



September 12, 2012

MEMORANDUM TO INTERESTED PARTIES

FROM: James Kvaal, Policy Director

SUBJECT: Romney's \$11 Trillion Math Problem

Mitt Romney and Paul Ryan have a math problem: Their numbers don't add up. Between their unpaid-for tax plan and unspecified spending cuts – there is an \$11 trillion hole in their budget plan:

- **Paying for His \$5 Trillion in Tax Cuts:** Romney claims he will pay for his \$5 trillion tax cut by closing tax loopholes. So far, he has not named a single tax loophole he would limit or close. There is no way to raise \$5 trillion in revenue without raising middle-class taxes.
- **\$6 Trillion in Additional Spending Cuts to Balance the Budget:** Romney needs \$8 trillion in cuts to achieve his balanced budget goal, but he has proposed less than \$2 trillion, based on estimates from two independent groups.¹ Romney thus needs an additional \$6 trillion in spending cuts beyond what he has proposed to meet his goal of balancing the budget by 2022. He could not cut \$6 trillion even by completely eliminating all annual domestic spending over that period.
- **Romney's Plans Risk an Unsustainable Debt:** If he fails to specify additional tax increases and spending cuts, the Romney plan would drive up the national debt to the unsustainable level of 96 percent of the economy, according to the Committee for a Responsible Federal Budget – and that figure does not include the full impact of Romney's defense spending or his tax plan.

Romney's tax and budget plans are a riddle wrapped inside a mystery wrapped inside a total sham. Governor Romney and his advisers frankly admit that they won't reveal their policy plans because it would make them less likely to be elected. There is no way to pay for Romney's tax plan without raising taxes on middle-class families, and there is no realistic way for Romney to address our unsustainable budget deficits, even if he guts the investments we need in the future of the middle class. Voters deserve to know the price they would pay if they gamble on a secret plan for raising \$5 trillion in taxes and cutting spending by an additional \$6 trillion.

Romney Won't Disclose His Secret Plan to Raise Taxes by \$5 Trillion

Mitt Romney has proposed \$5 trillion in new tax cuts on top of the Bush tax cuts for the rich. He claims that he can pay for these tax cuts by closing loopholes for the wealthy, but he has repeatedly refused to mention even one loophole he would close. According to independent experts, there are simply not enough loopholes for the wealthy he could eliminate to pay for his plan, which means he would need to raise taxes by an average of \$2,000 a year on middle-class families with children to pay for average \$250,000 tax cuts for multi-millionaires.

