

PAYGO: EFFECTIVE TOOL FOR ADDRESSING DEFICIT

House Vote This Week Takes Action to Strengthen Fiscal Responsibility

“[C]hanging spending-as-usual depends on changing politics-as-usual.... That's also why we're restoring pay-as-you-go: a simple rule that says Congress can't spend a dime without cutting a dime elsewhere. This rule helped lead to the budget surpluses of the 1990s, and it's one of the most important steps we can take to restore fiscal discipline in Washington.” – President Barack Obama, 2/1/2010

This week, the House will consider legislation reestablishing statutory “pay-as-you-go” (PAYGO). In the 1990s, the Clinton Administration turned deficits into record surpluses due in part by adhering to PAYGO, a principle that compels Congress to pay for what we buy. However, under a Republican President and Congress, PAYGO was waived and allowed to expire, clearing the way for policies that wiped out those surpluses, including huge debt financed tax cuts for the wealthiest Americans that will have to be paid for by the next generation. Restoring our nation’s fiscal health will not be quick or easy, but reinstating PAYGO is an important step toward that goal. PAYGO has a history of bipartisan support, and Democrats hope Republicans will join them this week in supporting this proven tool for fiscal responsibility.

What will PAYGO legislation do?

- Require that all new policies reducing revenues or increasing entitlement spending be offset over five and ten years.
- Ensure that we can afford to fund America’s most important priorities, such as education, clean energy, and health care, for future generations.
- Force advocates of tax cuts to acknowledge their costs and show how they would pay for them.
- Force a serious examination of wasteful subsidies in the budget and tax loopholes that can be eliminated to offset more worthwhile programs.
- Does not apply to discretionary programs funded in appropriations bills, such as LIHEAP, WIC, Head Start, Housing assistance, and Pell grants.
- Include an exemption for legislation designated as an emergency, as Congress did in the American Recovery and Reinvestment Act and during the recession in the early 1990s.
- Allow legislation extending designated current policies to be extended without offsets:
 - Permanent Extension of child tax credit, marriage penalty relief and reduction in income tax rates for middle class taxpayers with incomes below \$250,000
 - Medicare physician payments through 2014
 - Alternative Minimum Tax relief for two years
 - The 2009 estate tax exemption and rate for two years
- Establish an enforcement mechanism – a sequester – in mandatory programs at the end of the year if Congress has not paid for the costs of all legislation enacted during the year. Certain programs are exempt from the sequester, including:
 - Social Security
 - Medicaid
 - Food Stamps
 - Other programs targeted at low-income populations