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

Revised July 7, 2010

THE RYAN BUDGET'S RADICAL PRIORITIES

Provides Largest Tax Cuts in History for Wealthy, Raises Middle Class Taxes, Ends Guaranteed Medicare, Privatizes Social Security, Erodes Health Care

by Paul N. Van de Water

I. Summary

The *Roadmap for America's Future*, which Rep. Paul Ryan (R-WI) — the ranking Republican on the House Budget Committee — released in late January, calls for radical policy changes that would result in a massive transfer of resources from the broad majority of Americans to the nation's wealthiest individuals.[1]

The *Roadmap* would give the most affluent households a new round of very large, costly tax cuts by reducing income tax rates on high-income households; eliminating income taxes on capital gains, dividends, and interest; and abolishing the corporate income tax, the estate tax, and the alternative minimum tax. At the same time, the Ryan plan would *raise* taxes for most middle-income families, privatize a substantial portion of Social Security, eliminate the tax exclusion for employer-sponsored health insurance, end traditional Medicare and most of Medicaid, and terminate the Children's Health Insurance Program. The plan would replace these health programs with a system of vouchers whose value would erode over time and thus would purchase health insurance that would cover fewer health care services as the years went by.

The tax cuts for those at the very top would be of historic proportions. A new analysis by the Urban Institute-Brookings Institution Tax Policy Center (TPC) finds:

- The Ryan plan would cut *in half* the taxes of the richest 1 percent of Americans — those with incomes exceeding $633,000 (in 2009 dollars) in 2014.
- The higher one goes up the income scale, the more massive the tax cuts would be. Households with incomes of more than $1 million would receive an average annual tax cut of $502,000.
- The richest *one-tenth of 1 percent* of Americans — those whose incomes exceed $2.9 million a year — would receive an average tax cut of $1.7 million a year. These tax cuts would be *on top of* those

[1] Paul D. Ryan, *A Roadmap for America's Future, Version 2.0*, January 2010. Available at http://www.roadmap.republicans.budget.house.gov/UploadedFiles/Roadmap2Final2.pdf. The proposal has been introduced in the House as H.R. 4529. Where specifications are unclear, this analysis follows the language of the bill.

that high-income households would get from making the Bush tax cuts, which are due to expire at the end of 2010, permanent.

To offset some of the cost of these massive tax cuts, the Ryan plan would place a new consumption tax on most goods and services, a measure that would increase taxes on most low- and middle-income families. TPC finds that:

- About three-quarters of Americans — those with incomes between $20,000 and $200,000 — would face tax increases. For example, households with incomes between $50,000 and $75,000 would face an average tax increase of $900. (These estimated changes in taxes are relative to the taxes that would be paid under a continuation of current policy — i.e., what tax liabilities would be if the President and Congress make permanent the expiring 2001 and 2003 tax cuts and relief from the alternative minimum tax.)

- The plan would shift tax burdens so substantially from the wealthy to the middle class that people with incomes over $1 million would face much *lower* effective tax rates than middle-income families would. That is, they would pay much smaller percentages of their income in federal taxes.

Because of the Ryan plan's enormous tax cuts for the affluent, even the very large benefit cuts that the plan would make in Medicare, Medicaid, and Social Security — and the plan's middle-class tax increases — would not put the federal budget on a sustainable course for decades. The federal debt would soar to about 175 percent of the gross domestic product (GDP) by 2050. In contrast, most fiscal policy analysts recommend that the debt-to-GDP ratio be stabilized within the next ten years, and at a far lower level.

Reports of Plan's Fiscal Soundness Rest on Misunderstanding of CBO Analysis

Assertions that the Ryan plan is fiscally responsible rest on a serious misunderstanding of a Congressional Budget Office (CBO) analysis of the plan. CBO only *partially* analyzed the Ryan plan. Contrary to some media reports, CBO has *not* prepared an actual cost estimate of it.[2] CBO generally does not produce estimates of the effects of proposed changes in tax policies; that is the responsibility of the Joint Committee on Taxation. In its analysis of the Ryan plan, CBO did *not* attempt to measure the revenue losses that Rep. Ryan's proposals would generate.

