



# Statutory Budget Controls in Effect Between 1985 and 2002

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## Summary

Between 1985 and 2002, several statutory budget controls were enacted to reduce the budget deficit. Chief among these were the Balanced Budget and Emergency Deficit Control Act of 1985 and the Budget Enforcement Act of 1990. The mechanisms included in these acts sought to supplement and modify the existing budget process, and also added statutory budget controls, in some cases seeking to require future deficit reduction legislation, and in some cases seeking to preserve deficit reduction achieved in accompanying legislation.

The Balanced Budget and Emergency Deficit Control Act of 1985, known as the Gramm-Rudman-Hollings Act, was passed during a period of growing deficits, as part of legislation to increase the debt limit. The act did not include legislation that reduced the deficit, but instead established a statutory requirement for the gradual reduction and elimination of budget deficits over a six-year period. The act specified annual deficit limits and set forth a specific process for the cancellation of spending by executive order, known as a sequester order, to enforce the annual deficit limit in the event that compliance was not achieved through legislation. The deficit targets and timetable were modified and extended in the Balanced Budget and Emergency Deficit Control Reaffirmation Act of 1987.

The Budget Enforcement Act of 1990 was enacted as part of a budget reconciliation bill that reduced the deficit. The act replaced the focus on deficit targets under Gramm-Rudman-Hollings with a two-pronged procedural approach to budgetary enforcement: (1) the implementation of pay-as-you-go (PAYGO) procedures to control new direct spending and revenue legislation and (2) discretionary spending limits to control the level of discretionary spending. In contrast to Gramm-Rudman-Hollings, these budget control mechanisms sought to preserve the deficit reduction achieved in the accompanying legislation rather than force subsequent legislation. As originally enacted, these mechanisms were to be in force for a period of five years, but they were modified and extended twice. In 1993, they were extended through 1998 in the Omnibus Budget Reconciliation Act of 1993, and in 1997, they were extended through 2002 in the Budget Enforcement Act of 1997.

This report provides information on the basic operation of the budgetary controls and will be updated as warranted.

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## **The Balanced Budget and Emergency Deficit Control Act of 1985 (Gramm-Rudman-Hollings)**

The Balanced Budget And Emergency Deficit Control Act of 1985 (known as the Gramm-Rudman-Hollings Act; P.L. 99-177) created statutory deficit limits and a statutory mechanism to enforce the limits. While Congress was already using the congressional budget resolution as a way of setting and enforcing desired spending and revenue levels, the statutory deficit targets were created to address at least two limitations of the budget resolution.<sup>1</sup> First, although a budget resolution can act as a procedural limit on the enactment of new spending and revenue legislation, the new statutory deficit limits sought to limit not just new legislation, but also the effects of enacted revenue and spending laws. Second, whereas the levels in the budget resolution are enforced by points of order on the House or Senate floor, the deficit targets were enforced by a mechanism that would require the President to order automatic spending cuts if deficit limits were breached.

### **Background**

By the early 1980s, the growing deficit had begun to cause concern. The deficit for fiscal year (FY) 1982 was \$128 billion or 4% of gross domestic product (GDP), and for FY1983 was \$208 billion or 6% of GDP, whereas the average deficit for the prior five years had been approximately \$61 billion or 2.5% of GDP.<sup>2</sup> The deficit for FY1985 had grown to \$212 billion or 5.1% of GDP.

When President Ronald Reagan submitted his annual budget proposal for FY1986, it included significant cuts to domestic spending, a 5.9% inflation adjusted increase in defense spending, and a \$180 billion deficit. This proposal was not well received by either the Democratic-controlled House, which disliked the pairing of spending cuts affecting the middle class with spending increases for defense, or the Republican-controlled Senate, which felt the proposed budget deficit was too high.<sup>3</sup> After seven months of negotiations, the House and Senate agreed, just before adjourning for August recess, to a budget resolution that assumed a \$171.9 billion deficit with the underlying assumption that to reach that deficit level, Congress would have to enact legislation producing \$55.5 billion in deficit reduction.<sup>4</sup> Upon Congress's return from August recess, it was

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<sup>1</sup> The congressional budget resolution was established by the Congressional Budget Act of 1974 (P.L. 93-344 as amended) and as a mechanism for coordinating congressional budgetary decision making. For more information, see CRS Report RS20368, *Overview of the Congressional Budget Process*, by Bill Heniff Jr.

