

MEMORANDUM

To: Interested Parties

Fr: Jason Furman, Economic Policy Director, Obama Campaign

Re: The McCain Economic Plan: Four More Years?

Earlier this year, Senator John McCain said that the nation had made “great progress economically” under the leadership of George W. Bush.¹ On the eve of John McCain’s “Jobs First” economic tour this week, one thing is clear: the McCain economic plan represents a continuation of the same economic policies we have seen for the past eight years.

As currently constructed the McCain plan does not address the immediate challenges facing our economy, like the 438,000 jobs that have been lost in the past six months, the 400 percent increase in the cost of gas at the pump, and a massive contraction in the housing market. The McCain plan offers no hope of relieving burdens for middle-class families struggling with wages that have been stagnant for a generation and household incomes that have fallen \$962 in this economic “expansion.” Instead, the McCain plan would continue the economic policies of the last eight years that have added \$4.0 trillion to the deficit, primarily with tax cuts for the wealthiest 2 percent of Americans who did not need and did not ask for them. Indeed, McCain’s plan proposes to double down on these policies, with tax cuts that are more expensive and stacked against average Americans than anything President Bush has ever proposed.

According to the Wall Street Journal, the McCain campaign plans to spend the week “repackag[ing] proposals he has already outlined” rather than improving on their economic plan.² But no amount of repackaging can alter three basic facts about the McCain plan:

- 1. Senator McCain has no plan for immediate fiscal stimulus to help struggling families or jumpstart our economy.** In January Senator McCain said the economy was not slipping into recession and said he was “skeptical” about the stimulus measures being considered. His top economic adviser said stimulus plans were typically unnecessary “junk.”³ That same month Barack Obama proposed a fiscal stimulus plan centered on rebates to workers and seniors, a package similar to what was ultimately passed on a bipartisan basis. At the same time, Senator Obama warned that if the economy worsened further another round of stimulus would be needed. On June 9th, Senator Obama called for a second stimulus, with at least \$50 billion in immediate measures to help jumpstart our economy. On July 3, in the wake of news that our economy has now lost jobs for six straight months, Senator Obama asked Senator McCain to join him in passing an immediate stimulus plan. However, since January when John McCain announced during a debate that he thought Americans were better off because of George Bush’s economic policies,⁴ he has failed to propose any immediate measure to

¹ Bloomberg TV, 4/17/08

² Wall Street Journal, 7/5/08

³ Associated Press, 1/17/08; U.S. News and World Report, “Capital Commerce Blog,” 1/10/08.

⁴ CNN Debate, 1/30/08

give our economy shot in the arm by putting more money in the pockets of Americans hit hardest by the downturn.

2. **The McCain tax cut plan completely leaves out 101 million households – including those working and middle-class Americans hardest hit by this downturn. In contrast, Senator Obama’s plan benefits 95 percent of workers and their families.** The principal middle class tax cut proposed by John McCain is an increase in the dependent exemption that will not be fully in effect until 2016. Most households without children would see nothing under the plan – a total of 101 million households, including 67 million households currently paying income taxes but who would not benefit because they have no dependents, and 34 million low-income households with no income tax liability but generally paying payroll taxes. Nearly all seniors (37 million out of 38 million) would be left out. Even for families with children, the increase in the dependent exemption provides only a modest tax cut. In the first year of the plan, it would be worth about \$125 to a middle-class family with two children. That same family would eventually see their taxes *increase* under the McCain plan, because his health care plan would raise taxes on middle-class families over time. This is completely inadequate, and will not help the very people whose reduced spending is contributing to our slowing economy. The Obama plan offers more generous tax relief for middle class families, including a “Making Work Pay Credit” that would benefit 95 percent of workers and their families, providing \$1,000 for a typical working family. Obama’s plan would also expand tax credits to help families save, send a child to college, pay for childcare, and afford their mortgage, while eliminating income taxes for all seniors making less than \$50,000.