- **Romney’s \$5 Trillion Tax Plan Favors Millionaires.** Governor Romney has proposed a massive \$5 trillion tax plan.² Each year, his plan cuts taxes on multi-millionaires by \$250,000. These steps would blow a hole in our budget and slant our tax code toward the rich.³
- **Paying for Romney’s \$5 Trillion Tax Plan Requires Large Middle-Class Tax Increases.** Romney’s tax plan costs \$5 trillion over the next decade. Romney has said he would pay for these tax cuts with offsetting tax increases. But he has refused to name a single tax benefit he would limit, and he ruled out increasing taxes on capital gains, dividends, and interest. It is impossible to close \$5 trillion in tax preferences without deep cuts in middle-class tax benefits like the child credit and tax breaks for mortgage interest, health insurance, and college tuition. Because Romney’s tax cuts for high earners are so large, even if Romney eliminated every penny of every tax benefit received by families above \$200,000 a year, this group would still save \$86 billion a year under his plan, according to the Tax Policy Center.⁴ That \$86 billion can only come from higher deficits or higher middle-class taxes – averaging \$2,000 for middle-class families with children. And the truth is likely far worse since this analysis assumes Romney completely eliminates tax preferences for high-income families in a way that is unrealistic, especially since Romney himself ruled out eliminating the charitable deduction.
- **Romney Won’t Tell Us What Taxes He Would Increase – But Key Provisions for the Middle Class Would Have to Be Cut or Eliminated.** Romney refuses to say how he will raise \$5 trillion in revenue to pay for his taxes. This weekend, Romney and Ryan were asked repeatedly on three Sunday shows to name a single tax loophole they would close, and they were unwilling or unable to name even one.⁵ Instead, economic adviser Glenn Hubbard insists that “everything is on the table.”⁶ That includes the middle class: there is simply no way to close enough tax benefits to pay for the middle-class without cutting or eliminating some of the most popular provisions, like the mortgage interest deduction, the charitable deduction, the state and local tax deduction, and the exclusion for employer-sponsored health insurance. Among middle class families earning between \$50,000 and \$200,000 there are, based on IRS data:
 - 24 million families paying off their mortgages saving from the mortgage interest deduction.
 - 24 million families saving from the deduction for charitable contributions.
 - 28 million families saving from the state and local taxes deduction.
 - 37 million families receiving health coverage through their jobs.⁷
- **Experts from Across the Political Spectrum Agree: Romney’s Tax Plan Is Impossible.** Governor Romney recently claimed that “five different economic studies” demonstrated that it is possible to bring down tax rates and limit tax preferences without increasing middle class taxes or increasing the deficit.⁸ But these “studies” – actually one paper, one blog post, one opinion column and two *Wall Street Journal* editorials – do not show that Romney’s plan can avoid middle-class tax increases.⁹ For example, Martin Feldstein argues that Romney might avoid tax increases on families earning less than \$100,000 with a massive tax increase on families earning more than \$100,000. That would mean two typical teachers, or a police officer and a nurse, would lose tax benefits that help with the costs of raising their children, paying their mortgages, and affording health coverage, costing them \$2,000 a year.¹⁰
- In fact, experts from across the political spectrum agree that Romney’s numbers don’t add up:
 - Alan Viard of the American Enterprise Institute: “It’s not as if the entire philosophical approach he’s pursuing is doomed. But he’s going to need to cut rates significantly less than 20 percent if he wants to honor his other goals.”¹¹

- William Gale of the Brookings Institution: “The combination of stuff they’ve specified is not only impossible — it is impossible several times over.”¹²
- Erskine Bowles, co-chair of the Simpson-Bowles Commission, whose plan Romney has cited as a model for tax reform: “The Romney plan, by sticking to revenue-neutrality and leaving in place tax breaks, would raise taxes on the middle class and do nothing to shrink the deficit.”¹³
- The Committee for a Responsible Federal Budget: “The Romney campaign has said that there will be significant enough base broadening to make their plan as a whole (including the spending cuts) deficit-neutral. While they have not named any specifics, it is important to note that doing so would require making substantial changes to many tax expenditures, among the largest of which are for mortgage interest, charitable giving, employer-provided health care, and state and local taxes.”¹⁴

Romney’s Budget Claims Are a Fiscal Fraud

Mitt Romney has made an empty promise to balance the budget. On Meet the Press on Sunday, he said, “I’ll balance the budget by the end of my second term. ... [W]e’ve put together a plan that lays out how we get to a balanced budget within eight to 10 years.”¹⁵ But Romney also proposes to increase defense spending and has set out a tax plan that, at best, doesn’t raise a penny in additional revenue. Romney can only balance the budget if he includes at least an additional \$6 trillion in spending cuts, beyond the cuts he has specified so far.

- **Balancing the Budget by 2022 Requires at Least \$8 Trillion in Spending Cuts:** Governor Romney claims he will balance the budget without raising revenues and while overseeing a defense build-up that would cost \$2 trillion.¹⁶ The numbers don’t lie: the result would be unsustainable deficits or untenable spending cuts. According to the Center on Budget and Policy Priorities, even if Romney’s tax plan does not increase the deficit, Romney would still need to cut at least \$8 trillion in spending between 2014 and 2022 to balance the budget.¹⁷
- **Romney Has Proposed Less than \$2 Trillion in Cuts.** The Committee for a Responsible Federal Budget has evaluated the size of the spending cuts that Romney has proposed, and they fall far short of the amount needed to balance the budget. Adjusting the numbers for consistency with the CBPP figures, Romney’s specified spending cuts total about \$1.7 trillion from 2014 to 2022.¹⁸ This includes cuts that would already be devastating in their own right: the largest cut, to Medicaid, could result in about 20 million elderly, people with disabilities, and low-income Americans losing health coverage.¹⁹ And it includes cuts that are likely impossible to achieve, including a large cut in federal workers’ pay and benefits totaling 30 to 40 percent.²⁰ And compared to the Ryan budget, Romney advocates much higher defense and Medicare spending.
- **As a Result, Romney’s Secret Budget Requires At Least \$6 Trillion in Unspecified Cuts.** Governor Romney would thus have to achieve at least \$6 trillion in additional spending cuts from 2014 to 2022 to balance the budget. To put these cuts in context, completely eliminating all annual domestic spending beyond what Romney has proposed – including education, research, funding for veteran’s health care, border security, national parks, and much more – would save only about \$4 trillion over that period.

