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THE RYAN BUDGET VERSUS THE *BUDGET FOR ALL*

Exacerbating versus alleviating our serious economic challenges

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The United States faces major economic challenges recognized by economists and policymakers on both sides of the political aisle. Most pressingly, these include accelerating economic recovery and sustaining faster economic growth; stabilizing a long-run fiscal outlook rendered unsustainable by rising health care cost growth; and reversing the sharp rise in income inequality, promoting economic opportunity, and increasing social mobility. The federal budget is a key policy lever for addressing these near- and long-term economic challenges; all budget proposals must be evaluated as such. And as numeric embodiments of national priorities, budget proposals strip away political rhetoric to reflect underlying policy priorities.

The 2012 budget season saw two proposals put forth that were commonly described as spanning from the political

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right to left in their approach: the fiscal 2013 budget resolution proposed by House Budget Committee Chairman Paul Ryan (and passed by the U.S. House of Representatives on a party-line vote), and the *Budget for All* proposed by the Congressional Progressive Caucus (CPC).[1] While these two proposals do indeed provide diametrically opposed views of budget priorities, the most salient difference between them is not political philosophy, but simple effectiveness in addressing our most pressing economic challenges.

The budget proposed by Rep. Ryan (R-Wis.) prioritizes vastly increasing the last decade's already-large tax cuts for the highest-income households, expanding the size of the defense budget, privatizing Medicare, defunding Medicaid, repealing the Affordable Care Act, and shrinking other functions of government (such as funding for education, research, and income support). These budgetary priorities not only fail to address our major economic challenges, but would exacerbate them. Substantial near-term spending cuts would slow recovery and increase joblessness. Deep domestic spending cuts would starve public investments needed as the foundation for growth, and such cuts would impede economic opportunity and mobility. Greatly diminishing the public provision of health insurance would reduce cost controls and health insurance coverage, raising overall national health expenditure while reducing economic security for the disabled, elderly, and disadvantaged children. Trillions of dollars in additional unfinanced tax cuts targeted to upper-income households would swell budget deficits and widen income inequality.

The *Budget for All*, in contrast, starts with an evidence-based diagnosis of the problems facing the economy and proposes policy prescriptions clearly demonstrated by the weight of economic evidence to address these challenges. Significantly increasing near-term public investment and targeted job creation measures (thereby increasing near-term budget deficits) would meaningfully accelerate growth and reduce joblessness caused by insufficient economy-wide spending. Sustained public investments would help ensure acceptable productivity growth going forward (as productivity growth provides the *potential* for broad-based increases in living standards), and a more progressive tax code and stronger safety net would help reverse the pronounced trend of productivity growth disproportionately benefiting only a small slice of American households. Protecting health care reform and using government bargaining power to negotiate lower prices would slow the rise of per capita health care costs and ensure health and retirement security in the face of an unraveling employer-based provision system. And a combination of health reforms, revenue increases, and realigned discretionary spending would stabilize the long-run fiscal outlook without jeopardizing economic recovery.

Besides differing in their approach to addressing major economic challenges, the budgets also differ in their intellectual rigor. The *Budget for All* specifies where and how cuts will occur, and where and how revenue will be raised. The Ryan budget largely does not. It claims that large tax cuts for high-income households will be paid for by broadening the tax base, but does not say how. Given that literally trillions of dollars of new revenue would need to be raised in the Ryan budget through such base-broadening, this is a severe omission for what purports to be a serious budget.

In the end, the two budgets claim the same level of public debt by the end of the coming decade. But they take very different paths to this level: One path is rigorous and evidence-based, and the other is not. One would meaningfully address our most pressing economic challenges, while the other would exacerbate them. This paper compares the Ryan budget and the *Budget for All* across five major areas of economic and budget policy: job creation and economic recovery, discretionary spending priorities and public investments, economic security and opportunity, health care costs and coverage, and tax policy. Comparisons are made with both the Congressional Budget

Office's (CBO) March 2012 *current law* baseline (CBO 2012a) and with a *current policy* baseline, which assumes certain legislative provisions slated to expire are instead continued.[2]

Key findings include:

- **Job creation and economic recovery:** By decreasing near-term aggregate demand, the Ryan budget would reduce employment by 1.3 million jobs in fiscal 2013 and 2.8 million in fiscal 2014. In contrast, by increasing near-term aggregate demand, the *Budget for All* would increase employment by 2.1 million jobs in fiscal 2013 and 1.2 million in fiscal 2014.
- **Discretionary spending priorities and public investments:** The Ryan budget would ramp up defense spending despite wars ending in Iraq and Afghanistan, while slashing nondefense discretionary spending (NDD). In contrast, the *Budget for All* recognizes the economic imperative for public investment and would take advantage of the opportunities afforded by the ending of wars in Iraq and Afghanistan to reorient discretionary spending toward high-return investments.
- **Economic security and opportunity:** The Ryan budget would cut deeply into the social safety net and scale back tax credits for lower-income households, while calling for steep reductions in tax rates for upper-income households. In contrast, the *Budget for All* would protect the social safety net that has been vital to so many since the Great Recession began, while also targeting tax cuts toward low- and middle-income families.
- **Health care costs and coverage:** The provisions in the Ryan budget regarding health security fail to recognize that, in the absence of social insurance, market failures will keep the private sector from ever adequately covering large portions of the population. The *Budget for All*, conversely, recognizes the value of existing health security programs and also realizes that even more must be done to ensure health security for all Americans and to use government purchasing power to slow national health expenditure growth.
- **Tax policy:** The Ryan budget would maintain all of the Bush-era tax cuts and would even expand them for most households, while offering an implausibly large offsetting revenue gain from broadening the tax base (via eliminating unspecified tax expenditures). In contrast, the *Budget for All* determines what is needed to fund its spending priorities and aims to finance these needs by raising revenue from those households that have the highest incomes and have captured most of the overall income gains generated in recent decades.

