

## RSC Policy Brief: How PAYGO Works

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Proponents of PAYGO argue that the rule requires spending increases and tax cuts to be “paid for.” However, in practice, PAYGO exempts all sorts of spending increases from the rule’s requirements. On the other hand, PAYGO applies to 100% of the tax revenue collected by the federal government, and it even applies to tax legislation that would just extend current law.

### ***The PAYGO Rule***

The current PAYGO rule applies to legislative provisions “*affecting direct spending and revenues have the net effect of increasing the deficit or reducing the surplus...*” Two things are of note here. First, PAYGO is applied unevenly to revenue and spending budget choices. While PAYGO applies to 100% of federal tax collections it only applies to the 53% of federal spending that consists of direct spending. Second, the PAYGO rule judges whether a direct spending/revenue provision worsens the budget deficit in comparison to the CBO baseline. For the spending side of the ledger, this means that PAYGO imposes no limit on entitlement spending increases that occur under current law. For the revenue side of the budget, this means that extensions of current tax law (if scheduled to expire at a future date—such as with the AMT patch, the 2001 and 2003 tax cuts, and the “tax extenders”) must be offset.

Compliance with PAYGO is measured over the first six years and the first eleven years, EXCEPT when the calendar year and the fiscal year differ. When that happens (between October 1<sup>st</sup> and December 31<sup>st</sup>) compliance with PAYGO is judged over five years and ten years. In either case, there is NO requirement under PAYGO for legislation to be budget neutral in the period that falls outside the budget window.

### ***PAYGO and Spending***

- **PAYGO Exempts Almost Half of the Federal Budget.** PAYGO only applies to the 53% of the federal budget that consists of mandatory spending. PAYGO imposes no requirement that discretionary spending increases be paid for, even if the increase is higher than the rate of inflation (which is what is built into the CBO baseline).
- **PAYGO Allows Entitlement Spending to Grow at an Unsustainable Rate.** Entitlement spending, just under current law, will increase from \$1.45 trillion in 2008 to \$2.77 trillion in 2018, an increase of 90.9%. PAYGO does not require that any of this \$1.32 trillion spending increase be offset.
- **PAYGO Does Not Apply to Authorized Discretionary Spending Levels.** This includes authorized discretionary levels in legislation considered in the 110<sup>th</sup> Congress such as the \$50 billion PEPFAR bill (H.R. 5501), the \$97 billion higher education act reauthorization (H.R. 4137), and the \$602 billion defense authorization bill (H.R. 5658).

### ***PAYGO and Taxes***

- **Mandates Record Federal Tax Burden.** Under the PAYGO tax baseline, federal taxes will increase from 17.7% of GDP in 2008, to 20.4% of GDP in 2018, to 24% of GDP by 2050. To date, federal taxes have never exceeded 20.9% of GDP.
- **Allows New Spending to be Paid for with Tax Increases.** For example, the Democrats attached tax increases to partially pay for the spending increases included in the House-passed versions of the farm bill, the FY 2008 war supplemental, and the SCHIP reauthorization.
- **Requires Tax Increases to Stop Tax Increases.** The PAYGO rule does not allow expiring tax cuts (such as the AMT patch, the 2001 and 2003 tax cuts, and the “tax extenders”) to continue without offsetting tax increases. This has the effect of requiring a tax increase just to prevent a tax increase.

### ***PAYGO and the Budget Outlook***

- **PAYGO and the Deficit.** Since PAYGO was enacted, the deficit has increased dramatically, increasing from \$162 billion in FY 2007, to \$455 billion in FY 2008, to a potential deficit in excess of \$1 trillion in FY 2009. This would mean a six-fold increase to the federal deficit in the two years since PAYGO was enacted.

- **PAYGO and the National Debt.** Since PAYGO was enacted, the national debt has increased from \$8.67 trillion to \$10.71 trillion, an increase of \$2.04 trillion or 23.5% in two years. To put this in perspective, the total increase of the national debt during the last two years is nearly equal to the total debt accumulated by the federal government from the entire period from 1789 to 1987 (\$2.3 trillion), which is the year Speaker Pelosi was elected to Congress. The national debt has increased by an average of \$2.8 billion *per day* since the PAYGO rule was enacted, for a total additional debt burden of \$17,600 per American family.

