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

CBPP STATEMENT

***For Immediate Release*:**
Updated, Wednesday, April 20, 2011

***Contact*:**
Michelle Bazie, 202-408-1080, bazie@cbpp.org

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

Chairman Ryan's sweeping budget plan has been labeled "courageous," but it's a cowardly budget in a crucial respect. It proposes a dramatic reverse-Robin-Hood approach that gets the lion's share of its budget cuts from programs for low-income Americans — the politically and economically weakest group in America and the politically safest group for Ryan to target— even as it bestows extremely large tax cuts on the wealthiest Americans. Taken together, its proposals would produce the largest redistribution of income from the bottom to the top in modern U.S. history, while increasing poverty and inequality more than any measure in recent times and possibly in the nation's history.

That's because the Ryan plan would generate nearly two-thirds — about $2.9 trillion — of its $4.5 trillion in budget cuts over 10 years from programs for people of modest means, while making permanent all of President Bush's tax cuts for high-income Americans as well as a new estate-tax giveaway in the December 2010 tax package.

Ryan has said that he borrowed some ideas from President Obama's fiscal commission, which was chaired by Erskine Bowles and Alan Simpson. But in a sharp departure, it stands a core principle of the Bowles-Simpson plan on its head. The co-chairs called for policymakers to set, as a basic principle, that the deficit should be reduced in a way that does *not* increase poverty and inequality; they called for protecting low-income and vulnerable Americans. The Ryan plan, in contrast, aims by far its most severe blows at those people — even as it drops all of the Bowles-Simpson revenue-raising measures that would secure their largest revenue increases from people at higher income levels.

On the tax side, the Ryan plan would make permanent all of the Bush tax cuts for high-income Americans, as well as the striking estate-tax giveaway included in the December 2010 tax package that benefits the estates of only the wealthiest one-quarter of 1 percent of Americans who die, at a cost of tens of billions of dollars. The Ryan plan loses $700 billion over ten years from making the high-end tax cuts permanent. People with incomes over $1 million would receive average tax cuts of $125,000 a year — or more than $1 million over the coming decade — if these tax cuts are made permanent, according to the Urban-Brookings Tax Policy Center. The $125,000 figure does not include the additional tax cuts that high-income households would receive from the evisceration of the estate tax (or from additional cuts that people earning at least $1million a year would receive from Ryan's call to cut the top tax rate to 25 percent as part of revenue neutral tax reform).

The huge tax benefits for wealthy Americans stand in stark contrast to the proposed budget cuts. The Ryan plan contains $4.5 trillion in spending cuts over ten years. Using conservative estimates, the budget cuts in programs for people of modest means would total roughly $2.9 trillion and probably more, or nearly two-thirds of the total. (For a more detailed explanation of these figures, see this brief CBPP analysis.

The plan contains $1.4 trillion in Medicaid cuts over ten years (which includes repeal of the health reform law's Medicaid expansion); large cuts in food stamps, low-income housing, Pell Grants, and other programs for people with limited incomes; and repeal of the health reform law's subsidies to help low- and moderate-income people purchase health insurance. The plan justifies its large food stamp cuts by claiming that the trend in food stamp costs "is one of relentless and unsustainable growth." The claim is false. Food stamp costs have risen sharply in the past few years due mainly to the recession and a temporary food stamp benefit increase of the 2009 Recovery Act. As the economy recovers, food stamp costs will drop and, by the end of the decade, will return to about 2005 levels as a share of Gross Domestic Product (GDP), according to the Congressional Budget Office (CBO). For more on this, see this CBPP analysis.

Cuts of this magnitude in programs for people of low or modest incomes will lead to substantial increases in poverty and hardship. In addition, the steep cuts in programs like Pell Grants to help low-income students get a college education would reduce the opportunity for many individuals to lift themselves out of poverty.

In 1990, 1993, and 1997, policymakers enacted major deficit reduction packages that reduced deficits without increasing poverty. Deficit reduction does not require the Gilded-Age, socially backward policies that the Ryan plan embodies. Those are choices that Chairman Ryan is making. They are not necessitated by deficit reduction.

Also noteworthy, the Ryan plan secures no deficit-reduction contribution at all from closing special interest tax breaks, such as breaks for big oil companies or Wall Street traders who exploit loopholes to pay taxes at low rates — even though such prominent economists as former Reagan advisor Martin Feldstein has said that "tax expenditures" constitute the biggest source of wasteful spending in the budget and should be the first place that policymakers look for cuts. The Ryan plan does call for tax reform that would broaden the tax base. But every dollar of revenue gained would go for cutting tax rates well below Bush-era levels, especially for the richest Americans whose top rate would fall to 25 percent. Not a penny would go for deficit reduction.