Job creation and economic recovery

The labor market remains distressed, and U.S. economic output remains well below potential nearly three years after the official end of the worst downturn since the Great Depression. The CBO projects the unemployment rate will remain near 7 percent even at the end of 2015—*eight years* after the start of the recession (CBO 2012b). Currently, roughly 10 million additional jobs are needed to return to pre-recession unemployment and labor-force participation rates (Shierholz 2012). Underutilization of labor and productive resources has a steep cost, both in terms of foregone national income and longer-term economic scarring, which decreases potential growth (Irons 2009). In the first quarter of 2012, economic output remained $853 billion (5.2 percent) below potential—the level of output associated with full employment and non-inflationary resource utilization—and the CBO projects this output gap will persist through 2017 (CBO 2012c; Department of Commerce 2012).

Because this shortfall is clearly the result of insufficient aggregate demand, and because this demand shortfall has persisted even after the Federal Reserve has exhausted conventional (and even tried some unconventional) monetary support, expansionary fiscal policy remains the single best policy lever with which to lower unemployment and close the output gap (Bivens 2011a)—and at present is largely self-financing (DeLong and Summers 2012). Conversely, government spending cuts will have a particularly adverse impact on economic growth while large output gaps persist (Auerbach and Gorodnichenko 2012).

This economic context is crucial for evaluating competing budget proposals. The *Budget for All* fully recognizes this context, while the Ryan budget does not. In the near term, this means the Ryan budget would clearly lead to higher unemployment, while the *Budget for All* would reduce joblessness.

Ryan budget

- The Ryan budget would immediately reduce primary budget deficits (i.e., revenue less non-interest spending) relative to both the current policy and current law baselines (House Budget Committee 2012).[3] Relative to current policy, primary spending cuts of $125 billion in fiscal 2013 would reduce GDP by 1.1 percent, and primary spending cuts of $279 billion in fiscal 2014 would reduce GDP by 2.4 percent.[4]
- This rapid fiscal contraction would decrease near-term aggregate demand and economic growth, which would decrease employment. The Ryan budget would reduce employment by 1.3 million jobs in fiscal 2013 and 2.8 million in fiscal 2014 (Pollack 2012).
- More than 70 percent of these near-term primary spending reductions would come from mandatory programs—particularly from income security programs—which would be particularly damaging for economic recovery (Zandi 2011).
- The Heritage Foundation Center for Data Analysis's accompanying economic analysis of Ryan's fiscal 2012 budget resolution—which was remarkably similar to his fiscal 2013 proposal—showed an *increase* in GDP resulting from government spending cuts via an implausibly large interest rate reduction and investment boom. However, the "expansionary austerity" hypothesis backing such claims has been discredited both in the economics literature and by the ongoing experience with austerity across much of Europe (Macroeconomic Advisers 2011; Guajardo, Leigh, and Pescatori 2011).[5]

Budget for All

- The *Budget for All* would accommodate bigger primary budget deficits over fiscal 2012–13 relative to current policy (Fieldhouse and Thiess 2012).[6]
- Targeted near-term job creation measures include $227 billion for a direct job creation program (the Emergency Jobs to Restore the American Dream Act), $106 billion for reinstating the refundable Making Work Pay tax credit, and (slightly less well-targeted) $39 billion in business tax credits, all over fiscal 2012–14.[7]
- The *Budget for All* would also increase nondefense discretionary spending by $380 billion over fiscal 2012–14, bringing total job creation and public investments to $786 billion over the next two-and-a-half years relative to current law.
- Relative to current policy, these and other policy proposals would increase primary spending by $259 billion in fiscal 2013, which would increase GDP by 2.3 percent. Primary spending increases of $261 billion in fiscal 2014 would increase GDP by 2.2 percent.[8] Even net of the fiscal drag from phasing in permanent tax increases called for in the *Budget for All*—which have a much lower multiplier than direct spending—the budget would boost GDP by 1.8 percent in fiscal 2013 and 1 percent in fiscal 2014.
- By increasing near-term aggregate demand, the *Budget for All* would increase employment by 2.1 mil-

lion jobs in fiscal 2013 and 1.2 million in fiscal 2014 (Fieldhouse 2012a).

The difference between these two budgets for near-term economic recovery is sizable. Nonfarm payroll employment would be increased by roughly 3.4 million jobs in fiscal 2013 and four million in fiscal 2014 if Congress enacted the *Budget for All* relative to enacting the Ryan budget (Fieldhouse 2012a). Simply put, this is the difference between a robust recovery and a renewed labor-market recession. This difference is a further sign that the *Budget for All* is much better grounded in economic reality. Given the current debate over federal budget deficits, every political incentive is to develop medium-term budget plans that show as much deficit reduction as possible. For the CPC's budget to move in the opposite direction for the first couple of years and allow for larger budget deficits to support a weak economy shows a noteworthy degree of pragmatism. Pushing for large deficit cuts right away would garner much applause among political observers, but it would be bad economics.

