

The Ryan Budget Proposal: Creating jobs, balancing the budget, reforming entitlements, and returning the United States to a sound fiscal footing.

Representative Paul Ryan's innovative budget proposal, *The Path to Prosperity: Restoring America's Promise*, has been the brunt of scrupulous media attention since its inception, early last month. Liberals and media pundits have worked assiduously to convince the American electorate that Representative Ryan's proposal, if enacted, would leave seniors out on the street and eliminate Medicare. These fallacious and erroneous accusations are being used to catapult Barack Obama and the Democratic Party to victory in November 2012. In fact, liberals went so far as to run a series of television advertisements showing Representative Paul Ryan pushing a wheelchair-bound octogenarian off a cliff. Advertisements such as the aforementioned are erroneous, error laden, and distort the truth.

The purpose of this paper is to provide the truth about Representative Paul Ryan's budget proposal. As the reader can ascertain from the title, *The Path to Prosperity: Restoring America's Promise* outlines a myriad of solutions for creating jobs, balancing the budget, returning the United States to a sound fiscal footing, and, most importantly, reforming Medicare. With the American economy dwindling on the brink of calamity, and our outmoded and dilapidated entitlement programs verging on insolvency, it is imperative that Congressional leaders work assiduously to enact legislation that transfers control of these programs from the government to individuals. Free-market capitalism, not government control will save our entitlement system.

Part One: Spending Reductions:

The Path to Prosperity: Restoring America's Promise, drastically reduces federal spending over the next decade, shrinks the federal budget deficit, and reforms our entitlement system. The *Path to Prosperity* cuts federal spending by **\$6.2 trillion** over the next decade; reduces government spending to **twenty percent of the economy**; returns non-defense discretionary spending to pre-2008 levels; and **reduces the federal deficit by \$4.4 trillion**.¹ As the reader can discern, this proposal employs a myriad of mechanisms for reducing the federal budget deficit, curtailing out-of-control spending, and restoring the United States to a sound fiscal footing. By reducing federal spending to pre-2008 levels, the federal government will be spending **\$5.8 trillion less over the next decade** than it would under current law, or if President Obama's budget proposal is enacted.² *The Path to Prosperity* is the most comprehensive and fiscally responsible budget proposal ever concocted. If Congressional leaders are serious about reducing the federal deficit, balancing the budget, and restoring America to a sound fiscal footing, it is imperative that they support *The Path to Prosperity: Restoring America's Promise*. Two prominent liberal Democrats, Erskine Bowles, the former chief of staff to Bill Clinton and Alice Rivlin, the former Director of the Office of Management and Budget, have extolled this

¹ Representative Paul Ryan, *The Path To Prosperity: Restoring America's Promise* (Washington, D.C: The United States House of Representative Printing Office, 2011), 5. Found:

<http://paulryan.house.gov/UploadedFiles/PathToProsperityFY2012.pdf>

² Yuval Levin, "The Radical Gradualism of Paul Ryan: The Status Quo is far more 'extreme' than the Republican budget." *The Weekly Standard*, April 18, 2011, pp. 23-25.

proposal for its steep cuts in non-defense discretionary spending, and common-sense approach to balancing the budget. In fact, Erskine Bowles opined, “This is a serious, honest, straightforward approach.”³ Passing this straightforward, revolutionary, and comprehensive budget proposal is of paramount importance. Liberals and conservatives have the opportunity to put their differences aside and work together to tackle one of the greatest menaces facing our nation in the years to come: an exorbitant federal budget deficit. Failure to do so would be calamitous and ultimately lead to the demise of American economic hegemony.

