

Thoughts on a Balanced-Budget Amendment

By: Michael J. New - February 15, 2013

Ramesh and Mario highlight an interesting debate among conservatives about the best way to structure a proposed balanced-budget amendment. Representative Trent Franks (R., Ariz.) wants a straightforward amendment that would simply require that the budget be balanced. However, the Republican senators are proposing a balanced budget amendment that would include both a supermajority provision to increase taxes and a spending cap.

Overall, I would be inclined to agree with approach taken by the Republican senators. Currently 49 states have a balanced-budget amendment in effect, and their experience is instructive. In states where the balanced-budget amendment is well enforced, budget deficits typically result in some combination of tax increases and spending cuts. Very often, however, the tax increases are permanent and the spending cuts are temporary — leading to bigger government.

That said, the supermajority requirement may provide fiscal conservatives with a false sense of security, because there's evidence from the states that judges often fail to enforce conservative fiscal limits. Courts in Idaho and Montana have struck down property-tax limits and supermajority tax limits respectively. Even worse, in 2003, the Nevada supreme court held that the state legislature might disregard a constitutional provision requiring a two-thirds majority to increase taxes. The judges ruled that state education spending was insufficient. Their decision was pretty questionable since the Nevada constitution does not specify a particular level of support for education. However, what was worse is that the judges decided to only selectively enforce the state fiscal constitution. The state still had to abide by the state balanced-budget amendment, but the courts effectively suspended Nevada's supermajority tax requirement.

Fiscal conservatives certainly have their work cut out for them. I am a strong supporter of fiscal limits. However, a substantial body of research shows that fiscal limits are only effective when they are either part of the original state constitution or when they are put in place through the referendum process. Legislators generally are not able to place long-term, binding constraints on their own behavior. That having been said, a better approach for fiscal conservatives might be that of a spending limit. If the spending limit is clear and violations are visible, there is some evidence that it can reinforce a consensus to limit government growth.