

## WHY AMERICA NEEDS A BALANCED BUDGET AMENDMENT

(Updating *Backgrounder* No. 899, "Solving the Federal Spending Crisis with a Balanced Budget Amendment," June 4, 1992.)

Congress is expected to vote this fall on an amendment to the Constitution that would require the federal government to balance its budget each year. For fifteen years, interest groups and their congressional allies have blocked the approval by Congress of such an amendment.<sup>1</sup> Advocates are hopeful that this year the amendment at last has attracted sufficient bipartisan support to be sent to the states for ratification.

The proposed amendment, introduced in the House by Texas Democrat Charles Stenholm (H.J. Res. 103) and in the Senate by Illinois Democrat Paul Simon (S.J. Res. 41), requires the President to submit a balanced budget each year and Congress to approve a balanced budget—unless three-fifths of both the House and Senate vote to incur a deficit. The amendment contains an escape clause for war or "military conflict," and a clause stating that the amendment takes effect two years after ratification by the states. Perhaps most important, the amendment contains a strong enforcement mechanism by requiring a three-fifths vote to increase the limit on the national debt. Under the amendment, lawmakers must vote to expand the borrowing power of the government any time they want to spend funds that would raise the national debt. Thus, no matter how many budget gimmicks and phony estimates Congress and the President used to avoid the amendment's discipline, and to project a declining deficit, the balanced budget requirement could be enforced so long as pro-deficit spending lawmakers failed to reach the 60 percent support necessary in each chamber for raising the debt limit.

**Constitutional Reform is Long Overdue.** The case for a balanced budget amendment is stronger than ever. Despite incessant rhetoric about cutting the deficit, and huge tax increases, the deficit continues to grow, fueled by the growth in spending. Under the Bush Administration alone, inflation-adjusted domestic spending climbed by more than it did under Jimmy Carter and Lyndon Johnson put together. Combined with a jobs-killing tax hike in 1990 that lost \$3 for every \$1 it was supposed to raise, this spending spree slowed economic growth and drove the national debt to more than \$3.2 trillion.<sup>2</sup>

- <sup>1</sup> Since the late 1970s, the balanced budget amendment has had support from strong majorities in both the House and the Senate. In order to send the amendment to the states for ratification, however, it must be approved by two-thirds of those voting in each chamber. The amendment was approved by the Senate in 1982 by a vote of 69 to 31, but failed to muster the required votes in the House. Since that time, the proposed amendment has received hefty majorities in each chamber, but fallen short of the two-thirds margin.
- <sup>2</sup> The "gross" national debt, which includes money the government owes itself (such as the Social Security Trust Fund),

Rather than reverse the Bush policies, as he promised during the campaign, President Bill Clinton is continuing them. His economic package, enacted by Congress this summer, not only imposes a record tax hike on the economy, but also increases federal spending by a staggering \$323 billion over the next five years. The debt, meanwhile, will climb by nearly \$1.2 trillion over the same period, the second largest five-year increase in American history.<sup>3</sup>

**Sound Economic Policy.** Americans are growing tired of promises to cut the deficit that never materialize, and this translates into strong voter support for a balanced budget amendment. This growing support for a balanced budget amendment is welcome news for the sputtering economy. Whenever government expands, resources are drained from the productive sector of the economy to finance that growth. In the absence of a balanced budget requirement, politicians are able to use both taxation and borrowing to increase the size and burden of government. If the option of debt-finance is removed by a balanced budget amendment, however, legislators will find it difficult to increase spending as fast as it has grown during the Bush-Clinton era.

This is not to say that a balanced budget amendment is a panacea. A balanced budget amendment will not prevent politicians from increasing the burden of regulations and mandates, for instance, which impose a heavy burden on the economy. One need only look at the jobs-killing employer mandate included in the Clinton health care proposal to find an example of economically destructive government policy that is outside the scope of a balanced budget amendment. It may even be the case that a balanced budget amendment would indirectly cause an increase in regulation and mandates. The reason: If a balanced budget amendment prevented politicians from rewarding a special interest group with direct federal handouts, lawmakers could use regulations or mandates as a means of currying favor. Similarly, a balanced budget amendment would not even guarantee sound fiscal policy. Neither H.J. Res. 103 nor S.J. Res. 41 includes a meaningful tax limitation provision.<sup>4</sup> As a result, this balanced budget amendment would not by itself stop damaging tax hikes. A strong tax limitation provision, such as the three-fifths supermajority requirement to raise taxes contained in the balanced budget amendment introduced by Texas Republican Congressman Joe Barton (H.J. Res. 9), would be needed to eliminate the danger of higher taxes.

