

The Thomas A. Roe Institute for Economic Policy Studies

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**WHAT THE STATES CAN TEACH CONGRESS
ABOUT BALANCING THE BUDGET**

INTRODUCTION

One of the last official acts of Congress at the close the 1980s was to raise the ceiling on the national debt to \$3.2 trillion, after the federal government posted its seventh straight \$150 billion-plus budget deficit. To the vast majority of Americans, the breakdown of federal fiscal policy and the mountain of debt that it produced proves the need for more stringent budget discipline on Capitol Hill. Public opinion polls reveal consistently strong support for a federal balanced budget requirement, a presidential line-item veto, and a constitutional limitation on federal spending and taxes.

Waiting for Leadership. Yet in the halls of Congress, resistance to serious fiscal reform predictably is as strong as ever. Many lawmakers contend that calls for budget reform merely ignore the real problem: the lack of political willpower in Congress to cut the budget.¹ Representative Bill Gradison, the Ohio Republican, recently wrote in the *Washington Post*: "The budget process needs leadership, not reform....Being caught up in budget process reform puts Congress and the White House in a politically comfortable trap, rendering them institutionally incapable of making meaningful headway against the deficit."² For more than a decade, America has waited for such congressional "leadership" and "political willpower" to end deficit spending. The waiting continues.

1 See, "Budget Reform: A Red Herring for Red Ink," *Wall Street Journal*, November 17, 1986, p.1.

2 Bill Gradison, "No More Budget Games," *Washington Post*, January 9, 1990, p. A19

Staunching Red Ink. A good way to determine whether budget reform measures could help reduce federal deficit spending is to examine how well they work in the 50 states. For this, as for countless other matters throughout American history, the states are laboratories. State budget reform laws now have extensive track records using just the types of statutory and constitutional budget rules that are being contemplated for the federal government. Examples: 49 states require balanced budgets, 43 governors wield line-item veto authority, and 20 states limit taxation and expenditures.³

The most recent evidence from the states strongly suggests that these budgetary tools staunch government red ink. For example, since the voters of Arizona, California, and Michigan in 1978 approved enforceable constitutional tax and expenditure limits (known as TELs), these states generally have balanced their budgets and have seen only modest growth in the size of government. By contrast, the legislatures in Iowa, New York, and Wyoming rejected such self-imposed restraints, and subsequently have seen their economic and fiscal health decline dramatically in recent years.

Over the past decade the federal government, unlike the majority of the 50 states, has refused to adopt policies of fiscal self-restraint. The results: triple-digit federal budget deficits and continued runaway spending. These results stand in stark contrast to the combined budgetary surplus of the states and their overall improved fiscal condition in the 1980s.⁴ If the 1990s are to halt the continuing buildup of federal debt, Members of Congress must adopt the institutional budgetary constraints that have succeeded in the 50 state capitals.

THE GRAMM-RUDMAN-HOLLINGS EXPERIMENT

Many members of Congress who oppose new budget reforms point to the federal government's supposedly disappointing experience with the Gramm-Rudman-Hollings (GRH) deficit reduction law as evidence that procedural changes cannot help tame the budget. GRH was enacted in 1985 when Congress was under intense public pressure to reform the budget process immediately and to reduce the \$200 billion budget deficit. The controversial law requires Congress to balance the budget by 1991 by meeting a series of annual deficit reduction targets. If Congress misses these targets, the law is to trigger automatic spending cuts, a process called "sequestration," to reduce the deficit to the mandated level.

Critics charge that Congress continually veers off the GRH balanced budget track. There is some truth to this complaint. The original GRH law was scheduled to produce a balanced budget by next year. Yet the deficit

³ For a summary of these various budget laws, see Advisory Commission on Intergovernmental Relations, *Significant Features of Fiscal Federalism*, 1986, pp. 145-66.

⁴ Dana Joel, "The State of the States: Time for a Bush Federalism Policy," Heritage Foundation *Background* No. 734, November 3, 1989.

remains well above \$100 billion. As might have been predicted, each time the GRH noose gets too tight, Congress loosens it by stretching out the GRH targets, as it did in 1987 and is expected to do again this year. The new target year for a balanced budget probably will be pushed to 1994 or 1995.