Part Two: Cutting taxes and reforming the federal tax code:

Representative Ryan’s budget proposal advocates for a transformation of the federal income tax structure; a continuation of the Bush-era tax cuts; and a drastic reduction in the corporate tax rate. In fact, the proposal eliminates roughly **\$800 billion in tax increases** imposed by the president’s health care law and prevents the \$1.5 trillion tax increase proposed by President Obama, from taking effect.⁴ Allowing the Bush-era tax cuts to expire, while simultaneously increasing taxes on those making over \$200,000 per year (\$250,000 for a household), would be demonstrably bad for economic growth. Under President Obama’s proposal, an individual making \$200,000 per year would be required to pay the same amount in taxes as Bill Gates, whose net worth currently stands at a colossal \$53 billion.⁵ Currently, the tax rate for those in the highest income bracket is 35 percent, a drastic reduction from 70 percent in the 1950’s. If President Obama’s budget is passed, the tax rate for those making over \$200,000 per year (most of whom are small business owners), **would increase to 39 percent**. A four percent increase on income taxes for small business owners would stifle economic growth, exponentially increase the unemployment rate, and could potentially create another economic recession. Representative Ryan notes that small businesses are responsible for almost two-thirds of the jobs created in the past fifteen years; almost fifty percent of these businesses are taxed at the top two rates.⁶ Thus, in an effort to alleviate the burden on small businesses and afford them with the opportunity to expand their labor force, Representative Ryan’s budget proposal reduces the highest federal tax rate from 35 to 25 percent.⁷ “Higher taxes,” Ryan writes, “make it harder for these vital enterprises to compete.”⁸ As the reader can discern, reducing the tax rate on those making over \$200,000 per year would create jobs, enhance consumer spending, and restore economic growth.

In addition to reducing the tax rate for those making over \$200,000 per year, *The Path to Prosperity: Restoring America’s Promise* significantly alters to the federal income tax structure. **Americans spend an average of six billion hours and \$160 billion per year on their federal income taxes.**⁹ In fact, the federal income tax system has become so complex that the vast

³ Fred Barnes, “The Great Debate: Ryan vs. Obama will be this year’s main event, if the president is up for it.” *The Weekly Standard*, April 18, 2011, pp.12-13. Note: Barnes quotes former Senator Alan Simpson and Erskine Bowles, the co-chairman of the Presidents Debt Commission.

⁴ Ryan, 5.

⁵ Forbes, “The World’s Billionaires, #2 William Gates, III.” *Forbes Magazine*, March 10, 2010, http://www.forbes.com/lists/2010/10/billionaires-2010_William-Gates-III_BH69.html

⁶ Ryan, 50.

⁷ Ryan, 51

⁸ IBID, 51.

⁹ Ryan, 50.

majority of Americans are unable to file their own tax returns. What solutions exist for reforming the tax system? While the author of this paper supports replacing the federal income tax with a fifteen percent flat tax, that proposal was not outlined by House Republicans in their fiscal year 2012 budget proposal. Instead, the House Republican budget proposal recommend consolidating the current six tax brackets (10, 15, 25, 28, 33 and 35 percent); reducing the tax bracket for those making \$200,000 per year from 35-25 percent; reducing the corporate tax rate from 39 to 25 percent; and, most importantly, broadening the tax base to keep revenue as a share of the economy at levels sufficient to fund the federal government.¹⁰ While not going as far as this author would like in regards to reforming the tax system, Representative Ryan's proposal grows the economy, lowers taxes for all Americans, provides corporations with the mechanisms necessary to create jobs, and enhances government revenue. *The Path to Prosperity: Restoring America's Promise* is the first step towards "real" tax reform. Failure to enact these much needed changes to the federal income tax system would be calamitous and lead to an insurmountable federal deficit.

Part Three: Creating Jobs and reducing the unemployment rate:

The 0.1 percent reduction in the unemployment rate in April 2011 has garnered praise from liberal Democrats in Congress and the media. In fact, Congressional liberals argue that their "pro-growth" economic policies have reduced the unemployment rate and improved the economy. Their contention that the economy is improving is erroneous. This author finds it baffling that the same people who vilified President Bush for increasing the unemployment rate from 5.2 percent in 2004, to 7.2 percent in 2008, are celebrating an unemployment rate of 9.1 percent. In October 2009, under the auspices of Barack Obama and Congressional Democrats, the unemployment rate **reached 10.2 percent, its highest rate since 1983.**¹¹ A high unemployment rate could adversely affect President Obama's chances of getting reelected in 2012. In the past fifty years, just one president, Ronald Reagan was reelected with an unemployment rate that exceeded five percent. In 1984, the unemployment rate stood at 7.2 percent, and Reagan trounced his Democratic challenger, Walter Mondale, 525-13 in the Electoral College vote.¹² With the unemployment rate projected to be at 7.7 percent in November 2012, it will be difficult for Barack Obama win reelection.