Discretionary spending priorities and public investments

The two budget alternatives differ greatly in their approach toward discretionary spending. The Ryan budget meets long-standing conservative commitments by ramping up defense spending despite wars ending in Iraq and Afghanistan, while slashing NDD spending. The *Budget for All* instead recognizes the opportunities afforded by the ending of wars in Iraq and Afghanistan to reorient discretionary spending toward public investments.

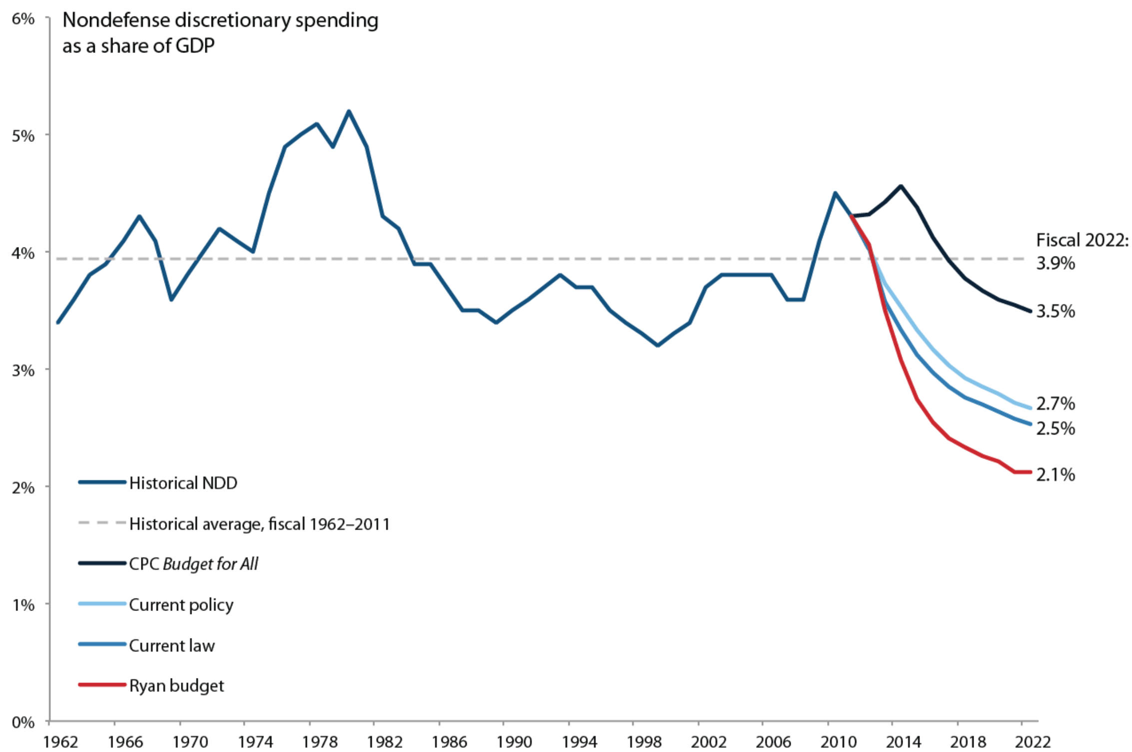
The NDD portion of the budget accounts for only 17.4 percent of government expenditure (CBO 2012a) but encompasses most public investments undertaken to boost human and physical capital (Pollack 2011). It houses spending on everything from education to workforce training, from child nutrition to scientific research, from energy to the basic operations of government. Ryan's proposal would radically shrink this portion of the budget—in fact, in later years there would be literally no room for any NDD spending given his budget's priorities. Conversely, the *Budget for All* would finance front-loaded but sustained investments to support economic growth during the years in which unemployment is projected to remain elevated. Over the longer term, the *Budget for All* would support targeted investments critical to raising potential output—a policy fully in line with what empirical research argues about key drivers of productivity growth (Bivens 2012).

Ryan budget

- Relative to current policy, the Ryan budget would cut the domestic (i.e., non-defense) budget by $5.3 trillion over ten years while simultaneously increasing defense spending by about $200 billion (Horney and Merrick 2012). Almost one-quarter of the domestic spending cuts called for in the Ryan budget, or roughly $1.2 trillion, would come from the NDD budget. These cuts would be layered on top of the steep reductions to the NDD budget already scheduled as a result of the spending caps legislated in the Budget Control Act (BCA), i.e., the debt ceiling deal.
- NDD spending as a share of GDP would fall to 2.1 percent in fiscal 2022, down from 2.7 percent projected under current policy and a 3.9 percent historical average over fiscal 1962–2011, as shown in **Figure A** (OMB 2012). This would reduce NDD spending by 20.4 percent relative to current policy.
- Over the longer term, the Ryan budget would sharply reduce combined nondefense, defense, and "other mandatory" spending (excluding Social Security, Medicare, Medicaid, and other health programs) from 12.5 percent of GDP in 2011 to 5.75 percent of GDP by 2030 and 3.75 percent of GDP by 2050. This compares with 8.5 percent of GDP by 2030 and 8.25 percent in 2050 projected under CBO's current policy baseline (CBO 2012d).[9] The basic government functions—everything but Social Security,

FIGURE A

Historical nondefense discretionary (NDD) spending (1962–2011) and projected levels (2012–2022)



Note: For CPC *Budget for All*, Highway Trust Fund outlays remain classified as discretionary for the sake of historical comparison.

