax cuts, Gov. Romney's tax cuts would explode federal budget deficits. The Republican presidential candidate's stated goal is to maintain "revenue neutrality" with current tax policies, a level of revenue that is already unsustainably low. But Gov. Romney's tax cuts would make it nearly impossible to reach even that low level of revenue. Romney claims that he will pay for his plan's giant tax cuts by "broadening the tax base"—in other words, by reducing special tax breaks. But his plan protects the most lucrative tax breaks for the wealthy and fails to identify any tax loopholes or tax breaks to eliminate, with the exception of several modest tax credits for low- and moderate-income working families.

The upshot: There is a gigantic revenue hole in the Romney tax plan—a hole that can only be filled by eliminating major tax benefits for the middle-class. So let's explore the Romney plan in greater detail before attempting to fill in some of the missing details.

Key facts about Romney's tax plans

- Millionaires would receive an average annual tax cut of \$250,000 under the Romney plan—on top of the \$140,000 average tax cut that they receive from the Bush tax cuts. In total, Gov. Romney is proposing \$1.5 trillion in extra tax cuts for millionaires on top of the Bush tax cuts.
- The Romney tax plan would give corporations a tax cut of \$1.1 trillion over 10 years. His plan also would encourage and reward the overseas outsourcing of U.S. jobs.
- The Romney tax plan is much more fiscally irresponsible than President Bush's policies, costing an additional \$4.9 trillion over 10 years on top of the cost of the Bush tax cuts.
- The Romney tax plan singles out for elimination tax credits for working families enacted or expanded under President Obama. This would result in millions of working families losing tax credits that help defray the costs of raising children and paying for college.
- The Romney tax plan fails to identify a single tax loophole or tax break that he would eliminate. His plan protects the special loopholes for companies that shift jobs and profits overseas, oil companies, and money managers like Gov. Romney himself.
- The Romney tax plan is ostensibly “revenue neutral,” but given the massive tax breaks he has promised the wealthy and corporations, the only way his plan adds up is by raising taxes on the middle class.

Romney's tax plan

Gov. Romney's tax plan would permanently extend all of the “Bush tax cuts,” the tax cuts for individual income, capital gains, and dividends first enacted in 2001 and 2003. He would then reduce all individual income tax rates by an additional 20 percent and eliminate the Alternative Minimum Tax.⁶ The estate tax would also be eliminated. Medicare taxes on high-income individuals enacted in the Affordable Care Act would be repealed. Gov. Romney's plan also would eliminate taxes on investment income (capital gains, dividends, interest) for households under certain income levels (\$100,000 for singles and \$200,000 for couples).

Gov. Romney claims that he would recoup the lost revenue from these tax cuts by reducing or eliminating tax breaks.⁷ But his plan is entirely silent on how he would do so. He has not identified any so-called “tax expenditures” that he would eliminate or reform. His plan would, however, allow several enhancements to tax credits enacted under President Obama to expire.

On the corporate side Gov. Romney proposes to lower the corporate rate from the current 35 percent to 25 percent. His plan would allow a “tax holiday” for the profits that U.S. corporations hold overseas while shifting the United States to a “territorial” tax system that would permanently exempt the overseas profits of U.S. corporations from taxation. Gov. Romney would allow businesses to immediately deduct capital investments for one year and also make permanent the tax credit for corporate research and experimentation. He has not identified any corporate or business tax breaks that he would reform or eliminate.

Huge new tax cuts for the 1 percent and corporations

The Romney tax plan provides an enormous windfall to wealthy Americans.⁸ By making permanent the Bush tax cuts—whose benefits are badly skewed toward the rich—Gov. Romney is basing his policies on ones that have contributed to growing income inequality and have demonstrably failed to enhance economic growth.⁹ The Bush tax cuts lower taxes for all income groups but disproportionately benefit the rich. Millionaires receive a tax cut that is more than twice as large as a share of their income as the middle class.¹⁰ The top 1 percent of households receives more than one-third of the benefits, and the top 10 percent of households receive more than half of the benefits.¹¹

The Bush tax cuts slashed the top tax rate—paid by people making \$388,350 in taxable income—from 39.6 to 35 percent, a level that is extremely low by historical standards. The top rate was 70 percent or higher during the postwar period until 1981 and was 50 percent for most of the presidency of Ronald Reagan.

For the extremely wealthy, the biggest boon from the Bush tax cuts results from the special 15 percent tax rate on capital gains and dividends. This extremely low rate is the primary reason that many extremely wealthy individuals like Romney himself pay a lower tax rate than many middle-class families. The tax rate on capital gains is now lower than at any point since 1933.¹²

Despite the wealthy enjoying all of these tax cuts, with only weak economic growth and reduced household income to show for it, Gov. Romney’s plan nevertheless piles on even bigger regressive tax cuts. While maintaining all of the Bush tax cuts, Romney’s plan would:

Cut the income tax rate paid by the richest Americans to 28 percent

That tax rate would be the lowest it has been since the Herbert Hoover administration. Gov. Romney's plan cuts all individual income tax rates by 20 percent, but the benefits from such an "across-the-board" tax cut in tax rates are actually highly skewed toward those with high incomes.¹³

Cut the top corporate tax rate from 35 percent to 25 percent

Including the rate cut and other corporate tax cuts, Gov. Romney's tax plan would cut corporate taxes by more than \$1.1 trillion over 10 years.¹⁴ This policy would predominantly benefit wealthy shareholders.¹⁵ His plan does not identify any corporate or business tax loopholes that he would eliminate.

Abolish the estate tax

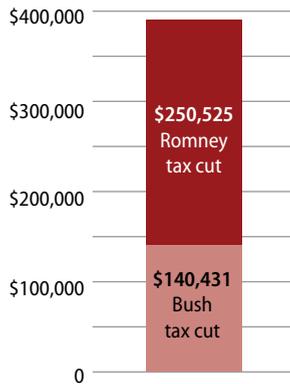
Because the estate tax now applies only to estates worth more than \$10 million (\$5 million for singles), only a tiny slice of extremely large estates pay any estate tax at all. 99.87 percent of decedents' estates are not subject to the tax. The other 0.13 percent will pay an average of only 15 percent.¹⁶ Gov. Romney's plan would permanently eliminate the estate tax—a tax cut for multimillion-dollar estates of \$178 billion over 10 years compared to current estate tax rules, and \$291 billion compared to President Obama's proposals.¹⁷

Cut Medicare taxes on high-income individuals

To help pay for health reform, the Affordable Care Act partially removed the exemption of investment income from the payroll tax. It imposed a 3.8 percent Medicare tax on net investment income, as well as a 0.9 percent Medicare surtax on wages for high-income individuals. Scheduled to take effect in 2013, these Medicare taxes will only apply to the less than 2 percent of Americans with incomes above \$250,000 (\$200,000 for singles). The top 1 percent would receive nearly 80 percent of the benefit from repealing these taxes.¹⁸

FIGURE 1
Another windfall for millionaires

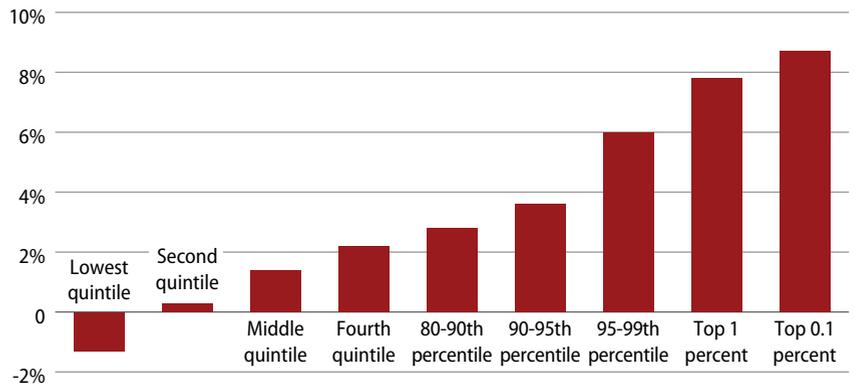
Value of tax cut, in dollars, for the average tax unit making more than \$1,000,000 annually



Source: Tax Policy Center

FIGURE 2
Gov. Romney's tax cuts would benefit the richest 1 percent five times as much as they would those in the middle

Average tax cut from Gov. Romney's stated tax proposals, as a percent of income, compared to current tax policies, 2015



Offer “middle class tax cuts” that don’t benefit the middle class

Gov. Romney does have one tax cut that is aimed explicitly at the middle-class—eliminating taxes on investment income for families with incomes under \$200,000. But it’s not nearly as progressive as it sounds. About 93 percent of households with incomes under Gov. Romney’s proposed taxable income thresholds already pay no tax on capital gains and dividends.¹⁹ His proposal would save families with incomes under \$100,000 only about \$60, on average, and families under \$200,000 only about \$150.²⁰ Meanwhile, because the income thresholds for this tax cut are set based on non-capital gain or dividend income, households in the top 1 percent that have incomes mainly from these sources would actually receive one-tenth of the tax savings from this policy.²¹

All told, the Romney tax cuts would pile extremely regressive tax cuts on top of the already-regressive Bush tax cuts. Millionaires would receive a tax cut of \$250,000 over and above the windfall they are currently receiving from the Bush tax cuts. The top 1 percent would receive an average tax cut of \$150,000 and the top 0.1 percent would receive an average tax cut of \$725,000.

