



FACTS & OPINIONS

On Public Interest Issues

Quotes

Liberty cannot be established without morality, nor morality without faith.

—Alexis de Tocqueville

Debt is just taxation by another name.

—Dr. Richard Wagner

Government's view of the economy could be summed up in a few short phrases: If it moves, tax it. If it keeps moving, regulate it. If it stops moving, subsidize it.

—President Ronald Reagan

Principles such as balancing the federal budget and returning more power to the states are now widely accepted in the capital, even by liberal Democrats.

—*U.S. News and World Report*, May 13, 1996

A Balanced Budget Amendment

Dr. Richard Wagner, George Mason University

Several times in recent years Congress has considered a constitutional amendment to require the federal government to operate with a balanced budget. Each time the amendment received solid majority support, but fell short of the two-thirds support required to refer the amendment to the states for ratification. The Constitution also allows the states to initiate an amendment. Now 29 of the required 34 states have in force a formal call for a constitutional convention to propose a balanced budget amendment. Many opinion polls show that over two-thirds of Americans favor such an amendment.

Most states, including Iowa, already operate with some form of constitutional balanced budget requirement. This obligation clearly does not hinder these states from governing effectively. Yet, critics of a federal balanced budget re-

quirement protest that such an amendment would be an adventure in fiscal folly that would render responsible government impossible.

If fiscal folly is loose in the land, it has surely been centered in Washington D.C. Since 1961, the federal government has operated with a budget deficit every year except one — 1969, which showed a surplus of three billion dollars. The cumulative total of these federal deficits now exceeds five trillion dollars of debt, over \$18,000 for every U.S. citizen.

Washington has long promised to do something about its budgetary irresponsibility. In 1968 and again in 1974, the federal government made sweeping reforms of its budgetary process. These reforms did nothing to reverse the pattern of steady deficits. Congress tried again in 1985, by enacting the Gramm-Rudman-Hollings Act. This measure promised to

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A Balanced Budget Amendment

Dr. Richard E. Wagner

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reduce the deficit gradually until a balanced budget was achieved in 1991.

Two years after it was enacted, Congress postponed the full implementation of the legislation. Three years later, in 1990, Congress and President Bush abandoned Gramm-Rudman-Hollings entirely. To be sure, Congress accompanied this decision with a promise to develop an even more effective approach to budget control. For three decades now, Congress has accumulated a record of statutes promising budgetary control, and the results are plain for all of us to see.

The movement for a constitutional balanced budget requirement has grown from the recognition that the federal government will continue to neglect this fundamental fiscal responsibility unless citizens impose some external restraints on their elected representatives. If Congress and the President cannot budget responsibly, some of their techniques for budgetary mismanagement can be removed. A balanced budget amendment would serve this purpose well.

What about the claim that a balanced budget requirement would hamstring the government's ability to use budgetary policy to promote prosperity and to deal with unforeseen emergencies? These objections miss the mark for several reasons. First, all balanced budget amendment proposals contain escape

clauses. These provisions allow Congress to override the balanced budget requirement with a three-fifths or two-thirds approval in both the House and the Senate. In addition, the President and Congress can always finance genuine emergency actions by drawing on funds previously accumulated through savings, much as families often do. A government does not need to borrow to deal with emergencies. It can deal with them by making supplemental appropriations from emergency reserves.

A balanced budget requirement will bind lawmakers to a type of discipline which is a normal part of any successful budgeting process. A commitment to avoid deficits need not enshrine any particular economic doctrine in the Constitution. Rather, it makes explicit something that cannot be avoided in any case. The taxes that governments require from citizens must always equal the expenditures they promise. In this sense, a government's budget must always be balanced. This is a straightforward proposition of accounting, according to which total debits must equal total credits. For a government, its total expenditure debits must match its revenue credits.

With a budget deficit, expenditure debits appear to exceed revenue credits. This appearance results because the government's account books are incomplete. The government does not count as a credit

**A Balanced Budget
Amendment**

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A balanced budget amendment forces Legislators to take full responsibility for their budgetary decisions.

item the future taxes it must impose by virtue of its present deficit. Yet those future taxes are as much a consequence of present spending as are present taxes. What we call a budget deficit actually would be a balanced budget if the government made explicit those taxes it must impose in future years because of its current deficit spending.

The fundamental issue in a balanced budget requirement is not one of numerical balance or imbalance, but rather whether that balance, dictated by simple accounting principles, is achieved explicitly and openly or implicitly and secretly. With a balanced budget amendment, increased spending must be accompanied by increased current taxation. This leads to some balance in the political process between the desires for more spending and the resistance to higher taxes.