Instead, as its report states, CBO simply used an assumption *specified by Rep. Ryan's staff* that the overall level of revenues would remain unchanged from what the federal government would collect through 2030 under current policies, and would equal 19 percent of GDP in later years. CBO did not find that the Ryan plan actually would achieve these assumed revenue levels. (For commentary by Howard Gleckman of the Tax Policy Center on the widespread misunderstanding of the CBO analysis, see the box on page 5.)

The reality is different; TPC finds that the Ryan plan would result in very large revenue losses relative to current policies. TPC estimates that even with its middle-class tax increases, the plan would reduce federal revenues to 16 percent of GDP in 2014. Because the tax cuts for the wealthy would

[2] Douglas W. Elmendorf, Director, Congressional Budget Office, Letter to the Honorable Paul Ryan, January 27, 2010.

dwarf the tax increases for the middle class, the Ryan plan would allow the federal debt to continue growing for a number of decades to come, despite its steep cuts in Medicare, Medicaid, and Social Security.

Radical Changes in Health Coverage

The Ryan plan would eliminate traditional Medicare, most of Medicaid, and all of the Children's Health Insurance Program (CHIP), converting these health programs largely to vouchers that low-income households, seniors, and people with disabilities could use to help buy insurance in the private health insurance market. Under Ryan's plan, the value of the vouchers would fall further behind the rising cost of health care with each passing year, so they would purchase less health coverage over time. By 2080, Medicare would be cut *76 percent* below its projected size under current policies, according to CBO. In other words, by 2080, the vouchers that would replace Medicare would receive one-quarter of the resources that Medicare would otherwise use.

The Ryan proposal would also replace the tax exclusion for employer-sponsored health insurance with a refundable tax credit for people to buy health coverage — the equivalent of a voucher. By eliminating the tax exclusion without providing incentives for employers to continue offering health coverage, the plan would likely cause a substantial decline in employer-based coverage.

The Ryan proposal thus would sharply reduce or eliminate *all* major forms of health insurance that spread risk by pooling healthy and less-healthy people together on a large scale. It would do so without taking significant action to create viable new pooling arrangements. Most Americans — including the poor and the elderly — would largely be left to purchase insurance on their own with a voucher or tax credit in an insurance market that would remain largely unreformed. In particular, insurance companies could continue to charge people much higher premiums based on age, gender, or health status.

The Ryan plan also largely lacks the kinds of provisions in the Senate- and House-passed health reform bills that are designed to slow health care cost growth by pushing health care providers to become more efficient and economical. Under the Ryan plan, the burden of reducing health care expenditures would fall primarily on beneficiaries, who would face steadily rising health care costs with a steadily diminishing amount of health insurance and might therefore forgo needed health care.

Sweeping Changes in Social Security

The Ryan plan proposes large cuts in Social Security benefits — 16 percent for the average new retiree in 2050, and 28 percent in 2080 — and diverts these savings to help fund private accounts rather than to restore Social Security solvency. Because the plan would divert massive sums from Social Security to private accounts, it would leave the program with a deep financial hole. The plan would close that hole by transferring $4.9 trillion over the next 60 years from the rest of the budget to Social Security, *an amount that exceeds what it would take to make Social Security solvent for the next 75 years if no other action was taken*.

The plan also seeks to entice higher-income seniors to divert a substantial share of their payroll tax contributions to private accounts. It would exempt from taxation all income drawn from these accounts in retirement, while retaining the feature of current law that counts as taxable income most of the Social Security benefits these affluent seniors could receive. In addition, the Ryan plan would require the federal government to *guarantee* the performance of the private accounts; if the stock market fell and value of the accounts declined sufficiently, the Treasury would have to make up the losses, triggering what could be massive bailout costs. These potential bailout costs — like the cost of the plan's very large tax cuts — are not reflected in the CBO estimates that Rep. Ryan cites when touting the plan's fiscal responsibility.

Overall, the plan's cuts in Medicare, Medicaid, and Social Security (and other programs to a much lesser degree) would be so severe that CBO estimates they would shrink total federal expenditures (other than on interest payments) from roughly 19 percent of GDP in recent years to just 13.8 percent of GDP by 2080. Federal spending has not equaled such a low level of GDP since 1950, when Medicare and Medicaid did not yet exist, Social Security failed to cover many workers, and close to half of the elderly people in the United States lived below the poverty line.