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## **Democrats Restore Fiscal Responsibility: The Pay-as-you-go Rule and the 110<sup>th</sup> Congress**

### **Overview**

The 110<sup>th</sup> Congress has built a clear record of fiscal responsibility, in stark contrast to the fiscal mismanagement and deterioration of the budget overseen by the Bush Administration and his party in Congress.

In 2001, this Administration inherited a projected budget surplus of \$5.6 trillion over ten years (2002-2011). After six years during which Republicans controlled both Congress and Administration, that surplus was transformed into a budget deficit of more than \$2 trillion over the same ten-year period. A significant portion of the deterioration happened because they passed large tax cuts and increased mandatory spending without offsetting the cost. They also repeatedly misused the fast-track reconciliation process to pass legislation that made the deficit worse, not better.

“Most troubling to me was the readiness of both [the prior] Congress and the [Bush] administration to abandon fiscal discipline... ‘Deficits don’t matter,’ to my chagrin, became part of Republicans’ rhetoric.” *Alan Greenspan, “The Age of Turbulence: Adventures in a New World.”*

In contrast, this year the 110<sup>th</sup> Congress has already taken three major steps to restore fiscal responsibility. First, the House instituted a tough pay-as-you-go rule requiring all new net mandatory spending and revenue reductions to be offset. And the House has steadfastly enforced the pay-as-you-go rule on every bill that it considered, despite initial skepticism that such discipline could be maintained.

Second, Congressional Democrats passed a budget resolution that returns the budget to balance by 2012. The President has threatened to veto most domestic spending bills because they include \$23 billion more than he requested to meet pressing needs here at home. He fails to point out that his budget is lower because it deeply cuts education, job training, crime prevention, health care, and other domestic services. The Congressional budget resolution and domestic appropriations bills increase funds for these needs by a modest one percent relative to the level needed to keep pace with inflation, or \$5 billion.

Third, the House passed a rule this January prohibiting fast-track reconciliation procedures from being used for bills that make the deficit worse. During the prior 12 years, prior Congresses abused the reconciliation process, using it primarily to speed enactment of large tax cuts rather than for legislation that reduced the deficit.

## Rigorous Pay-as-you-go Compliance this Year

"I've actually been pleasantly surprised by the extent to which they've sustained the discipline."  
*Robert Reischauer, president of the Urban Institute and former director of CBO, Washington Post, 8/2/07*

Every single one of the approximately 360 bills that the House has voted to pass this year has complied with the pay-as-you-go rule. Said differently, all House-passed bills with any mandatory spending or revenue impact have been deficit-neutral.

Approximately 30 bills have required pay-as-you-go offsets of \$1 million or more, and numerous other bills with smaller pay-as-you-go costs have been offset

dollar for dollar in order to reallocate spending to higher priority areas without making the deficit worse. In fact, the House has required pay-as-you-go offsets for even the most minimal direct spending or revenue effects. It also included significant spending cut offsets in the Farm Bill (H.R. 2419), in the College Cost Reduction and Access Act (H.R. 2669), and in the Children's Health and Medicare Protection (CHAMP) Act (H.R. 3162), which included gross mandatory spending cuts of \$70.7 billion by 2012.<sup>1</sup> (The Appendix lists bills that the House has passed this year with pay-as-you-go offsets of more than \$1 million.)

Living by this new pay-as-you-go rule has required Congress to balance its priorities while balancing the budget, and to take responsibility for its actions now and not pass along the cost to our children and grandchildren. The House has made tough choices to cut lower priority spending to afford appropriate funding for higher priority services.

"Instead of promising more unaffordable tax cuts that go mainly to the richest Americans, as their Republican counterparts have done for the past six years, key Democrats are imposing some real spending discipline on themselves."  
*David Broder, Washington Post, 4/15/07*

Strict adherence to the new pay-as-you-go rule is helping Congress to dig out of the deficit ditch created over the last six years when this Administration and prior Congresses did not offset trillions of dollars of tax cuts and new mandatory spending. In that period they took the government from hard-earned surplus to long-term deficit, squandering projected surpluses by passing unaffordable tax cuts and dramatically increasing entitlement spending without offsetting the costs. Now, when they are no longer in power, the minority party is objecting to new mandatory spending even when it is offset by other spending cuts.

