

Solving America's Fiscal Crisis: The Ryan Roadmap

By Peter Ferrara, Special to Americans for Prosperity Foundation

Paul Ryan, Ranking Republican on the House Budget Committee, has proposed a comprehensive plan that would eliminate long-term budget deficits, make Social Security solvent, make Medicare solvent, provide a comprehensive health care safety net for the poor and uninsured, and adopt comprehensive tax reform with low, pro-growth tax rates.

And that's not just my opinion – the entire Roadmap is officially scored by CBO as achieving these results, with no tax increase. Indeed, it would balance the federal budget over the long run with both taxes and spending at their long-run historical average of 18.6% of GDP. This is achieved because the plan includes all the best ideas that have been advanced by free-market conservatives over the years.

Here's how it works.

Health Reform. The tax break for health insurance that currently applies only to employer-provided insurance would be extended to everyone. All workers would be eligible for a refundable tax credit of \$2,300 for individuals and \$5,700 for families for the purchase of health insurance. They could buy that insurance from any state, not just their own, and would own it directly and individually, making it fully portable from job to job.

Medicaid would provide supplemental payments to the poor in addition to these tax credits to help them buy insurance. This would benefit the poor enormously, freeing them from the Medicaid ghetto that underpays doctors and hospitals so badly that 40% won't even take Medicaid patients today, resulting in worse health outcomes for the poor. The poor would instead enjoy the same health care as the middle class, since they would be able to buy the same insurance in the marketplace. States would also be free to take the federal financing for Medicaid in finite block grants, with the flexibility to tailor their programs to the specific needs of their populations and better control costs. The plan also provides federal funds for state-run high-risk pools that guarantee safety net coverage for all regardless of pre-existing conditions, addressing that problem without burdensome regulations that would sharply raise health insurance costs for everyone.

Social Security. The Roadmap includes no changes applying to anyone already retired or over 55, who receive all of their currently promised benefits in full. Workers under 55 are free to choose to save and invest over one-third of their payroll taxes in personal retirement accounts, similar to the Thrift Savings Plan covering federal employees. Those accounts take over responsibility for paying an equivalent proportion of future benefits, resulting in sharp reductions in government spending over the long run. The accounts are backed by a federal guarantee that workers will not lose a dollar of their contributions to the accounts, even after inflation. Because long-run market investment returns are much higher than what Social Security even promises, let alone what it can pay, workers should receive substantially higher overall retirement benefits as a result.

The transition to the accounts is fully financed by the reductions in overall federal spending included in the overall Roadmap. Combined with gradual, modest adjustments to the retirement age and benefits for high-income retirees, the plan achieves full solvency for Social Security as scored by CBO.

Medicare. The Roadmap also makes no changes in Medicare for current retirees or anyone 55 or above. Those under age 55 are promised vouchers starting at \$11,000 per year to be used to buy health insurance in retirement. Low-income retirees would receive more depending on their income, to ensure they could obtain essential coverage.

Lower-income retirees would also be free to choose fully funded Health Savings Accounts (HSAs), which would finance health care costs up to their insurance deductible. This would give patients powerful incentives to control costs to preserve the savings in their HSAs, stimulating competition among health care providers to control costs for patients. Workers and retirees with higher incomes would still be free to set up tax-free HSAs, and seniors could use their Medicare vouchers for an HSA option, helping to control health costs.

These reforms achieve full solvency for Medicare as officially scored by the CBO. Republicans should not be misled by phony charges that this plan includes the same kind of Medicare cuts as the Obama health plans. Those plans would cut \$800 billion in payments to doctors and hospitals for today's Medicare patients, which would seriously reduce the quality and availability of their health care, and would take the money from those cuts to finance government-run medicine for others. The Ryan Roadmap makes no changes in Medicare for today's seniors or those near retirement. Instead, it adopts fundamental reforms of the program ensuring that essential health care is still available for all seniors, with the savings from those reforms used to provide for the long-term solvency of Medicare.

Tax Reform. The Ryan Roadmap would provide all taxpayers the choice of filing under an alternative, greatly simplified tax code with just two rates – even lower than the rates under the Reagan 1986 tax reform. Joint filers earning up to \$100,000 per year in family income, and single filers earning up to \$50,000, would pay just a 10% rate, with a 25% rate on all higher incomes. A generous standard deduction and personal exemption would exempt the first \$39,000 per year for a family of four from any income tax.

The plan would promote savings by eliminating taxation of capital gains, dividends and interest, and the entire death tax. This would prevent multiple taxation of the capital essential to creating jobs and economic growth. The arbitrary and unfair Alternative Minimum Tax (AMT) would also be abolished. The corporate income tax – currently the second-highest rate in the industrialized world – would be replaced entirely with a border adjustable business consumption tax of 8.5%, which would restore American international competitiveness.

Those who wanted to continue to use any of the deductions, credits or tax preferences of the current code would be free to do so, by filing under the current complex code with its

much higher rates. But those choosing the new alternative could save considerable money and time filing their taxes on a postcard.

Long-Term Prosperity for America. Further contributing to a long-term balanced budget is a binding cap on all other federal spending. The massive reductions in federal spending, taxes, and government debt from the entire Roadmap would produce a booming economy, the creation of millions of jobs, higher wages and incomes, and long-term prosperity for America, restoring the American Dream. This is exactly what Tea Party activists have been asking for.

Indeed, this booming prosperity would produce much more revenue than the CBO estimates, because the CBO is stuck in its old-fashioned static analysis. Those higher revenues can be used to expand the personal retirement accounts further, until they can finance all of the benefits currently financed by the payroll tax, allowing that tax to be phased out entirely. That would enable retirees to choose their own retirement age and get much better benefits than Social Security. It would also further contribute to the solvency of Medicare and the maintenance of health benefits for retirees.

One suggestion to improve the Roadmap: its business consumption tax is too much like a Value Added Tax (VAT), which can be increased too easily to promote Big Government. That could be replaced in the plan with a 12.5% corporate income tax, which worked quite well in Ireland, transforming over 20 years that longtime poor country from suffering the second-lowest per capita income in the European Union to the second highest.

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