CTJ Citizens for Tax Justice

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House Budget Chairman Paul Ryan's Goal Is to Shrink Government, Not the Deficit

Any rational proposal to balance the federal budget would rely on a mix of spending reductions and revenue increases. But the House Republican budget plan relies on draconian and unrealistic spending cuts and actually *reduces* revenue.

The plan is motivated not by a desire to balance the budget but rather by the ideological goal of reducing the size of government to something that would be unrecognizable to Americans today.

The plan's author, House Budget Committee Chairman Paul Ryan, is intentionally vague about his plans to overhaul the tax system. That may be because his previous attempt to explain how he would reduce the top income tax rate to 25 percent made it clear that the result would be a big tax increase for all income groups except the richest ten percent.

If Balanced Budget Is the Goal, Why Reduce Revenue?

When President Obama's fiscal commission proposed to use spending cuts to achieve two-thirds of its deficit reduction goal and revenue increases for just one-third, many analysts and lawmakers found this to be unbalanced and unfair.[1] But Congressman Paul Ryan, who sat on that commission, voted against the plan, which was supported by a majority of members, because it dared to raise any revenue at all.

Now Rep. Ryan, as the new chairman of the House Budget Committee, has put forward his own budget resolution which actually reduces revenue by trillions of dollars.[2] He would cut spending by even more, so that the net result would be a smaller budget deficit — but this is clearly ancillary to his main goal, which is shrinking the government. After all, if the goal is simply to balance the budget, then surely revenues would be increased rather than slashed.

Rep. Ryan says his plan would reduce spending by $6.2 trillion and reduce revenue by $1.8 trillion, compared to President Obama's budget plan. Of course, both plans would sharply reduce revenue. President Obama would make permanent *most* of the Bush tax cuts while Rep. Ryan would make permanent *all* of the Bush tax cuts. Ryan's extension of the Bush tax cuts even for the richest two percent of taxpayers would reduce revenue by about $700 billion over a decade compared to the President's plan. Ryan's plan vaguely calls for tax reform, but insists that the resulting tax system should collect revenue equal only to "between 18 and 19

[1] Citizens for Tax Justice, "Statement on the President's Fiscal Commission Plan," December 2, 2010. http://www.ctj.org/pdf/deficitcommissionplan.pdf

[2] House Committee on the Budget Chairman Paul Ryan, "The Path to Prosperity: Restoring America's Promise," April 5, 2011. http://budget.house.gov/UploadedFiles/PathToProsperityFY2012.pdf

percent" of gross domestic product (GDP). Over the past half century, the only balanced federal budgets have occurred when tax revenues were far higher than that.

Note that spending as a share of GDP was over 22 percent under President Reagan, and that was before we were facing the retirement of the baby-boomers, exploding health care costs, and multiple military engagements in the Middle East.

Ryan would also repeal the revenue-raisers in the health care reform law. (Remember that the Congressional Budget Office concluded that because of these revenue-raisers, the health care reform law will reduce the deficit.)

How Rep. Ryan addresses health care is telling. His plan would repeal $725 billion in subsidies under the health care reform law that will enable 34 million Americans to get health insurance coverage, while keeping in place the law's cost savings, which Republicans had earlier criticized as intolerable. Ryan's plan would slash Medicaid by hundreds of billions of dollars and block grant it to the states, and would replace Medicare with a voucher program. As a result, the share of health costs that typical seniors would have to pay out of pocket would more than double.[3]

The Ryan plan cuts many other public services even more severely. The Center on Budget and Policy Priorities finds that, during the first decade, two thirds of the spending cuts would come from services for people of limited means, like Medicaid, Pell grants, food stamps, and low-income housing assistance.[4]

Why Congressman Ryan Doesn't Explain How He Would Reduce Tax Rates

The plan's call for tax reform is very vague, but is also very telling. It calls for eliminating or reducing tax expenditures (loopholes and special breaks in the tax code that are the equivalent of spending) and for using the savings to offset reductions in income tax rates for individuals and corporations. The top rate for both would be 25 percent. The details as to how exactly this would be done are not stated.

There is a very specific reason why Rep. Ryan doesn't want to offer details about his tax overhaul. Last year, when he offered a budget plan that would allow individuals to pay income taxes at a top rate of 25 percent and repeal the corporate income tax, he offset much of the costs with a regressive value-added tax (VAT).

Citizens for Tax Justice analyzed the tax components of that plan and found that, on average, taxpayers among the richest ten percent would pay less in taxes while taxpayers among the bottom 90 percent would pay more. We also found that the plan would reduce revenues by

[3]Congressional Budget Office, "Long-Term Analysis of a Budget Proposal by Chairman Ryan," April 5, 2011. http://www.cbo.gov/ftpdocs/121xx/doc12128/04-05-Ryan_Letter.pdf

[4]Center on Budget and Policy Priorities, "Chairman Ryan Gets Roughly Two-Thirds of His Huge Budget Cuts From Programs for Lower-Income Americans," April 5, 2011. http://www.cbpp.org/cms/index.cfm?fa=view&id=3451

$2 trillion over ten years.[5]

We noted that it's difficult to conceive of a plan that raises taxes on so many taxpayers while still losing $2 trillion, but that's exactly what Ryan's plan did.

The truth is that it is very difficult to lower the top income tax rate to 25 percent and offset the costs simply by eliminating or reducing tax expenditures. That's why Ryan's previous plan relied on a regressive VAT, and he probably (correctly) decided his new plan would seem more appealing if he left that detail out of it.

U.S. One of the Least Taxed Developed Countries

Given that Americans are taxed less than residents of almost any developed country on Earth, there is no reason why revenue increases cannot be part of the solution to our budget deficit.

As data from the Organization for Economic Cooperation and Development (OECD) make clear, the combined taxes levied by federal, state and local governments in the United States are among the lowest in the developed world. Only two OECD countries have lower taxes, as a share of gross domestic product (GDP) than the United States.

In 2008, total federal, state and local taxes in the United States were 26.2 percent of our gross domestic product, ranking 25th among the 27 OECD countries for which the most recent data is available. Only Turkey (23.5 percent) and Mexico (20.4 percent) had lower taxes.[6]

The fact that Rep. Ryan believes that revenue increases have no role in balancing the budget of one of the least-taxed developed countries demonstrates just how ideological and wrong-headed his plan is.

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[5] Citizens for Tax Justice, "Rep. Ryan's House GOP Budget Plan: Federal Government Would Collect $2 Trillion Less Over a Decade and Yet Require Bottom 90 Percent to Pay Higher Taxes," March 9, 2010. http://www.ctj.org/pdf/ryanplan2010.pdf

[6] Citizens for Tax Justice, "United States Remains One of the Least Taxed Developed Countries," November 11, 2010. http://www.ctj.org/pdf/oecd111110.pdf