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## REPUBLICAN PLAN CONTAINS MINUSCULE REVENUE INCREASE ALONGSIDE DEEP CUTS IN MEDICARE AND MEDICAID

By Robert Greenstein, Richard Kogan, and Paul Van de Water

The latest proposal by Republicans on the congressional Joint Select Committee on Deficit Reduction (the “supercommittee”) contains virtually no new revenue and deep cuts in Medicare and Medicaid. In those respects, it represents little change from earlier Republican budget proposals. It stands in contrast to last week’s proposal from Senator Baucus and some other Democratic members of the joint committee, which offered significant concessions and marked a major departure from traditional Democratic positions.<sup>1</sup>

The new Republican plan provides for slightly more than \$3 trillion in deficit reduction over the next ten years, relative to a current-policy baseline that assumes extension of all the 2001-2003 tax cuts. (See Table 1.) Of that amount, *only about 1 percent of the deficit reduction (\$40 billion) stems from revenue increases*. And, compared to the “plausible baseline” that the Bowles-Simpson Fiscal Commission and the Senate’s Gang of Six used, which assumes expiration of the upper-income tax cuts, the latest Republican plan actually provides for *tax cuts* of more than \$800 billion over ten years. (See Table 2.)

The plan’s sponsors have characterized the plan’s proposed increases in Medicare premiums and various fees as “revenues,” but this characterization is inconsistent with standard budget accounting. The federal budget treats these items as reductions in outlays, *not* increases in revenues, and has for almost three decades. The Republican plan’s sponsors also say that an additional \$200 billion in revenues would result from higher economic growth that the plan might bring about.<sup>2</sup> For very sound reasons, however, standard budget estimates do *not* use such “dynamic scoring,” and we appropriately exclude this amount — which the Joint Committee on Taxation and Congressional Budget Office would not recognize as either an increase in revenues or a reduction in deficits — from our tabulations.<sup>3</sup> (Excluding this amount is also necessary to maintain comparability with the budget figures for other budget proposals.)

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<sup>1</sup> Robert Greenstein, Richard Kogan, and Paul Van de Water, *Democrats Offer Significant Concessions*, Center on Budget and Policy Priorities, October 28, 2011, <http://www.cbpp.org/files/10-28-11bud.pdf>.

<sup>2</sup> Donna Smith and Richard Cowan, “Committee’s deficit plans show deep divisions,” *Reuters*, October 27, 2011, <http://www.reuters.com/article/2011/10/27/us-usa-debt-supercommittee-idUSN1E79P17S20111027>.

<sup>3</sup> Paul N. Van de Water, *Supercommittee Should Reject “Dynamic Scoring,”* Center on Budget and Policy Priorities, October 18, 2011, <http://www.cbpp.org/files/10-18-11bud.pdf>.

Because of its lack of revenue increases, the Republican plan both achieves less deficit reduction and makes much deeper cuts in programs that benefit low- and moderate-income families and individuals than does the Democratic offer:

- The Republican plan would produce \$1 trillion less deficit reduction than the Democratic offer, relative to any baseline. If these plans are measured from a current-policy baseline, the Republican proposal reduces deficits by \$3.1 trillion over ten years while the Democratic offer reduces deficits by \$4.1 trillion, including (for both proposals) the discretionary spending cuts in the Budget Control Act, as shown in Table 1. (The figures for the Democratic offer do not include economic stimulus proposals, the details of which are not available, so the net deficit reduction under that plan is likely several hundred billion dollars smaller, although still well above the deficit reduction in the Republican plan.)
- Relative to the “plausible baseline” used by the Bowles-Simpson commission and the Gang of Six, those two bipartisan plans proposed about \$1½ in spending cuts for every \$1 in revenue increases, not counting debt-service savings. (See Table 2.) The Democratic offer moved well to the right of those bipartisan plans, offering about \$5 in spending cuts for every \$1 in revenue increases.<sup>4</sup> On a comparable basis, the Republican proposal is entirely spending cuts; it calls for revenue *reductions* relative to the “plausible baseline.”

In contrast, relative to the current-policy baseline, which assumes that all of the Bush tax cuts are made permanent, the Republican plan raises \$40 billion in new revenue (by using a modestly lower measure of inflation, the chained Consumer Price Index, to make annual inflation adjustments in the tax code as well as in Social Security and other benefit programs).