3. **McCain’s plan continues the Bush policies of tax cuts that are not paid for, which will push our deficits higher and further weaken our economy. His plan continues giving tax cuts to those who need them least and didn’t ask for them, including the wealthiest 2 percent of households and large corporations – including big oil which gets \$4 billion in new tax breaks from John McCain.** Although economists generally agree that short-run stimulus measures should not be paid for, it is critical that sustained policies like middle-class tax cuts be paid for in order to avoid economic damage in the short run and inevitable tax increases in the future. Currently, McCain’s budget plan “will add \$200 billion to \$300 billion or, depending on his voluntary tax system, even more” annually to the deficit according to the *New York Times*.⁵ If McCain cut back on his more than \$100 billion in annual corporate tax cuts – including \$1.2 billion for Exxon-Mobil alone – plus other tax cuts for the most affluent, he could afford to pay for more tax cuts for middle class families.

⁵ New York Times, 6/18/08.

1. Senator McCain does not have an immediate plan to jumpstart our economy, and has failed to support Barack Obama's fiscal stimulus plan.

In this campaign, Senator McCain and I are having a robust discussion about our different visions for what we'll do as president. But when it comes to creating jobs and brokering relief for families who are struggling, we can't wait six months for the next president, and that's why today I'm calling on Senator McCain and all members of Congress, to come together and support this 50 billion dollar stimulus package. Let's show the American people that we can come together, Republicans and Democrats, to ease the burden on working families let's not wait another 6 months for more bad news.

- Barack Obama in Fargo North Dakota, July 3, 2008

The economy is facing a serious downturn: Our economy has lost 438,000 jobs in 2008, six straight months of job loss. In May, the unemployment rate jumped from 5.0 percent to 5.5 percent – the largest once month increase in more than 22 years. Our housing market continues to deteriorate and consumer expectations for the future have fallen to the lowest levels ever recorded. Experts from Lawrence Summers to Robert Shiller agree that another round of fiscal stimulus is warranted.⁶

John McCain missed the chance to push for the first stimulus: John McCain already missed the chance to push for the first round of stimulus. In a debate on January 10th, McCain said “I don't believe we're headed into a recession. I believe the fundamentals of this economy are strong, and I believe they will remain strong” and went on to argue that spending reductions were needed to help the economy.⁷ That same month, top McCain economic adviser Kevin Hassett said that McCain was “firmly” opposed to sending out fiscal stimulus rebate checks, likening it to “borrowing money from the Chinese and dropping it from helicopters.”⁸ At about the same time top economic adviser Douglas Holtz-Eakin said, “that for short-term fluctuations in the economy, the best course of action is to let the Fed handle it” and called the stimulus plan emerging from the President and Congress “junk.”⁹ John McCain himself said he was “skeptical” about the fiscal stimulus measures being proposed.¹⁰ In fact, while McCain eventually voted for the final version of the stimulus package, McCain failed to show up for a key vote to expand the relief in the package to 20 million seniors and 250,000 disabled veterans.¹¹ That expansion was defeated by one vote, and McCain was the only Senator absent. At the time, he explained that he was “too busy” and “focused on other stuff.”¹²

After six months of consecutive job loss, Senator McCain's economic plan still includes no near-term strategy to help our economy create jobs and provide relief for struggling families. Instead,

⁶ Lawrence Summers, “What we can do in this dangerous moment,” *Financial Times*, 6/29/08; Robert J. Shiller, “One Rebate Isn't Enough,” *New York Times*, 6/28/08.

⁷ Republican Candidates Debate, transcript at: <http://www.cfr.org/publication/15249/>.

⁸ The Hill, 1/24/08; New America Foundation, “Economic Growth Program,” 1/23/08, http://www.newamerica.net/events/2008/economy_screams

⁹ U.S. News and World Report, “Capital Commerce Blog,” 1/10/08

¹⁰ Associated Press, 1/17/08

¹¹ Senate Vote 8, 2/6/08

¹² Associated Press, 2/7/08

his “stimulus,” originally announced in late January, is focused on a permanent reduction in the corporate tax rate¹³ that would not even be fully effective until 2015.¹⁴ Experts across the political spectrum agree that such a permanent corporate tax cut would do next to nothing to jumpstart our economy in the near-term. The Congressional Budget Office recently found that a cut in the corporate tax rate was among the least cost effective, least fast-acting and least certain approaches to stimulate the economy available to policymakers.¹⁵ Ruth Marcus of the Washington Post graded McCain’s “stimulus” plan as a D+, explaining that McCain “proposes permanent tax cuts – cutting corporate rates, increasing investment breaks, eliminating the alternative minimum tax – masquerading as a stimulus plan.”¹⁶ Since the first stimulus package passed, Senator McCain has not presented any new or additional plans to jumpstart the economy. In April, he told Bloomberg TV that we had made “great progress economically” under the leadership of George W. Bush.¹⁷

