The Presidential Debate on Tax Cuts
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Introduction

The 2000 national elections may be one of the most historically significant political events since 1932 when President Franklin Roosevelt was first elected to office. There are numerous states where the governorship and/or the leadership of one or both legislative chambers is up for "grabs." Although most observers of campaigns at the federal level currently expect the Republicans to retain control of the Senate, it is extremely uncertain which party will lead the House in the next session. The most important race, of course, is for the presidency. The next President will almost certainly appoint more than one Justice to the Supreme Court, possibly tipping the balance on a Court that already decides many important cases by a five to four vote. In addition, the next Administration will face renewed pressure to reform national policy regarding such basic sectors of the economy as health care, education, and pensions and savings (including Social Security).

While legislation to address issues such as a patient's bill of rights and global warming is likely to occur outside the budget policy process, many other issues will be heavily influenced by the strength of the overall federal fiscal balance. This is so for two reasons. First, federal policy in many areas is accomplished primarily through spending programs. The amount of resources available to pursue these goals therefore depends on the balance between spending and taxes. Second, in recent years there has been a growing tendency to pursue federal policy through the tax code by allowing various deductions and exemptions for favored activities. Any increase in these provisions also depends on the overall fiscal balance.

This report examines the tax policy of the likely nominees from the two major political parties, Albert Gore, Jr. and George W. Bush. It begins with a review of the current budget surpluses, examining the causes behind them and the projections for future years. These surpluses represent the amount of money available for tax cuts without reducing current spending. The report then discusses the liabilities facing Social Security and Medicare over the next few decades. These liabilities have been used as a major argument for continuing to run budget surpluses for as long as possible rather than increasing spending or reducing taxes. Finally, the report discusses the tax policies that both candidates have announced they will support.

The report deals mainly with individual income taxes because, to the extent that the two candidates have announced what their administrations would work to enact, their proposals have been focused in this area. Individual income taxes also represent the largest source of federal revenue available for tax cuts, especially if one believes that any change in payroll taxes should occur only in the context of broader reform to Social Security or Medicare. However, Vice President Gore is a vital part of the present administration, which obviously supports his candidacy. For this reason, it is fair to attribute many of the proposals in the Administration's current proposed budget to him. Although Mr. Gore did not have the final say over their inclusion, many presumably were chosen to benefit his candidacy, and there is little indication that he disagrees with any or would pursue substantially different proposals in his own administration. The Administration has recommended eliminating over $47 billion in "unwarranted" tax benefits over the next five years, including almost $11 billion in what it identifies as "corporate tax shelter transactions."

The Current Budget Surpluses

For the past 25 years, the federal budget has been a major topic of debate. Beginning in the early 1980s, federal deficits grew much faster than anyone had predicted. Despite two major bipartisan bills to reduce spending and raise taxes, deficits continued to grow faster than projections. Even after the third major budget restraint and tax increase measure, in 1993, most observers believed deficits were a permanent part of the political landscape. Then, just as suddenly as they had grown, deficits began to shrink and even disappear. Over the last seven years, the budget balance has consistently been much better than predicted even after taking into consideration the strong economic growth. In retrospect, it has been easy to identify the individual components of spending and revenues that have caused this growth and to explain why they behaved as they did. Yet no one has come up with a convincing explanation of the underlying causes for these unexpected changes. For this reason, budget forecasting is likely to remain inexact. The future could easily diverge from the
current projections just as suddenly as it did in the past.

Chart 1 shows the rapid increase and decrease of the budget deficits assuming that discretionary spending grows at the rate of inflation after 2000. Chart 2 shows the effect of these balances on the national debt held by the public. In recent years, the federal government has run significant surpluses. The result has been a decline in the national debt. The Congressional Budget Office (CBO) predicts that both of these trends will continue for the next 10 years.

![Chart 1: Federal Deficits and Surpluses](image1)

Source: CBO, The Budget and Economic Outlook: Fiscal Years 2001-2010

Chart 2 shows that, even in real terms, federal spending has continued to rise at about the same rate over the last 25 years. Spending as a percent of the gross domestic product (GDP) has declined, the result of rapid economic growth rather than any ability on the part of the Administration and the Congress to control spending in areas other than defense.

Defense spending fell from $298 billion in 1992 to $275 billion in 1999, a decline of almost 20 percent in real terms. The Administration is now proposing to reverse this decline and increase defense spending to $331 billion in 2005.

