



## **GOP senators press for balanced budget amendment**

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They've pushed it since at least the 1960s, and Republican senators are pushing it still: the idea of a balanced budget amendment to the U.S. Constitution.

This time around, though, there's something different, a thing called momentum.

The prospect for bipartisan support for such an amendment is growing, and it could be due to two separate factors. One is the exponentially exploding national debt, the portion of which held by the public could grow from \$13 trillion now to more than \$23.6 trillion by 2026, seriously eroding America's standard of living.

The second trigger could be the prospect of a constitutional convention called by the states. Many conservatives want such a convention-which needs two-thirds of state legislatures to call for one-but some lawmakers worry that a convention could consider other amendments once it convened.

Still others worry that a convention would permanently brand Congress as an impotent institution and delegitimize its constitutional authority.

Against that backdrop, the U.S. Senate Judiciary Committee held a public hearing last month to explore the possibilities of an amendment, as well as the ramifications. The chairman of the committee, Republican Sen. Charles Grassley of Iowa, said the issue was of great importance.

"Today, our total national debt stands at more than \$19 trillion," Grassley said. "During the past seven years, we've added trillions to the debt. Debt held by the public nearly doubled during this time. Annual deficits over many of those years were larger than they had been at any time since 1946. Debt held by the public is now equivalent to 74 percent of the economy-higher than any point in U.S. history except during World War II."

Grassley said President Barack Obama never took the debt seriously and has routinely proposed

budgets that increased taxes and spending while ignoring the drivers of long-term debt.

"Deficit spending harms economic growth and jeopardizes prosperity and opportunity for future generations," he said. "The fallacy that we can create economic growth through unending deficit spending defies logic and common sense. The fiscal problems facing the federal government are not complicated. The problem is not that we tax too little; it's that we spend too much."

Grassley pointed to the policies of President John F. Kennedy, who believed the tax system exerted too heavy a drag on growth in peace time, siphoned too much purchasing power out of the private economy, and reduced the financial incentives for personal effort, investment, and risk-taking.

"A more prosperous America does not result from an ever larger, more intrusive government," Grassley said. "President Kennedy knew the virtue that wealth, left in the hands of entrepreneurial Americans, would create new jobs, spur economic growth and grow the economy. Balancing the budget will increase private investment and grow the economy."

Grassley said a balanced budget would help consumers by keeping interest rates low and free up valuable resources for important priorities, rather than wasting them on interest payments.

Unfortunately, Grassley said, Congress will not balance the budget unless it is forced to do so.

"The history of busting budgets displays the insatiable appetite of some around here to spend money," he said. "It demonstrates the need for a balanced budget amendment to the constitution. So many of the arguments you hear against a balanced budget amendment are really arguments against a balanced budget."

### **Compact for America**

Among the problems with a balanced budget amendment is that there are almost as many different proposals for one as there are supporters of the concept, and at the hearing Ilya Shapiro, a senior fellow in constitutional studies at the libertarian Cato Institute, took a look at the problems associated with many of them, as well as general concerns.

Perhaps the greatest concern is that compliance is partial and unreliable, to use Shapiro's words, and, in states with balanced budget constitutional requirements, politicians often use accounting tricks to camouflage or paper over real deficits. Those kind of maneuvers have been a staple of the Wisconsin budget process for decades, for example, under both Republican and Democratic administrations.

Ultimately Shapiro articulated his own preference: Passage by 38 states of proposed Compact for America legislation, which has passed and become law in four states. Under the CFA proposal, at least 38 states would join a legally binding interstate compact calling for a constitutional convention to consider a balanced budget amendment pre-ratified by the states and limited to that issue under the compact rules and agreement. Congress must approve a compact, but it can do so with a majority vote, and, once the convention ratified the amendment, Congress could enact it with a simple majority vote.

The proposed Compact for America balanced budget amendment contains five components.

First, Shapiro said, it would ensure that the federal government cannot spend more than the tax revenue brought in at any point in time, with the sole exception of borrowing under a fixed-debt limit. Total outlays would be defined as total expenditures.

"Second, the CFA proposal imposes a limit on the amount of federal debt," Shapiro said.

