RPC BULLETIN

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Democrats' Pay-Go Did Little to Restore Fiscal Discipline

In 2006, campaigning Democrats rallied around a common proposal: Returning to "tough, old-fashioned" pay-as-you-go (pay-go) rules to restore fiscal responsibility to the budget process and to Washington. Over a year later and with a new budget on the horizon, it's time for a look-back at what actually occurred.

In January 2007, Senate Democrats, now in the majority, argued that their pay-go proposal would act as a tool to enforce budget discipline. However, as was clear then, and as has become even clearer a year later, the Democrats' pay-go did not restore fiscal discipline. It merely served as a procedural hurdle, making extending popular tax provisions nearly impossible and cloaking enormous spending increases in fictional offsets. **All told, had Democrats actually followed the spirit of the pay-go they enacted, they would have had to raise taxes by $143 billion on the American people to pay for what the Senate passed in 2007, or an estimated $1200 per household in additional taxes**.

What did they actually enact?

When the 110th Congress began, Senate Democrats promised to enact tough, old-fashioned pay-go that would restore discipline to the budgeting process by requiring any new spending or tax cuts to be offset with spending reductions or tax increases. They repeatedly cited the pay-go of the 1990's as the source of the budget surpluses in the 1990's and called for reinstituting a pay-go rule "with teeth."

What they really enacted:

The fiscal year 2008 budget resolution conference report did not include a traditional version of pay-go. Instead, it was replaced with a watered-down version containing more lax time frames

for enforcement. The new pay-go time frames for enforcement were cumulative tests for years 1-6 and 1-11, removing the first-year deficit test, which means that legislation no longer has to be deficit-neutral in the first year. This change in enforcement periods makes it easier to push spending into later years and game the system, avoiding a pay-go point of order where one would otherwise apply.

Avoiding Pay-Go

The Democrats haven't even followed the weaker pay-go rule they chose to enact. **Last year alone the Senate enacted $143 billion in new spending and reduced revenues without paying for it by using budget gimmicks and violations to circumvent pay-go.**

Of the $143 billion of pay-go avoidance, the Senate passed $130 billion in new spending increases that were not offset as pay-go required. Additionally, the Senate passed $12.5 billion in revenue decreases that were likewise not offset. Instead of cutting spending to pay for their new initiatives, or raising taxes as pay-go would require, they have gimmicked pay-go.

For example, the Democrats' substitute amendment to H.R. 6, the Energy Act of 2007, which was adopted by unanimous consent in the Senate, violated pay-go by increasing direct spending by $2.5 billion and reducing revenues by $1.7 billion over ten years for a total cost of $4.2 billion, without offsetting the cost. In another instance, the Senate-passed version of S. 558, the Mental Health Parity Bill, increased direct spending by $790 million and reduced revenues by $1.97 billion.

Additionally, Democrats used the emergency designation to exempt spending from being subject to pay-go. Because emergency spending is not subject to pay-go rules, the emergency designation was used to avoid pay-go violations for increased mandatory spending for several programs, including the Milk Income Loss Contract (MILC) program ($2.4 billion), and county payments and Payments in Lieu of Taxes (PILT) ($4.1 billion), all declared "emergencies" in the 2007 Emergency Supplemental Appropriations Bill.

The new pay-go point of order also created new ways to allow the Senate to game the system. Under the enacted pay-go point of order, legislation no longer has to be deficit-neutral in the first year. This has made it possible to create time shifts in enactment dates of legislation to clear the way for massive spending increases now, with speculative and unreliable ways to pay for it later. A common maneuver is to spend large amounts of money in the first year of enactment, paid for with fee extensions or spending cuts in future years that may never occur.

For example, H.R. 2669, the HELP Reconciliation Bill, phased down student loan interest rates to 3.4 percent in 2011, and then snapped them back to 6.8 percent in 2012. This unrealistic and

dramatic rate change allowed the bill to escape a pay-go point of order by eliminating $17 billion in costs over the 10-year period with a corresponding rate increase unlikely to ever happen. Additionally, H.R. 2419, the Farm Bill, uses early sunsets of programs to artificially reduce the cost of the bill by $17.7 billion. Again, it is reasonable to assume that these programs will not be allowed to sunset, and the reduction in costs used to avoid pay-go will never occur.

Conclusion

The pay-go rule enacted by the Democrats was not the same as the one they promised and campaigned upon. Had Democrats actually followed the spirit of the pay-go they enacted, they would have had to raise taxes by $143 billion on the American people to pay for what the Senate passed last year, or an estimated $1200 per household in additional taxes. Instead of making crucial spending decisions as promised, pay-go has been regularly circumvented or ignored.