Q&A: HOUSE PAYGO RESTORES FISCAL RESPONSIBILITY

This week, the House will consider legislation reestablishing statutory "pay-as-you-go" (PAYGO). In the 1990s, the Clinton Administration turned deficits into record surpluses due in large part to adhering to PAYGO, which compelled Congress to find offsetting savings for the dollars it spent. However, under President Bush and Congressional Republicans, PAYGO was waived and allowed to expire, clearing the way for policies that wiped out those surpluses, including huge tax cuts for the wealthiest Americans that will have to be paid for by the next generation. Democrats understand that restoring our nation's fiscal health will not be quick or easy, but reinstating PAYGO is an important step toward that recovery.

Q. Why is reestablishing PAYGO important?

PAYGO is an important part of a strategy to roll back the deficits built up by the past Administration, as well as the deficit spending needed to get our economy out of recession. Especially in a time of economic crisis, our future prosperity depends on balancing short-term deficit spending for economic recovery with a commitment to restoring fiscal discipline in the long-term. The large deficits we inherited as a result of the reckless borrow-and-spend policies of the previous administration have put increased pressure on funding for important American priorities such as education, clean energy, and more.

Q. What will the House PAYGO legislation do?

This legislation will require all new policies that reduce revenues or expand entitlement spending be offset over five and ten years. In doing so, this legislation will force a serious examination of wasteful subsidies in the budget and tax loopholes that can be eliminated to offset more worthwhile programs. By adhering to fiscal responsibility, we ensure that we can afford to fund America's most important priorities for future generations.

Q. How is this PAYGO legislation different from the President's proposal?

Several changes were made to the President's proposal in order to address concerns raised by Members and bring the legislation in line with the House PAYGO rule. Those differences include limiting the exception for the costs of extending the 2001 and 2003 tax cuts to middle class tax cuts; providing for the use of Congressional Budget Office estimates; requiring deficit neutrality over five and ten years to mirror the existing House PAYGO rule; following the emergency designation procedures in the House PAYGO rule, which eliminates the requirement for a separate Presidential emergency designation; making statutory PAYGO permanent instead of expiring after five years.

Q. How is this PAYGO legislation different than the House PAYGO rule?

Unlike the House PAYGO rule, which requires each bill that the House considers to be offset with savings within that bill, statutory PAYGO simply requires that the net effect of all legislation enacted during a session of Congress be deficit neutral, effectively allowing net savings from one bill to be used to offset other legislation with net costs.

Q. How is this PAYGO legislation different from the PAYGO law that was in effect in the 1990s?

This legislation is very similar to the original PAYGO law. The most significant difference is that instead of requiring legislation be deficit neutral in each year, the House legislation would look at the five and ten year cost of legislation. If the net effect of all legislation enacted during a session of Congress was paid for over five and ten years there would not be a sequester, even if the costs were not offset in some years.

Q. With PAYGO in place, how can we respond to a national emergency or crisis?

This legislation allows for Congress and the President to respond to an economic crisis by designating emergency legislation and exempting those costs. During the recession in the early 1990s, Congress and the President enacted legislation extending unemployment benefits without offsets by designating it as emergency spending. Similarly, the American Recovery and Reinvestment Act was designed as emergency legislation for the purposes of the House PAYGO rule, and therefore would have been considered emergency legislation under this bill.

Q. What is sequestration? How does it work? Will it negatively impact low-income families?

Sequestration is an enforcement mechanism designed to take effect if Congress has not paid for the costs of all legislation enacted during the year, thus increasing the deficit. Sequestration is not intended to be a desirable outcome or remedy, but rather a deterrent to deficit spending. There was not a single PAYGO sequester during the 1990s because Congress and the President complied with the statutory requirement to pay for legislation.

However, programs for low-income populations such as food stamps, TANF, Medicaid, and SCHIP are exempt from sequestration. Social Security is not subject to sequestration, and sequestration of Medicare is limited to no more than 4%. Programs that are subject to sequestration include most agricultural subsidies, student loans, various grants to states, and government retirement programs.

Q. Why are you allowing some current policies to be extended without offsets?

This legislation is intended to enforce discipline for new policies going forward and does not apply to existing policies that are widely expected to be extended, such as Medicare physician payments; the Alternative Minimum Tax (AMT); extension of child tax credit, marriage penalty relief and reduction in income tax rates for middle class taxpayers with incomes below $250,000; and the current estate tax exemption and rate. By doing this we will make PAYGO more credible and effective by avoiding the need to waive it for policies that Congress and the President have already agreed on a bipartisan basis should be extended.

Q. Why doesn't PAYGO apply to funding for the war?

PAYGO does not apply to any discretionary spending provided through the appropriations process, including supplemental appropriations. Discretionary spending is generally subject to the annual spending limits set in the budget resolution. Although funding for operations in Iraq and Afghanistan has been provided through emergency supplemental appropriations which are not subject to budget limits, President Obama has made it clear he intends to end this practice. In his letter requesting supplemental funding to cover the costs of operations in Iraq and Afghanistan in this fiscal year he indicated that this was the last planned war supplemental, stating "We must break (the) recent tradition and include future military costs in the regular budget so that we have an honest, more accurate, and fiscally responsible estimate of Federal spending. And we should not label military costs as emergency funds so as to avoid our responsibility to abide by the spending limits set forth by Congress."

Q. Will Republicans support this bill?

Democrats hope that Republicans will join them this week in supporting this proven tool for fiscal responsibility. PAYGO is a common sense idea that has historically received bipartisan support. In fact, it was originally enacted as part of a budget agreement between a Republican President and a Democratic Congress in 1990 and extended by a Republican Congress. The effort to extend the PAYGO rule in the Senate in 2002 was supported by several moderate Republicans, including John McCain. When the House adopted PAYGO as part of the House rules package in 2007, there were 48 Republicans who voted for the portion of the package which established the House PAYGO rule, 33 of whom are still in the House.