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THE PRESIDENTIAL CANDIDATES' BUDGET PLANS AND THE SIZE OF GOVERNMENT

by James Horney

There is some confusion about what would happen to the "size of government" under the budget plans put forward by the two major-party presidential candidates. Using different measures of the size of government — and competing estimates of the cost of various of the candidates' proposals — it is possible to come to varying conclusions about the effects of the two plans[1].

Based, however, on a traditional measure of the size of the government — the level of federal spending relative to the size of the economy — it is possible to reach a clear conclusion: whether one uses the budget estimates that each campaign has provided of its own proposals or alternative estimates that assume that some of the claims of each campaign are too optimistic, *the size of the government would decline over the next decade, reaching the lowest level in at least 35 years, under either candidate's budget plan.* The decline would be larger under the Bush plan than under the Gore plan.

SIZE OF GOVERNMENT UNDER THE BUSH AND GORE BUDGET PROPOSALS
Total Federal Spending As a Percentage of Gross Domestic Product (GDP)

	Bush	Gore
Fiscal Year 2000 (CBO July 2000 estimate)	18.2%	18.2%
Fiscal Year 2010		
CBO baseline projection	15.6%	15.6%
Proposed (based on campaign estimates)	16.4%	17.2%
Proposed (adjusted, less-optimistic estimates)	17.0%	17.4%

The two candidates' budget proposals would not be the cause of this decline in the size of government. According to the Congressional Budget Office, total federal spending as a percentage of the gross domestic product (GDP) will decline under *current* policies — from 18.2 percent of GDP in fiscal year 2000 to 15.6 percent of GDP in 2010.

[1]For an analysis of the cost of the Gore and Bush budget plans, see James Horney and Robert Greenstein, "The Cost of the Bush and Gore Budget Proposals," Center on Budget and Policy Priorities, October 19, 2000.

Largest Increase in Spending Since the Great Society?

A number of news reports and the Bush campaign have quoted a statement in a Committee for a Responsible Federal Budget report to the effect that the Gore plan "contains the largest spending increases since LBJ's Great Society." These news reports and the Bush campaign overlook the fact that the calculations that support this statement — calculations that compare proposed increases in spending with increases that occurred in the decades *after* the Great Society increases ebbed and the nation labored under large budget deficits — also support the conclusion that the spending increases proposed in the Bush budget plan, although significantly smaller than those proposed in the Gore budget plan, would also represent the largest spending increases since the end of the Great Society. The Committee for a Responsible Federal Budget has acknowledged this point.

More importantly, any statement that invites comparison of the spending proposed in either candidate's plan with the growth of government during the Great Society era needs to be considered in historical context. From 1965 to 1975, which can be considered the period of Great Society spending increases, total federal spending increased substantially relative to the size of the economy — from 17.2 percent of GDP to 21.3 percent of GDP. By contrast, under the Gore budget proposals, total federal spending would *decrease* relative to the size of the economy — from the fiscal year 2000 level of 18.2 percent of GDP to 17.4 percent of GDP or less in 2010. Similarly, under the Bush budget proposals, spending relative to the size of the economy would decrease to 17.0 percent of GDP or less in 2010.

With the end of the large deficits that have plagued the federal government for more than two decades, it is not surprising that both major-party presidential candidates are proposing some increases in federal spending relative to CBO's baseline projections. There is no comparison, however, between what either of this year's major presidential candidates is proposing and the substantial increases in the government's role in society that resulted from enactment of such Great Society initiatives as Medicare and Medicaid.

(This is based on CBO's July 2000 baseline projections that assume no changes in laws governing taxes and entitlement programs and that discretionary spending will remain at the fiscal year 2000 appropriated level, adjusted for inflation.) The budget plans that both candidates have proposed would increase spending relative to the levels in CBO's baseline projections. But under either candidate's plan, those increases would slow the decline in spending relative to the economy, rather than reverse that decline.

Under Vice President Gore's budget plan, total federal spending would decline from 18.2 percent of GDP in 2000 to 17.2 percent of GDP in 2010, based on Center on Budget and Policy Priorities estimates that are consistent with Gore campaign budget documents that show the Gore plan will cost $1.4 trillion over the next 10 years.[2] (Because the campaign has not released year-

[2] These and other estimates in the rest of this analysis take into account only the non-Social Security proposals included in the two budget plans. They exclude the effects of the Bush proposal to establish private accounts as part of a Social Security reform effort and the Gore proposal for increases in the Social Security benefits for elderly women.

by-year estimates of its plan or a breakdown of estimated costs by traditional budget categories, the Center had to make assumptions about certain factors that affect the calculations in this analysis. These assumptions are discussed in the appendix to this paper.) Under alternative estimates that assume the Gore campaign has been too optimistic about achieving various savings proposed in its budget, as well as about the cost of the Gore tax cuts, federal spending would decline to 17.4 percent of GDP by 2010, rather than 17.2 percent. If spending declines to either 17.2 percent or 17.4 percent of GDP by 2010, that would represent a lower level of spending relative to the size of the economy than in any year since 1965, when federal spending equaled 17.2 percent of GDP.

