BRIEF ANALYSIS
SENATOR PAUL'S BUDGET PROPOSAL

PREPARED BY: MAJORITY STAFF, SENATE BUDGET COMMITTEE
May 15, 2012

Brief Analysis of Senator Paul's FY 2013 Budget Resolution Proposal

Senator Paul's budget is a truly radical plan. It offers large tax cuts for the wealthiest, while imposing deep cuts that would reduce spending by 2015 to levels as a share of the economy not seen since the 1950's. The Paul plan is even more radical than the House Republican budget. It would end Medicare in two years, cut nearly twice as much from income security programs and nondefense discretionary spending as the House Republican plan, eliminate the Departments of Education and Energy, among others, and reduce Social Security benefits. Such draconian cuts would undermine our ability to invest in the future and provide a strong safety-net for vulnerable populations.

Cuts Discretionary Spending $2.2 Trillion Below BCA Levels
The Paul budget would cut discretionary outlays by $2.2 trillion ($1.9 trillion in budget authority) below the BCA levels over 10 years, 2013-2022 (as reflected in the alternative baseline, see box on page 4), with most of the reduction coming from nondefense programs.

- <u>Nondefense</u>. The Paul plan cuts nondefense budget authority by $1.8 trillion below the BCA nondefense levels over 10 years (excluding disaster and program integrity funding). In 2013, nondefense funding is cut $113 billion, or 23 percent, below the BCA cap (21 percent below 2012 enacted levels). The cut relative to the alternative baseline grows over time, to $207 billion, or 34 percent, by 2022.

  The Paul plan proposes particularly deep cuts in the priority areas of education and energy, including a 59 percent cut in education below the 2012 enacted level and an 85 percent cut in energy below the 2012 enacted level.

  The Paul budget eliminates numerous departments and agencies, including: the Education Department, the Energy Department, the Housing and Urban Development Department, the Commerce Department, the Bureau of Reclamation, the Agriculture Research Service, the National Institute of Food and Agriculture, the Foreign Agriculture Service, and numerous independent agencies, such as the Consumer Product Safety Commission, the Consumer Financial Protection Bureau, the Corporation for Public Broadcasting, and the National Endowment for the Arts. It also targets for elimination certain programs, such as the Low-Income Home Energy Assistance Program (LIHEAP), Amtrak subsidies, Homeland Security grants, and state and local law enforcement grants.

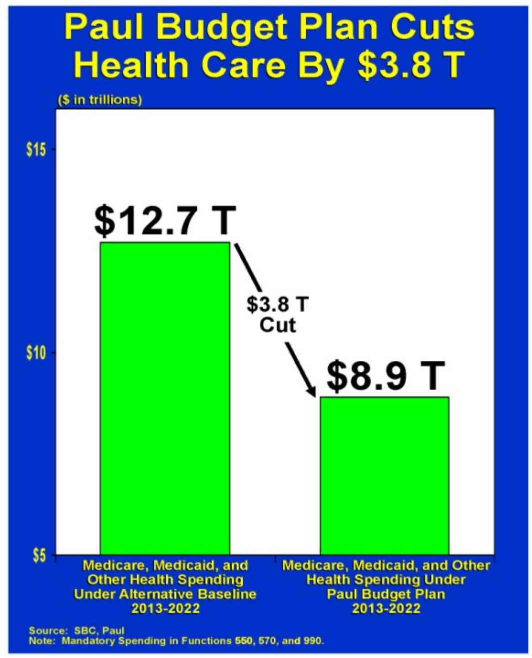
- <u>Defense</u>. The Paul budget cuts defense (Function 050) budget authority by $88 billion below the BCA defense levels over 10 years. This funding level is $129 billion below the President's defense request for the decade.

The Paul plan assumes one year of overseas contingency operations (OCO) funding at $50 billion in 2013. This 2013 level is approximately $47 billion below the President's request. Over 10 years, the Paul plan includes $444 billion less OCO funding than the President.