- **Romney Could Explode the National Debt.** As noted above, in February, the CRFB estimated that – without additional spending cuts or fully paying for his tax cuts – Romney’s proposals would drive up the national debt to the unsustainable level of 96 percent of the economy. This figure does not include the full impact of Romney’s defense spending or his tax plan.²¹

¹ As noted later in this memo, estimate based on Richard Kogan and Paul N. Van de Water. "Romney Budget Proposals Would Require Massive Cuts in Medicare, Medicaid, and Other Programs." Center on Budget and Policy Priorities. May 21, 2012. <http://www.cbpp.org/files/1-23-12bud.pdf> and Committee for a Responsible Federal Budget, "Primary Numbers: The GOP Candidates and the National Debt," February 23, 2012, available at http://crfb.org/sites/default/files/primary_numbers.pdf.

² OFA Analysis based on Tax Policy Center, "The Romney Plan (Updated)" March 1, 2012, available at <http://www.taxpolicycenter.org/taxtopics/romney-plan.cfm>.

³ Samuel Brown, William Gale, and Adam Looney. "On the Distributional Effects of Base-Broadening Income Tax Reform." Tax Policy Center, Urban Institute and Brookings Institution. August 1, 2012, available at <http://www.taxpolicycenter.org/UploadedPDF/1001628-Base-Broadening-Tax-Reform.pdf>

⁴ Samuel Brown, William Gale, and Adam Looney. "On the Distributional Effects of Base-Broadening Income Tax Reform." Tax Policy Center, Urban Institute and Brookings Institution. August 1, 2012, available at <http://www.taxpolicycenter.org/UploadedPDF/1001628-Base-Broadening-Tax-Reform.pdf>

⁵ NBC News, "Transcript: Meet the Press," September 9, 2012, available at http://www.msnbc.msn.com/id/48959273/ns/meet_the_press-transcripts/t/september-mitt-romney-ann-romney-julian-castro-peggy-noonan-ej-dionne-bill-bennett-chuck-todd/#.UE3_OfkilCo; ABC News, "'This Week' Transcript," September 9, 2012, available at <http://abcnews.go.com/Politics/week-transcript-gop-vice-presidential-nominee-paul-ryan/story?id=17186049&singlePage=true#.UE4PjvkilCo>; CBS News, "'Face the Nation' transcripts," September 9, 2012, available at http://www.cbsnews.com/2102-3460_162-57509126.html?tag=contentMain;contentBody

⁶ Annie Lowrey and David Kocieniewski. "Romney's Tax Plan Leaves Key Variables Blank." *The New York Times*, September 9, 2012, available at http://www.nytimes.com/2012/09/10/us/politics/romneys-tax-plan-leaves-key-variables-blank.html?_r=1&ref=politics

⁷ Internal Revenue Service, 2009 *Statistics of Income*, available at <http://www.irs.gov/uac/Tax-Stats-2>.

