

Testimony to the Senate Finance Committee on Senate Joint Resolution 5: Balanced Budget Amendment

Wendy Patton

Good afternoon, Chairman Oelslager, Vice Chair Coley, Ranking Member Sawyer and members of the committee. My name is Wendy Patton and I am a senior project director for Policy Matters Ohio, a nonprofit, nonpartisan organization with the mission of creating a more prosperous, equitable, sustainable and inclusive Ohio. Thank you for the opportunity to testify today regarding Senate Joint Resolution 5.

A federal balanced budget amendment would be damaging to Ohio and the country as a whole. We offer the following points for consideration on the proposed resolution for a constitutional convention to propose a balanced federal budget amendment, Senate Joint Resolution (SJR) 5.

First, let me clarify that all of the balanced budget amendment proposals Congress has considered in recent years have included the following three policy provisions: The federal government must not spend more than it collects in revenue in a given year; a supermajority vote of both Houses of Congress is required to enact an “unbalanced” budget and also to raise the debt limit and to raise taxes; and federal spending cannot exceed a cap that would be equal to an estimated 16.7 percent of GDP – an extremely low level that is 25 percent below the average level in place during the Reagan Administration.¹

The joint resolution in the House that corresponds to SJR 5 calls for an amendment barring the federal government from spending more than it collects in a given year, “together with any related and appropriate fiscal restraints.” That language would allow for the adoption of an amendment that meets all of the extremely harsh requirements of recent balanced budget amendment proposals in Congress.

The resolution you are considering calls for a balanced budget amendment to the United States Constitution proposed through a constitutional convention pursuant to Article V of the United States Constitution. Many have noted that once a Constitutional Convention convened, delegates’ behavior would be difficult to predict, perhaps disregarding specifications of state resolutions, proposing amendments of their choosing, or reacting to unanticipated proposals. For example, a convention could propose amendments requiring more stringent and extreme fiscal restraints, or it could propose unrelated amendments to the Constitution that could be ratified by enough states to become the law of the land.

There are dangers involved with the constitutional convention, and there are problems with the

¹ Richard Kogan, Center for Budget and Policy Priorities, e-mail of 10-28-2013.

balanced budget amendment itself. Such an amendment would not solve our fiscal problems. It likely would force deep cuts in funding that helps Ohio operate its schools, build and repair highways, and fulfill other fundamental state responsibilities. It also would invite further and more dangerous brinksmanship over the debt ceiling and cause a host of problems for the operation of trust funds that serve vital public interests, ranging from deposit insurance to highways, Medicare, unemployment insurance and other vital federal functions. Here are five reasons why a federal balanced budget amendment would be harmful to Ohio.

1. Funding for Ohio to run schools, build highways, repair water treatment facilities, and perform other important functions would be threatened. Under the stringent spending requirements of a balanced budget amendment, the federal government would be forced to choose whether to cut a range of programs that fall under federal authority such as defense, Social Security, Medicare, the Federal Bureau of Investigations, border security, or veterans' benefits, or to cut federal funding that helps states pay for schools, roads, water treatment, equipment for police officers, and a range of other state and local priorities. It is very likely that Congress would choose to cut funding for state programs more deeply than they cut funding for federal priorities, under the reasoning that states can raise their own revenue to make up the difference. That would be damaging in Ohio, and in other states.

2. Super-majority requirements could invite just one-third of the members in just one house of Congress to play brinksmanship with the debt ceiling over unrelated policy issues. A balanced budget amendment would require a supermajority vote of both Houses of Congress to raise the debt ceiling. That would make it even more likely that we'd see more of the brinksmanship we saw around the debt limit last month. And it would be harder to avoid defaulting on the nation's debt. Just one-third of the members of one house of Congress who, say, decided gun registration had to be enacted, or who decided civil rights laws must be abolished, or all civil unions must be declared marriages, could threaten the United States government with default. The consequences of such recent brinksmanship are evidenced in a weakening economy in which consumer confidence eroded and unemployment claims rose.

3. Stringent annual spending caps would prevent trust funds from spending savings or responding to need. The balanced budget amendments considered in recent years in Congress have a related constraint that would limit all spending to no more than an estimated 16.7 percent of the Gross Domestic Product (a quarter below the spending under President Reagan.)² In previous decades, balanced budget proposals allowed policymakers to choose the extent to which revenue increases and budget cuts could be used to close a budget deficit. But this spending cap would require the government to cut far more.

4. The requirement to balance the budget each year would make spending the savings built up in Social Security and other trust funds in a timely fashion difficult. Under the amendment, the government can only spend what it collects *in that year* – it cannot use amounts saved up in *prior* years. But the Social Security Trust Fund, for example, has almost \$3 trillion held in reserve, held in Treasury securities that earn interest, which have been collected from working Americans over the decades to help cover their retirement benefits later. Under the

² Kogan, Op.Cit.

amendment, using savings to help cover the baby boom retirement becomes difficult because it is spending money that wasn't collected in that year. Use of the savings held in Social Security would be allowed only if the rest of the budget ran big surpluses as offsets, or if other programs were deeply cut. The same is true for Medicare hospital insurance, and for military retirement and civil service retirement programs, the Federal Deposit Insurance Corporation and the Pension Benefit Guaranty Corporation.

5. A balanced budget requirement would make recessions longer and deeper, causing large and unnecessary job losses. That's because the amendment would force policymakers to cut spending, raise taxes, or both just when the economy is weak or already in recession: the opposite of what is needed. When the economy slows, federal revenues decline or grow more slowly and spending on unemployment insurance and other programs increase, causing deficits to rise. And as unemployment rises, expenditures for programs like unemployment insurance – and to a lesser but significant degree, food stamps and Medicaid – increase. These revenue declines and expenditure increases are automatic and temporary; they largely or entirely disappear as the economy recovers. But they are critical for helping struggling economies avoid falling into recessions and for moderating the depth and length of recessions that do occur.³

A constitutional balanced budget amendment short-circuits these automatic stabilizers in a manner that could, under conditions like those of 2008, lead to a downward spiral: a weak economy which would lead to higher deficits, which would force policymakers to cut programs or raise taxes more, which would weaken the economy further.

When Congress was considering a constitutional balanced budget amendment in 1997, more than 1,000 economists, including 11 Nobel prize winners, issued a joint statement that said, “We condemn the proposed ‘balanced-budget’ amendment to the federal Constitution. It is unsound and unnecessary.... [it] would prevent federal borrowing to finance expenditures for infrastructure, education, research and development, environmental protection, and other investments vital to the nation's future well-being.”⁴

The nation faces long-term fiscal problems, but a balanced budget amendment will not help. Legislated rules – like the Sequester – do not substitute for political will. The last period of time that the budget was in balance: during President Clinton's tenure, legislators cut spending, raised taxes, and balanced the budget over an eight year period. This had not happened since the 1920s. Democracy is messy, but out of the crucible of political negotiation, the right decisions can be made. If they are not, the voters must act. Artificial rules that tilt the playing field in the direction of one policy position or the other are not necessary, nor are they good for democracy.

###

*Policy Matters Ohio is a nonprofit, non-partisan research institute
with offices in Cleveland and Columbus.*

³ Robert Greenstein and Richard Kogan, A Constitutional Balanced Budget Amendment Threatens Great Economic Damage, Center for Budget and Policy Priorities, July 27, 2011 at www.cbpp.org/cms/?fa=view&id=3509.

⁴ Coalition for Budget Integrity at www.foreffectivegov.org/files/bba/econ.html.