House Committee on the Budget

REPUBLICAN CAUCUS

THE COMMITTEE ON THE BUDGET

B-71 Cannon House Office Building
Washington, DC 20515
Representative Paul D. Ryan, *Ranking Republican*

Phone: (202)-226-7270
Fax: (202)-226-7174
Augustine T. Smythe, *Republican Staff Director*

REPUBLICAN PAY-GO SUBSTITUTE

THE BUDGET CONTROL ACT OF 2009

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The Republican substitute to the Democrats' pay-as-you-go [pay-go] bill focuses on the fundamental problem with the budget: *spending and deficits*. It ensures that Federal spending cannot grow faster than the economy; it establishes a cap on discretionary spending, rather than exempting it as the Democrats do; it rejects the practice of chasing higher spending with higher taxes; and it *reduces* deficits. The bill assumes the permanent extension of all tax relief provisions enacted in 2001 and 2003, as well as the alternative minimum tax "patch."

Here is a brief summary:

TOTAL SPENDING CAPS

- **Total Spending Limit.** The bill establishes a ceiling on total Federal spending as a percentage of gross domestic product [GDP] that accommodates baseline spending through 2013. During that period, Congress cannot increase net mandatory spending – spending cannot be increased unless offset by commensurate spending reductions – and Congress must begin the process of reforming mandatory programs to ensure spending does not grow faster than the economy.

- **Enforcement by Sequester.** If spending grows faster than the economy, an across-the-board reduction (sequester) is applied to mandatory spending, with the following exceptions: Social Security; unemployment compensation during a recession or if unemployment exceeds 6 percent; constitutionally mandated spending; military operations in Iraq and Afghanistan; veterans' benefits; net interest payments and other legally binding obligations of the Federal Government. To ensure the discipline operates where the problems lie, the sequester applies only to mandatory programs growing faster than inflation, and no program would be reduced by more than 1 percent.

DISCRETIONARY CAPS

- **Limits on Appropriated Spending.** In addition to the ceiling on overall spending, the measure also establishes caps on discretionary spending, which represents roughly 40 percent of the budget.

    - The bill caps discretionary spending at the Congressional Budget Office's baseline levels (excluding war and emergency funding), allowing discretionary spending to grow with inflation.

- If discretionary spending exceeds these caps, an across-the-board spending cut (sequester) is applied to bring spending back to the cap levels.

- The measure provides a separate category for spending to fund military operations in Afghanistan and Iraq, similar to what the fiscal year 2010 budget resolution provided. This funding also is exempt from sequester.

DEFICIT CAPS

- **Deficit Control.** The bill caps budget deficits at baseline levels through 2013, and then caps deficits at 3 percent of GDP. Based on current projections, Congress would need to bring spending under control by 2013 to meet these caps. As a result, the legislation reduces the deficit by $2.4 trillion over 10 years compared with the President's budget.

- **Enforcement by Sequester.** If deficits exceed these caps, a sequester applies to mandatory spending, with the following exceptions: Social Security; unemployment compensation during a recession or if unemployment exceeds 6 percent; constitutionally mandated spending; military operations in Iraq and Afghanistan; veterans' benefits; net interest payments and other legally binding obligations of the Federal Government. To ensure the discipline operates where the problems lie, the sequester applies only to programs growing faster than inflation, and no program would be reduced by more than 1 percent.

OTHER PROVISIONS

- **No Automatic Tax Increases.** As noted, the focus of this discipline is spending. Therefore, the proposal assumes the following:

  - *All* tax relief provisions enacted in 2001 and 2003 are extended permanently. (The Democratic pay-go bill allows some of these provisions to expire, thereby assuming automatic tax increases.)

  - The "patch" on the alternative minimum tax [AMT] (indexing for inflation the current AMT exemption amounts) is extended permanently.
