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RYAN SUBSTITUTE FOR STATUTORY PAY-AS-YOU-GO
Replaces Procedure That Has Worked with Failed Gramm-Rudman-Hollings Type Approach

by Jim Horney

The House of Representatives is today considering legislation (H.R. 2920, as amended by a substitute proposed by Majority Leader Steny Hoyer) that would reinstate a statutory Pay-As-You-Go rule similar to the rule that helped produce the first federal budget surpluses in decades in fiscal years 1998 through 2001. Under the terms set for consideration of that legislation, Representative Paul Ryan is allowed to offer an amendment that would:

- Replace the proposed statutory Pay-As-You-Go rule that proved effective in preventing Congress and the President from adding to the deficit in the 1990s with fixed spending and deficit targets that are essentially the same as the Gramm-Rudman-Hollings approach that failed to rein in deficits in the 1980s. These caps would be enforced by automatic, across-the-board cuts of mandatory spending determined by the Office of Management and Budget.

- Establish statutory caps on discretionary spending that would require deep cuts in funding for discretionary programs below the levels that Congress agreed to earlier this year in passing the Congressional budget resolution. These caps would be enforced by automatic, across-the-board cuts of discretionary funding determined by the Office of Management and Budget.

- Require the federal government to make deep cuts in spending when the economy declines, exactly the wrong medicine for an economy that is in need of stimulus. And, unlike any cuts that could be required by the Pay-As-You-Go rule under H.R. 2920 *if* tax or entitlement legislation was enacted that was *not* paid for, the cuts resulting from enforcement of the Ryan spending and deficit caps would apply directly to programs like Medicaid, CHIP, school lunches, and Food Stamps that serve vulnerable populations.

- Impose California-like constraints — requirements for *two-thirds* votes in the House and Senate to consider legislation that would cause any of the Ryan caps to be exceeded — that can produce paralysis and make it extremely difficult for a legislature to function well and produce sensible legislation.

Summary

The Ryan amendment would strip from the legislation the Pay-As-You-Go rules that proved effective in the 1990s in preventing enactment of legislation that would add to the deficit and helped produce the first federal budget surpluses since 1969. In place of that proven rule, it would establish caps on discretionary appropriations (which were effective at enforcing levels of discretionary spending that had been agreed to on a bipartisan basis as part of deficit reduction packages enacted in 1990 and 1993, but are unlikely to be effective if the caps are not adequate), as well as caps on total federal spending and federal deficits.

The caps on total federal spending and deficits would be similar to the deficit limits established in the 1985 Gramm-Rudman-Hollings legislation that proved wholly ineffective — and even counter-productive, because they encouraged rosy economic forecasts and widespread use of budget gimmicks in order to evade the deficit limits when they proved impossible to comply with. And indeed, fixed deficit limits of this sort often are inherently impossible to comply with — because Congress and the President do not control the economy and other factors that greatly affect the size of the deficit in any year.

The substitution of fixed spending and deficit targets for the Pay-As-You-Go rule flies in the face of lessons learned over the decades — that budget procedures like the Pay-As-You-Go rule can help enforce budget agreements and prevent the Congress and the President from enacting legislation that will make the budget situation worse but, as the experience with Gramm-Rudman-Hollings showed, rules like fixed total spending and deficit targets are very likely to fail. The Congressional Budget Office reached a similar conclusion about the inherent problems with a Gramm-Rudman-Hollings type approach in an analysis it issued in 1993.[1]

It also is worth noting that the fixed total spending and deficit targets would call for just the wrong action when the economy experiences a downturn, especially with deficit targets set as a percentage of GDP. When the economy slumps, federal spending (for unemployment insurance and safety net programs for newly poor people) automatically goes up, revenues automatically shrink, and deficits consequently surge. In addition, as total federal spending and deficits increase, GDP shrinks — making it even harder to limit spending and deficits to a specified percentage of GDP. Instead of allowing these *automatic stabilizers* to help provide countercyclical pressure to stimulate the economy and moderate the length and depth of a recession, the cuts required by the fixed limits on total spending and deficits that Ryan proposes would be procyclical — that is, they would make economic downturns still more severe.

The Ryan substitute would also establish a new requirement for a two-thirds vote in the House and Senate to consider any legislation that would cause any of the Ryan caps to be exceeded. Such a supermajority requirement would make it much harder to reach agreement in the Congress on an appropriate budget and could delay or even prevent the Congress from taking action to deal with a

[1] The Congressional Budget Office concluded in 1993 that "The experience under Gramm-Rudman-Hollings demonstrated that if the President and the Congress are unwilling to agree on a painful deficit reduction package, it is unlikely that any budget procedure can force them to agree. Instead, budgetary legerdemain is likely to be used to meet the letter of the law, and the hard decisions that would achieve real, permanent deficit reduction will still be avoided. Any budget procedure that established fixed deficit targets represent an attempt to force future agreements and is subject to this problem." Congressional Budget Office, *The Economic and Budget Outlook: Fiscal Years 1994-1998*, January 1993, page 87.

serious economic crisis. One only has to look at the effect of such supermajority rules in the California legislature to question the desirability of imposing such rules on the United States Congress.