## Pay-as-you-go Principle Enjoyed Bipartisan Support until 2001

Until 2001, the pay-as-you-go concept enjoyed a history of support from both parties. Congress enacted the 1990 Budget Enforcement Act in an effort to rein in deficits that the federal government had experienced yearly since 1970. That Act sought to control the budgetary impact of legislation through enforcement provisions that included statutory pay-as-you-go. The Act

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<sup>1</sup>Senate Republicans insisted that the conference version of the CHAMP Act exclude Medicare policy changes, particularly a provision eliminating unjustified overpayments to the Medicare Advantage program, which accounted for most of the gross mandatory spending cuts in the House bill. Consequently, the conference version of the CHAMP Act contains no spending cuts.

was passed by a Democratic Congress and signed into law by President George H.W. Bush, and then extended by a Republican Congress and signed into law by President Bill Clinton. In April 2001, President Bush supported this traditional type of effective, two-sided pay-as-you-go – affecting both entitlement spending and revenues – and included it in his first budget.

But since 2001, the President and his party have rejected the pay-as-you-go approach, letting the statutory provision expire in 2002. Democrats, however, continued to advocate for a return to the pay-as-you-go principle, which was a vital tool in ending decades of federal deficits and created a budget surplus in 1998 and the following three years. This year the House passed its pay-as-you-go rule as one of its first actions in January, and this spring the fiscal year 2008 budget resolution conference report established a similar pay-as-you-go rule in the Senate.

### **Republican Record from 2001 Onward: Not Paying-as-They-Went**

Not a single member of the minority voted for the pay-as-you-go rule (Title IV of H.Res. 6) when the House instituted it in January. And ironically, it is members of the minority who have opposed spending cuts this year. When the House passed the CHAMP Act, the minority offered a motion to recommit the bill to committee that struck all the spending cuts in the bill.<sup>2</sup> When the House passed its education reconciliation bill, the minority offered a substitute that would have cut less of the government's subsidies to student loan lenders. When the House passed the Farm Bill, the minority objected to the bill's offsets, including reductions in some agriculture spending, and even offered a motion to recommit that would have struck much of the offset without replacing it, creating a bill with a pay-as-you-go violation.

This record of opposing the pay-as-you-go principle is a continuation of past practice, when the previous three Congresses cut taxes and increased mandatory spending without offsets, squandering the hard-earned budget surplus inherited from the Clinton Administration. When President Bush took office in January 2001, the federal government projected a surplus of \$5.6 trillion over the next ten years (2002-2011). The Administration could have saved that surplus to meet the looming costs of Medicare and Social Security for the baby boom generation, or to pay for other unanticipated costs, such as the wars, increased veterans' benefits, or recovery from devastating hurricanes.

Instead, the Administration chose to cut taxes – primarily for those who least needed the help – and increase mandatory spending without offsetting the cost. According to data from the Congressional Budget Office (CBO), this Administration enacted tax cuts and entitlement increases through 2006 that made the deficit \$1.3 trillion worse over the 2001-2006 period – not including the additional interest payments on the resulting debt. In fact, CBO confirmed in July that the cost of the tax cuts in just 2007 is greater than the deficit for this year.<sup>3</sup> In other words, the federal budget would be in surplus this year were it not for the 2001 and 2003 tax cuts.

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<sup>2</sup>Motion to recommit, 110th Congress, 1st session, H.R. 3162, (Congressional Record 8/1/07), H9499-9500.

<sup>3</sup>Peter Orszag, The Budgetary Costs of EGTRRA and JGTRRA Compared with Projected Deficits (CBO 7/20/07), 9/19/07 <[http://www.cbo.gov/ftpdocs/83xx/doc8337/07-20-EGTRRA-JGTRRA\\_and\\_Deficits.pdf](http://www.cbo.gov/ftpdocs/83xx/doc8337/07-20-EGTRRA-JGTRRA_and_Deficits.pdf)>.

In addition to cutting taxes without offsetting the lost revenue, prior Republican Congresses also enacted expensive new entitlement programs without enacting offsetting savings. For example, in 2002 Congress and the Administration enacted a farm bill that increased direct spending by \$73 billion (22 percent) over ten years without offsetting the cost. In contrast, this summer the House passed a budget-neutral farm bill that contains significant increases in funding for food stamps, conservation, and renewable energy, as well as other improvements for commodity support programs. Any new or expanded funding in the bill is fully offset.

## **Ending Past Practice of Using Reconciliation for Bills that Worsen the Deficit**

Previous Congresses also misused the reconciliation process to enact legislation that made the deficit worse, not better. Budget reconciliation rules were intended to provide expedited procedures for deficit-reducing legislation that is often hard to pass. Yet when Republicans controlled Congress from 1995 through 2006, they repeatedly used reconciliation instructions to deepen the deficit, by amounts ranging from \$35 billion to \$1.4 trillion over a multi-year period.<sup>4</sup> In contrast, Democratic budget resolutions from 1981 through 1994 included reconciliation instructions to reduce the deficit by amounts ranging from \$12 billion to \$343 billion over a multi-year period.