<sup>2</sup> Deficit levels are obtained from Budget of the United States Government FY2010. Historical Tables. Table 1.1—Summary of Receipts, Outlays, and Surpluses or Deficits: 1789-2015 and Table 1.2-. Summary of Receipts, Outlays, and Surpluses or Deficits as Percentages of GDP : 1930-2015.

<sup>3</sup> *Congressional Quarterly Almanac*, "Reagan Budget Highlights Deficit-Cutting Effort," vol. XLI (1985), pp. 427-8.

<sup>4</sup> *Ibid*, pp. 429-446.

faced with raising the ceiling on the federal debt to \$2.079 trillion. The debt-limit increase measure, H.J.Res. 372, originated in the House and was passed under automatic procedures after agreeing to the budget resolution.<sup>5</sup> The Senate added to this measure an amendment based on a bill introduced by Senators Phil Gramm, Warren B. Rudman, and Ernest F. Hollings that was designed to bind Congress and the President to balancing the budget within a six-year period by employing budget process mechanisms to force subsequent legislative action. The House and Senate engaged in several months of negotiations, using both conference committee and amendment exchange, before agreeing to the Balanced Budget and Emergency Deficit Control Act on December 11, 1985. The measure was signed into law by President Reagan the following day (P.L. 99-177) and came to be generally known as the Gramm-Rudman-Hollings Act.

This idea of employing budget process mechanisms to force subsequent legislative action on deficit reduction was not entirely new. During the 97<sup>th</sup> and 98<sup>th</sup> Congresses (1981-1984), several House and Senate committees demonstrated an interest in budget process reform as a way of dealing with growing deficits. These included standing committees,<sup>6</sup> as well as special groups like the Senate's Temporary Select Committee to Study the Senate Committee System (also known as the Quayle Committee) and the House's Task Force on the Budget Process of the House Rules Committee (also known as the Beilenson Task Force). The work of these committees arguably shaped and added momentum to the budget process discussion, which ultimately led to the enactment of budget reform in 1985 and beyond.

## **The Establishment of Statutory Deficit Limits and Enforcement**

The Gramm-Rudman-Hollings Act established a requirement for the gradual reduction and elimination of budget deficits over a six-year period by specifying annual deficit limits (**Table 1**), and by creating a means of developing and enforcing a budget within these established limits.<sup>7</sup> The act did not specify what policy changes should be made to achieve deficit reduction, leaving Congress and the President to negotiate over possible revenue increases and spending decreases.

To enforce the specified deficit limits, the act set forth a specific process for the cancellation of spending by executive order, known as a sequester order, in the event that the deficit limits were breached. In the event of sequestration, the funding reduction necessary to achieve the specified target was to be equally divided between defense and non-defense spending. Programs (except for those programs with special status) within each category were to be reduced by a uniform percentage necessary to achieve the total overall reduction.

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<sup>5</sup> For more information on the now extinct automatic procedures related to debt-limit legislation, see CRS Report RL31913, *Developing Debt-Limit Legislation: The House's "Gephardt Rule"*, by Bill Heniff Jr.

<sup>6</sup> Such as the House Government Operations Committee, the Senate Governmental Affairs Committee, the Senate Rules and Administration Committee, and the House and Senate Budget Committees.

<sup>7</sup> Gramm-Rudman Hollings Act made other procedural changes to the federal budget process, such as amending the budget process timeline included in the Congressional Budget and Impoundment Control Act of 1974 and codifying what had become common practice in the congressional budget process. This report does not cover such changes and focuses solely on changes related to the establishment and enforcement of deficit limits.

**Table 1. Deficit Targets Under the Balanced Budget and Emergency Deficit Control Act of 1985**

(amounts in billions of dollars)

Fiscal Year	Maximum Deficit Amount Specified	Amount of Excess Deficit Permitted Without Triggering Sequestration	Maximum Deficit Amount-Year to Year Decrease
1986	171.9	0	—
1987	144.0	10	27.9
1988	108.0	10	36
1989	72.0	10	36
1990	36.0	10	36
1991	0	0	36

**Source:** Compiled by CRS using P.L. 99-177, available at Legislative Information Services (LIS) at <http://www.congress.gov>.