![Chart 2: Federal Debt Held by the Public](image2)

Source: CBO, The Budget and Economic Outlook: Fiscal Years 2001-2010

In fact, Chart 4 shows that the rapidly improving budget climate has been produced by a significant and largely unexpected increase in tax revenues. Individual income taxes, including capital gains taxes, have accounted for almost all of this increase. From 1993 to 1998, these receipts have grown by over 10 percent a year.

According to a recent analysis by the CBO, there are four main reasons why individual income taxes grew so rapidly. The initial increase in revenues was caused by the Omnibus Budget Reconciliation Act of 1993. This legislation raised the top marginal income tax rates, producing more revenue from the existing income base.

![Chart 3: Federal Spending](image3)

Source: OMB, The Budget of the United States Government, Fiscal Year 2001, Historical Tables

Given the current budget outlook, tax cuts certainly look feasible. However, a more detailed look might be helpful. Have the recent surpluses resulted from significant spending cuts, eroding our ability to pursue national priorities? Or have they been the outcome of a rapid rise in tax revenues, beyond what economists had predicted?
Chart 4
Federal Revenues

$ Billion 1990 Dollars

Year

Percent of GDP

Source: OMB, The Budget of the United States Government, Fiscal Year 2001, Historical Tables

However, revenues from income taxes have continued to grow since then. The most significant cause has been the increase in effective tax rates. Statutory tax rates have not changed since 1993. In fact, in recent years the Congress has enacted significant tax cuts for children and education. Nonetheless, effective marginal tax rates have risen as rapid economic growth has pushed more people into the higher income brackets. Higher incomes result in people paying a higher proportion of any additional income to the government. They also increase the chance that an individual will be subject to the alternative minimum tax provisions. As incomes have increased, a greater number of people have income subject to the higher rate brackets, even though the brackets themselves are indexed to inflation. In addition, much of the growth in income has been concentrated among those already in the top brackets.

A second cause has been the rapid growth in capital gains realizations. Capital gains are not counted in GDP, but the rapid increase in the price of stocks and other assets has resulted in significant taxable income to many individuals. This naturally raises the ratio of tax revenue to GDP. Third, other components of income not normally included in GDP have also risen. One of the most important of these has been the growth in taxable retirement income from defined contribution plans and Social Security.

The final explanation is the rapid increase in the components of GDP that are taxable to individuals. In other words, a greater proportion of national income is now being earned in a taxable form (as opposed to tax exempt) by taxable entities (as opposed to other entities such as charities). Natural economic forces, rather than specific legislation, caused this shift.

If spending has not been unduly constrained over the past seven years, then there seems little argument for increasing its rate of growth over the next 10 years. Of course, the nation continues to face important needs that require government help. In particular, most observers believe that the decline in defense spending has been too precipitous and should be reversed. These needs are always present, however. Intelligent budgeting requires a careful prioritization of needs and the balancing of needs against resources. There is no clear reason why this cannot be accomplished with the moderate increases in spending already forecast by the CBO.

Future surpluses are expected to come from higher revenues rather than spending reductions. There does not seem to be any clear need for increased spending beyond the rate of inflation. While there is some economic benefit to reducing the amount of public debt, future economic growth will ensure that the ratio of public debt to GDP will continue to fall over the next decade even if the government does not run surpluses. In this climate, the call for tax relief does not seem irresponsible.

Burden of Future Entitlements

The evaluation of any enterprise also requires an estimate of future assets and liabilities. For this reason, any assessment of federal finances should include the future impact of the government’s two largest entitlement programs, Social Security and Medicare.

Both programs are currently running surpluses: the revenues they generate from payroll taxes and premiums exceed the payments to beneficiaries. There is broad agreement among both parties to at least try to preserve the Social Security surpluses. As discussed below, these surpluses will be needed to cover later deficits. Chart 5 shows that this agreement significantly limits the amount of money available for tax cuts or spending increases. A similar argument could be made for Medicare, although its surpluses are forecasted to average less than $25 billion per year over the next decade. Instead, the Congress and the Administration are considering extending benefits to cover drug purchases.

Every forecast of spending for these programs relies on expenditures rising rapidly once the Baby Boomers begin to retire in 2015. Although these years are beyond the time frame included in the charts above, they should be considered when determining present fiscal policy. While long-term forecasting is always imprecise, the forces driving higher entitlement spending are unlikely to reverse
themselves since they are demographic as well as economic.

