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THE ADMINISTRATION'S PAY-GO PROPOSAL

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TALKING POINTS

- With much fanfare, the administration has announced its pay-as-you-go [pay-go] proposal, seeking to shore up the President's fragile claim to "fiscal discipline." But there are several fairly basic problems with pay-go:

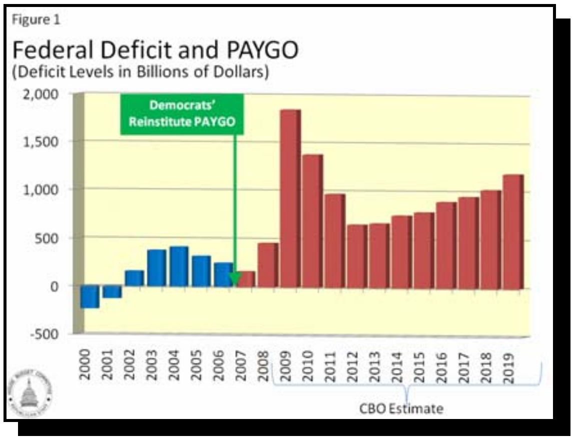
  - *It hasn't worked.*
  - *It's full of loopholes.*
  - *It won't address the explosion in debt called for in the President's budget.*
  - *It does nothing to solve the fundamental problem in the budget – the unsustainable growth in entitlement spending.*
  - *To the extent it is deployed, it will be used to increase taxes on the American people.*

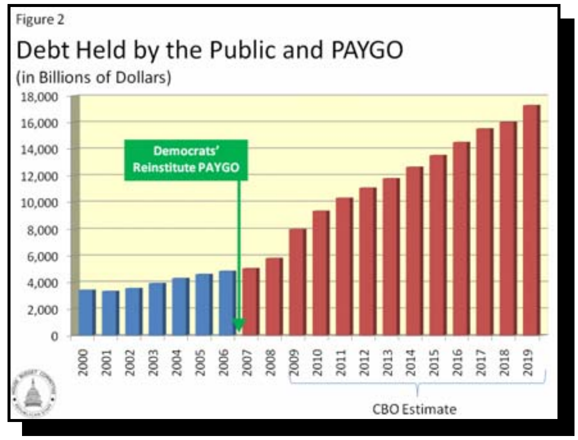
PAY-GO HASN'T WORKED

- When Democrats took control of Congress in 2006, they promised: "Our new direction is 'pay-as-you-go' budgeting – no more deficit spending"; and: "Instead of piling trillions of dollars of debt onto our children and grandchildren, we will restore 'pay-as-you-go' budget discipline." (See the House Democrats' *A New Direction for America*, 109th Congress: http://www.speaker.gov/pdf/thebook.pdf.) At best it has been a distraction; at worst – and in fact – it's been a complete failure at doing anything to control deficit spending. A few items:

  - Since they reinstituted pay-go, the budget deficit has soared from $161 *billion* in fiscal year 2007 to a projected $1.8 *trillion* this year. (See Figure 1, next page). The debt will have increased by nearly $3 trillion during this period (Figure 2, next page).
  - For the first 2 years after reinstituting pay-go in 2007, the House Democratic Majority waived or ignored pay-go for $420 billion of legislation, including $23 billion for the Farm Bill. (See Republican House Budget Committee analysis: http://www.house.gov/budget_republicans/press/2007/pr20090106paygo.pdf.)

- On top of that, Congress bailed out Fannie Mae and Freddie Mac and established the Troubled Assets Relief Program – both of which wound up costing more than originally estimated – and also enacted a $787-billion "stimulus" bill ($500 billion of which affected mandatory spending and revenue), taking the total to well above the $1-trillion mark.





FULL OF LOOPHOLES

- Pay-go does not apply to all spending.

  - Appropriations bills (40 percent of total spending) are not subject to pay-go. Worse, when appropriations bills increase mandatory spending, that spending increase is exempt from pay-go. An example is the fiscal year 2008 supplemental (H.R. 2642), which included provisions that increased mandatory spending by $74.2 billion over 10 years – all of which was exempted from pay-go because it was inserted in an appropriations bill.