Sources: Authors' analysis of OMB and CBO data and other sources

Medicare, Medicaid and other health programs, and interest on the debt—would be cut by roughly one-third over the next 20 years and by more than half by 2050, relative to projected levels.

- Since Ryan favors *increasing* defense spending, it is likely that NDD and "other mandatory" spending would be crowded out of existence, and/or primary spending and budget deficits would be considerably higher than the levels projected by the CBO.[10] The Ryan budget maintains defense spending at an average of 3.1 percent of GDP throughout fiscal 2013–22. If this level were maintained through the long-term budget window, by 2050 spending on the nondefense discretionary portion of the budget would be almost completely eliminated.

Budget for All

- The *Budget for All* would repeal the deep cuts to NDD spending enacted in the BCA, reinstating $583 billion in NDD spending through fiscal 2022 (Fieldhouse and Thiess 2012). Beyond repealing the BCA cuts, the *Budget for All* would finance an additional $1.6 trillion in NDD budget outlays through fiscal 2022. These investments, along with front-loaded job creation measures, would exceed $300 billion per year over fiscal 2013–15, providing a substantial fiscal boost in those years when the economy is projected to remain below potential output.

- The *Budget for All* would also finance a $556 billion, six-year surface transportation reauthorization bill that would increase transportation investments by $247 billion over fiscal 2012–22, relative to current law (Fieldhouse and Thiess 2012).[11]
- NDD spending in the *Budget for All* would essentially match the historical average share of GDP over the past half-century—averaging 4 percent of GDP over fiscal 2013–22 compared with 3.9 percent since 1962.
- These investments would substantially blunt the steep cuts in NDD spending projected under current policy and current law, and proposed by the Ryan plan (as shown in Figure A).
- The *Budget for All* would help finance these investments with savings from the Department of Defense, as the war in Iraq has ended and the war in Afghanistan would be drawn to a close on an accelerated timeframe. Ending overseas contingency operations would save over $1.1 trillion relative to current law and $336 billion relative to the president's budget request (Fieldhouse and Thiess 2012). Spending cuts to non-emergency spending by the Department of Defense would be gradually phased in, effectively replacing the imprudent (and unlikely to materialize) front-loaded automatic spending cuts from the BCA with feasible and less economically harmful reforms.

The Ryan budget would greatly diminish the NDD budget over the next few decades, stunting government's ability to perform basic services, invest in public education, protect the environment, monitor financial markets for fraud and excess, maintain national parks, or invest in grants for scientific research. The *Budget for All* not only protects the NDD budget from the pending automatic reductions scheduled under the BCA, but also restores funding toward the historical levels needed to maintain the public capital stock. While the job creation measures in the budget would largely phase out as the economy recovers, NDD investments would be sustained throughout the entire 10-year budget window to support the physical infrastructure and human capital investments necessary to keep unemployment low and the economy globally competitive.

Economic security and opportunity

The Ryan budget and the *Budget for All* reflect vastly different priorities for promoting economic opportunity and security for the middle class. The Ryan budget calls for steep reductions in tax rates for upper-income households, essentially directing substantial new public resources toward those households that have already ensured their own economic security and reaped the lion's share of economic growth in recent decades (Piketty and Saez 2012). In addition, the deep cuts to income security programs called for in the Ryan budget would take a hefty toll by reducing economic security for low- and middle-income American households—precisely those that have struggled to improve their living standards for much of the past 30 years. Given the clear underlying trends in income data, this is a questionable allocation of public resources. Further, past evidence indicates clearly that the binge of tax cuts for high-income households in the 2000s did not translate into a healthy economy—even before the Great Recession hit (Bivens and Irons 2008).

In contrast, the *Budget for All* would protect the social safety net that has been vital to so many since the Great Recession began, while also focusing tax cuts on low- and middle-income families. In short, the *Budget for All* uses evidence in determining budgeting priorities and identifying where public resources would do the most good in helping to remedy the wider economy's failure to deliver living standards growth.

Ryan budget

- Despite rising poverty and high unemployment, the Ryan budget would cut deeply into the social safety net: According to the Center on Budget and Policy Priorities (CBPP), 62 percent of the nondefense cuts proposed by the Ryan budget would come from programs for lower-income households (Horney and Merrick 2012).
- For example, the Supplemental Nutritional Assistance Program (SNAP, formerly known as food stamps) would see cuts of $134 billion—or more than 17 percent—over the next decade (Rosenbaum 2012). A cut this deep would necessitate reducing benefits substantially or cutting the number of people receiving benefits. If reductions were to come solely from decreasing SNAP eligibility, more than eight million people would need to be cut from SNAP rolls in order to achieve the magnitude of cuts laid out in the Ryan budget (Rosenbaum 2012). According to CBPP, SNAP kept roughly four million Americans—including two million children—out of poverty in 2010 (CBPP 2012).
- CBPP estimates that the Ryan budget would cut $463 billion from programs that specifically serve lower-income Americans (other than Medicaid and SNAP), provided cuts to these lower-income programs were made proportionately by spending category (Horney and Merrick 2012).
- The Ryan budget specifically identifies the Pell Grant program (which provides need-based grants for low-income students wishing to attend college or receive vocational training) as unsustainable and in need of reform, implying that Pell Grants would be slated for a hefty spending cut.[12] CBPP estimates the Ryan budget would make $166 billion in mandatory cuts to the Education, Training, Employment, and Social Services budget function, and surmises that cuts to Pell Grants would constitute a good portion of those reductions (Horney and Merrick 2012).

