Center on Budget and Policy Priorities

CBPP STATEMENT

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JOINT STATEMENT BY ROBERT GREENSTEIN AND JAMES HORNEY ON THE PRESIDENT'S "PAY AS YOU GO" BUDGET PROPOSAL

President Obama's proposal to require policymakers to fully pay for all new entitlement increases and tax cuts, rather than deficit-finance them, is an important first step to restore fiscal responsibility. Critics charge that the pay-as-you-go, or PAYGO, proposal is riddled with loopholes, would be ineffective, or is a gimmick. But they are fundamentally mistaken. In light of obvious political realities, the so-called loopholes actually increase the likelihood that the pay-as-you-go rule would be effective in preventing enactment of new policies that would increase the deficit. Those who support fiscal responsibility should embrace the President's proposal, rather than undercut it by calling for a "pure" pay-as-you-go rule that would be doomed to failure.

The last administration ignored pay-as-you-go discipline. It successfully pushed deficit financing of nearly all of its major initiatives, including the 2001 and 2003 tax cuts and 2004 prescription drug legislation. In sharp contrast, the Obama Administration proposes to bar deficit financing for its own top initiatives, like health care reform, even though this will make those initiatives harder to push through Congress. Proponents of fiscal responsibility should applaud the commitment to ensuring that policymakers fully offset the costs of universal health coverage, strengthened college financial aid, efforts to address global warming, and other initiatives.

Some critics complain that the proposal would exempt the costs of extending the 2001 and 2003 tax cuts, alternative minimum tax relief, the current estate tax rules, and current policies that prevent deep cuts in the fees that Medicare pays to doctors from taking effect as scheduled. But, the inclusion of these exemptions *strengthens*, rather than weakens, prospects that the proposal will start to restore fiscal responsibility.

To be sure, we would much prefer that the President and Congress offset the cost of extending these current policies. But, it has become painfully clear over the past few years that there is no chance that Congress will pay for such extensions and no chance it will allow these policies to expire.

Suppose new statutory PAYGO requirements *were* applied to these current policies. Congress would unquestionably issue a series of waivers of the PAYGO rules, undermining their credibility within months of enactment and making it much harder to prevent waivers for other legislation to institute new entitlement expansions and tax cuts. Rather than make a transparently phony fiscal responsibility promise that would evaporate whenever 60 Senators support an entitlement or tax cut but don't want to pay for it, we need a PAYGO rule that Congress will adhere to. The Administration's proposal would erect a pay-as-you-go rule that acknowledges the additional costs that everyone knows will be incurred in extending current policies (and everyone knows will *not* be offset), and makes a commitment to draw the line at *new* policies that would increase the deficit.

Consider the estate tax, for example. If the Administration proposed a PAYGO rule without exemptions for current policies and Congress needed to waive the rule just to maintain today's estate tax rules in coming years, then Congress surely would enact such a waiver. That would leave *no additional statutory barrier to going well beyond today's rules and eviscerating much of the estate tax that remains, and thereby digging the deficit hole even deeper*. The sky would be the limit here. In contrast, if a new PAYGO rule draws the line at today's estate rule tax parameters —- so that extending them does not violate the rule but any effort to remove more of the tax *does* violate it — then policymakers will have a better chance of holding the line and avoiding still more deficit financing here. As this example illustrates, the Administration's proposal will likely be more effective at maintaining fiscal discipline than an all-encompassing PAYGO rule that applied to extending current popular policies — and that Congress waived willy-nilly.

An analogy may help here. If a boulder has begun to slide down a hill, standing at the top of the hill and exhorting the boulder to roll back up — or building a barrier at the top of the hill — won't do much good. But marching part way down the hill to where the boulder currently sits and erecting a barrier to prevent the boulder from sliding further can be effective.

To be sure, PAYGO rules will not close the daunting budget gaps we face. Policymakers must take other steps to begin addressing them. But erecting an effective barrier to forestall new policies that would make the problem worse is an important first step. The nation's fiscal situation would be far healthier had policymakers adhered to such policies over the past decade. The Obama Administration and the "Blue Dog" coalition of lawmakers (a group of conservative-to-moderate House Democrats), as well as others who support the President's efforts, should be commended, rather than chastised, for pursuing this action.

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