CBO STAFF MEMORANDUM

PAY-AS-YOU-GO BUDGETING

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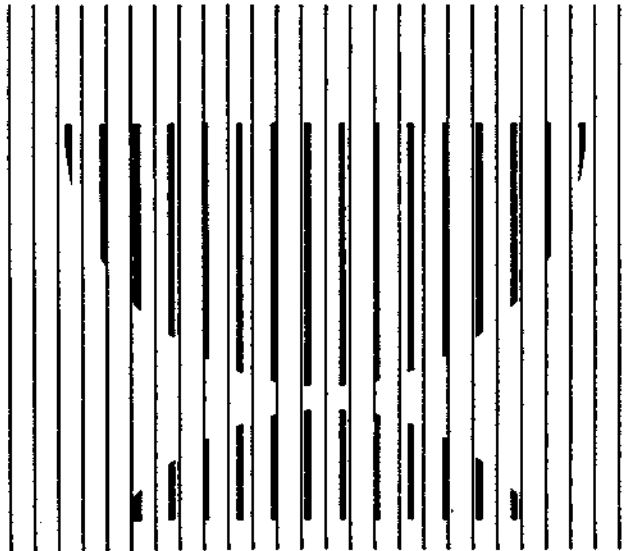

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This Congressional Budget Office Staff Memorandum describes and analyzes a proposed budget process reform: pay-as-you-go budgeting. It was prepared by Roy T. Meyers of the Budget Analysis Division under the supervision of Marvin Phaup. Questions regarding the memorandum should be addressed to Roy T. Meyers at 226-2837.

PAY-AS-YOU-GO BUDGETING

The budgeting concept of "pay-as-you-go" is inherently attractive to those who are frustrated by high levels of government borrowing. To some, the concept implies a willingness to raise sufficient revenues to pay for spending, rather than to borrow. Yet, the practical meaning of pay-as-you-go has differed within government. In a number of state and local governments, pay-as-you-go has described a policy where proposed capital spending is not adopted, if financed with credit, but is deferred until enough cash exists to pay for the spending. In the federal government, pay-as-you-go has traditionally described the rolling finances of Social Security and retirement benefit programs, where benefits based on past earnings are funded from current tax receipts.

A quite different pay-as-you-go concept has been suggested as a partial alternative to current procedures for reducing the federal deficit. Any proposed legislation that, if adopted, would cause the projected deficit to increase above a deficit target would have to be "paid for" by either offsetting spending decreases or revenue increases. Proposals of this type were offered by Representative George Miller (D-CA) and other House Members from 1982 through 1984, and by Senators Dodd (D-CT) and Proxmire (D-WI) in 1985, but were not adopted. House and Senate Democrats again considered pay-as-you-go in 1989, primarily in search of a substitute for the budget targets and sequestration procedure established by the Balanced Budget Act. In 1990, Representative Leon Panetta (D-CA), the Chairman of the House Budget Committee, introduced a budget reform bill (H.R. 3929) that included pay-as-you-go provisions and repealed the main provisions of the Balanced Budget Act.

This memorandum describes the details of the Panetta bill, but it primarily addresses three issues that would be central to the consideration of any pay-as-you-go bill. First, how could a pay-as-you-go budget be defined? Second, how would setting deficit targets under the pay-as-you-go concept differ from the process established by the Balanced Budget Act? Third, how could the pay-as-you-go concept be enforced through budgetary procedures? The memorandum concludes with a general comparison of the pay-as-you-go and the Balanced Budget Act approaches.

DEFINING THE PAY-AS-YOU-GO BASE

The pay-as-you-go concept is relatively simple. A budget baseline deficit would be compared with a budget base deficit, which as a subset is different and smaller. The mathematical difference is:

the budget baseline deficit
minus
the budget base deficit
equals
the deficit reduction target.

This section describes the budget baseline concept and outlines alternative changes to the baseline that would produce different pay-as-you-go bases.

The Congressional Budget Office's (CBO's) budget baseline is a projection of federal government revenues and spending during the next five years, if current policies were continued without change.1/ In general, CBO's assumptions in constructing the baseline are consistent with those required by the Balanced Budget Act, as amended, for estimating whether sequestration should occur. Table 1 shows the baseline for fiscal years 1989 through 1995.

