



July 21, 2009

Dear Representative,

Tomorrow, the House of Representatives will take up H.R. 2920, the "Statutory Pay-As-You-Go Act of 2009," recently introduced by Rep. Steny Hoyer (D-MD). This PAYGO legislation is an important first step toward restoring fiscal responsibility in government spending legislation and OMB Watch strongly urges you to support this bill.

PAYGO was part of the formula that successfully reined in deficits in the mid-90s and promoted a pro-growth environment that resulted in an extremely robust economy. Once the staple of responsible fiscal policymaking, Congress has, unfortunately, let various forms of PAYGO rules sunset or be weakened so much that they no longer have any influence in the budgeting process. During the time these rules were weakened, a projected ten-year \$5.6 trillion surplus disappeared and was replaced by budget deficits of more than \$2 trillion.

While this stunning and rapid reversal in our nation's finances is troubling enough, the greater dilemma lies ahead as we endeavor to keep our promises to America's retiring baby boomers, give future generations of Americans an opportunity to enjoy a greater standard of living, and shoulder the growing financial burden of over \$10 trillion in debt. While PAYGO will not solve these problems on its own, it will be difficult, if not impossible, to meet these challenges without it.

H.R. 2920 would strengthen the existing House PAYGO rule by requiring the use of sequestration at the end of the year should Congress cut taxes or increase entitlements without offsetting the cost. This provision represents a very real deterrent for legislators: in the 1990s, when PAYGO was in place with sequestration, tax cut and entitlement expansions were paid for without triggering sequestration even once. This bill also contains the necessary exemptions to sequestration that will protect programs serving vulnerable populations from arbitrary across-the-board cuts.

While this legislation is a wonderful foundation to develop more responsible budget and tax policies in Congress, it is not perfect. Significant tax policies are exempted from compliance with PAYGO under this bill, including the annual Alternative Minimum Tax (AMT) patch, a host of middle-class tax cuts originally passed under President Bush, and extension of the current year's parameters for the estate tax. There is also a very healthy "emergency" exemption possible under this bill that could be misused if not monitored carefully.

Despite this, the legislation is a sign of a welcome return to more responsible fiscal policies in Congress. PAYGO is the beginning, not the end, to Congress' moral obligation to produce new legislation that will not endanger the country's long-term fiscal health. Because of that, Congress ought to enact H.R. 2920 to restore strong PAYGO rules so Members of Congress will carefully consider the fiscal consequences of future tax and entitlement legislation.

OMB Watch is highly encouraged about the willingness of Congress to tackle a politically sensitive topic that will undoubtedly force some tough choices. We hope you will support passage of H.R. 2920

Sincerely,

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