“Phony Numbers.” Critics also charge that Congress finds ways of skillfully evading the intent of the GRH law.⁵ Last year, for example, Congress claimed to save the taxpayer nearly \$2 billion by moving the Postal Service “off budget.” All this means is that the spending is no longer counted in calculating the deficit. Congress avoids disclosing the real costs of programs by providing \$150 billion annually in off-budget federally guaranteed loans to special interest groups rather than offering on-budget direct cash subsidies. Congress also achieves GRH deficit ceilings by fudging its budget forecasts. Senator Don Riegle, the Michigan Democrat, acknowledges that when it comes to meeting GRH targets, “there is a gentlemen’s agreement to live with phony numbers.”⁶ Hence, actual deficits under GRH have been about \$25 billion per year above forecasted deficits.

| | 1986 | 1987 | 1988 | 1989 | 1990 |
|---|------|------|------|------|------|
| CBO Baseline Deficit Projection, August 1985 | 212 | 229 | 243 | 264 | 285 |
| Actual Deficits with Gramm- Rudman- Hollings | 221 | 149 | 153 | 151 | 130* |

Sources: Congressional Budget Office, “The Economic and Budget Outlook: An Update,” August, 1985; Office of Management and Budget, “Historical Tables of the United States Government,” Fiscal Year 1990.

* Latest CBO forecast.

5 Stephen Moore, “Congress’s Dirty Dozen: Budget Process Horror Stories,” Heritage Foundation *Backgrounder* No. 602, September 10, 1987.

6 Quoted in “Congress Pokes Again at Perennial Problem, the Budgetary System,” *Wall Street Journal*, February 26, 1987, p. 1.

Despite its shortcomings, GRH still has had tamed the federal budget to an important extent.⁷ Table 1 shows that the 1989 deficit was about \$100 billion lower than the Congressional Budget Office (CBO) had projected in 1985, before the enactment of Gramm-Rudman. Government spending in the five years prior to GRH grew 8.7 percent annually; this slowed to only 3.2 percent in the five years subsequent to its passage. Dozens of costly new spending proposals have been blocked because, under GRH, it now takes a three-fifths vote in the Senate, rather than the usual majority, to launch a spending program. Senator Phil Gramm, the Texas Republican and author of the budget law, acknowledges its defects, but insists that "Gramm-Rudman is the worst way to operate the budget except for every other way that Congress has ever tried."⁸

He is right. It would be a mistake for Congress to repeal the GRH law, as some Members are threatening. GRH is the only instrument of fiscal restraint in Washington. The federal budget process suffers from too little discipline, not too much.

WHAT WORKS IN STATE BUDGET REFORM

The states have been energetic pioneers of budget reform over the past two decades, experimenting with dozens of fiscal policy innovations that could be used at the federal level. These include:

Balanced budget requirements;

Line-item veto;

Tax and expenditure limitations (TEL);

Rainy day funds, so that tax hikes are not required during budget emergencies;

Supermajority requirements for tax increases;

Bill recall provisions that allow voters to repeal legislation through referenda;

Biennial budgeting;

Fiscal notes, which establish the cost of new programs and regulations before they are adopted;

Sunset acts, which allow programs to expire automatically after a specified length of time; and

⁷ For a further discussion of the benefits of GRH and needed reforms, see Stephen Moore, "Managing the Federal Budget," in Charles L. Heatherly and Burton Yale Pines, eds., *Mandate for Leadership III: Policy Strategies for the 1990s* (Washington, D.C.: The Heritage Foundation, 1989).

⁸ Interview with Senator Phil Gramm, November 1989.

Zero-based budgeting, which requires legislators to reevaluate the costs and benefits of spending programs each year.

Although each of these potentially is relevant to the federal budget procedure, the first three have been most prominently mentioned as prescriptions for the continued ills of deficit spending.

