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The Republicans Finally Do Something: The Budget

By Jeff Harding, on April 5th, 2011

I was pleasantly shocked by the Republican budget blueprint to cut spending, lower taxes, and attack some of the fundamental problems of entitlement programs such as Medicare. This is the most significant proposal since the Contract For America during the Clinton years. Everyone talks but does nothing about the problem. Paul Ryan's report touches that "third rail" of politics: entitlement programs. Whether the program is successful or not, whether it feasible or not, is not as important as the message the Republicans are sending about their willingness to take on this supremely important issue. That takes political courage, a rare thing.

Interestingly, the Medicare issue was in part developed by Alice Rivin, former OMB director under Clinton and former Vice Chairman of the Federal Reserve who said:

[S]he would have preferred a plan that phased in more quickly and left a traditional Medicare program as a default option for seniors. But overall she supported Mr. Ryan's idea. "What Democrats have to realize is we have to do something," Ms. Rivin said. "Current policy on Medicare is not sustainable. You can worry about how you structure a premium support program, but I think it's a good way to think about the future of Medicare."

Here are two excellent analyses by Chris Edwards of Cato:

Chris sent me this article published in [The National Review](#):

Paul Ryan's Fiscal Framework

By Chris Edwards, Cato Institute

As Congress continues to battle over this year's budget, House Budget chairman Paul Ryan released a blueprint today to guide Republican fiscal policies for years to come. Ryan's budget proposes spending cuts, tax reforms, and the restructuring of entitlement programs.

His plan will dominate budget discussions for the rest of the year, and it will help frame the fiscal debate for the 2012 presidential campaign. That's why liberal pundits are already attacking it with gusto. In the *Washington Post*, E. J. Dionne called Ryan's plan "radical," "irresponsible," and "extreme." But serious fiscal experts know that the real extreme plan is President Obama's "do nothing" budget, which would result in disastrous levels of debt and crushing tax burdens on families in coming years.

As a first step toward budget sanity, Ryan proposes further cuts to discretionary spending beyond those currently being debated. However, his main focus is on transforming the so-called entitlements. He would transition Medicare from the current Soviet-style system to one based on consumer choice. Instead of a system based on payments to health-care providers, new retirees would receive a "premium support" payment to buy a private insurance plan of their own choosing.

That reform would allow Congress to directly limit taxpayer costs, while encouraging providers and patients to reduce inefficiencies in the system. It would also improve the quality of care through more competition. Without such reforms, rising costs will likely

compel Congress to start rationing care to seniors and making other cuts that would seriously distort the health-care system.

For Medicaid, food stamps, and other federal-state aid programs, the Ryan plan embraces block grants. The states would receive a fixed pot of money, but be given more flexibility on program design. That would end incentives for states to over-expand their programs with “free” federal dollars. Block granting was the successful approach of welfare reform in 1996, and it should be warmly received by today’s large group of conservative governors.

Over the first decade, Ryan’s reforms would reduce federal spending from 25 percent of gross domestic product to about 20 percent, although that level would still be higher than it was as recently as 2007. The big savings would come over the longer term. By 2040, the size of the federal government under Ryan’s plan would be half the size under a “do nothing” plan — roughly 20 percent of GDP vs. 40 percent. For young Americans, the resulting differences in tax burdens and prosperity between those alternative fiscal futures would be massive.

On taxes, Ryan would reduce rates and simplify the system. His previous plan collapsed individual income taxes to a simple structure of 10 and 25 percent, while ending most deductions and other special breaks. His new plan drops the top rate to 25 percent, but leaves most of the simplification details to the House tax-writing committee.

E. J. Dionne also attacked Ryan’s plan as “tax cuts for the rich,” but that’s nonsense. It’s easy to design a two-rate tax system that doesn’t change the current distribution of tax payments at all. I favor a system with a single flat rate, so Ryan’s plan is too “progressive” for me, but it would certainly simplify the tax code and help spur economic growth.

