

***“Pay As You Go” (PAYGO)  
and Government Spending***



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**Prepared by the Republican House Policy Committee  
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110<sup>th</sup> Congress**



## PAYGOverture



*Stop wasting my time  
You know what I want  
You know what I need  
Or maybe you don't  
Do I have to come right flat out and tell you everything?  
Gimme some money  
Gimme some mone*

*I'm nobody's fool  
I'm nobody's clown  
I'm treatin' you cool  
I'm puttin' you down'  
But baby I don't intend to leave empty handed*

*Don't get me wrong  
Try getting me right  
Your face is o.k.  
But your purse is too tight  
I'm looking for pound notes, loose change, bad checks, anything  
Gimme some money  
Gimme some money...*

## **“Gimme Some Money” Spinal Tap**



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## America's Challenge



Federal spending, the budget deficit, and the national debt are at record levels. To address this fiscal crisis, some argue the federal government should reinstitute “Pay as you go” (PAYGO) budgeting. PAYGO budgeting requires new mandatory spending be offset by either other equal reductions in mandatory spending and/or by revenue increases. Equally, should a given fiscal year’s tax receipts decrease, these revenue reductions must be offset by equivalent reductions in mandatory spending or by equivalent increases in taxes.

The PAYGO system was extended twice, first in the 1993 Clinton Budget and then in the 1997 Balanced Budget Act. Yet in 2000, Congress and the President passed a law to prevent both a discretionary and mandatory sequester (an across the board spending reduction), because a fiscal year 2000 sequester would have caused a reduction in outlays for discretionary spending of \$6.8 billion; and a fiscal year 2001 sequester would have caused a cut in direct spending outlays of \$10.5 billion. Further, in 2001, Congress and the President prevented a PAYGO sequester of \$75.271 billion for fiscal year 2001 and \$55.008 billion for fiscal year 2002. Later, in 2002, Congress and the President acted to prevent sequester under PAYGO, and to eliminate the remaining balances of \$559.694 billion over fiscal years 2002-06. Ultimately, PAYGO expired at the end of end of fiscal year 2002.

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It is unclear the extent to which PAYGO deterred deficit-financed spending, tax increases, and tax relief. It is clear, however, PAYGO requirements were frequently evaded and, when Congress and the President failed to fully offset entitlement or tax initiatives, there never occurred an actual across-the-board spending reduction. Thus, because PAYGO's underlying premise is no taxpayers get relief unless politicians stop spending, some analysts contend PAYGO was a stronger deterrent to pro-growth tax initiatives, than it was to new and expanded entitlement programs.

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## Republican Principles



Americans have the inherent right to keep their hard-earned money.



Government spends what it takes; taxpayers spend what they make. Thus the taxpayers, not the government, pay for all spending; and the government has the fiduciary duty to honestly and efficiently steward Americans' tax dollars.



We must expand our economy by reducing taxes on Americans to expand the private sector, not by raising taxes on Americans to expand the public sector. When government lowers the tax rate, the American economy generates more jobs and more government revenues.



In the past two fiscal years, tax revenues have increased by double-digit percentages. Yet the budget deficit remains high, because *the government has a spending problem not a revenue problem.*

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## Republican Policies



Americans' tax relief should be protected from PAYGO and, instead, Congress should require budget offsets for government spending increases. This will ensure government spending increases are offset by other spending reductions, not by higher taxes on America's workers and entrepreneurs.



Congress should eliminate the loophole in the budget's baseline projections for spending programs. This 1997 amendment to the Balanced Budget Act *automatically* stops the scheduled sunset of programs annually spending over \$50 million. True, new mandatory programs created since 1997 may be eliminated if the Budget Committee and the Office of Management and Budget agree; however, as most such programs pre-date 1997, this rarely occurs. Consequently, this loophole encourages – indeed mandates – outdated and inefficient federal entities must “spend to survive.” As such, its repeal will foster transparency, accountability, efficiency and taxpayer savings within the budget process.



Congress should require a year-by-year budget offset for any increase in direct spending. Thus, in order to avoid sequester, any spending increase must be offset in *each* year of a five year budget window. This proposal will prevent Congress from timing a spending bill to circumvent PAYGO.



To expand overall budget discipline, Congress should add discretionary spending caps to PAYGO. The caps, which could be for durations of three or five years, would be enforced by automatic across-the-board cuts. As practiced, however, PAYGO applies only to entitlement spending, despite the fact discretionary spending consumes most of the Congress' time and roughly a third of the federal budget. Clearly, controlling spending requires controlling all spending.



Congress should add annual deficit targets, enforced by across-the-board spending reductions on both entitlement and discretionary spending. As practiced, PAYGO would apply only to *new* legislation; consequently, PAYGO – by leaving the base of spending intact - does not reduce deficits, but only maintains them. This proposal, by comparison, would compel consistent, honest deficit reduction.

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## Advancing American Exceptionalism



Ominously, should Congress completely ignore the budget’s ultimate challenge – *the currently unsustainable growth rate of entitlements* – and adopt a PAYGO rule treating spending as forever and tax relief as temporary, this policy will, at best, only serve to maintain the current federal deficits and overall debt; and, at worst, will exacerbate these twin threats to our nation’s economic vitality and primacy. To help advance the standard of living of America’s present and future generations of workers and entrepreneurs, Congress must practice strict budget discipline to reduce federal spending; increase tax relief; eliminate the budget deficit and national debt; and ensure our nation remains the leading engine of the global economy.





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