
April 2, 2009

HOUSE REPUBLICAN BUDGET WOULD AID WEALTHY INDIVIDUALS AND CORPORATIONS, CUT PUBLIC SERVICES, SLOW ECONOMIC RECOVERY

By Paul N. Van de Water and Kathy A. Ruffing

The House Republican budget, introduced April 1 by Rep. Paul Ryan (R-WI), calls for a massive transfer of resources from the broad majority of Americans to the nation's wealthiest individuals and corporations.¹ It provides the richest households with a new round of very costly tax reductions by extending the Bush high-income tax cuts and adding another set of tax cuts that are particularly large at the top of the income scale (as well as a cut in corporate taxes). To help pay for these tax cuts, the proposal eliminates Medicare and Medicaid in their current forms, imposes large reductions on other domestic programs, and apparently repeals the Making Work Pay tax credit.

In addition, by cutting spending starting in the fiscal year that begins in October — when the economy almost certainly will still be weak — the House Republican budget would likely prolong and deepen the recession, already the worst since the Great Depression.

Gives More Tax Cuts to High-Income Households and Corporations

The House Republican budget extends the 2001 and 2003 tax cuts for households with incomes over \$250,000. In addition, it effectively lowers the top marginal tax rate from 35 percent to 25 percent by setting up an alternative tax system in which families would pay at a 25 percent rate for all income above \$100,000. And it completely eliminates taxes on capital gains, which are received primarily by upper-income taxpayers, for the rest of 2009 and for all of 2010.

These provisions would provide the highest-income 1 percent of taxpayers with tax cuts averaging \$75,000 apiece in 2010 compared to the tax code under the House Budget Committee-approved budget, according to Citizens for Tax Justice.²

The House Republican budget also includes large tax cuts for corporations. It cuts the corporate income tax rate from 35 percent to 25 percent without closing any of the large loopholes that

¹ Paul D. Ryan, *Report on The Path to American Prosperity: The House Republican Budget Alternative*, April 2009, http://www.house.gov/budget_republicans/press/2007/pr20090401_gopbudget.pdf. Rep. Ryan's proposal has been endorsed by the House Republican leadership; Rep. Jim Jordan (R-OH) has also introduced a budget proposal on behalf of the House Republican Study Committee.

² Citizens for Tax Justice, *Update on House GOP Budget Plan*, April 2, 2009, <http://www.ctj.org/pdf/housegopplanupdate.pdf>.

corporations currently exploit to reduce their tax payments. The U.S. corporate tax burden is already smaller than average for developed countries: U.S. corporations paid 13.4 percent of their profits in taxes between 2000 and 2005, on average, well below the 16.1 percent average for developed countries belonging to the Organization for Economic Co-operation and Development.³

Slashes Spending on Public Services

For fiscal year 2010, the House Republican budget provides \$480 billion in funding for non-defense discretionary programs. This is 10 percent (\$53 billion) below the amount in the House Budget Committee's budget plan and 4 percent (\$20 billion) below the CBO baseline, which represents the cost of maintaining these programs at their current level adjusted only for inflation.

Over the next five years (2010-2014), the House Republican budget would cut non-defense discretionary spending (except for veterans' programs) by about \$414 billion (13 percent) below the CBO baseline, thereby requiring extensive cuts in real spending for education, law enforcement, infrastructure, energy, and other needs. The budget proposal would freeze non-defense discretionary programs in *nominal* — not inflation-adjusted — terms for each of these five years.

The budget could also lead to substantial cuts in food stamps by requiring the House Agriculture Committee to make \$38 billion in cuts over the next ten years. Theoretically, the committee could achieve this target by cutting farm price supports, but in reality, such cuts would likely make up only a small fraction of the required \$38 billion reduction. Instead, the cuts would likely come primarily from the Food Stamp Program, which accounts for the bulk of the remaining spending under the committee's jurisdiction.

Undermines Economic Recovery

The House Republican budget explicitly repeals most of the spending in the recently enacted American Recovery and Reinvestment Act. It also apparently repeals the temporary Making Work Pay tax credit, a refundable income tax credit that offsets the payroll tax on up to \$6,450 of earnings for most workers (and up to twice that amount for couples).

In total, the House Republican budget requires about \$240 billion in spending cuts in 2010 and 2011 — years in which the economy is expected to be operating well below capacity. Such large reductions would undermine the beneficial effects of the Recovery Act, which aimed to *increase* government and consumer spending during those years to help offset the steep drop in private consumption that has led many businesses to lay off employees and curtail investments.

By cutting spending well below the levels approved by the House Budget Committee, the House Republican budget would undercut the economic stimulus from the Recovery Act. That, in turn, would make the recession longer and deeper than it otherwise would be.

³ Chye-Ching Huang and Chad Stone, *Putting U.S. Corporate Taxes in Perspective*, Center on Budget and Policy Priorities, October 27, 2008, <http://www.cbpp.org/cms/index.cfm?fa=view&id=784>.

Drastically Weakens Health Coverage for Elderly, Disabled, and Low-Income Americans

The House Republican budget abolishes Medicare in its current form for everyone currently below age 55. Instead of qualifying for health coverage through Medicare upon turning 65, these individuals would instead receive a premium support payment, or voucher, to purchase private health insurance plans. The premium support payments are likely to become increasingly inadequate over time, with beneficiaries unable to find affordable, comprehensive coverage on their own. Moreover, the private insurance plans are likely to have a widely varying and confusing set of benefits and cost-sharing that would lead many beneficiaries to enroll in plans that do not cover certain needed benefits or impose onerous deductibles and co-payments. Many other beneficiaries, particularly those in poor health, could end up uninsured.

In all, the budget requires the Ways and Means Committee, which oversees Medicare, to cut spending by \$605 billion over the 2010-2019 period. Most of these cuts would come from Medicare

The budget also eliminates guaranteed health coverage under Medicaid for low-income children, seniors, and persons with disabilities by turning the program into a block grant to the states. Under Medicaid's current entitlement structure, everyone who meets the program's eligibility rules qualifies for coverage. The House Republican budget, in contrast, limits Medicaid funding to a fixed dollar amount that would *not* be sufficient to cover everyone in need, especially during economic slowdowns when unemployment rises and incomes decline.

The budget requires the Energy and Commerce Committee to cut spending by \$666 billion over the next decade, primarily by cutting Medicaid. These large Medicaid cuts would worsen state budget deficits and force states to limit Medicaid eligibility and benefits, increase premiums and cost-sharing, and reduce provider payment rates — all of which would have detrimental effects on the health of the poorest Americans.