⁸ NBC News, "Transcript: Meet the Press," September 9, 2012, available at http://www.msnbc.msn.com/id/48959273/ns/meet_the_press-transcripts/t/september-mitt-romney-ann-romney-julian-castro-peggy-noonan-ej-dionne-bill-bennett-chuck-todd/#.UE3_OfkilCo

⁹ On Meet the Press, Romney cited five studies, “including one at Harvard and Princeton and AEI and a couple at *The Wall Street Journal*.” (NBC News, “Transcript: Meet the Press,” September 9, 2012, available at http://www.msnbc.msn.com/id/48959273/ns/meet_the_press-transcripts/t/september-mitt-romney-ann-romney-julian-castro-peggy-noonan-ej-dionne-bill-bennett-chuck-todd/#.UE3_OfkilCo.) But these studies include methodological flaws and fail to challenge the fundamental conclusion of the Tax Policy Center report: Romney’s tax plan must violate one of its stated principles, raise middle-class taxes or increase the deficit. Harvard professor Martin Feldstein assumed large tax increases on families making more than \$100,000 a year, ignored the cost of Romney’s estate tax plan, and overstated the savings from closing tax deductions. (Martin Feldstein, “Romney’s Tax Plan Can Raise Revenue,” *The Wall Street Journal*, August 28, 2012, available at <http://professional.wsj.com/article/SB10000872396390444327204577617421727000592.html?mg=reno64-wsj>.) But the Tax Policy Center found that “taking the estate tax and other effects into account, Feldstein’s proposals come up at least \$90 billion short of revenue-neutral” in 2015. (Samuel Brown, William Gale, and Adam Looney, “Feldstein’s Analysis Doesn’t Refute TPC Findings, It Confirms Them,” Tax Policy Center, August 30, 2012, available at <http://taxvox.taxpolicycenter.org/2012/08/30/feldsteins-analysis-doesnt-refute-tpc-findings-it-confirms-them/>) Princeton professor Harvey Rosen ignored about a fifth of Romney’s tax cuts, including the repeal of the estate tax and the Medicare tax cut for the top 2 percent of families. He claimed that economic growth would pay for a portion of the tax cuts, but did not address the Tax Policy Center’s conclusion that even “implausibly large” economic growth assumptions would not make Romney’s numbers add up. (Harvey S. Rosen. “Growth, Distribution, and Tax Reform: Thoughts on the Romney Proposal,” Working Paper No. 228, Griswold Center for Economic Policy Studies, Princeton University, September 2012, available at <http://www.princeton.edu/ceps/workingpapers/228rosen.pdf>) American Enterprise Institute researcher Matthew Jenson argued that Romney might tax state and local bond interest and life insurance savings. (Matt Jensen. “How the Tax Policy Center Could Improve Its Romney Tax Study,” AEIdeas, August 9, 2012, available at <http://www.aei-ideas.org/2012/08/how-the-tax-policy-center-could-improve-their-romney-tax-study/>.) But according to the Tax Policy Center, “Adding these two provisions to Governor Romney’s list of tax preferences potentially on the chopping block would thus not reverse the basic conclusion of our paper” (Tax Policy Center, “Implications of Governor Romney’s Tax Proposals: FAQs and Responses,” Brookings Institution, August 16, 2012, available at <http://www.brookings.edu/research/papers/2012/08/16-romney-tax-implications-brown-gale-looney>).. Finally, Romney seems to cite two Wall Street Journal editorials, which fail to present any new analysis. (*The Wall Street Journal*, “Mathematically Possible,” August 13, 2012, available at <http://professional.wsj.com/article/SB10000872396390443404004577581570978359112.html?mg=reno64-wsj> and “The Romney Hood Fairy Tale,” August 7, 2012, available at <http://professional.wsj.com/article/SB10000872396390443792604577574910276629448.html?mg=reno64-wsj>).

¹⁰ Samuel Brown, William Gale, and Adam Looney. “Feldstein’s Analysis Doesn’t Refute TPC Findings, It Confirms Them.” Tax Policy Center, Urban Institute and Brookings Institution. August 30, 2012, available at <http://taxvox.taxpolicycenter.org/2012/08/30/feldsteins-analysis-doesnt-refute-tpc-findings-it-confirms-them/>

¹¹ Annie Lowrey and David Kocieniewski. “Romney’s Tax Plan Leaves Key Variables Blank.” *The New York Times*, September 9, 2012, available at http://www.nytimes.com/2012/09/10/us/politics/romneys-tax-plan-leaves-key-variables-blank.html?_r=1&ref=politics

