CENTER ON BUDGET AND POLICY PRIORITIES

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Cost of Administration Tax Cuts Exceeds the Combined Long-term Deficits Faced by Social Security and Medicare

The full report can be viewed at http://www.cbpp.org/3-5-03bud.htm

The Center on Budget and Policy Priorities has released a new analysis, *The Administration's Tax Cuts and the Long-Term Budget Outlook,* by Brookings Institution Senior Fellow Peter Orszag and the Center's Richard Kogan and Robert Greenstein. The analysis compares the long-term cost of the Administration's proposed and enacted tax cuts (the costs over 75 years) to the projected long-term actuarial deficit in Social Security and to the combined deficit faced by Social Security and the Medicare Hospital Insurance program. It finds:

- **The tax cuts would be more than three times as large as the Social Security shortfall.** The Administration's tax proposals include making the 2001 tax cut permanent, enacting tax breaks for dividends, creating new tax-free savings accounts, and various other tax cuts, some of which are part of a "growth" package. If all of these proposals are enacted, the cost of these proposals and the tax cuts enacted in the Administration's first two years would be between 2.3 percent and 2.7 percent of Gross Domestic Product (GDP) over the next 75 years, based on estimates from the Treasury Department and the Urban Institute-Brookings Tax Policy Center.

  The cost of these tax cuts is *more than three times* the Social Security deficit over the same 75-year period, which amounts to 0.7 percent of GDP according to the just-released Social Security Trustees report for 2003. (The table at right also shows these comparisons in terms of present-value dollar amounts. Present value is the amount today that, with interest, would exactly cover future costs.)

	Present value over 75 years as % of GDP	Present-value cost over 75 years
2001 tax cut if made permanent	1.5% to 1.9%	$7.9 trillion to $10.0 trillion
Dividend 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**

- **The tax cuts are substantially larger than the combined deficits in Social Security and the Medicare Hospital Insurance program.** The projected deficit in the Medicare Hospital Insurance (HI) program — also known as Medicare Part A — is 1.1 percent of GDP, according to the trustees' report. The combined Social Security and Medicare HI deficit is 1.8 percent of GDP, well below the cost of the Administration's proposed tax cuts (2.3 to 2.7 percent of GDP).

  It also may be noted that even without the Administration's proposals to expand greatly the availability of tax-free savings accounts — the part of the Administration's proposals that has the smallest chance of being approved — the long-term cost of the tax cuts still is about three times the Social Security shortfall and greater than the combined Social Security and Medicare HI shortfall.

In calculating the long-term cost of the tax cuts, the Center's analysis assumes that their cost will remain constant as a share of GDP after 2013. This is the standard approach that the Congressional Budget Office, the Office of Management and Budget, and the General Accounting Office use when preparing long-term fiscal projections. In this case, such an approach is likely to *understate* long-term revenue losses because the costs of several provisions of the Administration's tax proposals, such as the creation of Retirement Savings Accounts and Lifetime Savings Accounts and the repeal of the estate tax, are virtually certain to grow faster than GDP for many years after 2013.

The Center's analysis concludes by noting that the nation faces significant long-term fiscal problems related to the baby boom generation's retirement, as well as needs that will require resources in other areas, including areas relating to children, the environment, the large number of Americans without health insurance, the lack of a Medicare prescription drug benefit, and the uncertain costs of homeland security. Other needs that cannot be foreseen today almost certainly will arise as well.

A balanced long-term fiscal policy is likely to entail some changes in Social Security and Medicare to reduce their future claims on the budget. The Administration's tax proposals, however, would make the long-term budget problem substantially worse and consume resources that could play a constructive role in Social Security and Medicare reform. Policymakers concerned about the long-term fiscal health of the nation would do well to consider the large long-term cost of the Administration's tax cuts.