Senator Obama championed the first stimulus and is calling for a second one: In contrast, Senator Obama first proposed a fiscal stimulus centered around sending checks to workers and senior citizens on January 13th.¹⁸ A plan along these lines was agreed to on a bipartisan basis and enacted in February. Obama’s original plan included a contingency that should the jobs situation deteriorate a second round of stimulus would be triggered. On June 9th Obama explicitly called for a second round of stimulus, including at least \$50 billion for:

- An additional round of rebate checks for working families to help offset the impact of \$4.00 a gallon gas and skyrocketing food, health and college costs;
- A \$10 billion Foreclosure Prevention Fund to provide struggling homeowners with pre-foreclosure counseling and refinancing assistance to help them stay in their homes; and
- \$10 billion in relief for state and local governments hardest hit by the housing crisis to prevent cuts in services such as health, education and infrastructure.

¹³ McCain Stimulus Plan, <http://www.johnmccain.com/Informing/News/PressReleases/75389e0f-aa0f-4cb6-a00a-f4b23c9ee1cf.htm>

¹⁴ Tax Policy Center, “A Preliminary Analysis of the Candidates’ Tax Plans,” 6/25/08, p. 6

¹⁵ Congressional Budget Office, “Options for Responding to Short Term Economic Weakness,” 1/08 (“Corporate tax rate reductions have only a limited effect on new investment decisions and may take time to affect business investment because capital spending decisions are often made in advance.”). See also, Goldman Sachs Weekly, 9/21/07 (“companies don’t spend money just because it’s there to spend. To justify outlays for new projects, the expected returns have to exceed the costs, and that usually requires growth in demand strong enough to put pressure on existing resources.”)

¹⁶ “Who’s stimulus makes the grade?” 1/23/08

¹⁷ Bloomberg TV, 4/17/08

¹⁸ http://www.barackobama.com/2008/01/13/barack_obama_announces_plan_to.php

2. The McCain tax cut plan completely leaves out 101 million households – including virtually all seniors – and provides only \$125 in the first year to a family with two children. Eventually the McCain health plan would raise taxes on families. In contrast, Sen. Obama’s plan benefits 95 percent of workers, and provides the typical working family with at least \$1,000 in tax cuts.

I will reform our tax code so that it’s simple, fair, and advances opportunity instead of distorting the market by advancing the agenda of some lobbyist or oil company. I’ll shut down the corporate loopholes and tax havens, and I’ll use the money to help pay for a middle-class tax cut that will provide \$1,000 of relief to 95 percent of workers and their families. I’ll make oil companies like Exxon pay a tax on their windfall profits, and we’ll use the money to help families pay for their skyrocketing energy costs and other bills. We’ll also eliminate income taxes for any retiree making less than \$50,000 per year, because every senior deserves to live out their life in dignity and respect.

- Barack Obama in Raleigh, North Carolina on June 9, 2008

Families are struggling in the economy: We have just gone through the first economic “expansion” on record where typical household income actually fell, by \$962 from 2000 to 2006 (the most recent year for which data are available, incomes have likely dropped further since 2006). During this period, the cost of healthcare has increase by 67 percent in inflation adjusted terms, college costs are up 23 percent and the price of gas at the pump has increased by 400 percent. As middle class families have watched the value of their largest financial asset – their homes – plummet by record amounts, they have been left with little margin for error.

