CONGRESSMAN RYAN’S BUDGET PLANS, WHICH GOVERNOR ROMNEY CALLED “MARVELOUS,” ON MATTERS OTHER THAN MEDICARE AND SOCIAL SECURITY

AN EXCERPT FROM THE BOOK:

THE OBAMA vs. ROMNEY DEBATE ON ECONOMIC GROWTH
A Citizen’s Guide to the Issues

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by

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The book is written for the average citizen, and it has three purposes:

First, promoting a familiarity with the fundamental issues affecting the growth of the U.S. economy;
Second, exploring the policies of the 2012 presidential candidates, President Obama and Governor Romney, on these economic growth issues; and
Third, helping the reader appreciate how economic growth can impact personal investment decisions.

To facilitate an understanding of the complex issues affecting U.S. economic growth, the book is written in question and answer format.

The following excerpt is from Chapter 16, which deals with the Great Deficit Debate. The excerpt discusses the budget proposals dealing with matters other than Medicare and Social Security put forth by Congressman Ryan, the Deficit Commission, and President Obama. The approaches of these three to Medicare and Social Security are discussed in Chapter 17 and are the subject of an excerpt entitled The Romney-Ryan Position on Medicare and Their 500 and 700 Billion Dollar Claim Re Obamacare.

Among other things, the excerpt below discusses an analysis of the independent Congressional Budget Office (CBO) of the budgetary impact of the Ryan Proposal on spending for (1) Medicaid and the Children’s Health Insurance Program (CHIP), which provide health insurance for low income adults and children, and (2) discretionary spending (i.e., spending on things other than Social
Security and Medicare). Thus, discretionary spending includes, for example, spending on veterans affairs and student loans. The CBO’s analysis projects that the Ryan Proposal would dramatically reduce this spending as follows:

<table>
<thead>
<tr>
<th>Category of Spending</th>
<th>Present Spending as a Percentage of GDP</th>
<th>Ryan Proposal for Spending as a Percentage of GDP in 2030</th>
<th>Ryan Proposal for Spending as a Percentage of GDP in 2030</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medicaid and CHIP</td>
<td>2%</td>
<td>1.25%</td>
<td>1%</td>
</tr>
<tr>
<td>Other Discretionary</td>
<td>12.5%</td>
<td>5.75%</td>
<td>3.75%</td>
</tr>
</tbody>
</table>

On the revenue side, the Tax Policy Center projects that Congressman Ryan’s proposal to reduce tax rates would have the following impact:

<table>
<thead>
<tr>
<th>Income Group</th>
<th>Average Tax Cut</th>
</tr>
</thead>
<tbody>
<tr>
<td>Over $1 million in taxable income</td>
<td>$265,000</td>
</tr>
<tr>
<td>From $50,000 to $75,000 in taxable income</td>
<td>$1,000</td>
</tr>
</tbody>
</table>

As discussed in Chapter 18, Governor Romney’s tax proposals would have a similar effect.

President Obama and the Deficit Commission have dramatically different proposals than those proposed by Congressman Ryan. Newt Gingrich has called the Ryan Proposals “radical” and “right wing social engineering.”

A. What are the deficit proposals by the Deficit Commission, President Obama, and Governor Romney’s vice presidential running mate, Congressman Ryan?

The concern with the Federal budget deficits and the growing Federal debt has brought forth three principal proposals:¹ (1) the December 2010 proposal by the bipartisan National Commission on Fiscal Responsibility and Reform (The Deficit Commission Proposal);² (2) the April 2011 Fiscal Year 2012 Budget Resolution, The Path to Prosperity,³ advanced by Congressman Paul Ryan, the Republican chairman of the House Committee on the Budget (the Ryan Proposal); and (3) the proposal of President Obama set out in a speech⁴ he gave at George Washington University on April 13, 2011 (the Obama Proposal). On August 11, 2012, Governor Romney announced that Congressman Ryan would be his vice presidential running mate.

