



JUST THE FACTS!

TITLE: "MCCAIN'S BUDGET MAGIC"

EPISODE #: 17

HOST

Welcome back to Just the Facts, the weekly vid-cast from FactCheck.org, I'm Emi Kolawole, and this week we're going to talk about John McCain and the budget. But first, let's start off with a little logic quiz. Clouds are white and fluffy. Sheep are white and fluffy. But does that mean clouds are sheep? We didn't think so either. And it doesn't make any more sense when John McCain uses the argument to argue we can save \$100 billion by cutting earmarks:

VIDEO: MCCAIN SPEECH

SEN. JOHN MCCAIN

The great goal is to get the American economy running at full strength again, creating the opportunities Americans expect and the jobs Americans need. And one very direct way to achieve that is by taking the savings from earmark, program review, and other budget reforms, which is on the order of 100 billion dollars annually.

HOST

We'll get back to our logic quiz in a second, but there's a lot wrong with this and other statements from McCain indicating that we can get big budget savings by cutting earmarks.

GRAPHIC: MCCAIN EARMARK SAVINGS

HOST

First, he's talking about earmarks past and present. But before you wrap your head around the logistics of that, here's number two: most earmarks tell agencies how to spend money they're already going to get – so generally, earmarks don't swell the budget – contrary to what you may believe. Third, there are some earmarks McCain likes and says he'll keep, such as aid to Egypt and Israel, or money for veterans affairs - all of which are considered earmarks by the Congressional Research Service.

HOST

So, with that in mind, we decided to ask McCain's Chief Economic Advisor Douglas Holtz-Eakin whether or not the \$100 billion in savings is actually tied to cutting earmarks. But he said:

GRAPHIC: EAKIN QUOTE**HOST**

"It can't be...by definition, every dollar is up for grabs every year."

In short, despite what McCain has said about all that wasteful earmark spending, he's not proposing to cut earmarks. He's proposing to cut discretionary budget funds – and pretty steeply, too, to get to \$100 billion figure. So remember our logic quiz about the sheep and the clouds? Well, here's McCain's version:

GRAPHIC: LOGIC GAME**HOST**

McCain's economic plan will cut \$100 billion of the discretionary budget. Earmarks, past and present, account for \$100 billion of the discretionary budget. Ergo, McCain's economic plan will cut past and present earmarks.

Sure, only if sheep are clouds. Let's listen to McCain on the Alternative Minimum Tax:

VIDEO: MCCAIN SPEECH**SEN. JOHN MCCAIN**

I will also send to the Congress a middle-class tax cut – a complete phase-out of the Alternative Minimum Tax to save more than 25 million middle-class families more than 2,000 dollars every single year.

HOST

And we're back to my favorite spin term: "middle class." We've already reported that when it comes to defining the middle class, the boundaries are pretty elastic. So who does McCain count as "middle class"? Well, it turns out McCain is counting families that make up to \$200,000 a year, and here's how:

GRAPHIC: TAX POLICY CENTER**HOST**

According to the Tax Policy Center, a majority of AMT taxpayers in 2010 will earn more than \$100,000 a year, and 26.6 million AMT taxpayers will earn up to \$200,000 a year. The AMT came about in 1969, after Congress learned that 155

wealthy folks – earning more than \$200,000 – hadn't paid any federal taxes. If the AMT was indexed to inflation, it would only be affecting those who made about \$1.2 million or more a year today. But it's not indexed. So the number of people hit by the AMT has grown substantially. And it's estimated the percent of tax payers slated to pay the AMT in 2010 more than doubled after the Bush tax cuts were implemented.

So McCain's "25-million middle class families" includes families making as much as \$200,000 a year. And, according to his economic advisor Douglas Holtz-Eakin, their savings would be \$2,000 a year *on average*. That means some families will save more while others save less. And those that make more will save more. McCain also claimed that Democrats Hillary Clinton and Barack Obama:

VIDEO: MCCAIN PITTSBURGH SPEECH

SEN. JOHN MCCAIN

...They would impose – overnight – the single largest tax increase since the Second World War.

HOST

McCain's referring to the Democrats' call to allow the Bush tax cuts to expire, never mind they're already slated to expire at the end of 2010 – an expiration date approved by the Bush Administration. And McCain's statement is false, at least according to the way that most economists measure tax revenues, which is as a percentage of the Gross Domestic Product. Measured that way, it's the fifth largest tax increase since 1943.

And that's it for Just the Facts. This is just a fraction of a two-part series we wrote on McCain and the budget. For more, be sure to check out our website at www.factcheck.org. I'm Emi Kolawole, thanks for watching and see you next week.