Public Policy Brief

Assessing the Constitutional Route to Federal Budget Balance

The Balanced Budget Amendment:
Toxic, Not Tonic

Charles J. Whalen

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Contents

Summary 5

Preface
Dimitri B. Papadimitriou 11

The Balanced Budget Amendment:
Toxic, Not Tonic
Charles J. Whalen 15

About the Author 47

Preface

The recent demise of the latest balanced budget amendment proposal notwithstanding, there is still ubiquitous public demand for fiscal responsibility and an apparent legislative will to deliver it. There is no disputing that irresponsible fiscal policies have grown the federal debt and have created the balanced-budget mood of the country. However, an amendment to the Constitution of the United States to require a balanced budget, which is presented as a guarantee of fiscal responsibility, is merely a statement of intention that does not bring the nation any closer to a balanced budget and is not a solution to the problems we seek to resolve through budget reform. Moreover, the amendment would result in more economic and political harm than benefit to the United States. Fiscal responsibility must be delivered by the administration and the Congress not in the form of a balanced budget amendment, but in the form of an alternative to the current federal budget approach. Responsible fiscal policies have the dual purpose of shrinking the federal debt and investing in the nation's long-term future by recognizing the urgent need for a federal capital budget.

The experience of the states with balanced budget requirements, the role of government debt in the proper functioning of the monetary and banking system, and the responsibility of the federal government to stabilize the economy merit special attention in the balanced budget debate. Although the fact that nearly all states are required to balance their budgets is frequently stated as an argument in support of the balanced budget amendment, the way in which states actually operate under this constraint would suggest the contrary position. It is well doc-

umented that states resort to accounting gimmicks and deceitful practices when balancing their budgets, and the evidence indicates that some simply do not balance their budgets. Furthermore, nearly all states have both an operating budget, which is the budget that must be balanced annually, and a capital budget for long-term investment purposes, which is not required to be balanced annually. The federal government does not currently have the option of a capital budget to commit to long-term investment.

The implications of a shortfall of government debt that would eventually occur under a balanced budget amendment have garnered little consideration in the debate to date. The U.S. economy can have too little as well as too much government debt. The benefits a government debt can provide have long been recognized in this country despite its general ethical disapproval of debt and widespread acceptance of the idea of a balanced federal budget; even before the drafting of the Constitution, in 1781 Alexander Hamilton wrote, "A national debt, if it is not excessive, will be to us a national blessing."

The eventual restructuring of the U.S. financial system would be a major outcome of the amendment. Government debt is the major asset of the central bank, the only asset of government trust funds, and an important asset of risk-averse institutions and individuals. The ceiling that a balanced budget amendment establishes for government debt would result in a debt below the minimum required to finance the capital development of the nation. Policymakers and economists cannot continue to overlook this issue in the balanced budget amendment discourse.

Finally, a balanced budget amendment would dramatically inhibit the ability of the federal government to react to cyclical fluctuations in the economy. Automatic stabilizers, which would be eliminated under a balanced budget amendment, have repeatedly limited the depth and duration of recessions and prevented depressions. Instead of being able to use federal revenue and expenditures to compensate for private sector slumps, the government would be obliged to institute tax increases and spending cuts, which would only exacerbate recessions. This would be fiscal irresponsibility.

Charles J. Whalen, Resident Scholar of The Jerome Levy Economics Institute of Bard College, presents these and other dissenting arguments in this *Public Policy Brief*. Whalen has actively engaged in the discourse on the balanced budget amendment. He submitted testimony on the proposed amendment to the Subcommittee on the Constitution of the House Judiciary Committee. He also organized a petition opposing the amendment that received over two hundred signatures from economists and political scientists, including five Nobel laureates. In this brief Whalen illuminates many of the misconceptions prevalent in the debate and highlights some of the complex issues conspicuously absent from recent discussions. He concludes that the amendment would be harmful to both the economic and the political systems of the United States.

Whalen's critical assessment of the amendment is an important contribution to the balanced budget amendment literature. Even though the latest proposed amendment failed to pass in the recent Senate vote, the debate about the amendment is not over. The issue of fiscal responsibility is still vital. If our goal is to achieve fiscal responsibility, the emphasis must now shift to a serious consideration of alternative budget reforms—consideration of establishing a federal capital budget and making a commitment to the long-term future of the United States.

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The Balanced Budget Amendment: Toxic, Not Tonic

Republicans in the U.S. House of Representatives unveiled a 10-point Contract with America (CWA) in September of 1994. The first item in that legislative agenda, the "Fiscal Responsibility Act," contained a constitutional amendment that would require the federal budget to be balanced each year. Although the initial CWA balanced budget proposal was defeated, bipartisan support led to House passage of a slightly different balanced budget amendment (BBA) on January 26, 1995. When a Senate BBA fell just one vote short of the required two-thirds majority a few weeks later (March 2), Majority Leader Robert Dole (R–Kansas) changed his vote from yes to no in a parliamentary move that allows him to bring the legislation to another vote before the federal elections of 1996.

This *Public Policy Brief* assesses arguments offered in support of the BBA. While there is no question that current budget policies warrant reform, constitutional change is not the solution; a BBA would lead to even greater fiscal irresponsibility. Advocates of a BBA are proposing legislation that would be toxic, not tonic, to our economic and political systems.

The brief is divided into three sections. The first provides a brief review of budget philosophies and past efforts to enact a BBA, recent proposals, and arguments supporting such proposals. The second offers the case against the balanced budget amendment. The third identifies some more promising budget reform alternatives.

Balanced Budget Amendment Proposals and Arguments

The Kimmel Study

In a 1959 report for The Brookings Institution, Lewis Kimmel traced the evolution of federal budget and fiscal policy from the beginning of the nation to 1958. His study found that the idea of the annually balanced budget was accepted by most Americans until the 1930s. The principal economic reason advanced in support of the balanced budget was that federal borrowing would slow economic progress by crowding out private investment. War debt was the only widely accepted exception, and its rapid elimination in peacetime was expected (Kimmel 1959, 301–302). The Kimmel study explains that the balanced budget principle was consistent with an ethical view of indebtedness as evil or immoral that pervaded American culture, a society in which thrift was considered an indispensable individual virtue. According to the study, economists warned that unbalanced budgets produce a government that is "extravagant and irresponsible" (Kimmel 1959, 302).

