Policy Basics

Center on Budget and Policy Priorities

The “Pay-As-You-Go” Budget Rule

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.

PAYGO’s History and Impact on Fiscal Discipline

Congress and the President first established a PAYGO law 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 in response to the booming economy and several years of budget surpluses. In 2001 they waived PAYGO enforcement and approved very large tax cuts without offsets — a sharp departure from PAYGO discipline. This 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 used its internal rules to reinstate the PAYGO principle in 2007. It decided to prohibit the consideration of legislation that would break the PAYGO principle. In 2010, Congress and the President also reestablished PAYGO as a law, very much like the 1990 law.

However, in 2011, the House of Representatives repealed its internal PAYGO rule. As of 2018, therefore, PAYGO is enforced by a Senate rule against considering legislation that breaks the rule, and by the 2010 statute.

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

To the extent PAYGO keeps deficits lower than they otherwise would be, it 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, modestly improves the economy's capacity for long-term growth.

Limits on PAYGO

Congress can, however, waive PAYGO for a particular bill with the support of 60 senators and the majority of the House. It did so in response to the Great Recession, enacting the housing and financial rescue legislation of 2008 and the Recovery Act of 2009. Other PAYGO exceptions include the permanent extension of most but not all of the Bush tax cuts at the end of 2012 and the 2017 tax law.

PAYGO also does not apply to discretionary programs (the programs Congress funds each year through the appropriations process). Discretionary program funds are limited instead by the annual spending targets set in congressional budget plans and by statutory dollar limits or "caps" enacted in 2011 and continuing through 2021.

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For more information on PAYGO, see:

https://obamawhitehouse.archives.gov/omb/paygo_description/