Chart 5
Federal Surpluses With and Without Social Security

Spending in both Social Security and Medicare rises automatically with the number of workers reaching retirement age. This number is certain to increase rapidly once the Baby Boomers begin to reach age 62. Without a dramatic increase in immigration, the number of workers paying taxes will rise less rapidly. Between 2000 and 2050 the number of workers supporting each retiree will fall from 3.4 to 1.6. In addition, life expectancy is expected to increase, so that future retirees will collect benefits for a longer period of years than do present recipients.

Medicare expenditures also are heavily influenced by inflation in health care costs. These costs rose rapidly in the late 1980s and early 1990s. Although the rate of increase fell dramatically after 1992, both private and public sector employers have begun to experience cost increases in the last two years. The existing estimates by the Board of Trustees for Medicare assume that inflation in covered health care costs would drop to match the rise in taxable earnings, estimated to be 4.2 percent. But there are good reasons other than recent experience to believe that actual costs will rise faster. One is the increased use of new technology to deliver services that previously were not possible. This may be offset by the use of technology to reduce the cost of existing procedures. Another is the rapid increase in the very old, those over 80, who often need extensive care for several years at the end of their lives. Finally, the Congress may enact additional benefits, such as prescription coverage, without raising premiums to fully pay for them. If actual health care expenses increase by just one percentage point more than the workers' incomes, the deficits caused by Medicare Part A (which covers hospital costs) would double in size.

The net present value of the difference between promised Social Security benefits and the taxes dedicated to pay for them is estimated at $3 trillion. The deficit for Medicare is at least that large. Although most reform proposals include some reduction in benefits, it is unlikely that the government will completely renege on its promises to future retirees. Even if benefits are significantly scaled back, the government will still have to devote additional resources to these programs. For this reason, most long-term projections show the current surpluses gradually turning into larger and larger deficits after the middle of the next decade. Chart 6 shows the projected deficits for Social Security and Medicare Part A in real dollars. Chart 7 shows the shortfalls in these two programs and Medicare Part B in terms of GDP. By 2030 these programs level off to require annual borrowing equivalent in terms of GDP to the worst years of the 1980s. While past experience shows that the government can borrow these amounts, it also shows that the resulting deficits would be accompanied by strong pressure to cut spending.

Chart 6
Annual Borrowing Requirements for Social Security and Medicare Part A

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1 2000 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds.

The feasibility of paying for retirement benefits will be substantially influenced by the economic health of the American economy in 25 years. The burden of renewed government borrowing will be much lower if today’s surpluses are used to reduce existing federal debt. The government could then start from zero when it is forced to issue new bonds. This is one of the strongest arguments against a tax cut. But its force depends upon the government’s willingness to use existing surpluses to pay down the debt rather than to fund new spending. Past history provides little hope for expecting that future members of Congress and administrations will be able to resist the political pressure to increase spending for a variety of purposes.

Recent activity also casts doubt on the intentions of lawmakers. Neither party made a serious effort to hold discretionary spending within the ceiling agreed to in 1997. Indeed, the Administration’s latest budget deals with the problem by explicitly raising the ceiling. Republicans have not objected. Republicans have called for measures that would make it harder for future members of Congress to spend surpluses. The two most important include a Constitutional Amendment limiting spending to a certain percentage of GDP and a bill lowering the statutory debt ceiling. Although the latter could be undone by a later act of the Congress, votes to raise the debt ceiling are always politically difficult. Democrats have consistently denounced these efforts as irresponsible and reckless.

If the surpluses are not saved, then one has to consider which of the alternatives would lead to a stronger economy over the next two to three decades, additional spending or tax cuts. While proponents of additional spending argue that addressing the nation’s needs in education, health care, and income support will increase the productivity of future generations, everything we know about economics indicates that the marginal returns are more productive in the private sector. It is true that the nation faces continuing needs in many areas. However, there is little evidence that the problems are due to insufficient resources rather than to an inefficient delivery system. Additional spending on teachers and classrooms is unlikely to make a long-term difference in learning until parents are given more control over their children’s education. More spending on health care is likely to result in higher incomes to providers and intermediaries rather than better service, until the system is changed to give patients greater choice and responsibility. Moreover, only by limiting spending can the government place programs in competition with each other, thereby forcing legislators to set priorities and eliminate those that have become obsolete.

A powerful argument against tax cuts is that, almost by necessity, they favor those with higher incomes since these individuals pay a disproportionate share of all taxes. In spite of the rapid growth in revenues, the lower and middle classes have not felt much of the additional burden. The median two-earner family, making $68,605, paid 8.8 percent of its income in federal income taxes last year, about the same proportion as in 1955. Already one-third of eligible taxpayers pay no income tax at all. Since these individuals pay only a small proportion of income taxes, they would receive only a small portion of any benefit from a reduction in tax rates.