Mitt Romney's tax cut for Mitt Romney

Gov. Romney paid an effective tax rate of only 13.9 percent on his income in 2010. Had Romney's plan been in effect in 2010, he would have paid an effective rate of about 12.3 percent—about \$350,000 less. And his plan gives himself even greater tax cuts in comparison to President Obama's plan, which largely allows the Bush tax cuts for people in Romney's income stratum to expire and closes the "carried interest" loophole for private equity fund managers.

Romney's gains from his own tax plan

Policy	Romney tax cut
Protect "carried interest" loophole for money managers	\$1,480,000
Retain Bush rates on investments	\$1,425,000
Retain Bush rates on other income	\$71,000
Lower 35 percent tax bracket to 28 percent	\$111,000
Repeal the Alternative Minimum Tax	\$233,000
Repeal the Affordable Care Act	\$793,000
Protect extra value of itemized deductions for high-income taxpayers	\$524,000
Total annual tax cut (based on 2010 income)	\$4.5 million²³
Plus: Cut tax rates on distributions from his Individual Retirement Account, valued at \$21-102 million	\$2.4-11.8 million
Plus: Abolish the estate tax ²⁴	\$85-112 million

Source: Authors' calculations based on Mitt Romney's 2010 tax returns

As a share of their income, the top 1 percent would get a tax cut more than five times larger than households near the middle of the income distribution. In sum, Gov. Romney's plan gives \$1.9 trillion in *new* tax cuts to the richest 1 percent over the next 10 years, \$1.5 trillion of which goes to millionaires.²²

Gov. Romney claims that he would pay for these tax cuts by reducing tax breaks that primarily benefit the wealthy—tax breaks that he has yet to identify. As we discuss later, this is a smokescreen. The magnitude of his tax cuts for the rich and corporations make it impossible to pay for them with reductions in other tax breaks.

Reducing tax credits for low- and moderate-income working families

Of all of the loopholes, deductions, and tax expenditures in the Internal Revenue Code, Gov. Romney has specifically singled out only three for elimination. All three are tax credits benefiting working families first enacted under President Obama in 2009. Gov. Romney's plan would:

Eliminate President Obama's American Opportunity Tax Credit for families paying for college

Under the current American Opportunity Tax Credit, families are eligible for a tax credit of up to \$2,500 for four years of college (partially refundable for families with no income tax liability). Under Gov. Romney's plan, credits would be limited to a nonrefundable credit of about \$1,800, available only for two years of college.

Reduce the Earned Income Tax Credit for larger families

The Earned Income Tax Credit supplements the earnings of low-income families, rewarding work while offsetting payroll and other taxes. Prior to 2009 families with three or more children received the same tax benefit from the Earned Income Tax Credit as families with two children despite a higher cost of living. A provision enacted in 2009 made such families eligible for an additional benefit, but Gov. Romney's plan would let that provision, along with another improvement to the credit signed in 2009, expire. A two-parent family raising three children on \$30,000 of earnings would lose \$1,076 a year.²⁵

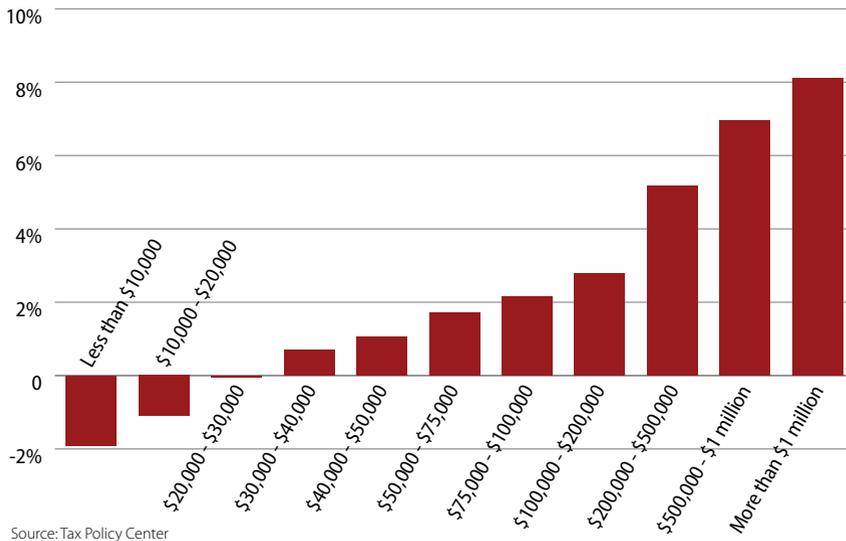
Lower the Child Tax Credit for low-income families

The Child Tax Credit also rewards work while defraying child rearing expenses. Only families with earned income can benefit. The credit is generally \$1,000 per child, but families at low-income levels can often claim only a partial credit. President Obama's 2009 reforms allowed low-income families to claim more of the credit. Gov. Romney's tax plan would repeal those reforms, resulting in a smaller credit or no credit for the families of 15.8 million children.²⁶

FIGURE 3

Gov. Romney's proposals would raise taxes for many low- and moderate-income families with children

Average tax cut from Gov. Romney's stated tax proposals, as a percent of income, compared to current tax policies, 2015



By letting these three reforms expire, Gov. Romney would actually raise taxes on 18 million households, including 13 million families with children (27 percent of all families with children), even after he implemented his other tax cuts. At the same time that millionaires receive a \$250,000 tax cut, families with incomes under \$30,000 would see an average tax increase.²⁷ And it's critical to understand that these figures do not take into account the unspecified "base broadening" in Gov. Romney's plan, which would result in much larger tax increases on middle- and low-income Americans.

A hidden, but inescapable, middle-class tax hike

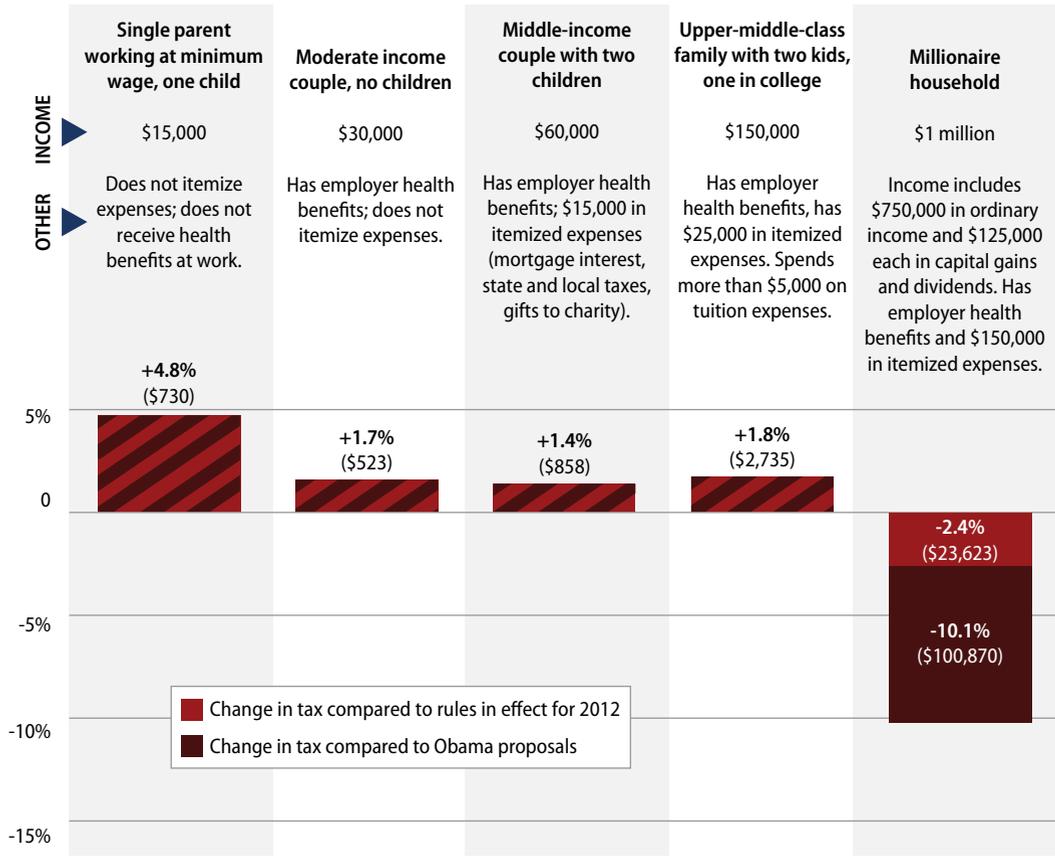
By extending the fiscally disastrous Bush tax cuts and piling on massive new tax cuts, the Romney tax plan would explode the federal budget deficit, even in scenarios where spending is cut drastically. He claims that these tax cuts are paid for with offsetting reductions in tax breaks without shifting the burden onto the middle class. But the plan is a "mathematical disaster."²⁸ It just doesn't add up.

