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CBPP STATEMENT

For Immediate Release:
Wednesday, March 21, 2012

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STATEMENT OF ROBERT GREENSTEIN, PRESIDENT, ON CHAIRMAN RYAN'S BUDGET PLAN

The new Ryan budget is a remarkable document — one that, for most of the past half-century, would have been outside the bounds of mainstream discussion due to its extreme nature. In essence, this budget is Robin Hood in reverse — on steroids. It would likely produce the largest redistribution of income from the bottom to the top in modern U.S. history and likely increase poverty and inequality more than any other budget in recent times (and possibly in the nation's history). It also would stand a core principle of the Bowles-Simpson fiscal commission's report on its head — that policymakers should reduce the deficit in a way that does not increase poverty or widen inequality.

Specifically, the Ryan budget would impose extraordinary cuts in programs that serve as a lifeline for our nation's poorest and most vulnerable citizens, and over time would cause tens of millions of Americans to lose their health insurance or become underinsured. It would also impose severe cuts in non-defense discretionary programs—much deeper than the across-the-board cuts ("sequestration") that are scheduled to take place starting in January — thereby putting core government functions at still greater risk. Indeed, a new Congressional Budget Office analysis that Chairman Ryan himself requested shows that, after several decades, the Ryan budget would shrink the federal government so dramatically that most of what it does outside of Social Security, health care, and defense would essentially disappear. (See http://www.cbpp.org/cms/index.cfm?fa=view&id=3708)

Yet alongside these extraordinary budget cuts, with their dismantling of key parts of the safety net, the budget features stunning new tax cuts for the wealthiest Americans. These tax cuts would come *on top of* the average tax cut of more than $125,000 a year that the Tax Policy Center (TPC) estimates that people who make over $1 million a year will receive if — as the Ryan budget also proposes —policymakers make all of President Bush's tax cuts permanent.

In fact, TPC reported yesterday that the four major new tax cuts in the Ryan plan — cutting the top income rate to 25 percent and creating a lower tax bracket of 10 percent, cutting the corporate income tax rate to 25 percent and exempting from taxation the profits that U.S. corporations earn overseas, repealing the Alternative Minimum Tax, and repealing the tax increases in health reform — *would cost $4.6 trillion in lost federal revenue over the next ten years* (not counting the overseas corporate profits exemption). All four revenue-losing measures would disproportionately benefit wealthy Americans.

Moreover, this $4.6 trillion revenue loss would come on top of about *another $5 trillion revenue loss* over the coming decade, TPC reported, from Chairman Ryan's proposal to make permanent all of the Bush tax cuts along with other tax cuts that are scheduled to expire, such as an estate-tax giveaway from late 2010 that benefits the estates of only the wealthiest one-quarter of one percent of people who die.

Chairman Ryan claims that these new tax cuts would be financed by scaling back tax credits, deductions, and other preferences, known collectively as "tax expenditures." But while his plan specifies the new tax cuts that he seeks, it contains not a single specific proposal to narrow any particular tax break. Furthermore, the plan appears to place the low capital-gains tax rate off limits. If policymakers do not raise that tax rate when they cut the top income tax rate to 25 percent, they will find it virtually impossible to enact Chairman Ryan's proposed tax changes without, as a consequence, providing massive new tax cuts for the richest Americans.
(See http://www.cbpp.org/cms/index.cfm?fa=view&id=3695)

The Ryan Plan's Components

The Ryan plan would cut *Medicaid* by more than $800 billion over the next ten years and steadily larger amounts after that (on top of the Medicaid reductions that would result from Chairman Ryan's call to repeal health reform). After several decades, Medicaid would be cut by more than half. Yet Medicaid already costs substantially less per beneficiary than private insurance because it pays health providers rock-bottom rates and has low administrative costs. In addition, its per-beneficiary costs have been rising more slowly than private-sector health care costs. Assertions that Medicaid costs are highly inflated and that states can provide comparable health care for much less money may serve as convenient rationales for severe cuts in health care for some of the nation's most vulnerable people, but they do not reflect reality. Last year, the Urban Institute estimated that a very similar Ryan Medicaid block-grant proposal would likely cause 14 to 27 million low-income Americans to lose coverage by 2021 (in addition to the 17 million people who no longer would gain coverage due to the repeal of health reform and its Medicaid expansion).

The Ryan budget reportedly also cuts SNAP (that is, food stamp) benefits by $133 billion over ten years and slices Pell Grants. The former would likely increase hunger and hardship among poor children, while the latter would likely reduce opportunities for promising students from low-income backgrounds to attend college.

