

THE COMMITTEE ON THE BUDGET

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THE FURTHER UNRAVELING OF PAYGO EXCEPT TO FORCE TAX INCREASES

The Democratic Majority's recent housing bill marked another dodge around their celebrated pay-as-you-go [PAYGO] rule, which they insisted would restore budget "discipline" in the House. In fact, the Democrats have ignored PAYGO whenever it was inconvenient; or faked "compliance" through budget gimmicks; or simply employed PAYGO to justify higher taxes. Here is an updated summary of the Majority's pay-as-you-go record so far in this Congress.

MAJOR BILLS

- **The Housing Bill.** The Housing and Economic Recovery Act of 2008 (H.R. 3221) increases direct spending by \$41.7 billion, and raises taxes by \$16.8 billion (both over 10 years). But instead of offsetting the net spending increase with spending cuts, as PAYGO would require, the Majority simply *waived the PAYGO rule* – increasing the deficit by \$24.9 billion over 10 years. The bill also increases the statutory limit on the public debt by \$800 billion.
- **The War Supplemental.** Because this was an appropriations bill, PAYGO did not apply. Hence the measure attracted tens of billions of dollars in new mandatory spending, which otherwise *would* require PAYGO offsets. These included:
 - A total of \$62 billion in new mandatory spending for expanded GI bill benefits. The benefits may be worthwhile – but by failing to offset them, the Majority increased the deficit by the same amount.
 - An \$11-billion increase for unemployment insurance. This too may be justified in today's economic downturn – but PAYGO requires new spending to be paid for without exception.
- **The Farm Bill.** In May, Democrats violated PAYGO for the Farm Bill by using the outdated 2007 budget baseline to calculate the cost of the legislation. Indeed, 192 Democrats voted against the Ryan Motion to Instruct, which called for using the current-year (2008) baseline, as PAYGO requires. The Farm Bill that ultimately passed the House waived PAYGO, thereby hiding \$3.1 billion in spending. Other gimmicks in the bill disguised at least \$8 billion in additional spending increases.
- **Economic 'Stimulus.'** In March, the Democratic Majority waived PAYGO to provide \$168 billion worth of economic "stimulus."
- **Higher Education Reauthorization.** Last July's bill hid \$15 billion to \$30 billion in new spending through the use of a precipitous funding "cliff" – an abrupt and unrealistic cutoff of the bill's spending increases, created solely to create the illusion of PAYGO

compliance.

- **SCHIP Reauthorization.** Last year’s reauthorization of the State Children’s Health Insurance Program [SCHIP] hid \$41 billion in new spending through the use of PAYGO gimmicks and another funding cliff.

USING PAYGO TO FORCE TAX HIKES

- **AMT.** In late June, Democrats pushed through a \$61.5-billion tax increase under the guise of providing “relief” from the alternative minimum tax [AMT].
 - Instead of simply adopting a straightforward AMT patch, the House Majority demanded the \$61.5-billion *tax increase* that the *unintended expansion* of the AMT would raise – claiming they had to *raise* taxes to “pay for” merely *preventing a tax increase* that would result from the AMT expansion. (Absent an AMT patch, millions of Americans would face an unexpected and unintended average tax hike of more than \$2,000.)
 - The AMT Relief Act of 2008 shifts this tax hike to American businesses, stifling the economy. Thus the Democrats continue to create tax uncertainty with an approach they tried, and were forced to abandon, last year (see below).
 - Once again, this proves that the Democrats’ version of PAYGO is nothing more than a means – and a political cover – for tax hikes that were never intended.
 - The tax hike reversed the conclusion Democrats had reached just six months earlier. In December, the Majority waived PAYGO to avoid raising taxes by \$51 billion to “pay for” preventing the unintended expansion of the AMT. At least in that case their conclusion was correct: *there is no need to offset a tax increase that doesn’t happen.*

GIMMICK SUMMARY

Even when the Majority does adhere to PAYGO, they have continually used timing-shift gimmicks and recycled the same offsets to comply with the letter, if not the intent, of the rule. Some examples:

- A total of 20 provisions have been used more than once to offset spending increases in different bills.
- The timing of corporate estimated taxes has been shifted 17 times.
- Customs user fees have been extended eight times to be used as offsets.
- The penalty for failure to file partnership tax returns has been modified eight times.
- The AMT bill in June included four offset provisions that had already been used in this Congress.