Budget for All

- The *Budget for All* would protect the social safety net and promote economic mobility by increasing discretionary outlays in the Education, Training, Employment, and Social Services budget function by $234 billion; the Income Security budget function by $312 billion; and the Community and Regional Development budget function by $78 billion over the next decade.
- The *Budget for All* would enact the Unemployment Insurance Solvency Act to strengthen the unemployment compensation system—which has been under great financial distress during this period of high unemployment and near-record long-term unemployment—at both the federal and state level. A critical component of the social safety net, unemployment compensation kept 3.2 million Americans out of poverty in 2010 (Census Bureau 2011).
- The *Budget for All* would permanently extend the expansion of refundable tax credits enacted in the American Recovery and Reinvestment Act (ARRA), which would increase mandatory outlays by $131 billion over fiscal 2013–22. Specifically, this would extend the third Earned Income Tax Credit (EITC) tier for larger families, the lower $3,000 earnings threshold for the refundable portion of the child tax credit, and the partially refundable American Opportunity Tax Credit for college tuition. When added to the resource measurement for poverty, the expanded EITC effectively kept 5.4 million Americans out of poverty in 2010 (Census Bureau 2011).
- Additionally, the *Budget for All* would maintain the family and education incentives included in the 2001 and 2003 tax cuts, including the increased child tax credit and "marriage penalty" relief for the EITC, standard deduction, and 15 percent tax bracket.

The Ryan budget would roll back programs that help millions of Americans maintain decent living standards. Not only would the *Budget for All* invest in the budgeting categories supporting workforce training, child nutrition programs, and Pell Grants, it would also extend the refundable tax credits included in the ARRA. In that respect, the *Budget for All* charts a far different path than the Ryan budget, which would demand blunt austerity measures asking the most from those least able to afford it. Importantly, the *Budget for All's* alternative path invests public resources in areas that evidence shows would do the most good for the most households.

Health care costs and coverage

The American health system suffers from two interrelated problems, especially when compared with advanced-country peers: health care costs that rise unusually rapidly, and a large share of the population that lacks health insurance. America spends significantly more on health care per capita than every other developed nation, yet achieves similar-at-best health outcomes—and costs are projected to continue to increase unsustainably fast. The main driver of this cost growth has been the provision of health care itself, which is provided almost exclusively by the private sector. This system of private care provision has generated consistently large annual increases in costs for both private insurers and public insurance programs (mostly Medicare and Medicaid), taking a toll on household budgets and federal and state budgets alike. Furthermore, nearly 50 million Americans currently remain without health insurance coverage.

The Affordable Care Act (ACA) takes a large step toward solving both problems, but further reforms will be needed even after it is fully phased in. By the end of the decade, even after the ACA is phased in and its provisions expand coverage to an additional 30 million non-elderly Americans, there will remain an estimated 27 million Americans without insurance (CBO 2012e). A lack of health insurance raises the chance of bankruptcy, poor health, or even premature death. Further, the effects of uninsurance are borne not just by the uninsured themselves, but by the nation as a whole. As the uninsured seek treatments at emergency rooms, they push their costs onto hospitals, which tend to be reimbursed either from public insurance programs like Medicare and Medicaid or by passing costs onto privately insured patients. The provisions in the Ryan budget regarding health security are perhaps its most misguided, as they ignore the reality that, in the absence of social insurance, market failures will keep the private sector from ever adequately covering large portions of the population. The *Budget for All*, conversely, recognizes the value of existing health security programs and also realizes that even more must be done to ensure health security for all Americans.

Ryan budget

- The Ryan budget would repeal the ACA, denying over 30 million Americans coverage and increasing out-of-pocket costs for millions of seniors. This would raise drug costs by an average of $723 per senior in 2013 and $1,847 per senior by 2021 (CBO 2012e; HHS 2012).
- It would cut Medicaid by nearly half by 2022 (a cut of over one-third against a pre-ACA baseline), causing another 14–27 million Americans to lose coverage in addition to the 17 million who would lose Medicaid with the repeal of the ACA (Holahan et al. 2011). On net, the Ryan budget would cut Medicaid and other health programs by $2.4 trillion by fiscal 2022 (Horney and Merrick 2012).
- The Ryan budget would raise the eligibility age for Medicare, convert the program into a subsidized voucher model, and cap its growth, ensuring that it could not protect beneficiaries' financial security from rapidly rising health costs. More specifically, the Ryan proposal would raise the Medicare eligibility age from 65 to 67, replace the current guaranteed Medicare system with a flat premium-support voucher system in which beneficiaries could purchase either private health insurance or traditional Medicare, and cap spending increases to just half a percentage point above overall GDP growth—a growth rate that, given underlying health care cost trends, is guaranteed to

expose beneficiaries to ever-increasing out-of-pocket costs.