Spending and Deficit Caps in the Ryan Substitute

Caps on Discretionary Appropriations. The Ryan substitute sets caps on the total dollar level of discretionary budget authority (i.e., the total amount of funding provided through the annual appropriations bills) and outlays for fiscal years 2010, 2011, 2012, 2013, and 2014. Separate caps would apply to an "Overseas Contingency Operations" category (which applies to funds for the war in Iraq and Afghanistan and other related overseas operations) and a "General Purpose" category (all other discretionary appropriations are in this category). The caps on the Overseas Contingency Operations funding would be set at the levels proposed for each year in the President's budget. The caps on the General Purpose category would be set at the levels of CBO's March 2009 baseline projections of such discretionary funding (the funding levels enacted for fiscal year 2009, adjusted for inflation). As Table 1 shows, these levels are substantially below the levels agreed to in the Congressional budget resolution for fiscal year 2010.

Table 1: **Discretionary Budget Authority**

In billions of dollars	**2010**	**2011**	**2012**	**2013**	**2014**
Budget Resolution, FY10	1,096	1,108	1,121	1,140	1,163
Ryan substitute caps	1,048	1,058	1,069	1,079	1,094
Cuts below Budget Resolution	48	50	52	61	69

Caps on Total Federal Spending. The Ryan substitute sets caps on total federal spending (all outlays for discretionary and mandatory programs — on and off budget — and interest payments on the debt) as a percentage of GDP for each year, 2010 through 2019. As shown in Table 2, the caps are below the levels agreed to in the 2010 Congressional budget resolution in every year through 2014 (the last year covered by the budget resolution) and even further below the levels proposed in the President's budget (as estimated by CBO) in every year through 2019. (In dollar terms, based on CBO's March 2009 projections of GDP, the Ryan cap for 2019 is $587 billion below what spending would be under the President's policies for that year.)

Table 2: **Total Outlays**

As a percentage of GDP	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Ryan substitute caps	24.6%	23.2%	21.7%	21.7%	21.8%	21.8%	21.7%	21.7%	21.7%	21.7%
Budget Resolution	24.7	23.5	22.0	22.1	22.2					
President's Budget as Estimated by CBO	25.7	23.7	22.6	22.8	23.0	23.2	23.6	23.8	23.9	24.5

Caps on Deficits. The Ryan substitute sets caps on total (on- and off-budget) federal deficits for each fiscal year, 2010 through 2019. As shown in Table 3, the caps are below or equal to the deficits agreed to in the budget resolution for 2010 in every year through 2014 except 2012, when the Ryan cap is slightly higher. The Ryan caps are below the deficits CBO estimates would occur under the

President's policies in every year through 2019, except in 2012. In dollar terms, the Ryan cap for 2019 is $524 billion below what the deficit would be under the President's policies.

Table 3: **Deficits**										
As a percentage of GDP	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Ryan substitute caps	-8.0%	-6.0%	-4.0%	-3.0%	-3.0%	-3.0%	-3.0%	-3.0%	-3.0%	-3.0%
Budget Resolution	-8.6	-6.1	-3.9	-3.5	-3.0					
President's Budget as Estimated by CBO	-9.9	-6.5	-4.0	-3.9	-4.2	-4.3	-4.7	-4.8	-4.9	-5.5

Enforcement of the Caps. Although the legislative drafting is ambiguous in a number of respects, it seems clear that the caps are intended to be enforced through an annual process in which OMB determines whether the caps are being complied with and, if necessary, institutes automatic across-the-board cuts in spending to bring spending and deficits into compliance. The first step would be to determine compliance with the discretionary caps. If OMB estimates the caps have been exceeded, it is required to reduce every discretionary account (only a small number of discretionary programs, such as WIC, would be exempt from the reduction) by the uniform percentage required to achieve compliance with the caps. The reductions would apply equally to defense and nondefense programs.

The total spending and deficit caps would then be enforced through a similar process, in which non-exempt mandatory programs are cut by a standard percentage in order to comply with the caps. Some programs — such as Social Security, interest on the debt, veterans' benefits, and unemployment insurance — would be exempt, but a number of programs that were exempt both from Gramm-Rudman-Hollings reductions and Pay-As-You-Go sequesters under the 1990 law (and would be exempt under H.R. 2920) would be subject to cuts. These include basic low-income assistance programs such as Food Stamps, school lunches and other child nutrition programs, Supplemental Security Income for the elderly and disabled poor, Medicaid and CHIP, and the refundable portions of the Child Tax Credit, as well as federal Civil Service Retirement and Military Retirement benefits.

The legislation says that no program can be cut by more than one percent, but that seems to apply separately to the total spending and deficit cap reductions so that the total reduction in any year could be as much as two percent. The legislation also says that any program that is not growing faster than inflation will not be subject to a cut.