Changes in baseline revenues and spending are the result of forecasted changes in economic and programmatic conditions. Real economic growth, unemployment, interest rates, and inflation are the most important economic conditions. Revenue projections are especially responsive to assumptions about inflation, economic growth, and unemployment.2/ Forecasted inflation is especially important on the spending side. Programs financed through annual appropriations are assumed to receive constant real funding--that is, the base-year funding is raised by projected annual price increases.

Many direct spending programs, for which the Congress provides funding directly in substantive legislation, are also sensitive to inflation. The baseline raises base-year funding for direct spending programs with cost-of-living adjustments (COLAs) and for programs that respond automatically to cost pressures (such as Medicare and Medicaid). Assumptions about programmatic conditions also play an important role in baseline projections for direct spending programs. For example, assumed growth in the number of beneficiaries eligible for entitlement programs, such as Social Security, cause outlays to increase.

The pay-as-you-go base is a projection of spending that does not include some or all of the growth from the current year's level. Table 2 shows the components of growth in outlays from the

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1. For a detailed description of the CBO baseline, see CBO, The Economic and Budget Outlook: Fiscal Years 1991-1995 (January 1990), Appendix B. The data in this memorandum are consistent with the projections in this report.

2. See CBO, The Economic and Budget Outlook: Fiscal Years 1991-1995 (January 1990), pp. 53-58.

TABLE 1. BASELINE BUDGET PROJECTIONS AND UNDERLYING ASSUMPTIONS

	1989	1990	1991	1992	1993	1994	1995
	Budget Projections (By fiscal year)[a]						
	In billions of dollars						
Revenues	991	1,067	1,137	1,204	1,277	1,355	1,438
Outlays	1,143	1,205	1,275	1,339	1,418	1,484	1,555
Deficit	152	138	138	135	141	130	118
Deficit Targets[b]	136	100	64	28	0	b	b
	As a percentage of gross national product						
Revenues	19.2	19.6	19.6	19.5	19.4	19.3	19.3
Outlays	22.2	22.1	22.0	21.7	21.5	21.2	20.8
Deficit	2.9	2.5	2.4	2.2	2.1	1.8	1.6
	Economic Assumptions (By calendar year)						
GNP (Billions of current dollars)	5,235	5,534	5,893	6,279	6,688	7,121	7,579
Real GNP Growth (Percentage change)	2.9	1.7	2.4	2.5	2.5	2.4	2.4
Implicit GNP Deflator (Percentage change)	4.2	4.0	4.0	4.0	4.0	4.0	4.0
Fixed-Weighted GNP Price Index (Percentage change)	4.5	4.1	4.3	4.3	4.3	4.3	4.3
CPI-U (Percentage change)[c]	4.8	4.0	4.3	4.3	4.3	4.3	4.3
Civilian Unemployment Rate (Percent)	5.3	5.6	5.5	5.5	5.5	5.5	5.5
Three-Month Treasury Bill Rate (Percent)	8.1	6.9	7.2	6.9	6.5	6.1	5.8
Ten-Year Government Note Rate (Percent)	8.5	7.8	7.7	7.6	7.5	7.4	7.3

SOURCE: Congressional Budget Office.

a. The budget figures include Social Security, which is off-budget but is counted for purposes of the Balanced Budget Act targets. For comparability with the targets, the projections exclude the Postal Service, which is also off-budget.

b. The Balanced Budget Act established targets for 1988 through 1993.

c. CPI-U is the consumer price index for all urban consumers.

TABLE 2 COMPONENTS OF CBO BASELINE SPENDING PROJECTIONS (By fiscal year, in billions of dollars)

	1991	1992	1993	1994	1995
1990 Level	1,205	1,205	1,205	1,205	1,205
Current Law Increases					
COLAs for entitlement programs[a]	10	25	41	57	74
Increases in price of medical care[a]	4	9	16	24	32
Increases in entitlement program caseloads	7	14	22	30	40
Increases in use of medical care[b]	11	23	36	48	61
Rising benefits for new Social Security beneficiaries[b]	6	10	13	16	20
Expected changes in offsetting receipts	c	-3	-6	-9	-12
Increased interest costs	6	12	20	25	29
Other	14	15	22	16	13
Subtotal	59	105	164	209	257
Inflation Adjustments to Maintain Real Spending for Discretionary Programs					
Defense purchases	3	9	16	24	32
Defense pay	3	8	12	17	22
Nondefense purchases	3	8	15	22	29
Nondefense pay	1	3	5	7	9
Subtotal	11	28	48	70	93
Total Increases	70	134	212	279	350
CBO Baseline	1,275	1,339	1,418	1,484	1,555