- Further, because the Ryan budget would fracture the current large pool of Medicare beneficiaries, the traditional program could also lose bargaining power vis-à-vis providers—bargaining power that has enabled Medicare to hold down per-beneficiary cost growth better than the private sector nearly since its inception. Medicare was estimated to be 11 percent cheaper than an actuarially equivalent private insurance plan in 2011 and is projected to be 28 percent cheaper by 2022 (CBO 2011b).
- By 2050, Medicare spending for new enrollees would be cut by over one-third, and spending on all public health insurance programs other than Medicare would be cut by over 75 percent (CBO 2012d).

Budget for All

- The *Budget for All* would implement a public insurance option, which would be allowed to compete with private insurers in the health insurance markets that will be established in 2014 as part of the ACA. The CBO estimated that premiums for the public insurance option would be 5–7 percent cheaper than equivalent private insurance (CBO 2011c).
- The *Budget for All* would harness the purchasing power of Medicare to negotiate drug prices with, and/or rebates from, pharmaceutical companies (as is currently done for Medicaid and the Veterans Health Administration).
- The *Budget for All* would also adopt the administration's reforms for drug development and take steps to reduce fraud and waste in Medicaid.
- Additionally, the *Budget for All* would crack down on Medicare Hospital Insurance (HI) payroll tax avoidance and would promote health by ending subsidies for junk- and fast-food advertising to children.
- Cumulatively, these reforms to slow the rate of national health care expenditure would save $306 billion over ten years *beyond* the savings projected from the implementation of the ACA.

The Ryan budget would undoubtedly reduce the federal government's spending on health care, but it would achieve this by shifting costs to states, businesses, and households. Such cost shifting solves the *accounting* problem of health care by removing many health expenditures from the government's budget ledger. But problematically, the Ryan budget does not address the underlying *economic* problem of higher health care costs eroding the living standards of American households. The Ryan budget would also cost tens of millions of Americans their insurance coverage by the end of the decade by repealing the expansion of coverage enacted by the ACA. In contrast, the *Budget for All* would build on the efficiencies of the ACA, which is already projected to reduce deficits by $210 billion through 2021 (CBO 2011d), to ensure health security for Americans in a sustainable way. It builds on what the evidence says works in American health care (the guaranteed coverage and bargaining power provided by the large public programs) and tries to fix what does not (fractured coverage in the private insurance market that keeps effective cost control from occurring).

Tax policy

The Ryan budget doubles down on the George W. Bush vision of economic policymaking, which holds that what the economy needs most is lower tax rates on the already well-off. However, the supply-side experiment of the last decade resulted in the worst economic expansion since World War II—as measured by growth in GDP, non-residential fixed investment, employment, and compensation (Bivens and Irons 2008)—and ended in the worst recession in 75 years.[13]

Besides being ineffective in spurring economic growth, the tax cuts were simply unfair, lavishing disproportionate benefits on a small sliver of upper-income households that had already received the lion's share of income gains over recent decades (Fieldhouse and Pollack 2011). When fully phased in, the top 1 percent of households measured by income received 38 percent of the tax cuts, while the top 10 percent of households received 55 percent of their benefit (TPC 2008).[14] The top 1 percent of households by income also captured 65 percent of total income growth during the 2002–2007 economic expansion (Piketty and Saez 2012). In short, tax cuts were targeted to those households least in need of more disposable income.

The Ryan budget would maintain all of the Bush-era tax cuts and would even expand them for most households, while offering an implausibly large offsetting revenue gain from broadening the tax base (via eliminating unspecified tax expenditures). The *Budget for All* adopts a more pragmatic approach: It determines what is needed to fund its spending priorities and aims to finance these needs by raising revenue from those households that have the highest incomes and have captured most of the overall income gains generated in recent decades.

Ryan budget

- The Ryan budget would maintain the Bush-era tax cuts and more recent estate and gift tax cuts, and the parameters of the alternative minimum tax (AMT) would be adjusted for inflation (i.e., the AMT would be "patched"), at a total cost of roughly $5.4 trillion over the next decade relative to current law (CBO 2012b).
- The Ryan budget would reduce the number of tax brackets to just two—10 percent and 25 percent (which would be the lowest top tax rate since the early 1930s)—repeal the AMT, repeal the Medicare Hospital Insurance and excise taxes included in the Affordable Care Act, cut the top corporate income tax rate from 35 percent to 25 percent, and exempt all foreign earnings of U.S. multinational corporations from taxation. The nonpartisan Tax Policy Center (TPC) estimates these measures would reduce revenue by an additional $4.7 trillion over fiscal 2013–22 (TPC 2012a).[15]
- The Ryan budget would, however, end the Recovery Act expansion of refundable tax credits—thereby raising taxes on 11 percent of households with under $30,000 in income on average (TPC 2012b). Net of this lower-income tax increase, the Ryan budget proposes $4.5 trillion in unfunded tax cuts.
- Ryan's additional tax cuts would be significantly skewed toward the top of the income distribution, with 71 percent of their benefit going to the 5 percent of households with income above $200,000 a year (TPC 2012b).[16] Households with income below $75,000 a year (representing 71 percent of all households) would, in contrast, receive only 6 percent of Ryan's proposed tax cuts.
- Households with over $1 million in annual income would receive an average tax cut of $265,000 relative to current policy in addition to the $141,000 tax cut afforded by maintaining the Bush-era tax cuts and other current tax policies (TPC 2012b; TPC 2012c).[17] The average effective tax rate for these top 0.4 percent of households by income would be cut to 23 percent, down 27 percent from current policy and down 37 percent relative to current law.
- From their current policy baseline, TPC estimates that Ryan's proposed $4.5 trillion in additional tax cuts would lower revenue to just 15.5 percent of GDP over the next decade (TPC 2012a). The Ryan budget, however, ignores the cost of the tax cuts it proposes and assumes they would be offset by the unspecified elimination of tax expenditures. It sets revenue levels to average 18.3 percent of GDP over fiscal 2013–22, up from 17.8 percent of GDP under current policy and down from 20.5 percent of GDP under current law.[18]
- A recent analysis by Jane Gravelle and Thomas Hungerford of the Congressional Research Service concluded that "given the barriers to eliminating or redu-

