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FACTSHEET

Unrig the Rules: The Case for Repealing Congressional PAYGO

Our nation is facing once-in-a-generation challenges—a global pandemic that has devastated our economy and taken more than 220,000 lives (in the US alone), the existential threat of climate change, and a massive recession. In the last seven months, the economy has shed 11 million jobs, half of which are permanent losses.

There is a growing consensus among economists that we can only address these problems with a bold, expansive program of public investment. A major impediment to spending on the scale these challenges require, however, is "pay as you go" (PAYGO). PAYGO is a budget enforcement mechanism that requires tax cuts and mandatory spending increases to be offset by tax increases or cuts elsewhere in the budget. PAYGO assumes multiple forms; it is written into law (statutory PAYGO) and also enacted as procedural rules guiding the House and Senate's budget activities (congressional PAYGO rules).[1] Note that, while many of the arguments below apply to both, this fact sheet focuses specifically on economic and procedural objections to the congressional PAYGO rule.

Specifically, we argue:

- **PAYGO perpetuates a flawed and overly rigid view of deficit spending that fails to account for the different budget stance required in a boom versus a downturn;**
- **PAYGO places excessive weight on the relatively minor risks of non-offset spending, while ignoring the harms of austerity; and**
- **PAYGO impedes effective policymaking.**

The PAYGO rule reflects a flawed view of deficit spending.

From a macroeconomic perspective, PAYGO perpetuates a reflexively anti-deficit worldview that can be deeply damaging when the economy faces a shortfall in demand, as it does today.

Underpinning PAYGO is the premise that deficits are universally bad and to be avoided at all costs. The current pandemic and economic freefall illustrate the flawed logic of this claim. **Deficits are not always good or always bad.** Both budget deficits and budget surpluses have their own risks and benefits, which

[1] The CARES Act waived statutory PAYGO, and neither the House nor the Senate raised PAYGO points of order because policymakers understood that in a crisis, federal spending shouldn't be held back by arbitrary budget rules. The same reasoning, we argue, should lead to the abolition of PAYGO in general.

can only be evaluated against the backdrop of the current economy. When the economy is booming, the macroeconomic danger is too much spending relative to the economy's productive potential. In these conditions, it makes sense to look for new revenue to balance spending, since higher deficits could lead to rising inflation or prompt the Federal Reserve to raise interest rates.

DON'T CONFUSE CONGRESSIONAL PAYGO WITH STATUTORY PAYGO	
Congressional PAYGO[2]	**Statutory PAYGO**[3]
Congressional PAYGO is a procedural rule that can be easily modified, at least in the House. Most recently resumed in 2019 as part of the "rules package," the House PAYGO rule could be removed by a simple majority vote when the House passes the rules package at the beginning of the next Congress. The Senate PAYGO rule is usually modified in budget resolutions.	Statutory PAYGO was codified in law by the Statutory Pay-As-You-Go Act of 2010. It can only be overturned through legislation.
Congressional PAYGO is enforced through points of order during floor debate on an individual bill. If a point of order is made, it blocks the bill's consideration unless waived. The House can waive the PAYGO rule for a given piece of legislation on a majority vote through a special rule. The Senate needs 60 votes to waive a PAYGO point of order.	Statutory PAYGO only applies after the one-year session of Congress ends, not on each individual bill. If the laws enacted that year increase the on-budget deficit in aggregate, statutory PAYGO requires sequestration: an across-the-board spending cut on mandatory programs.[4]

In a recession like the one we now face, the primary danger to our economy is *too little* spending, with labor and other productive assets left idle because of a lack of demand. In these conditions, what is needed is *more* spending. In fact, in light of rising unemployment and shuttered businesses, it is actually preferable to finance spending with borrowing rather than new taxes, since that is the most effective way to boost demand.

The current PAYGO rule is problematic because it takes no account of the economy's vagaries. Instead it ties Congress's budgetary hands, limiting their ability to respond to changing economic conditions. Taken to its logical conclusion, PAYGO militates against deploying expansionary fiscal policy, even when doing so would help restore economic growth and lead to lower debt in the long run.

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[2] For more on congressional PAYGO, see *Budget Enforcement Procedures: House Pay-As-You-Go (PAYGO) Rule* and *Budget Enforcement Procedures: The Senate Pay-As-You-Go (PAYGO) Rule* from the Congressional Research Service.

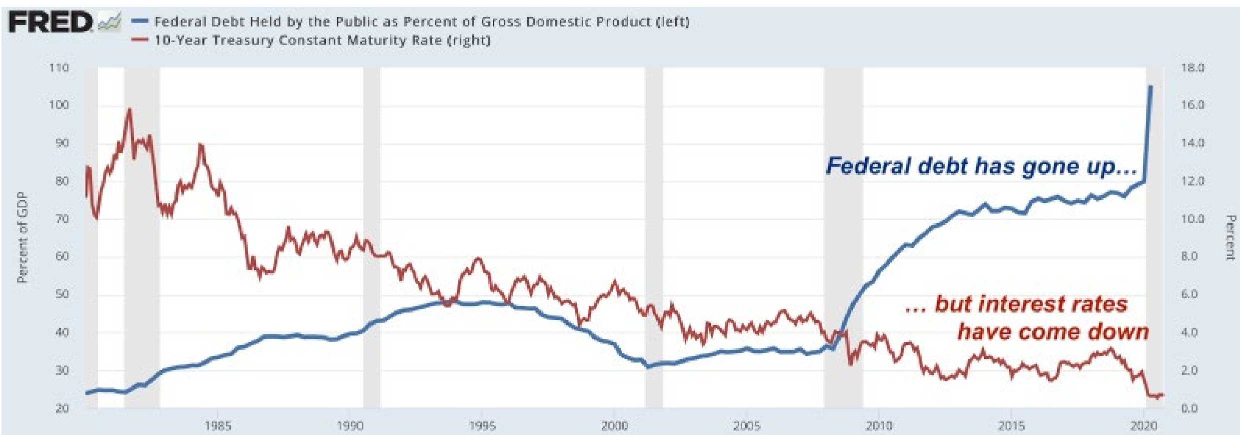
[3] For more on statutory PAYGO, see *The Statutory Pay-As-You-Go Act of 2010: Summary and Legislative History* from the Congressional Research Service.