Even with these weaknesses, however, a balanced budget amendment would strengthen the economy by making it harder to increase federal spending. Lawmakers could try to protect wasteful spending programs by raising taxes, as they did in 1982, 1984, 1987, 1990, and 1993, but this is where the enforcement provision would come into play. History shows that tax hikes increase the deficit by stimulating new spending and shrinking the tax base. But under a balanced budget amendment, together with the three-fifths constitutional requirement to increase the national debt, politicians would find it much more difficult to spend expected new revenues. Moreover, once it became apparent that the tax increase was not generating the revenues predicted by the Congressional Budget Office's static economic models,<sup>5</sup> the three-fifths requirement could be used to block spending already in the pipeline.

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exceeds \$4.3 trillion.

- 3 In all likelihood, the Clinton budget will cause the greatest debt increase in history. For purposes of this analysis, the Administration's figures were accepted at face value. But if history repeats itself, Clinton's tax increase will not generate as much revenue as he predicts, and the promised spending "cuts" (actually reductions in projected rates of growth) will never materialize. As a result, the debt will grow much faster than the White House admits.
- 4 Both versions simply require that a tax increase receive a majority of the total number of each chamber to become law. A tax increase, for instance, could not pass by a 49-48 vote in the Senate.
- 5 When preparing estimates of how much revenues a tax increase will generate, the Congressional Budget Office incorrectly assumes that taxpayers will not take steps to minimize their tax liabilities and that the general economy will not be adversely affected.

**Debunking Scare Tactics.** Beneficiaries of pork-barrel spending, of course, strongly oppose a balanced budget amendment. In an effort to protect their access to taxpayers' money, interest groups such as public employee unions and the social welfare organizations are conducting a well-financed campaign against the balanced budget amendment. Their arguments are strong on rhetoric but they rely almost exclusively on flawed analysis and misinformation. Consider the following myths:

**Myth #1: A balanced budget amendment would introduce economic policy into the Constitution.**

**Reality:** The Constitution explicitly deals with economics. Monetary policy, tax policy, private property rights, regulation, and trade are just a few of the economic issues already enshrined in the document. What really matters is whether a proposed amendment is needed to correct a systemic flaw in the political system. With the national debt over \$3.2 trillion and rising, the answer must be yes.

**Myth #2: A balanced budget amendment would harm the economy by “cutting” government spending and preventing government from increasing spending to combat economic downturns.**

**Reality:** Unfortunately, there are still some economists and politicians who believe in the widely discredited Keynesian theory of economics. This theory holds that government spending stimulates the economy—by assuming that it is better for growth for money to be spent by government than to be saved by the private sector. Decades of experience in America and other countries, however, demonstrates conclusively that the Keynesian theory is invalid. For instance, if the Keynesian theory were correct, the economy should have boomed during the Bush Administration.

**Myth #3: The balanced budget amendment is a hollow gimmick, a substitute for making real choices about how to balance the budget.**

**Reality:** Just the opposite. A balanced budget amendment would force lawmakers to stop the irresponsible practice of increasing spending today while leaving the bill to future generations. Once the amendment took effect, lawmakers would have little choice but to make long-overdue reforms in federal programs and finally set fiscal priorities. By contrast, budget policy in the absence of a balanced budget amendment has been a farce, featuring fraudulent budget deals (raise taxes now and promise to “cut” spending later) that inevitably wind up increasing federal budget deficits.



The national debt is \$3.2 trillion and rising. Irresponsible government spending and borrowing has resulted in nearly \$13,000 of debt for every man, woman, and child in America, and will add to this another \$1.2 trillion of debt in the next five years alone by the Administration's own estimates. Politicians repeatedly have demonstrated that they cannot resist the temptation to engage in deficit spending. The only long-term solution to America's growing fiscal crisis is a balanced budget amendment.

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