Third, by compelling spending impoundments when 98 percent of that debt limit was reached, Shapiro said Washington would be forced to reduce spending long before borrowing reached its debt limit, preventing any default on obligations.

According to Shapiro, under the amendment the president would be required to start designating spending delays approximately seven to 10 months before the constitutional debt limit was reached, thereby starting a serious fiscal discussion with plenty of time in which to develop a plan to fix the national debt.

"It is important to underscore that the foregoing provision does not increase presidential power; it regulates presidential power by requiring the president to use his or her existing impoundment power when borrowing reaches 98 percent of a constitutional debt limit - as opposed to waiting until the midnight hour," he said. "It also checks and balances the president's ability to abuse the impoundment power by empowering simple majorities of Congress to override impoundments within 30 days without having to repeal the underlying appropriations, which is currently the only way Congress can respond to abusive presidential impoundments."

With this proposed amendment in place, Shapiro said it would be easy to know who is responsible for any impoundment that is enforced.

And what if neither the president nor Congress acted?

In that case, he said, spending would be limited to tax receipts as soon as the debt limit was reached-in effect resulting in an across-the-board sequester.

"The threat of a massive, automatic sequester resulting from inaction would give the president a strong incentive to designate and enforce the required impoundments," he said.

Fourth, Shapiro said, if new revenue streams were needed to avoid borrowing beyond the debt limit, the amendment would ensure that all possible spending cuts are considered first.

"It does this by requiring abusive tax measures - new or increased sales or income taxes - to secure supermajority approval from each house of Congress," he said. "It reserves the current simple majority rule for new or increased taxes only for completely replacing the income tax with a non-VAT sales tax, repealing existing taxation loopholes, and increasing tariffs, fines, or fees."

Fifth, if borrowing past the debt limit proved truly necessary, Shapiro said the CFA BBA eliminates the conflict of interest involved in Congress having the power to increase its credit unilaterally. Instead, the amendment would give the states and people the power to impose oversight by requiring a majority of state legislatures to approve any increase in the federal debt limit within 60 days of a congressional proposal of a single-subject measure to that effect.

### **An opposing point of view**

Robert Greenstein, the president of the Center on Budget and Policy Priorities, told lawmakers he didn't like any of the balanced budget amendment proposals, and didn't believe any amendment was necessary.

Greenstein said lawmakers needed to choose fiscal policy instruments carefully so as to avoid destroying the village in order to save it.

"The goal of a constitutional balanced budget amendment is to address our long-term fiscal imbalance," Greenstein said. "Unfortunately, a constitutional balanced budget amendment would be highly ill-advised as a way to try to do that and likely would cause serious economic damage. It would require a balanced budget every year regardless of the state of the economy, unless a supermajority of both houses overrode that requirement. This is an unwise stricture that large numbers of mainstream economists have long counseled against, because it would require the largest budget cuts or tax increases precisely when the economy is weakest."

It actually risks tipping faltering economies into recessions and making recessions longer and deeper, he said.

"When the economy weakens, revenue growth drops and revenues may even contract,"

Greenstein said. "And as unemployment rises, expenditures for programs like unemployment insurance-and to a lesser degree, SNAP (food stamps) and Medicaid-increase. These revenue declines and expenditure increases are temporary; they largely disappear as the economy recovers. But they are critical for helping to keep struggling economies from falling into a recession and for moderating the depth and length of recessions that do occur."

When the economy weakens, Greenstein continued, consumers and businesses spend less, which in turn causes further job loss.

"The drop in tax collections and increases in unemployment and other benefits that now occur automatically when the economy weakens cushion the blow, by keeping purchases of goods and services from falling more," he said. "That is why economists use the term 'automatic stabilizers' to describe the automatic declines in revenues and automatic increases in UI and other benefits that occur when the economy turns down; these actions help stabilize the economy."

On the other hand, he said, a constitutional balanced budget amendment effectively suspends the automatic stabilizers.

"It requires that when the economy weakens, federal expenditures be cut or taxes increased to offset the effects of the automatic stabilizers and prevent a deficit from occurring - the opposite course from what sound economic policy calls for," he said.