Line-item Veto

For more than a century, governors have been using the line-item veto to reduce state budgets.⁹ With this type of veto, a governor can eliminate wasteful programs contained in a spending bill without vetoing the entire legislation. The device was adopted first by Georgia in 1865 and quickly spread to other southern states. According to Ronald Moe, a constitutional scholar with the Congressional Research Service, the Progressive Era, from 1900 to around 1915, “marked the high-water mark of the item veto.” It was widely adopted because of a “faith in its efficacy as a tool of good management.”¹⁰

Today, 43 governors wield item veto power. Some have used it extensively. Illinois Republican Governor James Thompson has shaved spending in appropriations bills by about 3 percent per year with his item veto. In 1983, he saved Illinois taxpayers \$201 million by employing the line-item veto. California Republican Governor George Deukmejian has trimmed his state’s budget by up to \$1.2 billion a year using the line-item veto.¹¹ Most governors regard this veto as an essential budget balancing tool. The National Governor’s Association, even with its Democratic majority, in 1985 endorsed a line-item veto for the President.

Powerful Weapon. For many years, scholars maintained that the line-item veto has little impact on the overall level of a state’s spending totals. Economists Burton Abrams of the University of Delaware and William Dougan of Dartmouth College contend that “[w]hile the existence of a line-item veto may affect a governor’s ability to selectively eliminate specific expenditures, it does not appear to alter aggregate government spending.”¹² Yet a pathbreaking 1989 study by economists Mark Crain and former director of the Office of Management and Budget James Miller of the Center for the Study of Public Choice at George Mason University effectively

9 For a concise history of the line-item veto, see Ronald Moe, “Prospects for the Item Veto at the Federal Level: Lessons from the States,” National Academy of Public Administration, 1987.

10*Ibid.*, p. 10.

11Alan J. Dixon, “The Case for the Line-Item Veto,” *Journal of Law, Ethics, and Public Policy*, Vol. 1, 1985, p. 213.

12Burton A. Abrams and William R. Dougan, “The Effects of Constitutional Constraints on Governmental Spending,” *Public Choice*, Vol. 49, 1986, pp. 101-16.

challenges the validity of this conclusion.¹³ Crain and Miller argue that these earlier studies “treat all [43 state] item vetoes the same, when in fact they differ a great deal.” Crain and Miller have discovered that one particular form of line-item veto authority, the item reduction veto, is a powerful weapon against wasteful spending. The item reduction veto allows the governor to reduce the appropriated amount of spending in a specific program without vetoing the entire amount. For instance, the governor could shave \$50 million of spending from a \$200 million public works program, but allow the other \$150 million to be spent.

Crain and Miller find that the item reduction veto slowed the rate of growth of state spending between 1979 and 1986. The ten states that grant the governor this high-precision veto “cut the rate of spending growth by 2.7 percent” for each two-year period. This is relevant to the current debate over legislation (H.R. 3271, H.R. 3583, S. 1553) introduced in the U.S. Congress by Republican Senators Dan Coats of Indiana and John McCain of Arizona that would grant the President item reduction veto authority.¹⁴ According to Crain and Miller, “If this item reduction authority had been in effect [between fiscal 1982 and fiscal 1989], real federal spending growth would have been cut in half.” The cumulative savings to the taxpayer “is estimated to be about \$450 billion in 1988 dollars.”

The Balanced Budget Amendment

Today, all states but Vermont require balanced budgets. Like the line-item veto authority, these 49 balanced budget requirements differ markedly in terms of enforcement mechanisms and the stringency of their limits.¹⁵ For example, in 42 states the requirement is constitutional, while in seven it is merely a law passed by the legislature. Such laws can be altered easily to accommodate big spenders, while constitutional provisions are difficult to change. In three states, all that is required is that the governor submit a balanced budget; the state legislature need not approve it. Nine states allow a deficit to be carried over to the next fiscal year.

Reduced Borrowing. There is considerable evidence that states with stringent balanced budget laws, for example constitutional requirements prohibiting the carry-over of deficits from one year to the next, have significantly lower deficits than states without these measures. George Mason University economists Charles Rowley, William Shughart, and Robert

13Mark Crain and James Miller, “Budget Process and Spending Growth,” *William and Mary Law Review*, forthcoming.

14Stephen Moore, “The Legislative Line-Item Veto: Testing If Congress Truly Wants Deficit Reduction,” Heritage Foundation *Background Update* No. 117, October 25, 1989.

