"The Need *Not* to Enact a Balanced Budget Amendment"

Testimony before the
Committee on the Judiciary
U.S. House of Representatives
by
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Mr. Chairman, Ranking Member Conyers, and members of the Committee, thank you for the opportunity to testify here today on why we should *not* enact a balanced budget amendment to the US Constitution. There are so many reasons that I can't touch on all of them in five minutes. So I'll just make five points very briefly.

First, a balanced budget is the wrong long-term goal for a growing economy.

I understand, and sympathize with, the need to create some sort of institutionalized fiscal discipline for Congress. If the US economy did not grow from year to year, neither in population nor in per-capita GDP, balancing the budget—on average, over the business cycle, say—might be a sensible long-term goal. But every year there are more Americans, higher prices, and more real output per capita*. As a matter of pure logic*, the analogy to a balanced budget in a growing economy is for the national debt to grow at the same rate as nominal GDP. These days, that would mean a deficit in the neighborhood of 3% of GDP. But I wouldn't recommend embedding that goal in the Constitution. Among other things, it leaves open the question of the *level* at which you want to stabilize the debt-to-GDP ratio.

[1] The opinions expressed here are my own, and should not be attributed to Princeton University nor to any other institution with which I am affiliated.

Second, balancing the budget every year would put fiscal policy in a straitjacket that would, among other things, deepen recessions. As you know, the federal budget naturally moves in the direction of larger deficits whenever the economy sags, because receipts decline and certain types of expenditures rise--without any congressional action. These automatic stabilizers, as they are called, make recessions milder than they would be otherwise by boosting spending—that's *private* spending, by the way--when the economy is weak. To force the budget to remain balanced as a recession sets in or grows worse, Congress would have to either raise taxes or reduce spending, thereby siphoning demand out of the economy just when it should be putting more demand in. The implications for economic stability could be serious.[2]

Multi-year balanced budget requirements, which have been proposed, though not in either H.J. Res. 1 or 2, are far less worrisome on this score than annual requirements. For example, balancing the budget over the business cycle would be far better than balancing it every year. It is also worth noting that the fiscal straitjacket problem arises regardless of whether a balanced-budget requirement is written into the Constitution or just enacted into law. But putting it in the Constitution would make it vastly harder to rescind. Congress has been known to correct its own mistakes. But only once in our history has the nation erased a constitutional amendment.

Third, there are better ways to impose fiscal discipline. One real-world example is familiar to every member of Congress: the pay-as-you-go requirement that started under President George H.W. Bush. That smart innovation subsequently helped President Bill Clinton balance the budget by fiscal year 1997—and then to produce a string of surpluses. After that, however, Congress discarded pay-go, and the deficit exploded. Was that a coincidence? I don't think so--

[2] In fact, I have argued for *more* automatic stabilization, not *less*. See my "Fiscal Policy Reconsidered," The Hamilton Project Policy Proposal 2016-05, May 2016.

it was closer to a controlled experiment. Congress turned pay-go "on" in 1991, and the deficit withered away. Congress turned pay-go "off" in 2002, and the deficit soared. The conclusion seems obvious. Pay-go worked extremely well when we let it. If you're looking for a disciplinary device, that's the way to go.

Fourth, a balanced budget amendment invites gimmicks and bad policy. Here are just a few. If federal spending is explicitly constrained, as it is in H.J. Res. 1 but not in H.J. Res. 2, Congress can work its will by imposing unfunded mandates on state and local governments instead. Budgetary tricks and gimmicks will likely give rise to court cases in which judges are asked to decide whether or not the balanced-budget amendment has been violated—thereby, in effect, forcing them to make economic policy. And I can barely imagine the imaginative uses of dynamic scoring that might be deployed to show that tax cuts don't raise the deficit. Those are just three quick examples. The 535 members of Congress are smart enough to think up many more.

Fifth, if the balanced-budget amendment imposes a higher bar for raising spending than for cutting taxes cuts, it would create biases and distortions. (H.J. Res. 1 has such a bias, though H.J. Res. 2 does not.) If the Constitution makes it easier to cut taxes than to raise spending, Congress may decide to pursue the same goals through tax expenditures rather than through direct appropriations. That's almost always a bad idea because appropriated funds get far more and better congressional oversight, and much more monitoring and enforcement by executive branch agencies, than tax expenditures do. Furthermore, most tax expenditures take the form of tax deductions, which are regressive.

Finally, it is worth pausing to consider the appropriateness of the 20%-of-GDP spending limit found in Section 2 of H.J. Res. 1.[3] In the last complete fiscal year (FY2016), total federal outlays were 20.9% of GDP, or about $165 billion above the proposed limit. I realize that many members of this committee might relish cutting that back to 20%. But let me point out that crossing the 20% line is far from unusual. Federal budget data for the last 40 fiscal years show that outlays exceeded 20% of GDP in 26 of them, including all eight Reagan years. But typically not by much: the average was just 20.5%. Furthermore, outlays as a share of GDP show no upward trend since the mid-1970s. So if you're worrying about limiting federal spending to about 20% of GDP, and ensuring that federal outlays don't grow faster than the economy, stop worrying. The political system we've had for 40 years has basically accomplished both objectives.

Summary: In sum, a balanced budget amendment to the Constitution is a solution looking for a problem to solve. An annually balanced budget is potentially hazardous to the country's economic health, and even balance over many years makes no sense in a growing economy. While there may well be a need for fiscal discipline, there are better ways to achieve it, such as pay-go--which worked when used. A constitutional proviso limiting federal spending to 20% of GDP is another solution in search of a problem. The political system we have has virtually done that already, without cluttering the Constitution.

[3] The 20% limit can be over-ridden by a two-thirds vote in both Houses of Congress—a tough standard to meet.