The Paul budget includes 11 years of discretionary spending limits (2012-2022) for budget authority and outlays, subject to a 67-vote point of order (rather than the standard 60-vote hurdle) if they are exceeded. The plan includes no firewalls. Unlike the BCA, the Paul plan does not provide for any disaster or program integrity funding adjustments and would make emergency funding also subject to a 67-vote point of order.

Cuts Health Care by $3.8 Trillion

The Paul budget includes $3.8 trillion in health care cuts over 10 years, relative to the alternative baseline – nearly a 30 percent cut in health care spending. These mandatory savings result from repealing health care reform, replacing and reducing Medicare, and block granting Medicaid.



- Repeals health care reform. By repealing health care reform, the Paul budget would increase the number of uninsured in the country by more than 30 million. It would also eliminate insurance reforms, thereby allowing insurance companies to once again deny and drop coverage for those with pre-existing conditions. It would also end the policy that allows young people to stay on their parent's insurance until they are 26 years old.

- Ends Medicare in 2014. The Paul budget ends Medicare in 2014 for all seniors and places them in the Federal Employee Health Benefits Plan (FEHBP). The current Medicare fee-for-service program would no longer be an option for seniors. Like the House Republican plan, seniors would receive a voucher to cover a portion of costs, rather than a defined benefit as under current law. This approach would cut more than $1 trillion over the next 10 years according to Paul's budget estimates. The plan would also increase the eligibility age from 65 to 70 over about 20 years.

- Block grants Medicaid. The Paul budget's proposal to block grant Medicaid poses significant risks by ending the critical countercyclical nature of the program and rolling back the guarantee of health care for vulnerable populations, including children, pregnant women, the disabled, and seniors. A block grant does nothing to change the underlying program costs, but simply shifts those costs to the states and beneficiaries. This policy is especially threatening to the elderly and disabled, who represent about 1 in 4 enrollees, but account for nearly two-thirds of Medicaid costs.

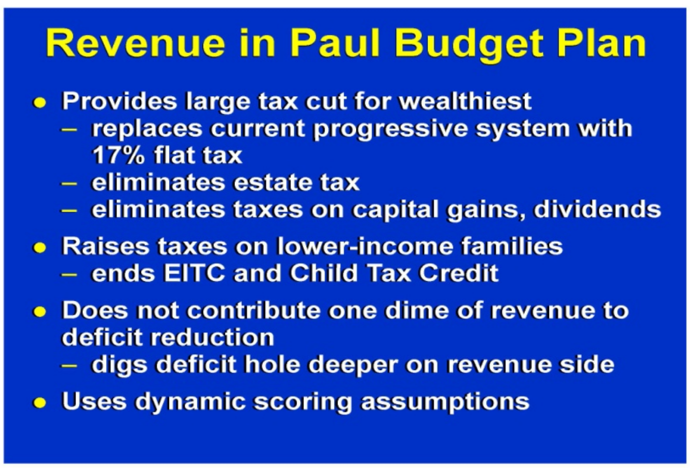
Reduces Social Security benefits

The Paul budget includes a Social Security policy statement that proposes to reform the program through benefit cuts alone. The plan would reduce Social Security benefits by increasing the retirement age and indexing initial benefits to the Consumer Price Index (CPI) rather than wages.

Beginning in 2017, the plan would increase the normal retirement age by three months each year until it reaches age 70, and then index it to life expectancy thereafter. The plan would also increase the early retirement age with no hardship exemption. This proposal is far more aggressive than other proposals to increase the retirement age. For instance, the Paul plan would increase the retirement age to 70 in about 20 years, while the Fiscal Commission plan called for increasing the retirement age to 69 over about 60 years.