15“Significant Features of Fiscal Federalism” Report issued by the Advisory Commission on Intergovernmental Relations, 1987, pp. 37-39.

Tollison, evaluated the impact of constitutional balanced budget requirements on state borrowing in 1982.¹⁶ They found that “constitutional debt limit and budget balance provisions do restrict a state’s propensity to borrow. Indeed, the estimated coefficient value suggests that states with such requirements borrow approximately half the amount than states without limits.” The authors conclude that for balanced budget requirements to be effective, “they must be put into the constitution.”

This finding was confirmed by a 1987 study by the Advisory Commission on Intergovernmental Relations, an independent federally-funded body that studies federal-state relations, which investigated the impact of balanced budget laws on state spending, taxes, and debt in 1984 in the 50 states.¹⁷ The study found statistically significant support for the following conclusions:

- ◆ ◆ States with stringent balanced budget requirements had per capita surpluses of 0.8 to 1.0 percent higher than all other states.
- ◆ ◆ States with stringent balanced budget measures had per capita spending in 1984 that ranged between \$156 and \$192 lower than other states.
- ◆ ◆ States with constitutional balanced budget requirements experienced lower per capita taxes of about \$170 in 1984 than other states.

The report notes that “[a]lthough this result needs to be interpreted cautiously, it does appear to suggest that any effect balanced budget requirements may have in reducing the size of state deficits is not accomplished by increasing the per capita tax burden on state taxpayers.” This conclusion of the Advisory Commission on Intergovernmental Relations study has come under fire from Steven Gold of the National Conference of State Legislatures. Gold writes: “The regressions [in the ACIR study] are so poorly specified as to be virtually useless. For example, to whether balanced budget requirements matter, one should analyze the frequency of deficits over an extended period of years and what factors are related to the probability of incurring a deficit. Instead this study focuses on how large a surplus a state holds in a single year.”¹⁸ This criticism, however, is not

¹⁶Charles K. Rowley, William Shughart, and Robert D. Tollison, “Interest Groups and Deficits,” in James Buchanan, *et al.* (eds.) *Deficits* (Oxford, New York: Basil Blackwell, 1987) pp. 263-80.

¹⁷“Significant Features of Fiscal Federalism,” *op. cit.*, pp. 51-56.

¹⁸Steven Gold, “Book Review,” *Public Budgeting and Finance*, Summer 1988, pp. 112-114.

entirely valid. The published results of the study applied to just one year. Yet, according to the authors, the ACIR analysis was applied to several other years, with consistent findings that balanced budget requirements reduce debt, spending, and taxes. The researchers described their findings as “robust.”

“Creative Accounting.” States with only statutory, but not constitutional, balanced budget rules have not been very successful in deterring deficit spending.¹⁹ This is also true of states where the legislature easily can waive the balanced budget requirement, by a majority vote, for instance, rather than by a required supermajority. The evidence from the states indicates that state lawmakers continually attempt to evade the constraints imposed by their balanced budget laws.²⁰ According to a 1987 review of legislative responses to balanced budget laws by Michigan State University economists Daniel Suits and Ronald Fisher, state lawmakers routinely try to circumvent the laws by moving programs off budget, taking money from pension trust funds supposedly set aside exclusively for retired workers, expanding government regulation as an alternative to direct spending, deferring expenditures to the start of the next fiscal year, and resorting to other forms of “creative accounting.”²¹ In his historical examination of the state balanced budget laws, economist B.U. Ratchford notes that these practices are nothing new:²²

After a [debt] limitation has been imposed, there are usually many attempts to evade or circumvent it. As the conditions which prompted the limitation recede into the background, there is frequently a tendency for these efforts to increase while the defense of the limitation weakens.

In sum, the record of state balanced budget requirements in eliminating debt buildup and deficit spending is far from perfect. State legislators attempt to undermine balanced budget requirements by resorting to methods of evasion remarkably similar to those employed by the Congress to escape the Gramm-Rudman deficit limits. Yet the evidence from the states also suggests that constitutional balanced budget laws with strict enforcement provisions

19For a viewpoint that balanced budget laws are ineffective, see: Abrams and Dougan, *op. cit.*, p. 111; and Congressional Budget Office, *Balancing the Federal Budget and Limiting Federal Spending: Constitutional and Statutory Approaches*, 1982.

