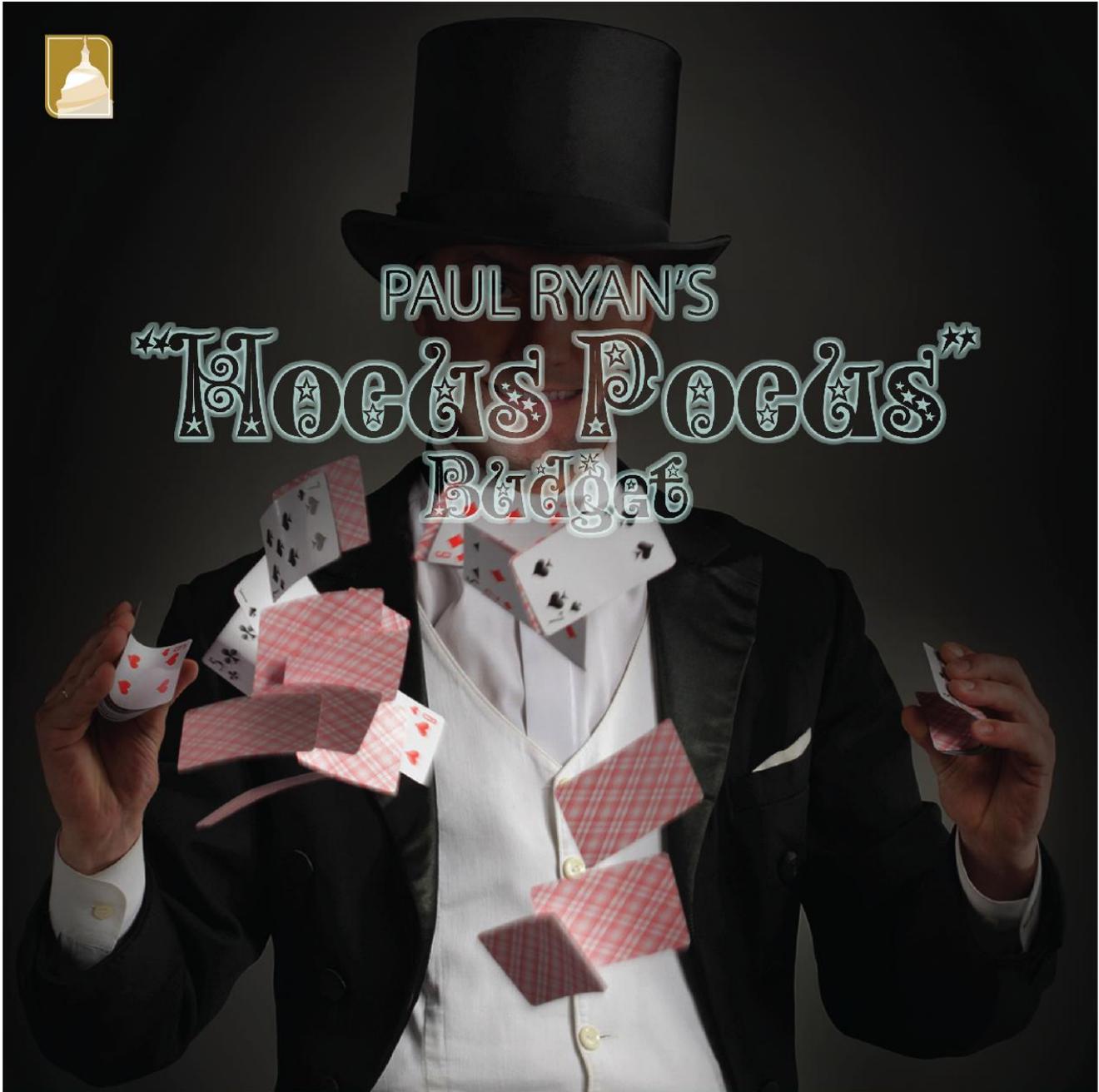




PAUL RYAN'S
"MAGIC POETS"
Budget



**The House GOP's 5 Magic Tricks
That Create the Optical Illusion of a Balanced Budget**

A DPCC REPORT



PAUL RYAN'S 'HOCUS POCUS' BUDGET

The House Republican budget introduced by Paul Ryan claims to balance the budget in 10 years by cutting \$4.6 trillion from the deficit. Yet a closer look at the details reveals that the Ryan budget relies on a host of deceptive gimmicks, impossible arithmetic, and unrealistic assumptions. This report pulls back the curtain on Chairman Ryan's budgetary sleight of hand.