SOURCE: Congressional Budget Office.

a. Represents program growth that could be eliminated by freezing cost-of-living adjustments and certain medical reimbursement rates.

b. All growth not explained by increases in caseloads and prices.

c. Less than $500 million.

current level in fiscal year 1990 to the baseline projection in future years.3/ These components can be "mixed and matched" to develop alternative pay-as-you-go bases. The following three pay-as-you-go bases illustrate possible options: noninflation-adjustment, current level, and discretionary outlay freeze. Consistent with H.R. 3929, all three options have defined the pay-as-you-go revenue base as equal to the revenue baseline, even though the revenue baseline includes increases from the current year's level of revenues. In general, suggested pay-as-you-go bases have been designed to produce deficit targets of preferred sizes; they often make arbitrary distinctions between spending that would be included in the base and spending that would be optional.

The first and most commonly discussed pay-as-you-go base would assume no inflation adjustments to programs. Specifically, this base assumes that COLAs would not be provided to entitlement programs, reimbursement levels for medical services would not be increased, and inflation adjustments would not be provided to discretionary programs. Table 3 shows this "noninflation-adjustment" pay-as-you-go base, which implies a deficit of $112 billion in fiscal year 1991.4/ This pay-as-you-go deficit target for fiscal year 1991 would be $48 billion higher than the Balanced Budget Act target for that year.

The second and most stringent pay-as-you-go base would strip almost all sources of growth out of the baseline. It would assume that COLAs and inflation adjustments for discretionary appropriations would be denied, and that spending growth from increases in beneficiaries of entitlements and in their use of government programs would also not be permitted. This version would make the pay-as-you-go base roughly equivalent to projected current year spending.5/ Table 3 shows this "current level" pay-as-you-go base, which implies a deficit of $72 billion in fiscal year 1991. The pay-as-you-go deficit target for fiscal year 1991 would be $8 billion higher than the Balanced Budget Act target for that year.

A third pay-as-you-go base would be less demanding, with only discretionary programs assumed to be frozen at their current outlay levels. This base would permit spending to increase for entitlements and other mandatory programs. Table 3 shows this "discretionary outlay freeze" pay-as-you-go base, which implies a

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3. The "current level" is an estimate of outlays for the current fiscal year, based only upon enacted law.

4. The three projected bases adjust for the effect of lower spending on net interest outlays.

5. The only increases above current levels allowed for are for interest costs.

TABLE 3. Alternative "Pay As You Go" Bases and Deficit Targets (by fiscal year, in billions of dollars)

	1991	1992	1993	1994	1995
Revenue Baseline	1,137	1,204	1,277	1,355	1,438
Noninflation-Adjustment Outlay Base	1,249	1,273	1,302	1,312	1,319
Current Level Outlay Base	1,209	1,207	1,203	1,189	1,170
Discretionary Freeze Outlay Base	1,264	1,309	1,365	1,404	1,446
Noninflation-Adjustment Deficit Targets	112	69	25	-43	-119
Current Level Deficit Targets	72	3	-74	-166	-268
Discretionary Freeze Deficit Targets	127	105	88	49	8
Balanced Budget Act Deficit Targets	64	28	0	a	a

SOURCE: Congressional Budget Office.

a. The Balanced Budget Act established targets only through 1993.

deficit of $127 billion in fiscal year 1991. The pay-as-you-go deficit target for fiscal year 1991 would be $63 billion higher than the Balanced Budget Act target for that year.

The pay-as-you-go base in the Panetta bill, H.R. 3929, is a "noninflation-adjustment" base with the important exception that COLAs would be included for the two Social Security trust funds (the Old Age and Survivors Insurance Trust Fund and the Disability Insurance Trust Fund). The COLAs for these funds constitute 70 percent of the COLA growth for entitlement programs and 50 percent of the inflationary growth in direct spending programs.

SETTING DEFICIT REDUCTION TARGETS

Although proponents of pay-as-you-go would like to repeal the Balanced Budget Act, they have provided a substitute that resembles the Balanced Budget Act in some respects. The Balanced Budget Act and pay-as-you-go both plan a multiyear series of deficit reductions, rather than waiting for each year's budget resolution to determine how much the deficit should be reduced.

