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Analysis of Chairman Ryan's 2013 Budget Proposal

March 21, 2012

SUMMARY

House Budget Committee Chairman Paul Ryan has proposed a budget resolution for the fiscal year (FY) 2013 that envisions a federal government permanently reduced to its average yearly size before the 2008 financial crisis, despite an aging population and rising health care costs that would increasingly crowd out spending in other important areas, like investment and support for the most vulnerable Americans. Compared to the Congressional Budget Office (CBO) baseline, which reflects current laws, the Budget Committee staff estimates that over the next 10 years the chairman's proposed budget would:

- Cut spending by $4.15 trillion;
- Cut taxes and other revenues by $4.4 trillion;
- Increase budget deficits by $200 billion.

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House Budget Committee's Estimate of Chairman Ryan's Budget

	2012	2013	2022	Total 2013-2022
Billions of dollars				
Revenue	2,444	2,734	4,601	37,008
Spending	3,624	3,530	4,888	40,135
Deficits	1,180	797	287	3,127
Debt held by the public	11,355	12,261	15,364	N.A.
Percent of GDP				
Revenue	15.8	17.2	18.7	18.3
Spending	23.4	22.2	19.8	20.0
Deficits	7.6	5.0	1.2	1.7
Debt held by the public	73.2	77.0	62.3	N.A.

SOURCE: Data from the House Budget Committee, *The Path to Prosperity: A Blueprint for American Renewal*, March 2012. Compiled by PGPF.

The chairman's budget proposes a distinct change in the future role of government. According to long-term trajectories of the plan prepared by CBO at the chairman's request, the proposed budget would shrink the size of government to about 20 percent of gross domestic product (GDP) in 2023, 19 percent of GDP in 2040 and 16 percent of GDP in 2050. Over the same time period, total federal spending would grow from 23 percent of GDP to 26 percent under baseline assumptions. The chairman would accomplish this dramatic change through restructuring Medicaid, repealing the Affordable Care Act and the exchange subsidies it provides, implementing long-term Medicare reform, and cutting non-defense discretionary spending to levels well below the caps established by the Budget Control Act, which was enacted during last summer's debate over the debt ceiling.

The Ryan budget would reform income taxes for individuals and corporations by lowering rates and allowing fewer exemptions, deductions and other special provisions. Relative to the CBO baseline, these proposals would cut taxes by $4.4 trillion over 10 years and would more than offset all of the budget's $4.1 trillion in proposed spending cuts.

According to estimates prepared by the House Budget Committee majority staff, the policy changes in the chairman's proposal would significantly reduce federal debt as a share of GDP. Federal debt would decline to 62 percent of GDP in 2022 and, according to CBO's long-term calculations, to 10 percent of GDP in 2050.

The chairman's proposed budget resolution (also known as the chairman's mark) is the starting point for congressional deliberations over next year's budget. This year's chairman's mark addresses many of the drivers of our long-term debt and suggests some of the key debates we will see in this election year around entitlement reform, the tax code, and the overall size and role of government.

The congressional budget resolution provides a blueprint for the Congress' spending and revenue decisions for the next fiscal year. In the normal course of the congressional budget process, the House and Senate prepare separate resolutions that are then reconciled in conference. Because the budget resolution is not presented to the President for signature, it does not have the force of law. It does, however, guide congressional decision-making and serves as a framework for appropriation, tax, and other legislation that would become law. Budget resolutions, however, are not required for the government's continued financial operations. Indeed, the Congress has not adopted a budget resolution since the FY 2010 budget process, three years ago.

WHAT IS THE OUTLOOK FOR DEFICITS?

Under the chairman's proposal, budget deficits would fall from 7.6 percent of GDP in 2012 to 1.2 percent of GDP in 2022 – the same level projected by CBO's baseline. However, the cumulative 10-year deficits under Ryan's plan would actually increase by $200 billion above the baseline's cumulative current law levels.

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Effect of Chairman Ryan's budget on deficits

Billions of dollars

	2013	Total 2013-2022
Baseline deficits under current law	612	2,887
Chairman Ryan's budget		
Outlays	3,530	40,135
Revenues	2,734	37,008
Deficits under Chairman Ryan's budget	797	3,127
Effect on deficits under current law [1]	185	240

SOURCE: Data from the House Budget Committee, *The Path to Prosperity: A Blueprint for American Renewal*, March 2012; and the Congressional Budget Office, *Updated Budget Projections: Fiscal Years 2012 to 2022,* March 2012. Compiled by PGPF.
1. A positive number indicates that the budget policies increase the deficit; a negative number indicated that they reduce the deficit.