During the 1930s, however, views about balancing the federal budget underwent a revolutionary change in both theory and practice. This change was precipitated by the collapse of America's economic and financial system in the winter of 1933, a collapse that followed over half a century of increasing economic instability and recurrent financial crises. The result was the concept of "compensatory" fiscal policy, an approach that not only emphasizes the impact taxes and public spending can have on the overall economy, but also argues that public action should be used to secure economic stabilization in the face of business cycles. In short, the notion of balancing the economy replaced that of balancing the budget (Kimmel 1959, 7–8).

Kimmel notes that although many business leaders and economists accepted the need for compensatory policy in the wake of the Great Depression, an "influential minority" continued to have serious misgivings about any departure from a balanced peacetime federal budget, and many of them advocated a constitutional amendment that would outlaw such deficits. This minority found federal expenditures "unconscionably high"; they feared that a failure to return to the practice of an annually

balanced budget would bankrupt the country, destroy the enterprise economy, and extinguish personal liberties (Kimmel 1959, 298–299).[1]

Proposals During the 1980s and Early 1990s

The Kimmel study demonstrates that there have been calls for a balanced budget constitutional amendment since the 1930s, but interest in a balanced budget requirement intensified with the renewed economic instability and rising federal deficits of the 1970s and 1980s (see Table 1). After the overall federal deficit nearly doubled from $40.2 billion in 1979 to $79.0 billion in 1981, BBA proponents had support from a solid majority of the public (67 percent according to one survey) and from many in Congress (Blinder and Holtz-Eakin 1984). In response to that apparent demand, legislators brought the amendment to a vote in 1982. The proposal cleared the Senate by a two-vote margin, but fell short in the House with a vote of 236 to 187. Similar bills failed to pass both houses again in 1986 and 1990.[2]

Table 1 Federal Surplus or Deficit (–), Selected Fiscal Years from 1960 to 1995

Fiscal Year	Billions of Dollars	Percentage of Gross Domestic Product
1960	0.3	0.1
1965	–1.4	–0.2
1970	–2.8	–0.3
1975	–53.2	–3.5
1980	–73.8	–2.8
1984	–185.4	–5.0
1986	–221.2	–5.2
1988	–155.2	–3.2
1990	–221.4	–4.0
1992	–290.4	–4.9
1993	–255.1	–4.1
1994	–203.2	–3.1
1995	–192.5	–2.7

Note: 1995 statistics are estimated in *Economic Report of the President* (1994).
Source: Budget of the United States Government, Fiscal Year 1996 (1995).

Another amendment was introduced by Senator Paul Simon (D–Illinois) and Representative Charles Stenholm (D–Texas) in 1992. That year, despite the 1985 Gramm-Rudman-Hollings Act, which was designed to reduce the deficit to zero by 1991, the overall federal deficit was expected to exceed $300 billion.[3] At first, momentum behind the bill seemed overwhelming: the House discharged the legislation from committee in record time; most Americans were reported to be in favor of the amendment; public outrage over political gridlock and the House check-bouncing scandal added to the pressure for passage; and initial vote estimates indicated that approval appeared inevitable (Dewar and Gugliotta 1992, A14). But by early June lobbying against the measure was proving effective, and prospects for the amendment grew dim (Clymer 1992).[4] The 1992 initiative died later that month when it failed to pass in the House.

The sponsors of the 1992 proposal reintroduced the measure in 1994. Indeed, several versions were debated in the House, and two major alternatives were considered by the Senate. On March 1 Senate BBA supporters fell 4 votes short of passing the Simon amendment; on March 17 in the House the Stenholm bill fell short of the required two-thirds majority by 12 votes.

The Contract with America and Beyond

The first item in the CWA legislative agenda, the Fiscal Responsibility Act, sought an amendment to the U.S. Constitution requiring that "total outlays for any fiscal year do not exceed total receipts for that year" (House Republican Conference 1994b, 4). The resolution (H.J. Res. 1) defined total receipts as "all receipts of the United States except those derived from borrowing" and total outlays as "all outlays of the United States except those for the repayment of debt principal" (House Republican Conference 1994a, 3). The amendment required balance at the time of budget submission by the president, adoption by Congress, and subsequent execution.[5] The amendment outlined only three circumstances under which deficits would be allowed: (1) when a declaration of war is in effect, (2) when a joint resolution indicating that the nation faces an "imminent and serious military threat to national security" is signed by the president and adopted by a majority of the total membership of each house, and (3) when outlays in excess of receipts are agreed

to by three-fifths of the total membership in each house of Congress (House Republican Conference 1994a).

The bill stipulated that the federal debt would be limited to its level on the first day of the second fiscal year after ratification—a limit that could be increased only by a three-fifths vote in each house. Legislation to increase receipts also would require approval by a three-fifths majority of the membership in each house. (This tax limitation provision led some to call the CWA proposal a "balanced budget and tax limitation amendment.") The amendment mandated roll-call budget votes. And, finally, it indicated that the balanced budget requirement would take effect in fiscal year (FY) 2002 or the second fiscal year after ratification, whichever was later.

The CWA amendment failed to secure enough votes for passage on January 26, 1995. But later that evening a BBA drafted by Charles Stenholm and Dan Schaefer (R–Colorado) passed on a vote of 300 to 132. This resolution differed from the CWA proposal in two major ways; it imposed no federal debt ceiling and contained no tax limitation provision (Stenholm 1995).

On March 2 an amendment that was nearly identical to Stenholm-Schaefer was narrowly defeated in the Senate.[6] The initial vote fell just one short of the required two-thirds majority. Robert Dole changed his vote from yes to no so that he could, by parliamentary rules, bring the legislation to another vote before the next congressional election. Dole stated that he intends to have Congress give the BBA renewed attention and consideration during the upcoming political campaign season.

The Case for the Amendment

The CWA states that a BBA is needed "to restore fiscal responsibility to an out-of-control Congress, requiring them to live under the same budget constraints as families and businesses" (Contract with America 1994). A Republican National Committee description of the contract insists "It's time to force the government to live within its means and restore accountability to the budget in Washington" (Republican National

Committee 1994). The House Republican Conference *Legislative Digest* adds:

> Supporters of a BBA argue that Congress has shown itself both unwilling and incapable of balancing the federal budget. A constitutional amendment is necessary to force lawmakers to do what, on their own, they cannot: get a handle on out-of-control spending. (House Republican Conference 1994b, 1)

The argument that a constitutional requirement is necessary to ensure "fiscal responsibility" has been emphasized by many during recent BBA battles. In 1992, for example, Senator Simon offered the same assessment as the House Republicans and added, "Critics wish for the day when our leaders will come to grips with the deficit crisis without a constitutional crutch. But danger is upon us" (Simon 1992). According to Simon, one "danger" is that "virtually every major area of policy is being squeezed or ignored because of runaway interest payments." Another is that the budget deficit discourages industrial investment (Simon 1992).

