Center on Budget and Policy Priorities

820 First Street NE, Suite 510
Washington, DC 20002

Tel: 202-408-1080
Fax: 202-408-1056

center@cbpp.org
www.cbpp.org

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RYAN BUDGET PLAN WOULD INCREASE DEFICITS, EXACERBATE INEQUALITY

Richard Kogan

When the House of Representatives debates the congressional budget plan for fiscal year 2008, Rep. Paul Ryan, the Ranking Republican Member of the House Budget Committee, will offer a substitute for the budget plan that the Budget Committee approved on March 23, 2007.[1] This analysis focuses on four aspects of the Ryan substitute.

- **The tax and entitlement policies in the substitute would make deficits and debt larger,** both during the five-year period covered by the plan and over the long term. The Ryan plan would produce noticeably smaller surpluses in 2012 — and ultimately, larger deficits — than either CBO's current-policy baseline or the budget plan that the House Budget Committee adopted.

  The Ryan plan includes a "reconciliation directive" that would require large entitlement cuts. But its tax cuts would cost much more than its entitlement reductions would save. Over five years, the tax cuts would cost *$168 billion* more than the entitlement cuts would save, adding that much (plus resulting interest costs) to projected deficits and debt.

  The imbalance between the plan's entitlement cuts and its tax cuts would grow bigger over time. In 2012 alone, the cost of the plan's tax cuts would exceed its entitlement cuts by $144 billion, or 0.8 percent of GDP, a quite large amount. In short, the plan's entitlement cuts would be used *not* to reduce projected deficits, but to defray a portion of the costs of the plan's tax cuts.

- **The tax and entitlement policies in the Ryan plan would exacerbate the trend of growing inequality in the United States**. Some 90 percent of the plan's entitlement cuts would be targeted at two committees. The House Energy and Commerce Committee, which has jurisdiction over Medicaid and SCHIP (the health insurance programs for the poor), as well as some of Medicare, would be required to make cuts totaling almost $100 billion over five years. The House Ways and Means Committee would be required to make cuts totaling more than $150 billion over five years. That Committee has jurisdiction over many low-income programs vital to people who are poor or have disabilities, as well as over Medicare. Programs

[1] The reported Budget Resolution, H. Con. Res. 99, is available at http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=110_cong_bills&docid=f:hc99rh.txt.pdf. (also see H. Rept. 110-69 at http://thomas.loc.gov/cgi-bin/cpquery/R?cp110:FLD010:@1(hr069):.

in the Ways and Means Committee's jurisdiction include: Child Care; Supplemental Security Income (SSI); the refundable portion of the Earned Income Tax Credit and the Child Tax Credit; Child Support Enforcement; Temporary Assistance for Needy Families; and the Social Services Block Grant, among others. The Ryan plan's entitlement cuts thus would almost certainly reduce income, benefits, and services for millions of low- and middle-income Americans.

At the same time, the Ryan plan assumes the permanent extension of the 2001 and 2003 tax cuts. According to the Brookings Institution-Urban Institute Tax Policy Center, in 2012 those tax cuts would provide a household in the bottom fifth of the income spectrum with an extra $45 on average; would provide a middle-income family with an average of $840; would provide a family in the top one percent of the income scale with an extra $67,000; and would provide households with incomes of over $1 million with an extra $162,000, on average.

- **The Ryan plan would impose a Pay-As-You-Go rule on entitlement programs while exempting all tax cuts, an approach that heavily favors the most wealthy.** The plan includes a new rule prohibiting the House and Senate from considering legislation that would increase entitlement costs in net, even if that legislation were fully paid for by increases in revenues such as by closing abusive tax shelters or other unwarranted tax loopholes. Yet the proposed rule would allow unlimited tax cuts, regardless of whether they are paid for. This "entitlement only" PAYGO rule would favor the wealthy at the expense of others, since deficit-financed tax cuts — which generally are of far greater value to the wealthy than entitlement expansions — would be permitted, while legislation to broaden the coverage of entitlement programs such as Medicare, the State Children's Health Insurance Program, child care, or Unemployment Compensation would be barred unless it were financed entirely with cuts in other entitlement programs.

- **Non-defense "discretionary" programs (i.e., annually appropriated programs) also would be subject to hefty cuts.** The plan assumes sizable cuts in non-defense appropriated programs, including programs in the parts of the budget that cover education, housing, transportation, and natural resources and environmental protection. By 2012, expenditures for non-defense discretionary programs other than veterans' health programs would end up approximately $50 billion — or 10 percent — below today's levels, adjusted for inflation.

Despite the depth of the plan's cuts in non-defense discretionary programs and entitlement programs, however, the plan's domestic spending cuts would be substantially outweighed by the combined cost of its tax cuts, defense increases, and increases in veterans programs. As a result, the plan would significantly worsen the already serious long-term fiscal problems that the nation faces.