These proposals are sometimes referred to here as the Three Deficit Proposals. Since Social Security and Medicare are the two largest spending programs addressed in these proposals, the proposals for these programs are discussed in greater detail in Chapter 16.

¹ This question is based on a discussion in Thompson, A Buffett Rule for Social Security and Medicare, infra Bibliography.
² The Deficit Commission Proposal, infra Bibliography.
³ Ryan Proposal, infra Bibliography.
⁴ The Obama Proposal, infra Bibliography.

The approach of the *Ryan Proposal* to Medicaid, discretionary spending, and taxes can be summarized as follows. First, in a March 2012 analysis entitled *The Long-Term Budgetary Impact of Paths for Federal Revenues and Spending Specified by Chairman Ryan*, the CBO did an analysis of the budgetary impact of *The Ryan Proposal*’s funding of Medicaid and the Children’s Health Insurance Program (CHIP). These programs provide health insurance for low income adults and children. The CBO explained that *The Ryan Proposal* would reduce the spending on these programs from “2 percent of GDP in 2011 to 1¼ percent in 2030 and 1 percent in 2050;” Thus, the proposal would significantly reduce the funding for these programs.

Second, the CBO analysis projects that the Ryan Proposal would dramatically reduce discretionary spending, which essentially includes all spending other than mandatory spending on Medicare, Social Security, Medicaid, and CHIP. The reduction would be “from 12½ percent of GDP in 2011 to 5½ percent in 2030 and 3½ percent in 2050.” This 75% reduction is obviously a striking decrease, particularly in view of the fact that discretionary spending is less than half of all spending. It would lead to extraordinary cuts in many governmental programs including veteran affairs and student loans.

Turning to the revenue side, *The Ryan Proposal* would significantly reduce both individual and corporate tax rates on a claimed revenue neutral basis. However, the *Proposal* does not explain the tax loopholes that would be closed in order to make the tax cuts revenue neutral. The approach to individual taxes was examined in a March 23, 2012 Tax Policy Center article by Howard Gleckman entitled *Paul Ryan’s Budget Plan: More Big Tax Cuts for the Rich*. The article reports that the study came to the following conclusion:

Relative to today’s tax system, those making $1 million or more would enjoy an average tax cut of $265,000 and see their after-tax income increase by 12.5 percent. By contrast, half of those making between $20,000 and $30,000 would get no tax cut at all. On average, people in that income group would get a tax reduction of $129. Ryan would raise their after-tax income by 0.5 percent.

Nearly all middle-income households (those making between $50,000 and $75,000) would see their taxes fall, by an average of roughly $1,000. Ryan would increase their after-tax income by about 2 percent.

As will be seen in the discussion of tax policy in Chapter 18, the Tax Policy Center came to similar conclusions in its analysis of Governor Romney’s tax proposals.

Neither *The Deficit Commission Proposal* nor *The Obama Proposal* would reduce spending on Medicaid or CHIP; both would reduce discretionary spending but not by as dramatically as *The Ryan Proposal*; and both would lower tax rates while broadening the base and generating revenues to be used to reduce the deficit. Chapter 18 addresses in greater detail the tax proposals of President Obama and Governor Romney.

In commenting on the 2011 *Romney Proposal*, Newt Gingrich, a Republican and the former House Speaker, described the plan as “radical” and “right-wing social engineering.” (*See Ruth Marcus, *Ryan doesn’t help the Romney ticket*, Washington Post (Aug. 12, 2012).*)

In my view, the drastic spending cuts in the *Ryan Proposal* should be rejected for at least three reasons. First, they would have a disproportionately adverse impact on the most vulnerable in our society. Second, they would cut government programs without regard to the effectiveness

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of the program and, therefore, would make our economy less efficient. Third, the Ryan Proposal’s “meat cleaver” approach to spending cuts would have an adverse impact on economic growth because it would result in a significant decrease in the contribution of government spending to the growth of GDP. I am also of the view that this approach to discretionary spending is so harsh and so radical that once the American public gained the slightest understanding of it, they would soundly reject it.