John McCain’s “middle class” tax cut leaves most families behind: To put our economy back on track, we must ease this intense financial squeeze on middle class families. Yet John McCain’s tax plan would provide an extraordinarily small amount of upfront relief for middle class families – and would eventually raise their taxes. John McCain’s corporate tax cuts would provide no direct benefit for middle-class families, they would have to hope that a small portion of the benefits trickle down to them. McCain’s plan to repeal the Alternative Minimum Tax (AMT) would provide very little benefit for middle-class families beyond what they are getting from the tax law in place in 2008.¹⁹ Essentially the only tax cut McCain is proposing that would directly benefit middle-class families is his proposal to increase the dependent exemption by \$500 a year until the exemption reaches \$7,000 in 2016.²⁰ That proposal would:

- **Provide \$0 in tax relief to 101 million households.** Senator McCain’s dependent exemption increase only benefits taxpayers who can claim dependents on their tax forms (e.g. parents with dependent children). Therefore, single workers or married couples without dependents would receive no benefit from the proposal. Based on an analysis of

¹⁹ Both Senator Obama and Senator McCain support continuing the provisions that protect more than twenty million middle class families from the AMT. But neither Obama nor McCain claims that this counts as a tax cut because it is already in law for 2008 – it represents letting these families pay the same taxes they are paying today.

²⁰ McCain described his proposal as “increase[ing] the dependent exemption with the goal of doubling in from \$3,500 to \$7,000 for every dependent.” His campaign offered details on that proposal to the non-partisan Tax Policy Center (http://www.taxpolicycenter.org/UploadedPDF/411693_CandidateTaxPlans.pdf).

IRS data, 101 million households would receive \$0 in relief under the McCain proposal in 2009. Those households include:

- 67 million households paying income taxes but with no dependents. *More than two-thirds of income taxpayers get no benefit.*
 - 34 million households struggling with low income incomes and in many cases paying payroll taxes
- **Provide \$0 in tax relief to nearly every senior citizen in the United States – 37 million out of 38 million would be left out.** Senator McCain’s proposal would not benefit the vast majority of elderly households because they generally do not have children or other dependents. As a result 37 million individuals over 65 would get zero tax relief from the McCain middle-class tax cut.
 - **Provide \$125 in tax relief to a middle-class family with two children in the first year of his plan.** The McCain plan promises to increase the dependent exemption that a married couple could claim for each of their two children by \$500. However, the dependent exemption would rise by about \$90 per year anyway, because the exemption is already indexed to inflation. Therefore, the McCain plan reduces that married couple’s taxable income by about \$410 per child –or \$820 overall – in the first year of the plan. For a family in the 15 percent income tax bracket, that translates into a \$125 tax cut (i.e. \$820 multiplied by 0.15).
 - **Taken as a whole, the McCain plan would raise taxes on middle class families in future years.** While the McCain plan increases the dependent exemption between 2010 and 2016, middle class families would actually face *higher* taxes in later years of the plan. This is because the McCain health care plan finances its new tax credits by requiring individuals to pay taxes on the health insurance premiums they pay. As premiums grow the tax increase that pays for this plan would grow as well. As a result, by 2013 the typical family would pay \$1,100 more in taxes from the health plan according to an analysis by the Center for American Progress – more than offsetting any benefit they get from Senator McCain’s middle class tax cut.²¹

Barack Obama is proposing a tax cut for virtually all middle class families: In contrast, Senator Obama has proposed broad middle class tax relief that would provide at least ten times the benefit for typical families in the first year of his plan (see Table 1 below). When the two plans are fully in effect, and ignoring the tax increases Senator McCain proposes to finance his health plan, the nonpartisan Tax Policy Center found that the tax cuts under Obama’s plan are three times larger than the tax cuts under McCain’s plan for families in the middle quintile.²²

Senator Obama’s Making Work Pay tax cut will provide a tax credit of up to \$500 per person, or \$1,000 per working family to offset the payroll taxes they pay. This tax cut is fully available in the very first year of his plan. His universal mortgage credit will provide an average tax cut of

²¹ James Kvaal, Peter Harbage and Ben Furnas, “John McCain’s Radical Prescription for Health Care,” Center for American Progress Action Fund, July 2, 2008.

²² Tax Policy Center, “A Preliminary Analysis of the 2008 Presidential Candidate’s Tax Plans,” June 20, 2008.