If the 2012 budget were balanced through spending cuts, Greenstein said, those cuts would have totaled about \$1.5 trillion in 2012 alone - and would have thrown about 15 million more people out of work, doubled the unemployment rate from 9 percent to approximately 18 percent, and caused the economy to shrink by about 17 percent instead of growing by an expected 2 percent.

More generally, Greenstein said, a balanced budget is not necessarily the right fiscal policy goal even when there is no immediate crisis.

"Keeping the debt ratio-the debt held by the public as a percent of gross domestic product-from continually rising is the soundest approach," he said. "The debt ratio should grow only during hard economic times or major emergencies, and it should be stable or decline during good times. It isn't necessary to balance the budget, however, in order to stabilize or reduce the debt ratio. Between 1946 and 1979, the debt ratio plummeted from 106 percent of GDP to only 25 percent. Yet in only eight of those 33 years was the budget in balance or in surplus."

### **Not necessarily an amendment**

Douglas Holtz-Eakin, president of the center-right GOP establishment group American Action

Forum, presented a potential third way. What Congress needed, he said, was a fiscal rule binding them to certain action, though that did not necessarily have to be a balanced budget amendment.

"At present, the federal government does not have a fiscal 'policy,'" Holtz-Eakin said. "Instead, it has fiscal 'outcomes.' The House and Senate do not always agree on a budget resolution. Annual appropriations reflect the contemporaneous politics of conference committee compromise, and White House negotiation. Often, the annual appropriations process is, in whole or in part, replaced with a continuing resolution. Annual discretionary spending is not coordinated in any way with the outlays from mandatory spending programs operating on autopilot. And nothing annually constrains overall spending to have any relationship to the fees and tax receipts flowing into the U.S. Treasury. The fiscal outcome is whatever it turns out to be-usually bad-and certainly not a policy choice."

And so it would be tremendously valuable for the federal government to adopt a fiscal rule, he said.

"Such a rule could take the form of an overall cap on federal spending (perhaps as a share of GDP), a limit on the ratio of federal debt in the hands of the public relative to GDP, a balanced budget requirement, or many others," Holtz-Eakin said. "Committing to a fiscal rule would force the current, disjointed appropriations, mandatory spending, and tax decisions to fit coherently within the adopted fiscal rule. Accordingly, it would force lawmakers to make tough tradeoffs, especially across categories of spending."

Most important, Holtz-Eakin said, it would give Congress a way to say, 'no.'

"Spending proposals would not simply have to be good ideas," he said. "They would have to be good enough to merit cutting other spending programs or using taxes to dragoon resources from the private sector. Congress would more easily be able to say, 'not good enough, sorry.'"

So, what should one look for in picking a fiscal rule?

"First, it should work; that is, it should help solve the problem of a threatening debt," Holtz-Eakin said. "A fiscal rule like PAYGO (any new spending must be budget neutral or offset with savings derived from existing funds) at best stops further deterioration of the fiscal outlook and does not help to solve the problem."

Second, he said, there should be a direct link between policymaker actions and the fiscal rule outcome.

"Finally, the fiscal rule should be transparent so that the public and policymakers alike have a

clear understanding of how it works," he said. "This is a strike against a rule like the ratio of debt-to-GDP. The public has only the weakest grip on the concept of federal debt in the hands of the public, certainly does not understand how GDP is produced and measured, and (God help us) may not be able to divide. Without transparency and understanding, public support for the fiscal rule will be too weak for it to survive."

Holtz-Eakin pointed to other countries that have successfully adopted fiscal rules.

"The Dutch government established separate caps on expenditures for health care, social security and the labor market," he said. "There are also sub-caps within the core sectors. Sweden reacted to a recession and fiscal crisis by adopting an expenditure ceiling and a target for the overall government surplus (averaged over the business cycle). Later (in 2000) a balanced budget requirement was introduced for local governments. Finally, in 2003 the public supported a constitutional amendment to limit annual federal government spending to avoid perennial deficits."

But whatever the rule adopted, including a balanced budget amendment, Holtz-Eakin said everyone needs to recognize an important reality.

"A lesson is that, no matter which rule is adopted, it will rise or fall based on political will to use it and the public's support for its consequences," he said.