

THE URBAN INSTITUTE

DUELING TAX PLANS: WHAT WOULD MCCAIN AND OBAMA DO?

**WELCOME AND MODERATOR:
ROBERT REISCHAUER, PRESIDENT,
URBAN INSTITUTE**

**SPEAKERS:
LEN BURMAN,
DIRECTOR, TAX POLICY CENTER,
SENIOR FELLOW, URBAN INSTITUTE**

**AUSTAN GOOLSBEE,
SENIOR ECONOMIC POLICY ADVISER,
OBAMA '08**

**DOUGLAS HOLTZ-EAKIN,
SENIOR ECONOMIC POLICY ADVISER,
JOHN MCCAIN 2008**

WEDNESDAY, JULY 23, 2008

*Transcript by
Federal News Service
Washington, D.C.*

ROBERT REISCHAUER: Len will be followed by Austan Goolsbee, who is a senior economic advisor for the Obama campaign. He is a professor at the University of Chicago Business School, I believe, in economics and is on leave as an economic advisor to the Congressional Budget Office, having been party to the back and forth on that – (chuckles) – and serves on a number of other panels.

Following Austan, we will have – hear from Doug Holtz-Eakin, who is the senior policy advisor for the McCain campaign. Doug was the director of the Congressional Budget Office, has served as the chief economist for the Council of Economic Advisors earlier in the Bush administration, has been a senior fellow at the Peterson Institute in the Council on Foreign Relations, and taught at Syracuse, Princeton, and Columbia. There's a common theme here: everybody's affiliated with the CBO; everybody is an economist. And so you'll get a wide range of perspectives – (laughter) – and approaches to this issue.

Before we begin, I just want to say that this is Julianna Koch's last day at the Urban Institute. Julianna, for the last several years, has ably organized events like this and kept an otherwise unruly group of researchers on the straight and narrow, and she will be off to improve her human capital at Cornell in graduate school. So without further ado, let me turn this over to you, Len.

Oh, I didn't say – after the folks have talked, if there seems to be real dueling and real disagreements, we'll give them each a little chance to go back and forth – (laughter) – at each other verbally, not physically. And then we will open the floor to questions. When we do – and I will remind you again – there will be a microphone, which will miraculously appear and be placed in your hand. And the first thing you'll do is identify yourself and your affiliation, if any. Len.

LEN BURMAN: I – I just want to also thank Julianna for all the work she's done over the last two years, which probably seemed like 10 for her. See, these things are really hard to pull together, and she does it with really good humor and great competence. I also want to acknowledge my co-authors on this analysis. They include Lek (ph) Khittrakun, Greg Leiserson, Jeff Rohaly, Eric Toder, and Bob Williams. This was a lot of work, probably the – my colleagues here will say we should have worked even harder. But they're great collaborators.

You know, it's kind of interesting that today is the day when the Tour de France is going to be going up Alpe d'Huez and two other mountains. And I was in France a month and a half ago, and I rode up Alpe d'Huez, which is really hard. It's very steep, it goes on for nine miles, it's got 21 switchbacks, and it's way easier than analyzing the candidates' tax plans. (Laughter.) And modeling is a challenge, but the big trick is really figuring out enough about the candidates statements to model them accurately. It's not that the campaigns are obfuscating, but there's a big difference between something that makes a great line in a stump speech, and something that

could actually be scored as policy. And I want to thank Doug and Austan and their colleagues for all the help they gave me in trying to understand these things and fleshing out some details. And I'm sure we're going to be working on learning more about these in the coming months as well.

So the major themes of these two plans are, in the case of Senator McCain's plan, that the major emphasis is on economic efficiency – cuts marginal tax rates, improves economic incentives. There are issues with the actual details, but that's clearly the goal. In the case of Obama's plan, the goal is primarily to improve progressivity, to make the tax system – to lower tax burdens on low-income people and raise them on higher-income people. They're both important, and they're both issues in trying to get them accomplished in this context. I'm going to give an overview of both of these plans. And I should mention that in your handout there's a little Cliffs Notes version, summary of the candidates' tax plans – the short version, and I'm going to be talking about the stuff that's in there. Both would – the bottom line – both would increase the deficit unless there are other big – big other spending cuts.

In the case of Senator McCain's plan, the tax cuts themselves – not counting the health part – add up to about \$4.2 trillion over the next decade. And if you include interest on the debt, that's \$5 trillion. CBO projects that if spending continues according to the baseline, the debt would be about flat over the next 10 years. So this is \$5 trillion of increase in debt over the next 10 years. In the case of Senator Obama's plan, tax part alone: \$2.8 trillion or \$3.4 trillion, including interest on the debt.

I should mention that both campaigns object to my characterizing their plans this way. They like to refer to a current policy baseline, that most of the tax cuts have been enacted since 2001 expire at the end of 2010. And they say, well, a reasonable policy would say that these tax cuts would extend – would be extended beyond that point. In addition, there's this alternative minimum tax which gets in the news a lot, but every year Congress patches it to make sure that not too many people are affected by this bizarre, complicated, and in some cases, unfair tax. And they argue that fixing the AMT should be considered part of the baseline as well. Against the current policy baseline, by our scoring, Senator McCain's plan would add about \$600 billion over the 10 years. And Senator Obama's would be a – (inaudible) – of about \$800 billion. That's not counting the health parts or any changes in spending.

Now, it's a little bit ironic, in my view – it's an ironic spin, given that both Senator McCain and Senator Obama have criticized President Bush for his fiscal profligacy and are basically saying that what he would do, plus fixing the AMT – which he doesn't even propose – should be the benchmark against which alternatives are compared. But that's – in a campaign context I guess it makes sense. (Laughter.)

Senator McCain's plan surely would boost economic growth if it didn't increase the deficit. But cutting tax rates – I just realized, I forgot to actually do the summary of the plans. I'm going to back up just one second. I wanted to actually talk about what's in the plans.

Senator McCain's plan – very, very quick overview – is he would extend all of President Bush's income tax cuts. He would cut the estate tax from its current levels and from the levels it

will be in 2009, but he wouldn't eliminate it altogether. It would be a 15 percent rate and a \$5 million exemption.

Senator McCain would permanently index the alternative minimum tax and increase the exemption over time. He'd increase the dependent exemption, that is, the deductions you take for your children. He'd cut the maximum corporate tax rate from 35 percent to 25 percent. He'd allow first-year deduction of certain business equipment investments. Right now they have to be depreciated over a number of years. He'd convert the research and development credit into a – he'd make that permanent. It's a perpetually expiring provision that's continually extended by Congress. Both he and Senator Obama would make it permanent. And Senator McCain would tie the amount of the credit – the amount of wages that are spent on research. He would – on the health side, he would replace the income tax exclusion from employer-provided health insurance with a refundable tax credit of \$2,500 for single policies and \$5,000 for family policies.

Both Senator McCain and Senator Obama would eliminate a number of business tax loopholes, which would offset part of the revenue loss from their tax cuts. And Senator McCain on the stump also talks about creating an optional alternative tax with two rates and a larger standard deduction and personal exemption.

Senator Obama would extend most of the Bush tax cuts. He would extend the tax cuts that apply to low- and middle-income people. But the top two rates would return to their levels before 2001, before President Bush took office. He would raise tax rates on capital gains and dividends from the levels – from their current levels. And he would actually cut the estate tax from the level that would apply in 2011. But basically he would take the two – the estate tax has been phasing out over 10 years, and he would just make permanent the level set for the year 2009. Both of them eliminate the “throw Mama from the train” scenario, in which the estate tax is eliminated for one year in 2010 and then returns in full force in 2011, when a lot of old people find out if they had greedy children. (Laughter.)

MR. : No, they won't. (Off mike.)

MR. BURMAN: They won't. Right. (Laughter.) Well, as they're falling from the train, they'll find out. (Laughter.) Senator Obama, in our interpretation of the plan, would also extend and index the AMT patch. There are tax credits for working, called the Making Work Pay Credit. There's a tax credit for homeowners who don't take the mortgage interest deduction. There's – he would eliminate tax on most senior citizens – eliminate income tax. He would expand the earned income tax credit. He would make the child and dependent care tax credit refundable, so it applies to very low-income people as well as middle-income people – make the saver's credit refundable as well. There's kind of a recurring theme here.

