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Paul Ryan's Fiscal Framework

By [Chris Edwards](#)

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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.*

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