Although the act included the sequester mechanism as a way to enforce the limits, one of its authors has stated that “It was never the objective of Gramm-Rudman to trigger the sequester; the objective of Gramm-Rudman was to have the threat of the sequester force compromise and action.”<sup>8</sup> Nevertheless, the sequestration mechanism was designed to exempt or protect certain programs from sequestration in case the mechanism did take effect. Programs exempt from sequestration included Social Security; Medicaid; veteran’s compensation; veterans pensions; Aid to Families with Dependant Children (AFDC, currently known as TANF), Supplemental Security Income (SSI); Women, Infants, and Children (WIC); food stamps (currently known as SNAP); postal service fund; the earned income tax credit; and various other programs. Also, under the act, certain programs could only be cut by a certain percentage (1% in 1986 and 2% in subsequent years), such as Medicare, veterans’ medical care, community health centers, migrant health centers, and Indian health facilities and services. Other programs, such as guaranteed student loans and child support enforcement, had specific rules related to calculating reduction amounts.

By exempting specific programs from sequestration, the act caused non-exempt programs to bear a greater reduction in the event that sequestration was implemented. Further, the sequestration design did not distinguish between programs that had been already reduced through legislative action and those that had not. This created a situation in which funding for a program that was not exempt from sequestration may have been reduced (relative to the baseline) through the legislative process, but if spending on other programs grew, or were not reduced sufficiently to achieve the deficit target, the program that had already been reduced though legislation, would still be subject to reduction through the sequestration process. It was also argued that exempting certain programs from sequestration meant that advocates of those programs had less of an incentive to negotiate spending decreases for those programs if they knew the program would not be subject to sequester.

<sup>8</sup> Oral and written testimony of the Honorable Phil Gramm, former Member of the House of Representatives from 1979-1985 and U.S. Senator from 1985-2002), before the Senate Finance Committee at the hearing on Budget Enforcement Mechanisms, May 4, 2011, accessible at <http://finance.senate.gov/hearings/hearing/?id=f47f0466-5056-a032-526c-15196aea18d1>.

The deficit reduction procedures under this act allowed for suspension in wartime and in the event of a recession. If in their joint deficit and sequestration report (described below), the Office of Management and Budget (OMB) and the Congressional Budget Office (CBO) projected negative real economic growth in two consecutive quarters, or if the Commerce Department reported that actual real growth was below 1% in two consecutive quarters, the deficit level provisions could be suspended. In such an event, Congress could consider a joint resolution under expedited procedures, that once enacted would suspend the deficit reduction provisions for the current fiscal year, or for all fiscal years. It would not, however, suspend a sequestration order that had already taken effect.

## **The Process and Timetable**

The act required that both the President and Congress adhere to the deficit limits when developing their budget plans. The President was directed to submit to Congress a budget proposal consistent with the specified deficit targets for each fiscal year, and Congress was prohibited from considering any budget resolution that violated the deficit levels set forth in the act, except in a time of war. Further, the budget resolution was required to include any reconciliation directives, directing committees to report changes within their legislative jurisdiction, necessary to achieve the levels specified in the budget resolution.<sup>9</sup>

The act stated that in August of each year specified, the directors of OMB and CBO were directed to issue a joint deficit and sequestration report for the ensuing fiscal year. The report was required to include (1) an estimate of revenues and budget outlays anticipated for the next fiscal year, (2) a determination stating whether the projected deficit for each year would exceed the specified deficit level (allowing an excess of \$10 billion for the fiscal years 1987 through 1990), (3) an estimate of the rate of real economic growth that was projected to occur, (4) the amount (if any) by which the deficit targets were projected to be breached, and (5) if deficit levels were breached, the base from which reductions were to be made in each nondefense and defense account, and the dollar amount and percentage of reduction necessary to each account to eliminate the deficit excess.

Originally the Comptroller General of the General Accounting Office (GAO)<sup>10</sup> was required to review and consider the OMB/CBO report and “with due regard for the data, assumptions, and methodologies” included, then issue a report to the President and Congress on August 25 including estimates parallel to those required of OMB/CBO and also explain any differences with the OMB/CBO report. This left Congress less than two months to pass deficit reduction legislation in order to avoid sequestration using expedited procedures for Senate consideration of such legislation provided in the act.