A budget deficit postpones tax payments from the present to the future. It is this shift that explains the political popularity of deficit financing. A deficit shifts the cost of present spending from current taxpayers to future taxpayers. To some extent, these future taxpayers will be the present taxpayers who will have aged while the debt has grown. But as the years pass, an ever-larger share of those future taxpayers will be people who were not voters when the deficit was created. Deficit finance thus lessens taxpayer resistance to government spending because future

generations have no say in present budgetary choices that will require future tax increases.

A balanced budget amendment forces Legislators to take full responsibility for their budgetary decisions. If they support more government spending, they must at the same time impose on current taxpayers the full cost of that spending.

Deficit spending allows Legislators to shirk this responsibility. They can take full credit for the spending measures they support. But they are not held accountable for those costs that are passed off to future generations through deficit spending.

A balanced budget requirement would promote responsibility in budgetary decision-making at the national level, just as the citizens of Iowa have come to expect it of their leaders at the state level.

To obtain reprints of this article and current information regarding the status of balanced budget amendment proposals, contact:

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Changing Welfare As We Know It

Wanda Moebius

Wanda Moebius is editor of *Heritage Today*. Reprinted by permission of Heritage Foundation.

The most comprehensive overhaul of the welfare system in 60 years is now the law of the land...

Times have indeed changed in Washington: The most comprehensive overhaul of the welfare system in 60 years is now the law of the land. This accomplishment is due in large part to the pioneering work of Robert Rector, Senior Policy Analyst at the Heritage Foundation, who was described earlier this year in a Wall Street Journal profile as the one individual in America with the greatest influence on the thinking of Congress on welfare issues.

When lawmakers began the serious work of reforming America's destructive welfare system earlier this year, they turned to *America's Failed \$5.4 Trillion War on Poverty*, Rector's 1995 road map for moving the poor from welfare to work, and curbing the rise in illegitimacy that threatens America's social fabric. In that landmark 115-page study, Rector spelled out the need to end the automatic "entitlement" to welfare benefits which became the centerpiece of the welfare reform plan. Rector also helped draft many of the other key reforms that went into the new legislation.

According to Rector, the legislation alters the current welfare system in four ways:

- (1) It slows the annual growth of welfare to 4.5 percent, instead of 6 percent — a rate of increase still higher than the rate of inflation.
- (2) The new reforms require

welfare recipients to find private-sector jobs or perform community service in exchange for benefits. However, because of a number of loopholes, the actual number of recipients who will be required to work is quite low — for example, by 1999 the typical state will be required to have just 18 percent of people on welfare working.

- (3) The legislation eliminates the "perverse incentive" of financially penalizing state governments that successfully reduce welfare rolls.

- (4) It makes reducing illegitimacy levels a major focus of national welfare policy.

"While there are weaknesses in the reform legislation, particularly the weak work requirements, the bill is a significant step in the right direction and does represent the largest change in welfare since the early years of the War on Poverty," said Rector.

FURTHER REFORMS STILL NEEDED

Ending welfare as we know it, as the President rhetorically put it during the 1992 campaign for the White House, is just half the battle. The next important step is to bring economic and moral renewal to the nation's most impoverished areas.

". . . Much more can be done to help the poor overcome the poverty, drug abuse, family

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The States Start To Lend A Helping Hand

John Buntin

John Buntin is a correspondent with *National Journal*. Reprinted by permission.

One innovative feature of Iowa's attempt to reform its welfare system is the Individual Development Account. Recipients of public assistance work with various community-based organizations to open special accounts at private banks for long-term goals such as obtaining a college education, launching a small business, or purchasing their own home. Community charitable organizations match the funds invested by individuals to assist them toward financial independence. John Buntin reports on recent developments in the use of IDAs in Oregon and Iowa.

Advocates of individual development accounts (IDAs) have found ideological allies in a growing number of states. State support has translated into a wide variety of IDA initiatives in recent years.

ASSET ACCUMULATION

At the philosophical heart of IDAs is an emphasis on asset accumulation, not income maintenance. In *Assets and the Poor: A New American Welfare Policy* (1991), Michael Sherraden, the intellectual godfather of IDAs, wrote, "Instead of focusing welfare policy on income and consumption, as we have done in the past, we should focus more on

savings, investment, and asset accumulation." Most of the states with Health and Human Services Department waivers have raised the asset limits from \$1,000 to \$5,000, but some, such as Delaware, Missouri, Pennsylvania, and most recently, Texas, have \$10,000 limits.

It's one thing to allow welfare recipients to save more than \$1,000. However, few states finance or match IDAs.

REQUIRED EMPLOYER CONTRIBUTIONS

In 1993, Oregon became the first state to set up individual accounts financed by employers. Here's how they work: In exchange for employers' hiring welfare recipients, the state of Oregon agreed to pay the wages. All the employers had to do was pay \$1 an hour to an individual education account (IEA) for each welfare recipient who stuck it out more than 30 days.