The Paul budget would also apply "progressive indexing," which indexes initial benefits to the CPI instead of wage growth for career average earnings above the 40th percentile (earnings of about $33,000 in 2012). This change would be phased in from 2018 through 2055. It would lead to a flattened benefit structure as the difference between benefits for a high earner and a middle earner narrows. Overall, this plan would cut benefits for the average earner by 39 percent.

Cuts Taxes for the Wealthiest
The Paul budget reduces revenues by about $575 billion over 10 years relative to the alternative baseline. Further, it employs dynamic scoring assumptions, calling into question whether all the revenue would materialize under official scoring.



The proposal moves away from the current progressive tax system and instead imposes a 17 percent flat tax. While it calls for increasing the standard deduction and personal exemption, it also proposes to eliminate the Child Tax Credit and the Earned Income Tax Credit for low-income working families. Further, it would impose no tax on capital gains and dividend income, and it would repeal the estate tax. The net effect of these changes would be a large tax cut for the wealthy, and a large tax increase for those least able to afford it.

Deep Cuts in Programs for Low-Income Households
The Paul budget cuts non-health mandatory spending by $2.2 trillion over 10 years, relative to the alternative baseline.

The bulk of these cuts occur in income security programs, which include the Supplemental Nutrition Assistance Program (SNAP, formerly known as Food Stamps), child nutrition programs, and Temporary Assistance for Needy Families (TANF). The plan would also cut federal employee health and retirement benefits. In total, these income security programs would be cut by $1.3 trillion, or 27.5 percent, over 10 years relative to the alternative baseline, or almost double the cuts proposed in the House Republican budget.

Specifically, the Paul budget proposes to cap SNAP at 2008 levels and convert the program to a block grant, resulting in a cut to the program that exceeds 40 percent over the next decade. If the SNAP cuts were to come solely from restricting eligibility, they would require approximately 20 million people to be removed from the program next year. The proposal also caps and block grants child nutrition programs, including school meals for low-income children, substantially reducing resources for these programs. Converting these safety-net programs to block grants undermines their ability to automatically and effectively address changes in the economic conditions affecting the least fortunate among us, while leading to vastly different support and benefit levels among the States.

The Paul budget cuts funding for Pell grants by $6 billion in 2013. This would substantially reduce the value of Pell grants at a time when college costs are increasing and eliminate tens of thousands of students from Pell eligibility.

Alternative Baseline
In order to better reflect the overall impact of the Paul budget, this analysis compares the Paul plan to an alternative baseline that incorporates the extension of certain current policies, rather than the CBO current law baseline. The Fiscal Commission, the Bipartisan Policy Center's Debt Reduction Task Force, the Office of Management and Budget, and the House Republican Budget Committee each developed their own versions of an alternative baseline for assessing the effects of proposed policies. In addition, in recognition of the uncertainty regarding future changes to laws and policies, CBO similarly has provided Congress with estimates of spending, revenue, deficits, and debt under an "alternative fiscal scenario" that adjusts its current law baseline for certain policy assumptions.

The alternative baseline used in this analysis modifies CBO's current law baseline as follows:

- First, it assumes the extension of certain expiring provisions. These include the 2001, 2003, and certain 2009 tax cuts (as extended in 2010), AMT relief (indexed for inflation), and the estate tax at 2012 parameters.
- Second, it maintains Medicare's payment rates for physicians at the current rate (often referred to as the "doc fix").
- Third, it removes the extension of the 2012 funding level for overseas contingency operations and replaces it with a more realistic scenario developed by CBO that assumes the drawdown of troops deployed overseas for such operations to 45,000 by 2015.
- Fourth, it removes the across-the-board spending reductions ("sequestration") required by the BCA.
- Finally, it adjusts net interest to reflect the impact of these various changes to spending and revenue.

NOTE: All years are fiscal years unless otherwise noted.

Senate Budget Committee Democratic Staff, Dirksen 624
Contact: Stu Nagurka (202) 224-7436 or Steve Posner (202) 224-7925