

**THE COMMITTEE ON THE BUDGET**

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**DEFINING ‘DISCIPLINE’ DOWN  
 THE TRUTH ABOUT THE DEMOCRATS’ PAYGO**

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Leaders of the House Democratic Majority continue to boast of the alleged prudence exercised under their pay-as-you-go [PAYGO] budget rule. But in fact, the rule has only led to exactly what Republicans predicted: higher spending, higher taxes, and budgetary sleights-of-hand. *In fact, at least 73 percent of the Majority’s major spending increases are “paid for” with gimmicks, fees, or tax increases.* Here is an updated review of how the Democrats have circumvented their own PAYGO rule and used it to increase taxes – rather than offsetting new spending with real savings elsewhere in the budget – all under the guise of “fiscal discipline.”

- **SCHIP Reauthorization (H.R. 976, House-Senate agreement)**
  - Increases mandatory spending by \$113 billion over 10 years, with \$71 billion “paid for” by tax increases, and virtually all the rest by a massive gimmick.
  - Deliberately understates the measure’s true cost with *a steep funding cliff*. It dramatically increases Federal SCHIP enrollment funding for the next 5 years, and then – *six months into 2012* – abruptly *slashes SCHIP funding by 72 percent*.
  - Masks the two likely outcomes of this PAYGO charade. It will either: 1) cost \$113 billion – *\$41 billion more than the Majority admits*; or 2) draw millions of children into SCHIP (many of whom already have health insurance), and then *yank the rug out from under them*, forcing these children into Medicaid.
  
- **Farm Bill Reauthorization (H.R. 2419, House-passed)**
  - Increases mandatory spending by a total of \$29 billion over 10 years, with 65 percent of it financed by gimmicks, taxes, or fees.
  - Relies on multiple gimmicks to “comply” with PAYGO. These include delays in farm and crop insurance payments, and accelerated collection of existing premiums. These two gimmicks result in \$4.8 billion worth of illusory savings in the 10-year budget window.
  - Directs the Congressional Budget Office [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 – most of which are recycled in the Energy Policy Bill (see below).

- **Higher Education Reconciliation (H.R. 2669, Conference Report)**
  - Increases mandatory spending by at least \$60 billion over 10 years, with at least 25 percent of the offsets coming from a PAYGO scam.
  - Achieves artificial PAYGO “compliance” by claiming to sunset certain provisions, including new entitlements, within 5 years, instead of offsetting the full cost of the bill with real savings.
  - 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.
  - Will cost an additional \$15 billion over the next 10 years if these phony offsets are excluded, according to CBO – and other estimates put the figure as high as \$30 billion.
  
- **Energy Policy Legislation (H.R. 3221, House-passed)**
  - Increases mandatory spending by \$7.6 billion over 10 years.
  - Achieves PAYGO “compliance” by recycling fees already used in the Farm Bill reauthorization (see above). Without these fees, the bill would violate PAYGO by about \$5.8 billion over the next 10 years.
  
- **Other PAYGO Gimmicks, Tax Increases, and Fees**
  - *Energy Tax Bill (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 the form of 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, to cover losses from a catastrophic attack (and the cost could run even higher if an attack were worse than estimated). It then masks these costs by requiring Congress to pass a second bill if an attack actually occurs. The Majority will then designate this second bill an “emergency,” so they do not have to pay for it.

**Table 1: The Democrats’ Use of PAYGO**

	Spending Increase <sup>a</sup>	Gimmicks	Fee Increase	Tax Increase
SCHIP Reauthorization	\$113 billion	\$41 billion	N/A	\$71 billion
Farm Bill Reauthorization	\$29.0 billion	\$5.2 billion	\$6.1 billion <sup>b</sup>	\$7.5 billion
Higher Education Reconciliation	At least \$60 billion	At least \$15 billion	N/A	N/A
Energy Policy Legislation	\$7.6 billion	About \$5.8 billion	\$7.6 billion <sup>b</sup>	N/A

<sup>a</sup> Reflects increase in gross spending.  
<sup>b</sup> Recycled fees are counted in both the Energy Policy Legislation and the Farm Bill.