20Kenneth J. Kirkland, “Creative Accounting and Short Term Debt: State Responses to the Deficit Threat,” *National Tax Journal*, Vol. XXXVI, pp. 395-9, 1987; Daniel Suits and Ronald Fisher, “A Balanced Budget Constitutional Amendment: Economic Complexities and Uncertainties,” *National Tax Journal*, Vol. XXXVIII, pp. 467-77; B.U. Ratchford, *American State Debts*, (Durham, North Carolina: Duke University Press, 1971); and A. James Heins, *Constitutional Restrictions Against State Debt*, (Madison, Wisconsin: University of Wisconsin Press, 1963).

21Suits and Fisher, *op. cit.*, p. 467.

22Ratchford, *op. cit.*, p. 7.

can effectively plug many of these spending leaks. An amendment to the United States Constitution would ensure a level of fiscal discipline on Capitol Hill at least comparable to that found in the states.

State Tax and Expenditure Limitations

The state and local tax revolts of the late 1970s were sparked by rising voter dissatisfaction with the performance of government and the escalating burden of property and income taxes.²³ This grass roots movement first appeared in western states such as Arizona, California, and Colorado but quickly spread to most of the other 50 states. Between 1977 and 1982, some 36 states cut income taxes, 22 reduced sales taxes, nine indexed income tax brackets to inflation, and eighteen adopted citizen initiatives, such as California's famous Proposition 13 in 1978, placing broad limits on the taxing power of local governments. Another product of this broad reform movement was the approval by voters in twenty states of restrictions on the total level of taxes and spending that the state legislature can enact in any year.²⁴ These tax and expenditure limits (TEs) generally peg the growth of state outlays and revenues to some objective measure in the state, such as growth in personal income, prices, population, or a combination of these.²⁵

Table 2
Spending and Taxes in Tax and Expenditure Limit (TEL)
States vs. All Others

| | Spending as % of personal income | | | Taxes as a % of personal income. | | |
|----------------|-------------------------------------|------|----------|-------------------------------------|------|----------|
| | 1979 | 1987 | % change | 1980 | 1987 | % change |
| TEL states | 5.5 | 5.7 | +4 | 6.1 | 6.0 | -2 |
| Non-TEL states | 5.4 | 5.9 | +9 | 6.5 | 6.6 | +2 |

Source: National Association of State Budget Officers, 1988.

²³Patrick McGuigan, *Politics of Direct Democracy in the 1980's: Case Studies in Popular Decision Making*, (Washington, D.C.: Free Congress Research and Education Foundation, 1985).

²⁴New Jersey's TEL expired in 1985 and has not been reinstated by voters.

²⁵For a review and update on these laws, see: American Legislative Exchange Council, "State Tax and Expenditure Limitations," February, 1988; and "State Tax and Expenditure Limitations: A Living Legacy of the Tax Revolt," *The Fiscal Letter*, March/April, 1988, pp. 8-10.

Although these laws have been less effective in curbing the growth of state governments than originally envisioned, they have modestly slowed the growth rate of spending and taxes, and have helped the state economies. Table 2 compares the growth of state taxes and outlays as a share of income between 1979 and 1987 in the states with TELs versus all other states, based on a study by the National Association of State Budget Officers (NASBO).²⁶ These differences are not as “minor” as NASBO at times contends. Significantly, for instance, TEL states originally had higher rates of spending and taxes than all others; now they have lower rates than the others. In 1979 spending in the TEL states was 4 percent higher than all other states, but by 1987 this rate was 10 percent lower.