Simon's concern about investment is probably the economic point raised most often in discussions of the need for budget balance. As Federal Reserve Chairman Alan Greenspan noted in a 1989 article, deficits have a "corrosive" effect on the economy because they dampen economic activity by triggering the following series of events: resources are pulled away from net private investment (crowding out), the rate of growth of the nation's capital stock is reduced, productivity gains are less than would have otherwise been the case, and the growth of our standard of living is similarly impaired (Greenspan 1989). Many BBA supporters also maintain that deficits reduce exports (and injure export-dependent workers and firms) by engendering high interest rates and raising the value of the U.S. dollar. Simon, for example, wrote in 1992 that the trade deficit would be cut 32 to 47 cents for every dollar reduction of the budget deficit (Simon 1992).

In theory, one solution to the problem of budget deficits might be to close the gap between outlays and revenues by simply raising taxes. However, there are three main arguments offered against this idea. First, raising taxes is highly unpopular because most Americans feel they are already taxed too heavily and they have little confidence in the public sector

(Fergler and Mandle 1991). Second, legislators are concerned about the disincentive effects of taxation and fear that higher taxes would have a negative impact on work, saving, and investment. (Some worry this disincentive might even cause certain tax hikes to yield a net revenue loss.) Third, there is the view that higher taxes will simply pave the way for further spending increases. As Milton Friedman wrote:

> Taxes have been going up for 50 years without any apparent success in eliminating deficits. That experience suggests Congress will spend whatever the tax system yields plus the highest deficit the public will accept. (Friedman 1988)

Taking the "public choice" perspective that government officials aim to serve their own interests, Friedman argues that institutional reform through a constitutional amendment is required to link the self-interest of legislators to budget balancing.[7] Today, Friedman maintains, a legislator has an incentive to act favorably on a lobbyist's request for public funds because gains are concentrated and highly visible, while costs are small and widespread. A BBA, however, would alter this equation.

> If a constitutional amendment required total spending to be limited, the legislator's self-interest would change. He could now tell the lobbyist, "You're right. Your project is excellent. However, the Constitution limits the total amount we can spend. I can only vote for your project if I vote less for something else. What else shall I vote less for?" That would pit one special interest against another and change the rules of the game in such a way that the legislator would now find it in his self-interest to operate in the public interest. (Friedman 1986, 6)

The public choice perspective also suggests why deficit reduction has not been achieved through reductions in public expenditures: Congress has found it impossible to make substantial cuts because losses would be resisted vigorously by organized interests. Thus, the BBA movement reflects a sense of desperation that legislators feel over not being able to control deficits through political discipline. As Senator Pete Domenici (R–New Mexico) said in 1992, "We shouldn't have to do this. This is not the way to run the government, but we aren't running the government right now. . . . It seems to be the only way" (quoted in Dewar and Gugliotta 1992, A14).

Most supporters of the BBA stress both crowding out and the need for institutional reform to address the incentive problem. Additional arguments put forth by BBA advocates include the following.

We have no right to impose a debt burden of more than $4 trillion—a debt equal to more than $19,000 per U.S. citizen—on future generations. This concern is often raised as a matter of generational equity, constitutional liberty, and morality (Peterson 1993). As the discussion of the nation's early aversion to debt suggests, it is a position with deep roots in American history.

Nearly all state and local governments in the nation are required to balance their budgets each year (Schmertz 1994, 51). Forty-eight states have balanced budget requirements, with 35 of them constitutional and 13 statutory (Regan 1995, 1).

Recessions can be managed under the BBA. According to Senators Simon and Domenici, "Since 1962, we have passed 11 stimulus packages to deal with recessions. Every one of those has passed by more than 60 votes. We can deal with this [through the BBA override provision]" (Simon 1994, S1832; Domenici 1994, S1830).

A BBA is needed now not merely because there have been federal deficits since FY 1969, but because painful choices must be forced "sooner rather than later" (Simon 1992). Although the deficit has fallen since FY 1992, legislators warn that it is far from under control. "Just give it a couple of years," says Senator Domenici, referring to projections of rising deficits in the years ahead due to rising entitlement costs and interest payments on the federal debt (Domenici 1994, S1831; Feinstein 1994, S1831). Present estimates of the Office of Management and Budget (OMB) and Congressional Budget Office (CBO) indicate steady deficit increases into the middle of the next decade, and when baby boomers begin to retire in large numbers in 2010, the fiscal picture is expected to "deteriorate significantly" (Wessel and Frisby 1994).

The BBA imposes a requirement that Congress "will not be able to routinely waive or ignore" (House Republican Conference 1994b, 1). In particular, legislators would be obliged to meet the terms of the amendment because they are sworn to uphold the Constitution.

The Case Against the Balanced Budget Amendment

Many Americans are frustrated by both the process and the outcomes of the federal budget. After watching an almost endless series of congressional efforts to grapple with fiscal imbalances over the past decade, citizens now hear that despite recent deficit reductions the future will bring only more and more red ink. But while a desire for decisive action on the deficit issue may be quite understandable, a balanced budget amendment would bring only further injury to our political and economic systems.

Political Dangers

Our discussion of political dangers must begin by emphasizing that a BBA is only a statement of intention. The danger here is that passing a BBA might lead us to believe our fiscal problems are solved. If so, it would divert our attention from the need to make difficult choices (*Economic Report of the President* 1994, 39; Peterson 1993, 226–227).

Advocates of the BBA argue it will force Congress to control spending and balance the federal budget. It is worth noting that the particular amendment passed recently by the House contains little that could control spending (since it contains neither a spending limit of the sort mentioned by Friedman nor a tax limitation provision such as the one in the CWA). But the more important point is that no BBA can force these outcomes.[8]

Even longtime BBA advocate Senator Simon acknowledges that Americans should not expect "an ironclad guarantee" of fiscal discipline under a constitutional amendment on the budget. He writes, "The Constitution is no place for airtight procedural details that can withstand budgetary tricks a future Administration or Congress might dream up" (Simon 1992). Former CBO Director Rudolph Penner takes this point to its logical conclusion: "If there is little political will to realize a goal, putting it in the Constitution will not help. Thus, a constitutional amendment requiring a balanced budget will work as well as the Prohibition amendment" (Penner 1992).[9]

Penner argues that the futility of using constitutions to balance budgets is clear from the experience of state governments. He notes that while nearly all states have constitutional provisions or legislation requiring a balanced budget, many have circumvented their requirements not only by creating off-budget agencies, but also by resorting to "outrageous" accounting gimmicks (Penner 1992). In congressional testimony presented during the 1994 BBA debate, S Jay Levy and Edward V. Regan of The Jerome Levy Economics Institute of Bard College expressed a similar view.

