Committee for a Responsible Federal Budget

CRFB Reacts to the Paul Ryan Budget Proposal
April 5, 2011

Today, Congressman Paul Ryan (R-WI), chairman of the House Budget Committee, released his FY 2012 budget proposal. Overall, his budget would reduce debt to 67.5 percent of GDP by 2021 and would save approximately the same amount as what the White House Fiscal Commission proposed. The budget would reduce projected deficits by over $1.6 trillion compared to CBO's current law projections and by $4.4 trillion when compared to CBO's score of the President's budget.

In particular, Ryan's budget proposes steep non-security discretionary spending cuts along with substantial reductions in federal health spending, including block-granting Medicaid, repealing the coverage provisions from the health care reform law, and reforming Medicare by introducing a "defined contribution" program. He also proposes significant cuts to other mandatory programs, overhauling the tax system, putting in place a mechanism for requiring a fix for Social Security, and budget process reforms.

"This is a bold budget, and Congressman Ryan should be congratulated for putting forward structural budget reforms to address our unsustainable debt path," said Maya MacGuineas, president of the Committee for a Responsible Federal Budget. "However, while the proposal deserves praise for being bold, the national discussion has moved beyond just finding a plan with sufficient savings to finding one that can generate enough support to move forward."

"All parts of the budget, including defense and revenues, will have to be part of a budget deal," added MacGuineas. "Given the need to put a budget fix in place as quickly as possible, we need to turn our attention to developing a comprehensive plan that can garner broad-based support. Time is not on our side here."

"We hope that Congressman Ryan's proposal will not generate attacks but rather lead to a larger discussion over how to move forward with a comprehensive solution. With lawmakers overly focused on a very small part of the budget, this is an important reminder of the tremendous fiscal challenges the country faces and that we should be looking to save not just billions, but trillions. Now that both the White House and House Republicans have made their opening bids, this continues to reinforce our belief that a comprehensive plan to fix the budget like the one the Fiscal Commission recommended has the best hope of moving forward."

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Among the major changes to future spending and revenues under Congressman Ryan's proposals are:

- **Non-Security**: Cut non-security discretionary spending back to FY 2006 levels for FY 2012, then freeze it for five years and hold growth to inflation thereafter.[1]
- **Security**: $78 billion in defense savings, holding spending growth to inflation (identical to President's request). No savings from other security agencies, such as the Department of Homeland Security and Veterans Affairs.
- **Health Care**: Repeal all new spending and taxes enacted under health care reform law, block grant Medicaid, keep all Medicare savings from health reform and devote to restoring solvency, repeal IPAB, institute tort reform, waive scheduled cuts to Medicare physician payments ("doc fixes"), and put in place a Medicare premium-support program beginning in 2022.
- **Social Security**: Propose a process in which the President and Congress, in conjunction with the Social Security trustees, must put forward plans to restore Social Security solvency if the program is projected to be insolvent.
- **Other mandatory**: Additional savings from farm programs, food stamps, federal retirement, student loans, and other programs.
- **Taxes**: Revenue neutral tax reform, fully extend the 2001/2003 tax cuts.

Congressman Ryan's budget would reduce deficit and debt levels each year over the 10-year budget window. His budget would balance the primary (non-interest) budget in 2014, reducing the deficit from $1.4 trillion (9.2 percent of GDP) this year to roughly $400 billion (2.0 percent of GDP) by 2017 where it would remain fairly stable in nominal terms but declining as a share of the economy. Much of this improvement will stem from the $4.4 trillion in savings from Ryan's proposal, but a sizable portion will also come from the improving economy (raising revenues while lowering spending on automatic stabilizers) and expiring economic rescue measures.

Spending under Ryan's plan would fall much below the levels in the President's budget, falling from 24.1 percent of GDP this year to 19.9 percent by the end of the ten-year window (24.2 percent under the President's budget)—below the historical average of about 21 percent. Driving these reductions are much steeper discretionary cuts, repeal of all coverage expansions enacted as part of health care reform along with large reductions to Medicaid spending, other reductions to mandatory programs, and the same modest reductions to defense spending as in the President's budget.

[1] Although Ryan's non-security discretionary category reduces spending to FY 2006 levels, it includes international programs which typically are included as security spending under the President's budget and face deep cuts under Ryan's proposal.

Unlike the President's budget, which assumes doc fixes throughout the ten-year period but identifies specific offsets for only the first two years of costs, Ryan's budget assumes fully paid-for doc fixes—set to cost a total of about $250 billion over ten years—without providing any specific offsets.

Federal revenues under the proposal would also fall well below the levels requested in the President's budget. Revenues in the proposal would rise slowly from 14.8 percent of GDP this year to 18.3 percent in 2021—restoring revenues to their historic levels of about 18 to 19 percent. Ryan's budget resolution would fully extend all the tax cuts indefinitely and calls for revenue neutral tax reform that reduces and eliminates many tax expenditures while reducing both individual and corporate tax rates.