- The Republican plan makes deeper cuts in Medicare than the Democratic offer — \$500 billion versus \$400 billion. Of particular note, four-fifths of the Republicans’ proposed Medicare cuts — \$400 billion — would directly affect beneficiaries through higher premiums, higher cost sharing, and more restrictive eligibility criteria. In the Democratic proposal, \$200 billion of the Medicare cuts would apply to beneficiaries, with the rest falling on pharmaceutical companies and other health care providers. Since half of Medicare beneficiaries had incomes below \$21,100 in 2010, it would be virtually impossible to achieve this level of beneficiary cuts without imposing substantial increases in out-of-pocket costs on near-poor elderly and disabled people — those between 100 and 200 percent of the poverty line (about \$11,000 to \$22,000 for an individual). Yet the typical Medicare beneficiary in this income range already pays 23 percent of income for out-of-pocket costs, a percentage that would increase significantly under both plans — especially under the Republican plan.<sup>5</sup>
- The Republican plan also would make far deeper cuts in Medicaid — \$185 billion versus \$75 billion over ten years under the Democratic plan. Cuts of this depth would shift substantial costs to state governments, which would lead to state actions that limit care for the low-income children, parents, seniors, and people with disabilities whom Medicaid serves.

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<sup>4</sup> If debt-service savings were counted as a reduction in spending, the ratio of spending cuts to revenue increases would be 2-to-1 for Bowles-Simpson and the Gang of Six and 6-to-1 for the Democratic offer.

<sup>5</sup> Kaiser Family Foundation, *How Much “Skin in the Game” Is Enough?*, June 2011, p. 2.

- The Republican plan also would make sharper cuts in mandatory spending programs other than Medicare and Medicaid — \$685 billion versus \$385 billion under the Democratic plan and \$364 billion under Bowles-Simpson. This level of cuts is close to that in the Ryan budget. Although the proposal does not specify how much will be cut from specific programs, at least half of these cuts are likely to be made in programs serving low-income Americans, such as food stamps.<sup>6</sup>

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<sup>6</sup> Robert Greenstein, *Chairman Ryan Gets Roughly Two-Thirds of His Huge Budget Cuts from Programs for Lower-Income Americans*, Center on Budget and Policy Priorities, April 20, 2011, <http://www.cbpp.org/files/4-5-11bud2.pdf>.

Table 1				
COMPARISON OF DEFICIT-REDUCTION PROPOSALS				
Savings in Billions of Dollars, 2012-2021, Relative to Current-Policy Baseline				
	Bowles-Simpson	Gang of Six	Democratic Offer <sup>1</sup>	Republican Proposal
Revenue Increases	2,238	2,064	1,300	40
Medicare and Medicaid <sup>2</sup>	402	500	475	685
Other Mandatory Programs (including outlay effect of chained-CPI proposal) <sup>3</sup>	364	373	385	685
Discretionary <sup>4</sup>	1,295	1,165	1,300	1,150
Subtotal, Spending Cuts	2,061	2,038	2,160	2,520
Debt Service Savings	796	783	664	495
Deficit Reduction	5,095	4,885	4,124	3,055

<sup>1</sup> Figures for the Democratic offer do not include economic stimulus proposals, the details of which are not available but apparently include both temporary tax-cut measures (like an extended payroll tax reduction) and temporary spending increases (like an extension of federal unemployment benefits).

<sup>2</sup> The Gang of Six plan showed two alternative levels of health cuts, \$500 billion and \$383 billion.

<sup>3</sup> The Bowles-Simpson plan includes the cost of repealing CLASS, whose implementation has now been suspended by the Administration.

<sup>4</sup> The Democratic offer and the Republican proposal are adjusted to include \$900 billion in discretionary savings enacted in the April continuing resolution and the Budget Control Act, for comparability with the other two plans. The Fiscal Commission and the Gang of Six plans measure discretionary savings relative to CBO's March baseline.

Sources: Estimates for the Bowles-Simpson plan are from Moment of Truth Project, *Updated Estimates of the Fiscal Commission Proposal*, June 29, 2011. Estimates for the Gang of Six plan are from material provided by staff. Estimates for the Democratic offer and the Republican proposal are based on press accounts. Estimates have been adjusted by CBPP staff to put them on a comparable basis.

Table 2				
COMPARISON OF DEFICIT-REDUCTION PROPOSALS				
Savings in Billions of Dollars, 2012-2021, Relative to Fiscal Commission's Plausible Baseline				
	Bowles-Simpson	Gang of Six	Democratic Offer <sup>1</sup>	Republican Proposal
Revenue Increases	1,372	1,198	434	-826
Medicare and Medicaid <sup>2</sup>	402	500	475	685
Other Mandatory Programs (including outlay effect of chained-CPI proposal) <sup>3</sup>	364	373	385	685
Discretionary <sup>4</sup>	1,295	1,165	1,300	1,150
<b>Subtotal, Spending Cuts</b>	<b>2,061</b>	<b>2,038</b>	<b>2,160</b>	<b>2,520</b>
Debt Service Savings	621	608	489	320
<b>Deficit Reduction</b>	<b>4,054</b>	<b>3,844</b>	<b>3,083</b>	<b>2,014</b>

<sup>1</sup> Figures for the Democratic offer do not include economic stimulus proposals, the details of which are not available but apparently include both temporary tax-cut measures (like an extended payroll tax reduction) and temporary spending increases (like an extension of federal unemployment benefits).

<sup>2</sup> The Gang of Six plan showed two alternative levels of health cuts, \$500 billion and \$383 billion.

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