Ryan would cut the federal corporate-tax rate from 35 to 25 percent. That would still leave us with a higher rate than the average in Europe, but it would be a major spur to investment and job creation. To his credit, Ryan scrapped the idea from his prior plan of converting the corporate tax to a value-added tax, which would have been a money machine for the government.

In sum, Paul Ryan has proposed a fiscal reform structure that should win broad political support. Moderates can take comfort that the premium support idea for Medicare reform is endorsed by prominent Democratic economist, Alice Rivlin. Fiscal conservatives can take comfort that the Ryan plan is a step toward even larger spending and tax reforms. Block granting, for example, can be a step toward fully devolving programs such as food stamps to the states, and the Ryan tax plan can be a first step toward a flat tax.

Political leaders keep saying that we need an “adult conversation” on federal budget reforms. Republican Ryan has started that conversation, and now it is up to Democrats to put aside their childish rants about “extremism” and offer up their own plan to avert the coming fiscal disaster.

— *Chris Edwards is editor of the Cato Institute’s DownsizingGovernment.org.*

This is from Edward’s article in Cato (*Federal Spending: Ryan vs. Obama*):

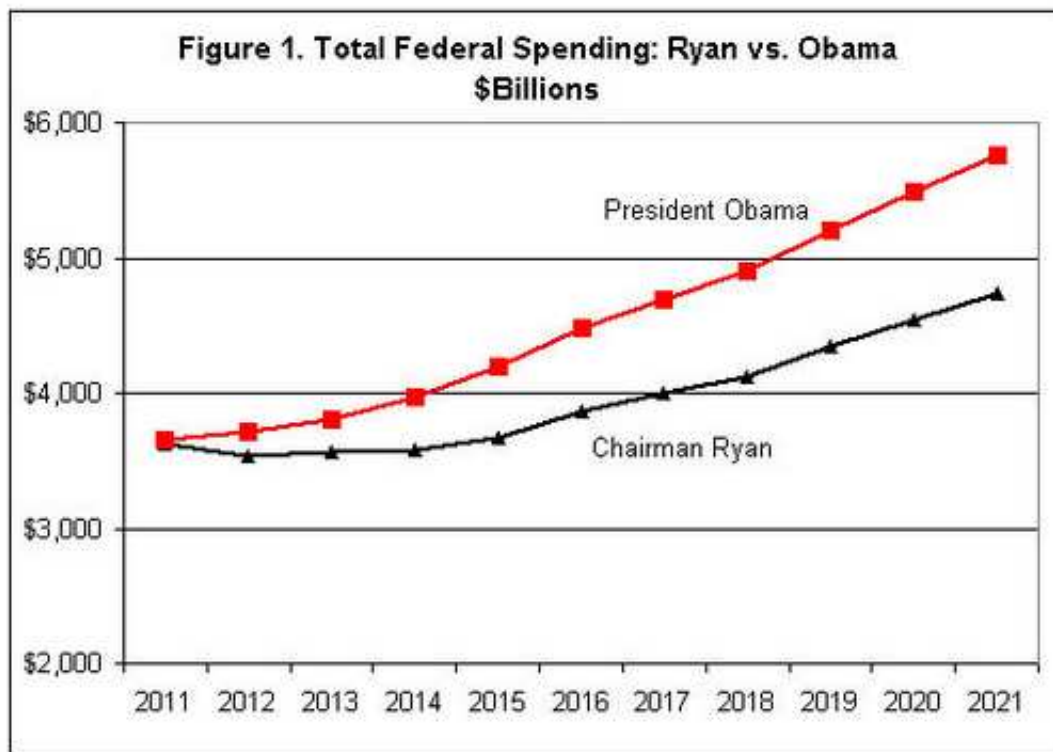
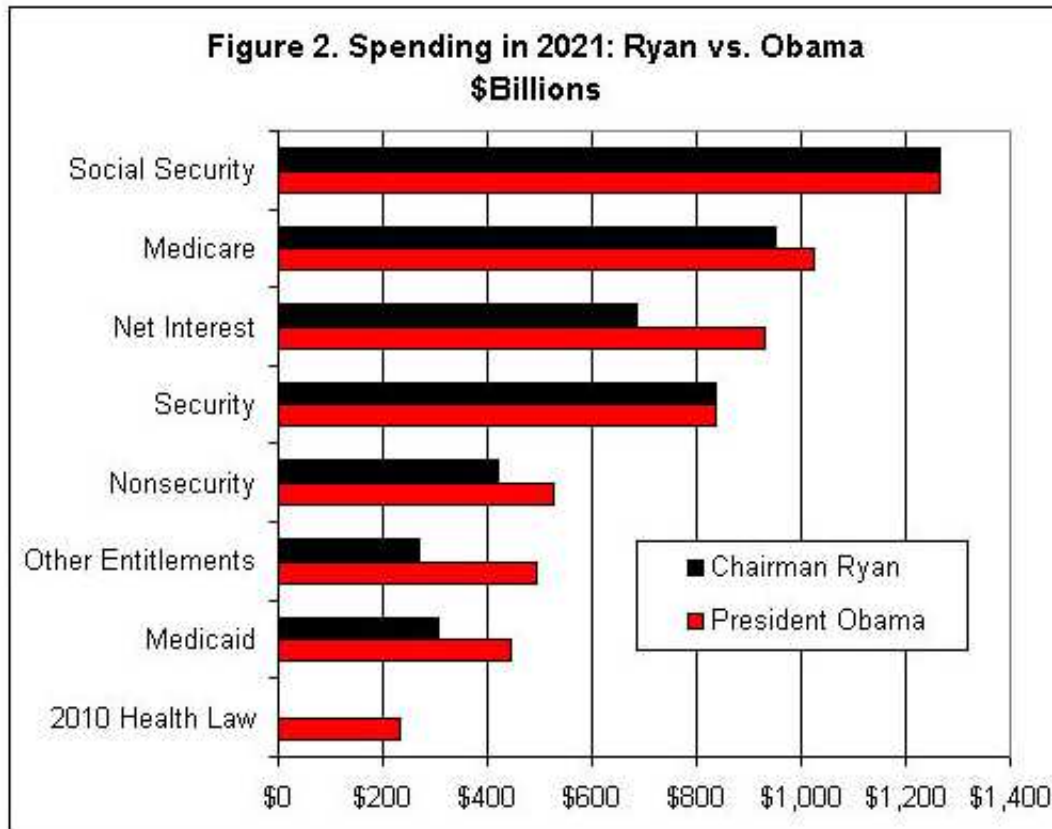
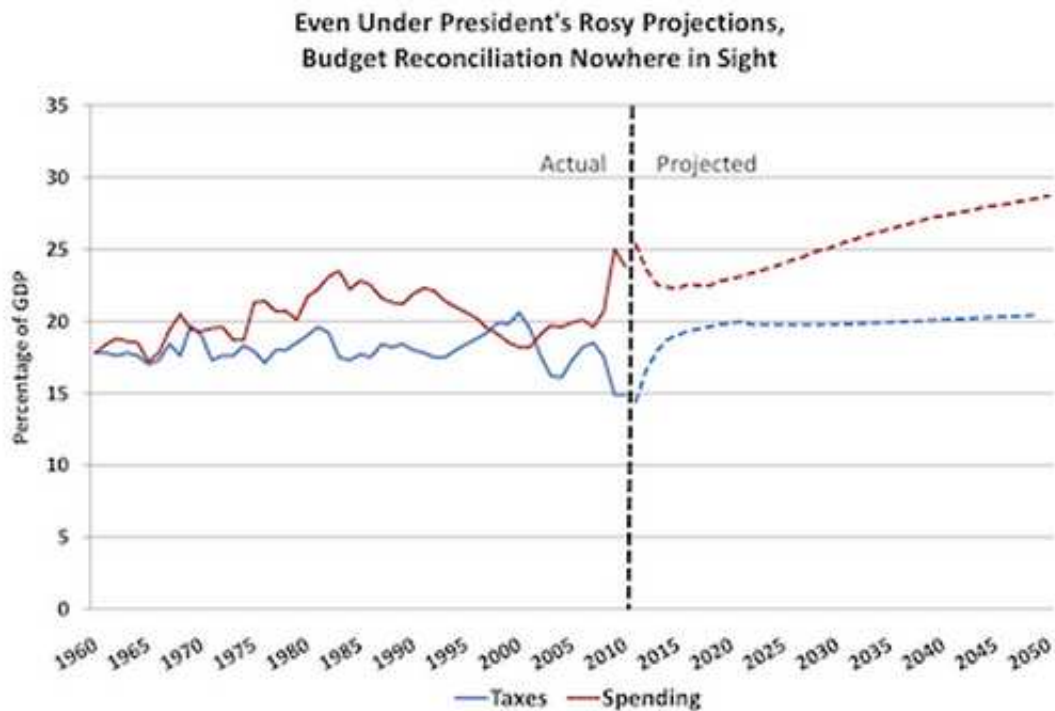