He'd increase the tax credits for the Hope Credit, which applies to higher education expenses, and also make that refundable. He'd mandate automatic 401(k)s and automatic IRAs and make permanent a research and development and energy production – renewable energy production tax credits. His health plan would include income-related subsidies for health purchased through a new health insurance exchange. And he's also have a “pay or play plan,” a penalty on larger employers that don't provide health insurance. And his simplification proposal

is to have the IRS pay our tax returns for people with relatively simple tax situations and have them verify and sign them.

So – (chuckles) – the McCain plan surely would boost economic growth if it didn't increase the deficit. Cutting tax rates, especially corporate rates, is a good idea. In my view, a better way to do it would be the way we did it in 1986 – is a revenue-neutral package, broadening the base, eliminating a lot of loopholes as a way to cut tax rates while maintaining progressivity. The concern is that if he cut – make big cuts in taxes and it's not on a revenue-neutral basis, that it could just add to the deficits, add to the debt, and ultimately require higher taxes in the future. And the Congressional Budget Office, when it's looked at this – this kind of a plan, want a deficit finance tax cut – they've concluded that over the long term, it could do more harm than good.

Senator Obama does boost progressivity, but he makes the tax code more complex. It's actually going to be harder for the IRS to figure out what should be on people's tax returns with all these new credits. And in my view, this could be a threat to progressivity over the long run because there's a lot of confusion about our tax system now because of all the credits, deductions, preferences. And a lot of people think that it's unfair and it actually builds support for things like flat tax or national retail sales tax, which actually would make the tax system much less progressive, but which people think they can understand.

There's an analysis in our paper about the candidates' versions of the plans, which, in a few cases, deviate from the versions that have been provided to us by the campaigns. I'm not going to go into the details. But it's possible these things could cost a lot more money. Senator Obama has a tax increase to help bolster Social Security, which could be very significant, but for which there are no details available. But we, of course, made up details and scored them – (laughter) – and that's kind of a fun thing about being the Tax Policy Center, thinking that maybe if we make up something and the campaigns say, no, no, that's not it, they'll tell us what it actually is. (Laughter.)

The health plans – a new thing in this analysis compared to the one we did in June is we did an analysis of something like the health plans the candidates had talked about. And Doug has already told me that I'm completely out to lunch when it comes to the McCain plan. But we scored something that sounds like some of the things that Senator McCain's talked about. We scored something that sounds like some of the things Senator Obama's talked about. And we look forward to the next analysis – the next version of our analysis in which we spend lots of time working with the campaigns and figuring out exactly what the plans are.

So what we scored – in the case of Senator McCain, he's actually been very clear that he would replace the current income tax exclusion. When your employer provides you health insurance, it's not included – the value of that isn't included in your income, and that's a substantial tax break. It's biggest for very high-income people who are in the top brackets, and not worth much to low-income people.

Senator McCain would replace that with refundable tax credits, big ones: \$2,500 for single coverage, \$5,000 for family coverage, which would be available to anybody who gets

qualifying health insurance. That's much more progressive than current law. It doesn't include – it eliminates the incentive in current law to get more generous health insurance plans subsidized by the tax system. The amount of credit you get doesn't depend on how much you spend on health insurance. And the idea is that maybe that would encourage people to get more efficient health insurance – ones – plans that would control cost more.

It's a big improvement over a proposal put out by President Bush, which included a kind of feature of giving people a deduction, but it wasn't based on the size of the plan. This credit is much more refundable. It's refundable, it benefits low-income people and more targeted in that way. However, the plan could undermine employer-sponsored insurance, and it could leave vulnerable people without insurance. Senator McCain has talked about a high-risk pool that would help people that have very high health costs get insurance. We looked at that a little bit, although a full analysis isn't included in this version. And we concluded that a high-risk pool would include a lot of the people with exceptionally high spending. It would account for most of the healthcare spending – would be very expensive.

There's a – the campaign has talked about allowing interstate competition between health plans. Right now, you can only sell and – sell health insurance in one state and it's governed by the regulators in that state. Obviously, competition could help drive down costs. But it also would give insurers an opportunity to cherry-pick the healthiest risks, and it would be a way to get around state mandates to cover – to cover everybody or to cover particular health conditions, like pregnancy.

By our scoring, the plan would cost about \$1.3 trillion over 10 years, although the cost diminishes as the credit declines in value over time. We assume the credit increases with inflation. That was the way President Bush's proposal worked. And because of that, over time there's – the plan would cover about 5 million more people over the first four or five years. But then the number of people covered would decline over time. Obviously, if the cost control measures that are – that Senator McCain has talked about were more effective, then more people would be covered over time.

Senator Obama targets subsidies to low-income people and there's also a non-group market reform. There are subsidies up to 400 percent of poverty. We made up the subsidy schedule. We were told by the campaign how much they wanted to spend on the subsidies, but I have no doubt that what we actually came up with is not exactly their plan. But I don't think they actually know exactly what the plan is. (Laughter.) So, this is again – it's a stylized version of an Obama-like health plan.

There's a new thing called the Health Insurance Exchange, which is like the Federal Employees Health Benefits Plan. It would offer people a choice of different options. The subsidies will only be for insurance purchased through this plan. People who don't get insurance from their employers will be able to get it through the plan. And if you get insurance through an employer and – the employer can give you the amount they were going to spend, and you could use that to buy insurance through this plan as well. The plan would expand Medicaid to cover everybody up to 100 percent of poverty. It would expand SCHIP, the program that covers low-

income children. It would cover all kids up to 300 percent of poverty. There's a mandate to cover all children. It's a legal requirement to do that.

And there's something called "pay or play" – this idea that if employers don't provide insurance, they'd have to pay a payroll tax, a 6 percent of payroll tax as a penalty. Details of this aren't clear. Small employers are apparently left out and we assume that meant employers with fewer than 10 employees, but, again, the details aren't entirely clear. Under our analysis of the plan, this would cost about \$1.6 trillion dollars over the next 10 years. Unlike the McCain plan, the costs are growing over time because the costs depend on premiums. It covers virtually all children and many adults. But it would still leave many adults uninsured by our reckoning.

The "pay or play" limits the ESI erosion, but some small firms would still drop coverage. It would be cheaper for their employees to just buy insurance themselves – the employees could buy insurance themselves through the Health Insurance Exchange, qualify for the subsidies. And under this plan, and under McCain's plan, there's no longer really a strong incentive for an employer to offer insurance because they want to get insurance themselves. The employer can get the insurance in the non-group market just by claiming the credit, assuming that they qualify, and I think that's an issue.

Each of these plans I think would be better if they adopted features from the others. McCain's plan could pick up the Health Insurance Exchange, which would make it much more – much more feasible for people to get affordable insurance in the non-group market. The Obama plan could cover more people if they eliminated the ESI exclusion. Under the Obama plan, all of their credits are add-ons to the existing tax subsidies. With that, I will turn it over to the people who actually know what's in the plans.

AUSTAN GOOLSBEE: Okay. Thanks for having us, Len. I appreciate the early effort to show that we are all very similar. We all have some connection to the CBO. That was – Len has ridden up mountains in France on a bicycle. I had French fries for – (laughter) – at McDonald's. We – Doug and I are indeed old friends from – oh, brother – from the NBER, going back many years. So you always attack your friends the hardest of all. (Laughter.)

If you found Len's presentation to be detailed – perhaps exceeding the level of detail you were prepared to fathom without a pen – and then you turn to the document release, you'll see that there are scores of tables, all of which lay out in great detail the analysis of the Tax Policy Center of various options. And I am – of anybody with – I am totally sympathetic with the difficulties of doing micro-simulations of the reactions to tax policy.

I thought what I would do is give you a brief overview because I actually think that the – unlike if – if you were starting from a point that said, ah, I usually just think everybody's bad and the world is terrible, and both of these guys increase the deficit a lot, and therefore they're about the same; you could not be farther from the truth and you should just go back and look at the correct tables of the Tax Policy Center, because that is completely far from accurate.

First, I want to start by just refreshing what went wrong with the Bush fiscal legacy. Okay, there are three basic massive problems with the Bush fiscal legacy. The first, A, running

huge deficits that are fueled by massive tax cuts and the promises of spending cuts that never deliver. So when he's running for office, he says, I'm a tough Republican. I balanced budgets in Texas. I've always been for spending cuts and I will cut spending. He comes in office, enacts massive tax cuts, and runs the deficit through the roof. Second, hides the true costs of the tax cuts repeatedly through budget shams and gimmicks. And third, puts the overwhelming focus of tax cutting on very high-income Americans, while ordinary Americans are struggling.