Under the act, following the submission of the Comptroller General’s report, the President was required to issue an initial sequestration order consistent with the reductions prescribed by the Comptroller General. The amounts sequestered under this initial order were to be withheld from obligation beginning October 1, pending issuance of the final sequestration order. According to

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<sup>9</sup> For more information on the budget reconciliation process, see CRS Report RL33030, *The Budget Reconciliation Process: House and Senate Procedures*, by Robert Keith and Bill Heniff Jr.

<sup>10</sup> The General Accounting Office is now known as the Government Accountability Office.

the act, the President’s initial sequestration order, due September 1, would not take effect until the President’s final sequestration order, which was required to be issued on October 15.

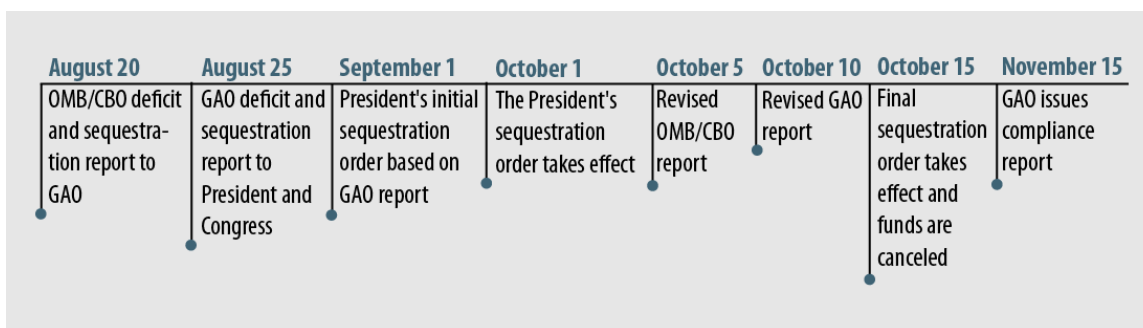
The act required that on October 5, OMB and CBO issue an updated deficit and sequestration report incorporating any legislative changes instituted since the submission of their initial report in August, but using the same economic and other estimating assumptions as in the initial report. Subsequently, GAO was required to issue an updated deficit and sequestration report based on the updated OMB/CBO report by October 10.

This meant that, while taking into account any newly enacted legislation, the deficit was being measured by a single “snapshot” taken in August measuring outlays and revenues. The measure of the deficit used for determining the size of the sequester, therefore, did not necessarily reflect the projected deficit at the time of the sequester. For example, economic conditions could have changed the deficit since the August snapshot, or outlays could have been intentionally delayed to fall outside the snapshot. Further, measuring the deficit, as well as Congress’s success in meeting the deficit targets on an annual basis, meant that one-time actions, such as selling assets, could be used to reduce the deficit in the short term, without actually making any long-term budgetary changes to spending or revenue policy.

After the President issued the October 15 final sequestration report instituting the reductions specified in the Comptroller General’s revised report, on November 15, the Comptroller General was required to issue a compliance report documenting whether the President’s final sequestration order fully complied with the requirements of the sequestration process specified in the act.

The act also included a procedures to be used in the event that the deficit reduction procedures were invalidated by the courts. In that event, a Temporary Joint Committee on Deficit Reduction (comprising the House and Senate Budget Committee members) was to be established to receive the OMB/CBO report on deficit and sequestration.<sup>11</sup>

**Figure 1. Gramm-Rudman-Hollings Act of 1985 Deficit Reduction Process Timeline**



Source: CRS, using P.L. 99-177, available at Legislative Information Services (LIS) at <http://www.congress.gov>.

<sup>11</sup> Within five days of receiving the report, the committee was required to report a joint resolution containing the text of the OMB/CBO deficit and sequestration report, which would be considered under expedited procedures. If the joint resolution was enacted, the reductions would take effect.



## The Balanced Budget and Emergency Deficit Control Reaffirmation Act of 1987 (1987 Reaffirmation Act)

In July of 1986, the sequestration process included in the 1985 Gramm-Rudman-Hollings Act was invalidated by the Supreme Court in *Bowsher v. Synar*, ruling that as an official of the legislative branch, the Comptroller General, could not compel presidential action. This meant that no automatic mechanism was in effect to enforce the deficit targets. Further, reaching the deficit targets proved more difficult than expected. As a result, Congress and the President revisited the 1985 act to address these and other issues.