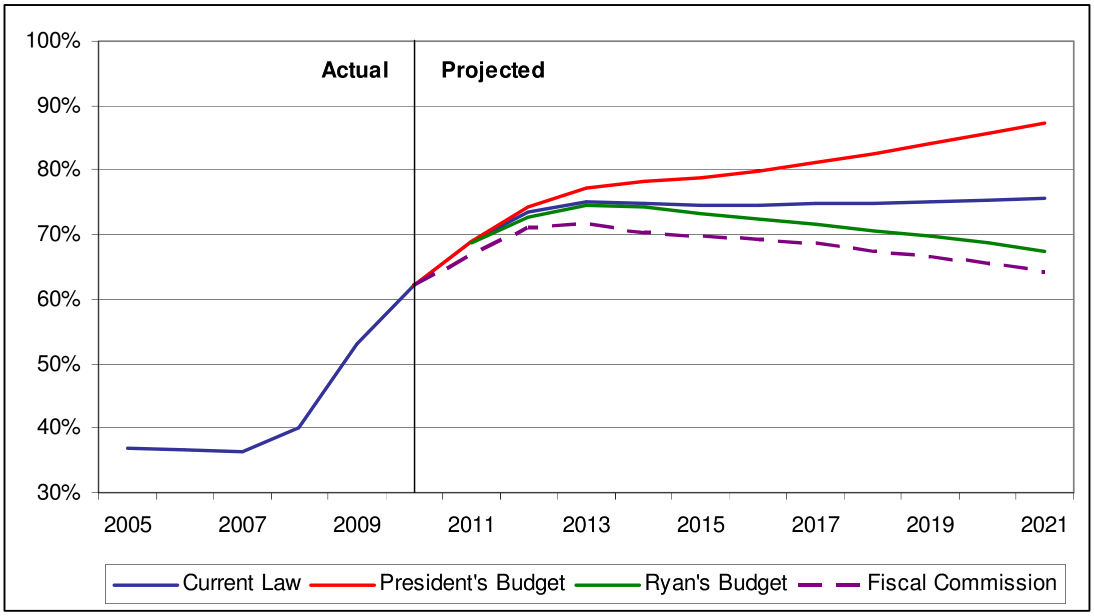
Fig. 1: Comparison of Budget Projections (Percent of GDP)

Fiscal Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012-2021
REVENUES												
Paul Ryan's Budget	14.8%	16.1%	17.4%	17.9%	17.8%	17.6%	17.9%	17.9%	18.0%	18.2%	18.3%	17.7%
President's Budget	14.8%	16.2%	17.7%	18.6%	18.9%	19.0%	19.1%	19.1%	19.1%	19.2%	19.3%	18.7%
Current Law	14.8%	16.3%	18.8%	19.9%	20.1%	20.0%	20.3%	20.4%	20.5%	20.7%	20.8%	19.9%
OUTLAYS												
Paul Ryan's Budget	24.1%	22.5%	21.7%	20.8%	20.2%	20.2%	20.0%	19.7%	19.9%	19.9%	19.9%	20.5%
President's Budget	24.3%	23.6%	23.2%	23.0%	23.0%	23.4%	23.4%	23.4%	23.8%	24.0%	24.2%	23.5%
Current Law	24.7%	23.3%	23.1%	23.0%	23.1%	23.5%	23.4%	23.3%	23.7%	23.9%	24.0%	23.5%
DEFICITS												
Paul Ryan's Budget	9.2%	6.3%	4.3%	2.9%	2.4%	2.5%	2.0%	1.8%	1.9%	1.8%	1.6%	2.7%
President's Budget	9.5%	7.4%	5.5%	4.4%	4.1%	4.4%	4.3%	4.3%	4.7%	4.8%	4.9%	4.8%
Current Law	9.8%	7.0%	4.3%	3.1%	3.0%	3.4%	3.1%	2.9%	3.2%	3.2%	3.2%	3.6%
DEFICITS (Billions)												
Paul Ryan's Budget	$1,388	$955	$699	$492	$434	$481	$408	$379	$414	$402	$385	$5,088
President's Budget	$1,425	$1,164	$901	$764	$748	$841	$870	$902	$1,021	$1,101	$1,158	$9.470
Current Law	$1,480	$1,100	$704	$533	$551	$659	$617	$610	$696	$739	$763	$6,971

*Estimates of President's budget and current law are from the Congressional Budget Office.

With lower yearly deficits than in the President's budget, debt as a share of the economy would also drop to much lower levels than CBO projected would occur under the President's proposals. Under Ryan's plan, debt would rise slightly from about 69 percent of GDP this year to 75 percent in 2013 before falling to 68 percent in 2021. After 2021, debt would continue on a downward trajectory, falling to 64 percent by 2030, 48 percent in 2040, and 10 percent by 2050.

Fig. 2: Debt Projections (Percent of GDP)



Note: Estimates for Fiscal Commission path based on the CBO August Budget Update, but the Commission's savings are similar to Ryan's proposal when compared against similar baselines.

The budget resolution also calls for a special process to reform Social Security in which the President, working with the program's trustees, and congressional leaders would have to put forward a plan to restore solvency if the program is not sustainable. Although Ryan's proposal does not include any specific reforms to Social Security, the creation of a special process would not allow lawmakers to ignore any longer the future challenges facing the program.

CRFB will have a more extended analysis and comparisons in the coming weeks when the Senate Budget Committee begins debate on a budget resolution.