The Balanced Budget Act formula set declining annual deficit targets over five years toward the goal of a balanced budget. The required deficit reductions under this process are a function of the extent to which the baseline exceeds these scheduled deficits. Pay-as-you-go budgeting would not establish specific deficit targets in advance; instead, it would make such targets a function of the annual growth in revenues and in the pay-as-you-go spending base. Deficit reduction targets would be the annual differences between the pay-as-you-go base and the budget baseline.6/

If multiyear deficit targets are preferred, what does pay-as-you-go have over the Balanced Budget Act approach? Three suggested advantages are examined here. First, pay-as-you-go budgeting is thought to be somewhat less procyclical in effect. Second, the government might use more realistic figures with pay-as-you-go budgeting when addressing the problem of the deficit. Third, the composition of deficit reductions under pay-as-you-go budgeting could be different than under the Balanced Budget Act.

Procyclical Effects

As economic growth slows, the government's revenue decreases and its spending increases. CBO calculates that a real growth rate one percentage point less than currently forecast would cause revenues to decline by $23 billion and outlays to increase by $4

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6. H.R. 3929 would require an additional $10 billion of deficit reduction annually in 1991, 1992, and 1993.

billion for fiscal year 1991.7/ Under the Balanced Budget Act, slower growth could require that the government make larger deficit reductions than were expected at the beginning of the year, if the downturn occurs between the submission of the President's budget and the economic forecast in July on which sequestration would be based. The Balanced Budget Act's deficit targets would remain unchanged even if the government's projected baseline deficit increased.

Pay-as-you-go budgeting could also require larger deficit reductions than expected if a downturn occurs in this period, but the increase would be much larger under the Balanced Budget Act. Under pay-as-you-go, deficit targets would grow only to the extent that baseline spending rose further above the base (the previous year's spending). Unlike the Balanced Budget Act, revenue declines would not produce a requirement for additional deficit reductions. And, if direct spending bills were enacted before a downturn in economic conditions was recognized, they could escape the pay-as-you-go requirement.

This difference is not that meaningful. The Balanced Budget Act includes a provision that requires the Congress to vote on whether to cancel a sequestration or not, if one of two low economic growth "triggers" are activated.8/ This provision could mitigate the potentially greater procyclical effect of the Balanced Budget Act, if a recession occurs or were projected. More importantly, the Balanced Budget Act would not require additional deficit reductions if economic growth declines unexpectedly after the July forecast.

Budgetary Realism

Pay-as-you-go budgeting would still set smaller deficit reduction targets than those currently in place for the near term, assuming the "current level" pay-as-you-go base is not selected. These targets could be preferred for several reasons. First, smaller deficit reduction targets would require those in government to make fewer difficult decisions. Second, if pay-as-you-go targets are perceived as "reasonable," the government may be able to confront the deficit problem directly.

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7. The Economic and Budget Outlook: Fiscal Years 1991-1995 (January 1990), p. 55. This assumes that growth slows beginning in January 1, 1990.

8. The triggers are (1) two quarters of less than one percent of real economic growth, and (2) a forecast of two quarters of negative real growth. See CBO, The Economic and Budget Outlook: Fiscal Years 1991-1995 (January 1990), p. 4.

One charge frequently raised against the Balanced Budget Act is that the deficit targets established are too ambitious. For example, the required deficit reduction for fiscal year 1991 is $74 billion (using CBO economic assumptions). Such a cut is beyond expectations given the political difficulty of making deficit reductions. A consequence of overly ambitious targets has been a tendency to use overly optimistic economic assumptions and other gimmicks to "meet" these targets. Such techniques were frequently used before the Balanced Budget Act, but this problem has probably worsened.

Participants in the deficit reduction process feel that the Balanced Budget Act's requirements are so large that even good faith efforts would fail, thus justifying unrealistic assumptions. A year or two of such stalling produces a required deficit reduction of such magnitude that changing the deficit targets is the only reasonable option. The Balanced Budget Act of 1985 set the target date for balancing the budget at fiscal year 1991, but the Balanced Budget Reaffirmation Act of 1987 slipped the target date to fiscal year 1993.

Proponents of pay-as-you-go budgeting feel that the reasonably-sized deficit reduction targets established under this approach would provide less of a justification to compromise the process. Yet, even if the justification for using unrealistic assumptions became weaker, an incentive to do so would still exist for those who would prefer to avoid difficult decisions. Pay-as-you-go is clearly not a sufficient condition for honesty in budgeting.

