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What is PAYGO?

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PAYGO, or Pay-As-You-Go, is a budget enforcement mechanism aimed at encouraging fiscally responsible policymaking. In simplest terms, PAYGO forces lawmakers to pay for their priorities. It requires that any new legislation that increases deficits (whether through an increase in mandatory spending or decrease in revenues) must be fully offset by other increases in revenues or decreases in mandatory spending so that the new legislation does not add to the budget deficit.

PAYGO has taken slightly different forms over the years. It was first implemented in 1990 as part of an agreement to reduce large deficits. That original statutory PAYGO legislation expired in 2002, but was restored in the Statutory Pay-As-You-Go Act of 2010. In addition to the statutory requirement, the House and Senate have also implemented separate PAYGO rules. The Senate PAYGO rule was implemented in 1993 and remains in effect today; the House PAYGO rule was implemented in 2007, but repealed in 2011.

Statutory PAYGO

The statutory PAYGO law applies to any newly enacted legislation that affects mandatory spending and/or revenues. The projected costs and savings of each enacted bill is tracked by the Office of Management and Budget (OMB) on what are known as PAYGO scorecards. If the sum of all projected costs for a given year is greater than zero, the President would order a sequestration (cancellation of budgetary resources) to non-exempt mandatory spending programs to offset that cost.

The PAYGO scorecards show the 5-year and 10-year average cost or savings associated with each new piece of legislation. The following example shows the PAYGO treatment of a hypothetical bill that has an estimated total cost of $25 billion from 2018 through 2023. For both the 5- and 10-year periods, the cost is divided by the number of years in the period to generate an average cost per year. Those averages are then assigned to each year of the scorecard. Because averages rather than the actual year-by-year estimate are used in the scorecards, the assigned cost in a given year could be higher or lower than the amount displayed in the cost estimate.

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Comparison of sample cost estimate and its PAYGO treatment

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Billions of dollars											
Budgetary Effect	+6	+5	+4	+4	+3	+3	+1	-1	-1	-2	-2
5-year scorecard	-	+5	+5	+5	+5	+5					
10-year scorecard	-	+2	+2	+2	+2	+2	+2	+2	+2	+2	+2

NOTE: Positive numbers represent annual cost of the hypothetical bill while negative numbers represent annual savings.

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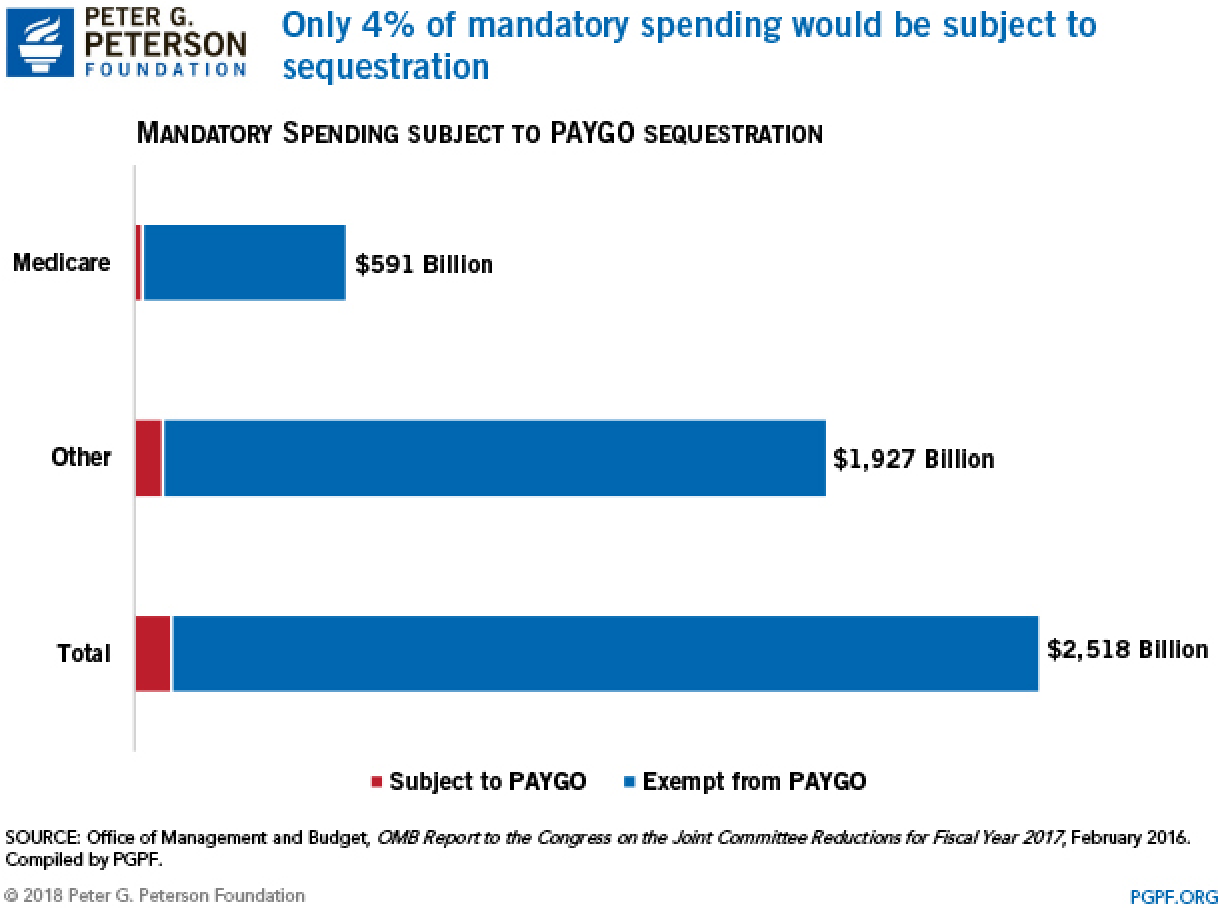
OMB compiles and keeps a running total of PAYGO scorecards for all new legislation involving mandatory spending and/or revenues. At the end of each Congressional session, OMB uses the scorecards to determine if sequestration is necessary. If the running total of the PAYGO scorecards is greater than zero when Congress adjourns, sequestration will be ordered for that year to offset the higher of the 5-year and 10-year averages.

The effect of a PAYGO sequestration would be limited because most mandatory spending programs — such as Social Security, federal employee retirement and disability programs, veterans’ programs, Medicaid, and unemployment compensation — are exempt from the automatic cuts. Medicare is limited to a maximum reduction of 4 percent and certain other special rules may apply. As a result, only 4 percent of all mandatory spending would even be eligible to be sequestered. In addition, a PAYGO sequestration can be averted if Congress waives the rule or resets the scorecards to zero.



Senate PAYGO

As with statutory PAYGO, the Senate PAYGO rule applies to proposed legislation affecting mandatory spending and revenues. However, the Senate rule generally applies to each measure individually (rather than on an annual, scorecard basis) and is enforced by a point of order.

The Senate Budget Committee, which commonly uses calculations provided by the Congressional Budget Office, is responsible for tracking projected costs. From the creation of the Senate PAYGO rule in 1993 to the end of the first session of the 115th Congress in January 2018, the Senate PAYGO rule has been used to prevent the consideration of 44 amendments.

While no budget process rule is, by itself, a substitute for lawmakers making fiscally responsible decisions, tools like PAYGO can help ensure that fiscal considerations are an important part of policymaking.

Byrd Rule Sequestration