Because its baseline includes the expiration of major tax and spending provisions that together result in lower deficit and debt projections, CBO publishes an "alternative fiscal scenario" [1] that is more consistent with recent legislative actions by policymakers. Relative to the alternative fiscal scenario and the president's budget, Chairman Ryan's plan would produce substantially lower deficits and debt.

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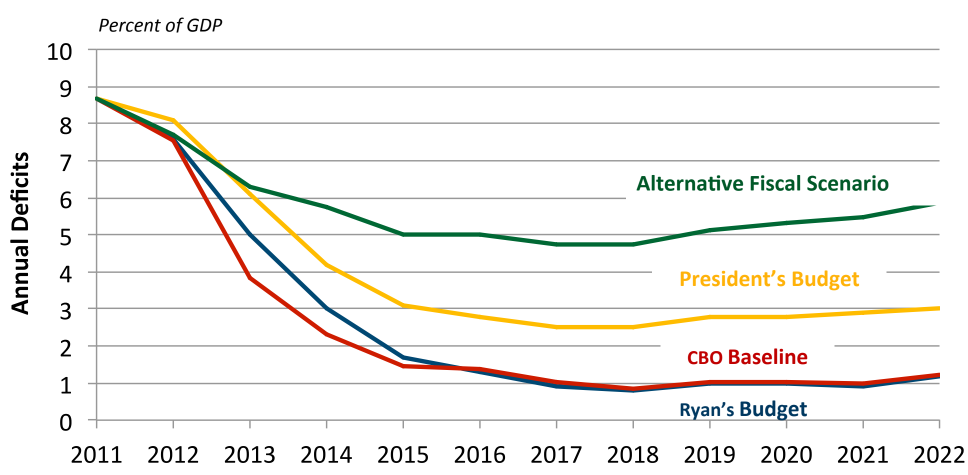
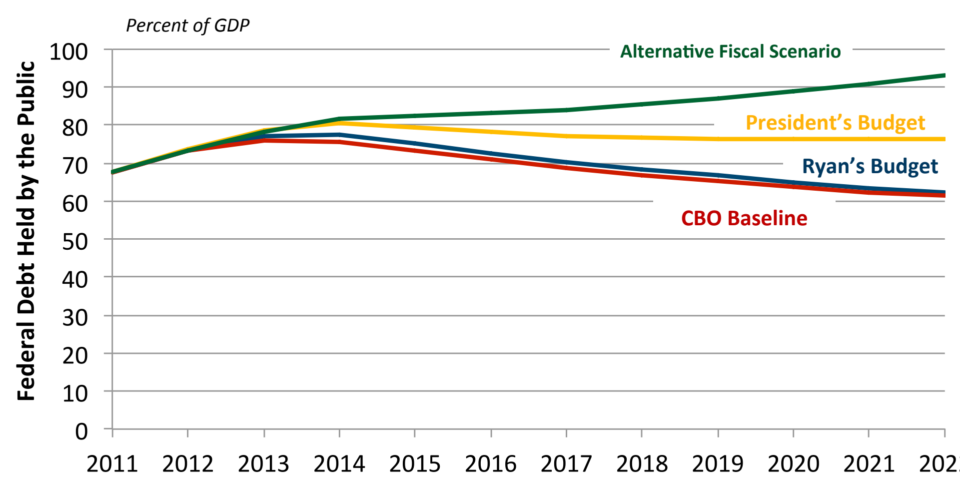
Comparison of Chairman Ryan's budget deficits to other budget projections



SOURCE: Data from the House Budget Committee, *The Path to Prosperity: A Blueprint for American Renewal*, March 2012; Congressional Budget Office, Updated Budget Projections: Fiscal Years 2012 to 2022, March 2012; and the Congressional Budget Office, *An Analysis of the President's 2013 Budget*, March 2012. Compiled by PGPF.

WHAT ACCOUNTS FOR THE DECLINE IN DEBT?