¹² Annie Lowrey and David Kocieniewski. “Romney’s Tax Plan Leaves Key Variables Blank.” *The New York Times*, September 9, 2012, available at http://www.nytimes.com/2012/09/10/us/politics/romneys-tax-plan-leaves-key-variables-blank.html?_r=1&ref=politics

¹³ Erskine Bowles. “Romney’s Tax Plan Wouldn’t Cut the Deficit.” *The Washington Post*, August 9, 2012, available at http://www.washingtonpost.com/opinions/why-romneys-tax-plan-wont-cut-the-deficit/2012/08/09/37fb2d20-e19c-11e1-a25e-15067bb31849_story.html

¹⁴ Committee for a Responsible Federal Budget, “Primary Numbers: The GOP Candidates and the National Debt,” February 23, 2012, available at http://crfb.org/sites/default/files/Primary_Numbers_--_Romney_add.pdf.

¹⁵ NBC News, “Transcript: Meet the Press,” September 9, 2012, available at http://www.msnbc.msn.com/id/48959273/ns/meet_the_press-transcripts/t/september-mitt-romney-ann-romney-julian-castro-peggy-noonan-ej-dionne-bill-bennett-chuck-todd/#.UE3_OfkilCo

¹⁶ See for example, Christopher Preble, “More Skepticism on Romney’s Military Promises,” *Cato-at-Liberty Blog*, June 19, 2012, <http://www.cato-at-liberty.org/more-skepticism-on-romneys-military-spending-promise/> Charles Riley, “Defense Spending To Spike \$2.1 Trillion Under Romney,” *CNN/Money*, May 10, 2012. <http://money.cnn.com/2012/05/10/news/economy/romney-defense-spending/index.htm> Kate Brannen, “Experts Say Romney’s Defense Plan Doesn’t Add Up,” *Defense News*. June 17, 2012. <http://www.defensenews.com/article/20120617/DEFREG02/306170003>

¹⁷For estimate of necessary cuts if Romney’s tax plan is fully paid for, see page 8 of Richard Kogan and Paul N. Van de Water. “Romney Budget Proposals Would Require Massive Cuts in Medicare, Medicaid, and Other Programs.” Center on Budget and Policy Priorities. May 21, 2012. <http://www.cbpp.org/files/1-23-12bud.pdf>

¹⁸ Committee for a Responsible Federal Budget, “Primary Numbers: The GOP Candidates and the National Debt,” February 23, 2012, available at http://crfb.org/sites/default/files/primary_numbers.pdf. CRFB estimated that the specific cuts Romney has described would – after taking into account the added deficit impact of repealing the Affordable Care Act – achieve just over \$1.1 trillion in spending cuts from 2013-2021. (This analysis credits Romney with a 5 percent across-the-board reduction in non-defense discretionary spending that Romney has not explained, as well as deep cuts to the federal workforce that may not be feasible.) After adjusting to reflect the CBPP baseline – including taking out the cost of repealing the HI tax, which is part of Romney’s tax cuts –and extending the analysis to 2022, we estimate Romney’s cuts would add up to about \$1.7 trillion.

¹⁹ John Holahan, Matthew Buettgens, Vicki Chen, Caitlin Carroll, and Emily Lawton. “House Republican Budget Plan: State-by-State Impact of Changes in Medicaid Financing.” Kaiser Commission on Medicaid and the Uninsured. May 2011. <http://www.kff.org/medicaid/upload/8185.pdf>

²⁰ James Sherk. “Inflated Federal Pay: How Americans are Overtaxed to Overpay the Civil Service.” The Heritage Foundation. July 7, 2010. <http://www.heritage.org/research/reports/2010/07/inflated-federal-pay-how-americans-are-overtaxed-to-overpay-the-civil-service>

²¹ “Primary Numbers: The GOP Candidates and the National Debt.” A Committee For A Responsible Federal Budget: Budget Watch Addendum: Governor Romney’s New Tax Reform Plan. February 23, 2012. http://crfb.org/sites/default/files/Primary_Numbers_-_Romney_add.pdf;