DISCRETIONARY SPENDING LIMITS: FISCAL YEARS 1994–98

[In billions of dollars]

	Fiscal year—				
	1994	1995	1996	1997	1998
Current law[1]:					
Budget authority	509.920	517.398			
Outlays	537.254	538.952			
House bill:					
Budget authority	500.964	506.287	519.142	528.079	530.639
Outlays	538.688	541.137	547.263	547.346	547.870
Senate amendment:					
Budget authority	509.920	517.398	519.142	528.079	530.639
Outlays	537.254	538.952	547.263	547.346	547.870
Conference agreement:					
Budget authority	509.920	517.398	519.142	528.079	530.639
Outlays	537.254	538.952	547.263	547.346	547.870

[1] Discretionary spending limits under current law are the "preview report discretionary limits" in the "Budget of the U.S. Government, fiscal year 1994, 135 (1993)". Current law provides, and the Senate amendment retains, a "special budget authority allowance" through fiscal year 1995 that will increase the limits on budget authority and outlays for those years when the end-of-session sequestration reports are prepared. Including that adjustment as currently estimated, the outlay limits for 1994 and 1995 are the same in current law, the House bill, and the Senate amendment.

3. PAY-AS-YOU-GO (PAYGO) REQUIREMENT (SECTION 252 OF GRAMM-RUDMAN-HOLLINGS)

Current Law

The Budget Enforcement Act of 1990 established a pay-as-you-go (PAYGO) requirement for fiscal years 1991 through 1995 in section 252 of the Gramm-Rudman-Hollings Act. Under pay-as-you-go, direct (mandatory) spending and revenue legislation may not increase the deficit for these fiscal years. Sequestration enforces this requirement, if necessary, applying to selected direct spending programs. A sequester does not alter revenues, nor does it affect such direct spending programs as Social Security, net interest, Federal retirement, most veterans' benefits, low-income entitlements, and regular unemployment benefits. The pay-as-you-go process does not require any offsetting action when the spending increase or revenue decrease is due to the operation of existing law, such as greater-than-forecast increase in the number of persons participating in an entitlement program.

Spending for Social Security benefits and Federal deposit insurance commitments in effect at the time the Budget Enforcement Act of 1990 was enacted (whether from current law or new legislation), as well as emergency direct spending and revenue legislation (if so designated by the President and by Congress in statute), is exempted completely from pay-as-you-go accounting and enforcement.

The budgetary effects of direct spending and revenue legislation are tracked over the full five years of the process using pay-as-you-go scorecard. Although it covers five fiscal years, pay-as-you-go is enforced one year at a time. In determining whether a pay-as-you-go sequester for a fiscal year is necessary, the pay-as-you-go deficit calculations must take into account enacted legislation affecting both that and the preceding fiscal year.

House Bill

The House bill amends section 252 of the Gramm-Rudman-Hollings Act, extending the pay-as-you-go process for legislation enacted through fiscal year 1998 (including the effects of such legislation through fiscal year 2002). The bill retains the basic elements of the existing process, consolidating and clarifying some existing provisions, rebasing the pay-as-you-go scorecard to zero, and adding two new features. The pay-as-you-go process continues to involve the sequestration of selected direct spending programs if there is a net increase for a fiscal year due to the enactment of direct spending and revenue legislation.

A significant feature of the House bill is that the pay-as-you-go scorecard is created anew and applies only to bills enacted *after* this reconciliation bill. In other words, the pay-as-you-go scorecard is rebased to zero. Rebasing has the effect of wiping out the surplus shown by OMB on the current pay-as-you-go scorecard, and of excluding all the additional deficit reduction from the scorecard as well. Put most simply, rebasing the pay-as-you-go scorecard *guarantees* that the net entitlement cuts and tax increases included in this reconciliation bill are 100% dedicated to deficit reduction. Any later attempt to spend those savings is illegal, and will create a completely offsetting sequestration.