Representative Paul Ryan's plan for reducing the unemployment rate and creating jobs is threefold. First, it creates one million new private-sector jobs in 2012 by reducing the corporate tax rate and the income tax rate for those making over \$200,000 per year. Furthermore, the proposal reduces the unemployment rate to four percent by 2015. Second, *The Path To Prosperity* spurs economic growth by increasing the real GDP (Gross Domestic Product) by \$1.5 trillion over the next decade. Finally, it yields \$1.1 trillion in higher wages and \$1,000 per year

¹⁰ IBID, 50.

¹¹ Peter S. Goodman, "U.S. Unemployment Rate Hits 10.2 percent, Highest in 26 Years." *The New York Times*, November 6, 2009, <http://www.nytimes.com/2009/11/07/business/economy/07jobs.html?adxnml=1&adxnmlx=1303406495-lia50LRlqpFFroGuqx50xQ>

¹² Phil Izzo, "Jobless Rate at 2012 Presidential Vote Forecast at 7.7%, Highest Since Carter-Ford, but the Trend May Matter Most." *The Wall Street Journal*, March 14, 2011, <http://online.wsj.com/article/SB10001424052748703555404576195030362085382.html>

in income for each American family.¹³ As the reader can discern, *The Path to Prosperity: Restoring America's Promise* outlines a comprehensive strategy for creating jobs and reducing the unemployment rate. Job creation should be a foremost priority of lawmakers from both parties, in the years ahead.

Part Four: Transforming Medicare: Shifting Control from the government to individuals:

The most controversial element of Representative Ryan's budget proposal is the transformation of Medicare from a government-run entity to one that is consumer driven. In fact, liberal Democrats have unleashed a series of vitriolic harangues against this proposal in recent weeks. In addition, they have worked assiduously to convince the electorate that conservatives want to prevent children from obtaining health care, force senior citizens out of their homes, and destroy the middle-class. Each of these statements lack validity and need to be corrected by conservatives. *The Path to Prosperity: Restoring America's Promise* makes it abundantly clear that those who are currently retired or nearing retirement will not be affected by the Medicare overhaul. In describing his plan for Medicare reform, Representative Paul Ryan writes, "My proposal will save Medicare for current and future generations while making no changes for those in and near retirement."¹⁴ To reiterate, those currently enrolled in the government run Medicare program will continue to receive benefits and will not be forced into the new system. Many in the electorate have questioned Representative Ryan's decision to overhaul Medicare and are unaware that it, along with Social Security and Medicaid, are bankrupting America. By 2037, these three programs will encompass 100 percent of federal expenditures. This means that the government will not be able to pay for schools, roadways, infrastructure repairs, or national defense. What is more, at the time of this writing, Medicare's unfunded liabilities stand at a colossal **\$55 trillion**. When combined with Medicaid and Social Security, unfunded liabilities surpass **\$100 trillion**.¹⁵ **Furthermore, Medicare spending is growing at a rate of 7.2 percent annually. This is more than twice as fast as the nation's economy is growing.**¹⁶ As the reader can discern, ore entitlement programs are the greatest menace to economic prosperity in the twenty-first century. What does the Republican budget proposal do to transform these programs?

Medicare:

Under Representative Ryan's innovative budget proposal, Medicare will be transformed from a government-run program to one that is controlled by the individual. This is achieved by transforming Medicare into a premium-support program. A premium-support program affords enrollees with the opportunity to apply the government's Medicare contribution towards a health insurance plan of their choosing. Dr. Robert Moffit, a senior fellow at the Heritage Foundation, in describing Representative Ryan's plan and the ways in which it transforms the current plan, writes:

¹³ Ryan, 5.

