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Paul Ryan and His Critics

Dissecting the liberal assault on the House Republican budget.

One point of a document as subversive as Paul Ryan's 2012 budget is to provoke debate, and has it ever. But amid the thoughtful musings about starving orphans and grandma in a snowbank, could his critics at least get their facts right?

Let's unpack the distortions.

- *Deficits and debt.* Perhaps the most bizarre complaint is that Mr. Ryan's blueprint would worsen the U.S. fiscal imbalance compared to current law. So the House Budget Chairman has proposed supposedly hideous cuts to popular entitlements at great political risk for . . . the fun of it?

Federal deficits have increased 259% over the last three years and the Ryan budget starts to repair the damage. It would bring next year's deficit below \$1 trillion, down from estimates of roughly \$1.6 trillion for 2011. The false claim that Mr. Ryan would increase deficits and debt seems to be based on a Congressional Budget Office baseline that assumes \$4 trillion in new taxes will land after 2012 with the expiration of all the Bush-era tax rates, that the Alternative Minimum Tax will apply to the middle class, and that Medicare physician payments will fall 20% next year.

No one thinks that baseline is at all realistic, least of all President Obama, so the right comparison is with Mr. Obama's 2012 budget. Mr. Ryan proposes smaller deficits for the next 10 years, falling to 1.6% of GDP in 2021 versus 4.9% for the White House. According to CBO, debt held by the public falls to 67.5% of the economy a decade from now from about 69% today, while it rises to 87.4% in Mr. Obama's version.



Bloomberg News

Wisconsin Rep. Paul Ryan during a news conference on the House Republican budget.

- *Tax cuts for "the rich."* The Ryan budget outline by design does not provide many tax specifics, aside from an instruction to the Ways and Means Committee to propose a reform plan that would swap lower rates for fewer loopholes and special exclusions. This overhaul is not even a net tax cut—the instructions are to design a reform that is revenue neutral. It would hold tax receipts to their post-World War II average of between 18% to 19% as a share of the economy.

The liberal claim that this means a tax cut for the wealthy is based entirely on the fact that marginal tax rates would decline, even though the loopholes primarily benefit higher-income taxpayers. At any rate, Mr. Obama's own deficit commission also favored lowering the rates and broadening the base for a more

efficient and competitive tax code.

- *Medicare "cuts."* The Medicare machinery is grinding into gear, and the same people who say Mr. Ryan is imposing too much pain on seniors by requiring them to pay a larger portion of their health costs also claim that

he's a coward for exempting everyone in or near retirement. In other words, the soup is terrible and the portions are too small.

Mr. Ryan's plan, known as premium support, would gradually bring down health costs and spending, but it's a "cut" only in the sense of slowing the rate of growth. The premium support subsidy—for seniors to choose from a list of regulated private health plans—would start at \$15,000 a year and increase annually. It is also means-tested to provide more help for lower-income seniors.

- *Real health-care reform.* The best way to think about Mr. Ryan's plan is that it offers the true health-care reform that Mr. Obama promised but which vanished in the political drive to put 30 million more Americans on the government rolls. Economists from the center-left to center-right have been recommending premium support for decades, and it was first proposed by Stanford's Alain Enthoven in the *New England Journal of Medicine* in 1978.

Some version has since been endorsed by everyone from President Clinton's 1999 Medicare commission, chaired by Democrat John Breaux, to Bob Dole and Tom Daschle in 2009. Another iteration was floated this week by a group of Nobel laureates including Ned Phelps, Vernon Smith and George Akerlof.

The core economic distortion in the current health market is that consumers rarely have the incentive to seek the best value for their money. By capping the Medicare subsidy, seniors would pay for the marginal costs of their care, promoting competitive insurance. That would in turn incrementally change how doctors and hospitals provide care, encouraging competition in price and quality.

- *Health-care inflation.* Aha, retort the critics, Mr. Ryan would only increase Medicare premium support based on the rate of overall inflation, while health costs are growing far faster. This is true, and we can debate whether the annual increase should be indexed to GDP growth or something else.

But the key point is that premium support would reduce health costs over time by changing the incentives of the health market. MIT economist Amy Finkelstein's research suggests that Medicare's 1965 creation led to market-wide changes that explain about half of the increase in real per capita health spending between 1950 and 1990. Mr. Ryan's plan would be as consequential in reverse.

These attacks amount to false fronts for the real objection, which is over the role of government. Mr. Ryan's critics understand very well that he wants to substitute markets for bureaucratic central planning. What he would dismantle isn't Medicare, but its system of one-size-fits-all coverage and price controls. The liberal answer to runaway costs, passed as part of ObamaCare, is the Independent Payment Advisory Board that will decide how much the government will pay for what treatments and was deliberately shielded from Congressional supervision.

Medicare "as we know it" will change because it must. The only issue is how. Mr. Ryan is offering Americans a reform rooted in consumer choice and private competition, rather than political control and bureaucratic rationing. This is why he is under such ferocious liberal assault.

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