RYAN'S FIVE MAGIC TRICKS TO BALANCE THE BUDGET



1. Ryan claims his tax cuts for the wealthy—which cost more than \$4.5 trillion—won't add to the deficit.

The Ryan budget includes a massive tax cut for top earners that could add over \$4.5 trillion to the deficit. This cost would cancel out all of the deficit reduction achieved by Ryan's proposed spending cuts.

The Ryan budget would lower the top tax rate by more than a third, from 39.6% to 25%.¹ Last year, the independent Tax Policy Center analysis of a Ryan rate reduction from 35% to 25% estimated that unless these costs were offset with corresponding tax hikes, the Ryan tax plan would add \$4.5 trillion to the deficit.² The new Ryan budget would add even more than \$4.5 trillion, given the larger rate reduction. Chairman Ryan refuses to name one specific loophole or tax expenditure that his budget would eliminate in order to pay for this massive tax cut.³ Independent experts have attempted to fill in this blank in Ryan's tax plan. A Tax Policy Center analysis of a plan with only half of the tax rate decrease as Ryan's concluded that the only possible method of achieving so steep a reduction in the top tax rate without adding to the deficit would be to eliminate many of the deductions and credits that middle-class families rely on to pay

¹ Path to Prosperity, FY14 Budget Resolution.

² Tax Policy Center, Table T12-0123: 2013 House Republican Budget Proposal (Excluding Unspecified Base Broadeners), [April 5, 2012](#).

³ In his current plan, Chairman Ryan does not explicitly address rates for capital gains. However, in his FY13 Path to Prosperity he indicated a belief that those rates should remain untouched, claiming that, "Raising taxes on capital is another idea that purports to affect the wealthy but actually hurts all participants in the economy. Mainstream economics, not to mention common sense, teaches that raising taxes on any activity generally results in less of it." It is assumed his position remains consistent. House Budget Committee Majority, "The Path to Prosperity: A Blueprint for American Renewal – Fiscal Year 2013 Budget Resolution," [March 20, 2012](#).

for housing, health care, and retirement.⁴ Last year, the Joint Economic Committee determined that under this scenario, the resulting tax hike on middle-class families would average \$1,300.⁵

Does Ryan really plan to follow through with such a major tax hike on middle-class families? It would seem unlikely. But the alternative is to add over \$4.5 trillion to the deficit—and eliminate any chance of balancing the budget in 10 years.



2. Ryan relies on almost \$800 billion in unrealistic and undefined mandatory savings.

The Ryan budget attributes \$962 billion of its overall savings to cuts in “other mandatory” spending. Of that \$962 billion, Ryan only defines \$163 billion of specific cuts—\$31 billion from farm programs and \$132 billion from federal pensions—leaving \$799 billion in undefined cuts that can only come from a limited universe of mandatory spending programs. Seventy percent of the spending on these “other mandatory” programs directly benefits working and disadvantaged Americans, including Pell Grants, the Supplemental Nutrition Assistance Program (SNAP), the Supplemental Security Income program (SSI) for the aged and disabled poor, school lunches, the refundable portion of the Earned Income Tax Credit, and Temporary Assistance for Needy Families.⁶ Chairman Ryan’s assumption that \$799 billion in savings can be gained from gutting the most critical aspects of our safety net is unrealistic and unachievable, which explains why he does not attempt to define these cuts in more detail.