¹⁴ Ryan, 44.

¹⁵ Ryan, pp.14-21.

¹⁶ Ryan. 45.

Under the Ryan approach, the federal government would make a direct contribution to Medicare enrollees' health care coverage, just as it does today for federal workers and retirees in the popular Federal Employees Health Benefits Program... The advantage of a premium-support system is that it enables enrollees to apply the government's contributions to the health care plan of their choice, providing them with a broad range of integrated health care options.¹⁷

A premium-support system affords Medicare recipients with the ability to choose from a list of guaranteed coverage options, and health insurance plans that suit their needs. Representative Ryan notes that under a premium-support system, the federal government would send money to the Medicare plan chosen by the beneficiary and, in turn, would subsidize its cost.¹⁸ Unlike the government-run program, a premium-support model fosters competition in the marketplace and expands consumer choice. Rather than being funded solely by the federal government, Medicare will now be funded by a combination of public and private sector funds. Furthermore, the premium-support program will emulate the Medicare prescription drug program in that it would be adjusted so that wealthier beneficiaries would receive a lower subsidy, the sick would receive a higher payment if their conditions worsened, and low-income seniors would receive additional assistance to cover out-of-pocket costs.¹⁹ The author contends the premium-support model is an effective and cost-efficient alternative to the current government-run Medicare program. Reforming our dilapidated and insolvent government-run Medicare system with one that provides individual ownership should be a foremost priority of lawmakers on both sides of the aisle.

Part Five: Reforming Medicaid by providing states with block grants:

The Path to Prosperity: Restoring America's Promise drastically alters Medicaid by shifting control from the federal government to individual state governors. This is done through state block grants. In describing his block grant proposal, Representative Paul Ryan writes, "*The Path To Prosperity* secures Medicaid benefits by converting the federal share of Medicaid spending into a block grant that is tailored to meet each state's needs and indexed for inflation and population growth. This reform ends the misguided one-size-fits-all approach that has tied the hands of many state governments. States will no longer be shackled by federally determined program requirements and enrollment criteria."²⁰ Under the current system, states and the federal government share the cost of providing medical services to low-income and downtrodden Americans. Representative Ryan's block grant proposal will eliminate waste, fraud, and abuse, while simultaneously affording governors with the ability to concoct plans that best suit the needs of their constituents. At the time of this writing, Medicaid is the largest line-item in most states' budgets—surpassing even education—and accounting for **nearly twenty-two percent of**

¹⁷ Dr. Robert Moffit and Kathryn Mix, "Transforming Medicare Into a Modern Premium Support System: What Americans Should Know." *Web Memo #3227*, The Heritage Foundation, April 15, 2011, <http://www.heritage.org/Research/Reports/2011/04/How-to-Transform-Medicare-into-a-Modern-Premium-Support-System>

¹⁸ Ryan, 46.

¹⁹ IBID, 46

²⁰ Ryan, 39.

total state spending in fiscal year 2010.²¹ By implementing a block grant proposal that mirrors the one introduced by Representative Paul Ryan, governors will be able to alleviate the burden posed by Medicaid and offer citizens a more cost-effective program. The current one-size-fits-all system is demonstrably bad for states and hamstringing their ability to provide low-income citizens with the best, and most cost-effective health insurance premiums. In order for individual states to remain fiscally solvent it is paramount that states implement a Medicaid block grant proposal.