Drawing on various studies of state finance and on Mr. Regan's experience as chief executive of an urban county and chief fiscal officer of New York State, testimony by Levy and Regan identified the following commonly used budget-balancing devices and practices.

Off-budget accounts. States borrow from pools of money outside the general fund or shift the financing of functions to off-budget accounts.[10]

Timing of receipts and payment activities. States accelerate revenues such as tax collections; delay expenditures to localities, school districts, and suppliers; and delay refunds to taxpayers and salary payments to employees.

Pension funds. Pension contributions are reduced by forcing changes in actuarial assumptions.

Credit markets. States borrow repeatedly against the same assets by refinancing them even after most of the original debt has been repaid.

Asset sales. Buildings and roads, for example, are sold or transferred (sometimes to another state agency) under a sale-leaseback scheme.

Deferred maintenance. Routine infrastructure repairs are avoided until deteriorating conditions make a major reconstruction unavoidable.[11]

Levy and Regan conclude that the "flaw of a BBA at the federal level is that it would encourage use of these activities" (Levy and Regan 1994, 2–4).[12]

In addition to state experience, Penner points to congressional behavior under Gramm-Rudman for additional evidence that a BBA would encourage undesirable fiscal practices (Penner 1992). He argues that Gramm-Rudman led to use of the same gimmicks as those employed by states. He adds that many of these devices are expensive. For example, loan prepayments were encouraged by the federal government to reduce near-term deficits despite the fact that such action was costly to Washington in terms of lost interest income.

A related concern was expressed by *The New York Times* in a 1992 editorial ("Unbalanced" 1992). It noted that the BBA "invites evasion—such as loading new entitlements onto the backs of state governments and employers." The possibility of evasion was developed further by Henry Aaron of The Brookings Institution during Senate testimony on the BBA in 1994 (Aaron 1994). Aaron's conclusion was that the amendment would be a historic blunder because it would produce "endless and subtle mischief." His concern is that the amendment would not make elected officials less interested in promoting their favorite projects. Rather, it would simply penalize use of direct expenditures and taxation. Since Congress already has much experience with other devices that can be used to promote their objectives—devices such as loan guarantees, state and local mandates, and regulations on the private sector—Aaron is concerned that the BBA would encourage their further use, "even when direct spending or taxes are demonstrably superior" (Aaron 1994).

The threat of federal cost-shifting to states and localities is taken so seriously outside Washington that members of Congress have recently tried to ease this concern by developing legislation that would make imposing unfunded mandates on nonfederal government entities more difficult. But not even a total ban on federal mandates can insulate these entities. New burdens could come in various forms, including cuts in grants-in-aid, elimination of the tax-exempt status of state and municipal bonds, increased competition for consumption-based revenue, and termination of federal programs (Snell and Mackey 1994, 11–13).

All these financial practices, accounting evasions, and cost-shifting efforts are in themselves political dangers presented by a BBA. But another danger stems from the amendment's encouragement of this entire range of activities. The danger is that the development and defense of

these activities would divert congressional attention from more meaningful efforts to resolve the real and growing budget challenges facing our nation. (These challenges include the need for a consensus on current fiscal policy objectives and priorities and the need for action to address future difficulties in the realms of health care and retirement benefits.[13])

Moreover, since legislators would not find addressing these matters any easier under a BBA, it is likely that the amendment would engender an even further erosion of public confidence in our government, especially if, as Aaron expects, partisan disputes trigger a never-ending series of debates on the appropriateness of particular evasions. Still another concern is that such debates would not only further harm the reputation of Congress, but also demean our nation's Constitution (Aaron 1994; Penner 1992).

The encouraging of financial gimmicks, distraction from real and growing challenges, and erosion of the reputation of Congress and the Constitution are among the most significant of the political dangers arising from a BBA. But the amendment raises other political problems as well; six of them are identified here.

1. Several observers have expressed concern that a 60 percent congressional supermajority to waive the balanced budget requirement "threatens to reinstall both gridlock and the tyranny of the minority" (*Economic Report of the President* 1994, 39). Penner, for example, notes it might be difficult to break an impasse if a simple majority cannot be found to enact a balanced budget and a supermajority cannot be found to approve a deficit (Penner 1992). Aaron adds that the BBA would "increase the power of a determined minority not just to restrict the scope of government but also to expand their favorite programs" (Aaron 1994). In a recession, he explains, "A determined 40 percent of *either* house could force the majority to support any particular tax or spending change (increase *or* decrease) as a condition for supporting the waiver of the balanced budget requirements," and placing such power in the hands of determined minorities, he concludes, "is surely bad policy" (Aaron 1994, 2).

2. Although a vote in favor of the BBA may provide today's legislators with a short-term political gain, it is a requirement not imposed upon themselves but on members of Congress in FY 2002 and beyond. A con-

vincing case can be made, of course, for allowing both ratification time and a slow adjustment to budget balance. But some have nevertheless suggested that an element of hypocrisy still exists. As then-Congressman (now White House Chief of Staff) Leon Panetta stated during a congressional hearing in 1992, "There's a lot of hypocrisy around here. There are a lot of members who will never vote tough choices, but they'll vote for a BBA because they know they will never have to make a balanced budget" (quoted in Dewar and Gugliotta 1992, A14). Panetta's view does indeed seem to have merit when one considers that Representative Gerald Solomon (R–New York) received merely 73 House votes in March 1994 for the only existing program with a line-by-line accounting of how to achieve a balanced budget by the beginning of the next decade (Rosenbaum 1994).

3. A question of responsible governance is raised when the budget amendment is considered in the context of the entire CWA. The CWA calls for tax cuts that the CBO and House Republicans estimate will produce a loss of $148 billion in revenues over five years. The Republicans also call for increased defense spending and a protection of Social Security benefits. This led the Concord Coalition, chaired by former Senators Warren Rudman and Paul Tsongas, to the following conclusion on both the CWA and a similar "Agenda for the Republican Majority" issued by Senate Republicans: "Clearly deficit reduction is not a priority in these plans. These documents are about getting votes, not about balancing the budget" (Concord Coalition 1994, 1).