The problem is that Gov. Romney promises bigger tax cuts for the rich than he could ever get back in reduced tax breaks for the wealthy. Therefore the only way that Gov. Romney can pay for his tax cuts for rich households is by raising taxes on people below them on the income scale. His plan is fuzzy on the details, but the math doesn't lie: Romney's tax plan includes a hidden tax increase on the middle class—a big one.

Here are the numbers. The nonpartisan Tax Policy Center estimates that relative to current policies, Gov. Romney's plan would reduce revenue by \$480 billion

below current policy in 2015, or \$4.9 trillion over 10 years.²⁹ If one assumes that his corporate tax cuts can be made up with reductions in corporate tax breaks (which is all but impossible³⁰), his plan still has a \$320 billion revenue hole to fill in 2015. The biggest tax breaks for high-income individuals like Romney are off the table, because Romney extends the exceptionally low Bush rates on capital gains and dividends. That leaves mainly existing tax benefits for the middle class as his only solution for closing his revenue hole.

Winners and losers in the Romney tax plan



Source: Authors' calculations (tax year 2013). Calculations for Gov. Romney's plan assume the proposed 20 percent reduction in tax rates and the 72 percent reduction in certain tax expenditures that would be necessary to offset the lost revenue from those lower rates, according to Nguyen et al, "How Hard Is It to Cut Tax Preferences to Pay for Lower Tax Rates?" (Washington: Urban-Brookings Tax Policy Center, July 10, 2012). Tax expenditures are those that the Tax Policy Center authors categorize under "Group 1" as the most "administratively and politically feasible" to reduce, which include all itemized deductions, the exclusion of employer-provided health insurance benefits, higher education tax credits, and the parental personal exemption for students age 19 and over. The calculations use the method described in the Tax Policy Center report (footnote 14) to impose a 72 percent "haircut" on the value of those tax expenditures for each taxpayer. Tax computations under current tax policies not include the 2% payroll tax holiday in effect for 2012.

The Tax Policy Center found that meeting Gov. Romney's current policy revenue target would require a "significant curtailment" of widely used tax expenditures such as the deductions for mortgage interest and charitable gifts, as well as the tax exclusion of employer-sponsored health insurance.³¹ In a scenario that Tax Policy Center judged the most administratively and politically feasible, a broad range of tax preferences would have to be slashed by 72 percent to make Gov. Romney's plan add up, including all itemized deductions (for mortgages, charity, and state-and-local taxes), the exclusion of employer-provided health benefits and other fringe benefits, tax benefits for higher education, the additional standard deduction for the elderly and blind, and several other tax expenditures.

Without specifics, it is impossible for any family to know exactly how the Romney plan would affect their taxes once the details are filled in. But we calculated the effect of the Tax Policy Center's most likely scenario on some typical families of different incomes. Our analysis confirms that with the tax expenditure reductions that would be necessary to make Gov. Romney's plan add up, middle-class families would pay much more in taxes even with Romney's 20 percent lower rates. At the same time, rich individuals would benefit much more from the rate cuts and the protection of tax breaks on investment income than they would stand to lose from other tax breaks.

Encouraging overseas outsourcing

One of the ways our tax system is broken is that it encourages and rewards companies to invest overseas, even if similar investments in the United States would be more profitable absent tax considerations. Gov. Romney's corporate tax plan would not only protect the tax break that rewards companies that ship jobs overseas; he would make that tax break far more lucrative. U.S. corporations today can delay paying taxes on their foreign profits, but under Gov. Romney's plan they would never have to pay taxes on those overseas profits.

A "territorial" tax system—another name for a permanent tax exemption for overseas profits—"would cause investment to flow abroad," reduce capital investment in the United States, and ultimately reduce wages, according to economist Jane Gravelle of the Congressional Research Service.³² An analysis by Reed College economist Kimberly Clausing similarly estimates that because "the tax incentive to locate jobs in low-tax countries would increase significantly," 800,000 jobs would migrate to foreign countries and potentially replace U.S. jobs.³³

Since Gov. Romney's plan would apply to existing profits, the companies that are stashing profits overseas stand to receive a gratuitous windfall. Some of these companies have used accounting tricks to treat their domestic income as "foreign" income to avoid U.S. taxes. These practices would be rewarded and encouraged under Gov. Romney's plan, resulting in more profits being sheltered from U.S. taxes in havens like Luxembourg, Bermuda, Switzerland, and the Cayman Islands.

By contrast, President Obama proposes tax credits for companies that insource jobs, paid for by removing deductions for companies that outsource jobs. His proposal for a corporate minimum tax would deter tax haven abuse and level the playing field for investment in the United States. That would align the tax system with the interests of U.S. workers.

A hopelessly skewed tax code for the rich

There is broad agreement that our current tax code is in need of serious reform. It is failing on far too many levels. It doesn't generate the revenue we need to fund the government. It isn't simple, fair, or efficient. It is weighed down by dozens and dozens of special provisions that allow some individuals and companies to get away with paying extremely low rates. Unfortunately, Gov. Romney's plan doesn't address any of these concerns. Instead, it merely takes the tax code we have now, Bush tax cuts and all, and further slashes taxes, primarily for the rich.

Gov. Romney argues that his approach will nevertheless work because his enormous tax cuts will spark an economic boom. President George W. Bush made the same argument. The evidence that tax cuts for the rich would result in faster growth was never very strong, and now, 12 years into the Bush tax cuts, any evidence there ever was has been utterly overwhelmed by the real-world outcomes. Gov. Romney's plan reflects precisely none of the lessons of the past decade.

But Gov. Romney's tax plan boasts yet another problem. By proposing enormous new tax cuts for the very rich, Romney is left with a choice. He can either abandon his pledge to keep revenues at "current policy" levels, or he can raise taxes substantially on the middle class. If he decides in favor of the former, he will explode the federal budget deficit and our nation's long-term debt load. (See page 27 for further discussion of the impact of Gov. Romney's policies on the deficit and debt). If he decides for the latter, he will be asking the middle

Our analysis confirms that with the tax expenditure reductions that would be necessary to make Gov. Romney's plan add up, middle-class families would pay much more in taxes even with Romney's 20 percent lower rates.

class and the poor to directly pay for the wealthy's tax breaks, a politically, economically, and morally untenable position.

President George W. Bush faced a similar dilemma. He promised to cut taxes and pay down the debt. When it became apparent that he couldn't do both, he decided to let the debt rise. Gov. Romney's dilemma is much more severe because his tax cuts are twice the size of President Bush's, and our current economic and fiscal challenges are so much bigger—thanks, in part, to the Bush tax cuts themselves.

The hidden middle-class tax increase in Gov. Romney's tax plan lays bare its true priority—to cut taxes as much as possible for the highest-income Americans who have already captured the bulk of income gains and tax cuts in recent years. The Romney plan not only continues the failed Bush tax policies; it doubles down on those policies with even more fiscally irresponsible tax cuts for the rich and corporations. The Romney tax plan is a plan to shift the tax burden onto the broadest reaches of the middle class.