In addition to adversely affecting individual states, the current one-size-fits-all program is bankrupting the federal government. In 1966, the year Medicaid was inaugurated, its total costs were \$400 million annually. Today, forty-five years later, the total cost of administering Medicaid has skyrocketed to **\$378.6 billion**. By 2019, the cost is expected to climb to **\$819 billion**.²² At the time of this writing, the federal government **pays fifty-seven cents of every dollar spent on Medicaid**.²³ The federal government can no longer afford to spend copious amounts of money on a program that is laden with waste, fraud, and abuse. Representative Paul Ryan notes that the vast majority of the federal government's share of Medicaid spending is wasted because the bureaucracy cannot provide adequate oversight. In fact, Medicaid's improper payment rate currently stands at ten percent, which is three times the amount of waste that other federal agencies generate. This equates to **\$33 billion in annual waste**.²⁴ In order to prevent Medicaid from bankrupting individual states and posing a calamitous threat to America's fiscal future, it is imperative that Paul Ryan's state block grant proposal is enacted. If enacted, the program would save \$750 billion over the next decade²⁵ and provide states with the ability to balance their budgets, and spend more money on improving education quality and repairing dilapidated infrastructure.

Part Six: Recent Congressional Action:

Early last month, the United States House of Representative overwhelmingly approved *The Path to Prosperity: Restoring America's Promise*, 235-192. Four Republicans, Ron Paul of Texas, Walter Jones of North Carolina, David McKinley of West Virginia, and Dennis Rehberg of Montana joined all 189 Democrats in voting against this innovative budget proposal. Representative Rehberg, one of Congress' most vociferous supporters of limited government, said of his decision to oppose *The Path to Prosperity*, "It does not matter if it is a Republican plan or a Democratic plan, what matters is whether or not the plan is right for Montana... There are still too many unanswered questions with regard to Medicare reform, and I simply won't support any plan until I know for a fact that Montana's seniors will be protected."²⁶ Just two weeks later, Representative Ryan's budget proposal was sent to the United States Senate, where majority leader Harry Reid promised an up-or-down vote. On May 25, 2011, the United States Senate rejected *The Path To Prosperity*, 40-57, with all fifty-two Democrats and five

²¹ IBID, 39.

²² Ryan, 39.

²³ IBID, 39.

²⁴ IBID, 39.

²⁵ Ryan, 39.

²⁶ Representative Dennis Rehberg, "Rehberg Statement after Budget Vote: Too Much Uncertainty, Not Enough Time." *Press Release*, office of Representative Dennis Rehberg, April 15, 2011, <http://rehberg.house.gov/index.cfm?sectionid=26§iontree=5.26&itemid=1647>

Republicans, Olympia Snowe of Maine, Susan Collins of Maine, Lisa Murkowski of Alaska, Scott Brown of Massachusetts, and Rand Paul of Kentucky voting against the proposal. Scott Brown, in describing his chagrin with the proposal, wrote, “Our country is on an unsustainable fiscal path, but I do not think that it requires us to change Medicare as we know it. We can work inside of Medicare to make it solvent.”²⁷ It is evident from his opposition to *The Path to Prosperity* that Scott Brown has placed his own reelection prospects ahead of what is best for the nation. Of the five senate Republicans who voted against the legislation, just two, Brown and Snowe are up for reelection in 2012. While the aforementioned Republicans were critical of Representative Ryan’s proposal, their rhetoric pales in comparison to that of their Democratic colleagues. Senator Tom Harkin (D-IA), called the proposal, “An assault on the middle-class.”²⁸ While the plan was rejected in full, specific elements of the proposal, mainly Medicaid block grants, and a restructuring of the federal income tax structure, have support from members on both sides of the aisle. In the months ahead, if Congress does pass a budget, expect the aforementioned provisions to be included in the proposal. Failure to pass a budget for the third consecutive fiscal year would be calamitous. America’s economic hegemony will dissipate if Congress continues to abdicate its foremost responsibilities.