In response to concerns regarding revenue losses in a plan that calls for deficit elimination, some Republicans have been emphasizing the need for a "dynamic scoring" of the revenue impact of tax changes. While this scoring may be sensible in theory, it is already leading to abuses in practice.[14] For example, forecasts by the National Center for Policy Analysis—which *Investor's Business Daily* calls a "supply-side think tank" whose economists "have close ties" to Representative Richard Armey (R–Texas)—claim the CWA's tax cuts will stimulate economic growth and *raise* $623 billion in federal revenues over five years ("Perspective" 1994). As Paul Craig Roberts, a major figure in the 1980s supply-side revolution reminds us, "none" of that decade's supply-side measures "ever claimed that tax cuts would pay for themselves." The Reagan administration in particular "did not predict that the tax cuts would be self-

financing. It predicted the exact opposite—that every dollar of tax cut would lose a dollar of revenue" (Roberts 1991, 25–27).[15] Claims of revenue gains due to greater economic growth are even more fantastic when considered in light of the Federal Reserve's current view that the economy is already at its growth limit and needs to be restrained to prevent inflation.

4. Critics of the BBA have raised an important political question about its enforcement. As Senator Harry Reid (D–Nevada) indicated during the 1994 BBA debate, legal scholars are concerned that once the amendment takes effect, any congressional failure to produce balanced budgets would lead to judicial involvement in fiscal policy, since the federal courts are responsible for interpreting and overseeing enforcement of the Constitution (Reid 1994). Court involvement is unattractive for many reasons, including the following: the courts operate in a manner that is too slow to allow timely action on disputes over budgets and fiscal policy; judges have no special expertise in budget matters; and the Constitution's framers sought to exclude the judiciary from fiscal decisions.[16] To avoid this unattractive outcome, legislators have sometimes tried to write a BBA that preempts court action. But then the problem becomes that such an amendment is entirely symbolic. An amendment left to Congress to enforce has no teeth and cannot be expected to affect either the incentives or the actions of federal legislators.

5. Yet another argument against the BBA is that it flows from a questionable premise regarding recent federal deficits. The public choice perspective suggests that such deficits are a result of legislators' efforts to pursue their own individual interests at the expense of the public interest. But empirical work by Robert Baldwin, an economist who is sympathetic to public choice theory, indicates that self-interest is not enough to explain public policy decisions. In particular, Baldwin's research finds that legislators are often motivated not only by self-interest, but also by a concern for social well-being that can be inconsistent with the public choice model (Baldwin 1985, 165).

Although citizens often respond in the affirmative when pollsters ask simply if deficits should be reduced, Stein stresses that an attempt to achieve deficit reduction requires legislators to confront an array of social benefits *and costs* (Stein 1994). Thus, it is not at all clear that the deficits of the

past decade have been incompatible with public desires. This view is supported by a recent poll that found few Americans willing to support a BBA if it required cuts in Social Security, Medicare, or education expenditures (Dowd 1994, A24).

6. Finally, many analysts have asserted that the 1994 congressional election represents such a fundamental change in political direction that a BBA is unnecessary. Their argument, which has not yet been tested, is that the 1994 election signaled the end of political rewards for "bringing home the pork." As Regan explained at a recent Levy Institute workshop, citizens seem to have decided both that if the pork is being brought home to them, it is being brought home to others, too, and that it is time to put an end to the feeding for all. This view runs contrary to the public choice perspective that institutional change is necessary because it suggests that current political incentives make showing fiscal restraint to be in the self-interest of politicians (Regan 1994a).

Economic Dangers

Turning to a discussion of economic problems with the BBA, one must first correct the CWA suggestion that an annually balanced budget would put Congress "under the same budget constraints as families and businesses" (CWA 1994). Corporations and households do not generally achieve or even strive for an overall budget balance each year. If families lived under the constraints proposed by the BBA, then they would need to pay cash for automobiles, houses, and college education. If businesses lived under this constraint, then they could not resort to borrowing when investing in equipment or constructing new facilities. The almost universal private sector practice of capital budgeting (taught in all corporate finance and accounting courses) would also come to an end.

In fact, few state, local, and even national governments could live under this budget rule. Unlike federal BBA proposals, state requirements seldom refer explicitly to a year-end budget balance. Moreover, public capital budgets are quite common both in this country and abroad. For example, 42 states have separate capital budgets that are not required to be balanced (General Accounting Office 1993, 14; Levy and Regan 1994, 2).[17]

Capital budgeting at the level of the states is rooted in a long history of attempts to invest in canals, roads, and other "internal improvements." Capital budgets were adopted in many American cities during the 1940s as a way to bring a more rational and systematic approach to municipal budgeting. Today capital budgeting can be found in approximately 90 percent of the cities in the United States (Doss 1987; Bozeman 1984).

Most discussions of public capital budgets focus on the distinction between annual expenditures that cover government operating expenses and outlays that involve public investments.[18] But there are at least three other central aspects of capital budgeting: identification of needed or desired public improvement projects, development of a multiyear capital improvements plan, and selection of a financing mechanism. Most state and local governments finance at least a portion of their capital expenditures through borrowing. The rationale here is that public capital formation should be financed like corporate and household assets that last for a number of years; borrowing allows the purchaser of an asset to spread the cost over the asset's lifetime (Bozeman 1984; Hush and Peroff 1988; and Heilbroner 1988).

Advocates of a BBA are correct when they suggest the federal government should adopt budgeting practices that more closely resemble those used by other economic actors. Washington can learn much from an examination of budgeting by other actors in both the public and the private sectors. And, one important lesson that might be derived from such an examination is that the imposition of a comprehensive, annual budget-balancing rule does not represent the most rational budgeting approach available to policymakers.

There is, however, an important area in which the experience of most other economic actors is not relevant to federal budgeting. The federal government has a unique responsibility: it alone is responsible for macroeconomic stabilization. One reason the United States has avoided a depression since the 1930s is that federal expenditures and revenues have been used to help offset private sector slumps. A balanced budget would eliminate one of the few mechanisms preventing mild downturns from developing into severe economic crises. In other words, even if federal legislators could avoid all the political dangers identified earlier, their

prize for adhering to a balanced budget each year would merely be achievement of the wrong economic goal.[19]

Moreover, maintaining an annually balanced budget would require tax increases and spending cuts or both in a recession—actions that would exacerbate, rather than compensate for, the cyclical downturn. This is not fiscal responsibility; it is fiscal irresponsibility. As Aaron has written:

> One does not need to be a primitive Keynesian to believe that a requirement forcing tax increases or spending cuts during economic slowdown could be catastrophic. . . . I can think of few policies better calculated to turn economic shocks into major calamities than a balanced budget requirement. (Aaron 1994, 7)

There are also problems with Simon's suggestion that the balanced budget requirement will be easy to waive in times of recession. The vote margin by which previous stimulus packages have been passed does not ensure that legislators will be able to respond quickly and effectively to every fluctuation in our economy, especially since there are many types of lags that slow the policy process. Moreover, the waiver suggestion ignores the fact that stimulus packages are not always needed today because various automatic stabilizers (such as the availability of unemployment benefits for laid-off workers) are an inherent part of our present tax and expenditure system. The BBA would require a Congress fearful of unanticipated deficits to consider disabling these valuable mechanisms.