***The 110<sup>th</sup> Congress Violated PAYGO Eleven Times***

- **On Four Occasions, House Democrats Brought a Rule to the Floor Waiving PAYGO.** The rule for the farm bill conference report (H.Res. 1189), the rule for the Emergency Extended Unemployment Compensation Act (H.Res. 1265), and two different rules for the Emergency Economic Stabilization Act (H.Res. 1517 and H.Res. 1525).
- **On Five Occasions, House Democrats Brought “Suspensions” to the Floor that Violated PAYGO.** The economic stimulus bill (H.R. 5140), two extensions of unemployment benefits (H.R. 5749 and H.R. 6867), and the AMT patches enacted in 2007 and 2008 (H.R. 3996 and H.R. 7005).
- **On Two Occasions, House Democrats Attached PAYGO Violations to Appropriations Bills.** FY 2008 Iraq/Afghanistan Supplemental (H.R. 2642) and the Job Creation and Unemployment Relief Act (H.R. 7110).

**110<sup>th</sup> Congress PAYGO Violations**

Bill Number	Bill Description	Amount of 10-Year PAYGO Violation
H.Res. 1189	Rule for farm bill conference report, <i>H.R. 2419</i>	\$3.6 billion
H.Res. 1265	Rule for unemployment extension legislation, <i>H.R. 5749</i>	\$10 billion
H.Res. 1517	Rule for financial bailout legislation, <i>H.R. 3997</i>	\$700 billion*
H.Res. 1525	Rule for financial bailout legislation, <i>H.R. 1424</i>	\$807 billion
H.R. 5140	Economic stimulus legislation, <i>H.R. 5140</i>	\$124.4 billion
H.R. 5749	Unemployment extension legislation, <i>H.R. 5749</i>	\$10 billion
H.R. 3996	Temporary Tax Relief Act of 2007, <i>H.R. 3996</i>	\$50.6 billion
H.R. 6867	Unemployment extension legislation, <i>H.R. 6867</i>	\$5.7 billion
H.R. 7005	Alternative Minimum Tax Relief Act, <i>H.R. 7005</i>	\$64.6 billion
H.R. 2642	FY 2008 war supplemental, <i>H.R. 2642</i>	\$74.2 billion
H.R. 7110	FY 2008 “stimulus” supplemental, <i>H.R. 7110</i>	\$23.4 billion

\*Note: \$700 billion represents the immediate federal debt increase and the total amount of money that the federal government puts at stake under the TARP program. CBO offered no estimate of the net ten-year budget impact.

During the 110<sup>th</sup> Congress, the non-TARP PAYGO violations amount to ***\$383.2 billion*** (this figure does not double count the PAYGO violations that were brought before the House more than once). CBO offered no estimate of the ten-year impact of the \$700 billion TARP program on the deficit, but if the full \$700 billion figure is added to this total, the total figure comes to ***\$1.083.2 trillion***.

***The Current PAYGO Rule Does NOT:***

- apply to authorized discretionary spending;
- apply to the 40% of the federal budget that consists of discretionary spending;
- apply to any spending—mandatory or discretionary— if included in an appropriations bill;
- limit unsustainable entitlement spending growth that will occur under current law;
- impose any limit at all on the growth of the federal budget deficit;
- place any obstacles to legislation that increases the federal debt limit—Congress has increased the debt limit 3 times since PAYGO was adopted;
- impose any limit at all on how much the federal debt can grow;
- impose any limit on the federal government’s unfunded obligations;
- allow for the extension of expiring tax provisions, unless offsets are included;
- require any reforms that would put the federal budget on a sustainable course—CBO, GAO, and many other objective analysts have concluded that the longer-term federal budget outlook is unsustainable if the federal budget outlook is simply left on auto-pilot (the maximum constraint PAYGO ever imposes); or,
- have any effect at all when the House waives the rule or otherwise ignores it.

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