The benefit of tax cuts could be greater if the cuts included payroll taxes. For many workers, these taxes represent a far greater burden on their standard of living. Cutting payroll taxes without also cutting benefits would worsen the balance sheets of Social Security and Medicare at a time when they are already projected to run a long-term deficit. Most Democrats also would oppose any attempt to lower payroll taxes on the poor as an attack on these entitlement programs, since it would weaken the link between the payments an individual makes into the system and the benefits he takes out. For this reason, neither candidate is likely to propose such changes.

Still, there are good reasons for reducing taxes, even on the highest-income recipients. First, these individuals tend to invest a higher percentage of their additional income, thus creating jobs for others. Second, the imposition of high marginal tax rates
can easily lead these individuals to forgo earning additional income, although this argument may be relatively weak since they can negotiate to receive much of the income in the form of capital gains, which are taxed at a lower rate.

Third, even if average tax rates remain low, high marginal rates can deny individuals much of the benefit of higher incomes, reducing the incentive to work and impeding the ability of low and middle income individuals to move up the income ladder. Since the eligibility for many credits and deductions falls as income rises, low-income individuals can face high, effective marginal rates. Finally, there is the argument of economic fairness. Once society’s basic needs have been taken care of, raising additional taxes reduces national income and encourages a low-level class warfare that contradicts the basic premise of a market economy: individuals should be encouraged to pursue greater success. There is little evidence that the nation needs to spend more money than it is spending now. There is much evidence that it needs to spend its current resources better.

The Tax Cut Debate

Likely Tax Legislation in 2000
The budget resolution recently passed by the Congress allows for tax cuts of $150 billion over five years. This amount could be increased if the actual surplus is higher than current projections. This Congress anticipates passing some tax cuts this year. Although the Administration generally opposes tax cuts, by the end of the year the Congress and the Administration may agree on two specific tax cuts. Both presidential candidates have announced their general support for both cuts.

Taxation of Social Security Benefits.—President Clinton recently signed a bill into law eliminating the link between Social Security benefits and income for individuals aged 65-70. Up until now, individuals in this age bracket had their benefits reduced by $1 for every $3 that their working income exceeds $17,000. Because they receive higher benefits later on, the net reduction in benefits over their expected lives is close to zero. As a result, the new legislation is not expected to cost the government money in the long-term. Nevertheless, the immediate reduction in benefits that recipients experienced has often been a sore point. In addition, some observers feel that it has discouraged individuals from working at a time when many employers have trouble keeping skilled workers. Hence the political pressure for a change.

After some hesitation, the Administration supported the bill as it moved through the Congress. Individuals retiring at 62 still will have their benefits reduced if they earn over $10,800.

The Marriage Penalty.—The Congress also is likely to pass legislation eliminating the so-called marriage penalty. Under current law a large proportion of married couples pay more federal income tax than they would if they were single but living together. While there are good policy reasons for the different tax provisions that combine to create this situation, the result has long seemed unfair. On the other hand, a significant number of couples, mostly one-income families, pay a lower combined tax than if they were single.

The Congress is considering legislation that addresses this problem in four ways. First it would raise the standard deduction for all married couples to double the amount of the deduction for single taxpayers. The second change would be to gradually increase the amount of income for taxpayers filing jointly that is taxed at the 15 percent bracket until it is double the amount for single taxpayers. The Congress would increase the 28 percent tax bracket. Third, the legislation is likely to increase by $2,000 the income threshold for phasing out earned income tax benefits. Finally, the bill would modify the alternative minimum tax provisions so that they do not apply solely because of the tax reductions contained in other parts of the bill. These changes would eliminate the penalty faced by some couples without taking away the benefit enjoyed by others. They also would raise the cost of the legislation.

Democrats favor a bill that would raise the standard tax deduction only for two-income couples. The cost of this bill is significantly lower than the Republican version and provides fewer benefits to middle-income and one-earner families. The Administration included the Democrat version in its formal budget and has threatened to veto the Republican bill as too costly.

Tax Policy of Presidential Candidates
These two issues aside, both candidates have proposed a series of tax reductions. Given the low priority most voters apparently attach to tax cuts, these proposals may not receive a great deal of emphasis during the general election. Nor is there any guarantee that either candidate, once elected, would make a serious effort to get his proposals enacted, especially if the other party controls one or both houses of the Congress. Candidate Bush has made tax cuts a more central theme of his campaign, however, pledging to devote political capital to getting it enacted. He would thus have a harder time backing off from his program. Nevertheless,
each candidate’s approach to tax reductions reflects his party’s broader approach to public policy and thus sheds some light on the priorities he would pursue if elected.