The Romney spending plan

Unrealistically massive, but unspecified, cuts that will be unavoidably painful for the middle class

What's the one economic policy that could bring together the Chamber of Commerce and the AFL-CIO? The answer: increasing federal investment in our nation's infrastructure.³⁴ What's draining our economy of up to \$2.3 trillion a year, according to McKinsey & Company? The answer: the gap between educational achievement here in the United States and internationally.³⁵ And what, says a wide and growing body of economic research, is a key ingredient of broad and sustained economic growth? The answer: a strong middle class.³⁶

These are all areas in which federal spending plays an important—and oftentimes critical—role. Yet Gov. Romney's economic policy agenda would make it all but impossible to adequately invest in any of them. In fact, his proposals would actually force enormous cuts to these investments along with nearly everything else in the federal budget. It's hard to imagine that Gov. Romney actually wants to dramatically reduce federal funding for kindergarten-through-12th-grade education, or for bridge repairs, or for the National Institutes of Health, since the economic consequences of doing so would be unquestionably negative. But that is what he's proposed.

Of course, you won't find those specific proposals anywhere in the Republican presidential candidate's campaign materials. You see, while the American public is certainly on board with the principle of reducing government expenditures, they disembark rather rapidly when it comes to specific program cuts. The largest federal program, Social Security, is also one of the most popular.³⁷ So is Medicare, another big-ticket item.³⁸ So are investments in education and scientific research.³⁹ The list could go on.

Gov. Romney tries to solve this dilemma by keeping his spending promises abstract. Instead of naming programs that would come under the knife, he sticks to broad categories that have little meaning to most Americans. Instead of making

Key facts about Gov. Romney's spending plans

- For the Romney spending plan to achieve his stated spending goal by 2016, he'll need to cut everything in the nondefense budget, including Social Security and Medicare, by 14 percent.
- Gov. Romney has identified only \$145 billion in specific savings for 2016, leaving him \$430 billion above his stated spending goal.
- Gov. Romney's defense proposals would add \$140 billion in annual spending by 2016
- With a 20 percent cap in place, the latest Gov. Romney could delay cuts to Social Security and Medicare would be 2026, and only that long if he first eliminates everything else, except for defense.
- If a Romney administration declines to cut Social Security or Medicare by 2016, then it would have to cut everything else by 31 percent.

the hard choices about where scarce resources should be directed, he promises an overall cap on all federal spending.

But as abstract as his spending plan is, the effects will be specific. And they will, necessarily, include enormous reductions in investments that spur economic growth, and they will, necessarily, be borne by middle-class and low-income families.

The abstract Romney spending "plan"

Federal spending under a President Romney will be dictated by two overarching policy goals:

- Limit total federal spending to 20 percent of gross domestic product⁴⁰
- Amend the U.S. constitution to require balanced federal budgets while simultaneously "guard[ing] against the use of net revenue increases to achieve balance"⁴¹

Both of these policies would require enormous cuts to federal spending. And although Gov. Romney has offered few details as to which programs would bear the brunt of the reductions, he has set forth a handful of additional relevant spending proposals. He says he would:

- Maintain federal defense spending at no less than 4 percent of gross domestic product⁴²

- Reduce nonsecurity discretionary spending by 5 percent⁴³
- Repeal the Affordable Care Act⁴⁴
- Turn the Medicaid program into a block grant⁴⁵

Beyond these four policies, Gov. Romney has not detailed how he would comply with his 20 percent cap, much less the even more stringent balanced budget requirement.

The specific effects of the Romney spending “plan”

In 2016 federal spending is currently projected to total around \$4.1 trillion.⁴⁶ Gov. Romney’s call to maintain defense spending at 4 percent of GDP would increase spending in that year by nearly \$140 billion above current projections. His other specific proposals would reduce spending by about \$145 billion.⁴⁷ In addition, his tax policies (discussed earlier) would add about \$60 billion in net interest payments because of the additional debt they would incur.

In sum, accounting only for the specific spending proposals that Gov. Romney has outlined, federal spending would actually be slightly higher than is currently projected, by a bit more than \$50 billion. Of course, Gov. Romney has also called for an overall cap on federal spending at 20 percent of GDP. The actual spending policies he has enumerated would leave federal spending at 22.3 percent of GDP, or approximately \$430 billion above his proposed cap.

Gov. Romney has not explained this discrepancy. If he were to implement equal percentage cuts across the board in order to hit his spending target, then he would need to cut everything by 14 percent. That would mean cutting almost one out of every seven dollars of federal spending, including Social Security, Medicare, Medicaid (which, recall, would have already been cut by turning the program into a block grant), all economic investments, and the safety net.

Gov. Romney, however, has also stated that “for people who are already retired or 55 years of age and older, nothing changes.”⁴⁸ Although he has not explained precisely what that would mean, if we assume it means he would exempt Social Security and Medicare from any cuts then everything else would need to be cut by 31 percent. Given that he has already indicated how he would cut Medicaid, it may be best to assume that it would not suffer additional cuts beyond those already discussed. Additionally, since Gov. Romney explicitly exempts “security”

TABLE 1

What would Gov. Romney have to cut to comply with his proposed spending cap?

Percent cut from current projections necessary to reach the goal in 2016

If Romney cuts everything...			
	...across the board	...but Social Security and Medicare	...but Social Security, Medicare and non-defense security, and no additional cuts to Medicaid
Social Security	14%		
Medicare	14%		
Medicaid	14%	31%	
Economic investments (i.e. infrastructure, education, science and health research)	14%	31%	51%
Safety Net (i.e. nutrition assistance, unemployment insurance, child care subsidies)	14%	31%	51%
All else	14%	31%	51%

Source: Authors' calculations based on Congressional Budget Office projections

discretionary spending from his proposed 5 percent cut, then those programs—among them homeland security, international affairs, and veterans' benefits—also seem likely to be protected in a Romney administration.

If that is the case, then everything in the rest of the budget—including education funding, scientific research, highway construction and maintenance, nutrition assistance, law enforcement, unemployment insurance, and food and drug safety—would need to be *cut in half* in order to bring total spending under the Romney spending cap.

The scenarios become even more unrealistic if Gov. Romney succeeds in implementing a balanced budget amendment. According to the Congressional Budget Office, under current tax policies, revenue in 2016 would total just 18.1 percent of GDP. Therefore, to fully balance the budget without “net revenue increases,” a Romney administration would need to cut nearly \$790 billion from the budget in 2016, rather than “just” \$430 billion.

That \$790 billion spending cut would require across-the-board cuts of 26 percent. If he protects Social Security, Medicare, security spending, and limits Medicaid cuts to those already proposed, then the cuts to the rest of the budget would need

TABLE 2

What would Gov. Romney have to cut to achieve budget balance with “Bush” revenue levels?

Percent cut from current projections necessary to reach this goal in 2016

If Romney cuts everything...			
	...across the board	...but Social Security and Medicare	...but Social Security, Medicare and non-defense security, and no additional cuts to Medicaid
Social Security	26%		
Medicare	26%		
Medicaid	26%	57%	
Economic investments (i.e. infrastructure, education, science and health research)	26%	57%	93%
Safety Net (i.e. nutrition assistance, unemployment insurance, child care subsidies)	26%	57%	93%
All else	26%	57%	93%

Source: Authors' calculations based on Congressional Budget Office projections

to exceed 90 percent. That would mean essentially eliminating everything from the Federal Aviation Commission to the federal prison system to the National Institutes of Health to the school lunch program.

Obviously, that is highly unlikely. Far more likely is that a president Romney would have to break his campaign promise and cut some Medicare and Social Security benefits (see sidebar). Even if he were to cut everything else by one-third—Medicaid and nonmilitary security spending included—he'd still need to cut Medicare and Social Security by 20 percent to balance the budget.

Of course, Gov. Romney has also put forward a raft of tax cuts that dramatically reduce revenue. According to the Tax Policy Center, if he does not offset those tax cuts with equivalent tax increases, he would reduce revenue to below 15 percent of GDP.⁴⁹ In order to bring spending down to that level, he would need to find \$1.37 trillion in spending cuts in 2016 alone. That would require a 45 percent cut across the board, including Social Security and Medicare. In fact, those cuts are so enormous that the only way to exempt Social Security and Medicare from them would be to completely eliminate everything else, including Medicaid, homeland security, veterans' benefits, and the rest.