In addition, pay-as-you-go budgeting might make it more difficult for some to understand the long-term effect of using unrealistic assumptions (or of failing to enforce a realistic pay-as-you-go target). For example, if $20 billion of deficit reductions were required by pay-as-you-go--that is, if the baseline exceeds the budget base by $20 billion--what happens when the government does not reduce spending or increase revenues to produce the required deficit reductions? The resulting $20 billion of excess spending would then be built into the following year's budget base, and pay-as-you-go would require only that the projected growth from this higher spending base be paid for with offsetting savings. In contrast, under the Balanced Budget Act, such failures to reduce the deficit are readily apparent because the deficit targets continue to decline.

The Composition of Deficit Reductions

Pay-as-you-go budgeting could cause the composition of deficit reductions to change from that required under the Balanced Budget Act. If appropriations and reconciliation legislation did not produce sufficient savings to meet the deficit target,

sequestration under this act determines how programs will be cut. The reductions are equally divided between defense and nondefense spending. Sequestration excludes most direct spending and prior-year obligations from coverage, applies special rules to the reduction of spending in some programs (primarily health spending), and then makes proportional reductions in the remaining spending. Using CBO assumptions, 35.3 percent of 1991 budget baseline outlays would be subject to sequestration, with discretionary appropriations providing over 95 percent of the savings.

In contrast, if pay-as-you-go budgeting used the "noninflation-adjustment" base, and this base was enacted into law, the relative contribution of discretionary appropriation accounts to savings would be cut to less than one-half of the total. The remainder of the savings would result from not providing inflation adjustments for direct spending programs.

This difference between pay-as-you-go budgeting and the Balanced Budget Act is probably overstated. The threat of sequestration would likely cause the government, as it has in the past, to produce some deficit reductions through cuts in direct spending and revenue increases, which would reduce the burden on discretionary appropriations. In a similar fashion, the pay-as-you-go base would probably not be enacted into law without modification.

In addition, pay-as-you-go is at an earlier stage of legislative development than the Balanced Budget Act. The original version of the Balanced Budget Act was as broad in coverage as pay-as-you-go, but advocates for some targeted programs successfully lobbied for exemptions from sequestration. For example, low-income programs were exempted before its enactment, and spending by regulators of depository institutions and for COLAs were exempted through subsequent revisions to the act. The original breadth of the pay-as-you-go concept could be similarly limited as it moves through the legislative process. Under H.R. 3929, for example, Social Security COLAs are built into the base, but other COLAs are not. The protection for Social Security provides a rationale to press for other inclusions as well.

The other possible effect of pay-as-you-go budgeting on the composition of deficit reductions is that emphasis could be shifted away from spending reductions to a balanced consideration of spending and taxing. This effect would be partially rhetorical. If spending increases "must be paid for," proponents of these increases would have a better justification for suggesting new revenues. Some proponents of pay-as-you-go also hope that new procedures would be established to make tax increases and offsetting spending cuts more likely.

The reach of sequestration could be similarly modified to include revenue increases. For example, draft legislation has been

circulated in which one-half of the required deficit reduction would come from sequestration and the other half from an automatic surtax on individual income and corporate profits taxes. Another approach has been suggested by William Niskanen, former chair of the Council of Economic Advisers. He has proposed that sequestration be replaced with a surtax on income taxes, if outlays from new legislation cause target outlays to be exceeded.9/

PROCEDURES FOR ENFORCING PAY-AS-YOU-GO

Pay-as-you-go proponents have not discussed enforcement at much length. Perhaps this is in part because of an assumption that existing budget procedures could be modified to make pay-as-you-go workable.10/ This view is not unreasonable for certain existing budget procedures follow the principle that proposed spending must be deficit-neutral. In the House, legislation is subject to a point of order when a committee's allocation for new budget authority and entitlement authority would be exceeded and cause the aggregate budget authority ceiling to be violated. In the Senate, any legislation that would cause a committee's allocation of new budget authority or outlays to be exceeded is subject to a point of order. These prohibitions force committees that wish to spend above their allocations to either find offsetting cuts or convince the House or Senate to waive the rules.

This section describes various enforcement procedures that could be used to convert the concept that deficit increases "must be paid for" into a workable process. It begins with the predominant "macro" model of pay-as-you-go, which emphasizes making tradeoffs in the budget resolution and the reconciliation process. It then turns to a "micro" model of pay-as-you-go, which requires that spending above a committee's base be simultaneously offset with savings from other committees, without relying on the budget resolution to structure these tradeoffs. The macro and micro models of pay-as-you-go budgeting create different enforcement problems.

