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ADMINISTRATION'S TAX CUTS WORSEN PROSPECTS FOR BRIDGING 75-YEAR GAPS IN SOCIAL SECURITY AND MEDICARE

Statement by CBPP Executive Director Robert Greenstein

The data in the Social Security and Medicare Trustees' reports issued today, which show little change in Social Security's long-term financial picture but a worsening of the outlook for Medicare, underscore the folly and the danger of making the 2001 tax cut permanent and adding costly new tax cuts on top. The long-term financing gaps in Social Security and Medicare are much too large to close with benefit cuts or payroll tax increases alone; the benefit cuts and tax increase that would be required go well beyond what policymakers from either party would accept. Some revenues from the rest of the budget will be essential as part of larger reform efforts that restore long-term solvency to these programs.

But the proposed tax cuts would make it difficult if not impossible to find such revenues in the rest of the budget, as they would bleed the budget heavily in future decades. The facts speak for themselves: the tax cuts that the Administration has proposed — the overwhelming bulk of which are included in the budget plans the House and Senate Budget Committees approved last week — would cost *more than three times as much* over the next 75 years as the entire 75-year Social Security shortfall. In fact, the cost of the tax cuts (including making the 2001 tax cut permanent and adding expensive new tax cuts on top of it) would be greater over the next 75 years than the combined deficits in Social Security and the Medicare Hospital Insurance program.

Some changes in Social Security and Medicare are necessary and inevitable. But the Administration's tax proposals would aggravate matters, consuming resources that could play a constructive role as part of Social Security and Medicare reform.

Background Information on Comparing the Size of the Tax Cuts and the Social Security and Medicare Deficits

The Trustees' report states that Social Security's deficit equals 0.73 percent of the Gross Domestic Product (or $3.8 trillion in net present value) over 75 years. The Trustees also report that the Medicare Hospital Insurance shortfall equals 1.11 percent of GDP over 75 years ($6.2 trillion in net present value) and the combined shortfall equals 1.84 percent of GDP ($10 trillion in net present value). The figures on the Social Security and Medicare shortfalls as a percentage of GDP are found in Table VI.F5 on page 174 of the Social Security Trustees' report.

Administration tax cuts, Social Security deficit, and Medicare HI deficit over next 75 years

	Present value over the next 75 years, % of GDP	Present value over the next 75 years*, $ trillion
2001 tax cut if made permanent	1.5% to 1.9%	$7.9 trillion to $10.0 trillion
Dividend / capital gains proposal	0.3%	$1.6 trillion
Tax-free savings accounts	0.3%	$1.6 trillion
Other proposed tax cuts	0.2%	$1.1 trillion
Total, Administration tax cuts	***2.3% to 2.7%***	***$12.1 trillion to $14.2 trillion***
Social Security actuarial deficit*	0.73%	$3.8 trillion
Medicare Hospital Insurance actuarial deficit*	1.11%	$6.2 trillion
Combined Social Security and Medicare HI deficit*	***1.84%***	***$10.0 trillion***

* Assumes level of GDP and interest rates projected by the Social Security actuaries. May not add due to rounding.

Based on estimates from the Treasury Department and the Urban Institute-Brooking Institution Tax Policy Center model, the cost of the tax cuts that the Administration has proposed will equal between 2.3 percent and 2.7 percent of GDP in 2013. Assuming that the cost of the tax cuts remains constant as a share of GDP in subsequent years, which is the standard estimating approach that the Congressional Budget Office, the Office of Management and Budget, and the General Accounting Office use in preparing long-term budget projections, the tax cuts would cost 2.3 percent to 2.7 percent of GDP over 75 years ($12.1 trillion to $14.2 trillion in net present value).[1] This is a conservative estimate that is likely to understate the long-term revenue loss, since the costs of several of the Administration's tax-cut proposals — such as estate-tax repeal and the proposal for new tax-favored savings accounts — are virtually certain to grow faster than GDP for an extended period after 2013.

Even *without* the proposal to establish new tax-favored savings accounts — the part of the Administration's tax-cut proposals that is in the weakest shape politically — the tax cuts would cost between 2.0 percent and 2.3 percent of GDP over 75 years. This is still three times the size of the Social Security shortfall and more than the Social Security and Medicare Hospital Insurance shortfalls combined.

[1] See Peter Orszag, Richard Kogan, and Robert Greenstein, "The Administration Tax Cuts And The Long-Term Budget Outlook," Center on Budget and Policy Priorities, March 19, 2003.