

# WebMemo



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## Ten Myths of Ryan's House Budget Plan

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Runaway spending and deficits continue to grow unabated in part because any attempts to rein them in are relentlessly demagogued by defenders of big government. The latest example is the budget recently authored by House Budget Committee chairman Paul Ryan (R-WI) and passed by the House of Representatives.

Most critics have failed to provide any credible alternative to the House budget. Yet that has not stopped them from relentlessly misrepresenting the House budget with the following myths.

**Myth #1: The House budget recklessly cuts taxes by \$4 trillion.**

**Fact: It cancels a future tax increase.**

Critics charge that the House budget is not serious about deficit reduction because it includes a \$4 trillion tax cut. This is patently false. The budget would keep tax rates at current levels. What critics call a \$4 trillion “tax cut” is actually the cancellation of a \$4 trillion *tax increase* that is currently scheduled to go into effect in 2013. Only in Washington is keeping tax rates at current levels considered a reckless tax cut. The House budget would leave tax revenues slightly above their 18 percent of GDP historical average.

**Myth #2: The House budget increases the deficit by giving tax cuts to the rich.**

**Fact: The proposed change is a revenue-neutral tax reform plan that simplifies the tax code.**

The House tax plan proposes reducing the top individual and corporate tax rates from 35 percent

to 25 percent—and this is fully paid for by eliminating extraneous tax deductions, exemptions, and loopholes that currently allow some wealthy individuals and businesses to escape their fair share of taxes. Because this plan raises the same amount of revenue year by year as does current policy, it is not a net tax cut. The President's fiscal commission endorsed similar tax reforms because these reforms would make the tax code more efficient, fair, and pro-growth.

**Myth #3: The House budget represents only minor deficit reduction.**

**Fact: It substantially reduces both short- and long-term budget deficits.**

Critics claim that the House budget cuts just \$1.7 trillion out of the 10-year deficit. As stated above, this measures the House budget against a baseline that already assumes \$4 trillion in tax increases—which even President Obama largely opposes. Since the House budget is relatively revenue-neutral compared to current tax policies, the main deficit reduction consists of \$5.8 trillion in spending reductions over the next decade. The savings include \$1 trillion from phasing down overseas contingency operations, \$1.6 trillion from non-defense discretionary

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spending, \$2.2 trillion from repealing Obamacare and block-granting Medicaid, and \$1 trillion from other entitlement and net interest savings.

Overall, the House budget would run \$5.1 trillion in deficits over the next decade, compared to President Obama's proposed \$9.5 trillion in deficits.

And these savings grow immensely in future decades. The Congressional Budget Office's (CBO) long-term baseline shows runaway spending driving the national debt to 95 percent of gross domestic product (GDP) within a decade and a staggering 344 percent by 2050.<sup>1</sup> By contrast, the House budget would quickly stabilize the debt around 70 percent of GDP before reducing it to just 10 percent by 2050.

**Myth #4: The House budget exaggerates the long-term spending challenge.**

**Fact: The challenge is real and potentially calamitous.**

Some suggest there is no long-term fiscal crisis. This is demonstrably false. The coming retirement of 77 million baby boomers is not a theoretical projection. Social Security is already in deficit, and the trust fund represents IOUs that must be redeemed by immediately raising taxes, cutting spending, or running additional deficits. Obamacare is projected to increase federal spending by trillions of dollars over the next few decades. Small reforms like eliminating corporate welfare, ending foreign aid, or repealing the 2001 and 2003 tax cuts for upper-income families would close merely a small fraction of the long-term debt.

In reality, the CBO estimates that the absence of fundamental entitlement reform would push the debt to levels that would create an economic catastrophe.<sup>2</sup>

**Myth #5: The House budget balances the budget on the backs of seniors.**

**Fact: Current and near-retirees are exempt from reforms.**

Much of the attention given to the House budget has focused on the effects on retirees. However, virtually none of the \$5.8 trillion in spending reductions in the first decade would affect Social Security and Medicare. In fact, seniors would benefit from averting the large tax increases planned in current law and from tax reforms that lower their rates while closing unneeded loopholes. Those currently older than age 55 would be exempt from any future changes to their Social Security and Medicare benefits.

**Myth #6: The House budget would privatize Medicare and hand seniors vouchers.**

**Fact: Seniors would receive government support to purchase health insurance coverage on a tightly regulated government exchange system.**

A "voucher" is usually a certificate of specified cash value that is redeemable for the purchase of goods or services. Under Ryan's House budget plan, seniors would instead choose health plans and the government would make direct and adequate contributions to the premium cost of the plans of their choice. This "premium support" would go to Medicare-certified and -regulated plans that would compete in a Medicare "exchange," which Ryan himself has described as "tightly regulated."

In effect, this premium support system is broadly similar to the kind of system that Members of Congress and federal employees and retirees enjoy today in the widely popular and successful Federal Employees Health Benefits Program (FEHBP). As for "privatization," virtually all participating Medicare doctors and hospitals (except public hospitals) are private, a quarter of all seniors are enrolled in private plans in Medicare Advantage, and 60 percent of seniors already purchase drug benefits through private plans in Medicare Part D. So, in effect, the House budget proposal extends the successful Part D financing model to the coverage of benefits under Parts A and B.<sup>3</sup>

1. Congressional Budget Office, "The Long-Term Budget Outlook: Federal Debt Held by the Public Under Two Budget Scenarios," revised August 2010, at <http://www.cbo.gov/ftpdocs/115xx/doc11579/06-30-LTBO.pdf> (May 13, 2011).

