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January 4, 2007

The Honorable John Spratt, Chairman, Committee on the Budget
The Honorable Baron Hill
The Honorable Heath Shuler
United States House of Representatives
Washington, DC 20515

Dear Chairman Spratt, Mr. Hill and Mr. Shuler,

The Concord Coalition strongly supports a pay-as-you-go (paygo) rule in the House of Representatives requiring entitlement expansions and tax cuts to be offset by corresponding spending cuts or revenue increases. We believe that reinstating paygo in this form, as it was originally designed, is a crucial step toward restoring fiscal discipline and preventing the daunting long-term outlook from getting any worse. We also hope that it will encourage a discussion of the tough choices that must be made, regardless of procedural mechanisms, to restore fiscal responsibility.

The pay-as-you-go requirement and discretionary spending caps were first established by the Budget Enforcement Act (BEA) in 1990. By helping to constrain fiscal policy, these budget enforcement mechanisms made a direct contribution to the more favorable budget outlook that developed by the end of the decade. The lesson to be learned from the overall success of the BEA is that budget process can be an important tool in achieving strategic long-term goals.

Unfortunately, after a brief period of budget surpluses, we are back to facing chronic deficits that will not go away without specific actions by Congress and the President. This is a particularly ominous development when the huge retirement and health care costs of the coming senior boom are beginning to show up in the current budget window. Analysts of diverse perspectives and nonpartisan officials at the Congressional Budget Office (CBO) and the Government Accountability Office (GAO) have all warned that current fiscal policy is unsustainable over the long-term. The time to get the budget under control is now.

To be clear, budget process alone will not be enough. No matter how tightly the rules are drawn, they will not work without the political will to make hard choices. However, budget rules can make it more difficult to toss fiscal probity aside. The pay-as-you-go rule requires anyone proposing major initiatives on either entitlements or tax cuts to answer the question: "How do you pay for it?" Renewing the discipline imposed by forcing an answer to this simple question would be a very welcome development. It would also help to manage the political pressures inherent in our competitive electoral system, where the rewards for reducing taxes and delivering services are

more immediate than the indirect rewards for fiscal stewardship.

No budget rules will be effective if they are not accompanied by a commitment to enforce them. Thus, it is critical that Congress resist the pressure to weaken them by exempting politically popular items, assuming additional costs in the baseline or routinely circumventing them when they become inconvenient. This will require policymakers to set priorities and make compromises among competing needs. Many tax and spending initiatives will need to be scaled back to fit within the amount of available offsets.

Restoring a sense of fiscal discipline will be a very difficult challenge. It will be virtually impossible without meaningful enforcement mechanisms. While it cannot be said that budget enforcement rules worked very well after 1998 when surpluses emerged, it is clear that protecting a surplus is not something we'll need to worry about in the near future. Sadly, the task at hand is to bring the deficit back under control. The track record for budget enforcement tools such as paygo in times of big deficits is one of success.

Some have argued that paygo should only apply to spending increases and not tax cuts. The Concord Coalition has long maintained that this would be a mistake. Fiscal discipline is a concept that applies to the budget as a whole. Any legislation that would increase the deficit should be part of the enforcement mechanisms. Since spending and tax decisions both impact the bottom line, there is no good reason to exempt either from enforcement rules. Moreover, exempting tax cuts from paygo would encourage an expansion of so-called "tax entitlements" where benefits are funneled through the tax code rather than by direct spending. Finally, exempting tax cuts from paygo encourages the false notion that debt is a painless alternative to taxes.

The Concord Coalition believes that adoption of a paygo rule in the House should be followed by enactment of legislation reinstating the Budget Enforcement Act in its original and successful form, including statutory paygo and limits on discretionary spending enforced by sequestration. Reinstating statutory paygo will put additional teeth into the paygo rule by establishing a mechanism that cannot be easily waived or repealed by a future Congress. Budget enforcement rules should apply to all parts of the budget — taxes, entitlements and discretionary appropriations. Excluding any part of the budget from discipline will inevitably lead to that part of the budget becoming the escape valve for budget busting proposals.

Ideally, a new bipartisan balanced budget plan should be agreed upon and enacted along with strong enforcement mechanisms. But the fact that more needs to be done is not an excuse for doing nothing. The choice for policymakers is whether to reclaim a measure of fiscal discipline through the budget process while a more substantive plan is negotiated, or to sit by while deficits drift higher in the absence of any procedural hurdles designed to rein them in.

In Concord's view the choice is clear. We believe that reinstating strong budget enforcement rules, such as paygo, is the best step that can be taken immediately to stop digging the fiscal hole deeper.

Sincerely,



Robert L. Bixby,
Executive Director
The Concord Coalition