



Obama's and Paul Ryan's Conflicting Budget Visions

By MICHAEL TANNER, The Fiscal Times

April 6, 2012

With his speech to news editors and executives this week, President Obama has made it clear that he plans to run a starkly ideological campaign, contrasting his vision for the future of the country with that of his Republican opponents. And, he plans to make the Republican budget, written by rising GOP star Rep. Paul Ryan of Wisconsin and embraced by presumptive Republican nominee Mitt Romney, exhibit one in that contrast. It would be worthwhile therefore to actually compare that budget with the one proposed by the president.

Deficits and Debt

The president's budget proposal would reduce future deficits – at least until 2018 – but would never achieve balance. By 2018, the president projects deficits to fall to only \$575 billion. After that, they begin rising again, reaching \$704 billion by 2022. Overall, the president's budget would add an additional \$6.7 trillion to the national debt over the next 10 years.

Paul Ryan does better when it comes to deficit reduction, but only because the president has set such a low bar. Unlike the president, Ryan would eventually balance the budget – but not until 2040 or so. He does, however, generally run much lower annual deficits than the president would, and adds \$3.3 trillion less to the national debt over the next 10 years.

Over the longer-term, the differences are much more pronounced. By 2050, for instance, Ryan would be running a surplus equal to as much as 3 percent of GDP. The president's budget, in contrast, projects that we would still face budget deficits in excess of 6 percent of GDP.

Government Spending

Neither President Obama nor Paul Ryan actually cuts government spending. Rather, both are

playing the time-honored game of calling a reduction in the rate of increase a “cut.” Thus, the president would increase federal spending from \$3.8 trillion in 2013 to \$5.82 trillion in 2022. That might not be as big an increase there might otherwise be, but in no way can it be called a cut. Meanwhile, Ryan, who is being accused of “thinly veiled Social Darwinism,” would actually increase spending from \$3.53 trillion in 2013 to \$4.88 trillion in 2022.

The president warns that Ryan’s spending “cuts” would “gut” the social safety net. And, it is true that Ryan’s budget knife falls more heavily on domestic discretionary spending than does the president’s – but only relatively. Over the next 10 years, Ryan would spend \$352 billion less on those programs than would Obama, an average of just \$35.2 billion per year in additional cuts. Given that domestic discretionary spending under the president’s budget will total more than \$4 trillion over the next decade, Ryan’s cuts look less than draconian.

One area where the president appears to have the better argument is on defense spending. Ryan would undo the defense spending sequester agreed to under last year’s debt-ceiling compromise, and would spend \$203 billion more over 10 years than was agreed to. Obama would cut defense by an additional \$240 billion. Given our budget problems and the lack of a conventional military threat, Ryan’s plan to spare defense seems shortsighted.

Taxes

The president would increase tax revenue to 20.1 percent of GDP. That's a huge increase from the current 15.4 percent, and higher than the post-World War II average of 18 percent. His budget includes tax hikes on people and small businesses making as little as \$200,000 per year, as well as the usual panoply of tax hikes on energy products, businesses, investment and pretty much anything else the president can think of.

The president also continues to push for the so-called Buffet Rule, a new 30 percent minimum tax on the rich, based on the misleading claim that Warren Buffett pays a lower tax rate than his secretary. The Buffett Rule would raise very little revenue – less than \$3.2 billion per year on average according to the Congressional Budget Office – but the president is pushing it as a matter of fairness.

Ryan would also allow taxes to increase as a percentage of GDP, returning to roughly their historical average around 18 percent of GDP. However, he is also calling for a major reform of the U.S. tax code. Ryan would replace the current four tax rates with two: 15 and 25 percent. He would also lower the current 38 percent corporate tax rate, the world’s highest, to 25 percent. At the same time, he would broaden the taxable base by eliminating many current deductions and loopholes. Unfortunately, Ryan has ducked the unpopular task of actually spelling out which loopholes would be eliminated.

Entitlement Reform

Perhaps the biggest disagreement between the president and Ryan is over how to reform the

entitlement programs that are driving this country toward bankruptcy. Ryan would restructure Medicare for those under age 55 to give recipients a choice between the traditional program and a voucher that would allow them to purchase private insurance. That plan, drafted together with Democratic Sen. Ron Wyden of Oregon, would have little impact in the short-term – in 2022, it would spend just \$21 billion less than the president's budget – but over the longer term would reduce Medicare's unfunded liability, which the Medicare trustees put at \$24.6 trillion, by trillions of dollars.

The president makes no significant changes to Medicare, relying instead on expansion of changes contained in the new health care law to save a projected \$364 billion over the next 10 years.

Ryan would also turn the current Medicaid program to the states in the form of a federal block grant, while reducing spending by \$810 billion over 10 years. States would have far more freedom to experiment with ways to reform the system, but would likely receive less federal funds over the long term. Obama, by contrast, leaves the program unchanged, while significantly expanding eligibility under the health care law.

Unsurprisingly in an election year, both Ryan and the president punt on Social Security reform. Neither offers any reform of the troubled retirement system, despite its \$21 trillion in unfunded liabilities.

Two Visions

The United States is teetering on the edge of Greek-style bankruptcy. Our total indebtedness, including the unfunded liabilities of Social Security and Medicare, could run as high as \$130 trillion, more than 900 percent of GDP. In the face of this looming crisis, Obama and Ryan have presented two distinct visions of the future. The president offers a bigger government, paid for with more debt and higher taxes. Ryan's vision may be maddeningly timid and vague in places, but it takes important steps toward a smaller, less costly, and less intrusive government.

If that's the debate that President Obama wants to have, let's do it.

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