The proposals also are likely to change during the general election as each candidate tries to respond to new political developments and to appeal to the widest possible base. For instance, candidate Gore is likely to face greater pressure to add more proposals to his list of tax cuts, especially if support for such cuts becomes a major issue with voters. On the other hand, candidate Bush may feel pressure to reduce the size of his proposals in order to address criticism that the proposals jeopardize future surpluses and mainly benefit the wealthy. He also may add proposals that benefit lower income individuals.

Most of the proposals below cover changes to the individual income tax. Neither candidate has advocated significant alterations in major provisions of the corporate tax such as marginal tax rates, depreciation rates, or deductions. As stated above, the present Administration is proposing numerous small changes in corporate tax law aimed at what it often terms “corporate welfare.” A Gore administration would likely carry over some of these initiatives. Although Republicans have occasionally made similar attacks on corporate welfare, a Bush administration would be more likely to lower corporate taxes than to raise them.

The Gore Proposals

Vice President Al Gore has proposed a package of specific tax reductions totaling $250-$300 billion over 10 years. This amounts to about 1.5 percent of current revenues.

In general, Gore favors tax cuts that are limited in amount and targeted to specific areas of public policy. This general approach in favor of targeted cuts reverses much of the progress toward tax simplification that the Congress made in 1986. It reserves to government, rather than individual taxpayers, the right to decide what to spend the taxpayers’ money on. Also since many of these cuts are phased out as incomes rise, they raise the real effective marginal tax rates to extremely high levels. Nevertheless, such targeted provisions seem to be in vogue in both parties. Democrats have been quick to criticize broader relief as irresponsible and targeted mainly to the wealthy.

Despite Democratic skepticism about the general need for tax cuts, Gore has announced several new initiatives.

Life-Long Learning Accounts.—The 1997 tax legislation allowed individuals to create private accounts for college and postgraduate education. Under current law, individuals can contribute up to $500 each year to these accounts. The earnings are not taxed. The account must be for the benefit of a specific child and must be used by the age of 30. However, any person, including a grandparent, friend or employer can create an account on behalf of the child.

Mr. Gore would increase the limit on annual contributions to $2,500. The invested earnings could be withdrawn and used tax free if they are used for education or life-long learning. His proposal would allow the account to be used after the age of 30 for job retraining and other advanced education. However, he continues to oppose Republican efforts to allow these expenses to be used for primary and secondary education.

Internet Taxes.—The Gore platform calls for a short-term continuation of the current moratorium on taxing sales over the internet.

Marriage Penalty.—Mr. Gore originally favored dealing with the marriage penalty by raising the standard deduction available to two-earner couples so that they would get the same deduction as if they filed separately. This mirrors the position taken by the current Administration. This of course, would not benefit couples who itemize deductions. Unlike the Republican bill, it would remove a reduction in taxes currently enjoyed by those couples with only one income.

Earned Income Tax Credit.—Mr. Gore also supports an increase in the amount of income a married couple can earn before its benefits under the earned income tax credit (EITC) are reduced. EITC benefits are linked to income. Up to a certain point, recipients receive more benefits for every dollar that they earn by working, giving them a positive incentive to earn more. Beyond a certain point, however, benefits are phased out with higher income. At this point individuals who earn more have their benefits cut. Under Gore’s proposal, married couples with incomes up to about $29,000 would receive an extra credit of approximately $500. Under normal budget accounting procedures, this is a spending increase since these individuals do not normally pay income taxes. However, the current Administration has begun counting it as a tax cut for political reasons.

Research & Development (R&D) Tax Credit.—Last year the Administration signed a bill extending the R&D tax credit for five years. Candidate Gore supports a permanent extension of this provision. There is considerable debate about whether this
credit actually increases investment spending by companies, and the current, temporary, stop-and-go nature of the "incentive" is considered almost universally in business circles to dampen the efficacy of the policy. Mr. Gore also supports a reform of the tax credit, especially with respect to small businesses. One of the reforms mentioned is a partially refundable credit to assist business with no taxable income. Again, this technically would be a spending increase, even though it is administered through the tax code.

