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Balanced-Budget Amendment Could Curb Spending Needed in Economic Recovery

By Alison Fitzgerald and Greg Stohr - Jul 31, 2011

Three out of four Americans favor a constitutional amendment requiring a balanced federal budget, polls show. The question is whether an amendment would create more problems than it fixes.

[House Republicans](#), before accepting an increase in the \$14.3 trillion limit on federal debt to avoid a projected Aug. 2 default, insist on a balanced budget amendment. After the House on July 29 approved such a plan by Speaker [John Boehner](#) -- including its link to passage of a constitutional amendment -- the Democratic-controlled Senate rejected the measure.

Requiring the U.S. government to spend only what it collects in [tax revenue](#) each year could deepen economic downturns and limit long-term infrastructure investment, said [Joel Prakken](#), chairman of Macroeconomic Advisers LLC.

"If there's a shock to the economy and revenues weaken, it would be a real drag on the economy," Prakken said.

Democrats say Republicans' insistence on a balanced budget amendment with no tax increases means they want to cut entitlement programs.

"This is about protecting Social Security, Medicare and Medicaid," Representative Jim McGovern of Massachusetts said yesterday during floor debate in the House.

The balanced budget amendment proposal is drawing skepticism even among supporters of the Republican effort to slash federal spending. The Wall Street Journal [editorial](#) page earlier this month came out in opposition.

'Ignoring' Constitution

"Congress is already ignoring the Constitution in spending on the 1,001 things it's not authorized to spend on," said Roger Pilon, director of the Center for Constitutional Studies at the [Cato Institute](#), which urges smaller government and lower taxes. "The problem isn't with the document. The problem is with those people who have abandoned their oath to abide by the document."

A bill passed by the House this month called Cut, Cap and Balance included a provision that would cap

federal spending at 19.9 percent of the U.S. gross domestic product, require that the budget be in balance each year and raise taxes only after a super-majority passed the increase.

A constitutional amendment requires passage by a two-thirds majority of each chamber of Congress and then ratification by three-fourths of the states.

Public Support

Lawmakers first considered a constitutional requirement to balance the federal budget in 1956, according to the [Congressional Research Service](#). The idea first came to a vote in 1981.

The proposal has broad support among the public. A [poll](#) conducted this month for [CNN](#) by ORC International found that 74 percent of Americans support a balanced budget amendment, while 24 percent oppose it. The poll surveyed 1,009 people July 18-20 and had a margin of error of plus or minus 3 percentage points.

“It’s a great idea in spirit,” said Tim Kane, an economist at the Kansas City-based Kauffman Foundation.

He said the government nonetheless must have the ability to borrow and spend so that it can cushion the blow of an economic slowdown through programs such as [unemployment insurance](#), food stamps and aid to states. Extra economic stimulus would be impossible under many balanced-budget proposals.

Economic Cycle

To avoid tying the president’s hands in time of war, or worsening a recession, an amendment should require a balanced budget over several years or an economic cycle, Kane said. Along with Glenn Hubbard, the former chairman of the [Council of Economic Advisers](#) under Republican President [George W. Bush](#), Kane has circulated a proposal that would limit spending to the median of tax revenue over five years.

“That keeps the spending above cycle during a down turn” Kane said.

Prakken agrees, saying an amendment should track a business cycle instead of individual years. “In recessions you’d be allowed to run a deficit and in good years you can replace that,” he said.

Adding such caveats to a constitutional amendment would be unprecedented, said Joe Minarik, director of research at the Washington-based Committee for [Economic Development](#).

“Every version of a balanced budget amendment provides some escape hatch based on a vote in the Congress,” said Minarik, who was the chief economist at the Office of Management and Budget under Democratic President [Bill Clinton](#). “If such an amendment were passed and ratified, it would be the

only provision of the Constitution that could be waived.”

High Standard

He said the need for exceptions shows that balancing the budget doesn't reach the high standard necessary to include it in the Constitution.

A constitutional amendment would embroil the courts in the federal budget, said [Doug Kendall](#), president of the Washington- based Constitutional Accountability Center, which advocates for environmental protections and civil rights. He said it isn't clear how a court would react to an out-of-balance budget.

“Would it start cutting things?” Kendall said. “Would it invalidate the budget in the middle of the year? Would it make choices as to whether we pay our soldiers in [Iraq](#) or give Grandma her Social Security check? Do we want our courts doing that?”

To contact the reporters on this story: Alison Fitzgerald in Washington at Afitzgerald1bloomberg.net; Greg Stohr in Washington at gstohr@bloomberg.net

To contact the editor responsible for this story: Mark Silva at msilva34@bloomberg.net

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