Taxpayer Revolt. These interstate comparisons, moreover, probably understate TELs’ slowing of government spending and taxes. The reason: even state legislatures not subject to TEL restrictions were forced to restrain their fiscal behavior in the early 1980s to escape the threat of their own citizens taking the action that citizens did in other states. According to a study of TELs by John Shannon and Susannah Calkins, analysts at the Advisory Commission on Intergovernmental Relations: “The taxpayer revolt not only imposed many TELs, but it also sent a powerful message to state and local policy makers, most of whom escaped highly restrictive fiscal limitations. The message was clear: if you want to avoid Proposition 13-type restrictions, make sure that the increase in state spending does not exceed the growth of the private economy.”²⁷ The result: even states that did not enact TELs formally have been restrained by the Tax Revolt movement.

To determine the effectiveness of TELs, University of Colorado economist Barry Poulson of the University of Colorado last year analyzed the fiscal behavior of twenty TEL states before and after the law was enacted.²⁸ He concludes:

If we examine time series for the 20 states that have adopted TELs, we find these constraints had a significant impact in reducing the rate of growth of the government sector. With only two exceptions the share of government in state income increased rapidly up to the tax revolt of the mid 1970s, and has declined since then.

²⁶Marsha Howard, “State Tax and Expenditure Limitations: There Is No Story,” National Association of State Budget Officers, 1988.

²⁷John Shannon and Susannah Calkins, “Federal and State-Local Spenders Go Their Separate Ways,” *Intergovernmental Perspectives*, Winter 1983, pp. 23-29.

²⁸Barry Poulson, “Constitutional Tax and Expenditure Limitations,” American Legislative Exchange Council, unpublished draft, 1989.

If we compare these 20 states [with TEL limits] with other states that did not impose these constraints the evidence suggests that the former were more successful in reigning in the growth of the government sector after the tax revolt. The two exceptions to this trend, Alaska and Montana, each are unique in relying upon severance taxes rather than income taxes, and as a result their revenue and expenditure base are dominated by the vicissitudes of the energy sector.

THE EFFECTIVENESS OF TELS: FOUR CASE STUDIES

Four states have had particularly successful experiences with TELS in the past decade. These are:

California: Thanks to a decade of rapid economic growth in the state, in 1987 state tax collections surged, bumping up against the state's 1978 revenue ceiling, known as "the Gann Limit." Because lawmakers were constitutionally prohibited from spending this revenue windfall, Governor Deukmejian called for a \$1.1 billion rebate to state residents. Taxpayers received up to a \$236 rebate check from the government as a direct result of the TEL. This restraint mechanism has helped California check spending even in boom times and avoid the budget chaos that now confronts northeastern states that experienced similar robust growth in the mid 1980s but used the funds to create new and expanded government programs.

Michigan: In 1986, Michigan neared its constitutional tax limit, known as the Headlee Amendment. Legislators responded by cancelling a scheduled income tax hike, because they would not have been permitted to spend the funds collected. A strong testament to the effectiveness of the TEL is that nine times in eleven years Michigan's education lobby, government employee unions, and other coalitions in the state seeking more benefits and higher spending levels have attempted, unsuccessfully, to overturn the law. In the most recent effort, last November, the Headlee Amendment was reaffirmed by voters by a three to one margin.²⁹

Missouri: In 1980 Missouri voters approved a constitutional TEL, known as the "Hancock Amendment," restricting growth in taxes and spending to the rate of growth of state personal income. A 1989 study by economist Thomas Wyrick of Southwest Missouri State University finds that "Missouri incomes have increased by about 1.76 percent relative to the U.S. average

²⁹Taxpayers United for the Michigan Constitution, "Voters' Message to State Capitol: Manage Better the \$14 Billion Tax Money You're Already Spending," news release, 1989.

due to the adoption of Hancock.”³⁰ The restraint of government spending and taxes imposed by Hancock “appears to have stimulated more than \$8.5 billion worth of additional income during the eight years since it took effect.”

Colorado: The Colorado TEL, approved in 1977, limits state spending to a growth rate of 7 percent per year. A 1989 study by the American Legislative Exchange Council estimated that the spending cap “reduced the increase of state expenditures by about one-fourth compared to the spending that would have occurred in the absence of the limit.”³¹

The Weakness of TELs

Despite these successes, one common defect seems to impair the twenty state TELS. Legislators and special interest groups have been exempting additional spending items from the limits. The National Association of State Budget Officers calculates that “on average, approximately 44 percent of state-appropriated funds are excluded from tax or expenditure limitations.”³² Not surprisingly, these exempted items act as escape valves for politicians wishing to hike spending or revenues over the statutory limit. In Colorado, for example, education spending, highway construction, and water projects are exempt from the 7 percent spending growth cap. Poulson finds that each of these items has expanded at a rate far above 7 percent. Similarly, in 1988 the Oregon legislature bumped up against the state expenditure ceiling and attempted to avoid the limit by moving expenditures off budget.

