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CRFB Reacts to President's PAYGO Proposal June 9, 2009

Today, President Obama announced a plan to reenact statutory pay-as-you-go (PAYGO). Under the Administration's plan, new tax cuts and mandatory spending would have to be paid for through budgetary changes each year, or else be subject to sequestration. However, four policies - renewing the 2001/2003 tax cuts, patching the Alternative Minimum Tax (AMT), updating physician's payments in Medicare, and modifying the estate tax - would be exempt from these rules.

Although, the Committee for a Responsible Federal Budget (CRFB) is a proponent of PAYGO and stands by the President's efforts to pass it into law, we believe that exempting these items largely undermines the purpose.

"This is like quitting drinking, but making an exception for beer and hard liquor," said Maya MacGuineas, President of the Committee for a Responsible Federal Budget. "Exempting these measures from PAYGO would increase the ten-year deficit by over \$2.5 trillion dollars. That's not fiscal responsibility."

CRFB believes the President should strengthen his PAYGO proposal to cover all new non-discretionary legislation, and should accompany this with other reforms. The proposal should also be paired with discretionary spending caps, as it was when it effectively helped to rein in deficit spending in the past.

"It's pretty simple: if you want to pass a law to increase government spending or cut taxes, you should have to pay for it," MacGuineas said, "no matter whether it is a new law or the continuation of an existing policy. And even doing that won't be enough to close our fiscal gap. We should be discussing hard discretionary caps, long-term entitlement reform, and tax reform as well. The U.S. government is in a fiscally precarious position; other than borrowing for fiscal stimulus, the government should be focused on reducing the deficit. This policy would merely limit by how much it is permitted to increase."