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Preview of New Ryan Budget: As Extreme as Last Year's, If Not More So

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Basic budget arithmetic suggests that House Budget Committee Chairman Paul Ryan's coming budget will be at least as extreme as his budget last year, and likely more so. The Congressional Budget Office's (CBO) latest deficit projections are roughly $1 trillion higher over the coming decade than last year's projections. If the new Ryan budget, slated for release this week, is to achieve the same goals as last year's — reaching balance within ten years and reversing sequestration cuts in defense without raising revenues — it will need to expand its already steep cuts in domestic programs by hundreds of billions of dollars.

Last year, Ryan's budget focused its deepest cuts on programs that benefit low-income people. These cuts, which included massive reductions in Medicaid and SNAP (formerly food stamps) as well as the repeal of all health reform benefits, constituted about 72 percent of the budget's total program cuts. As a result, last year's budget would have resulted in large increases in poverty and deprived many millions of affordable health insurance. Further cuts in low-income programs are highly likely if the new Ryan budget again relies solely on program cuts while boosting defense funding and avoiding any cuts in Social Security and additional savings in Medicare.

As in past years, Chairman Ryan may not provide many details about *how* his proposed cuts would be achieved. Last year, he called for converting Medicaid and SNAP to block grants, leaving it to the states to make the tough choices about which poor children, low-income seniors, or people with disabilities would not receive help. Similarly, his budget included about $660 billion of *unspecified* ten-year cuts in mandatory programs — failing even to specify *which* programs would be cut. And it gave little or no details on how to cut non-defense discretionary programs more than $600 billion below the already very austere post-sequestration levels.

With almost $1.3 trillion in unspecified ten-year cuts and its Medicaid and SNAP cuts occurring through block grants, last year's Ryan budget obscured its real impact and the severe hardship it would impose. Its lack of specificity, and the decision to wall off large parts of the budget from any deficit reduction at all, belied any attempt to portray that budget as a courageous document that makes hard choices.

Architecture of Ryan Budget Restricts Sources of Potential Savings

Chairman Ryan's new budget is expected to follow the contours of his budget from last year: achieve balance by the tenth year, keep revenues at current-law levels, raise defense funding to reverse the sequestration cuts, and avoid any significant cuts in Medicare that would affect current beneficiaries, while exempting Social Security from cuts entirely.

This basic architecture severely constrains where Chairman Ryan can achieve budget savings. His last budget focused its cuts in three areas: programs providing health coverage (including repealing the Affordable Care Act's coverage provisions); other mandatory programs outside Social Security and health, with programs assisting Americans of limited means hit especially hard; and non-defense discretionary funding. Last year, Ryan's budget called for $4.3 trillion in cuts in non-defense programs (both discretionary and mandatory) over ten years relative to current law. About 72 percent of those cuts, or $3.1 trillion, came from programs targeted on low- and moderate-income Americans.[1] Of the $3.1 trillion in cuts in low-income programs, $475 billion fell in the tenth year.

- **Medicaid and health insurance coverage.** Last year, Ryan's budget secured massive savings (almost $2.6 trillion) by repealing the parts of the Affordable Care Act that provide coverage to low- and moderate-income people and by converting Medicaid and the Children's Health Insurance Program (CHIP) into a block grant with dramatically reduced funding. Taken together, these proposals would ultimately have raised the number of low- and moderate-income Americans without health insurance by *40 to 50 million* relative to current law, including millions of children as well as working-age adults.[2] At least 1 in every 8 Americans would have lost health coverage under Chairman Ryan's 2014 budget plan.

- **Other mandatory programs.** Last year, Ryan's budget cut nearly $1 trillion from mandatory programs outside Social Security and health care. That amount included a $135 billion cut in SNAP which, if achieved entirely through eligibility reductions, would have forced 8 to 9 million people off the program. It also included cuts totaling $163 billion from civil service pensions and farm programs.

  The remaining cuts (about $660 billion) were unspecified, but judging from the parts of the budget to which Chairman Ryan assigned them, we estimate roughly 35 percent would have come from other low-income entitlement programs such as Supplemental Security Income (SSI) for the aged and disabled poor, school lunches and other child nutrition programs, Pell Grants, the Earned Income Tax Credit and the low-income component of the Child Tax Credit, and Temporary Assistance for Needy Families.[3]

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[1] These figures differ somewhat from those in a previous CBPP analysis (Richard Kogan and Kelsey Merrick, *Chairman Ryan Gets 66 Percent of His Budget Cuts from Programs for People with Low or Moderate Incomes*, Center on Budget and Policy Priorities, March 15, 2013 http://www.cbpp.org/cms/?fa=view&id=3925). That analysis compared Chairman Ryan's budget to a baseline that assumed, among other things, that the cuts required by sequestration and by Medicare's Sustainable Growth Rate formula would not take place. Relative to that baseline, we estimated that Ryan's budget would cut non-defense programs by $5.0 trillion and low-income programs by $3.3 trillion. The figures here, in contrast, compare the Ryan budget to current law.

[2] Robert Greenstein, *Statement on Chairman Ryan's Budget Plan,* Center on Budget and Policy Priorities, March 12, 2013, http://www.cbpp.org/cms/index.cfm?fa=view&id=3920.

[3] Although the Ryan budget did not specify which mandatory programs would be cut to achieve this $660 billion in savings, it did allocate the cuts to broad groups of programs, known as budget "functions." In the absence of any

What Will the Ryan Budget Show for Tax Reform?

