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TOTAL COST OF BUSH "GROWTH PACKAGE" EXCEEDS $900 BILLION

$674 Billion Figure Doesn't Include Cost of Increased Interest Payments

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The Administration estimates that its "growth package" will reduce tax revenue and increase expenditures by $674 billion over the period 2003-2013. This figure does not include the cost for higher interest payments on the debt that would result from the package. These increased interest costs, which would be an inevitable result of the plan, would total at least $250 billion over this period. The total cost of the package to the Treasury — and the amount by which deficits would increase (or surpluses be reduced in the unlikely event that surpluses return during this period) would be at least $925 billion.

Measuring the Costs of Tax Cuts and Spending Increases

When the Office of Management and Budget and the Congressional Budget Office measure the cost of a budget proposal, they first compare what projected revenues and expenditures would be if the proposal is enacted with projected revenues and expenditures if current law remains unchanged. In the case of the Administration's new package of tax cuts, the $674 billion figure represents the Administration's estimate that revenues would be $670 billion lower and expenditures $4 billion higher than if the plan is not enacted.[1]

Any proposal that reduces revenues or raises expenditures increases budget deficits (or reduces budget surpluses). As a result, the federal debt is larger than it otherwise would be. The Administration's proposal is no exception. By increasing projected deficits (or reducing projected surpluses) by $674 billion, it would significantly increase the debt relative to what it otherwise would be.

The Treasury pays interest on the debt. Any proposal that increases the debt above what it otherwise would be thus causes the Treasury to make interest payments that are higher than previously projected, since interest will have to be paid on a larger amount of debt.

By making reasonable assumptions about the year-by-year path of the $674 billion cost of the Administration's package (based on the Administration's estimate of the cost of the

[1] Material released by the Treasury and Labor Departments shows $670 billion in revenue losses and $4 billion in expenditure increases, for a total of $674 billion. The expenditures increases are for the proposed new "personal re-employment accounts."

package in 2003 and on past year-by-year estimates of the cost of various tax cuts enacted in 2001 that would be accelerated), we are able to derive the year-by-year amount of extra debt and consequently the extra interest payments the package would entail. We use CBO's standard model for calculating interest costs that result from tax cuts or spending increases. The result is an estimate that the added interest costs over the period 2003-2013 would total more than $250 billion.[2] Combined, the direct costs of the tax cut package and the resulting interest costs thus amount to more than $925 billion.

Combining the direct costs and the interest costs of any budget proposal is sound budgeting. The combined cost must be known to determine what effect the proposal would have on the budget and whether the proposal is affordable. OMB documents have followed this approach in showing the total costs of previous tax cuts; for example, OMB's Mid-Session Review of July 2002 displays a ten-year estimate of the cost of the June 2001 tax cut that includes the interest costs.[3] The $925 billion estimate presented here employs the same approach.

[2] Our exact estimate of the increased interest costs is $265 billion over 2003-2013. This estimate is likely to change by a small amount when Congressional analysis is complete. The precise year-by-year path of the tax cuts is not yet known, and CBO has not yet publish new interest rate assumptions (it will do so later this month). For purposes of this analysis, we use an estimate of $250 billion to be conservative.

[3] OMB, *Mid-Session Review, Fiscal Year 2003,* Table 2 on page 6.