\$500 to 10 million homeowners who do not itemize their taxes. His Automatic Workplace Pension program will expand the existing Savers Credit to match 50 percent of the first \$1,000 of savings for families that earn under \$75,000, and he will make the tax credit refundable. And he will provide a fully refundable \$4,000 tax credit to make college affordable for working families.

Given the record high energy costs, high health care costs and stagnant wages that middle class families face, Senator McCain's plan to leave out 101 million households, and to provide only \$125 a year in tax relief for middle-class families with two children, is simply insufficient to relieve their financial burdens.

Table 1: Middle Class Tax Cuts Under the Obama and McCain Plans

Family	Obama Plan	McCain Plan
Married couple without children making \$60,000	\$1,500 [includes \$1000 Making Work Pay tax cut and \$500 universal mortgage credit]	\$0
A 70 year-old widow making \$35,000	\$1,900	\$0
Married Couple making \$90,000	\$1,000	\$125
Married Couple making \$60,000 with two children, one of whom is in college.	\$3,700 [includes \$1000 Making Work Pay tax cut; \$500 universal mortgage credit; and \$4,000 college credit net of current college credits]	\$125

Source: Campaign calculations based on IRS Statistics of Income. Obama tax savings does not account for up to \$500 in savings from expanded Savers Credit and the \$2,500 in savings per family from the Obama healthcare plan.

3. Senator McCain's tax plan provides a \$1.2 billion tax cut for Exxon-Mobil and additional tax cuts for the wealthiest Americans that will drive up the deficit by the at least \$200 billion to \$300 billion per year.

[McCain] hasn't detailed how he would pay for this new give-away. There is nothing fiscally conservative about this approach. It will continue to drive up deficits, force us to borrow massively from foreign countries, and shift the burden on to working people today and our children tomorrow. Meanwhile, John McCain will shortchange investments in education, energy and innovation, making the next generation of Americans less able to compete. That's unacceptable. It's time to make tough choices so that we have a smarter government that pays its way and makes the right investments for America's future.

- Barack Obama in Flint Michigan, June 16, 2008

The Bush tax cuts have added to the deficit and inequality is growing: Over the last eight years, we have witnessed the most dramatic deterioration in our nation's finances in history. In January 2001, the Congressional Budget Office projected a \$635 billion surplus in 2008. Instead, CBO is now projecting a \$357 billion deficit – a nearly \$1 trillion swing in a single year. Bush's tax cuts are the single largest cause of this fiscal deterioration, contributing twice as much as increased defense and homeland security spending. In total CBO data show that policies signed into law by President Bush have added \$4.0 trillion to the deficit from 2001 through 2008. Over this period, workers' wages have stagnated and typical families' income has fallen by \$962. We are experiencing levels of income inequality unrivaled since the 1920s.²³

The McCain plan would provide tax cuts that work against average, working Americans and add to the deficit: Senator McCain, by his own campaign's estimates, includes close to \$400 billion annually in new tax cuts.²⁴ But the same candidate who in 2001 said he could not "in good conscience" support the Bush tax cuts because "so many of the benefits go to the most fortunate among us, at the expense of middle-class Americans who most need tax relief"²⁵ has now proposed a new set of tax cuts that are twice as regressive as what President Bush signed into law. Likewise, Senator McCain criticized President Bush for abandoning fiscal discipline by failing to show how he would pay for his tax cuts, explaining "[w]e Republicans, I think, were for balanced budgets and lock boxes."²⁶ Yet now, Senator McCain has taken a page out of Bush's fiscally irresponsible playbook by promoting regressive tax cuts without any credible explanation for how he would pay for them.²⁷ McCain has repeatedly refused to identify specific

²³ In 2005, the share of pre-tax income held by the top 1 percent of households rose to 19.4 percent, its highest level since before the Great Depression. Thomas Piketty and Emmanuel Saez, "Income Inequality in the United States: 1913-1998," *Quarterly Journal of Economics*, 2/03 (Updated data series available at: <http://elsa.berkeley.edu/~saez/TabFig2005prel.xls>)

²⁴ See Table 2 and *Wall Street Journal*, 3/3/08 ("In all, his tax-cutting proposals could cost about \$400 billion a year, according to estimates of the impact of different tax cuts by CBO and the McCain campaign.")