[4] Several of the largest mandatory programs are exempt from PAYGO sequestration, including Social Security, Medicaid, CHIP, SNAP, TANF, and unemployment compensation. Social Security is also excluded from the "PAYGO scorecard" for calculating the budget deficit that must be offset by sequestration.

PAYGO results in policy choices that discount the risks of austerity while understating the urgent need for government spending in our current economy.

The textbook reason to oppose federal deficits is that they push up interest rates, fuel inflation, crowd out productive business investment, and lead to unsustainable debt in the long term. These problems are most likely to happen when the economy is at full employment and starved of savings, and when rising inflation leads the central bank (the Federal Reserve) to raise rates.

We live in a very different world from the textbook. Far from an overheating economy, we are facing a pandemic-induced recession that is leaving vast numbers of businesses idle and millions of people out of work. Interest rates and inflation rates are hovering near zero, and the Fed has pledged to leave interest rates flat for years to come. Far from threatening to raise rates if deficits rise, Fed officials are explicitly calling on the government to spend more. And the International Monetary Fund, which in the past has warned countries of the dangers of overspending, now says that there is no reason to think that greater borrowing today will impose costs down the road.



In this context, focusing on the "costs" of deficits misses the **actual economic risks** we face: persistent joblessness, long-term economic scarring, household debt spirals, and starved state budgets that will likely translate into painful cuts to needed government services.

The sluggish recovery following the Great Recession exemplifies these risks. Because the government pivoted too quickly to deficit reduction, cutting off stimulus while the economy was barely recovering, the result was an extended period of exceptionally weak growth. Employment did not return to its 2008 levels until summer 2019, a full decade after the official end of the recession. And even then, GDP remained more than 10 percent below its pre-recession trend.

Given the severity of the shock from the coronavirus, a similar mistake today would likely have even worse consequences. Already since February, over four million people have given up finding work and dropped out of the labor force, and if the recovery stalls—as is nearly certain without renewed federal stimulus—this number will only grow. Yet PAYGO prioritizes the theoretical and distal risks of too much spending over the much more urgent risk of mass unemployment and an economic depression.

Furthermore, the worldview underlying PAYGO discounts the myriad benefits of more government borrowing. Increased spending generates more jobs for unemployed people, who in return have more dollars to spend in the economy. Ideally, government spending kicks off a virtuous cycle of consumer spending and business investment, resulting in a bigger increase in GDP than the initial injection of funds.

The PAYGO approach also overlooks how debt-financed government spending can help rebalance power in the economy in favor of the excluded and vulnerable. During periods of weak demand, as we face now, workers (especially those earning low wages) have little bargaining power. In contrast, when labor markets are tight, employers tend to pay higher wages and offer more generous benefits to attract workers, even those in traditionally low-wage jobs. By helping to stimulate the economy and create a tight labor market, debt-financed government spending can be an equalizing mechanism that raises bargaining power and wages for those at the bottom of the income distribution. A rational budget process would not ignore the impact of spending on public debt, but it would equally consider the effect on income distribution, as well as climate and other urgent public concerns.

Congressional PAYGO stymies effective policymaking.

Beyond the broader macroeconomic arguments against PAYGO, the congressional PAYGO rule impedes effective policymaking because its procedural requirements hold critical investments hostage to arbitrary budget constraints. Unless waived, the rule requires the House or Senate to find offsets before it can advance any piece of legislation to the other chamber or send it to the president's desk. This creates a procedural bias against bold investment by forcing a debate on offsets for each individual piece of legislation.

Furthermore, with statutory PAYGO in place, congressional PAYGO serves as an unnecessary second hurdle for legislation. Offsets already have to be added during the same session of Congress to avoid sequestration. The repeal of congressional PAYGO would merely allow for individual bills within one session to contribute to either deficits or offsets.

Proponents may counter that the House rule can easily be waived in a special rule already, but this does not justify why it should exist in the first place. Moreover, the rule is harder to avoid in the Senate, where the point of order requires 60 votes to waive.

Conclusion

The congressional PAYGO rule is a procedural hurdle in Congress that reflects a misguided approach to deficits and debt and ignores the current needs and condition of the economy. It is based on a flawed view that the government is carrying as much debt as it can afford, a view with no support in economic logic or evidence. It inflexibly prioritizes one set of risks—of runaway debt and rising interest rates and inflation—while ignoring the much more urgent risk of mass unemployment and an economic depression. The ideological straitjacket of PAYGO makes it harder for policymakers to adapt to the times and deploy expansionary fiscal policy, even when the economy desperately needs more demand.

In short, PAYGO creates an unnecessary obstacle to economically sound, forward-thinking policymaking and budgeting. Meeting the challenges of our time will ultimately require the elimination of PAYGO in all its forms. But as a first step, the House can help remedy this problem by repealing the congressional PAYGO rule at the beginning of the 117th Congress.

This fact sheet was prepared jointly by the Roosevelt Institute and the Congressional Progressive Caucus Center and builds on work by Roosevelt Institute Fellow J.W. Mason. For more information, see *"Fiscal Rules for the 21st Century: How to Pay for the Public Sector."*