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9. This procedure could be labeled "Pay After You Went." See National Economic Commission, Staff Papers, Background Papers, and Major Testimony (March 1989), pp. 453-4.

10. The enforcement provisions in H.R. 3929 are as follows: It requires that the President's budget meet the "pay as you go" budget targets, including a specification of programs that would receive spending increases and the sources of funds for these increases (offsetting spending reductions and/or revenue increases), and it also creates a point of order against considering bills that if adopted would cause the deficit to exceed the "pay as you go" deficit.

Macro Pay-As-You-Go Enforcement Procedures

In the macro model of pay-as-you-go, the budget resolution would determine which committees would be granted the authority to spend above the base and which committees would be directed to cut spending below the base and/or to raise new revenues to pay for this spending. The enforcement problem is how to ensure that the latter committees will comply with the budget resolution's expectations. Existing budget procedures would be adequate for the task if the Appropriations Committees were the sole source of this financing, because the Committees' allocations could be reduced below the base for their programs. For other sources of financing--cuts in direct spending or new revenues--existing budget procedures might not be sufficient.

The only way to limit growth in direct spending programs is to change existing law; this is typically done through the reconciliation process. For example, under the "noninflation-adjustment" option, the relevant committees could be directed by the budget resolution to report legislation that would save amounts equivalent to what would be saved from cancelling COLAs and other automatic price adjustments.11/ But reconciliation instructions have traditionally not specified the source of savings, meaning that committees would be free to substitute savings from other sources to prevent the cancellation of inflation adjustments. The committees would probably be motivated to do so, given the political support for COLAs in entitlement programs. Yet, the composition of the pay-as-you-go base could create a strong presumption that the inflation adjustments should be cancelled. The conflict created in this situation might make it less likely that reconciliation would be a sufficient mechanism to convert the pay-as-you-go base into law. Reconciliation directives are not binding in the sense that a failure of a committee to respond leads to the immediate imposition of a penalty on the committee; reconciliation instructions have often not been met in amount or on time, most recently in 1989. The result was sequestration, which penalized primarily appropriated programs for the failure of authorizing committees to reduce direct spending.

How could the government make it more likely that the savings intended to finance pay-as-you-go increases be produced? One approach would be to comprehensively revise substantive law when pay-as-you-go budgeting is adopted, which would eliminate automatic spending increases. Programs that under current law pay COLAs would be "deindexed." The government could still increase spending for these programs annually but only by taking positive actions.

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11. Changes in existing law would need to be quite radical for the "current level" base. Benefit payment levels would have to be reduced to provide the funds to pay benefits to newly eligible beneficiaries, if the total population increases.

One method of financing COLAs under this approach would be by requiring discretionary appropriations for permanently authorized COLAs. Alternatively, annual authorizing legislation could also be required to adjust benefit levels for increases in the cost of living, as done in the veterans compensation program. The other mandatory spending increases, which are typically driven by changes in the number of beneficiaries or changes in their use of services, would probably have to be controlled by granting agency administrators the authority to reduce benefit levels or to ration services.

The history of the indexation of government programs suggests that it is unlikely that the government would abandon indexing wholesale.12/ An alternative approach to the enforcement problem would make enactment of spending increases and revenue decreases contingent on the availability of "surplus funds." Surplus funds would be created by legislative action and would represent revenue increases above the baseline and savings from the spending base.

One mechanism for holding deficit-increasing legislation until the generation of surplus funds would be deferred enrollment. Enrollment is the process by which a bill passed in identical form by both the House and the Senate is printed on special parchment paper before it is sent to the President for approval or veto. Section 301(b)(3) of the Congressional Budget Act permits the budget resolution to establish a procedure for deferring the enrollment of bills providing increases in spending until the resolution's reconciliation instructions are met.13/

Another mechanism for enforcement would be to have the budget resolution identify the deficit-increasing legislation that would be contingent on the availability of surplus funds. A similar approach was used during fiscal year 1987, when the budget resolution established a procedure for increasing committee budget allocations by a limited amount if the President and the Congress agreed on the need for additional spending and financed it with

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12. See R. Kent Weaver, Automatic Government: The Politics of Indexation (Washington, D.C.: Brookings, 1988).