3. Ryan’s \$810 billion in Medicaid “savings” are just costs shifted onto the states’ tab.

The Ryan budget purports to achieve \$810 billion in Medicaid savings over ten years – but these costs are not trimmed, they are just shifted from the federal government onto the states.⁷

Under the Ryan plan, the federal government would no longer pay a fixed share of states’ Medicaid costs. States would instead receive a fixed dollar amount that would be adjusted for inflation and population growth. But the former does not keep pace with the actual rise in health care costs, and the latter does not account for the disproportionate increase in the elderly population. This means that the value of these

⁴ The Tax Policy Center analysis of the Romney tax plan centered on a top rate reduction from 35% to 28%, a 7 percentage point decrease, compared to Ryan’s 14.6 percentage point decrease. Among the 20 largest individual tax expenditures for FY14 are the Exclusion of Employer Health Insurance, Exclusion of Employer Pensions, Mortgage Interest Deduction, Earned Income Tax Credit, State and Local Tax Deduction, and the Property Tax Deduction. Samuel Brown, William Gale, and Adam Looney, “On the Distributional Effects of Base-Broadening Income Tax Reform,” Tax Policy Center, [August 1, 2012](#).; Joint Economic Committee Majority Staff, “Winners and Losers: Understanding the Ryan Plan’s Potential Tax Implications for America’s Workers,” [June 20, 2012](#).; Jane G. Gravelle and Thomas L. Hungerford, “The Challenge of Individual Income Tax Reform: An Economic Analysis of Tax Base Broadening,” Congressional Research Service, [January 11, 2013](#).

⁵ Joint Economic Committee Majority Staff, “Winners and Losers: Understanding the Ryan Plan’s Potential Tax Implications for America’s Workers,” [June 20, 2012](#).

⁶ Center on Budget and Policy Priorities, Statement by Robert Greenstein, [3/12/13](#).

⁷ The budget would also make cuts to other, smaller health care programs.

block grants to states would fall further and further behind the actual costs of servicing each states' Medicaid population.

This cost transfer to states could not come at a worse time. The 2007 – 2009 recession caused budget shortfalls totaling well over half-a-trillion dollars across the states.⁸ Since 2008, 46 states plus the District of Columbia have already been forced to make cuts to health care, services to the elderly and disabled, K-12 education, and/or higher education.⁹ Adding to their budget strain, the cuts to non-defense discretionary spending under the Budget Control Act will push federal funding for state and local services like law enforcement and education to their lowest levels in four decades, and the sequester that took effect on March 1st will add an extra 5.2% to those cuts this year. According to the Center on Budget and Policy Priorities, the burden of these cuts will fall disproportionately on cash-starved states: discretionary funding represents a full quarter of all federal grants to states and localities.¹⁰

Forcing states to absorb another \$810 billion in cuts could lead to a rationing of health care benefits for the 14 million seniors and disabled currently relying on Medicaid. It could also result in more restrictive eligibility rules, leaving thousands uninsured, or cut payment rates to healthcare providers, possibly forcing some of the nearly 16,000 certified nursing homes to close their doors.



4. Ryan counts \$716 billion in Medicare savings from the health care reform law he says he wants to repeal.

The Ryan budget preserves the \$716 billion in Medicare savings in the Affordable Care Act (ACA) that Ryan and his fellow Republicans have vowed to repeal.

The ACA enacted reforms to reduce overpayments to private insurance companies and provisions to cut waste and fraud in Medicare that save \$716 billion in provider payments over ten years.¹¹ The Medicare Trustees estimated that these Medicare savings would extend the solvency of Medicare by 8 years, from 2016 to 2024.¹² Ryan and his colleagues have repeatedly denounced these Medicare savings as harmful cuts, and campaigned to reverse them in the 2012 election season. Ryan himself repeatedly criticized the President for “taking \$716 billion from Medicare to pay for Obamacare.”¹³ The House Republicans have voted twice to repeal the Affordable Care Act in its entirety, including the \$716 billion in Medicare savings.¹⁴

Despite these repeated attempts to repeal the Affordable Care Act, Paul Ryan has borrowed its \$716 billion in Medicare savings for his third budget in a row. In short, his plan repeals almost all of the

⁸ Center on Budget and Policy Priorities, “Four Big Threats to State Finances Could Undermine Future U.S. Prosperity,” [February 14, 2013](#).

⁹ Center on Budget and Policy Priorities, [6/27/12](#); Center on Budget and Policy Priorities, [2/9/11](#).

¹⁰ Center on Budget and Policy Priorities, “Four Big Threats to State Finances Could Undermine Future U.S. Prosperity,” [February 14, 2013](#).