Like the 1985 act, the 1987 act (H.J.Res. 324) began as a House originated measure to increase the public debt limit. In June of 1987, it originated under the House's automatic procedures after agreeing to the budget resolution. After several days of debate on the measure, the Senate agreed to an amendment offered by Phil Gramm that made extensive revisions to the 1985 act. The House and Senate went to conference to resolve their differences on H.J.Res. 324, and on September 29, 1987, President Reagan signed the measure, modifying the 1985 act (P.L. 100-119).

The 1987 Reaffirmation Act rectified the problem left by the invalidated sequestration mechanism by instead using a report submitted by the director of OMB as the trigger for the President's sequestration order for FY1988-FY1993. CBO was still required to submit a deficit and sequestration report, but now it was to be submitted to OMB and Congress. When producing his deficit and sequestration report, the director of OMB was required to give due regard to the deficit and sequestration report submitted to him by CBO.

In addition, the 1987 act extended by two years the timeframe set out in the 1985 act for achieving a balanced budget (requiring a balanced budget by FY1993 instead of 1991), and revised the deficit targets accordingly. The revised deficit targets maintained a year-to-year decrease, similar to that of the 1985 act; and also like the 1985 act, the 1987 act allowed for a sequester to be avoided if the deficit excess were less than \$10 billion (for certain years).<sup>12</sup>

Like the 1985 act, the 1987 act also included a fallback procedure to be used in the event that the new sequestration process was also invalidated by the courts, this time specifying that sequestration be triggered upon the enactment of a joint resolution that included the contents of the CBO director's deficit and sequestration report.

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<sup>12</sup> If sequestration were ordered then the entire deficit excess would be required to be eliminated.

**Table 2. Original and Revised Deficit Targets**

(amounts in billions of dollars)

Fiscal Year	Balanced Budget and Emergency Deficit Control Act of 1985			The Balanced Budget and Emergency Deficit Control Reaffirmation Act of 1987		
	Deficit Target	Year-to-Year Decrease	Amount of Excess Permitted Without Triggering Sequestration	Deficit Target	Year-to-Year Decrease	Amount of Excess Permitted Without Triggering Sequestration
1986	171.9	—	0	—	—	—
1987	144.0	27.9	10	—	—	—
1988	108.0	36	10	144.0	—	0
1989	72.0	36	10	136.0	8	10
1990	36.0	36	10	100.0	36	10
1991	0	36	0	64.0	36	10
1992	—	—	—	28.0	36	10
1993	—	—	—	0	28	0

**Source:** Compiled by CRS using P.L. 99-177 and P.L. 100-119, available at Legislative Information Services (LIS) at <http://www.congress.gov>.

The 1987 Reaffirmation Act added additional specificity to the procedures for making baseline estimates. Under the 1985 act, deficit and sequestration reports were required to include estimated baseline levels of spending and revenue for the year, as well as a statement of the economic assumptions used in the baseline estimate and a calculation of required sequestration amounts. Although the 1985 act directed both CBO and OMB to use certain assumptions when calculating estimates (e.g., that current law, including current statutory expirations, would continue), the directors of each agency could use their own economic and technical assumptions and any differences in the estimates were to be averaged. The 1987 act required the OMB director to calculate the sequestration amount using the same technical assumptions and methodologies used in the CBO director’s report and to explain any discrepancies between the OMB report and the CBO report. The act also included various specifications to be used in the calculation of a baseline estimate, such as assuming that appropriated entitlements be fully funded for the fiscal year. The 1987 act also added elements to the required deficit and sequestration reports, for instance requiring an estimate of the amount of net deficit reductions achieved during the year.