In short, the BBA ignores the reality of modern fiscal constraints and points us in the wrong direction: back to a less stable era of budget balance, not economic balance. In this manner, it is toxic, not tonic, to our economic well-being. Still other economic implications of the BBA are as follows.

1. The economic impact of a particular federal budget deficit depends on more than its magnitude (measured either in absolute terms or as a fraction of national output); it depends in part on the state of the economy. Implicit in the concept of crowding out is a notion of a full-employment economy. But since the real-world economy is not always at full employment, deficits of the size required to compensate for private sector slackness do not threaten to displace business investment.[20] As Simon's dis-

cussion of the balanced budget waiver indicates, this is a point that even some BBA adherents recognize.

2. The impact of a federal deficit also depends partly on the nature of public expenditures. As Stein noted in his 1994 BBA testimony, we do not have to apologize for our debt legacy if, instead of financing current consumption, borrowing is for investments that leave a safer world and a more prosperous economy for our children and grandchildren (Stein 1994). Supporting this position is recent empirical research that shows that public infrastructure spending has a positive effect on private equipment investment, productivity, and real wages (for example, see Erenburg 1994).

3. In James D. Savage's award-winning *Balanced Budgets and American Politics*, he analyzes the economic impact of deficit spending in the United States between 1965 and 1984. Savage concludes that unbalanced federal budgets "have not created the harmful effects often attributed to them in recent years. . . . Instead, the federal government's deficits most probably helped rather than hurt the economy during the 1981–83 recession and played an important role in assisting the 1983–84 recovery" (Savage 1988, 54). More recently, work by Robert Eisner on the U.S. economy since the early 1960s shows that higher deficits have been associated with more rapid growth in real product, higher private investment and national saving, and lower unemployment (Eisner 1994, 89–119).

4. The argument in the case for the BBA that deficits hurt our trade position is not supported by empirical evidence. Since 1992, in fact, our trade balance has worsened while the federal budget deficit has fallen. (For a good discussion that disentangles these "twin deficits," see Blecker 1992.) One implication is that trade concerns should not deter federal officials from fulfilling their countercyclical responsibilities.

5. An economic aspect of the BBA almost entirely ignored in current discussions is its impact on the nation's financial system. Government debt has played a fundamental role in U.S. monetary policy since the 1930s. In particular, open-market operations of the Federal Reserve require a large, publicly held federal debt. Much of the banking system of the United States would need to be restructured under a BBA. Similarly, public trust funds that now hold only government debt (such as the

Social Security fund) would need to find a new investment outlet. As Hyman P. Minsky notes, BBA enactment would eventually leave the U.S. economy without enough government debt for risk-averse institutions and individuals (Minsky 1995).[21]

Review

The BBA is only a statement of intention. Its passage does not substitute for the need to make difficult choices. Moreover, Gramm-Rudman and the experience of the states show the futility of adopting budget statements when there is no political will to carry them out. Even placing this statement in the Constitution offers no special advantage: amending that document offers no airtight protection against evasion, for all fiscal straitjackets can be stretched. If legislators want a balanced budget, we will get one even without a BBA. If they don't, the BBA can only taint the Constitution, lead to more citizen frustration, and engender a further loss of confidence in political institutions.

From an economic perspective, the BBA is a misguided statement of intention. It ignores the reality of private sector budgeting, precludes the development of federal capital-budgeting procedures, and hinders the public sector's ability to compensate for cyclical fluctuations in the economy.[22] The amendment also has important financial system implications, implications that have been ignored in most BBA discussions.

Budget Reform Alternatives

If the BBA will bring only further injury to the U.S. political and economic systems, then how should the federal budget system be reformed? To begin, we must be clear on the problems we seek to resolve. First, and perhaps the primary problem, fiscal policy appears unconstrained and directionless. Second, Americans feel the public sector is inefficient and that too few of today's federal expenditures represent an investment in our future well-being. Third, the budget process seems never-ending; many have described it as "continuous" budgeting—a system in which "decisions are so frequent they are never final" (Rivlin 1986). Fourth, the

projected growth of entitlements, such as Medicare and Social Security, threatens to overwhelm all other future fiscal concerns. Most of the discussion that follows will focus, like the BBA, on the first of these problems.

Addressing the Lack of Direction and Restraint

Much support for the BBA seems to emanate from a belief that U.S. fiscal policy is directionless. But the amendment is both wrong in principle and destructive in practice. A more sensible alternative would be to seek a balance in the high-employment (or structural) budget—in other words, to pursue a policy of full-employment budgeting.

Full-employment budgeting yields a zero deficit or some predetermined surplus if the economy is at a high level of employment. This approach generates a deficit to compensate for a cyclical shortfall of private spending. It produces an increasing surplus as unemployment falls beyond some predetermined level associated with a cyclical recovery (*Economic Report of the President* 1994, 26).

One does not need to follow a policy that balances the high-employment budget to calculate a cyclically adjusted estimate of the magnitude of the deficit for any given year. These estimates allow legislators and the public to distinguish deficits caused by cyclical fluctuations from deficits caused by more structural imbalances in receipts and expenditures (see Table 2). But a policy that seeks to eliminate structural deficits would be not only more economically sound, but also easier to realize than a policy that strives for an annually balanced budget. Another strength of full-employment budgeting is that while offering a budget rule that everyone can understand, it continues to emphasize the federal government's countercyclical responsibilities.[23]

The suggestion that federal officials should focus on the high-employment budget is not new. It was mentioned during a BBA hearing before the House Judiciary Committee in 1988, for example, by Edmund B. Fitzgerald, Northern Telecom's chairman and CEO. Fitzgerald's remarks were offered while he was chairman of the corporate-sponsored

Table 2 Structural Budget Surplus or Deficit (–), 1959 to 1998 (overall structural budget averages, inflation-adjusted)

Fiscal Years	Percentage of Gross Domestic Product
1959–1982	0.1
1983–1993	– 1.9
1994–1998 (forecast)	– 0.8

Source: *Economic Report of the President* (1994).

Committee for Economic Development and his testimony was presented on behalf of the trustees of that organization (Fitzgerald 1988).

