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BUDGET DIGEST: PAYGO 101

What Is PAYGO? Pay-As-You-Go (PAYGO) refers to budget rules or laws that require legislation to be deficit neutral – increases in mandatory spending or reductions in revenue must be offset with commensurate reductions in mandatory spending or increases in revenue. While PAYGO rules and laws can be structured in various ways, their ultimate goal is fiscal discipline.

Earlier this month President Trump signed executive order 13893 implementing administrative PAYGO. The executive order states that "[i]t is the policy of the executive branch to control Federal spending and restore the Nation's fiscal security."[1] Administrative PAYGO is a *spending* test and is specifically designed to control net increases in mandatory spending. It requires executive branch agencies and departments to offset the costs of administrative actions that increase mandatory spending with equal reductions in mandatory spending (revenue increases do not qualify as offsets). This executive order applies specifically to discretionary administrative actions – actions not required by statute – that increase mandatory spending, such as issuing agency rules, demonstrations, program notices, or guidance.

The federal government has additional tools that can be used to enforce fiscal discipline. Examples include the Statutory Pay-As-You-Go Act of 2010, commonly referred to as Statutory PAYGO, and the House Pay-As-You-Go rule (clause 10 of House rule XXI). While both of these PAYGO tools are deficit tests, they differ from administrative PAYGO since they allow revenues to be used to offset increases in mandatory spending.

- **Statutory PAYGO.** This law requires any legislation impacting direct spending or revenues to not increase the net deficit. Under Statutory PAYGO, the costs of direct spending or revenue legislation are averaged and entered onto a 5- and 10-year scorecard maintained by the Office of Management and Budget (OMB). After the end of each congressional session, OMB finalizes these scorecards and determines if either scorecard shows a debt (i.e., a PAYGO violation). If a PAYGO violation is found, then a sequester (i.e., across-the-board reduction) occurs to non-exempt mandatory spending programs to offset the PAYGO violation.

- **House PAYGO Rule.** The rules package for the 116th Congress reestablished the House's former PAYGO rule. This rule is enforced through a point of order prohibiting legislation from increasing the deficit or reducing the surplus over the applicable 5- or 10-year period. The House action in January weakened budget enforcement by repealing the House Cut-As-You-Go (CUTGO) rule enacted under the Republican-led Congress, which prohibited the House from considering legislation that increased mandatory spending over the applicable 5- or 10-year period.

Since neither Statutory PAYGO nor the House PAYGO rule are regularly enforced, they have been ineffective in controlling the deficit. Consequently, this year there has been a debate about whether it is appropriate to waive the rule, and whether to apply PAYGO in committee markups. With the debt currently at 106 percent of gross domestic product and projected to grow, it is critical that lawmakers practice fiscal discipline to put the nation on a fiscally sustainable path.

[1] https://www.govinfo.gov/content/pkg/FR-2019-10-16/pdf/2019-22749.pdf.