Gov. Romney's proposals will require major cuts to Social Security and Medicare

Gov. Romney calls for an overall cap on federal spending at 20 percent of gross domestic product. He also supports a constitutional amendment that would require balanced federal budgets and make it even more difficult to raise revenues to do so. On the tax side of the ledger, he says he wants to keep overall revenue levels the same as current tax policy, but he has also put forth a raft of tax cuts that would result in a tax code that brings in far less. As discussed in the main text, reconciling these positions would mean massive cuts to most parts of the federal budget.

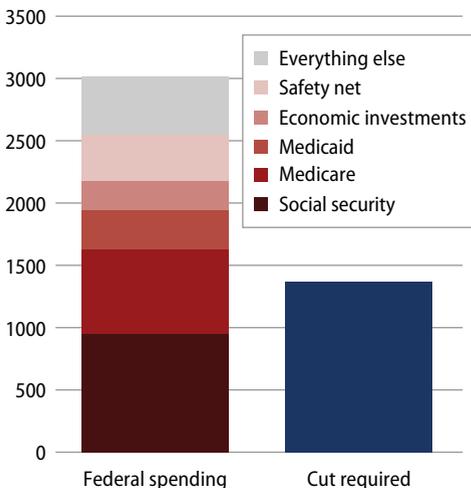
But his positions also would mean that Social Security and Medicare—two programs Gov. Romney says he wants to protect—would sooner or later have to be cut dramatically as well.

The math is actually relatively simple. Assume, for the moment, that he succeeds in implementing a hard cap on federal spending at 20 percent of gross domestic product. According to the Congressional Budget Office's alternative fiscal scenario, spending on Social Security, Medicare, net interest payments on the debt, along with defense spending at 4 percent of GDP (another of his positions) will, together, exceed 20 percent of GDP in 2026.⁵⁰ In other words, under Gov.

FIGURE 4

What would it take to make the Romney tax plan comply with a balanced budget amendment?

Projected federal nondefense and noninterest spending in 2016, in billions



Note: Projections already account for the few specific spending cuts that Romney has proposed.

Source: Congressional Budget Office and authors' calculations.

The various fiscal promises Gov. Romney makes simply cannot work together. He cannot simultaneously cut taxes as he's proposed, increase defense spending, protect Social Security and Medicare for current and near-future retirees, and also balance the budget. It is mathematically impossible.

The impact on economic growth and the middle class

Gov. Romney recently argued, "If you take a trillion dollars, for instance, out of the first year of the federal budget, that would shrink GDP over 5 percent. That is by definition throwing us into a recession or depression."⁵¹ He is right, of course. Cutting federal spending by that much in one year would have immediate and disastrous consequences. Capping federal spending at 20 percent of GDP would force him to cut "only" \$430 billion in a single year. Trying to balance the budget with current revenue policies would result in a \$790 billion cut. And balancing the budget with Gov. Romney's proposed tax policies would mean a nearly \$1.4 trillion spending cut.

Beyond throwing the country into a depression, the burden of these cuts would necessarily be borne primarily by the middle

Romney's cap, Congress can only avoid making cuts to Social Security and Medicare until 2026, and only that long if they first eliminate everything else, from the Coast Guard on down to the national parks.

Since Congress is not going to eliminate all veterans' benefits, the Food and Drug Administration, immigration enforcement, or the school lunch program, to name a few, that means Gov. Romney's cap will force cuts to Social Security and Medicare much sooner than 2026. How much sooner? Well that depends on the magnitude of cuts to everything else. If he somehow succeeds in convincing Congress to cut everything else in the federal budget by half—a rather unreal-

istic assumption—then that would allow him to delay cuts to Social Security and Medicare only until 2019.

Of course, if he succeeds in enacting a balanced budget amendment, and keeps revenues at levels equivalent to current tax policies, the cuts to Social Security and Medicare will have to come even earlier. Even cuts of 50 percent to the rest of the budget won't protect Social Security or Medicare past 2016.

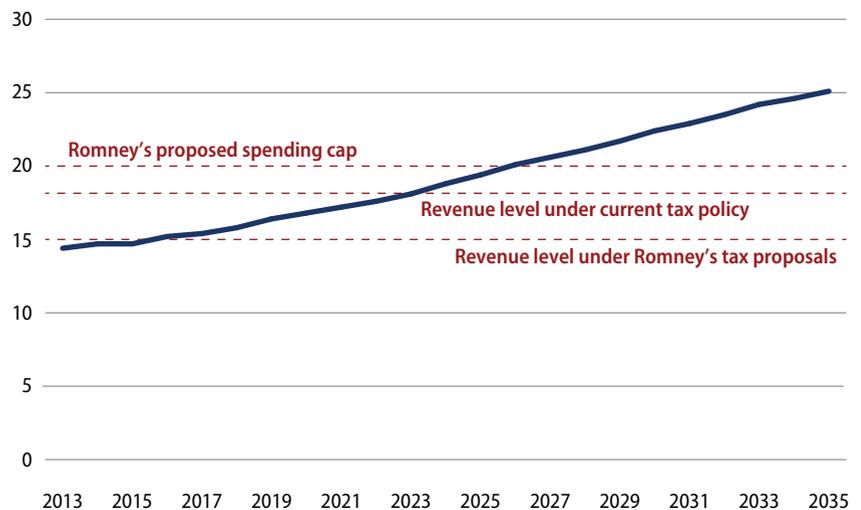
There is no way around it. Gov. Romney's stated spending policies will inevitably lead to cuts in Social Security and Medicare.

class and those trying to get into the middle class. Basic public services such as food and drug inspections, environmental protections, and aviation safety would all suffer enormously. These sorts of services are all found in the one category of federal spending, called nonsecurity discretionary, which Gov. Romney has explicitly targeted for cuts. And since the cuts he has promised for this area are not nearly big enough to meet his overall spending target, this area is likely to be hit even harder.

The magnitude and breadth of the cuts required to meet Gov. Romney's spending goals

FIGURE 5
Gov. Romney's proposals will eventually force big Social Security and Medicare cuts

Federal spending on Social Security, Medicare, net interest, and defense, as a percent of gross domestic product



Note: Defense projections assume Romney levels. Net interest projections assume current tax policy revenue levels.
Source: Congressional Budget Office

would also no doubt harm our country's prospects for long-term growth. Even in the most generous interpretation of Romney's fiscal plan, he would need to cut all investments in future economic growth by 14 percent. That means a 14 percent cut to the basic building blocks of a successful, modern economy: education, infrastructure investments, and basic scientific research. If he follows through on his promise to protect Social Security and Medicare, then those cuts rise to over 30 percent.

The deficit and debt impact

Romney fiscal policies would result in higher deficits, more debt

It is a challenging enterprise determining the overall budgetary effects of Gov. Romney's proposed fiscal policies. This is because of the numerous omissions and contradictions inherent in his stated plans. As already discussed, it is virtually impossible for the Republican presidential candidate to keep all of his spending promises, and his tax plans only add up if the politics of taxes change so radically as to allow him to implement a significant tax hike on most Americans while simultaneously cutting taxes for the richest households in the country.

Gov. Romney himself acknowledged recently that his plans, "can't be scored" because they lack important details.⁵² These obstacles are real but it is nevertheless possible, using reasonable assumptions, to evaluate the Romney fiscal agenda on a broad basis, especially its overall impact on the federal deficit and debt.

At first blush, the analysis should be simple. He calls for a constitutional amendment requiring balanced federal budgets. If actually accomplished, balancing the federal budget would, of course, mean no budget deficit at all, and as a result the national debt, measured as a share of gross domestic product, would fall dramatically. From 1998 to 2001, the last time we enjoyed balanced budgets, publicly held debt dropped from 45.9 percent of GDP to 32.5 percent.⁵³ But unfortunately Gov. Romney offers no details whatsoever on what such a constitutional amendment would look like, how it would operate, or how to garner the support necessary to pass it—much less how to actually make the numbers work.