But what is the appropriate unemployment target for full-employment budgeting? When the question was asked in the mid-1970s, research by the U.S. Bureau of Labor Statistics estimated frictional unemployment at between 2.4 and 3.8 percent. This led Senator Hubert Humphrey to advocate a goal of 4.0 percent for the overall labor force, a goal enacted into law by the Full Employment and Balanced Growth Act of 1978 (FEBGA) (Humphrey 1976).[24]

Many economists believe in a higher "natural" rate of unemployment, a rate beyond which further increases in aggregate demand will be fully translated into inflation. Indeed, this type of rate is currently embedded in structurally adjusted deficit figures calculated by the federal government (such as those in Table 2). But a growing body of theoretical and empirical evidence challenges this notion (see, for example, Wolfson 1993 and Eisner 1994). Moreover, adherents acknowledge that the natural rate can be shifted by institutional changes and structural economic developments, and the predominant economic trends since the early 1980s are ones that would cause this rate to fall (Rissman 1988). In fact, Robert Gordon and other prominent defenders have recently conceded their inflation estimates were overly pessimistic and have lowered their estimates, from a "nonaccelerating inflation rate of unemployment" (NAIRU) of 6.0 percent or more to a figure closer to 5.0 percent (Bennett 1995).

In short, one alternative to the BBA is full-employment budgeting, an approach that could use as its target the unemployment rate found in either FEBGA or NAIRU. This approach to budgeting, under either unemployment target, provides fiscal policy with more direction than it has today, and at the same time it avoids the economic and political dangers of a BBA.

Another alternative to the BBA is enactment of a detailed, multiyear deficit-reduction plan such as the one proposed by Representative Solomon in 1994. A similar proposal has been offered by the Concord Coalition. The alternative represented by these proposals promises more serious deficit reduction than a BBA because it involves real spending cuts and tax increases. Instead of offering a mere statement of intention, these proposals make the hard choices that are needed to bring the federal budget into balance. Moreover, the absence of a constitutional amendment allows flexibility in the event of unanticipated economic developments.[25]

The full-employment budgeting alternative offers a sensible long-term goal. The detailed deficit-reduction alternative makes hard choices today. In contrast, BBA enactment provides neither.

Addressing Other Problems

Today both major political parties in the United States are attempting to streamline federal structures, procedures, and policies in response to citizen demands for a more efficient public sector. In addition, President Clinton and others emphasize the need to make government work better by bringing a greater investment orientation to federal expenditures through an emphasis on human resources, infrastructure, and technology. The bipartisan Competitiveness Policy Council, for example, finds merit in this perspective. It suggests that Congress and the White House adopt an "investment budget" (Competitiveness Policy Council 1993, 8).

The council wants each budget submitted to Congress to distinguish between federal investment expenditures and federal consumption expenditures. It also recommends that Congress vote on the adequacy of the investment component. The council defines this component

broadly. Items in the investment budget would include public outlays for education, infrastructure, research and development assistance, and worker training (Competitiveness Policy Council 1993, 8).

The council notes that federal spending in these areas has fallen sharply since the late 1960s. It argues that an investment budget would draw attention to this decline and help mitigate the current tendency to avoid programs with a delayed payoff. Fiscal discipline would be retained under this arrangement because the proposal calls for public investment and consumption expenditures to be considered together in deficit calculations (Competitiveness Policy Council 1994, 30–31; 1993, 8).[26]

Another approach to the problem of public investment is capital budgeting. While federal capital-budgeting proposals have been offered for decades, Pat Choate and Susan Walter revived interest in this approach in the early 1980s by chronicling the decline in public infrastructure investment (Choate and Walter 1983). Recent works suggesting the beneficial economic impact of such investments (such as Erenburg 1994) have brought additional attention to capital budgeting in the past few years.

In testimony submitted to the Senate Judiciary Committee earlier this year, David A. Levy, vice chairman and director of forecasting at The Jerome Levy Economics Institute of Bard College, outlined a capital-budgeting proposal that warrants consideration by federal policymakers. His proposal follows the traditional capital-budgeting approach in that it counts only spending on long-lived, physical assets as capital investments. But it also calls for establishment of an independent body of accounting experts responsible for developing (and overseeing use of) strict accounting principles to be employed in the course of such budgeting (David Levy 1995). This body could not only be modeled after but also build on the work of the existing Governmental Accounting Standards Board (GASB) that now performs similar functions for states and municipalities. Among matters to be decided by such a board are issues involving the allocation of costs among operating and capital accounts and the determination of proper depreciation schedules (David Levy 1995).

According to the General Accounting Office, the Federal Accounting Standards Advisory Board has already made initial explorations into appropriate depreciation concepts (Posner 1993, 14–15).

A reform that addresses the problem of the never-ending budget process is a two-year budget and appropriations cycle. A BBA still requires the budget to be revisited each year. A biennial budget could ease the frustrations engendered by continuous budgeting; allow legislators more time for program review and evaluation; and, even with provisions for changes in emergencies, promote economic stability. It might also make a small contribution to the goal of deficit reduction by providing less opportunity for modification of multiyear agreements and by allowing the gradual imposition of fiscal changes. While a two-year cycle has been one of the most widely discussed budget process reforms during the past decade, Washington's new bipartisan attention to streamlining government may make the present the perfect time to adopt this reform.[27]

Finally, there is the problem of the expected explosive growth in entitlements. Although the chairmen of Congress's Bipartisan Commission on Entitlement and Tax Reform (BCETR) were unable to win support for specific policy changes in 1994, Budget Director Alice Rivlin has correctly observed that the commission played "an extremely useful role" by "focusing attention on the big problems of the next century" (quoted in Pear 1994).[28] To make future progress in this realm, panels with narrower agendas than that of the BCETR may be required, for example, one commission to address health care policy and another to study the viability of Social Security. (These are the specific policy areas where we can anticipate our most significant future problems.) As economist Max Sawicky suggests, work in both areas should be guided by two principles: support for the missions of existing programs and commitment to reform that is structural, not merely fiscal, such as imposition of expenditure caps (Sawicky 1994, 1–2).[29]

Conclusion

The idea of a constitutional amendment requiring a balanced budget was recently revived in Congress as part of the Contract with America's Fiscal Responsibility Act. But a BBA would produce only more fiscal irresponsibility. It is founded on a misdirected and dangerous economic principle and is likely to bring harm to the political system once put into practice. The BBA is toxic, not tonic.