BUDGET RULEMAKING LESSONS FOR CONGRESS

Federal lawmakers seeking to deal with breakdown of fiscal policy making in Congress can draw on three important lessons from the states’ experience with budget reform:

1) Budget rules have a significant impact on budget outcomes.

Generally, state balanced budget laws and tax limitation measures slow the growth rate of debt, spending, and taxes. These restraints have not been perfect. Indeed, taxes and debt appear to be on the rise again in several states, particularly in the northeast. Yet the state experience generally lends solid empirical support to proponents of an item reduction veto for the president, a federal balanced budget requirement, and a federal tax and expenditure limitation.

³⁰Thomas L. Wyrick, “The Hancock Amendment and the Missouri Economy,” *Southwest Missouri Economic Review*, 1989.

³¹Poulson, *op. cit.*

³²Howard, *op. cit.*, 1988.

2) Stringent, constitutional budget reforms are more effective in reducing deficits than statutory changes.

State legislators often seek “escape valves” to circumvent budget restrictions in much the same manner that federal lawmakers thwart the intent of the Gramm-Rudman-Hollings law. Yet the state experience teaches a critical lesson: Lawmakers are reluctant to violate constitutional, in contrast to legislatively initiated, fiscal restraint measures. This suggests that amendments to the U.S. Constitution are needed that require a balanced budget except in wartime, that limit taxes and spending as a percentage of national income, and that provide the President with item veto authority. A related lesson of the states is that statutory fiscal discipline measures only work when they have stringent enforcement mechanisms, such as a supermajority vote requirement to override the restrictions.

3) Similarities between the budgetary environment in the states and in the U.S. Congress make lessons from one level of government applicable to the other.

The states long have been valued as laboratories of democracy. They serve as relevant models of federal government behavior because they are organized around roughly the same lines: constitutional restrictions, separation of powers between three branches, bicameral legislatures (except, of course, for Nebraska), and roughly the same terms of office. Although state governments are not simply miniatures of the federal government, the Advisory Commission on Intergovernmental Relations argues that the successful experience in the states with budget reform “provides useful and relevant information regarding the likelihood that some kind of fiscal limitation devices would produce similar results for the national government.”

CONCLUSION

In a burst of candor on Capitol Hill, Senator John McCain, the Arizona Republican, revealed the root of Congress’s systemic budgetary problems, saying: “We are addicted to spending and can’t admit it.”³³

It is not surprising that, given this addiction, Congress refuses to loosen voluntarily its grip on the federal purse strings by enacting significant budget reform mechanisms. For many years congressional leaders have blocked new rules of federal fiscal restraint by arguing that budget process reform is no cure for the epidemic of red ink in Washington. They are beginning to sound as convincing as a just-convicted felon who pleads to the judge that a long prison sentence would not deter him from committing additional crimes.

³³Senator John McCain, *Congressional Record*, August 4, 1989, p. S-10294.

But the fiscal policy experiences of the states, where balanced budgets are the rule not the exception, refute this criticism of budget reform. On the state level budget process reforms have not work perfectly – but they do work.

Ending Congress's Excuses. The lessons for Washington thus are clear. Rather than further relaxing federal deficit spending constraints by repealing or diluting the Gramm-Rudman-Hollings law, U.S. lawmakers need to enhance the law's effectiveness by enacting a balanced budget amendment along with restriction on taxes and an item veto for the President.

The American people have listened to nearly a decade of excuses from Congress about why it cannot get its fiscal house in order. The low respect for Congress in the polls is understandable given its poor management of the budget. If Congress refuses to act, then the people must go through the constitutional amendment route – in much the same way that they have successfully done so in the states.

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