



Pay As You Go Budgeting: False Assurance of Fiscal Responsibility

by John R. Hendrickson

“Balancing the budget is like going to heaven. Everybody wants to do it,
but nobody wants to do what you have to do to get there.”
U.S. Senator. Phil Gramm, 1990¹

The new Democrat majority has promised both ethics reform and fiscal reform in the 110th Congress. Perhaps Democrats are returning back to the libertarian philosophy of President Grover Cleveland. Cleveland, a constitutionally minded Democrat, stood for fiscal responsibility and ethical reform. “Grover the Good” even vetoed a special interest-filled farmer seed corn bill because it was not only fiscally irresponsible, but unconstitutional. The infamous “100 Hours” of the 110th Congress has now expired and the Democrats have included in their agenda Pay-As-You-Go (PAYGO) budgeting. PAYGO sounds like good budgetary policy, but it does not signify a return to Cleveland- style fiscal responsibility.

PAYGO is not a new budget policy. It was actually initiated in the administration of President George H.W. Bush by his Budget Director, Richard Darman.² “PAYGO requires that new or expanded entitlement spending be fully paid for by reductions in other mandatory spending or with tax increases.”³ The lesson of PAYGO in the Bush administration is the infamous broken pledge “read my lips: no new taxes,” which led taxpayers to vote Bush out of office.

The PAYGO policy does sound good as a budget reform measure, but it also leaves a flank open for tax increases to pay for more government programs. Senator Judd Gregg, a Republican from New Hampshire, warned that “what this language essentially does is guarantee tax increases, but it has virtually no impact on spending restraint.”⁴ The Heritage Foundation reports that “federal spending has grown by over 42 percent since 2001, and last year alone, spending increased over 7 percent.”⁵

The federal budget faces enormous pressure from pork-barrel spending and mandatory programs such as Social Security and Medicare. The cost and future cost of both mandatory programs is growing at such a fast rate that budget reform is needed, in addition to entitlement reform. The budget also faces pressure from the war on terror.

David M. Walker, the Comptroller General of the United States, presented a report entitled “Saving Our Future Requires Tough Choices Today,” which stated that the “current fiscal policy is unsustainable, and the status quo is not an option.”⁶ The report offered a serious warning that “GAO’s simulations show that balancing the budget in 2040 could require actions as large as cutting total federal spending by 60 percent or raising federal taxes to two times today’s level.”⁷

The PAYGO proposal does not have sharp enough teeth to deal with the budget crisis and it even leaves an opening for a tax hike when Congress is still considering making President George W. Bush’s tax cuts permanent. “And so by doing—taking this action in the House and passing this language, they have essentially said it is their goal to dramatically increase taxes, to use the mechanism of alleged Pay-Go, or Tax-Go, to drive major tax increases on the American public.”⁸ In addition as Senator Gregg stated “this is rather a brash way to do it, to start right off, the first major enforcement mechanism for budget restraint is a mechanism that doesn’t reduce spending at all, doesn’t restrain spending at all. All it does is force us to raise taxes, or at least be subject to a 60-vote point of order if we want to maintain taxes at their present level.”⁹

PAYGO does have some advantages if the language is correct. In order to make PAYGO effective and useful as a reform measure The Heritage Foundation suggests that it must: be enforceable, apply to both emergency and mandatory spending, apply to all policies, and Congress should not interfere.¹⁰ In addition the policy of sequester needs to be enforced in the PAYGO implementation. "What is sequester? It essentially says that either you offset the new spending with spending cuts somewhere or else you have an automatic event which does it for you, across the board, stated Sen. Gregg."¹¹ Spending sequesters were used in the Gramm-Rudman-Hollings Balanced Budget Act of 1985.¹²

In returning to fiscal responsibility, Congress, as well as President Bush, should consider a number of factors, including making the President's tax cuts permanent. Fiscal reform needs to embrace tax and spending reform. Congress should seriously reconsider the Balanced Budget Amendment, which will require Congress to balance the budget every fiscal year. Congress also needs to reduce the size and scope of government by eliminating programs that could be better handled by state governments. Realistically, serious tax reform is going to be welcomed as much as a root canal, but members of Congress should give consideration to flat-tax proposals, a national sales tax, or the Fairtax, which is a more comprehensive approach.¹³

The PAYGO policy may work if it is used appropriately, but it will require discipline from Congress, the use of a veto pen, and the support of the American people to achieve fiscal reform. History has proven that the Keynesian approach to government spending does not work. The twenty-first century will require some difficult budget decisions, especially when the federal government is financing a war on terror that may be longer than the Cold War. Congress also needs to remember that "the government's money" is actually the taxpayer's money. Former Congressman and Vice-Presidential nominee Jack Kemp offered a good solution to solving fiscal problems. Kemp stated: "There is a better way to bring down the deficit. Instead of raising taxes and discouraging saving, why not restrain government spending, eliminate unnecessary programs, and combine it with a tax policy, which would create strong economic growth."¹⁴

(Endnotes)

¹ Bill Adler (ed). *The Quotable Conservative*, Birch Lane Press, New York, 1996, pg. 100.

² Dick Arme, "A 'Paygo' History Lesson," *The Wall Street Journal*, Commentary, January, 2007, pg. 18.

³ Alison Acosta Fraser and Brian M. Riedl, *Memo to Representative Pelosi: How to Make PAYGO Discipline the Federal Budget*, The Heritage Foundation, Memo # 1289, December 2006, pg. 19.

⁴ Senator Judd Gregg, "Pay-As-You-Go Budget Enforcement Mechanism Adopted by House of Representatives," Press Room, <<http://gregg.senate.gov/public/index.cfm>>(Jan 9, 2007).

⁵ Fraser and Riedl.

⁶ David M. Walker, "Saving Our Future Requires Tough Choices Today," United States Government Accountability Office, January 2007, pg. 9.

⁷ Ibid.

⁸ Gregg.

⁹ Ibid.

¹⁰ Fraser and Riedl.

¹¹ Gregg.

¹² Arme.

¹³ See INSTITUTE BRIEF: *The National Sales Tax: A Direction of Moral Clarity*, Vol. 13, No. 38, Dec. 2006.

¹⁴ Adler, 102.

John R. Hendrickson is a Research Analyst with Public Interest Institute.

*Permission to reprint or copy in whole or part is granted, provided a version of this credit line is used:
"Reprinted by permission from INSTITUTE BRIEF, a publication of Public Interest Institute."
The views expressed in this publication are those of the author and not necessarily those of
Public Interest Institute. They are brought to you in the interest of a better-informed citizenry.*