Okay, so we just complete the first American recovery on record where the median family's income fell over the course of the boom. Those three things, I am going to suggest to you – if you look at the Tax Policy Center's numbers – are not just repeated by the McCain tax plan, they're magnified, so that the McCain tax plan – the tax cuts are twice as big as the Bush tax cuts and they're twice as regressive. And so it's really not the – I think it's a philosophical choice and it's not the correct one. And it's true of all three components of the Bush legacy that I'm presenting to you here.

So if you go into the details of the Tax Policy Center tables, you will see that relative to the current deficit, that is, relative to the current law, the Obama tax plan reduces the deficit. It's laying out what he's saying on the stump and what we are telling the Tax Policy Center are very similar and he's telling the truth. And the overwhelming focus of his tax relief is for ordinary Americans.

If you contrast that with the McCain plan, it's not true at all. There is a massive increase in the deficit, twice as big as the Bush tax cuts, very close to doubling the current deficit. Two, it has got almost \$3 trillion of the exact same kind of budget shammery and gimmickery that we have seen under the Bush administration. And third, the overwhelming focus of the tax cuts in the McCain plan are aimed at very, very high-income people and corporations to a – quite a shocking degree.

Okay, now, the most important – economists and political people, I have learned, do have one thing in common – the campaign bill – and that is we both believe that the most important question in any situation is, “compared to what?” Now, in the case of the economists, we're comparing to what baseline. And that is, when Len says both of these plans increase the deficit, it's relative to the CBO baseline. Now, as you know, the CBO baseline includes all of the Bush budget shammery that I discussed. So we're going to push tax increases outside the budget window. Well, now we're getting outside the – we're to the – in our budget window are the things that were outside the budget window when they were first passed. The CBO baseline runs large surpluses.

So to say we have a deficit relative to the CBO baseline – A, be aware that that's comparing to a baseline that's running surpluses; B, it gives away – that allows the budget gimmicks. It allows the Bush administration to get away with them because it puts into the position of the next guy, you don't just have to pay for your own programs and try to have fiscal – you have to come up with a way to try to pay for all of the things that Bush put into the budget. When people ask, what is a realistic description of the policy, the CBO baseline is not a realistic description of the policy.

If you ask, compared to the current deficit, compared to current law, what happens, just the stuff that the McCain campaign has claimed to the Tax Policy Center shows there is a difference of \$1.4 trillion in the fiscal responsibility situation. So Obama's is \$1.4 trillion more fiscally responsible than McCain's. And that's without getting into – as we'll get to in one second – the budget gimmicks. There are more of these same budget shams that have plagued us for the last eight years.

The Tax Policy Center now – and it was – this was a – we in the Obama campaign were pointing out each of these things. Several members of the press started looking at the budget and getting upset, saying, wait a minute. The original Tax Policy Center version says one thing, but McCain is out on the stump claiming far more expansive things than what the Tax Policy Center was given. And in this iteration the Tax Policy Center goes through and adds up the cost of all the other things that John McCain is saying he's going to do, but didn't tell the Tax Policy Center the first time. And those things add almost \$3 trillion to the 10-year deficit/debt figures that the McCain camp has.

So, on McCain's website and on the stump McCain says, we are repealing the alternative minimum tax, to great applause among some audiences. Well, in the details they gave to the Tax Policy Center, they aren't getting rid of the alternative minimum tax at all. They're actually just patching it and adjusting the patch. John McCain has called for a new system of taxation, an optional tax, which is effectively a cap on the income tax. He will offer you the choice of a flat tax. Now, he has even at various times – it's similar to the Fred Thompson idea – and he has even at various times said, it could look like unspecified rates and deduction. If you add up the cost of that alternative tax system that puts a cap on the rates that people have to pay, the Tax Policy Center shows that alone adds more than a trillion dollars to the cost of his program – the phase-ins of the dependent exemption and the corporate income tax.

They announced that they would have expensing of all investment. But then they told the Tax Policy Center that when they said “expensing of all investment,” they actually meant you could have expensing for three years of all three- and five-year lived equipment, which is obviously a tiny fraction of investment. So if you add a – and there is no calculation of the money in the Tax Policy Center either of the issue of lost money arising from tax shelters because you have the interest deduction and you allow expensing.

The McCain people attempt a budget sham to say, you won't get tax shelters because we will cease exempting just the interest that you borrow to buy the investment. But, of course, how would you possibly – there is no label on the money that you borrow that says, ah, this money is borrowed for this machine. There is no such thing. This plan takes us back to the days of massive tax shelters where you're getting a subsidy from the government – you get to deduct the interest and you get a – to expense the investment immediately.

You add up all of those things to the already \$1.4 trillion deficit discrepancy between Obama and McCain, the actual plan that McCain is proposing is going to add \$340 billion per year to the deficit. Now, that pushes us to deficits in the \$750-billion-a-year range. John McCain is also now going around saying he will balance the budget by 2013. The way they say they would pay for \$750 billion a year of deficits is by spending cuts. And just to make clear –

to get \$750 billion, you have to take the majority – you have to cut the majority of the money from Social Security and Medicare out of the budget to even have any semblance of balancing the budget in 2013.

If this is not wrong, then nothing is wrong. If you were in your mind saying, hey, all politicians are bad, all budgets are bad, there will never be in political campaigns a larger difference between the tax plans of Obama and McCain. And part of that is up to you because the McCain campaign is making clear they're going to go around saying, we get rid of the AMT and they're going to tell the Tax Policy Center, oh, no, when he says get rid of the AMT he actually means have a phase-out for the next three years and then we'll put in a cap and index the patch. If you let them get away with that, no one will ever present a fiscally responsible budget again in a campaign. There couldn't be a bigger difference. We're talking about \$4 trillion of difference.

And the last point I will make is if you just start thinking about the regressivity versus progressivity of the plans, there's a massive difference. Our current economic slowdown is not rooted in the fact that high-income Americans' incomes have not grown fast enough. This was not a random business-cycle event that just happened to us. This is rooted in the squeeze on ordinary Americans that has been with us for the last 10 years. It is rooted in the fact that 80 to 85 percent of the income distributions – incomes have been stagnate while the cost of energy, health care, college education, food, et cetera have been rising. No margin for error for most of the country; that is why Obama puts the focus on tax relief for ordinary Americans.

In this Tax Policy Center's numbers, you can look at table 11 and 12, which take the actual tax policies, including all of the features or you can look at the – I don't have the table numbers – but the ones that are just what the McCain's folks claims to the Tax Policy Center – Obama's tax cuts – two-thirds of the tax cuts are going to people making \$65,000 a year or less. The comparable number for the McCain tax plan is 6 percent. So the overwhelming focus of Obama's effort is to get it to ordinary-income Americans.

And nobody has any direct tax increase who is in a family of incomes earning less than \$250,000. As a side technical note, the only way you see that for some of the people in the Tax Policy Center is they are attributing – they are imputing an implicit tax from closing corporate loopholes, taxing carried interest, for example, as ordinary income; and they're imputing that in proportion to stock ownership in the economy. So you've got \$40,000-a-year seniors, under the Obama plan, they pay zero income tax but they have a small positive tax bill, a few of them, because they own stock and they impute those loopholes.

Obama's effort is overwhelmingly to people making – all the tax cuts go to people making less than \$250,000 a year and the majority to less than 65,000. For the person in the middle, the Tax Policy Center shows that the Obama tax cut is double the tax relief that the McCain plan provides. The only thing in the McCain plan that is geared toward ordinary Americans is increasing the dependent exemption, which means that anybody who doesn't have a child or doesn't have a dependent – have a child in their house, doesn't get anything and anybody who doesn't pay income taxes, even if they are paying payroll tax, sales tax, et cetera, they don't get anything. A hundred and one million households would get exactly zero from the

McCain plan – their middle-class tax cut. And in the first year, even the people with kids would get \$125.

Okay, now, as the comparison – (chuckles) – I love this quote – it was not just us who were saying this, the National Review says, “The McCain tax plan offers very little in the way of direct benefits to the middle of the income scale.” Now, to them, that was probably an ad for the plan – (laughter) – but the fact is it’s wildly acknowledged. You don’t have to take our word for it; just go through the tables yourself and you can see from the Tax Policy Center.