  - "Emergency" spending is exempt from pay-go.

  - Pay-go can and has been circumvented through gimmicks. The most recent example was the State Children's Health Insurance Program [SCHIP] bill the President signed into law in February. That bill increases SCHIP spending by an annual average of 23.7 percent for 5 years, and then cuts SCHIP funding by 65 percent in the 6th year. Based on this fiscal fantasy, the bill is "deficit neutral" over 10 years, and meets the pay-go requirement.

  - During the 110th Congress, the Majority used corporate-tax timing shifts in 25 separate bills to meet pay-go.

WILL NOT ADDRESS EXPLOSION OF DEBT
IN THE PRESIDENT'S BUDGET

- The President's pay-go proposal modifies the baseline to ensure that the huge increase in spending proposed in the President's budget does not violate pay-go.

- Under the President's budget, the debt will double in 5 years and nearly triple in 10 years.

- Pay-go does nothing to address the explosion in spending, deficits, and debt in the President's budget.

Violating Pay-Go Before Outlawing Violations

A principal flaw in the President's pay-as-you-go [pay-go] proposal is that he shatters the discipline – to the tune of $3.5 trillion – before adopting it.

The President proposes to resurrect a statutory pay-go mechanism that was created by the Budget Enforcement Act [BEA] of 1990 and expired in 2002. Statutory pay-go would make it against the law for mandatory spending or tax legislation to cause a net increase in the deficit relative to the baseline. The BEA specifies the baseline that the Office of Management and Budget is to use in determining whether legislation causes a deficit increase.

But the President's budget already increases the deficit by $3.5 trillion over the next 10 years – and then hides this inconvenient truth by adding $3.5 trillion to the baseline. This sleight-of-hand makes the deficit seem to disappear, when in fact the President simply commits a $3.5-trillion pay-go crime before outlawing it.

It should also be noted that in the past, pay-go was always adopted in conjunction with statutory caps limiting discretionary spending, roughly 40 percent of the budget. The President is not proposing such caps.

The Crime Before the Law: Baseline Changes in the President's Budget
(dollars in billions)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Current Pay-Go Baseline Deficits	1,122	661	300	208	185	129	183	169	134	168	1,614
Permanent AMT Patch	14	69	34	39	46	55	64	73	85	97	576
Extension of 2001/2003 Tax Relief	4	149	230	261	290	312	328	344	360	377	2,655
Medicare Physician Pay Increase	12	22	28	37	39	41	39	33	29	33	311
Other Changes	-2	-1	–	–	-1	-1	-1	-2	-2	-1	-11
Subtotal - Deficit Increases	28	239	291	336	375	407	429	448	473	505	3,531
New Pay-Go Baseline	1,150	900	591	544	560	536	612	617	607	673	5,145

DOES NOT ADDRESS ENTITLEMENT CRISIS

- According to the Government Accountability Office, the Federal Government's unfunded liabilities amount to $62.9 trillion – and that was *before* the Social Security and Medicare actuaries released their most recent report on the deteriorating financial condition of these programs.

- These are obligations under current law; and because pay-go does not apply to current law, it does nothing to address the real problem with the budget: this unsustainable growth in entitlement spending.

WILL FORCE TAX INCREASES

- Washington has a spending problem, and pay-go does nothing to restrain spending – it only claims to "pay for" it. This inevitably means higher taxes.

- Whether it is the cap-and-trade proposal, or the plan for government-run health care, pay-go will be used to force huge tax increases on the American people for the largest expansion in government since the New Deal.

CONCLUSION

- The current fiscal outlook – with its explosion of spending, deficits, and debt – makes budget enforcement more important than ever.

  - Measured as a share of the economy, this year's deficit will be more than twice the post-World War II record.

  - Under the President's budget, the debt will exceed 50 percent of the economy this year, a mark not seen since the 1950s. But at that time, the debt was declining steeply after the war; today matters are reversed: debt under the President's budget *continues to grow*, hitting *82.4 percent of gross domestic product by 2019.*

- This fiscal challenge is an opportunity – a chance to pursue much-needed reform. Congress and the administration should not squander the moment by pursuing a pay-go proposal that is a distraction, not a solution.