2. *Ibid.*

3. Robert Moffit and Kathryn Nix, "Transforming Medicare into a Modern Premium Support System: What Americans Should Know," Heritage Foundation *WebMemo* No. 3227, April 15, 2011, at <http://www.heritage.org/Research/Reports/2011/04/How-to-Transform-Medicare-into-a-Modern-Premium-Support-System>.

**Myth #7: Medicare is more efficient than private health insurance.**

**Fact: Medicare's administrative burdens are hidden and they outweigh private-sector costs.**

On paper, Medicare's administrative costs compared to the private sector appear comparatively small: 2–3 percent of benefit expenditures. Even accounting for radically different patient profiles and functions of Medicare and private insurance, administrative costs *per person* under Medicare compared to private insurance plans shows that Medicare's administrative costs exceed those of private health insurance.<sup>4</sup>

Furthermore, Medicare's administrative costs do not include the enormous costs of provider compliance with massive Medicare red tape and paperwork. A 2001 PricewaterhouseCoopers study showed that for every hour spent treating a typical Medicare patient, hospital officials spent 30 minutes complying with Medicare paperwork.<sup>5</sup>

One administrative cost that is often overlooked is the tens of billions of dollars annually of Medicare waste, fraud, and abuse. In sheer volume, there is no comparable cost in the private sector or in the FEHBP. Private insurers have strong incentives to detect fraudulent claims, as undetected fraud hurts their bottom lines.

**Myth #8: The House budget plan would end Medicare as we know it.**

**Fact: Obamacare ended Medicare as we know it.**

Obamacare imposes record-breaking payment cuts for Medicare providers—plus an unprecedented hard cap on Medicare spending to be enforced by the newly created Independent Payments Advisory

Board, an unelected board of bureaucrats empowered to lower provider payments to preordained levels indexed to inflation and economic growth. This will ensure rationing of care through provider payment cuts.<sup>6</sup>

Furthermore, under Section 3021 Congress tasks the new Center for Medicare and Medicaid Innovation with transitioning from the current fee-for-service reimbursement system toward capitated or salary-based reimbursements. This would literally be the end of traditional Medicare fee for service “as we know it.”

Both the House and Obama proposals impose external spending caps on Medicare. But the House proposal aims to control costs primarily through intense market competition—not just deeper payment cuts for Medicare providers—while preserving and enhancing the right of seniors to choose health care options.

**Myth #9: The House budget plan would shift Medicaid costs to the states and hurt the poor.**

**Fact: Medicaid block grants would help states lower Medicaid costs and provide them with the flexibility to better serve the poor.**

The House budget plan would remove the perverse incentives resulting from the open-ended federal reimbursement of state Medicaid spending. The block grant proposal would provide greater budget certainty at the federal and state levels. In addition, states would have greater flexibility and greater incentives to reduce costs. The proposal would also encourage states to spend their Medicaid dollars wisely and to consider innovative ways to deliver better care at lower costs.<sup>7</sup>

4. Robert A. Book, “Medicare Administrative Costs Are Higher, Not Lower, Than for Private Insurance,” Heritage Foundation *WebMemo* No. 2505, June 25, 2009, at <http://www.heritage.org/Research/Reports/2009/06/Medicare-Administrative-Costs-Are-Higher-Not-Lower-Than-for-Private-Insurance>.
5. PricewaterhouseCoopers, “Patients or Paperwork: The Regulatory Burden Facing America's Hospitals,” 2001, at <http://www.aha.org/aha/content/2001/pdf/FinalPaperworkReport.pdf> (May 12, 2011).
6. Robert Moffit and Kathryn Nix, “The Future of Health Care Reform: Paul Ryan's ‘Roadmap’ and Its Critics,” Heritage Foundation *Backgrounder* No. 2495, December 3, 2010, at <http://www.heritage.org/research/reports/2010/12/the-future-of-health-care-reform-paul-ryan-s-roadmap-and-its-critics>.
7. Brian Blase, “Solving the National Medicaid Crisis,” Heritage Foundation *WebMemo* No. 3243, May 6, 2011, at <http://www.heritage.org/Research/Reports/2011/05/Solving-the-National-Medicaid-Crisis>.

**Myth #10: Most Medicare costs would continue to rise, and retirees would bear those costs with insufficient assistance.**

**Fact: Intense market competition would reduce costs and enable Medicare patients to secure value for their dollars.**

Projecting far into the future, CBO predicts that under the House budget proposal the government's share of retirees' health care costs would decrease from currently about 70 percent to just 32 percent by 2030.<sup>8</sup> But that static analysis assumes that—despite a major change in economic incentives and intense market competition—health care costs will not be reduced. Behavioral responses to such powerful new economic incentives should not

be ignored; experience with such changes proves otherwise.

**Just What the Doctor Ordered.** The House budget finally puts the brakes on soaring government spending.<sup>9</sup> It is just what the nation needs in order to avert a debt-induced economic calamity. Its critics would do well to read the plan and understand it—and put forward their alternative—before dismissing it.

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8. Congressional Budget Office, "Long-Term Analysis of a Budget Proposal by Chairman Ryan," April 5, 2011, table 1, at [http://www.cbo.gov/ftpdocs/121xx/doc12128/04-05-Ryan\\_Letter.pdf](http://www.cbo.gov/ftpdocs/121xx/doc12128/04-05-Ryan_Letter.pdf) (May 13, 2011).

9. Alison Acosta Fraser, "Chairman Ryan's Budget Resolution Changes America's Course," *The Foundry*, April 5, 2011, at <http://blog.heritage.org/?p=56367>.