SOLVING THE DEFICIT PROBLEM: A TAX LIMITATION/BALANCED BUDGET AMENDMENT

The House of Representatives soon will vote on a balanced budget amendment (H.J.R. 268, S. 183) which would require the President to submit, and the Congress to approve, a balanced budget each year. The amendment also would prohibit Congress from raising the debt ceiling unless this would be supported in each House by a three-fifths vote; currently it takes only a majority to hike the debt ceiling. To become part of the Constitution, this amendment must be approved by a two-thirds vote in each chamber of Congress and be ratified by three-fourths of the state legislatures. The problem is that there are a variety of possible balanced budget amendments. A measure simply requiring a balanced budget could be used to justify higher taxes to fund greater spending. What is needed, therefore, is a balanced budget amendment containing a provision restricting the ability of Congress to raise taxes.

In the past three decades, Congress only once has produced a balanced budget. That was in 1969. Since then, 21 straight years of deficit spending have added more than $2 trillion to the national debt. While many observers discount the economic impact of the national debt, asserting that it is "just money we owe ourselves," deficit spending does in fact harm the economy. The reason is that every dollar that the Treasury Department borrows to finance excessive government spending is a dollar that is not being spent more productively by the private sector. Money that is loaned to the federal government is money that is lost to private borrowers. The borrower may be a young worker seeking a car loan, a family searching for a mortgage for a first home, or a business trying to raise money to build a new factory and expand production. Whatever the purpose of the private borrower, federal deficit spending "crowds out" more valuable uses of funds.

Draining the Productive Sector. Deficits thus are bad. But they are the symptom, not the disease. Government borrows more only because it is spending more. Replacing deficit-financed government spending with spending financed by taxes simply substitutes one policy that harms the economy for another. Taxes, like borrowing, are funds transferred from the productive sector of the economy to the government. With this in mind, the single most important provision of a balanced budget amendment would be a clause restricting taxes.

A "Taxpayer Protection" clause should make it more difficult to raise taxes and should limit the total tax burden to be placed upon the American people. The simplest method of making it harder for the federal government to increase the tax burden would be the so-called super-majority requirement introduced by Representative Larry Craig, the Idaho Republican; it would require a three-fifths vote by each House. Currently, taxes can be raised by a simple majority of those voting. As important, a provision limiting total tax collections as a percentage of the GNP would keep Congress from using a balanced budget amendment as an excuse for annual tax hikes.

Buying Popularity. The current budget debate demonstrates that a balanced budget amendment without a tax limitation provision surely would generate support for higher taxes. The statutory requirement in the 1985 Gramm-Rudman-Hollings deficit reduction law that the 1991 deficit not exceed $64 billion, combined with the refusal of Congress to cut spending sufficiently, seems to be what prompts George Bush to betray his "No New Taxes" promise and join with congressional big spenders in seeking more funds from already overtaxed Americans. Higher taxes, of course, allow more spending, and more spending allows many politicians to "buy" popularity.

It is this allure of buying popularity which prompts lawmakers to say "yes" to taxes even though this may threaten economic growth and impose heavy costs on individuals and businesses across America. This temptation would not be changed by a balanced budget amendment that did not include a provision making tax increases more difficult to enact.

Were such an amendment adopted, if taxes did not equal the amount lawmakers sought to spend, they could raise taxes to finance the spending rather than limit spending. Since the political system currently rewards big spending, a tax limitation provision is needed to restore balance to the political decision-making process.

Strong Tax Limits Needed. A proper balanced budget amendment would strengthen the economy by promoting responsible fiscal policy. This would not be the case with a balanced budget amendment that might spur higher spending and higher taxes. To ensure that a balanced budget amendment encourages sounder economic decisions and is a vehicle for economic growth, the strongest possible tax limitation language should be included.

Proponents of higher taxes and spending understandably have cheered George Bush's flip-flop decision to betray his no-tax pledge. These lawmakers may cloak their tax-and-spend agenda with rhetoric about the need for greater fiscal responsibility and for closing the budget deficit gap. But 21 straight years of fiscal responsibility rhetoric has not balanced the budget. A tax limitation and balanced budget amendment would. Until such an amendment is enacted and ratified by three-fourths of the states, all tax increases should be "off the table."

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For Further Information:

Daniel J. Mitchell, "Mr. President, Keep Your Promise: No New Taxes," Heritage Foundation *Backgrounder* No. 769, May 18, 1990.

Stephen Moore, "What the States Can Teach Congress About Balancing the Budget," Heritage Foundation *Backgrounder* No. 751, February 6, 1990.