¹¹ The Affordable Care Act specifically forbids Medicare benefit cuts. According to the law, “Nothing in...this Act shall result in a reduction of guaranteed benefits under [Medicare].” [P.L. 111-148; 3/23/10]

¹² [Centers for Medicare & Medicaid Services](#), 4/23/12.

¹³ Yahoo News, [8/16/12](#); Remarks at RNC, [8/29/12](#); Remarks at a Westlake, OH Campaign Event, 9/4/12; CNN, [9/21/12](#); Vice Presidential Debate, [10/12/12](#).

¹⁴ 112th Congress, 1st Session, RCV [14](#); 112th Congress, 2nd Session, RCV [460](#).

Affordable Care Act except for the Medicare savings he needs to help balance his budget. He publicly acknowledges that he is cherry-picking the \$716 billion for his budget because it makes it easier for him to make the math work.¹⁵ He claims that he invests the savings back in Medicare, but his claim to be a defender of Medicare is highly dubious. In fact, the Ryan budget again radically restructures Medicare into a voucher program that will raise costs for seniors and could lead to the unraveling of America's most successful medical care program. It is more likely that the \$716 billion in Medicare savings from ACA would be used to help mitigate the over \$4.5 trillion price tag of Ryan's massive tax cut for the nation's highest earners.



5. Ryan relies on outlandishly rosy assumptions about revenue and spending levels.

To make his math work, Chairman Ryan relies on two completely unrealistic assumptions about revenues and spending levels. First, he projects revenue levels that are virtually unachievable given the magnitude of the tax cuts he envisions for the wealthy. Second, he calls for shrinking spending to unprecedented levels of austerity.

First, revenues: the Ryan budget assumes that by 2023, revenues will reach 19.1% of GDP, and average near 19% over the entire budget window. This is an ambitious target considering that Ryan proposes cutting the top tax rate by more than one-third. Last year, the independent Tax Policy Center determined that unless Ryan's tax cuts were offset with tax hikes elsewhere, revenue would only equal 15.5% of GDP over the budget window.¹⁶ It is estimated that this discrepancy would create a \$7 trillion revenue hole.

After accounting for interest costs incurred as a result of the lost revenue, this tax gap would leave the Ryan budget \$1.2 trillion short of balance in the tenth year. Even if he repealed every individual itemized deduction in the code – hiking middle-class taxes in the process - he would still be \$5 trillion short of his revenue target.¹⁷

Second, on spending: Chairman Ryan's proposed cuts would slash discretionary government spending to unrealistic lows. Both defense and nondefense spending are already on pace to reach historic lows, totaling 5.5% of GDP by 2023, more than 3% below the 40-year average. Defense alone is currently around 4% of GDP, compared to 4.7% over the last 40 years.¹⁸ However, the Ryan budget would make cuts well beyond even these levels. It would cut an additional \$900 billion from nondefense discretionary spending, sending nondefense discretionary levels to 2.1% of GDP by 2023, half of the 40-year average of 4%.¹⁹ Without real revenues or Pentagon spending restraint, Ryan's budget would slash the nondefense discretionary portion of the budget to well below its lowest levels on record, relative to GDP.

¹⁵ **WALLACE:** Let's look, Congressman, at a couple of the reasons you don't have to make big changes in the new budget, to balance it in 10 years. You include the \$600 billion, as you mentioned, in tax increases, that came from raising rates in the fiscal cliff debate. You also include \$716 billion in Medicare cuts through Obamacare that you opposed in the last campaign. Question, is it fair to say at least those parts of the president's policies make it easier to balance the budget?

RYAN: It is fair to say that. [Fox News Sunday, 3/10/13]

¹⁶ Tax Policy Center, Table T12-0123: 2013 House Republican Budget Proposal (Excluding Unspecified Base Broadeners), [April 5, 2012](#).

¹⁷ Michael Linden, "Rep. Paul Ryan's Fantasy Budget," Center for American Progress, [March 12, 2013](#).

¹⁸ CBO, The Budget and Economic Outlook: Fiscal Years 2013 to 2023, [February 2013](#).

¹⁹ Ibid.; Michael Linden, "Rep. Paul Ryan's Fantasy Budget," Center for American Progress, [March 12, 2013](#).