13. This procedure has never been used in this form, although a modified form of deferred enrollment has been used to threaten committees with a penalty should they exceed their committee allocations. See Committee on Rules, House of Representatives, Issue Presentations Before the Rules Committee Task Force on the Budget Process (October 1984), pp. 138-9, 184-5.

offsetting savings.14/

If surplus funds were insufficient to finance all of the desired deficit-increasing actions, which deficit-increasing actions would be approved and which would not? The Congress could anticipate this problem by ranking actions beforehand or by allowing proportional increases above the base for all the actions. Alternatively, the Congress could enact a bill that would make specific changes to the bills that had already passed so that the pay-as-you-go deficit target would be met. This is similar to the intended purpose of the reconciliation process when the Congressional Budget Act was enacted. This approach would require the Congressional leadership and the Budget Committees to broker a package in which bills that had completed almost all of the stages of the legislative process would be amended.

A third enforcement mechanism would deemphasize the sequential budget resolution and reconciliation procedure and rely on an omnibus budget bill--one that included all appropriations, direct spending legislation, and revenue legislation. This procedure would implicitly allocate surplus funds by simultaneously considering tradeoffs between proposed spending increases, spending cuts, and revenue increases. Representatives Obey and Gephardt advocated using such an omnibus procedure in the early 1980s.15/ Passage of an omnibus budget bill could be subject to a point of order that would require the projected deficit after passage to be no larger than the pay-as-you-go deficit target.

Using an omnibus budget bill would be a high-risk, high-return approach. On the one hand, the high risk is that it would slow up passage of portions of the budget because agreement would have to be reached on all controversial issues before the omnibus budget bill could pass. The number of controversial issues likely to be considered would be large, as the omnibus bill would be the major "must-pass" legislative vehicle of each session. This burden could ensure that the Congress would have to rely on short-term continuing resolutions until a budget was enacted. The Congressional leadership and the Budget Committees would have to be given the authority to structure consideration of an omnibus budget bill in order to minimize the chances of such delays.

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14. See Section 3 of the resolution. The conference report was House Report 99-664, September 26, 1986. This procedure was not used.

15. See H. Res. 213, introduced in the 98th Congress on May 25, 1983. The Congress has relied on omnibus appropriation bills with increasing frequency in the 1980s. See Allen Schick, "The Whole and the Parts: Piecemeal and Integrated Approaches to Congressional Budgeting," House Budget Committee, Serial CP-3 (February 1987), p. 44.

On the other hand, the high return is that an omnibus budget bill would simplify enforcement of pay-as-you-go budgeting. It would probably also stimulate more Presidential involvement in reaching a broad agreement on budget policy. As a result, an omnibus budget bill might also strengthen the President's desire to obtain the item veto and the willingness of Members of Congress to grant this power.

Micro Pay-As-You-Go Enforcement Procedures

In the "micro" model of pay-as-you-go budgeting, coordination through the budget resolution and associated enforcement procedures would be deemphasized. Instead, the pay-as-you-go concept would be applied at the committee level. A committee intending to propose a spending increase above the pay-as-you-go base for the programs within its jurisdiction would simultaneously have to finance the increase from one of two sources--either an offsetting cut for a program within another committee's jurisdiction, or a revenue increase. This approach would currently be unworkable. Numerous House and Senate rules about referring bills to committees and floor consideration of bills and amendments would be substantial barriers for most committees seeking to use either option. The major exceptions would be the House Ways and Means and the Senate Finance Committees, which have jurisdiction for about 90 percent of direct spending outlays as well as for all revenues. These committees could dedicate revenue increases to finance spending increases for programs within their jurisdiction.

One option for overcoming this problem would be to relax the rules that protect committees from raids on programs within their jurisdiction. A spending committee could be given the right to draft legislation that would raise revenues or cut spending in programs not in its jurisdiction. This legislation could then be sequentially referred to the affected committees, which would have the right to propose modifications to the legislation before being automatically discharged after a specific time from considering it. Such an approach would be a radical departure from tradition. Committees view control over their legislative agendas as the main source of their power. Though there are numerous examples of committees writing legislation for areas that other committees consider to be their responsibility, these occasions have often created conflicts only resolved after difficult committee-to-committee bargaining sessions and heavy leadership involvement.

If increased conflict were judged to be an acceptable cost, however, the leadership would also have to solve a queueing problem to make the micro version of pay-as-you-go workable. The requirement that committees finance spending increases with surplus funds would create an incentive for committees to rapidly report legislation in order to access potentially available surplus funds before other committees. On the one hand, its advantage would be

the committees' incentive to pass budget legislation earlier rather than later. On the other hand, committees could plan to offset spending increases with specific surplus funds, only to find that other committees accessed these funds beforehand. This result would require the slower committees to return to the mark-up stage and to find new financing. In addition, this approach would penalize committees that had to report late for technical reasons, such as delayed authorizations.