Federal debt would decline as a share of the economy over the next 10 years under the chairman's budget. By 2022, it would reach about 62 percent of GDP. By contrast, federal debt would be about 61 percent in 2022 under current law and 76 percent under the president's FY 2013 budget, according to CBO estimates.



SOURCE: Data from the House Budget Committee, *The Path to Prosperity: A Blueprint for American Renewal*, March 2012; Congressional Budget Office, Updated Budget Projections: Fiscal Years 2012 to 2022, March 2012 ;and the Congressional Budget Office, *An Analysis of the President's 2013 Budget*, March 2012. Compiled by PGPF.

Federal debt would decline under the chairman's proposal because he proposes substantial spending and revenue cuts to shrink the size of government. According to the estimates prepared by the House Budget Committee staff, the chairman would reduce spending by $1 trillion over 10 years compared to current law. Compared to the president's budget, the chairman's proposal would reduce spending by $5 trillion.[2]

However, budget deficits actually increase over the same ten-year period compared to current law because all of the spending cuts in the chairman's budget would be offset by the cost of tax cuts. Indeed, over the next 10 years, his proposal would reduce revenues by $4.4 trillion relative to current law. As a result, revenues under the Ryan proposal would not exceed 19 percent of GDP at any point during the next ten years. By contrast, under current law, revenues, largely fueled by the expiration of the individual tax cuts originally enacted in 2001 and 2003, would rise to 21.2 percent of GDP.

TAX REFORM IN CHAIRMAN RYAN'S BUDGET

Chairman Ryan's budget proposes a framework for fundamental tax reform. The chairman's plan would simplify the individual income tax code down to two rates – 10 and 25 percent – but does not specify where the income break between tax brackets would fall. Other important changes in his tax plan are:

- Lowering the top corporate tax rate to 25 percent from 35 percent
- Repealing the Alternative Minimum Tax (AMT)
- Reforming international taxation by switching to a territorial system

The chairman's budget indicates that lower tax rates would be financed by eliminating various tax expenditures. However, the budget does not specify which tax expenditures would be eliminated; those details would be left to the House Committee on Ways and Means. Without sufficient changes to tax expenditures, the proposal would produce lower revenues (and higher deficits) than the committee has estimated.

It is impossible to assess the impact of the chairman's tax reform plan without more detail about who will pay which rates and how revenues lost from lowering rates will be made up. However, the committee estimates that the chairman's proposal would reduce revenues by $4.4 trillion over the next 10 years relative to current law. Compared to CBO's alternative fiscal scenario, which assumes that all expiring tax provisions are extended, the chairman's budget would represent a small increase in revenues.

SELECTED SPENDING POLICIES IN CHAIRMAN RYAN'S PROPOSAL

When compared to the CBO baseline, the chairman's budget reduces total outlays by $4.1 trillion dollars over the next 10 years. The major spending provisions in the chairman's proposal are:

- Converting the federal contribution for Medicaid into state-administered block grants that would grow with the rate of inflation and population
- Converting the Supplemental Nutrition Assistance Program (SNAP) into block grants that would increase with inflation and population growth beginning in 2016
- Reducing the federal workforce by 10 percent in the next three years, freezing pay until 2015, and reforming fringe benefits
- Repealing exchange subsidies scheduled to begin in 2014 under the Affordable Care Act
- No change in Social Security spending, but a requirement that the president and House and Senate leadership submit plans to assure the program's sustainability

According to CBO's long-term report on the chairman's budget, spending in 2023 for all programs other than Social Security, Medicare and Medicaid would be nearly 50 percent smaller as a percentage of GDP compared to 2011. By 2050, those programs –including defense – would total less than 4 percent of GDP. Every year since World War II, spending for this category has been at least 8 percent of GDP, according to CBO, and spending for defense alone has not fallen below 3 percent of GDP.

WHAT ARE THE LONG-RUN IMPLICATIONS OF THE CHAIRMAN'S BUDGET?

CBO calculates that the chairman's proposal would reduce the long-term pressures on the federal budget. The nonpartisan agency estimates that if the chairman's proposals were enacted and maintained, federal debt would decline to 10 percent of GDP by 2050.[3] However, achieving that goal depends on maintaining the fundamental restructuring of Medicaid and Medicare that the chairman has outlined in his proposal in order to slow the growth of federal health care spending, and significantly reducing the scope of federal activity in other areas of the budget, including defense, education, infrastructure investment, and financial support for low-income children and adults.