If you look, then, at the other side of the distribution, Obama’s restoring the tax rates back to the levels they were in the Clinton years, in the ’90s. With McCain, you’ve got a huge tax cut that is geared primarily to high-income people and corporations. It’s twice as large as the Bush tax cuts and it’s twice as regressive. If you just look at the people in the top tenth of 1 percent, which are people making about \$3 million a year or more; they’re getting an average tax cut of \$577,000 in the McCain plan.

On the corporate side, it’s clear there are going to be major windfalls to existing corporations so ExxonMobil gets a \$1.2 billion tax cut under the McCain plan. It’s the – the priorities are geared exactly to the way the Bush priorities were and as I ask, how has that worked out for us? And the answer is, not great.

The last thing I’d just say is about the health plans and that is it’s clear – health scoring is a very different beast than scoring tax plans. The tax policy in here makes clear there’s are very preliminary. I think there are some major difficulties on both of the – on both the McCain and the Obama plans, in fairness. For ours, I think compared with some other leading scores of health plans; the coverage and cost numbers are pretty far off.

On the McCain plan, realize what the McCain plan does is you the individual, the health care that you get will now be part of your income. That is how they fund giving you the tax credit. It’s meant to be revenue neutral. They’ve stated many times that this will pay for itself. The only thing is, the way the Tax Policy Center has figured it, it’s a \$1.3 trillion tax cut. So the distributional tables and the revenue tables are not correct because to keep it revenue neutral, we’ve got to have another \$1.3 trillion of higher taxes somewhere or else, this is another budget trick that we’re just going to add \$1.3 trillion to that deficit figure I said.

So the – if you’re going to exclude – if you’re going to put health care into people’s income, note three things: one, it implies there is a huge gross tax increase on the middle class. It exactly and completely offsets the tax cut that McCain is offering. So if he’s saying, yes, we’re going to give you a \$5,000 credit, before anybody says, wow, I could use a \$5,000 credit, realize that on average, it’s exactly weighing off the \$5,000 tax increase that is coming from taxing the income. That’s the same thing as it’s being revenue neutral.

And third, I would disagree a bit with what Len said, that – let’s say a primary difference between McCain and Obama is that McCain is cutting marginal rates for efficiency purposes and Obama is focusing on progressivity because realize that when you end the exclusion, you raise the marginal rates on people. If you had an income of \$55,000 and you have \$5,000 of health

care, your tax rate is going to be determined now by an income of \$60,000, not 55,000. You're suffering induced-bracket creep, just like in the old days when the tax code wasn't indexed for inflation.

Those higher marginal rates, the CBO analyzed for the president's plan when the president proposed this and they showed that the effective marginal tax rate on labor income in the United States from doing that goes up more than letting all the Bush tax cuts expire. So it does increase marginal rates. It just doesn't do it in an obvious way and that's the reason you got to be extremely careful thinking about that. Okay, with that, I turn it over.

MR. REISCHAUER: Okay, well, thank you, Austan. Now that you've all heard a dispassionate – (laughter) – description of the details of the Obama plan, you're probably asking yourself, what does the McCain plan look like? (Laughter) And for that, we turn to Doug.

DOUG HOLTZ-EAKIN: Well, thank you, Bob, and thank you, Len, and thank the Tax Policy Center for a chance to talk about this. You know, I do want to thank Austan for a vivid display of what Obama must mean by post-partisan campaigning. (Laughter.) And, you know, I understand why he doesn't talk about the Obama plan. I wouldn't want to talk about it either – (laughter) – so let me talk a little bit about what John McCain is trying accomplish with his economic proposals and how we see them playing out over the course of the next couple of years.

I mean, obviously, the focus has to be, at this point, on creating jobs and having some growth in this economy. I mean, there is simply no substitute for American families to be able to have a job, which is the foundation of all things economic in the United States and there is no \$1,000 tax credit that's going to substitute for having a job. First of all, you won't have any taxable income; all of those credits are not going to be very interesting

So the focus has to be on jobs and there's some problems in this economy. Those problems begin with energy and John McCain has put out a very, very comprehensive Lexington Project to address energy, whether it be from oil – where, with all due respect, Senator Obama said no – natural gas, no; new coal-fired electricity plants, no; new nuclear power plants, no. So, you know, we think it'd be great to have the economy grow. We're trying to figure out how you can grow and not have more energy usage in the United States. That's an important thing.

Health care. We have seen what's gone on in the United States over the past couple of years, where the rising cost of health care – the actual production, distribution, and usage of medical services has really cut into the compensation growth that American workers have received. We're not going to get real wage gains in the United States until we get health care under control and we know that the wrong way to go in this economy is to burden firms with expensive mandates for healthcare costs that they simply cannot afford. And we got to get the cost under control to stop the erosion of the employer-sponsored system, which is still the main source of insurance in the United States.

And so, if you look at this economy, where 400,000-odd jobs have disappeared in the past six months, firms under the 50-employee limit, about one to 49, have actually created nearly

a quarter of a million jobs. So the first thing you want to do is do no harm to small business in the United States and there is no more damaging thing you can do than to have a very expensive healthcare mandate on these firms. And Senator McCain has a comprehensive health proposal that is intended to actually alleviate the great distress that we see where we have so many working people who are uninsured in the United States without cutting into the capacity of those firms to actually employ them. And that's a key difference than what's going on here. It's got to be about the jobs.

Now, since Austan finally got out of whatever undisclosed location he was locked up for the NAFTA brouhaha – (laughter) – I'm not going to belabor the fact that Senator Obama is just bad on trade and that will be bad for this economy. Right now, exports are the one bright spot in the U.S. economy. We've got about 8 percent growth. This is something we cannot backtrack on and something that represents the correct judgment in providing economic policy measures.

So you've got to do those things and you have to have a tax policy that supports growth. Taxes aren't everything. You know, that's the Bush administration's view of the universe but they are important. And what Senator McCain has tried to do is to keep the kinds of taxes that would affect small business where they are. Austan likes to mix and match baselines. If he's going to a current policy baseline, he's going to say the top rate right now is 35 percent – under John McCain, 35 percent; dividends, 15 percent – John McCain, 15 percent; capital gains, 15 percent – John McCain: 15 percent.

No tax cuts anywhere for the wealthy, instead a tax policy that maintains the ability of small businesses are typically taxed as passthrough entities to do what they're doing right now; hire some people, get some equity capital where, you know, financial markets are not going to generous on the debt side – let's face it – and try to maintain some stability.

Over on the other side, Senator McCain does believe that we need to worry about the climate for job creation among corporations in the United States. Some are small. Some are very large. But, in any case, we do worry about the jobs that typically come with health and retirement benefits getting driven to other parts of the globe. So he wants to take the top rate, 35 percent on the corporate side, second highest among developed countries – soon to be the highest because the Japanese have even figured this out – all right, get it down to 25 percent over time. Keep those jobs in America.

I say this lovingly – the incidence assumption made by the Tax Policy Center is that that rate reduction accrues entirely to fat cats who never had to worry about losing a job. That's at odds with reality out there. The people who get hurt by a high corporate rate are workers. The people who get the benefits are those who don't lose their jobs and so you go somewhere else. And even the CBO figured this out when they put 70 percent of the incidence on workers in a recent study. So in thinking about what these tax policies do, they do in fact have a focus on enhancing growth. That's essential. That's what people live off of, their jobs and the opportunity to have a better future. And these are the kinds of policies that the United States needs right now, especially right now.

It's also true that if you look from a fiscal point of view, this is the first step in having any hope of getting the deficit under control. We have never had a successful effort at deficit reduction without economic growth. It is not going to happen in a recession and to pretend otherwise is to kid yourself. So you need to have the growth. Our projections are built off the CBO baseline, 2.8 percent over the next five years of the average annual growth and that this is not rosy-scenario stuff. You put in place these policies. You can assume that you got some feedback; maybe 20 percent would be the number we'd use. Other estimates in the literature are larger from the tax reductions.

But that means to actually get the deficit down, you do have to change what has gone on in this town and that means spend less. We need growth at 2.4 percent in spending. That's our plan. Not absolute cuts, not tearing down the Washington Monument, just the kind of restraint that was displayed a then-President Clinton and a Republican Congress.