cing most tax expenditures, it may prove difficult to gain more than $100 billion to $150 billion in additional tax revenues through base broadening" (Gravelle and Hungerford 2012). This range of estimates implies that somewhere between $2.6 trillion and $3.2 trillion of the Ryan tax cuts would necessarily be deficit-financed (Fieldhouse 2012b). (The continuation of the Bush-era tax cuts and other current tax policies would effectively be financed by some $5.3 trillion of spending cuts, relative to current policy.)

Budget for All

- The *Budget for All* would gradually roll back the Bush-era reductions in the top four marginal tax brackets and enact tax increases on high incomes.
- The upper-income Bush-era tax cuts—those for households with adjusted gross income exceeding $200,000 ($250,000 for joint filers)—would be allowed to expire on schedule as proposed in the president's budget.[19] The 28 percent bracket would be temporarily extended until reverting to 31 percent in 2017, and the 25 percent bracket would be temporarily extended until reverting to 28 percent in 2019.
- The *Budget for All* would also add tax brackets ranging from 45 percent to 49 percent at taxable income thresholds of $1 million up to $1 billion (Fieldhouse and Thiess 2012).
- The preferential treatment of unearned income relative to earned income would be repealed, as would be the step-up basis for capital gains.
- In addition to restoring a greater degree of progressivity to the individual income tax code, the *Budget for All* would raise significant revenue from "Pigovian" taxes on economic externalities, including pricing carbon to address global climate change and taxing financial transactions and the leverage of large banks to curb systemic financial risk.
- As a result of these and other tax changes, revenue would average 21.7 percent of GDP over fiscal 2013–22, up 3.9 percentage points from current policy and 1.2 percentage points from current law.

The Ryan budget would continue down the path of costly and regressive tax cuts, conferring large benefits to upper-income households that would come at the expense of lower- and middle-income households through a combination of lost tax preferences and eventual spending cuts. The *Budget for All* would instead restore fairness to the tax code, particularly at the top of the income distribution, by eliminating tax preferences for unearned income and raising taxes on wealth. The *Budget for All* would also use tax policy to improve economic efficiency by taxing economic "bads" like pollution and financial speculation.

Conclusion

All too often, prominent policymakers espouse the view that "we're broke" to justify cutting spending programs that benefit low- and middle-income Americans. We are not broke—income per capita has risen by 66 percent between 1980 and 2010, and is projected to grow another 61 percent over the next 30 years (Mishel 2011). But these income gains have become increasingly concentrated at the top of the income distribution, while tax policy has been increasingly focused on decreasing effective tax rates for those at the top. The *Budget for All* recognizes these empirical realities in crafting economically and socially sustainable budget policy.

The Ryan budget, by contrast, takes no account of current or future economic circumstances in advancing its policy priorities. Further, it does not add up. The *Budget for All,* on the other hand, addresses real-world economic problems head-on, pragmatically, and fairly. It provides near-term support to reduce joblessness, it fills in the shortfall in public investment that has harmed productivity growth, and it helps ensure economic opportunity and security at a time when the employer-based system providing health and retirement security for most American workers is unraveling. Importantly, it does this in a transparent manner that respects the laws of arithmetic and does not engage in simple cost-shifting from the federal budget to family budgets.

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*—The **Economic Policy Institute** is a nonprofit, nonpartisan think tank that seeks to broaden the public debate about strategies to achieve a prosperous and fair economy. EPI stresses real-world analysis and a concern for the living standards of working people, and it makes its findings accessible to the general public, the media, and policymakers through books, studies, and popular education materials. **The Century Foundation** conducts public policy research and analyses of economic, social, and foreign policy issues, including inequality, retirement security, election reform, media studies, homeland security, and international affairs. With offices in New York City and Washington, D.C., The Century Foundation is nonprofit and nonpartisan and was founded in 1919 by Edward A. Filene.*

Endnotes

1. The CPC solicited the assistance of the Economic Policy Institute (EPI) Policy Center in analyzing and scoring the specific policy proposals in the *Budget for All* and modeling their cumulative impact on the federal budget over the next decade. The policies in the *Budget for All* reflect the decisions of the CPC leadership and staff, not those of EPI. Many of the policies included in their budget, however, overlap with policies in *Investing in America's Economy: A Budget Blueprint for Economic Recovery and Fiscal Reasonability*, a progressive budget plan released by Our Fiscal Security (OFS), a partnership of The Century Foundation, Demos, and the Economic Policy Institute (see Fieldhouse and Thiess 2010).

