

Why We Need A Balanced Budget Amendment: An Economic Perspective

by Amy K. Frantz

The federal government has not had a balanced budget for nearly 30 years, since 1969. Every year the government spends more than it takes in, and the annual deficits have accumulated into a national debt of over \$5 trillion dollars.

The government has adopted several statutes to attempt to control spending, from the 1974 Budget Act through the Gramm-Rudman-Hollings Act in the 1980s to the current laws that theoretically impose spending caps. But these laws have been repealed, waived, weakened, or ignored. We need to get federal spending under control, but the President and Congress seem to lack the political courage to get the job done. A Balanced Budget Amendment to the Constitution may be the only solution.

Spending beyond our means for so many years has reduced the economic output of our nation. Deficit spending reduces national savings, which in turn leads to lower investment and reduced net exports. Less savings also restricts the supply of funds available to borrow, which drives up interest rates. In the long run, less investment reduces productive capacity and output, which decreases real wages.

A study by two economists, Laurence Ball of Johns Hopkins University and N. Gregory Mankiw of Harvard University, shows that Gross Domestic Product (GDP) in the United States would be three to six percent higher if our government had operated with a balanced budget in recent years. Martin Feldstein, President of National Bureau of Economic Research, has calculated that if the United States had balanced its budget each year since 1980, the national debt today would be only 10 percent of GDP, rather than the nearly 50 percent of GDP the debt amounts to today. Deficit spending clearly has an impact on our nation's economic growth and output.

A child born today already owes nearly \$200,000 in future lifetime taxes just to pay his or her share of the interest on the federal debt. We need a Balanced Budget Amendment to force Congress and the President to stop borrowing from our children and grandchildren. Deficit spending artificially increases the demand for more government spending. With deficit spending, the government can provide a dollar's worth of a program, and charge the taxpayers only 80 cents for the program. The program seems to be a good value for the price, but the true cost is hidden, passed along to future generations.

Economists calculate that reducing the deficit will cause interest rates to fall. One estimate says interest rates will drop two percentage points if the budget is balanced.¹ But what does this mean for the average American family?

□ More families will be able to purchase a new home. A balanced federal budget will lower mortgage rates, making a new home more affordable. A family with a 30-year mortgage of \$75,000 will save \$37,000 if the budget is balanced.²

□ More families can afford to send their children to college. President Clinton has proposed several programs and incentives to help families encourage young adults to attend college. Balancing the federal budget will save a student \$2,160 on a 10-year student loan of \$11,000, without any government programs or additional funding.³

□ More families will be able to purchase a new car. A balanced federal budget will save \$900 on a four-year automobile loan of \$15,000.⁴

□ More jobs will be created. A balanced budget will lead to more investment by businesses in plants and equipment, increasing productivity and creating millions of new jobs in the twenty-first century.

Balancing the federal budget will stop adding to the national debt, and stop rising interest payments. Interest payments on the debt have risen dramatically, from \$14 billion in 1970 to an astounding \$243 billion in 1996.⁵ The higher interest payments are eating up a larger and larger portion of the federal government's spending. The funds necessary to pay interest on the national debt are funds that cannot be used for other programs, such as education or national defense.

During the 18th and 19th centuries, our nation's leaders were more fiscally responsible. The net national debt accumulated between 1787 and 1900 was \$900 million. That amount is less than Congress now borrows in just five days.⁶ We need our national leaders to return to the fiscal responsibility of our Founding Fathers. Government leaders have been unable or unwilling to balance the federal budget for nearly 30 years. We need a Balanced Budget Amendment to force the President and Congress to stop spending money they don't have.

Endnotes:

¹ Statement by David A. Wyss, DRI/McGraw-Hill, before the U.S. Senate Budget Committee, January 26, 1995.

² House Republican Conference report, January 3, 1996.

³ *Ibid.*

⁴ *Ibid.*

⁵ *Guide to the Issues 1996*, Alabama Family Alliance.

⁶ "Balancing Act," Stephen Moore, *National Review*, February 10, 1997.

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