Rebasing was a goal of the 1994 budget resolution, H. Con. Res. 64: section 11, a Sense of the House provision, and section 12(c), a new Senate point of order, both addressed this issue. As stated in the House report on the budget resolution, "the intent is that later legislation not undo the deficit reduction this budget resolution calls for." Following through, rebasing guarantees that later legislation not undo the deficit reduction this reconciliation bill achieves. This provision reinforces the effect of the 1994 budget resolution, which provided no room for future deficit increasing legislation.

The first new feature of the bill is the establishment of a pay-as-you-go scorecard and "five-year rolling enforcement." The scorecard captures amounts for the budget year and the ensuing four fiscal years. For example, under the "fixed" approach established by the Budget Enforcement Act of 1990, a measure enacted for fiscal year 1995 would be scored only for that one year, since pay-as-you-go expires after 1995 under current law. Under the Senate amendment, a measure enacted for fiscal year 1995 is scored through fiscal year 1998, since the Act is extended through that year. Under the House bill, the same measure would be scored for five years, fiscal years 1995–1999. Thus, the pay-as-you-go scorecard established by the House bill will include amounts through fiscal year 2002. A pay-as-you-go sequester could occur during fiscal years 1999 through 2002, based on pay-as-you-go legislation enacted in fiscal year 1998 and earlier years. In sessions after that for budget year 1998, no new entries would be made on the scorecard. The intent of the House bill is to provide a greater incentive for new pay-as-you-go legislation, in net, to conform to the norm of deficit neutrality.

The second new features is a *de minimis* rule, comparable to the one for discretionary spending, that sets aside the requirement for a sequester if the violation is less than $50 million.

In specific, the House bill provides for the following:

In section 252(a)(1), a pay-as-you-go scorecard is established, as noted. While this is new to the statute, it is current OMB practice. OMB is allowed to correct erroneous entries to the scorecard; as noted, this codifies current interpretations. The scorekeeping related to the scorecard is derived from the current section 252(d), with the language simplified and clarified without any change in its effect. The bill clarifies that costs or savings are measured relative to baseline.

The bill also codifies and clarifies what to do if expiring direct spending programs or taxes, assumed to be extended, actually expire (SEE section 257(b)). The budgetary effects of a Congressional decision to allow such an expiration should be entered on the scorecard, and at the end of session in which the provision expires.

The bill also codifies the current treatment of debt service; only the costs or savings of a direct spending or revenue bill count, not the effect that the costs or savings will have on the government's interest payments.

The bill also codifies a scorekeeping convention for legislation that has incidental effects on the intragovernmental receipts of Federal retirement trust funds. Excluding those incidental effects is current practice. Under this rule, only the retirement effects of retirement legislation are entered on the pay-as-you-go scorecard; if the effects on intergovernmental receipts were scored, the result could be that a bill cutting retirement benefits would be shown as increasing the deficit, and vice versa.

Legislative provisions whose *purpose* is to alter agency payments to retirement trust funds are not "incidental" and so are not covered by this rule. If Congress desires to hold the appropriations process harmless for such an alteration in required agency payments, the legislative provisions should be identified by Congress as a change in accounting concepts, so that the discretionary caps would be automatically adjusted.

In section 252(a)(2) of the bill, 5-year rolling scorekeeping through 2002 is established, as discussed above.

In section 252(a)(3) of the bill, the "lookback" feature of current law is simplified and corrected. Lookback was included in the Budget Enforcement Act of 1990 amendments because it was considered infeasible to administer within-session sequestrations each time a pay-as-you-go bill increasing the current-year deficit was enacted. Under lookback, such current-year effects were instead controlled by adding them to the budget-year effects; the sum is enforced when the end-of-session sequestration report is made. But through a drafting error in Budget Enforcement Act of 1990, lookback not only counts (in the budget year) the current-year effects of current-year legislation, but also the current-year effects of *prior* legislation. The House bill corrects the error.