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Commentary: House PAYGO Rule Could Help Advance Progressive Goals

By Robert Greenstein

When they assume control of the House in January, Democrats will need to pass rules to govern the chamber, as the incoming majority does at the start of every Congress. A key issue for Democrats is whether to replace an existing House rule known as "CUTGO" (for "cut as you go") with "PAYGO" ("pay as you go"). It sounds like arcane "inside baseball," but the issue has far-reaching ramifications.

CUTGO, which House Republican leaders installed in 2011, requires that policymakers pay for any bill to expand entitlement programs and do so as part of the same bill, while entirely exempting tax cuts from this discipline. Adding to its ideological tilt, it *precludes* using revenue-raising measures to pay for improvements in entitlements (such as Medicare and Medicaid). So, under CUTGO, House members are barred from eliminating costly, unintended, and regressive tax loopholes to help finance improvements in health care or other programs — but they're *not* barred from making budget cuts that take food, health, or economic assistance away from people in need.

PAYGO, by contrast, requires that policymakers pay for *both* entitlement expansions *and* tax cuts. And it allows measures that increase tax revenues to pay for both entitlement expansions and tax cuts. When Democrats controlled the House from 2007 through 2010, the chamber operated under a PAYGO rule. (The PAYGO rule, by the way, is distinct from a separate PAYGO requirement that's in law and is discussed below.)

Earlier this fall, House Minority Leader Nancy Pelosi expressed interest in replacing CUTGO with PAYGO if Democrats regained the House. Some commentators on the left criticized the idea, arguing it would handcuff Democrats and thwart a progressive agenda right from the start.

Based on years of work on fiscal and social policy, I'm convinced that we should *not* view PAYGO as antithetical to, or inconsistent with, a progressive agenda. In fact, PAYGO should prove useful — and could even prove crucial — to advancing key parts of that agenda, for several reasons.

First, PAYGO can help advance a progressive agenda that reduces inequality and also strengthens health care affordability by slowing the continued rise of drug prices and other health care costs. A progressive agenda entails raising more revenues from high-income households, from the nation's wealthiest estates, and from large and highly profitable corporations.

A progressive agenda also should entail helping make health care more affordable by restraining growth in health care costs, such as prices for prescription drugs; that can reduce costs both for Medicare and Medicaid and for millions of consumers.

Politically speaking, however, revenue-raising measures, drug-pricing reforms, and other health-care cost-containment measures are hard to enact on their own. For example, PhRMA, the drug companies' trade group, is a political powerhouse in both parties and strongly opposes various drug-pricing reforms. But a House PAYGO rule would make tax increases, drug-pricing reforms, and other measures to contain costs and make health care more affordable more likely to pass, because those measures could finance program improvements in health care and other areas that many members strongly favor. Absent PAYGO-driven pressure, such progressive revenue-raising and drug-pricing reforms are more likely to languish.

Consider the Affordable Care Act (ACA), which was paid for. It not only brought health insurance to 20 million more Americans; its "pay-fors" were sound progressive policy on their own that both made the tax code more progressive and helped slow the rate of growth in health care costs that both government programs and consumers face. For example, the ACA raised Medicare taxes on the earned income of wealthy Americans and imposed a new Medicare surtax on their unearned income, including their capital gains and dividend income. Those two taxes generate about 80 percent of their revenues from households with annual incomes above $1 million. The ACA's pay-fors, including these Medicare taxes, made the tax code fairer and more progressive, strengthened Medicare's finances, and helped moderate health-care cost growth, all of which are solid progressive goals.

These pay-fors were also very important for pragmatic reasons. Put simply, policymakers needed to offset the ACA's costs to secure the necessary votes to pass it. The bill squeaked through both chambers of Congress in 2009 with very few votes to spare. It would *not* have secured the votes it needed if it hadn't been paid for.

A similar dynamic may occur in the new Congress, where a PAYGO rule could help broaden support for progressive legislation, including legislation that reduces inequality and makes health care more affordable. A number of new House Democrats from red or purple districts campaigned in part on fiscal responsibility. Such new House Democrats are likely to find it much harder to vote for major policy advances that progressives strongly support if those measures would add significantly to deficits and debt. They are likely to support major progressive legislation more readily if it's financed. And there is no shortage of sound, progressive proposals that can serve as "offsets," especially after years in which policymakers enacted a slew of regressive, inefficient tax cuts.

This also raises a related question. House Democrats badly need to jettison the deeply problematic CUTGO rule. But will Democrats from more conservative districts who stressed fiscal responsibility in their campaigns believe they can vote to jettison CUTGO if nothing is put in its place?

Various progressive leaders recognize the benefits of using progressive revenues to pay for their proposals — and thereby to make progress on two fronts at once in their efforts to foster equity. Senator Elizabeth Warren, for example, recently introduced legislation to address the nation's growing housing affordability crisis by making substantial public investments in affordable housing — and paying for them with progressive revenue-raising measures that would help reduce wealth inequality by ensuring that heirs of the nation's richest families pay a more reasonable estate tax on their vast inheritances.

PAYGO thus can offer a double benefit: it can improve the chances of passing important program improvements because they will be paid for rather than add to deficits, *and* it can facilitate the passage of progressive reforms in taxes and health care that are desirable policy in their own right.

Second, PAYGO doesn't affect various other parts of a progressive agenda. Some critics have raised concerns that PAYGO could undercut an infrastructure package to strengthen long-term economic growth or more funding for priorities like education and training, child care, and affordable housing to help low- and middle-income families. In fact, PAYGO would *not* affect most infrastructure proposals or most education, child care, or housing programs. It also wouldn't affect disaster spending. It applies only to taxes and entitlements — *not* to the discretionary programs that the President and Congress fund each year through the appropriations process, and not to the Highway Trust Fund, from which much infrastructure funding comes.