In addition, the plan almost certainly would lead to large cuts in investments critical to future economic growth, like infrastructure, education, and basic research. For one thing, the plan cuts a stunning $1.6 trillion from non-security discretionary programs over the coming decade, so cuts in those areas would be hard to avoid. (These cuts are measured from the levels in the continuing resolution that was in effect through March 4, 2011, since those levels — essentially the 2010 funding levels — form the basis for the latest CBO baseline.) For another thing, the Ryan plan documents make very clear the plan's intention to cut substantially in such areas by touting its cuts in infrastructure and Pell Grants.

By 2021, total spending for non-security discretionary programs would be cut one-third (compared to the 2010 level adjusted for inflation). The cuts required in this part of the budget would be much deeper than those in H.R.1, the House-passed bill that would make deep cuts in fiscal year 2011 funding levels.

Pell Grants warrant particular mention. The plan's cuts in Pell Grants would mean that — while cutting heavily into medical, food, and housing assistance for low-income Americans — the Ryan plan would cut rungs off the opportunity ladder by making it harder for many low-income students to afford a college education. The Ryan documents justify the Pell Grant cuts by claiming they are needed to keep tuition from rising, but that stands matters on their head. While there is some evidence that higher student aid places upward pressure on tuition, the Ryan budget itself would force tuition up, even as it cuts Pell Grants. Tuition charges for community colleges and public universities are rising across the country now primarily because states — facing budget shortfalls — are raising them significantly. The Ryan budget's $1.6 trillion in cuts in non-security discretionary programs would squeeze state budgets much further because a third of all federal non-security discretionary funding consists of grants to states and local governments. By significantly worsening state fiscal outlooks, these cuts would likely force further tuition increases, even as the Ryan budget would cut Pell Grant amounts and restrict access to those grants.

In health care, the Ryan plan's changes would push tens of millions of Americans into the ranks for the uninsured and underinsured — and create more of a two-tier health care system in which health care is increasingly rationed by income. The plan repeals the provisions of health reform that CBO expects will extend coverage to 34 million Americans who otherwise would be uninsured. It then cuts another $771 billion out of Medicaid over the coming decade for a total of $1.4 trillion in Medicaid cuts.

Ryan claims that converting Medicaid to a block grant will enable states to do more with fewer resources, but the claim does not withstand scrutiny. Medicaid costs significantly less per beneficiary than private-sector care, and its costs per beneficiary have been rising more slowly than private-sector health costs. Most states already make heavy use of managed care in their Medicaid programs and already enjoy considerable flexibility under federal law. The notion that policymakers can cut $771 billion from the program without sharply reducing both the number of low-income Americans who are insured and the coverage that Medicaid beneficiaries receive is at odds with reality. Low-income children, seniors, and people with disabilities would be hit the hardest, since they constitute the bulk of the program's beneficiaries.

Many future Medicare beneficiaries with modest incomes, such as elderly widows who must live on $15,000 or $20,000 a year, also would likely be hit by the plan's Medicare provisions; the Medicare voucher (or defined contribution) they would receive would fall farther and farther behind health care costs — and purchase less and less coverage — with each passing year. Aggravating this problem, Ryan has said that his plan calls for repeal of a key measure of the health reform law that is designed to moderate Medicare costs — the Independent Payment Advisory Board. In other words, his plan would scrap mechanisms to slow growth in the costs of health care services that Medicare beneficiaries need, even as it cuts back the portion of those costs that Medicare would cover.

Affluent Medicare beneficiaries surely would respond to shrinking Medicare coverage over time by buying more supplemental coverage. Those who could not afford to do so, however, would get less health care. This is another way that the Ryan health care changes would make ours more of a two-tier health care system and would effectively result in more rationing on the basis of income.

Finally, the impact of the Ryan plan would be harshest during recessions. Currently, Medicaid as well as SNAP (formerly known as food stamps) respond automatically to assist more people when, during recessions, more people lose their jobs, income, and health insurance. This automatic response both lessens hardship and keeps the economy from plunging deeper into recession, by adding more purchasing power to the economy that replaces part of the loss of demand from consumers and businesses. The Ryan plan would convert both Medicaid and SNAP to block grants, however, which means they would no longer respond automatically to increased need during recessions. That would not only increase hardship and destitution in recessions, but also would further weaken a slumping economy and lead to the loss of many more jobs.

# # #

The Center on Budget and Policy Priorities is a nonprofit, nonpartisan research organization and policy institute that conducts research and analysis on a range of government policies and programs. It is supported primarily by foundation grants.