The 1985 act specified that half of any outlay reductions made as a result of sequestration would be split equally between defense and non-defense programs. The 1985 act exempted certain programs from sequestration, and had special rules for the calculation of outlay reductions of other programs. The 1987 act retained much of this, but added some additional stipulations and exemptions, such as authorizing the President to exempt all or some military personnel accounts from outlay reductions (but still requiring the same total amount of reductions in defense outlays) if approved by Congress. In addition, the 1987 act established a method for supplanting the President’s final sequestration order by providing that the majority leader of the House or Senate could introduce a joint resolution within ten days of the submission of OMB’s deficit and

sequestration report (due October 15 for FY1989-FY1993), which would be considered under expedited procedures.<sup>13</sup>

## **The Budget Enforcement Act of 1990 (BEA)**

Continuing difficulties and concerns associated with deficit targets and the sequester mechanism prompted Congress and the President to enact the Budget Enforcement Act of 1990 (BEA; P.L. 101-508), which fundamentally revised the procedures under the 1985 Gramm-Rudman-Hollings Act. Like the earlier act, the mechanisms included in BEA supplemented the existing budget process by adding statutory budget controls. However, whereas Gramm-Rudman sought to use budget controls to force future deficit reduction legislation, BEA sought to use budget controls to preserve the deficit reduction achieved in the accompanying reconciliation legislation. Further, the statutory controls included in BEA sought to limit any new legislation that would increase the deficit. The new law differed from Gramm-Rudman-Hollings in that enforcement was not based on the effects of already enacted spending and revenue law.

BEA replaced the focus on deficit targets under Gramm-Rudman-Hollings with a two-pronged procedural approach to budgetary enforcement: the implementation of pay-as-you-go (PAYGO) procedures to control new direct spending and revenue legislation and discretionary spending limits to control the level of discretionary spending. These procedures were enforced separately so that savings scored under one category could not be used to offset another. For instance, savings in discretionary spending caps could not be used to offset increases in direct spending or reductions in revenues.<sup>14</sup>

Although BEA amended and extended the deficit targets and sequestration enforcement procedures in the Gramm-Rudman-Hollings, these deficit targets were to be adjusted to take account of revised economic and technical assumptions. This meant that the deficit limits would not be breached as long as the discretionary spending caps and PAYGO procedures were adhered to.

## **Background**

Under the Gramm-Rudman-Hollings Act, the deficit target for FY1991 was \$64 billion, but did not require a sequester unless the deficit was projected to exceed \$74 billion (allowing for a \$10 billion margin). In its final sequestration report in October, OMB estimated a deficit of \$147.3 billion, requiring outlays for defense programs to be cut by \$41.7 billion (34.7%) and non-defense programs by \$41.7 billion (31.6%).

Faced with this looming sequester, in the fall of 1990, President George H.W. Bush and congressional leaders agreed to a five-year, \$500 billion deficit reduction plan that was the culmination of bipartisan budget summit negotiations between congressional and Administration negotiators, occurring at Andrews Air Force Base. This agreement was principally implemented

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<sup>13</sup> The joint resolution would not be referred to committee, and if considered on the floor, would be open to amendment.

<sup>14</sup> BEA made additional changes to the federal budget process, for example requiring that the budget resolution cover five (instead of three) fiscal years, changing the date of the Presidents budget submission, and changing the budgetary treatment of Social Security and federal credit activities. Such changes are not discussed in this report.

through the Omnibus Budget Reconciliation Act of 1990. H.R. 5835 was signed into law on November 5, 1990 (P.L. 101-508). Title XIII of the act is referred to as the Budget Enforcement Act of 1990, or BEA.

## **The Establishment of Discretionary Spending Caps**

BEA established statutory caps to limit discretionary spending. These limits were divided into three categories for the first three years covered. FY1991-FY1993 had three separate limits for new budget authority and outlays in the categories of defense, international, and domestic spending. For FY1994 and FY1995, there was to be a single limit on the total amount of discretionary budget authority and outlays for the year.<sup>15</sup>

Creating separate categories of spending limits demonstrated preferences, limited trade offs, and ensured predictability for specific types of spending. While it took away some flexibility for future negotiation, appropriators and Congress still had the authority to spend within the categories at their own discretion.

Such spending limits were enforced by points of order under the Budget Act on the House and Senate floor, as well as a sequestration process that required the President to cancel budget authority by a uniform percentage within the category in which a breach occurred. In this way, the sequester was targeted to the spending which had caused a breach.

If a breach of discretionary spending limits occurred, a sequester would be issued at the end of session, although a sequester order could also be made within a session if supplemental appropriations increased spending above the spending cap during the current year. Enforcement of discretionary limits, therefore, could occur in various stages of the legislative process, from consideration on the floor to after enactment of all spending bills at the end of the year.