SUBSTITUTING PAY-AS-YOU-GO FOR THE BALANCED BUDGET ACT

Pay-as-you-go budgeting is intended to serve as a substitute for the Balanced Budget Act; consequently, a comparison of the two processes is appropriate to conclude. When the Balanced Budget Act was adopted, it made two significant changes to the Congressional Budget Act: the establishment of multiyear deficit targets, and the creation of sequestration as a penalty for failing to meet these targets in the regular process. What would be the impact of using pay-as-you-go budgeting instead to set multiyear targets and to force action on the deficit?

Pay-as-you-go budgeting could lead to a different composition of deficit reductions with more cuts in direct spending and more revenue increases. These effects are uncertain, in part, because the legislation is in an early stage of development. The Panetta bill makes only one exception--Social Security--to the "noninflation-adjustment" base, but pressure to add other exceptions is likely. Such exceptions are endemic to formula budgeting approaches. Contrary to the perception that formula budgeting is mechanical, almost any formula approach can be challenged for a failure to treat programs equitably. For example, under the "noninflation-adjustment" base, spending growth for entitlement programs due to an increased number of eligible beneficiaries would not be required to find offsetting spending cuts or new revenues, whereas any increased demand for programs funded by discretionary appropriations would have to be financed by deficit-neutral means. Because of the variety of ways programs operate and because of political considerations, formula approaches like pay-as-you-go tend to progress from the simple to the complex.

Pay-as-you-go budgeting would also produce higher deficit targets for the near term compared with the Balanced Budget Act. This result would be by design, as various pay-as-you-go bases would be evaluated not only for their suggested composition of deficit reductions but also for the magnitude of deficit reductions required. Setting new deficit targets higher than the Balanced Budget Act does could increase the likelihood that deficit targets would be met. This belief, however, suggests that the Congressional Budget Act's procedure for choosing deficit targets each year would be preferable to locking in deficit targets with either pay-as-you-go budgeting or the Balanced Budget Act.

How do the procedures in pay-as-you-go and the Balanced Budget Act compare as stimulants to reduce the deficit? The Balanced Budget Act makes the size and distribution of the penalty for not reducing the deficit relatively clear months in advance. The hope was that the penalty would be undesirable enough to force action (the indiscriminate cuts at the program, project, and activity level) but also not foolish enough to make it unlikely (the exclusion from sequestration of legal obligations to spend, and the flexibility in sequestration of defense programs). Sequestration would threaten the interests of enough participants so that strong efforts would be made to avoid it. If their efforts were unsuccessful, then sequestration would at least produce some savings.

Observers of federal budgeting differ on the continued desirability of sequestration, but all agree that the penalty of sequestration has not had all of the intended effects. In some years, the expected sequestration was so large that it ceased being an effective threat. In other years, participants in the process have compared the projected impacts on their favored programs from sequestration with the regular legislative process and decided that sequestration is preferable. In addition, the rule for calculating a sequestration creates an incentive to delay passage of bills until after sequestration occurs.16/

Rather than keeping a penalty at the end of the process, pay-as-you-go budgeting would shift the penalty for not reducing the deficit to an earlier stage in the process. In doing so, the budget process is simplified, at least to the extent that there is one fewer stage. The trend has been in the opposite direction. The Congressional Budget Act grafted the budget resolution and the reconciliation process onto the existing appropriations and authorizations processes, and the Balanced Budget Act added sequestration.

For pay-as-you-go budgeting to create an effective penalty, however, enforcement procedures would have to prevent committees from approving deficit-increasing legislation unless other committees produced offsetting savings. If substantial deficit reductions are assumed to result from savings in direct spending programs or from tax increases, the current reconciliation procedure might not be sufficient to produce these expected savings. Wholesale deindexation and a committee-against-committee pay-as-you-go process are not likely to be acceptable. The most plausible options for making enactment of deficit-increasing legislation contingent on offsetting savings are deferred enrollment, a reserve fund, or an omnibus budget bill. All of

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16. See Committee on the Budget, House of Representatives, President Bush's Fiscal Year 1991 Budget (Committee Print, February 2, 1990), pp.113-119.

these approaches would make significant changes in the distribution of budgetary responsibilities within the Congress, and the omnibus budget bill would intensify negotiations between the Congress and the President over budgetary policy.