



ANALYSIS OF JOHN MCCAIN'S ECONOMIC SPEECH

KEY FINDINGS

- The centerpiece of John McCain's economic plan remains his \$1.7 trillion corporate tax cut. He also makes Bush's \$2 trillion tax cut permanent. Thus he is proposing a tax cut that twice as large as and far more regressive than the Bush tax cut he opposed in 2001.
- John McCain's "gas tax holiday" expires this Labor Day – (worth noting that he won't be president this summer and unable to enact this). However, there is no expiration date for his huge tax breaks for big corporations, including nearly \$4 billion a year to the biggest oil companies and nearly \$2 billion a year to the biggest insurance companies.
- McCain's tax plan would cost \$300 billion. His campaign claims to offer nearly \$200 billion in savings - it does not even claim to pay for the remaining \$100 billion.
- Moreover, his savings appear to be largely bogus (see offsets table). For example, the claims \$60 billion in savings from eliminating earmarks, but earmarks only totaled \$18 billion last year.
- McCain's tax plan is still hugely regressive – even the dependent deduction is worth far more to taxpayers in higher tax brackets. For a CEO, it is worth \$1,225 per child; for a middle income earner like a secretary, it is worth \$525 per child; and for a low income earner like a waitress, it is likely to be worth nothing.

CORPORATE TAX CUTS

By far, the biggest and most expensive part of John McCain's plan remains his \$1.7 trillion corporate tax cut (cut in the corporate rate from 35% to 25% and allowing immediate write-offs of investment). This is more than twice as much as McCain gives families with his child deduction.

McCain's corporate tax cuts are based on a deeply flawed rationale: that America's corporate rate is the second-highest in the industrialized world. Corporate taxes are the fourth-lowest as a share of GDP in the OECD. That is because our tax code is littered with shelters and loopholes--a problem that Senator McCain will make worse.

His corporate tax cuts would give:

- \$3.8 billion in tax breaks to the 5 biggest oil companies
- \$1.9 billion in tax breaks to the 10 biggest health insurers
- More than \$500 million to the companies where his economic advisors serve or served as CEO – Hewlett Packard, eBay, and Fed Ex.



GAS TAX REBATE

The gas tax rebate has two characteristics not shared by his corporate tax cuts: (1) it is temporary, lasting only three months, and (2) it applies only in 2008 – before John McCain could be president – and so McCain has little actual ability to implement it.

The gas tax is dedicated to America’s roads and bridges, an infrastructure that is crumbling – as last August’s bridge collapse tragically reminded us. McCain’s plan would cost \$11 billion, adding to the deficit. At the same time that his tax plan delivers \$12 billion over the next three years to big oil companies.

Economically, a gas tax holiday is like a rebate (except it's less fair/responsible). McCain was against rebates a few months ago because of fiscal responsibility: “Which printing press are we just going to have "rebates" from? Let's be serious, that money doesn't fall like manna from heaven.” <http://embeds.blogs.foxnews.com/2008/01/22/mccain-cool-on-tax-rebates/>

EARMARKS SAVINGS

The McCain campaign claims to save \$60 billion a year from eliminating earmarks. We have no idea where that comes from. According to the *Wall Street Journal*, “In fiscal 2008, there were 11,737 appropriation earmarks totaling \$16.8 billion. That is down from a peak in 2005, when there were nearly 13,500 earmarks totaling almost \$19 billion.” [[Wall Street Journal, 3/14/08](#)]



IMPACT ON THE BUDGET

McCain has promised to balance the budget by 2012. However, he has large tax cuts – totaling \$300 billion a year -- and has not proposed serious steps to pay for them.

	<u>McCain Estimate</u>	<u>CAPAF Estimate</u>
Corporate Rate Cut	\$100 billion	\$100 billion
Corporate Investment Incentives	\$0	\$75 billion*
Repeal of the Alternative Minimum Tax	\$60 billion	\$60 billion
Double the Dependent Exemption	\$65 billion	\$65 billion
TOTAL	\$225 billion	\$300 billion

** The McCain campaign claims that expensing has no costs because it merely accelerates tax deductions companies would get anyway. But it ignores the effect of inflation and the time-value of money and is not consistent with estimates produced by CBO under Holtz-Eakin.*

This table does not include the cost of extending the Bush tax cuts (approximately \$230 billion a year), extending the current AMT exemption (approximately \$130 billion a year), or continuing the war in Iraq.

McCain says his proposal will create economic growth, raising tax revenue by \$30 billion, but these benefits are highly uncertain. His plan could even hurt the economy and reduce tax revenue because it raises the deficit.

McCain has identified only one specific measure to raise revenue – increasing Medicare drug premiums for seniors. That step would raise only about \$1 billion a year, according to a recent Congressional Budget Office publication.

Beyond these measures, McCain has an array of gimmicks – earmarks, budget freezes, commissions to study wasteful spending, and the repeal of unspecified corporate tax breaks. He claims that together they would save almost \$200 billion a year.

FAIRNESS

Before today, McCain was running on an extremely regressive tax agenda. His plan – including the corporate tax cuts and the repeal of the AMT – delivered 58 percent of its benefits to the top 1 percent of taxpayers and only 9 percent to the bottom 80 percent.



Today's tax proposals – while not as regressive as McCain's earlier plan – still give less to regular families, even though they are struggling the most from today's economy. The median family income has fallen by \$500 since 2000.

- Expanding the dependent deduction will benefit high-income taxpayers because it is worth more to taxpayers in higher tax brackets.
 - For a high income earner like a CEO, it is worth \$1225 per child.
 - For a middle income earner like a secretary, it is worth \$525 per child.
 - For a low income earner like a waitress, it is likely to be worth nothing because many members of the working poor pay little or nothing in income taxes today (despite paying thousands in payroll taxes).

- The gas tax holiday will save families \$11 billion this summer – but, unlike the corporate tax cuts, it is unlikely to become law and expires after only 3 months.