Under Governor Bush's budget plan, total federal spending would decline from 18.2 percent of GDP in 2000 to 16.4 percent of GDP in 2010, based on Center on Budget and Policy Priorities projections that are consistent with Bush campaign budget documents showing that the Bush plan would cost $1.9 trillion over the next 10 years. (As with the estimates related to the Gore plan, the Center had to make assumptions about certain factors that affect these calculations, because the Bush campaign has not released year-by-year estimates of the Bush plan or a breakdown of estimated costs by traditional budget categories.) Under alternative estimates that assume the Bush campaign has been too optimistic about achieving savings it has proposed in discretionary programs and about the cost of the Bush tax cut, spending would decline to 17.0 percent of GDP by 2010. If spending declines to 17.0 percent of GDP by 2010, that would represent the lowest level of federal spending relative to the size of the economy since 1957 (when spending equaled 17.0 percent of GDP). If spending declines to 16.4 percent of GDP by 2010, that would represent the lowest level of spending relative to the economy since 1951 (when spending stood at 14.2 percent of GDP).

Appendix
Assumptions Used in Calculating Spending Relative to Size of the Economy

As noted above, neither the Gore nor the Bush campaign has provided either year-by-year estimates of its proposals or a breakdown of the costs of those proposals into standard budget categories. As a result, to calculate the amount of federal spending that would occur under the two plans in 2010, we must make certain assumptions about the incidence of year-by-year costs and whether certain costs should be counted as spending increases or reductions in revenues.

The first set of estimates presented here of what federal spending would equal in 2010 under the two budget plans as a percentage of GDP — the figures that produce the lower estimates of spending as a percentage of GDP — were designed to maintain consistency with the estimates that each campaign has issued of the cumulative (10-year) costs of its plan. These estimates were constructed as follows:

- If a year-by-year estimate of the cost of a proposal is available (for instance, the Congressional Joint Committee on Taxation estimate of the cost of the Bush tax plan), that estimate was used.

- If no year-by-year cost estimate is available for a specific proposal (which is the case for most of the candidates' proposals) but there is a year-by-year estimate for a similar proposal (for example, the Congressional Budget Office's estimate of President Clinton's Medicare prescription drug proposal, in the case of the Gore prescription drug plan), we took the percentage of the 10-year cost of the similar plan that would occur in each year and used those percentages to distribute the cost of the candidate's proposal across the 10 years.

- In the case of the Gore tax plan, we assume that an amount equal to half the cost of Gore's Retirement Savings Plus plan will be recorded in the budget as an increase in spending rather than a reduction in revenues. That and some other Gore tax proposals would establish or expand a refundable tax credit (a credit that can be claimed in full even if the individual eligible to claim it has no income tax liability or a liability that is less than the amount of the credit). Under standard budget accounting rules, the refundable portion of a tax credit (the amount by which the credit exceeds an individual's income tax liability) is recorded as an outlay, while any reduction in tax liability resulting from claiming the credit is recorded as a reduction in revenues. The Gore campaign estimates that 20 percent of the cost of the Retirement Savings Plus plan will be recorded as an increase in spending and 80 percent as a reduction in revenues. Others have suggested that a much higher portion — possibly as high as 100 percent — should be recorded as an increase in spending. It is worth noting that the Gore proposal is structured in a manner similar to the retirement savings tax credit that the Senate Finance Committee approved in September (although the Finance Committee provision is considerably smaller and provides only a nonrefundable credit); the Congressional Joint

Committee on Taxation counted the costs of the Finance Committee provision as a reduction in revenues, not an increase in spending. This suggests that the nonrefundable portion of the Gore plan would represent a reduction in revenues. In the absence of an estimate of the Gore plan by the Joint Committee on Taxation or the Department of Treasury that is based on legislative language, it is not possible to determine the precise portion of the costs of the Gore Retirement Savings Plus proposal that should be counted as spending. In addition, various other proposals in the Gore tax plan also involve refundable credits. Part of the costs of those proposals would be recorded as spending increases, but we do not have information about those precise amounts. To reflect both the effect that these other tax proposals in the Gore plan would have on spending, and the effect on spending of the Retirement Savings Plus proposal, we have made the simplifying assumption that, of the total tax cut estimated by the Gore campaign, an amount equal to one half of the cost of the Retirement Savings Plus proposal counts as an increase in spending rather than a reduction in revenues.

