

THE COMMITTEE ON THE BUDGET

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THE MAJORITY’S PAYGO ARITHMETIC
BUDGET GIMMICKS + HIGHER TAXES = ‘FISCAL DISCIPLINE’

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When the House Democratic Majority proudly passed their pay-as-you-go [PAYGO] rule earlier this year, Republicans warned it would only promote higher spending, higher taxes, and budgetary sleights-of-hand. That prediction has proved correct. Major Democratic bills consistently show large spending increases, with most of them “offset” by gimmicks, higher taxes, or higher fees. This includes the SCHIP reauthorization scheduled for the House floor this week. Here is a review of major bills that have dodged the PAYGO rule or used it to raise taxes under the guise of “fiscal discipline.”

- Higher Education Reconciliation (H.R. 2669) (Conference Report)
- Increases mandatory spending by at least \$48 billion over 10 years.
- Achieves artificial PAYGO “compliance” by claiming to sunset certain provisions, including new entitlements, within 5 years.
- Gradually cuts student interest rates through June of 2012, then balloons them back to the original rate to recover the cost within the PAYGO window.
- The Congressional Budget Office [CBO] estimates that if these phony offsets are excluded, the bill will spend an additional \$15 billion over the next 10 years – and other estimates put the figure as high as \$30 billion.
Farm Bill Reauthorization (H.R. 2419) (House-passed)
- Increases mandatory spending by a total of \$18.8 billion over 10 years.
- Relies on multiple gimmicks to comply with PAYGO, including delays in farm and crop insurance payments, and accelerated crop insurance premiums – for \$4.8 billion in illusory savings in the 10-year budget window.
- Directs CBO to ignore its own rules in estimating costs to show an additional \$400 million in savings from provisions aimed at detecting fraudulent payments. Under CBO’s normal estimating rules, these savings are not “real.”
- Raises taxes on U.S. business by \$7.5 billion over 10 years, which will abrogate tax treaties, discourage investment, and harm U.S. international competitiveness.
- Increases fees on U.S. energy companies by \$6.1 billion – and most of these fees are used again in the Energy Policy Bill (see below).

- **Energy Policy Legislation (H.R. 3221) (House-passed)**
 - Increases mandatory spending by \$7.6 billion over 10 years.
 - Achieves PAYGO “compliance” only by recycling fees already used in the Farm Bill reauthorization (see above). Without the recycled fees, the bill would violate PAYGO by about \$5.8 billion over the next 10 years.

- **Energy Tax Legislation (H.R. 2776) (House-passed)**
 - Raises taxes on the U.S. oil and gas industry by more than \$15 billion over 10 years.
 - This tax increase will almost surely be passed on to consumers in higher prices.

- **Terrorism Risk Insurance Revision and Extension Act (H.R. 2761) (House-passed)**
 - Increases mandatory spending by an estimated \$10.4 billion over 10 years, by promising to cover losses from a catastrophic terrorist attack during that time – and the cost could run even higher if an attack were worse than estimated.
 - *Hides the true costs of the bill* by pretending the government does not have to cover such losses unless a *second bill* is passed by a future Congress.

- **SCHIP Reauthorization (expected House-Senate agreement)**
 - Increases mandatory spending by \$110 billion over 10 years, and raises taxes by about \$70 billion (based on available information). The agreement is expected deliberately to understate its true cost by dramatically increasing Federal funding to enroll new children in SCHIP for the next 5 years, and then – *six months into 2012* – abruptly *slashing SCHIP funding by 80 percent*.
 - Masks the two likely outcomes of the bill’s PAYGO charade. The measure will either: 1) cost \$110 billion – *\$40 billion more than the Majority admits*; or 2) draw millions of children into the SCHIP program (many of whom already have health insurance today), and then *yank the rug out from under them*, forcing these children into Medicaid.

Table 1: The Democrats’ Use of PAYGO

	Spending Increase ^a	Gimmicks	Fee Increase	Tax Increase
Higher Education Reconciliation	At least \$48 billion	At least \$15 billion	N/A	N/A
Farm Bill Reauthorization	\$18.8 billion	\$5.2 billion	\$6.1 billion ^b	\$7.5 billion
Energy Policy Legislation	\$7.6 billion	About \$5.8 billion	\$7.6 billion ^b	N/A
Energy Tax Legislation	N/A	N/A	N/A	Over \$15 billion
Terrorism Risk Insurance	\$10.4 billion	\$8.4 billion	\$2.0 billion	N/A
SCHIP Reauthorization	About \$110 billion	About \$40 billion	N/A	About \$70 billion

^a Reflects increase in gross spending.

^b Recycled fees are counted in both the Energy Policy Legislation and the Energy Tax Legislation.

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