Concluding Remarks:

The budget proposal authored by Paul Ryan and analyzed in painstaking detail by this author, is the first step towards restoring America to a sound fiscal footing. The budget proposal seeks to cut nearly six trillion in non-defense discretionary spending, simplify the income tax structure, create jobs, and overhaul government-run entitlement programs. The one major flaw with this proposal, however, is its unwillingness to outline a plan for reforming Social Security. Representative Ryan argues that Social Security needs to be addressed separately and will be more controversial than his plan to reform Medicaid and Medicare. The author predicts that Congress will begin debate on Social Security reform later this summer. The proposed plan will likely mirror the private accounts proposal outlined by Representative Paul Ryan in *A Roadmap for America’s Future*. In the months ahead, expect a political imbroglio to ensue over *The Path to Prosperity: Restoring America’s Promise* and the House Republican proposal to overhaul the current pay-as-you-go Social Security system. Failure to implement the panoply of initiatives outlined by Representative Paul Ryan in *The Path to Prosperity: Restoring America’s Promise* would be a colossal blunder and could ultimately lead to the demise of American economic hegemony.

²⁷ Jordan Fabian, “Scott Brown a ‘no’ on Ryan budget,” *The Hill*, May 23, 2011, <http://thehill.com/blogs/blog-briefing-room/news/162583-scott-brown-wont-vote-for-ryan-budget>

²⁸ Senator Tom Harkin, “Ryan Budget Proposal is an Assault on the Middle-Class.” *The Office of Senator Tom Harkin*, April 21, 2011, <http://harkin.senate.gov/>

Bibliography:

Barnes, Fred. "The Great Debate: Ryan vs. Obama Will Be This Year's Main Event, If the President Is up for It." *The Weekly Standard* 18 Apr. 2011: 12-13.

Fabian, Jordan. "Scott Brown a 'no' on Ryan Budget." *The Hill*. The Hill Newspaper, 23 May 2011. <<http://thehill.com/blogs/blog-briefing-room/news/162583-scott-brown-wont-vote-for-ryan-budget>>.

Forbes, Steve. "#2 William Gates III - Forbes.com." *Forbes*. The Forbes Corporation, 10 Mar. 2010. http://www.forbes.com/lists/2010/10/billionaires-2010_William-Gates-III_BH69.html>.

Goodman, Peter S. "U.S. Employment Rate Hits 10.2 Percent, Highest in 26 Years." *The New York Times*. The New York Times Corporation, 6 Nov. 2009. <<http://www.nytimes.com/2009/11/07/business/economy/07jobs.html?scp=1&sq=Unemployment%20Rate%20Hits%2010.2%20percent,%20highest%20in%2026%20years&st=cse>>.

Harkin, Tom. "Ryan Budget Proposal Is an Assault on the Middle-Class." *The Office of Senator Tom Harkin*. The United States Senate. <<http://harkin.senate.gov/>>.

Izzo, Phil. "Jobless Rate at 2012 Presidential Vote Forecast at 7.7%, Highest Since Carter-Ford, but the Trend May Matter Most." *The Wall Street Journal*. News Corporation, 14 Mar. 2011. <<http://online.wsj.com/article/SB10001424052748703555404576195030362085382.html>>.

Levin, Yuval. "The Radical Gradualism of Paul Ryan: The Status Quo Is Far More 'extreme' than the Republican Budget." *The Weekly Standard* 18 Apr. 2011: 23-25.

Moffit, Dr. Robert, and Kathryn Mix. *Transforming Medicare Into a Modern Premium-Support System: What Americans Should Know*. Rep. no. #3227. The Heritage Foundation, 15 Apr. 2011. <<http://www.heritage.org/Research/Reports/2011/04/How-to-Transform-Medicare-into-a-Modern-Premium-Support-System?query=Transforming+Medicare+into+a+Modern+Premium+Support+System:+What+Americans+Should+Know>>.

The Office of Representative Dennis Rehberg. *Rehberg Statement after Budget Vote: Too Much Uncertainty, Not Enough*. Office of Representative Dennis Rehberg. 15 Apr. 2011. <<http://rehberg.house.gov/index.cfm?sectionid=26&itemid=1647>>.

United States of America. United States House of Representatives. *The Path to Prosperity: Restoring America's Promise*. By Paul D. Ryan. 1st ed. Vol. 1. Washington, D.C.: United States Government Printing Office, 2011. Office of Representative Paul Ryan. <<http://paulryan.house.gov/UploadFiles/PathToProsperityFY2012.pdf>>.

