5 Reasons to Reject Any Constitutional Balanced Budget Amendment

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Members of Congress have proposed almost a dozen constitutional amendments this year requiring a balanced budget, all of which share serious drawbacks. Rep. Ben McAdams introduced the latest balanced budget amendment (BBA), H.J. Res. 55, and it shows both that BBAs are fundamentally flawed and that attempts to fix them invariably don't succeed at doing that.

That's true mainly for five reasons:

- **A BBA would hurt the economy even if it tries to account for recessions.** Requiring a balanced budget every year, no matter the state of the economy, would risk tipping a weak economy into recession and making recessions more frequent, longer, and deeper, causing very large job losses and hurting long-term growth. That's because it would force policymakers to cut spending or raise taxes just when the economy is weak or already in recession — the *opposite* of good economic policy.

  Before 1929, the budget was balanced or close to it in most years (except during major wars). From 1933 on, however, the federal government fought recessions by allowing deficits to grow when the economy was weak and then to shrink as it recovered. The latter approach worked better, with fewer recessions, longer expansions, and better growth, as the table shows:

	"Balanced budget" period (1854-1929)	"Fight recessions" period (1929-2018)
Average number of recessions per decade	2.8	1.6
Average length of economic expansions	25 months	64 months
Average annual real economic growth per person	1.4%	2.0%

  Policymakers don't need to balance the budget every year to put the budget on a sustainable path of manageable debt levels. Even with modest deficits, policymakers can stabilize or reduce the debt as a percent of gross domestic product, which is the best measure of sustainability over the long run.

H.J. Res. 55 acknowledges this risk by proposing to turn off the balanced budget requirement when the economy has shrunk for two straight quarters or unemployment has topped 7 percent for two straight months. That's better than nothing, but it would still turn off the requirement much too late. For instance, it would have required very deep spending cuts or tax increases in the early part of the Great Recession, making it even more severe. In fact, this requirement wouldn't have turned off until *13 months after the Great Recession had started*, when 4.6 million jobs had already been lost and unemployment had already jumped from 4.7 percent to 7.8 percent.

- **A BBA would undercut Social Security, Medicare, and other programs that have built up reserves — and exemptions for these programs would make matters worse for other critical programs.** BBAs prohibit spending from exceeding revenues collected *in that year*. That means that Social Security, Medicare's Part A trust fund, the Federal Deposit Insurance Corporation (FDIC), the Pension Benefit Guarantee Corporation, the military and civil service retirement funds, and other funds would be prohibited from using their accumulated reserves unless the budget were running sufficiently large surpluses. For example, Social Security couldn't use[1] the $2.9 trillion in Treasury securities it holds to help pay benefits to retirees since almost all of it was collected in *prior* years.

  H.J. Res. 55 acknowledges the problem but wouldn't fully solve it, and it would intensify the risk to other critical programs. It would exempt Social Security's trust fund and Medicare's Part A trust fund (which covers hospitalizations) from the balanced budget calculations. But that's only a partial solution; the FDIC, for instance, has almost $100 billion in reserves to protect checking and savings accounts against bank failures; H.J. Res. 55 would prohibit using those balances if that would throw the budget into deficit. Yet deposit insurance is needed most just when the economy is weakest and the budget is already in deficit.

  Moreover, the Social Security and Medicare trust fund exclusions would put the rest of the budget in greater danger. Social Security and Medicare hospitalization are one-third of the budget. Suppose those two trust funds are in balance or surplus but the rest of the budget is not. A typical BBA, if it were in effect for next year, might then require an average cut of, say, 22 percent in *all* federal programs. But under H.J. Res 55, with Social Security and Medicare Part A protected, all remaining programs would face an average cut of 33 percent — including Medicaid, SNAP (food stamps), Supplemental Security Income, unemployment insurance, assisted housing, national defense, veterans' benefits, law enforcement, education, and transportation.

- **A federal BBA is much stricter than existing state balanced-budget requirements**. While states must balance their *operating* budgets, they can and do borrow to finance *capital* projects such as roads, schools, or water treatment plants. Like the typical BBA, however, H.J. Res. 55 prohibits all new federal borrowing. In addition, states can build "rainy day" reserves during good times and draw on them in bad times without counting the drawdown as new spending that unbalances a budget. H.J. Res. 55 prohibits the federal government from doing so because it prohibits spending from exceeding revenues collected *in that year*.

- **BBAs impose much stricter constraints on the federal government than fiscally responsible families impose on themselves.** Prudent families balance their checkbooks but *not* their budgets, because that would mean no borrowing: no mortgages, no student loans, no car loans. And even a wealthy family might use some of its savings to buy a house or pay for college, meaning that its spending would exceed its income *in that year*.

- **BBAs raise profound enforcement questions.** If the President and Congress couldn't balance the budget, could the President then cut programs or raise taxes unilaterally to comply with the balanced budget requirement? Could the courts? No one knows, and most BBAs don't try to answer the question. H.J. Res. 55 does explicitly say that courts can't order cuts in Social Security or Medicare when the budget falls out of balance. That may imply that courts *can* design and order cuts in other programs or tax increases — a matter that would surely be the subject of much legal wrangling should a BBA like this ever be enacted. And, like other BBAs, H.J. Res. 55 says nothing about the President's role.

A BBA is a fundamentally unsound policy idea. In its attempts to address its flaws, H.J. Res. 55 simply highlights that a BBA isn't fixable.

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[1] https://www.cbpp.org/blog/why-a-balanced-budget-amendment-would-harm-social-security-and-federal-deposit-insurance