Also striking is Ryan's slashing of non-defense discretionary spending, which funds everything from veterans' health care to medical and scientific research, highways, education, national parks, food safety, clean air and clean water enforcement, and border protection and other law enforcement. This part of the budget also funds a number of programs to assist poor or otherwise vulnerable people such as low-income housing; child care for the working poor; Head Start; the Women, Infants, and Children nutrition program (WIC); and home-delivered meals for seniors. The Budget Control Act of last August substantially cut funding for non-defense discretionary programs by imposing tough annual budget caps, but the Ryan budget would cut these programs nearly $1.2 trillion *below* the caps. In fact, it would slash funds for non-defense discretionary programs over the coming decade by $800 billion *below the level to which that funding would fall if sequestration occurred every year through 2021.*

Medicare Proposals

The plan would gradually raise Medicare's eligibility age from 65 to 67 for people turning 65 in 2023 and thereafter, even as it repeals health reform's coverage expansions. This could leave 65 and 66 year olds who can't get employer-based coverage out in the cold. People with modest incomes generally wouldn't be able to afford the prices that private insurance companies would charge to cover people in this age bracket. Those 65- and 66-year olds who have significant medical conditions often wouldn't be able to get coverage at any price.

Once seniors reached the age of eligibility for Medicare, they would receive a premium-support voucher to help them buy coverage, with the voucher apparently rising in value from year to year by the rate of growth in the Gross Domestic Product (GDP) per capita plus one-half percentage point — which is below the rate of growth in health care costs in recent decades. Seniors who couldn't afford to spend more than the voucher amount likely would have to purchase insurance that covered fewer health services as time went by, since the voucher likely would not keep pace with increases in health care costs. (See http://www.cbpp.org/cms/index.cfm?fa=view&id=3704)

In addition, while the plan says that it retains traditional Medicare as an option, that option may not last. Under the proposal, private plans could tailor their benefit packages to attract healthier beneficiaries and deter sicker ones. Most health analysts expect that healthier beneficiaries would disproportionately enroll in private plans while less healthy ones — who cost more to serve — would stay in traditional Medicare. While Chairman Ryan and Senator Ron Wyden, with whom Ryan has collaborated on the general approach reflected in the premium-support proposal, have said that it would adjust the payments to private plans and to traditional Medicare to compensate for differences in the health of enrollees, this "risk adjustment" process is highly imperfect; risk adjustment has been able to capture only part of the differences in costs across health plans that stem from differences in enrollees' health. Consequently, traditional Medicare would likely find itself compensated only partially for its higher-cost enrollees, forcing it to raise its premiums to make up the difference. The higher premiums, in turn, could lead more and more of its healthier enrollees to leave traditional Medicare for private plans. Over time, traditional Medicare could become less financially viable, and eventually it could unravel, because it would be competing on an un-level playing field in which private plans captured the healthier beneficiaries and incurred lower costs as a result.

To be sure, Chairman Ryan says the proposal would not affect people now 55 and older, but that's not likely an accurate prediction. As fewer new beneficiaries enrolled in traditional Medicare when they reached the age of eligibility, the population in traditional Medicare would gradually become older, sicker, and fewer in number — and hence more expensive per person to cover. And as the size of the Medicare population shrank, administrative costs would rise relative to benefit payments. In addition, with fewer enrollees, traditional Medicare's power to demand lower payment rates from providers would erode, and providers would have less incentive to participate in the program. As a result, people now 55 and older might well face higher premiums and cost sharing for traditional Medicare, a more limited choice of providers, or both.

Is This Necessary?

Chairman Ryan says these changes in domestic programs are necessary due to the nation's severe fiscal straits. The nation's fiscal straits, however, surely do not justify massive new tax cuts for its wealthiest people alongside budget cuts that would cast tens of millions of less fortunate Americans into the ranks of the uninsured, take food from poor children, make it harder for low-income students to get a college degree, and squeeze funding for research, education, and infrastructure. Under Chairman Ryan's budget, our nation would be a very different one — less fair and less generous, with an even wider gap between the very well-off and everyone else (especially between rich and poor) — and our society would be a coarser one.

It need not be this way. In 1990, 1993, and 1997, policymakers enacted major deficit reduction packages that reduced deficits in a more balanced way, without increasing poverty. Deficit reduction does not require the Scrooge-like, Gilded-Age policies that the Ryan plan embodies. Our nation and our people are better, and they deserve better.

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