In fact, the fiscal policies that Gov. Romney specifically describes do not come anywhere close to balancing the budget, even when employing the most generous assumptions. If we assume, for example, that he is able to reduce spending to his stated preference of 20 percent of GDP despite the promises he's made, then that would make such a goal all but impossible. And if we further assume

Key facts about deficits and debt

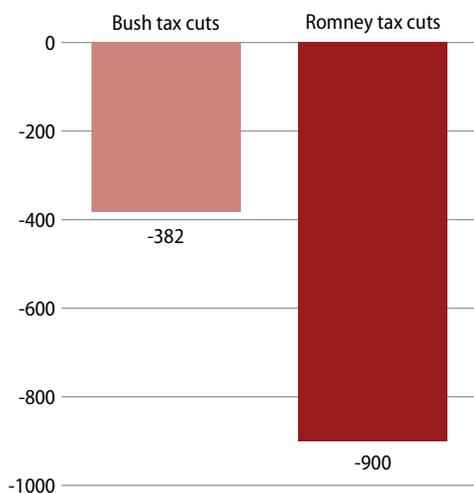
- The specific fiscal policies in Gov. Romney's plan would result in a debt-to-GDP ratio of over 100 percent by 2020.
- Even if Gov. Romney adopts all the spending cuts in the budget plan endorsed by Republicans in the House of Representatives and drafted by Rep. Paul Ryan (R-WI) budget, his enormous tax cuts will still cause debt to surpass 95 percent by the end of the decade.
- Gov. Romney's budget proposals will result in nearly \$10 trillion more debt than President Obama's budget proposals.

that he maintains overall federal revenue at “current tax policy” levels despite his proposals for large tax cuts, then his fiscal plan would still result in about \$1.9 trillion of red ink by 2016.

FIGURE 6

Gov. Romney's tax cuts are more than twice as large as President George W. Bush's

One-year revenue cost, in billions



Source: Congressional Budget Office and Tax Policy Center

Evaluating Gov. Romney's specific budget proposals

And once we use more realistic assumptions, the red ink grows substantially. If instead of assuming that Gov. Romney will be able to hit his fiscal targets despite all evidence to the contrary, we only evaluate the policies that he has specifically outlined, then the budgetary picture darkens considerably. As already discussed, his tax policies would fall far short of maintaining revenue at the levels that current tax policies would generate. Instead of revenue at about 18.5 percent of GDP, the Romney tax plan would generate about 15 percent of GDP—a \$655 billion difference in 2016. And far from reducing spending to 20 percent of GDP, his stated policies would actually slightly increase spending because his higher defense spending and higher interest payments on the debt necessary to finance his tax cuts offset the effects of the specific spending cuts he has proposed.

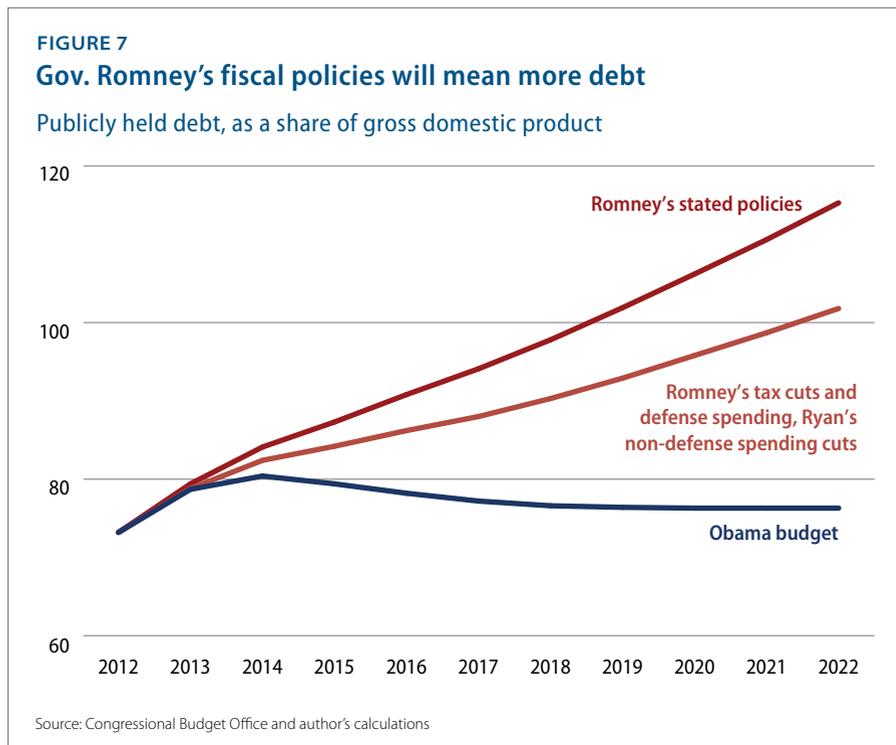
Taken together, these policies would result in a 2016 budget deficit of about \$1.5 trillion, or 8 percent of GDP. According to the Congressional Budget Office, the 2016 budget deficit under

President Obama's budget proposals would be just 3.1 percent of GDP,⁵⁴ which is nearly 1 trillion dollars lower than under Gov. Romney's proposed policies.

The difference in debt is just as stark. Under President Obama's budget plan, publicly held debt would peak at 78 percent in 2016 and then stabilize at about 76 percent throughout the rest of the decade. In contrast, under Gov. Romney's proposals debt would rise to over 90 percent by 2016, and well over 100 percent by 2020. From 2013 through 2022, Gov. Romney's budget proposals would incur fully \$9.6 trillion in higher debt than would the Obama budget proposals.

Evaluating the Romney fiscal plan assuming Ryan budget spending proposals

Gov. Romney has offered effusive praise for the budget blueprint put forth by the Republican caucus in the House of Representatives and authored by Rep. Paul Ryan (R-WI).⁵⁵ Rep. Ryan's blueprint has a much more detailed spending plan that includes massive cuts to safety net programs and to investments in education, transportation, and scientific research.⁵⁶ Though Gov. Romney has so far declined to explicitly incorporate most of those spending cuts into his formal campaign proposals, it is possible, perhaps even likely, that if elected he would use the Ryan budget as a source of ideas for dramatically reducing spending. And Rep. Ryan's budget does bring spending down to levels roughly compatible with Gov. Romney's proposed spending cap, albeit with two major caveats.



First, Gov. Romney's proposals to increase defense spending would exceed those in the Ryan budget. Second, both the Ryan budget and the Romney fiscal plan suffer from a similar problem relating to tax revenue. Both make promises of revenue levels that are contrary to their actual tax cut proposals. This affects the spending levels because lower tax revenues means more borrowing, and therefore higher net interest payments.

If Romney were to adopt all of the spending cuts in the Ryan budget, increase defense spending to 4 percent of GDP, and implement all of his tax cuts, then he would bring spending down to 20.8 percent of GDP by 2016, almost at his 20 percent cap. But because of his enormous tax cuts, the federal deficit would still be well over \$1 trillion and over 6 percent of GDP. Publicly held debt would surpass 86 percent of GDP.

After 2016 the budget picture would deteriorate further as interest payments on the ever-growing debt overwhelmed the spending cuts of the Ryan budget. By 2020 the deficit would be approaching \$1.5 trillion and debt would exceed 95 percent of GDP. Over the 10-year budget window, 2013 to 2022, Rep. Ryan's budget cuts combined with Gov. Romney's defense spending and tax cuts would result in \$6.3 trillion in added debt above that which would be incurred by the president's budget proposal.

The bottom line

While Gov. Romney's fiscal plans suffer from a lack of detail, under any reasonable assumptions his proposals would result in an alarming increase in the federal debt. When evaluating just the specific budgetary proposals that he has actually laid out, debt would soar past 100 percent of GDP by the end of the decade. And even if he were to adopt all of the spending cuts underlying the Ryan budget resolution, debt would still surpass 90 percent. Other analyses of the Romney fiscal plan from nonpartisan sources have come to similar conclusions.⁵⁷

The problem for Gov. Romney is that the tax cuts he has proposed are, by any yardstick, enormous. The only way that such enormous tax cuts do not result in massive amounts of debt is if they are offset by higher taxes elsewhere or lower spending. Even if we give him credit for billions of dollars in spending cuts that he hasn't actually detailed, it's still simply not enough to make up the difference—

and he hasn't even gestured in the direction of offsetting tax increases. Therefore, the inescapable conclusion is that Gov. Romney's proposed fiscal policies would dramatically increase the debt.

Gov. Romney's approach to market rules and regulations

Siding with corporations against their customers and workers

A Romney administration would be guided by the core belief that government rules and regulations are principally a “hidden tax on Americans”—the means by which the “whims of unaccountable bureaucrats” strangle job creators in red tape and destroy jobs.⁵⁸ Almost nowhere in his position papers on the subject does he acknowledge a positive role for government regulation in ensuring food safety, water cleanliness, car and air security, consumer and investor protections—and the whole host of other safeguards that Americans take for granted. By repealing existing safeguards and making it nearly impossible to pass new ones, Gov. Romney is in effect placing his trust in corporations to safeguard the public interest.