Welfare recipients are hired to work six to nine months. After they've left and landed an unsubsidized job, they're eligible to use money in their accounts for education or job training. They have five years to use the money or lose it.

Oregon's Jobs Plus program currently has about 350 welfare recipients enrolled in jobs in a six-county demonstration project. Jim Neely, the assistant administrator of Oregon's adult and family services

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—Michael
Sherraden

The States Start To Lend A Helping Hand

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division, said about \$49,600 has been deposited in the IEAs. On average, a person leaving the program has about \$800 in the bank, Neely added.

The business community's reaction, according to Neely, has been "excellent." And organized labor, which at first regarded with suspicion the idea of giving subsidized jobs to welfare recipients, has also moderated its protests.

As an added bonus, Neely said, the program is budget-neutral. The state relies on money that would have gone to welfare recipients to pay their wages.

Oregon's efforts have attracted considerable interest from other states. "I would be hard-pressed to name a state with whom we have not had contact," Neely said. Arizona, Delaware, Maryland, Massachusetts, Mississippi, Oregon, and Virginia are already using some variant of this approach.

IDAS IN IOWA AND TAX CREDITS

In 1993 Iowa passed one of the nation's most comprehensive IDA programs. Iowa hopes to have 10,000 IDAs by 1999. Anyone below 200 percent of the federal poverty level would be eligible to apply.

Iowa also has hit on a novel financing scheme — a refundable tax credit for IDA holders. People below the federal poverty line would receive up to a 20 percent tax credit on

their IDA deposits.

Iowa's demonstration program was launched last year. After issuing a request for proposals from community organizations that would supervise the accounts, Iowa accepted proposals from four community organizations. Each of the organizations agreed to run IDA demonstrations without state financing. They also undertook to raise matching contributions from other community organizations.

But the four operating organizations soon ran into trouble. The original legislation allowed account holders to withdraw the money they deposited (but not matching funds) from their IDA accounts. This led to complicated accounting requirements that required operating organizations to keep track of all contributions to each account. If any individual withdrew the money for unauthorized purposes, the rest of the money was returned to the groups that paid into the IDAs. "We got a good law on the books but one with too many micro-management requirements," said David Perret, Iowa's IDA state coordinator. "This quite frankly scared a lot of people."

To solve the problem, Iowa passed legislation prohibiting account holders from taking money from their accounts except for business development, education, and home purchases. Perret is optimistic that Iowa will meet its

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IDA boosters believe that IDAs shouldn't be financed just by governments. Community organizations and churches could also match the amount in IDAs.

second-year goal of opening about 700 accounts. To meet its 10,000-account goal, Iowa will have to open more than 9,000 IDAs in the remaining three years.

DIRECT MATCHES

IDA boosters believe that IDAs shouldn't be financed just by governments. Community organizations and churches could also match the amount in IDAs. For every dollar deposited by an account holder, outside sources might deposit several additional dollars.

Predictions that IDAs will generate big economic benefits depend on the assumption that matching funds will be forthcoming. In a study titled *"The Return of the Dream: An Analysis of the Probable Economic Return on a National Investment in Individual Development Accounts,"* the Corporations for Enterprise Development envisioned initial matching rates of about 8-1.

Although states have initiated several demonstration projects around the country, neither the federal government nor any state government has yet provided any matching funds for IDAs. Unless both levels of government commit to matching funds, even their biggest supporters acknowledge that IDAs won't be a major success.○

Changing Welfare As We Know It

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disintegration and crime that plague their communities," stress Heritage's Patrick Fagan, William H.G. FitzGerald Senior Fellow in Family and Cultural Issues, and Christine Olson, Policy Analyst, in a study examining a bill known as Saving Our Children: The American Community Renewal Act. According to Fagan and Olson, the legislation, co-sponsored by Reps. J.C. Watts, R-Okla. and James Talent, R-Mo., contains important elements for a new urban policy.

Among its advantages, three are particularly significant. It would:

- Reduce regulations and eliminate capital-gains taxes on assets held by businesses in 100 "renewal communities" across the nation. This economic stimulus package could reduce unemployment by one-third in many areas, researchers believe.

- Provide poor parents with education scholarships that could be used to send their children to any private, public or religious schools.

- Allow religious organizations to use federal funds to perform social services such as drug treatment.○

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IDEAS DO MATTER.

Food For Thought

FATHERLESSNESS IS NOW approaching parity with fatherhood as a defining feature of American childhood. Tonight, more than one-third of our nation's children will go to sleep in homes in which their fathers do not live. Before they reach the age of 18, more than half of our nation's children are likely to spend at least a significant portion of their childhood living apart from their fathers. Never before in our nation's history have so many children been voluntarily abandoned by their fathers.

—David Blankenhorn,
President, Institute
for American Values

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in next month's
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