

A BALANCED BUDGET AMENDMENT

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 requirement 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 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 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 secretively. 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.

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