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Social Security, Medicare, and Medicaid in Chairman Ryan's budget compared to the CBO baseline and the alternative fiscal scenario

Percentage of GDP

	2023	2030	2040	2050
Medicare				
Chairman Ryan's plan	3.5	4.3	4.8	4.8
CBO Baseline	3.8	4.5	5.5	6.5
Alternative Fiscal Scenario	4.0	5.0	6.3	7.3
Medicaid, CHIP, Exchange Subsidies				
Chairman Ryan's plan	1.3	1.3	1.0	1.0
CBO Baseline	3.0	3.3	4.0	4.3
Alternative Fiscal Scenario	3.0	3.5	4.0	4.5
Defense, Non-Defense Discretionary, and Non-Social Security Mandatory				
Chairman Ryan's plan	6.8	5.8	4.8	3.8
CBO Baseline	8.0	8.0	7.8	7.8
Alternative Fiscal Scenario	8.5	8.5	8.3	8.3

SOURCE: Data from the Congressional Budget Office, *The Long-Term Budgetary Impact of Paths for Federal Revenues and Spending Specified by Chairman Ryan*, March 2012. Compiled by PGPF.

As discussed above, the chairman would reduce and restructure the Medicaid program as block grants to the states. The growth in the block grants would be limited to the rate of inflation and population growth. Because Medicaid spending is currently projected to grow much faster, the reform is expected to slow federal Medicaid costs significantly, but may increase pressure on state budgets.

For Medicare, the Chairman proposes the reform model similar to the plan he introduced last December with Senator Ron Wyden. Under this premium support plan, beginning in 2023, seniors would receive a premium subsidy that would partially or completely subsidize the cost of insurance. Beneficiaries could enroll in traditional, fee-for-service Medicare or buy private insurance in new Medicare exchanges. Premium-support subsidies would be benchmarked at the price of the second-least expensive approved private plan or traditional fee-for-service

Medicare, whichever is less expensive, and would be adjusted so that sicker patients received larger payments and lower-income seniors received more help to cover out-of-pocket expenses. The proposal suggests that competitive bidding would encourage providers to reduce their costs while improving quality of care, thereby acting as a cost control mechanism for the entire program. If the growth in health care costs did not slow sufficiently, the Chairman includes a fallback measure that would limit the reformed program's growth after 2023 to GDP growth plus 0.5 percent. With this cap in place, the reform would slow the growth of Medicare spending over time compared to current law. CBO calculates that this slower growth rate would reduce spending by 1.8 percent of GDP in 2050. Given the absence of information about the specific policies that would be implemented to achieve this cost containment, CBO does not describe its implications for the program and its beneficiaries.

CONCLUSION

Chairman Ryan has put forward a comprehensive plan to address the nation's long-term budget challenges. While it is unlikely that his plan or any other single plan would be adopted in its entirety, the chairman's proposal will generate a much-needed debate about alternative paths towards a more sustainable fiscal future. For any fiscal plan to be politically viable and lasting, it must achieve bipartisan support, and that means both parties will need to make concessions for the good of the nation. As the budget process proceeds, other lawmakers will be able to add their ideas and propose their own solutions. Their contributions will be most welcome. Our elected leaders must now work together to address their differences and put the nation on a sustainable long-term fiscal path. To achieve a lasting bipartisan solution, all options must be on the table, including additional revenues and entitlement reform. There are no easy choices, but we can no longer afford inaction. It's time for our political leaders to set ideology aside and make the tough choices and compromises needed to get our fiscal house in order.

[1] The alternative fiscal scenario assumes the following: Expiring tax provisions (other than the current reduction in the payroll tax rate for Social Security) are extended; the AMT is indexed for inflation after 2011; Medicare's physician payment rates are held at their current level; and automatic spending reductions required by the Budget Control Act set to take effect in January 2013 do not occur (although the discretionary spending caps in that law are assumed to remain in place).

[2] The president's FY2013 budget would increase spending by about $1.2 trillion over the ten-year period compared to current law according to the Congressional Budget Office.

[3] Congressional Budget Office, *The Long-Term Budgetary Impact Of Paths For Federal Revenues And Spending Specified By Chairman Ryan*, March 20, 2012.