2. Our current policy baseline assumes that the automatic enforcement spending cuts scheduled to take effect in fiscal 2013 by the Budget Control Act (i.e., the debt ceiling deal) do not occur, overseas contingency operations (OCO, or funding for overseas military operations) are gradually wound down, the scheduled reduction in Medicare physician payments is prevented (i.e., the "doc fix" is maintained), the 2001 and 2003 income tax cuts are continued, the American Recovery and Reinvestment Act (ARRA) expansion of refundable tax credits is maintained, the 2011–12 estate and gift tax cuts are continued, the 2011 parameters of the alternative minimum tax (AMT) are indexed for inflation, and the business tax extenders (routinely extended credits such as the research and experimentation credit) are continued. These policy adjustments are found in Tables 1–6 of CBO's January 2012 Budget and Economic Outlook (CBO 2012b). Debt service is adjusted accordingly, increasing interest outlays by $1.1 trillion. The only temporary tax provision assumed to expire is the two-percentage-point employee-side payroll tax cut, which is scheduled to expire at the end of 2012.

3. This takes the Ryan budget path for deficits and debt at face value.

4. These calculations assume a government spending multiplier of 1.4, which is Mark Zandi's most recent general government spending multiplier (Zandi 2011). Primary spending has been adjusted to exclude assumptions regarding emergency outlays for Overseas Contingency Operations (OCOs), which has a relatively small impact on domestic output. See Bivens (2011b) for methodology on translating fiscal impulses to changes in GDP and employment.

5. Interest rates are already at historically low levels, and there is little scope for further rate reductions while the federal funds rate remains at the zero lower bound for nominal interest rates.

6. Primary budget deficits would be increased over fiscal 2012–15 relative to the smaller deficits projected under current law.

7. Spending changes are measured in outlays rather than budget authority.

8. These calculations assume a government spending multiplier of 1.4 and a multiplier of 0.35 for permanent income tax changes (Zandi 2011). Primary spending has again been adjusted to exclude emergency OCO outlays.

9. The "other mandatory" budget includes income security programs (SNAP, Supplemental Security Income,

unemployment compensation, child nutrition programs, and the refundable portion of tax credits, among other programs), federal civilian and military retirement, veterans' compensation and pensions, agriculture programs, support for Fannie Mae and Freddie Mac, student loans, and deposit insurance, among other programs. CBO's current policy baseline, known as the "alternative fiscal scenario," assumes that Medicare physician payments are indexed to inflation, that scheduled Medicare and insurance exchange subsidy cost controls from the ACA cease to exist beyond 2021, that overseas troop deployments (OCO) are gradually wound down, and that discretionary spending is held constant as a share of GDP beyond 2021 (CBO 2011a).

10. The CBO's long-term analysis is also predicated on the assumption that revenue would hold at 19 percent of GDP in fiscal 2025 and beyond (CBO 2012d), which does not square with the Ryan budget's tax proposals. See the section entitled "Tax policy."

11. The *Budget for All* would also reclassify surface transportation outlays from the highway trust fund as mandatory spending rather than discretionary spending. This reclassification is, however, excluded from projections of NDD outlays as a share of GDP to make for an apples-to-apples comparison with the Ryan budget, current policy, and historical outlays (see Figure A).

12. The Ryan budget does not specify spending cuts at the programmatic level within the major budget functions, so assumptions are necessary to assess how the sizable spending cuts would be distributed.

13. The Bush-era tax cuts refer to the 2001 EGTRRA and the 2003 Jobs and Growth Tax Relief and Reconciliation Act, and other (more minor) policies enacted between 2001 and 2008, unless otherwise noted. The American Reinvestment and Recovery Act of 2009 and the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 have recently modified and extended these tax cuts. The modified and extended Bush-era tax cuts are scheduled to expire December 31, 2012.

14. Tax Policy Center distributional analysis is measured by tax units for tax year 2010.

15. TPC's revenue estimate assumes that the 15 percent bracket is reduced to 10 percent and all brackets above 25 percent are reduced to 25 percent (TPC 2012a). The Ryan budget does not specify the taxable income cutoff between the two brackets.

16. Tax Policy Center distributional analysis is measured by tax units for tax year 2015. Cash income and percentile breaks are measured in 2011 dollars (TPC 2012b).

17. Tax Policy Center distributional analysis is measured by tax units for tax year 2015. Cash income and percentile breaks are measured in 2011 dollars. Tax units with cash income exceeding $1 million would see a tax cut of $264,970 relative to current policy and $406,327 relative to current law, the difference between which is $141,357 (TPC 2012b; TPC 2012c).

18. Unlike our current policy baseline, the Ryan budget revenue baseline does not assume the business tax extenders will be continued. The extenders include roughly 80 temporary tax provisions that are typically extended on an annual basis; if continued, they will reduce revenue by $839 billion, adding $1.0 trillion to budget deficits after adjusting for debt service (CBO 2012a).

19. These include the 33 percent and 35 percent income tax brackets, the 15 percent rates on capital gains and dividends, the temporary repeal of the personal exemption phase-out (PEP), and the temporary repeal of the limitation on itemized deductions (Pease).

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