**Universal Savings Accounts.**—Last year the Administration offered a half-hearted attempt to reform Social Security. Although the proposal did little to deal with the underlying imbalance between benefits and payroll taxes, it did introduce the concept of personal savings accounts, partially funded with government money. These accounts would be additional to Social Security benefits. The Gore campaign supports the general idea behind these accounts, but is vague on the exact shape that the accounts would take.

The campaign documents acknowledge that "the size of USA Accounts will need to be modified to make room for the other key tax cut proposals, it has announced. The documents do not clarify how this is to be done, however.

**The Bush Platform**

Governor George W. Bush has put forward a much more extensive list of tax cuts. The cost of these cuts has been estimated at $483 billion over five years and $1.3 trillion over 10 years. He has, however, conditioned these cuts on the need to run a balanced budget and preserve the Social Security surpluses. This indicates that, should the expected surpluses turn out to be much smaller than current forecasts, Bush would modify his proposals accordingly.

**Child Tax Credit.**—Mr. Bush would double the current income tax credit for each child, raising it from $500 to $1,000.

**Tax Brackets.**—Current income tax law contains five tax brackets, taxing 15, 28, 31, 36 and 39.6 percent of income, respectively. The Clinton Administration added the top two brackets in 1993. Mr. Bush would replace these with four brackets, taxing at lower rates: 10, 15, 25 and 33 percent. The top marginal rate would remain higher than it was when the Clinton Administration took office.

**Charitable Contributions.**—Contributions to charitable organizations are tax deductible. However, a taxpayer must itemize his taxes before he benefits from this provision of the law. This generally means that he must own a home or pay a large amount of state and local taxes in order to have enough other deductions to justify not taking the standard deduction. Mr. Bush would allow every person to deduct contributions to charitable agencies on the standard tax form.

**Estate Taxes.**—There is a common expression that nothing is inevitable except death and taxes. The death tax combines them both. Under present law estates under $675,000 are generally not taxed. Amounts over that are subject to a tax of up to 55 percent, however. The Bush proposal would gradually eliminate this tax.

**Internet Taxes.**—Mr. Bush favors extending the current moratorium on internet sales tax at least through 2004. He also opposes all taxes on access to the internet. This would forbid the use of a fee similar to the one imposed by the Administration on telephone bills and currently used to subsidize the installation of computer wiring in schools.

**Marriage Penalty.**—The Bush campaign originally called for dealing with the marriage penalty by giving two-income married couples a 10 percent deduction, up to $3,000. This provision was contained in previous statutes but was eliminated by later legislation. Mr. Bush supports the current marriage penalty bill moving through the Congress, however.

**Social Security Earnings Test.**—Mr. Bush supported eliminating the earnings test early in his campaign.

Finally, Bush has pledged to veto any increase in personal or corporate income taxes during his term in office.

**Conclusion**

The 2000 elections are likely to turn on a limited number of major issues. There is little indication at this point that tax policy will be one of them. At this time the public does not seem to attach much importance to a reduction in taxes. This is partly because most workers are experiencing rising after-tax incomes and partly because even the largest proposals would mean only a small amount of savings for most workers in the near term.

We have moved away from the tax simplification plan enacted in 1986 and neither candidate would take us back. The candidate's positions do matter, however. The nation faces a huge fiscal burden beginning in 15 years. The most important step to minimize the burden of paying for the Baby

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6 The website for the Bush campaign is located at http://www.georgewbush.com.
Boomers’ retirement would be to reform Social Security and Medicare as soon as possible. Any reform will have to introduce greater means testing and reliance on the individual in order to be effective. In this regard, proposals to devote portions of the non-Social Security surplus to save these entitlement programs only reduce the pressure to introduce needed reforms. Decisions on how to spend the non-Social Security surplus should be divorced from these two programs unless and until there is major reform.

Although recent reports by the Board of Trustees of Social Security and Medicare have shown improvement in the programs’ financing, these improvements do not change the long-term problem in any significant way. Under current law, funding for these programs is dramatically inadequate to pay benefits.

Short of entitlement reform, the most important long-term goal must be to strengthen economic growth over the next three decades. A stronger economy will be better able and more willing to spend a significant amount on important national priorities, including the care of its elderly. The economy will grow faster if government spending remains constrained so that lawmakers are forced to prioritize spending. Increased growth also would substantially alleviate the problem of funding Social Security and Medicare. Unless the Congress and the Administration are willing to enact some form of guarantee that surpluses will actually be used to pay down the debt, rather than to increase spending, the forecast surpluses will be more productive if they are left with the taxpayers who earn the money in the first place.