Last year, Ryan's budget raised no new revenue; rather, it reflected CBO's estimate of revenues under current law. We expect that will be the case again this year. But an interesting question is how Chairman Ryan will *describe* his tax policies.

Chairman Ryan will likely call for tax reform. Last year, he said that tax reform should be "revenue neutral" — that is, it should raise the same amount of revenues as current law. But he also set a goal of reducing the top income-tax rate to 25 percent and repealing the Alternative Minimum Tax and called for repealing all revenue-raising provisions of health reform. The Urban-Brookings Tax Policy Center estimated that these policies would reduce revenues by nearly $6 trillion over ten years, providing massive tax cuts for wealthy Americans. Yet Chairman Ryan offered no proposals on how to offset this huge cost to achieve revenue neutrality. Instead, he linked his tax reform vision to the efforts of the House Ways and Means Committee, led by Chairman Dave Camp, to develop a tax reform plan.

Chairman Camp's tax reform proposal, released recently, scales back or eliminates a significant number of tax expenditures and dedicates all of the savings to paying for rate reductions, none to deficit reduction. While revenue neutral over the first decade, it would lose revenue in subsequent decades relative to current law. Yet it sets the top rate at 35 percent; Chairman Camp could not find enough tax-expenditure savings to pay for a lower rate.

The Camp plan adds a dose of reality to the tax reform debate by showing how hard it is to lower tax rates even a few percentage points, let alone to the 25 percent rate that has consistently been tax reform's centerpiece in past Ryan budgets. A key question for the new Ryan budget is whether it will align itself with the Chairman Camp's new proposal or instead cling to the arithmetically dubious claims of previous budgets.

- **Non-defense discretionary (NDD) funding.** Last year, Ryan's budget cut ten-year expenditures for NDD programs by almost $640 billion *below* the already low levels resulting from sequestration. Combined with the steep cuts already imposed over the past few years, the Ryan cuts would have left NDD funding in 2014 fully 25 percent below the 2010 level, adjusted for inflation. Actual NDD funding in 2014 is 13 percent below the inflation-adjusted 2010 level, even after the partial relief provided by the budget agreement reached last December. This year's Ryan budget will reportedly adhere to the budget agreement's levels of defense and NDD funding for 2015, but it will certainly propose further steep cuts in NDD thereafter.

Almost all of the Ryan budget's NDD cuts were unspecified. But cutting NDD this deeply would undoubtedly have serious effects on programs that NDD funding supports, which include:

- investments in education, infrastructure, and basic research, which can boost future productivity growth;

further detail about how the Ryan budget would achieve these cuts, we assume that each mandatory program would be cut in proportion to its share of mandatory spending in the function, excluding programs which the budget explicitly shielded or cut.

- help for low-income families and individuals — one-quarter of NDD funding goes for programs such as Head Start, WIC, child care, homelessness prevention, services for frail elderly and disabled people, low-income housing, and Title I education; and
- an array of other services, from law enforcement and homeland security, veterans' health care, environmental protection, and air traffic control to food, drug, workplace, and mine safety.

Last year, Ryan's budget proposed converting Medicare to a "premium support" program, replacing its guarantee of health coverage with a flat payment (or voucher) that would have become less and less adequate to purchase coverage over time. It also proposed gradually raising the age of eligibility for Medicare from 65 to 67. Troubling as these proposals were, they didn't help achieve balance in ten years because they weren't scheduled to take effect within the ten-year budget window. The Ryan budget would also have cut Medicare spending by $129 billion over the first decade by repealing health reform's benefit improvements (including closure of the prescription drug "donut hole"), limiting medical malpractice awards, and raising income-tested premiums. It also assumed that the Medicare cuts required by sequestration and by the Sustainable Growth Rate formula would either take effect or be replaced with other cuts.

The Ryan budget included no Social Security savings. For instance, it did not propose to shift the inflation indexing of benefits to the "chained" Consumer Price Index, although Republicans had urged President Obama to include such a proposal in his budget and he did so last year.

This Year's Budget Arithmetic Is Even More Daunting

This year, the budget arithmetic facing Chairman Ryan is more daunting because the CBO deficit forecast has worsened by roughly $1 trillion over ten years. To achieve balance by the tenth year (2024), he will need many hundreds of billions of dollars *more* in deficit reduction than in last year's budget.

Where will these additional cuts come from? If the new Ryan budget, like last year's, raises defense funding by scaling back or eliminating the defense sequestration, keeps Social Security cuts off the table, offers few or no additional Medicare cuts within the ten-year budget window, and rejects new revenue, it will have to achieve the additional savings from the same areas that bore the brunt of last year's proposed cuts. That implies that the lion's share of these additional cuts will likely come from low-income assistance programs such as SNAP and Medicaid, non-defense discretionary programs, and other mandatory programs outside Social Security and health, such as retirement benefits for civilian retirees — just as they did last year.

Last year, Ryan's budget achieved balance in a highly *un*balanced way. By imposing a disproportionate share of the burden on low-income and vulnerable Americans — through low-income program cuts totaling $3.1 trillion over ten years and $475 billion in the tenth year — it would have resulted in large increases in poverty and the number of uninsured. This year's Ryan budget will almost certainly impose even deeper cuts in this area and thus have an even harsher impact on low- and moderate-income families.