All John McCain wants to do is take care of spending in three steps. Number one, establish some honorability about the way money is spent in Washington. He's talked a lot about earmarks. The reason he's upset about earmarks is not because the dollar value is enough to balance the budget. It's not. Earmarks corrupt the process. They corrupt the budget process by favoring some projects at the expense of the other. They corrupt the political process by favoring some people at the expense of others. They don't have to take tough votes, they've got earmarks to cover them, and they have led to absolute corruption. In a Republican Congress, we've seen members of Congress in jail as a result of earmarking practice. That has got to stop.

Your boss has got a million bucks in requested earmarks for every working day in the Senate. That's not something that convinces Americans that we're spending their money wisely and we will never get spending under control if they believe we're taking care of special interests while we're asking them to do really serious things like take a look at Social Security and put it on a financially stable path over the long run. Take a look at Medicaid and Medicare and be honest about the fact that they cannot grow at the rates they're currently growing.

Step one, be clear about how we're spending the money. Step two, let's go back to the kind of tough budgetary controls and bipartisanship that prevailed in the 1990s. In 1997, there was a balance budget agreement: cut taxes by \$200 billion – seemed like a big number at the time, over 10 years – cut spending growth by \$800 billion over 10 years. That was the kind of bipartisanship and tough control on spending that was intended to put the budget on a path to balance. It did balance. We got some breaks, but people immediately gave up on that. We can go back to that model and make it stick.

If you took the government today, which is 75 percent larger than then – that's how much spending has gone on – you've got 1.6 trillion in potential budget reduction over 10 years, same model. All we're asking is to go back to that and try to control spending. Now, the reception has been, you know, in the Washington establishment, one part disbelief because, oh my god, no one actually does that in Washington – that's not true; they've just forgotten – and one part horror that he might succeed. Well, the horrified folks better get ready. So it's about cutting spending growth. You just can't give up on that side of the budget and I think Len said it right,

if you can get the deficit down, this is a growth-enhancing effort and John McCain is committed to doing that.

I think the big contrasts are on that. I mean, you see the kinds of proposals that Senator Obama has. You look at what their consequences are for the ability to get ahead. If you can have all these credits, they phase them all out. What does that do? It places very high effective marginal tax rates very low in the income distribution. So it's fine. We'll make sure that you have \$35,000, but we'll give you a 40 percent marginal tax rate above the one at the top. You know, we'll give you a \$115,000 while you have a 45 percent marginal tax rate. Again, above the one at the top.

If you take those kinds of incentives for getting ahead, you combine them with – and I need to establish the facts of whether there's a tax cut here or not, Jason Furman told me on CNBC that you have a net tax cut.

MR. GOOLSBEE: Counting the healthcare tax credits.

MR. HOLTZ-EAKIN: Well, you don't have a net spending cut, so the deficit has to be exploding.

MR. GOOLSBEE: Yes, we do.

MR. HOLTZ-EAKIN: There's no way. I mean – (laughter) – so we can come back to that. So if you combine what I believe to be an explosion in the deficit, tax cuts, lots of spending, the back steps on trade policy, bad marginal incentives on tax policy, you're going to have an economy that performs worse than doing nothing. At a time when we need improve, the Barack Obama recipe is the recipe to have lower household incomes five years out, lower jobs five years out, and lower GDP growth. That's not something that we need and it's not a foundation for success.

MR. REISCHAUER: There's really been so much agreement that I don't think we have to go on to rebuttals. (Laughter.) We will have some questions and, as I said, wait for a microphone. While we wait for you to raise your hands – you aren't suppose to be so eager quite yet – I thought I would ask both of them the same question and it's based on the feelings that we're at a unique moment in tax-policy history.

Like Cinderella's coach, the current tax system will turn into a vintage 2000 pumpkin in 17 months, so something has to happen. We can't procrastinate. Do your candidates believe that there is a need for fundamental tax reform? And if so, why don't they use this once-in-a-century opportunity to pursue that rather than doing more Bush or more Clinton, which is how I would describe the two proposals that you folks have laid out? Austan?

MR. GOOLSBEE: When you say fundamental tax reform, you want – what is the meaning of your fundamental tax – well, I would –

MR. REISCHAUER: Well, I mean, let's not add to the number of tax credits –

MR. GOOLSBEE: – I mean, these are – both of these would be fairly fundamental tax reforms.

MR. REISCHAUER: Reform?

MR. GOOLSBEE: Correct.

MR. REISCHAUER: So what you're saying is what we have is a reform system now and all we need is more of it? (Laughter.)

MR. GOOLSBEE: Well, not to be sarcastic, what I believe is we need tax relief for ordinary Americans whose incomes fell over the boom. This is a major effort to provide tax relief to ordinary Americans. The credits that you are disparaging, the largest and most predominant is to rebate payroll taxes paid, which the current – it is ironic that Doug said we would create marginal tax rates higher than those at the top. We already have that. If you're a self-employed contractor making \$35,000 a year, you're in the 25 percent bracket and you're paying 12.5 percent on your payroll tax, gives you a 37 percent rate, which is already higher than the top marginal rate. For an oil-company CEO making \$100 million, they're paying at the 35 percent rate or if they're getting it in carried interest for their investments, they're paying at the 15 percent rate.

On the issue of fundamental tax reform, in fairness to both candidates, each one has proposed pretty fundamental changes and reforms to the tax system, which embody two different philosophies. If you're saying, why not throw out what each of us have done and opt for a consumption-based tax or something different, I'm happy to talk with you why on any individual provision I think this would be better, but I think one thing to recall is that this motivating idea that the squeeze on ordinary Americans is the root of a lot of our problems; many fundamental tax reforms don't direct the tax relief there. You end up cutting top marginal rates.

MR. REISCHAUER: Doug?

MR. HOLTZ-EAKIN: I mean, the senator really thinks that the tax code is a mess and really walked through the past 18 months laying out sequentially what he thought were steps toward – but we are no means there – toward a system that was, you know, simpler, fair, more pro-growth, and competitive and these have been steps in that direction. By no means does this constitute what I'm sure you would check the box and call it comprehensive tax reform and I think I'd concur.

There are some realities that intervene and the realities are the following. Number one, in terms of priorities, the senator believes that the most pressing priority is energy. And if you look at where we are right now, we have a \$700 billion flow overseas to purchase oil that constitutes a national security threat. I won't belabor it. We're sending it to people that don't like us; sometimes people trying to kill us. It's an economic security threat. We've been held hostage to international oil markets long enough. We've seen this vividly. We hold a big pile of oil in the

ground in Louisiana. There's no more striking testament to how exposed we are than the SPR and we have an environmental threat.

So in his view, given the timetables on the international climate agreements, the national security issues associated with it, that becomes a top priority and there's a limit to what can be top priority. So that one is one. Number two, a fundamental issue with comprehensive tax reform is the fact that right now 50 percent of Americans don't pay the income tax. We know 40 percent of the bill is footed by the top 1 percent. There's lots and lots of discussion about tax relief for the low-and middle-income people when they're not paying taxes. So that's what you see.

MR. GOOLSBEE: Income taxes.

MR. HOLTZ-EAKIN: Income taxes. They're paying payroll taxes. They're paying Social Security taxes. So what should the top priority be? Making sure Social Security gets fixed and he's said again, and again, there's a recipe for doing that. You want to make sure that you do not put out on the table stark demands or striking policy proposals that will polarize the debate and make it impossible for us to get Social Security reform. So he has consciously made the point on the campaign trail that if he's elected president, he expects the Congress to pass bipartisan Social Security reform and stop kicking this ball down to the next generation of leaders. That's an imperative and it's a political problem. This room could probably fix it 15 different ways, given the expertise. We need to get the job done.

If you put out specific proposals, right, and I say this lovingly, expand the cap somehow, take low-income people off the tax that funds benefits. Drain the trust fund by 10 percent out the door. You make it harder and this something that should not be made harder. We got to get it done. Those get in front of tax reform in terms of priorities and there is a limited amount that you can do and so his approach has been, let's make these steps, take care of the economy, and deal with some other problems that are pressing.

MR. REISCHAUER: Okay, questions? Go here and identify yourself. Wait for the microphone and direct the question to one of the two individuals.

Q: It's John Max (sp) from National Journal.

MR. REISCHAUER: That's not on.

Q: It's not on?

MR. REISCHAUER: It's not on, Julianna.

Q: Can you turn it on? Anyway – it's not on. Austan Goolsbee, you've heard Doug remind us that Senator McCain has made a commitment to a balance budget. At some point – if you don't think his plan adds up, at some point Senator McCain is going to have to either admit that he's not going to balance the budget or that something in his plan has to change, but you had very little to say about spending cuts and I wonder if you could get more specific about that

because it seems clearly to be the weakness in the Obama plan. Is Senator Obama going to offset some of what he's proposed with spending cuts or not?