Figure 2 [below] compares Ryan's and Obama's proposed spending levels at the end of the 10-year budget window in 2021. The figure indicates where Ryan finds his budget savings. Going from the largest spending category to the smallest:

- Ryan doesn't provide specific Social Security cuts, instead proposing a budget mechanism to force Congress to take action on the program. It is disappointing that his plan doesn't include common sense reforms such as raising the retirement age.
- Ryan finds modest Medicare savings in the short term, but the big savings occur beyond 10 years when his "premium support" reform is fully implemented. I would rather see Ryan's Medicare reforms kick in sooner, which after all are designed to improve quality and efficiency in the health care system.
- Ryan adopts Obama's proposed defense (security) savings, but larger cuts are called for. After all, defense spending has doubled over the last decade, even excluding the costs of wars in Iraq and Afghanistan.
- Ryan includes modest cuts to nonsecurity discretionary spending. Larger cuts are needed, including termination of entire agencies. See DownsizingGovernment.org.
- Ryan makes substantial cuts to other entitlements, such as farm subsidies. Bravo!
- Ryan would turn Medicaid and food stamps into block grants. That is an excellent direction for reform, and it would allow Congress to steadily reduce spending and ultimately devolve these programs to the states.
- Ryan would repeal the costly 2010 health care law. Bravo!



If we do nothing (from Mercatus by Virginia de Rugy):



Source: Office of Management and Budget, Historical Tables and Long Range Budget Projections for 2012
Produced by: Veronique de Rugy, Mercatus Center at George Mason University



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[ohio ralph](#)

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There will be no economic growth until America decides to reject militarism as the driver of our economy. Uncontrolled spending by Congress on military activities domestically and overseas destroys capital investment in industries that America would choose rather than be coerced to support. Claiming spending cuts by increasing monetary units and claiming GDP growth is nothing more than money printing by another name.



[Mark](#)

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First of all, the CATO institute is one of major proponents of a horrendously deceptive "FLAT tax" that is about as flat as Pikes Peak. Having anyone at CATO tell us about "grown up" tax discussion is like having Donald Duck tell us about crackers.

Still, Ryan deserves credit — he put it out there. He is trying to end entitlements as we know it. He is for tax breaks for millionaires and billionaires, and health care cuts for the working poor. And maybe he is right. Maybe the millionaires need that second mansion, and that extra condo in Sarasotta. And maybe the working poor should work harder and not get sick so much.

I agree that our lunatic war mongering military spending is the second biggest problem. Do we see China sending soldiers all over the globe killing people? Do we see Russia? What on earth are we doing? Invading country after country after country — all the while waving our flag, claiming God is on our side. No wonder Islamic radicals hate us. This is goofy.

By the way, if you want to have an actual FLAT TAX— where everyone pays the same rate on all income — watch CATO institute soil their pants. Dan would have to buy several packages of BVDS. The last thing these guys want on earth is to pay taxes on their favored income — unearned income — like work has to pay.

[BXY](#)

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ignorant