The new majority in the 110<sup>th</sup> Congress so strongly opposes such misuse of reconciliation procedures that it passed a new rule requiring that all reconciliation packages must reduce the deficit.<sup>5</sup> This fall's education reconciliation bill does just that – it decreases the deficit by \$752 million through 2012, while greatly benefitting students. The offsets to the new spending in the bill involve only cuts to other spending. In contrast, the prior reconciliation package – enacted in 2006 in the previous Congress – made the deficit worse by more than \$31 billion over five years.

## **Summary**

In its first nine months, the 110<sup>th</sup> Congress has followed a path of fiscal responsibility. With not a single vote from the other side, Democrats instituted a pay-as-you-go rule and a rule restricting reconciliation protection to bills that reduce the deficit. The new Congress passed a fiscal year 2008 budget resolution that returns the budget to balance. It has enforced the pay-as-you-go rule in every instance. It has voted to cut mandatory spending, and rejected minority efforts to strip pay-as-you-go offsets from bills. The pay-as-you-go rule and the reconciliation rule have been effective tools in enforcing fiscal discipline.

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<sup>4</sup>Robert Keith, The Budget Reconciliation Process: House and Senate Procedures, CRS Report for Congress #RL33030, (CRS 8/10/05) Table 3, 23-31.

<sup>5</sup>United States House of Representatives, Sec. 402. Reconciliation, 110th Congress, 1st session, H.Res.6, <<http://www.congress.gov/cgi-lis/query/z?c110:H.RES.6>>.

## Appendix

### House-passed Bills with Pay-as-you-go Offsets of \$1 Million or More\*

<i>Bill #</i>	<i>Bill Name</i>	<i>Status</i>
H.R. 1	9/11 Commission Act	Enacted
H.J.Res. 44	Renewal of import restrictions contained in the Burmese Freedom and Democracy Act	Enacted
H.R. 1830	To extend the authorities of the Andean Trade Preference Act	Enacted
S. 1701	Transitional Medical Assistance extension	Enacted
H.R. 2206	U.S. Troop Readiness, Veterans' Care, Katrina Recovery, & Iraq Accountability Appropriations Act	Enacted
H.R. 2669	College Cost Reduction and Access Act (conference version)	Enacted
H.R. 3375	To extend the trade adjustment assistance program for three months	Enacted
H.R. 3580	Food and Drug Administration Amendments Act (conference version)	Enacted
H.R. 3668	TMA, Abstinence Education, and QI Programs Extension Act	Enacted
H.R. 5	College Student Relief Act	Passed
H.R. 6	Creating Long Term Energy Alternatives for the Nation	Passed
H.R. 720	Water Quality Financing Act	Passed
H.R. 797	Veterans Eye Care	Passed
H.R. 798	Photovoltaic system for DOE Headquarters	Passed
H.R. 976	Children's Health Insurance Program Reauthorization Act (conference version)	Passed
H.R. 990	Pell Grant Equity Act	Passed
H.R. 1036	Alaska Railroad Corporation	Passed
H.R. 1227	Gulf Coast Hurricane Housing Recovery Act	Passed
H.R. 1427	Federal Housing Finance Reform Act	Passed
H.R. 1495	Water Resources Development Act	Passed
H.R. 1562	Katrina Housing Tax Relief Act	Passed
H.R. 1585	National Defense Authorization Act	Passed
H.R. 1677	Taxpayer Protection Act	Passed

### House-passed Bills with Pay-as-you-go Offsets of \$1 Million or More\*

<u>Bill #</u>	<u>Bill Name</u>	<u>Status</u>
H.R. 1684	Homeland Security Appropriations Authorization	Passed
H.R. 1852	Expanding American Homeownership Act	Passed
H.R. 2419 <sup>6</sup>	Farm, Nutrition, and Bioenergy Act	Passed
H.R. 2608	SSI Extension for Elderly and Disabled Refugees Act	Passed
H.R. 2669	College Cost Reduction Act (House-passed version)	Passed
H.R. 2761	Terrorism Risk Insurance Revision and Extension Act	Passed
H.R. 2881	FAA Reauthorization Act	Passed
H.R. 2900	Food and Drug Administration Act	Passed
H.R. 3162	Children's Health and Medicare Protection Act	Passed
H.R. 3221	Renewable Energy and Energy Conservation Tax Act	Passed

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\*In addition to the bills on this list, every bill that the House voted on this session – regardless of the size of its budgetary impact – has complied with the pay-as-you-go rule.

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<sup>6</sup>CBO's preliminary cost estimate at the time the bill was considered indicated that the bill complied with the pay-as-you-go rule. The estimate credited the bill with an offset – totaling less than 1 percent of the total offsets in the bill – that had been in previous versions of the bill including the bill reported by the Agriculture Committee but that was dropped due to a drafting error. The final text of any conference report will be subject to House and Senate pay-as-you-go rules.