



# “PAYGO” – Defined and Understood



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## General Definition:

PAYGO (pay-as-you-go) is a rule that governs mandatory spending and tax legislation. It requires payment for any proposal to cut taxes or increase spending on the most expensive federal programs by raising taxes or cutting spending elsewhere to avoid adding to the deficit. Through this lawmakers are required to disclose the sponsors of earmarks.

## In Congress:

PAYGO was first enacted in Congress as part of the Budget Agreement of 1990 and required all increases in direct spending or revenue decreases to be offset by other spending decreases or revenue increases. It was thought that this would control deficit spending. Direct spending is largely comprised of "entitlement spending" which means that a group of beneficiaries are entitled to a benefit and without further legislative action, the government must provide that benefit – hence it is considered to be "mandatory." Only by legislative action can the benefit be either expanded or reduced.

In terms of revenue, PAYGO largely is designed to control tax reductions. If revenue is estimated to be reduced through a reduction in tax rates of any kind, that effect on the deficit must be offset either through increased revenue collection elsewhere, or spending reductions of the same amount.

In the initial PAYGO regimen, enacted in the 1990 Omnibus Budget Reconciliation Act (OBRA '90), by statutory requirement, any increases in the deficit were to be offset by an across the board "sequestration" of programs. This means an automatic cut in non-exempt mandatory spending programs -- this was calculated by the Office of Management and Budget at the end of the year. The rules ran out in 2002 and the system was reestablished in the 110<sup>th</sup> Congress by U.S. House of Representatives in January 2007 in an effort to make it more difficult for lawmakers to cut taxes or increase some government spending, with the ultimate goal to help restore fiscal discipline and accountability in Washington. The Senate has yet to pass their PAYGO bill (S. 80), which is tied to the FY 2008 Budget Resolution.

The PAYGO restrictions do not apply to any existing entitlement programs, such as the growing Medicare program. The rules also do not apply to the discretionary portion of the budget, which is subject to annual approval by Congress.

## It's Importance:

PAYGO is important because it ensures that the government has enough revenue to respond to public demands over the long-term. PAYGO protects the public from irresponsible spending or tax policy that makes the revenue base inadequate to address public needs.

PAYGO also helps prevent the passage of legislation that would further erode public support of government. It visibly links taxation with program spending, restoring the perceptual connection between public services and taxation.