

Republican tax plan makes sense

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By Chris Edwards

House of Representatives Budget chairman Paul Ryan released a blueprint yesterday 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 the real extreme plan is U.S. President Obama's "do nothing" budget, which would result in disastrous levels of debt and crushing tax burdens on families in coming years.

Ryan's 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.

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% of gross domestic product to about 20%, 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% of GDP vs. 40%. 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 by dropping the top individual income tax rate to 25%. 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.

Ryan would cut the federal corporate-tax rate to 25% from 35%, a higher rate than the average in Europe but a major spur to investment and job creation.

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.

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

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