²⁵ Congressional Record, 5/26/01

²⁶ Hardball, MSNBC, 5/22/03

²⁷ See Reuters 3/10/08 ("McCain's promises to reduce wasteful spending if elected president in November would not begin to cover the costs of his proposed tax cuts, analysts say.")

spending cuts or tax increases he would support to offset his tax plans²⁸; his top economic advisor recently justified this lack of detail by explaining “it’s just June.”²⁹

Although experts agree that a stimulus plan should not be paid for in order to provide the maximum short-run boost for the economy, Senator McCain cannot responsibly scale up his middle-class tax cuts without also scaling back his tax cuts for corporations and the most affluent. Even then, the plan would still leave a large increase in the deficit to be paid for by unspecified future tax increases and reductions in critical programs like Social Security and Medicare.

Some of the current, expensive tax cuts in the McCain plan:

- A \$1.2 billion annual tax cut for Exxon-Mobil, \$4 billion for the five largest U.S. oil companies combined, and \$2 billion for America’s largest health insurance companies;
- More than \$100 billion per year for corporations;
- An average tax cut of more than \$269,000 per year *above and beyond the Bush tax cuts* for the top 0.1 percent of households – that is families making over \$2.8 million annually.
- Less than one-quarter of the benefits go to the 80 percent of households who make up the bulk of the middle class in America.

In total the *New York Times* estimated that these proposals “will add \$200 billion to \$300 billion or, depending on his voluntary tax system, even more” annually to the deficit.³⁰ Although full details of the McCain tax cuts are not available and there are inconsistent and contradictory descriptions and cost estimates put out by the campaign and others, Table 2 below outlines some illustrative examples of proposals that have been supported by Senator McCain and posted on his website over the course of the campaign.

Barack Obama would pay for his proposals for middle class tax relief: In contrast, Barack Obama has made it a priority throughout this campaign to show how he would pay for all of his proposals without increasing the deficit. He will achieve this by ending the war in Iraq, reducing unnecessary and wasteful government spending, closing corporate and international tax loopholes, and repealing the Bush tax cuts for those making more than \$250,000. Independent analyses like the *Wall Street Journal* has confirmed that Obama’s numbers add up – that his plan will generate enough revenue to pay for his middle class tax cuts, healthcare plan, and other key domestic investments while bringing down the deficit significantly from its current record levels.³¹

²⁸ This Week, ABC, 4/20/08

²⁹ *New York Times*, “Three Questions for Mr. McCain,” 6/18/08.

³⁰ *New York Times*, 6/18/08.

³¹ *Wall Street Journal* 2/28/08; Tax Policy Center 6/25/08.

Table 2: Estimated Cost of Selected McCain Tax Proposals

	Annual Cost	Source
Corporate tax cut	\$100 billion	Wall Street Journal, 3/3/08: “the 71-year-old candidate would slash the corporate income-tax rate from 35 percent to 25 percent at a cost to the Treasury of \$100 billion a year, estimates Mr. Holtz-Eakin.”
Complete Elimination of the AMT	\$60 billion	McCain Economic Plan: “Repealing this onerous tax will save middle class families nearly \$60 billion in a single year.” http://www.johnmccain.com/Informing/Issues/4dbd2cc7-890e-47f1-882f-b8fc4cfec78.htm
Increase the dependent exemption	\$18 billion	Tax Policy Center, 6/25/08, http://www.taxpolicycenter.org/UploadPDF/411693_CandidateTaxPlans.pdf , p. 13.
Eliminate expensing	At least \$200 billion	The U.S. Department of Treasury estimates that a <i>partial</i> expensing proposal under which businesses would be able to expense only 35 percent of new investment would cost \$1.3 trillion over ten years. (“Approaches to Improve the Competitiveness of the U.S. Business Tax System for the 21st Century,” December 20, 2007, p. 50, http://www.ustreas.gov/press/releases/reports/hp749_approachesstudy.pdf .
Gas Tax holiday	\$10 billion	McCain campaign estimate, http://www.johnmccain.com/Informing/News/NewsReleases/1460e6aa-fbb6-4cf5-9241-e5df4f303c8a.htm