



February 25, 2021

Honorable Kevin McCarthy  
Republican Leader  
U.S. House of Representatives  
Washington, DC 20515

*Re: Potential Statutory Pay-As-You-Go Effects of the American Rescue  
Plan Act of 2021*

Dear Leader McCarthy:

This letter responds to your request for information about whether a sequestration (or cancellation of budgetary resources) could be triggered in accordance with the Statutory Pay-As-You-Go Act of 2010 (PAYGO) if the American Rescue Plan Act of 2021 (as posted on the website of the House Committee on Rules on February 19, 2021) was enacted. CBO estimates that the legislation would increase deficits by \$1.9 trillion over the 2021-2031 period.

Under statutory PAYGO, the Office of Management and Budget (OMB) is required to maintain 5- and 10-year scorecards that report the estimated cumulative changes in revenues and outlays generated by new legislation. If either scorecard indicates a net increase in the deficit, OMB is required to order a sequestration to eliminate the overage. The balance used to determine the amount of a sequestration is not the projected increase in the deficit for that particular year. Rather, the PAYGO scorecards identify average annual effects of legislation over the 5- and 10-year periods and assign that average to each year in the period. Before an average is calculated, any current-year effects are combined with those for the budget year.<sup>1</sup>

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1. For more information, see Congressional Budget Office, *The Statutory Pay-As-You-Go Act and the Role of the Congress* (August 2020), [www.cbo.gov/publication/56506](http://www.cbo.gov/publication/56506), and letter to the Honorable Steny H. Hoyer concerning the effects of legislation that would raise deficits by an estimated \$1.5 trillion over the 2018-2027 period (November 14, 2017), [www.cbo.gov/publication/53319](http://www.cbo.gov/publication/53319).

CBO has analyzed the implications of enacting the American Rescue Plan, which, by CBO's estimate, would increase deficits by \$1.9 trillion (including current-year effects) over both a 5-year period and a 10-year period, assuming that no further legislation to offset that increase was enacted. In accordance with the PAYGO law, OMB would record the average annual deficit on its scorecard, showing deficit increases of \$381 billion per year for five years, if its estimate of the act's effects was the same as CBO's. If the bill was enacted before the end of the calendar year, that amount would be added to the PAYGO scorecard, which currently carries no balances for 2021 or any subsequent years.<sup>2</sup>

Without enactment of subsequent legislation that would offset the deficit increase, waive the recordation of the bill's effects on the scorecard, or otherwise mitigate or eliminate the statutory PAYGO requirements, OMB would be required to issue a sequestration order within 15 days of the end of the Congressional session to reduce spending in fiscal year 2022 by \$381 billion, CBO estimates. However, the PAYGO law limits reductions in Medicare spending to four percentage points (or an estimated \$36 billion for that year), leaving \$345 billion to be sequestered from the remaining mandatory accounts. Because the law entirely exempts many large accounts, including low-income programs and Social Security, in CBO's estimation, the annual resources available from which OMB must draw would total between \$80 billion and \$90 billion—significantly less than the amount that would be required to be sequestered.<sup>3</sup>

Because the required reduction in spending would exceed the estimated amount of available resources in each year over the next 10 years, in the absence of further legislation, OMB would be unable to fully implement the outlay reductions required by the PAYGO law.

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2. Office of Management and Budget, *Statutory Estimates of Pay-As-You-Go Legislation* (January 19, 2021), <https://go.usa.gov/xsKPk> (PDF, 108 KB).

3. For a full list of accounts subject to automatic reductions, see Office of Management and Budget, *OMB Report to the Congress on the Joint Committee Reductions for Fiscal Year 2021* (February 2021), <https://go.usa.gov/xskSq>.

Honorable Kevin McCarthy  
Page 3

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is Avi Lerner.

Sincerely,

A handwritten signature in black ink, appearing to read "Phillip L. Swagel", with a stylized flourish at the end.

Phillip L. Swagel  
Director

cc: Honorable John Yarmuth  
Chairman  
Committee on the Budget

Honorable Jason Smith  
Ranking Member  
Committee on the Budget