From his limited view of regulations as mere taxes naturally flows an agenda that is strongly antiregulatory. Gov. Romney says he would attempt to eliminate all Obama-era regulations “that unduly burden the economy”—without specifying what “unduly” means—including health reform and parts of financial regulatory reforms put in place to prevent future financial crises and bank bailouts. And he would place blanket obstacles before new rules, through agency caps and legislative hurdles, such as a proposed law that requires Congress to ratify rules having an economic impact of more than \$100 million.

Not only is the degree of Gov. Romney's antiregulatory stance radical, some of his centerpiece policies may be illegal.⁵⁹ He vows, for example, to issue an executive order requiring federal agencies to voluntarily seek congressional approval for major rules (if Congress declines to pass a law giving it this veto power). But such an executive order could contravene existing laws that require agencies to write regulations. Agencies can't just refuse to put laws into effect.

Legal or not, all of candidate Romney's regulatory proposals would have the effect of increasing the power of large corporations to both steer government policies in their special interest and steer clear of public oversight and accountability.

Key facts about Gov. Romney's plans to undue critical rules and regulations

- Gov. Romney pledges to issue a potentially illegal executive order requiring federal agencies to voluntarily seek congressional approval for major rules.
- Gov. Romney would allow corporations and Wall Street to the play by the same “rules” they operated under before the financial crisis and even before Enron and WorldCom.
- Gov. Romney's policies would effectively give one house of Congress the power to unilaterally overturn a law that had already been passed.

Congressional veto of major rules

Gov. Romney says he would push for a bill, similar to the pending REINS Act, that would require all major rules to be approved by both chambers of Congress before they could go into effect. He says that would “restore a greater degree of congressional control”⁶⁰ over the regulatory process. What it would effectively do is give one house of Congress the power to unilaterally overturn a law already passed by both, thus undermining the democratic process. And because of the way the Senate operates, a single senator could in theory block a major rule after it had already gone through scientific review, cost-benefit analysis, and public comment.⁶¹

This kind of law would create a target-rich environment for corporate lobbyists seeking to thwart, for example, new environmental or consumer protections. Regulators don't take campaign contributions, but senators do. The law could also further slow down the rulemaking process, increasing the very uncertainty Gov. Romney says inhibits businesses from investing in the economy.

Regulatory cap

Romney would impose a cap on all agencies that requires them to offset the cost of any new rules by eliminating or scaling back existing rules. The idea here is to impose a rational budget-like mechanism requiring regulators to “pay for” any big rules by reducing the cost of existing rules. It's not clear whether the tradeoff would have to occur within an agency or across government. Would a Securities

and Exchange Commission regulator trying to protect investors from deceptive marketing practices be forced to loosen corporate accounting rules or ask another agency of the government to ease poultry inspections? There's no logical connection between these kinds of tradeoffs—unless you believe that all economic costs attributed to regulations are equal and equally bad.

Perhaps the biggest consequence of a regulatory cap is the creation of a costly new obstacle to any kind of rulemaking, thus thwarting the role and will of Congress.⁶² While trying to write rules for new laws, regulators would have to also spend taxpayer dollars researching and justifying the elimination of an old rule—very likely one entirely unconnected with the goal of the legislation that ordered the new regulation. What's more, the additional bureaucracy required for such an adventure hardly appears consistent with Gov. Romney's stated goal of "streamlined regulation."

Finally, a regulatory cap means no regulation is ever really settled. If any new rule must displace an old one, all rules are forever fair game for lobbyists looking to tilt the playing field in their clients' interests. Such an environment would also increase regulatory uncertainty, which Gov. Romney claims hurts businesses and the economy.

Repeal financial reforms

Mitt Romney pledges to repeal the Dodd-Frank Act, the landmark financial reform bill signed in 2010. While Romney praises certain aspects of Dodd-Frank—such as "greater transparency for inter-bank relationship, enhanced capital requirements, and provisions to address new forms of complex financial transactions"⁶³—he takes issue with what it takes to implement these critical reforms, repeatedly citing the number of rules required and the length of the rules themselves.⁶⁴

That said, he has acknowledged the dire nature of the housing and financial crises that preceded Dodd-Frank, saying that "we were on the precipice, and we could have had a complete meltdown of our entire financial system, wiping out all the savings of the American people."⁶⁵ So the question then becomes, how would Gov. Romney prevent a repeat of the 2008 financial crisis that saw the destruction of \$17 trillion in household wealth?⁶⁶ Here he is less clear, offering only generic suggestions such as replacing Dodd-Frank "with a streamlined regulatory framework."⁶⁷

With no further details, it is impossible to assess Gov. Romney's plans for financial reform. More to the point, it is impossible to tell if he has any concrete plans for

financial reform at all. The reality, then, is that the repeal of Dodd-Frank would turn back the clock to conditions that contributed to the crisis, including:

- No office of consumer protection
- No requirements for shareholder votes on executive pay
- No safeguards against too-big-to-fail financial institutions requiring taxpayer bailouts
- No regulation of the \$300 trillion U.S. derivatives market⁶⁸
- No oversight of a nonbank financial institutions such as investment banks (like Lehman Brothers) or insurance companies (like AIG)

In short, no lessons learned from the 2008 crisis and no safeguards to prevent a repeat financial disaster.

Gov. Romney also pledges to scale back Sarbanes-Oxley, the 2002 financial reforms that brought greater disclosure to accounting practices of public companies in the wake of corporate accounting scandals such as those of Enron and WorldCom. Sarbanes-Oxley was passed with overwhelming bipartisan support and signed into law by President George W. Bush, who said “the era of low standards and false profits is over.”⁶⁹

In his 59-point economic plan, Gov. Romney pledged to relax these standards, saying he would “amend Sarbanes-Oxley to relieve mid-size companies from onerous requirements.”⁷⁰ In March 2012 at a campaign event in Ohio, he said he would repeal Sarbanes-Oxley.⁷¹

It is worth keeping in mind, however, that despite Gov. Romney’s general antiregulatory stance, the business community has supported the reliability of accounting information Sarbanes-Oxley has brought. A 2011 Grant Thornton survey of chief audit executives found that “overwhelmingly, CAEs believe that entity-level controls, monitoring controls and the tone at the top have all improved over the nine years since SOX [Sarbanes-Oxley] became effective.”⁷² And a July 2012 Ernst and Young report on the anniversary of Sarbanes-Oxley also highlighted the benefits of the law, saying “the passage of The Sarbanes-Oxley Act ten years ago dramatically transformed U.S. financial reporting by improving audit quality and strengthening corporate governance.”⁷³

Sarbanes-Oxley sets key standards that can give us confidence in our markets, including mandates for auditor independence, requirements for senior executives

to take responsibility for financial reporting, and protections for whistleblowers. Gov. Romney's calls to regress from this level of transparency and accountability would return us to the days of Enron and WorldCom, and would not serve shareholders or economic growth.

Employers over employees

Gov. Romney would weaken workers' ability to join together in unions and block attempts to raise the minimum wage. He argues that labor unions and wage standards slow job growth, even though research demonstrates that higher unionization rates and standards that help workers earn the wages they deserve don't kill jobs but rather help to build both a strong middle class and a strong U.S. economy.

Gov. Romney's economic plan would undermine unions—an already weakened force in the economy with current private-sector unionization rates hovering at 7 percent. Federal labor laws stack the deck against workers who want to form a union. Antiunion employers, for example, are able to use needless delays to help prevent union elections from ever happening, and when companies cross the line by firing or retaliating against workers seeking to organize a union, penalties are so low that many anti-union companies view them as the cost of doing business.⁷⁴

Gov. Romney's economic plan would further handicap unions by eliminating government powers to penalize companies that retaliate against workers seeking a union and preventing employers from avoiding contentious union elections through majority sign-up processes or efficient campaigns that last less than one month.⁷⁵

Gov. Romney also pledges his support for more states passing "right-to-work" laws—which make it illegal for workers and employers to negotiate a contract requiring everyone who benefits from a union contract to pay their fair share of the costs of administering it—as well as federal legislation to do so.⁷⁶

The Romney campaign claims that labor unions "slow job growth," but research demonstrates that laws that reduce unionization rates have not affected employment rates.⁷⁷ Research from the Economic Policy Institute finds that right-to-work laws have not increased employment growth in 22 states that have adopted them.⁷⁸ Unions are a shrinking factor in the economy, and when they were at their strongest, the U.S. economy was at its strongest. Also, other countries that have much stronger laws protecting worker rights and are much more heavily unionized—among them

Romney's economic plan would undermine unions—an already weakened force in the economy with current private-sector unionization rates hovering at 7 percent.

