Center on Budget and Policy Priorities

POLICY BASICS

CONGRESS'S "PAY-AS-YOU-GO" BUDGET RULE

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March 5, 2009

The pay-as-you-go rule, also known as PAYGO, is designed to encourage Congress to offset the cost of any legislation that increases spending on entitlement programs or reduces revenues so it doesn't expand the deficit. Under PAYGO, Congress must pay for such legislation by reducing other entitlement spending or increasing other revenues.

Congress can, however, waive PAYGO for a particular bill with the support of 60 senators and the majority of the House. Also, PAYGO does *not* apply to discretionary programs (the programs Congress funds each year through the appropriations process), which are limited instead by the annual spending targets set in congressional budget plans.

PAYGO's Evolution and Impact

Congress and the President first established PAYGO in 1990 as part of a bipartisan budget summit agreement to reduce the large deficits the nation faced. It aimed to prevent future Congresses from reversing the tax increases and entitlement cuts both parties accepted as part of that agreement. PAYGO played a key role in helping reduce and then eliminate the deficit.

In the late 1990s, however, Congress and the President began waiving PAYGO more and more often in response to the booming economy and several years of budget surpluses. In 2001 they approved very large tax cuts without offsets — a sharp departure from PAYGO discipline that set the stage for other PAYGO exceptions. In 2002 Congress allowed PAYGO to expire, facilitating the passage of deficit-increasing tax and entitlement legislation over the next several years, including the 2003 tax cuts and the Medicare prescription drug bill.

Partly because of the return of large deficits, Congress reinstated PAYGO in 2007, though it now uses a different mechanism to enforce the rule.

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Since reinstating PAYGO in 2007, Congress has to identify deficit-reducing provisions that can offset costly tax and spending proposals. This requirement has helped prevent a number of deficit-increasing initiatives—though not all—from becoming law.

By keeping deficits lower than they otherwise would be, PAYGO increases national saving over the long term. (When the government runs a deficit, it pays for the shortfall by borrowing money from the private sector; this lowers net national saving.) Increasing national saving, in turn, improves the economy's capacity for long-term growth.

For more about the current PAYGO rule, see "The New Pay-as-You-Go Rule in the House of Representatives," http://www.cbpp.org/1-12-07bud.pdf.

Policy Basics is a series of brief background reports on issues related to budgets, taxes, and government assistance programs.

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