We also produced a second, less-optimistic set of estimates concerning the two budgets that use the assumptions outlined above but include adjustments to the estimates the campaigns have issued of the costs of certain parts of their budgets. These less-optimistic estimates assume, for example, that proposed savings in both plans from "offsets" or "government reform" are unlikely to be achieved because of opposition in Congress and from significant interest groups or constituencies. These adjusted estimates are intended to provide a more-conservative estimate (that is, a higher estimate) of the spending that would result under the two plans. In making those adjustments, we assumed that:

- Regardless of who is elected President, discretionary spending over the next 10 years will not fall below the level of appropriations enacted for fiscal year 2000, adjusted for inflation and population growth.[3] This assumption is based on the fact that between 1990 and 2000, when the focus of the President and Congress was on eliminating the deficit, non-defense discretionary spending still grew 20 percent faster than inflation, or twice as fast as was needed to maintain real (inflation-adjusted) spending in per-person terms. Defense spending did decline during this period because of the end of the Cold War, but there appears to be a bipartisan consensus now that defense spending should grow in real terms over the next 10 years. Furthermore, the appropriation bills for fiscal year 2001, on which Congress is trying to complete action, are expected to increase total funding for discretionary programs in 2001 by four percent above the inflation rate; that is more than four times the rate of population growth (which is about one percent per year).

  The Bush plan proposes that discretionary spending be held some $320 billion (over 10 years) below the 2000 level, adjusted for inflation and population growth. The plan does

[3]See James Horney and Robert Greenstein, *How Much of the Enlarged Surplus is Available for Tax and Program Initiatives?*, Center on Budget and Policy Priorities, July 7, 2000.

not specify what programs should be reduced to achieve these savings. If we adopt the more-realistic assumption that discretionary spending will not fall below the 2000 level, adjusted for inflation and population growth, that increases the cost of the Bush plan by about $65 billion in 2010, not counting the increased interest costs stemming from the additional discretionary spending costs.

The Gore plan assumes that discretionary spending will exceed the 2000 level, adjusted for inflation and population growth. We assume the proposed increases in excess of that level will occur.

- The proposals in the Gore plan to achieve budget savings in various programs and to raise revenues in various ways are unlikely to be enacted. These include proposals to increase taxes on tobacco companies, eliminate corporate tax shelters and other tax loopholes, identify savings in discretionary spending through a review process, and achieve some savings in the area of entitlement spending. (The likely inability to achieve proposed increases in tax revenues is addressed here because it would affect total budget surpluses and total debt reduction, and, therefore, the level of interest payments on the federal debt, which are a component of federal spending.) Many of these proposals in the Gore plan, which are assumed to produce reductions in spending of about $65 billion over 10 years, have been proposed by the Clinton Administration and rejected by Congress or have simply failed to produce hoped-for savings. Opposition to them is likely to remain strong. Excluding these savings causes the level of spending under the Gore plan in 2010 to rise by $13 billion, not counting the increased interest costs.

- The Alternative Minimum Tax (AMT) is virtually certain to be reformed in coming years to prevent it from reaching into the middle class and subjecting millions of middle-class families to substantially greater tax complexity and higher tax bills, which is what will occur if current law in this area is not changed. It seems virtually certain that no President or Congress will allow the AMT to remain unchanged. The Bush campaign's estimate of the cost of Governor Bush's tax plan, however, is based on the assumption that the AMT will not be reformed;[4] the cost estimate assumes that 12.2 million people who would have their regular income taxes reduced as a result of the rate reductions and other changes in the personal income tax that the Bush plan proposes would have those reductions offset at least partially by increased taxes due to the AMT. According to Congressional Joint Committee on Taxation estimates, if the AMT is reformed to prevent these people from having their taxes increased as a result of the interaction between the Bush income tax proposals and the AMT, the cost of the Bush tax plan would increase by $192 billion over 10 years and $44 billion in 2010.

[4]Both the Bush and Gore plans propose to ameliorate the effect of the AMT on the ability of taxpayers to take full advantage of one or a few specified tax credits (and include the costs of these proposals in their estimates), but neither proposes comprehensive reforms that would keep the number of taxpayers affected by the AMT from growing significantly in the coming years.

The Gore campaign's estimate of Vice President Gore's tax plan also is based on the assumption that the AMT will not be reformed. Because the cost of the Gore tax plan is smaller and its tax proposals do not interact as much with the AMT (since they are targeted on a group with lower average incomes), and because several proposals in the plan that could interact with the AMT are designed to eliminate the AMT effect (and the costs of that feature of those proposals is reflected in the campaign's estimates), the effect on the cost of the Gore tax plan of assuming AMT reform is much smaller, probably less than $10 billion in 2010.