MR. GOOLSBEE: Yes, absolutely. Okay, so the issue is spending cuts. It was – what you observed in the first response that Doug made is the thing that always happens. We came here to analyze the tax policies. The Tax Policy Center has laid out in detail here's what the cost of the tax policies would be. And when I simply point to you and say look, Tax Policy Center says there are multiple trillions of dollars unaccounted for, then the answer is well, energy, health care, spending cuts, things other than the tax policy.

If we want to talk about spending, I'm happy to do so. You will find the Obama plan is going to be a net spending cut. Let us not forget we are spending \$180 billions per year on the Iraq War. Let us not forget that Senator John McCain has proposed that we should be spending 4 percent of GDP on defense, which would be a dramatic tens of billions of dollars increase per year in spending, has called for fully funding No Child Left Behind.

Q: But you're switching the baselines here and that's not what we came here to do right now. I want to know how your candidate –

MR. GOOLSBEE: I'm not switching baselines. In the current baseline – in the – if you look at the current deficit, there is war spending in that deficit and Obama is talking about let's phase down the war. Two, he's called for a series of some specific and some general spending cuts. Specific things like cutting the Medicare Advantage subsidy, which John McCain made an announcement that he was not for cutting the Medicare Advantage subsidy, despite the experts –

MR. HOLTZ-EAKIN: That's not true.

MR. GOOLSBEE: Yes, in the Medicare vote, which John McCain missed, he said he didn't want to cut the spending that would go to doctors –

MR. HOLTZ-EAKIN: Not true.

MR. GOOLSBEE: But he opposed – it is exactly true. We'll get you his statement.

MR. HOLTZ-EAKIN: It's not true.

MR. GOOLSBEE: Streamlining of government initiatives. He's outlined – there are the Progressive Policy Institute and others, things like streamlining, using purchase cards to streamline purchases to use the size of the government's purchasing power to its advantage, general spending cuts like rolling back earmarks to 1994 levels, ending no-bid contracts over \$50,000 a year, drawing down the war in Iraq. The spending cuts – he will have a net spending cut and a small net tax cut. When the health plan is not direct spending their tax credits, so it's not – if you look at spending to GDP, the health spending is not spending; it's cutting of taxes for people to buy health care. So, yes, when the Tax Policy Center analyzes the spending programs, I will be happy to come here and have a discussion about that and show you exactly the way that the Obama program pays for spending cuts.

Q: Thanks. Krishna Guha from the Financial Times. A question for both gentlemen, please. I'm interested in understanding a little better what the overall fiscal framework is for both your candidates. In a sense, that allows us to get away from this argument over current baseline, you know, CBO scored, et cetera. What is an appropriate, in your view, fiscal framework for a future administration? What level of deficit relative to GDP would be reasonable under these circumstances? And are the levels that you envisage appropriate given the looming rise in entitlement spending and the prospect that we will lose the Social Security surplus over time?

MR. HOLTZ-EAKIN: John McCain's fiscal framework is very simple, which is that over the near term, we should try to balance the budget. That's the goal by 2013, end of the first term, that you must place an emphasis in doing that, as I mentioned, on taking care of the economy first but also, focusing on spending because spending has been looking back for the past eight years, the explosion, and looking forward, the great threat. So let's focus on spending and make the commitments that he can actually have the biggest impact over the near term, which is, you know, some discretionary spending programs, defense and non-defense; some, you know, agricultural subsidies that he's on record as opposing, ethanol subsidies he's on record as opposing. You know, going after cotton and some things that just don't make any sense.

So, you know, you do that but we will get long-run – and, you know, just so that everyone understands the sort of difference in the numbers, you know, we – when we priced out our plan, we had revenues that looked something like 18, 18.1 percent of GDP. Len is lower. I'm not exactly why. We got to figure that out because we certainly thought that was a sensible target to aim to balance at. Over the long term, we will get a fiscally sustainable outlook as quickly and as effectively as we get bipartisan entitlement reform. There's no way around that and so that's it. Do what you can up front, lay the predicate that the government is now doing the people's business and that it is not taken care of special interest, so that you can go to the American people with clean hands and say we must deal with these large fiscal imbalances or we will not be successful. That's it.

MR. REISCHAUER: Austan.

MR. GOOLSBEE: I would say on the fiscal framework there's the immediate and short-run term and there's the long-term entitlement issues. The Tax Policy Center lays out the – it belies the fact that the McCain program does nothing like what they're saying it does. Okay, so they're saying let's balance the budget in four years, let's cut taxes, which you're going to add, according to Tax Policy Center, some \$3 to \$4 trillion to the deficit.

MR. HOLTZ-EAKIN: But you are switching baselines then. So pick a baseline.

MR. GOOLSBEE: This is not – pick a baseline.

MR. HOLTZ-EAKIN: It's the corporate rate hike.

MR. GOOLSBEE: These are the announced things counting the – everything on the stump speech.

MR. HOLTZ-EAKIN: What about the policy baseline? Do it off the policy baseline. Read the right numbers. That's all I ask.

MR. GOOLSBEE: Okay.

MR. HOLTZ-EAKIN: That's all I ask.

MR. GOOLSBEE: Three-point-three-seven-eight trillion. So we're going to add 3.378 trillion against the baseline that you're describing. That's exactly my point.

MR. HOLTZ-EAKIN: What about doing them off the piece of paper that we sent in?

MR. GOOLSBEE: The piece of paper that who sent in?

MR. HOLTZ-EAKIN: I mean the ones we priced. Those are our proposals.

MR. GOOLSBEE: Table R-4 is all I ask you to look at, which is Senator John McCain's tax proposals as described in his stump speeches –

MR. HOLTZ-EAKIN: For the record –

MR. GOOLSBEE: – addendum, net revenue impact against –

MR. HOLTZ-EAKIN: – we have a piece of paper, which is in the public domain. It's been distributed to many reporters. Anyone is welcome to it. It would save Austan from inventing proposals. You're welcome to see ours.

MR. GOOLSBEE: Let us take, for example, what the Tax Policy Center calls a \$1 trillion proposal, which is the cap – the alternative tax system, which would put a cap on high-income people. This is a \$1 trillion tax cut for high-income people, which Doug, in the paper that he's describing, counted as zero cost.

MR. HOLTZ-EAKIN: Senator McCain –

MR. GOOLSBEE: That you would have an optional cost tax system at no cost.

MR. HOLTZ-EAKIN: – can I actually just discuss the proposal?

MR. GOOLSBEE: Actually, I was giving my answer –

MR. HOLTZ-EAKIN: Well, no he isn't.

MR. GOOLSBEE: – that you asked me to give.

MR. HOLTZ-EAKIN: But let's just have a little clarity here. Look –

MR. REISCHAUER: Peace, peace.

MR. HOLTZ-EAKIN: What Senator McCain –

MR. REISCHAUER: You're suppose to give – (chuckles) –

MR. HOLTZ-EAKIN: – has proposed – then I'll stop – Senator McCain has proposed that it would be a good thing to give people an alternative system that was simpler, like two rates and a big exemption. He likes that idea as a way to get past Ways and Means and Senate Finance, which have never produced a simple bill in their lifetime. That's it. He has committed that it should be revenue neutral. We haven't produced such an animal. That's true. Fair criticism but the idea that we haven't produced it and it's going to lose 1.1 trillion is false.

Q: What about the – (off mike) – framework?

MR. GOOLSBEE: Yeah, right, thanks.

MR. REISCHAUER: Go ahead.

MR. GOOLSBEE: So in our framework, using the Tax Policy Center's numbers, we would not – we would cut the current deficit. That would stabilize the debt-to-GDP ration.

Q: At roughly what number?

MR. GOOLSBEE: I don't have the exact number. It depends if you take the national debt – obviously there's a national debt and there's debt held by the public, which nets out what the government owns. So if I give you a number, somebody's going to say, well, which one are you talking about. Under the McCain plan, it's the opposite. You're not on any path. This debt-to-GDP ratio is spiraling upward. Okay, so in the short run, the fiscal framework is quite clear. In the long run, the only way that we can address – and Doug and I agree on that – is by looking at entitlements, Social Security, and Medicare. Medicare is particularly relevant. The most important thing by far, as relates to Medicare, is affecting the healthcare inflation rate.