Third, PAYGO wouldn't prevent policymakers from enacting an economic stimulus package when a recession hits. Applying PAYGO rules to a stimulus measure would constitute economic malpractice, precluding policymakers from responding appropriately to a recession. But PAYGO doesn't pose such a threat. The House Rules Committee and then the full House can waive a House PAYGO rule whenever that's considered necessary, and they surely would do so if a recession loomed or arrived — as they did in 2008 and 2009 when the economy fell into recession and a House PAYGO rule was in effect.

Fourth, regardless of what House Democrats do on a PAYGO rule, the Pay-As-You-Go *law*, which has been on the books for some time, will remain in place — and will trigger *automatic* across-the-board cuts in an array of entitlement programs if tax cuts or expansions of entitlement programs are enacted but aren't paid for. To be sure, when congressional Republicans have enacted tax cuts, they regularly have followed them with legislation to *exempt* those tax cuts from the Pay-As-You-Go law so that their tax cuts don't trigger automatic budget cuts. PAYGO exemptions require 60 votes to pass the Senate, and Republicans needed Democratic votes to pass the exemptions; but once a tax cut was enacted, Senate Democrats — including those who strongly opposed the tax cut — had little choice but to vote for exempting it from the PAYGO law. Otherwise, the tax cut would have triggered automatic cuts in a number of social programs, making the damage to equitable policies even greater and widening inequality still more.

Some who oppose reinstating PAYGO as a *House rule* seem to assume that without it, Democrats could pass large, unfunded entitlement expansions and exempt them from the PAYGO *law*, just as Republicans have exempted their tax cuts. But it's far from clear that Senate Republicans would provide the votes needed to reach the 60-vote threshold to exempt social-program expansions that they strongly disliked from triggering across-the-board budget cuts. After all, the automatic budget cuts would hit various programs that Democrats strongly favor without touching GOP tax cuts or raising taxes in any way.

A House PAYGO rule would help in these circumstances. It would ensure that House Democrats would determine how to pay for the programmatic advances they seek and could do so with progressive offsets that are good policy in their own right — rather than risk the across-the-board cuts that the PAYGO law otherwise would trigger.

As this suggests, the PAYGO law is unbalanced because it triggers entitlement cuts but no tax increases to offset the costs of deficit-raising measures. But it's the law, and changing it would require 60 votes in the Senate (and a presidential signature), which won't be achievable without a massive shift in the Senate's make-up (as well as a different President).

In a recent letter to Minority Leader Pelosi, leaders of the Congressional Progressive Caucus noted the existence of the PAYGO law and said that they "support fully paying for bipartisan legislation that is headed to President Trump's desk." But they urged that the House not reinstate the PAYGO rule because of concern that doing so would unduly restrict the House's ability to debate "bold, popular policies" that won't make their way into law in the next Congress. Yet, I believe that a House PAYGO rule would be more likely to facilitate than to hinder the House's ability to advance those measures.

As noted above, measures that are paid for are likelier to secure broader support among House Democrats and to pass on the House floor. They also offer the opportunity to advance important progressive tax, drug pricing, and other reforms. And a House PAYGO rule would deny Republicans and conservative activists the opportunity to take the price tag of Democratic proposals that aren't paid for, convert it into a "middle-class tax increase" for every family (by dividing a proposal's cost by the number of taxpayers and presenting the result as a new tax burden on every household), and use the "middle-class tax increase" to attack those who voted for the measure.

Moreover, if, for a particular bill, Democrats couldn't work out the pay-fors and still wanted to debate the legislation on the House floor, House leaders could always work through the House Rules Committee to waive the PAYGO rule for that measure. The concern that this would handcuff House Democrats thus seems misplaced.

Fifth and finally, from a progressive standpoint, limiting the extent of further deficit and debt increases provides some benefits as well. Economists and budget experts debate the point at which mounting deficits and debt may adversely affect the economy. Truthfully, we don't know. But whatever the answer, it's unimaginable that the political system will let debt mount endlessly — to levels beyond those that the nation has ever experienced — without forcing action at some point. And if that action comes when conservatives are in political control, we'll likely see steep budget cuts that disproportionately hit programs that are vital to people with low or modest incomes, further widening inequality and racial disparities.

In addition, higher debt requires the federal government to allocate more of its resources to interest payments on that debt, which produce no social advances and can squeeze funding for needed investments. Just under current law (i.e., without any new legislation), the Congressional Budget Office projects that federal interest payments will rise to $914 billion in 2028, which is more than what the federal government is projected to devote that year to all domestic discretionary programs (all domestic programs that aren't entitlements) *combined.*

There is also some evidence that higher debt may modestly raise interest rates in the long term, which can affect mortgages and car-loan and credit-card interest payments. In addition, rising deficits in a strong economy may prompt the Federal Reserve to raise interest rates by too much and too rapidly.

But make no mistake — PAYGO is *not* an austerity measure to *shrink* deficits and debt. Some critics have attacked it as such, likening it to the recommendations that Erskine Bowles and Alan Simpson, who co-chaired a high-profile fiscal commission, issued in 2010. That is simply incorrect. PAYGO would not reduce current deficits. Nor would it reduce the large projected growth in deficits in the years ahead as the baby-boom generation more fully retires, raising the budgets of health care and retirement programs without a corresponding increase in tax revenues. It aims merely to keep deficits from growing even more than they will under current law. That's a far cry from the Bowles-Simpson proposal for trillions of dollars in deficit reduction.

In short, a Pay-As-You-Go rule in the House isn't a misguided mechanism that would handcuff progressives. It's sound policy that would likely prove important to many of the advances that progressives seek.