

*****SAMPLE MEMO TO MEDIA*****

FISCAL RESPONSIBILITY UPDATE

House to Vote on Pay-As-You-Go Legislation

“PAYGO” is Key Fiscal Responsibility Measure that Helped Create Surpluses in the 90’s

To: Reporters, editorial writers, editors
From: XXXX
Re: “PAYGO” legislation
Date: July 21, 2009

This week, the House of Representatives will vote on pay-as-you-go legislation, also known as PAYGO, to establish in law the principle that our country should pay for what it buys. PAYGO is an invaluable tool for arresting America’s steep fiscal decline; while it is not a cure-all for deficits, it is a crucial first step toward reducing them. PAYGO has been embraced by a broad section of the Democratic Caucus, and it also has the strong support of President Obama, on whose behalf Congressional leaders introduced the legislation. PAYGO’s appeal lies in its proven ability to help get our country out of budgetary holes. Republicans, including former presidential candidate John McCain, have also recently voiced their support for PAYGO legislation; Democrats hope that Republicans will join them this week in supporting this proven tool for fiscal responsibility.

PAYGO’s Role in Deficit Reduction

In the 1990s, the Clinton Administration turned the deficits accumulated in the two previous Republican presidencies into record surpluses. One of the key tools in this transformation was the PAYGO rule, which compelled Congress to find savings for the dollars it spent. But the decision of President Bush and Congressional Republicans to waive PAYGO and ultimately allow it to expire in 2002 cleared the way for policies that wiped out those surpluses, including huge tax cuts for the most privileged— that will be paid for, with interest, by the next generation.

Today, the United States has a \$1.7 trillion deficit. A *New York Times* analysis attributes 90% of that deficit to the economic downturn, Bush Administration policies, and the extension of those policies. According to that analysis, only 7% of the deficit is attributable to the Economic Recovery Act passed earlier this year, which economists largely agree was a necessary emergency response to this recession.

But deficit spending is not sustainable for the long term, and Democrats are committed to bringing the deficit down. An essential step toward that goal is the reassertion of the principle of paying for what we buy. That is why Democrats, on regaining the Congressional majority in 2007, made PAYGO a part of House rules. Now, with a Democratic President, we have the opportunity to strengthen PAYGO by giving it the force of law.

PAYGO: Making the Tough Choices for America’s Future

A PAYGO law will push Congress to prioritize essential investments and cut wasteful spending and subsidies. This law requires tough choices: the cost of any spending increase or tax cut has to be paid for, rather pushed onto future generations. Those who want to cut taxes will have to identify what spending we will have to do without because of that lost revenue. Likewise, PAYGO will control spending, because any increase in spending will have to be offset by spending decreases elsewhere, or by higher taxes. In this way, PAYGO strikes a reasonable balance: advocates for a spending increase will have to have strong justification in order to get support for the tax increases necessary to pay for it,

and advocates for tax cuts will need to make a strong case to justify cutting spending for popular programs.

That kind of discipline is essential to making sustainable investments in the priorities that matter most, including education, clean energy, and health care. According to Bob Greenstein of the Center on Budget and Policy Priorities, “without changes in current policies, we face the prospect of rapidly growing federal deficits and debt over time that will pose a significant threat to the U.S. economy, to the standard of living of all Americans, and to the ability of the government to meet the needs of its citizens.” By reducing the size of our interest payments, deficit reduction makes possible long-term commitments to programs that can make our economy stronger.

A Credible PAYGO Law

Statutory PAYGO would apply to new policies that reduce revenue or expand entitlement spending; it will exempt extensions of current policy on the Alternative Minimum Tax, the estate and middle-class income tax cuts passed in 2001 and 2003, and Medicare payments to doctors. While some have criticized those exemptions, supporters of statutory PAYGO see them as key to making PAYGO enforceable and credible. Political reality makes it clear that extensions of those current policies will not be offset; a law acting as if they would be would soon turn into an empty promise, threatening the cause of fiscal discipline as a whole. Instead, supporters of statutory PAYGO have chosen to make a promise that can be kept, one that makes discipline much more likely for the years to come. It is better to promise what we can deliver: a law that draws a line in the sand.

Improvements to the President’s Draft Legislation

The PAYGO legislation introduced by House Democrats makes several improvements to the President’s proposal, in response to concerns that have been raised. The most notable changes deal with extensions of tax cuts and the time period for deficit neutrality. Under the President’s proposal, extension of any of the tax cuts enacted in 2001 and 2003, including those benefitting upper income taxpayers, would not be subject to statutory PAYGO; under the House bill, the exemption has been limited to middle-class tax cuts. Under the President’s proposal, the net effect of legislation enacted during a session of Congress would be required to be deficit neutral over ten years; under the House bill, legislation must be deficit neutral over both five and ten years.

Democrats’ Record on Fiscal Responsibility

Strongly supporting PAYGO is not the only way Democrats have demonstrated their commitment to fiscal responsibility. President Obama set a strong example of discipline by pledging to pay for the costs of his Administration’s key proposals, including energy legislation and health care reform. Reforming health care is the single most important thing we can do to lower the costs of entitlement programs, which is a critical part of reducing our nation’s deficit. In addition, the President signed into law a significant reform of our country’s weapons acquisitions programs aimed at eliminating waste and saving taxpayer money.

Along with these actions, PAYGO is an important part of a strategy to roll back the deficits built up by the past Administration, as well as the deficit spending needed to get our economy out of recession. Restoring our nation’s fiscal health is a difficult project, and PAYGO cannot succeed alone. But it is an important first step for our recovery.