Senator Obama's plan – health plan – is by far the most detailed and is by somewhat broad consensus, confronts the issues of healthcare costs and healthcare inflation the most directly and gets costs down the most. So to deal with Medicare, we must begin there. On Social Security, Obama said before we privatize the system, before you ask the retirees to eat the discrepancy, let us think about the regressivity of the payroll tax. For that, Senator McCain has condemned him but at least let us put that on the table.

Q: I mean, just a very brief clarification. When you say stabilize the debt-to-GDP ratio, does that imply a fiscal deficit in the order of 2.5 percent of GDP, two, 2.5 percent?

MR. GOOLSBEE: I believe it will be less than 2.5 percent. The current – if you take out the – I mean, do we want to get into the details of that.

MR. REISCHAUER: No, not really. (Laughter.)

MR. GOOLSBEE: I can talk to you after.

Q: Hi.

MR. REISCHAUER: Just go ahead.

Q: Okay, so then – David Balan. I'm from the Federal Trade Commission, although I guess I should say I'm not here in any official way for them. So the presentation at the beginning talked about sort of a tradeoff between efficiency and progressivity and I know that the – you know, the ambit of a report like this has to be sort of narrow and can't spin off into too many flights of fancy, but it certainly is the case that the efficiency of a given fiscal plan will depend in some sense on what the money is spent on. There are some things that you spend money on them and there are arguments that you get efficiency that way even if you have to bear excess burdens of taxes to generate the money. So I was interested in hearing what people thought the actually spending priorities of the candidates might contribute to efficiency directly through healthcare or education policy or childcare for working people or whatever. Thanks.

MR. HOLTZ-EAKIN: Spending and efficiency?

MR. REISCHBAUER: Be short, short because we're on taxes. But –

MR. HOLTZ-EAKIN: Right – the – you know, briefly, I think the proposals in healthcare – and I won't belabor them – that the senator has on the transformation of care itself, not the insurance component, which is paying for the cost of care but the transformation of care itself is fundamentally focused on ringing out lots of inefficiencies that appear to be present in the U.S. healthcare system. It's a broad attempt to move us away from a system that relies too much on acute care and expensive settings and more toward a system that coordinates care and gets prevention and thus, provides a more efficient healthcare system, particularly for the quality of outcomes we get.

And on education, fundamentally, about taking systems like the D.C. system, which spends enormous amounts of money and do not deliver anything like quality educations, fail our students again and again, and cripple their ability in the going future. So he's – when he talked at the NAACP, he talked about transformations of that system using the federal money effectively, getting it in the hands of parents, teachers, and principals who have the standards, the accountability, and the leadership ability to actually improve the quality of the outcome. So those are the kinds of spending initiatives that he's been focused on.

MR. REISCHAUER: Way in the back there.

Q: I have a structural –

MR. REISCHAUER: Identify yourself.

Q: Oh, I'm sorry. Linda Gould (sp) with the National Association of Realtors. Each of you has provided in your discussion of tax – of your tax principles some structural issues that I have thought about, and thought about, and thought about and I can't get my brain around. I understand all the sound bites. I understand all the pander to the masses. I understand all of the political stuff that goes with them. But from a structural perspective, I cannot understand why an elective system is simpler for anybody, as to Mr. McCain's plan. Plus, I also think that it's either the most dramatic income averaging that's ever been invented or else you'll have to lock people in forever to one or the other, but that's compliance.

MR. HOLTZ-EAKIN: That's it.

Q: The structure – you'll lock people forever?

MR. HOLTZ-EAKIN: Well, people can't elect every year. That kind of system is a disaster.

Q: Yeah.

MR. HOLTZ-EAKIN: That's not the proposal. I mean –

Q: But how – but as a structural matter, I still don't see how that's simpler and a 24-year-old coming out of school would almost inevitably make a different decision than a 40-year-old with children. So I don't understand that and from a structural point a view – from a structural point of view, I do not understand the erosion of the standard deduction concept. If ever there was simplification of the Internal Revenue Code, it was when they expanded substantially the standard deduction back in the '86 act. And so why do you – I think it was the '86 act – but the standard deduction is a proxy for itemizing. You only itemize if you get a better answer than the standard deduction gives you and so I can't understand how making a mortgage-interest credit is, number one, a simplification of any kind and, number two, I can't understand why it's not double dipping?

MR. REISCHAUER: It seems that's yours.

MR. GOOLSBEE: It's seems like –

MR. HOLTZ-EAKIN: You do the credit. I'll deal with the system.

MR. REISCHAUER: You have half McCain and half Obama here. (Laughter.) You'll be unhappy no matter who wins. (Laughter.)

MR. GOOLSBEE: Yeah, it's a typical budget, you know, analyst. That's the way it always is. Look, on the mortgage-interest credit, the fact is, right now, we have a tax incentive for home ownership that is almost entirely unused by the group of people who is in the midst of a

massive – who’s in the midst of a massive housing crisis. So that is where the view of the – if you object to the mortgage-interest deduction, which some do – Len may say, yes, I don’t like it – I can see the thing if you say, hey, why facilitate housing for a different group? The view is on that marginal price, there ought to be some equality across groups, especially in a moment like this and that’s where it comes from.

MR. BURMAN: Well, except – I mean, Linda’s right that is going to complicate things and figure out whether you should itemize or take the credit and not itemize. The present tax reform panel proposed to replace the deduction with a credit and that would have been more fiscally responsible and, actually, it would have made things a lot simpler. It would have – I mean, you’re right to retarget the subsidy on people who really need help getting housing is a good idea. But – you know, again, it’s political context so I understand why you did what you did but it’s not an ideal policy.

MR. HOLTZ-EAKIN: And, briefly, I don’t want to belabor the alternative system. The idea is allow people to pick in the belief that, A, some will choose simplicity over, you know, tax optimization. Some just genuinely like to not have to struggle. And once you pick, we migrate people permanently to the alternative system and you end up with a simpler system. The interim step is what it is. There is no disguising that.

Q: Thanks. I’m Larry Hassum (sp), a consultant and a writer in town. I wanted to ask more specifically about the relationship between tax rates, fiscal policy, and economic growth. In the late ’80s, early ’90s, we had gone through a period not dissimilar to what we’re going through now; weak recovery in terms of incomes, in terms of job creation, and all the rest. We go into the ’90s, Clinton and the Democrats raised tax rates rather considerably, the deficit comes down, we eventually balance the budget and we go through a long period in which incomes are actually going up at every quintile, a rather extraordinary period.

Now, we always hear and we heard today that tax rates ought to be as low as possible and I’m not suggesting raising taxes was the answer in the ’90s and created nirvana. I know a lot of other things were going on but, is it really the case that we really need to keep a continuation of the tax rates that we have now in terms of long-term growth? You would continue all the tax rates. You would continue almost all of the tax rates. There’s not really that much difference. Is fiscal policy not, perhaps, more important than that in terms of bringing the deficit down more quickly and would higher tax rates really be that harmful over the long term?

MR. HOLTZ-EAKIN: I think that – you know, obviously the historical answer is that if we could just get another tech bubble and equity-market bubble, you know, we could the rest of the story of the ’90s, but how’d you engineer that and survive it is the issue.

The more, you know, bland but honest answer on the other front is, you know, fiscal policy is simple. Identify those spending programs on the public budget, which meet national needs, put in place the tax system that finances them in an efficient and fair fashion. Taxes by itself get overblown. It’s about looking at the whole package. What are you going to spend on? How are you going to finance it? And the senator’s belief is that we have spent too much time in

Washington yakking about taxes while spending was out of control and we've lost the integrity of the process in a big way and we certainly have lost control of the amount of spending.

Q: So you endorse the proposal in the Onion that we find a new bubble as a way to – (laughter).

MR. HOLTZ-EAKIN: I was unaware of the proposal, but I am open to ideas from every source. (Laughter.)

Q: I'm Rahul Tekekir (ph). I work for the IRS, but I am here as an ordinary American. I was wondering if –

MR. REISCHAUER: That's good for you. (Laughter.)

Q: I don't think I fit into that. I was wondering if Dr. Goolsbee would talk a little bit about the simple returns option and if the McCain campaign would talk about that as well.