Australia, Canada, Germany, and the Netherlands—have significantly lower unemployment rates despite the international economic downturn.

And by undermining organized labor, Gov. Romney’s plan would also hurt the middle class. From pushing for fair wages and good benefits to encouraging citizens to vote to supporting Social Security and advocating for family-leave benefits, unions make the middle class strong by giving workers a voice in both the market and our democracy. Research from the Center for American Progress shows that if unionization rates increased by 10 percentage points nationwide, the typical middle-class household—unionized or not—would earn \$1,479 more each year.⁷⁹ Dollar for dollar, strengthening unions is nearly as important to the middle class as boosting college-graduation rates.⁸⁰ But Gov. Romney’s economic plan would likely reduce middle-class incomes by pushing unionization rates even lower.

Gov. Romney makes the same flawed argument when it comes to standards to ensure that workers are paid decent wages. He opposes raising the minimum wage, and according to his campaign, the standard should not be increased during a time of high unemployment.⁸¹

A significant body of academic research finds that raising the minimum wage does not result in job losses even during hard economic times. There are at least five different academic studies focusing on increases to the minimum wage made during periods of high unemployment—with unemployment rates ranging from 7 percent to 12.3 percent—that find an increase in the minimum wage has no significant effect on employment levels.⁸² And raising the minimum wage would be good for our economy. A higher minimum wage not only boosts workers’ incomes—something that is sorely needed to boost demand and get the economy going—but also reduces turnover and shifts businesses toward a high-road, high-human-capital model.⁸³

Corporate bottom lines at the top of the agenda

Regulations make our products, our markets, and our citizens safer. By establishing standards and clear rules of the road, they protect all Americans—children, workers, consumers, and investors. Gov. Romney advocates turning back the clock on many hard-won protections, both through umbrella policies that would cap all regulations and impair the ability of agencies to enact rules needed to fulfill legislative mandates and also through specific policies that would peel back key safeguards on our financial markets, such as gutting Dodd-Frank and Sarbanes-Oxley.

Gov. Romney's agenda is radical and could have dire consequences. We know, for example, that between 2007 and 2010, the average American family saw a drop in net worth of almost 40 percent.⁸⁴ With the country still reeling from the effects of the Great Recession, fulfilling campaign pledges to deregulate financial markets and corporate accounting practices would predictably lead us to the next financial crisis.

A "jobs plan" that costs jobs

In May Gov. Romney told Time Magazine he believed his economic platform could deliver the U.S. economy to a 6 percent unemployment rate by the end of 2016—at the close of his presumptive first term, "by virtue of the policies we'd put in place, we'd get the unemployment rate down to 6 percent—perhaps a little lower."⁸⁵

Readers should know this is a substantial economic policy commitment. If current labor market trends prevail until the next president takes office, then he would need to add 344,000 jobs to the economy every month from January 2013 through December 2016—or more than 16.5 million jobs to deliver a 6 percent unemployment rate.⁸⁶ Since 1980, the U.S. labor market exceeded this monthly jobs threshold in only 8 percent of months; Gov. Romney would need to hit this target every month for four years.

How could he possibly achieve such goals? In a white paper outlining his economic platform, *Believe in America: Mitt Romney's Plan for Jobs and Economic Growth*, he offers a 59-point plan to create jobs and lower unemployment. Unfortunately, no amount of economic theory, real world evidence, basic arithmetic, or just plain logic could substantiate the belief that his 59-point jobs plan could create even 59 net new jobs in the U.S. economy. In fact, even by a very conservative tally, Romney's "jobs plan" would actually result in hundreds of thousands of job losses.

The 59 proposals in the Romney jobs plan can be grouped into four basic categories:

- Thirteen of Gov. Romney's "jobs" proposals in fact offer no change in policy. It would defy the laws of nature for no change to create changes in employment of the magnitude Gov. Romney is promising. (#'s 1, 2, 10, 17, 19, 23, 24, 33, 37, 49, 50, 51, 52)

- Twenty-six proposals should be expected to yield no discernible impact on job creation based on available economic theory and evidence because they are not really jobs proposals. Two of these items, for example, propose opening international trade with countries that are already open to international trade (#'s 20 and 21).
- Six proposals would directly eliminate jobs from the U.S. economy. Proposals would create tax incentives that encourage corporations to ship jobs overseas (#7), and would undermine growth-enhancing investments in education, science, infrastructure, and health (#'s 8, 53, 54, 56, 57). Gov. Romney himself admitted that cuts to public services and investments on the scale he has proposed as job-creating policies could cause an economic "recession or depression."⁸⁷ Even assuming a gradual phase-in, the expenditure and public service worker cuts can be expected to cost nearly 450,000 jobs in 2013.⁸⁸
- The remaining few would be expected to yield some modest job creation. The scale of his tax cuts for the rich, for example, would likely lead to at least a little job creation, though far less than supply-side adherents will assert. Of course, these proposals rank among the least efficient—and least equitable—policies for promoting job growth. They would cost billions of dollars in tax revenues but only create between 39,000 and 107,000 jobs in 2013. That's less than the average number of private-sector jobs created per month in 2012 thus far.

In total, by a conservative tally, Gov. Romney's 59-point plan would actually cost the economy about 360,000 jobs in 2013 alone.

Conclusion

The Romney plan and a middle-class family

Imagine a typical middle-class family: a married couple with two kids, pulling in \$60,000 in annual income. How would they fare under Gov. Romney's proposed economic policies?

For one thing, their taxes would go up. For Gov. Romney to meet his revenue target, he'd have to drastically reduce the value of a variety of tax benefits that help reduce this family's income tax bill at the end of the year. These include the home mortgage interest deduction and the exclusion of employer-provided health care benefits. The reduction in these types of tax benefits necessary to meet Gov. Romney's stated goal would more than offset any benefit the family receives from his lower tax rates.

Our typical middle-class family would also suffer from the effects of damaging cuts to some basic government services. Law enforcement grants, education funding, road repair, transportation security, and food and drug safety inspections would all be cut in a Romney administration. These are services middle-class families rely on every day, even if they don't always know it.

But sooner or later, this family will notice these spending cuts. They'll notice if Medicaid stops paying for grandma's nursing home care. They'll notice if they try to visit a national park and find it closed for the week. They'll notice when lines are longer at the airport because there are fewer security agents clearing passengers through the checkpoints. They'll notice their state and cities raising their taxes to pay for the basic services that the federal government used to pitch in and support or else they'll notice those services when they are gone.

Higher taxes and fewer public services are not the end of the story for our typical middle class household. They also are likely to face higher health care costs, as Gov. Romney wants to repeal the Affordable Care Act, slash funding for the National Institutes of Health and Centers for Disease Control, and eliminate

environmental regulations. Our middle-class family also is likely to have fewer protections at work because Gov. Romney wants to allow companies a freer hand in dealing with their employees. And they are much more likely to be subject to predatory lending practices, since Gov. Romney wants to allow credit card companies and banks to operate as if the recent and deep financial crisis never happened.

Now, of course, Gov. Romney will argue that all of these difficulties for middle class families will be more than offset by all the jobs and the incredible growth that his economic policies will generate. His agenda is a reflection of the supply-side belief that the middle class will be fine so long as those at the top are successfully creating growth. President George W. Bush, too, believed that the key to prosperity was lower taxes and less regulation for the rich and corporations.

In fact, President Bush explicitly promised Americans that his policies would lead to better outcomes for everyone. In selling the first round of his tax cuts, he argued, “Tax relief will create new jobs, tax relief will generate new wealth, and tax relief will open new opportunities.”⁸⁹ Needless to say, those promises went unfulfilled.

Where President Bush went wrong, and where Gov. Romney continues to go wrong is this—a strong middle class isn’t the byproduct of robust economic growth, it’s the other way around. If you eliminate middle-class services and protections and raise the cost of living for middle-class families, all while divesting from the very things that allow the middle class to spawn entrepreneurs and innovators, you shouldn’t be surprised when you end up with disappointing growth, anemic job creation, and growing income inequality.

We got all three under President Bush and with this economic agenda, Gov. Romney has given the American people every reason to expect the same if he becomes president.

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