The discretionary spending limits could be adjusted to take into account changes in budgetary concepts and definitions, changes in inflation (for FY1993 and FY1994), changes in estimates of credit subsidy costs to allow for specified allowances, such as emergency appropriations, IRS tax compliance funding, and debt forgiveness for Egypt and Poland. Such adjustments would be made three times per year: (1) in a sequestration preview report included in the President's annual budget submission; (2) in a sequestration update report, issued in August; and (3) in a final sequestration report, issued 15 days after the adjournment of Congress

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<sup>15</sup> Initially FY1994-FY1997 had a single limit for discretionary spending generally, although a separate category for violent crime reduction was later established for FY1995-FY1997 by Title XXI of the Violent Crime Control and Law Enforcement Act of 1994 (P.L. 103-322). Separate discretionary spending caps for defense, nondefense and crime reduction spending were established for FY1998 and FY1999. Two separate discretionary spending caps were in effect for FY2000: one for crime reduction and one for all other discretionary spending. Just one overall discretionary spending limit existed for FY2001 and FY2002. Further categories were subsequently established for highway and mass transit spending for FY1999-2002 and limits on conservation spending in six different subcategories were implemented for FY2002.

## **The Establishment of Pay-As-You-Go Procedures**

While discretionary spending caps limited spending in appropriations bills, BEA also created a PAYGO procedure with the goal of requiring that the aggregate impact of all new direct spending and revenue legislation not increase the deficit. Any new legislation that would increase direct spending or decrease revenues would have to be offset by other legislation so that the net deficit would not be increased. PAYGO did not seek to control the effects of any direct spending or revenue law already in effect.

PAYGO was to be enforced on an annual (rather than a case by case) basis. The impact of new direct spending and revenue legislation was recorded on a rolling PAYGO “scorecard” maintained by OMB. A violation would occur if the net effect of legislation enacted during the session (when combined with any carryover PAYGO balance from previous years) would result in a net increase in the deficit.

Sequestration procedures, similar to those used under Gramm-Rudman-Hollings, would be used to offset the amount of any net increase in that fiscal year or the previous fiscal year caused by the enactment of new direct spending or revenue legislation. To ensure that all direct spending and revenue legislation was accounted for on the PAYGO scorecard, the budgetary effect of any such legislation enacted during a session, but after the final sequestration report had been issued, were to be recorded on the PAYGO scorecard in the following session. Funds designated as emergency spending were exempt from calculations.

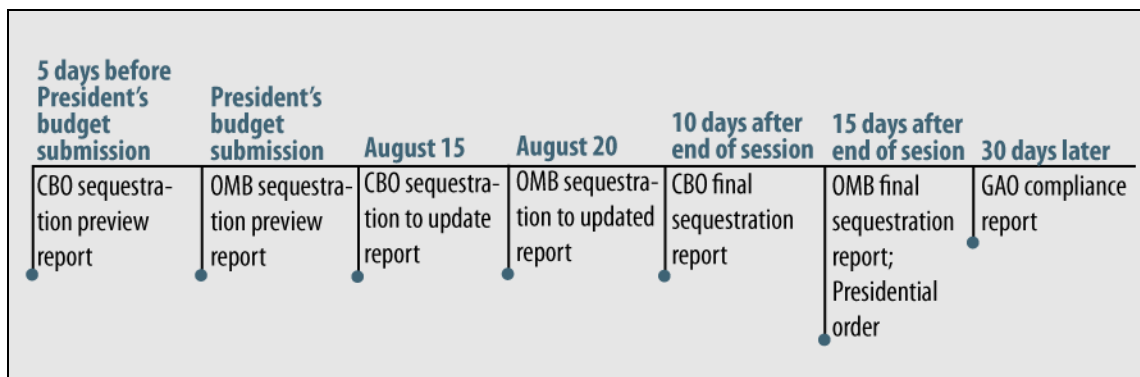
The sequestration order would make cuts to all non-exempt direct spending programs. Programs exempt from sequestration included Social Security (except for administrative expenses), and railroad retirement. Other programs were protected though not exempt from sequestration. For example, reductions in Medicare spending were limited to 4% and other special rules applied to specific programs. As with Gramm-Rudman-Hollings, this created a situation in which the enactment of new direct spending could potentially trigger sequestration that would reduce spending for programs that might not necessarily have grown or might have already been reduced through the legislative process. Further, effects of legislation to decrease revenues had the potential to trigger a sequester, and therefore make reductions to spending to effectively pay for those revenue decreases.