MR. GOOLSBEE: Okay, in the Obama plan, there is an option for what he calls a simple return, and that is for a large number of people in the United States, maybe 40, 50 million tax filers. Every piece of information that they fill out on their tax return come April 15th, the IRS already gets directly from their employer, from their bank, et cetera. They send them the W-2s. If you – as I say, if you don't fill it out and wait and see what happens, it takes a while, but you will get it. They can say, hey, what happened to the X thousand dollars of income your employer told us you had? What happened to this much interest your bank had?

So this plan would follow on a program they did in California at state level. And the IRS, for people in simple situations, that have one bank account and one employer, they'd have – they'd get the option to – they'd send them a pre-prepared return, you could check it, say, yes, this is correct. They have a similar thing in many countries of the world with great success. You don't have to pay a tax preparer. You can do your taxes in less than five minutes. Something like two-thirds of people don't itemize. They are in simple tax situations and an option like that is a feasible one. And so I think it's a good option.

MR. HOLTZ-EAKIN: Obviously, the senator doesn't have that specific proposal, but the basic sentiment is, you know, it is really troubling to look at what's going on right now, where there are an enormous number of low-income individuals who have got a W-2 and a tax return to fill out and they're at H&R Block spending 75 bucks, that something's wrong with that picture.

Q: So how would you deal with the – any objections from the tax preparation industry?

MR. HOLTZ-EAKIN: Could you – I couldn't hear.

Q: How would you deal with objections from the tax-preparation industry?

MR. REISCHAUER: Identify yourself!

Q: Oh, I'm Cheryl Wagner from the IRS. I'm a co-worker of Rahul. I support him as an American. (Laughter.)

MR. GOOLSBEE: Look, we're both economists. I mean, that sounds like a political question. It's out of my – (laughter).

MR. REISCHAUER: Well, I think there's a broader question here, which is, how would you deal with any of the interest groups adversely affected by all of the policies that have been put forward? And that's –

MR. HOLTZ-EAKIN: I think that's an important question. I mean –

MR. REISCHAUER: No, it is.

MR. HOLTZ-EAKIN: You absolutely, positively have to acknowledge that, at some point, we're going to have to get some leadership that puts up with opposition from these interest groups. And, you know, I am happy to be working for a man who is willing to stand with Ted Kennedy and try to solve immigration reform even while the campaign melted down around him and I got laid off because it was the right thing to do.

And we cannot have people who continually place their narrow political interests or their party affiliations above solving these problems. And so, you know, the tax-preparation group is one special interest. There's a lot out there, but we do have to get past this idea that you can do things and get them solved and keep everyone happy all the time. It's not going to happen.

MR. GOOLSBEE: And I do think – I've said that before to Doug and I don't think it's a coincidence that in each party, they nominated the candidate who was sort of the most publicly "I'm going to fight the special interest and look out for America." I think it's – that's to John McCain's credit; it's to Barack Obama's credit. I don't think that's a coincidence. I think people are ready for that.

MR. REISCHAUER: I'm tempted to bring the curtain down on this one note of agreement – (laughter) – but we do have time for one more question or two?

MR. BURMAN: Can I disagree?

Q: Hi. My name is Demian Brady. I'm with the National Taxpayer's Union Foundation. Maybe Mr. Burman would best be able to answer this question. Hopefully, the candidates have some feedback, too, the campaigns have some feedback, too.

Senator McCain has refundable healthcare plan, refundable credit healthcare plan, and Senator Obama has at least five different refundable credit plans. And I was wondering if there's a breakdown on the costs for these. How much of this cost is going to be a revenue reduction and how much of this is going to result in new outlays. And, similarly, how many additional people will no longer have a liability for an income tax under the plans?

MR. BURMAN: We haven't done that calculation for this latest round. There were questions from the media when we did our previous analysis. If you give me your card, I can send you – I mean, it is true; there's a big increase in refundable credits. I mean, it does raise the sort of fundamental question about, you know, when you're running spending programs through the tax system, do you want to limit it to higher-income people, which is what deductions and non-refundable credits do.

Senator McCain actually has a very large refundable credit and it makes a lot of sense. If you're going to try to help people get health insurance doing what the current system does, which is only providing subsidies to higher-income people, isn't going to work.

MR. HOLTZ-EAKIN: I think your point is on the mark. I mean, you know, our proposal is structured around taking the long-standing notion of having a tax subsidy to private insurance and spreading it more fairly, both across the source of insurance and across the income distribution. Everyone gets the same amount, but it produces outlays in the federal budget. There's no way around that and there's no intent to disguise that. It turns out to use the tax code for a subsidy program.

MR. REISCHAUER: Is there one last question. Diane?

Q: I'm Diane Lim Rogers. I'm from the Concord Coalition. I have to circle back to the question about deficits because I have to pay attention to actual deficit numbers. And I'm wondering if you could both clarify for me where you believe under your candidate's proposals, both on the tax and spending side, the deficit will be in dollar terms in 2013. So instead of talking about it relative to – basically, I'm asking you to define relative to what. I mean, Doug, I know McCain has said that he'll balance the budget by 2013, so that's a very precise number. So I'm assuming that means zero, unified budget deficit in 2013.

MR. HOLTZ-EAKIN: Yup. That's the goal.

Q: And also – but, Austan, I guess I'm asking you, when you guys say that you're going to pay for all of your new initiatives, are you basically saying that if we took, instead of the current law CBO baseline, if we took maybe a realistic-policy extended baseline and which counts extending the Bush tax cuts and –

MR. GOOLSBEE: Like the Concord Coalition baseline.

Q: Right, such as the Concord baseline: realistic, some extended AMT relief – that relative to that baseline, whenever you spend more than what's spilt into that baseline, you will offset that cost?

MR. GOOLSBEE: Yes.

Q: Okay. So we're talking about, in 2013, I think maybe between 500 and \$600 billion deficit?

MR. GOOLSBEE: Let me say two things. Under our plan, when we add it up – and I think that if you take what came from the Tax Policy Center and weigh it off against the rest of our budget, as David Wessel at the Wall Street Journal has looked at the thing, the – Barack Obama will not increase and will likely cut rather significantly the existing current nominal deficit.

Now, you can't just take. The thing that's frustrating is to take at face value, well, John McCain says he'll have a zero deficit. Look at the Tax Policy Center numbers and just somebody explain.

Q: Well, I'm not going to take that at face value, but –

MR. GOOLSBEE: Okay, good. Good, because it won't be zero. If you take the TPC numbers, the nominal deficit is likely to be, under McCain, exceeding \$700 billion and under Obama will be smaller than FY08 nominal deficit.

Q: Okay. One last –

MR. REISCHAUER: Oh, 13 under current –

MR. GOOLSBEE: The upcoming year deficit is right now projected for 10 or for – maybe it's up a bit as the economy has slowed. It will – we will reduce it from that because, relative to Concord Coalition baseline, he's offsetting all of his programs and then you lose the stimulus.

Q: Reduce relative to GDP or reduce in actual dollars?

MR. GOOLSBEE: No, in actual dollars it would go down.

Q: Okay. And just a quick, quick – (chuckles). Doug, you've talked about how what matters is the importance on tax policy is a little overblown in terms of the budget, overall budget picture. But you've also stated that Senator McCain believes that you could keep revenues as a share of GDP around 18 percent?

MR. HOLTZ-EAKIN: Yeah, that's what we're targeting for –

Q: So you realistically think we could get spending down with the aging of the baby boomers and with rising healthcare costs? You think it's realistic that we could get –

MR. HOLTZ-EAKIN: That's a 2013 target.

Q: Yeah, okay.

MR. HOLTZ-EAKIN: So that's what we've got. You know, we targeted these numbers over a five-year horizon and –

Q: Good luck. (Laughter.)

MR. HOLTZ-EAKIN: No, I mean, I understand people have never done anything but spend more for a long time and they think that's all you can do, but, you know, you really do have to take a look at the entire budget and the kinds of things that have gone on. I mean, had we stuck to the '97 BBA, we'd be spending \$180 billion less on the discretionary side right now. We didn't. You know, you can't just say, well, you know, we give up.

Q: Thank you.

MR. REISCHAUER: Okay, don't give up. (Laughter.) We – oops, Len.

MR. BURMAN: Austan suggested the Tax Policy Center have a forum on spending. Doug said he was willing to participate so we're going to try to set up a forum on spending in a couple of months if we're – before the election.

MR. REISCHAUER: Okay. Well, thank you, all of you, for coming and thank the two representatives from the campaigns.

(Applause.)

(END)