## **Sequestration Timetable**

Under BEA, discretionary spending caps, PAYGO procedures, and deficit targets were enforced by separate sequestration procedures under a new timetable (shown below).

As illustrated in **Figure 2**, BEA included a revised timetable that spanned the entire year, as opposed to the three-month timeline for Gramm-Rudman-Hollings. Under the new timeline, CBO and OMB were each required to prepare three different sequestration reports (preview reports, update reports, and final reports), each providing estimates regarding sequestration for each category. Any discrepancies between CBO and OMB estimates were required to be explained in the final OMB report. Unlike under the 1985 act, the President was not required to issue an initial sequestration report, only a final order implementing without revision the reductions specified in the OMB report.

**Figure 2. Budget Enforcement Act of 1990 Deficit Reduction Process Timeline**



**Source:** CRS, using P.L. 101-508 available at Legislative Information Services (LIS) at <http://www.congress.gov>.

During the course of the session, OMB was required to provide Congress with OMB's cost estimate for each budgetary measure within seven days of its enactment, to assist in monitoring compliance with discretionary spending limits. CBO, under the direction of the House and Senate Budget Committees, was responsible for scoring individual legislation before consideration for purposes of enforcement in the congressional budget process.

Procedures for suspension in times of war or low economic growth were continued from the Gramm-Rudman-Hollings Act.

## Extensions of BEA Included in the Omnibus Budget Reconciliation Act of 1993

In 1993, Congress passed H.R. 2264, the Omnibus Reconciliation Act of 1993 (OBRA 1993; P.L. 103-66), which was projected to reduce the deficit over the five-year period of FY1994-FY1998. Included in the act was an extension of discretionary spending caps and PAYGO procedures established in BEA1990. President Clinton signed OBRA 1993 into law on August 10, 1993.

To cover the period of the new budget agreement, the act extended PAYGO procedures through 1998 and established new discretionary spending caps for FY1996-FY1998 while retaining the existing caps for FY1994 and FY1995. In addition, the procedures for enforcing the spending caps and the PAYGO procedure were extended through FY1998.

## The Budget Enforcement Act of 1997

In July 1997, Congress completed action on two reconciliation bills: one dealing with direct spending and the other with revenues. The reconciliation bill dealing with direct spending, the Balanced Budget Act of 1997, included a separate title on budget enforcement, which is referred to as the Budget Enforcement Act of 1997 (BEA of 1997; P.L. 105-33). The bill was signed into law by President Clinton on August 5, 1997.

The changes set forth in the BEA of 1997 were intended to extend existing budget enforcement procedures to ensure compliance with the multi-year budget policies established in the legislation, preserving the deficit reduction achieved in the two reconciliation bills.

The BEA of 1997 extended discretionary spending limits through FY2002. The discretionary spending limits were divided into three categories for FY1998 and FY1999: defense, non-defense, and crime reduction. For FY2000, there were two discretionary spending limits: one for crime reduction and one for all other discretionary spending. For FY2001 and FY2002, there was just one overall discretionary spending limit.

The BEA of 1997 also extended the PAYGO procedures to apply to legislation enacted through FY2002 although the enforcement would continue through FY2006 to ensure that future impact of the legislation would be controlled. The act also reset all existing pay-as-you-go balances to zero and excluded the savings stemming from the Balanced Budget Act of 1997 and the Revenue Reconciliation Act of 1997 from any PAYGO calculations to offset any future deficit increases.<sup>16</sup>

The PAYGO procedures adopted in this act were effectively terminated in December 2002 by the enactment of H.R. 5708 (107<sup>th</sup> Congress), which set all PAYGO balances to zero to prevent the occurrence of a PAYGO sequester for FY2003 and thereafter. The bill was widely supported in both the House and Senate and was signed into law on December 2, 2002, by President George W. Bush (as P.L. 107-312).

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<sup>16</sup> The act also made other types of budget process changes. For instance, the act made permanent the temporary requirement set forth in the BEA of 1990 that budget resolutions cover at least a five-year period, instead of the previously required three-year period. Also, the act amended the deadline for committees to submit their views and estimates to the Budget Committee, from February 25 to within six weeks after submission of the President's budget.