Today's federal budget needs improvement at many levels. Fiscal policy must have a clearer sense of direction; tough budget choices must be made; public spending should be more efficient and have a stronger investment orientation; the budget process warrants streamlining; and the projected growth of entitlements spending threatens to unleash significant structural deficits in the years ahead. Some reforms that address these problems more directly and more effectively than a BBA have been discussed in this brief.

As a first step toward greater fiscal responsibility and more rational budgeting, legislators in Washington should follow the lead of the states and establish a narrowly defined federal capital budget. The appropriateness of developing a multiyear capital improvements plan, of financing long-lived physical assets over their useful life, and of establishing an independent body to oversee matters such as the development of (and adherence to) proper depreciation schedules has been demonstrated by both theory and practice. Indeed, such practices are common in both the public and private sectors at home and abroad. If BBA advocates truly want the U.S. government to follow the fiscally responsible practices of other economic actors, adoption of capital budgeting should be high on their list of proposed institutional reforms.

The realities of a BBA have been clouded by rhetoric. The amendment cannot ensure budget balance. It encourages less responsible public financial management. It will not force fiscal restraint. It does not impose upon the federal government the same restraints as those under which responsible households and firms operate. In short, it represents an attempt at governing by gimmick. In a realm as fundamental to our well-being as public budgeting and national economic policy, Americans deserve much more enlightened leadership and a far more serious course of action than that embodied in the BBA.

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Notes

1. Federal expenditures were about 18 percent of gross domestic product (GDP) in the second half of the 1950s. The figure was just under 11 percent in 1934 and has been about 23 percent in the 1990s (*Economic Report of the President* 1994, 362).
2. An attempt to enact a balanced budget requirement by calling for a constitutional convention also stalled in the 1980s; see Snell and Mackey (1994) for more on that effort. A constitutional convention must be requested by 34 states. Amendments originating in the Congress must be approved by two-thirds of the membership of each house and then ratified by 38 states.
3. The overall federal deficit for fiscal year (FY) 1992 was ultimately placed at $290.4 billion, and when one excludes off-budget receipts and outlays (including the Social Security surplus) that number rises to $340.5 billion. Initial 1992 forecasts for FY 1993 predicted a deficit of over $400 billion (Dewar and Gugliotta 1992, A14).
4. More than 400 economists (including seven Nobel Prize winners) signed a statement opposing the amendment during the 1992 debate; see "Economists Oppose Balanced Budget Amendment" (1992).
5. On the matter of budget execution, this proposal stated that "Congress and the President shall ensure that actual outlays do not exceed the outlays set forth" in the budget; it also stated that "Congress shall enforce and implement this Article by appropriate legislation" (House Republican Conference 1994a, 2–3).
6. The Senate BBA differed from the amendment that passed the House in only one respect: Senators added language designed to prevent the judiciary from intervening in budget matters in the event of an unbalanced budget.
7. Another prominent economist who adheres to the public choice perspective of deficits is James M. Buchanan. Both Friedman and Buchanan are Nobel Prize winners.
8. According to Herbert Stein of the American Enterprise Institute, BBA supporters do not understand a central lesson of the Gramm-Rudman experiment: "it is futile to set ceilings for the deficit or for total spending without prior agreement on the major lines of the policies by which conformity to those ceilings is to be implemented" (Stein 1994, 5–6). State experience underscores the fact that a BBA requirement alone cannot eliminate deficits: nine states

with balanced budget requirements reported at least one deficit for the period 1990 through 1992 (General Accounting Office 1993, 35–36).

9. For a similar perspective, see Suits and Fisher (1985).
10. For a discussion of the room for off-budget accounts under the BBA passed by the House in January 1995, see Tofel (1995).
11. For a discussion of the problems associated with deferred maintenance and a policy proposal to finance the nation's public infrastructure investments, see Regan (1994b).
12. See also Regan (1995), who notes that at least 12 states used accounting gimmicks to close 20 percent or more of their budget gaps in recent years.
13. According to Michael Hurd, an expert on the economics of aging, health care costs in 2020 will rise to between 23 and 36 percent of GDP, while the number of retirees per 100 workers is expected to rise from today's 30 to between 41 and 67 by 2040 ("The Economics of Aging" 1994, 2). The present rate of growth in Medicare and Medicaid expenditures is 15 percent per year.
14. According to former Congressional Budget Office Director Rudolph Penner, Congress already takes into account some dynamic fiscal policy effects: "It's not a matter of dynamic or not dynamic but how dynamic" (quoted in Rubin 1994, 3503).
15. Roberts adds, "Moreover, as far as I can ascertain, no supply-side economist inside or outside the Reagan Administration ever said that tax cuts would pay for themselves" (Roberts 1991, 26).
16. For more on the problems of judicial enforcement, see Bork (1990), Strauss (1995), and Dellinger (1995).
17. The state balanced budget requirements mentioned earlier in this brief refer only to operating budgets. For more on the state experience with such requirements, see Gold (1992).
18. For the purpose of capital budgeting, public investments (or capital expenditures) have traditionally been defined as nonroutine outlays involving physical facilities that have a useful economic life of more than one year. Examples include construction of roads, utility systems, buildings, and canals and purchase of major pieces of equipment, such as garbage trucks, police cars, and bulldozers (Doss 1987, 60).
19. It has been argued, for example, that a balanced federal budget in 1993, when the U.S. economy was recovering from recession, would have cut that year's business profits almost in half (S Jay Levy 1994, 2). A U.S. Treasury Department study, meanwhile, concluded that a BBA in effect at the peak of that most recent recession would have added 1.5 million people to the ranks of the unemployed and would have raised the unemployment rate from its actual level of 7.7 percent to nearly 9 percent (Rubin 1995).
20. Deficits designed to offset cyclical downturns do not necessarily require discretionary fiscal policy action. Automatic stabilizers have been providing compensatory spending for decades.
21. Minsky is one economist who has not ignored the financial system implications of a BBA. For a contrast, see Senate testimony in favor of the balanced budget amendment by Social Security expert Robert J. Myers. Myers's statement, which identifies the continuing existence of federal budget deficits as "the most serious threat to Social Security," proudly mentions that the program's surplus now totals nearly $500 billion and is invested in "interest-

bearing government bonds" (Myers 1995, 2). Minsky's view is not that government deficits and debt are always a good thing. Rather, it is that our intensely financial economy "can have too little as well as too much government debt" (Minsky 1995, 4).

22. While some legislators have proposed incorporating a capital-budgeting provision into the BBA, this proposal has never received much congressional support. The BBA passed by the House in January 1995 does not contain such a provision. Indeed, amendments with such provisions were defeated soundly in 1994 and 1995.

23. Some have suggested that countercyclical action could be retained under a BBA if the federal government ran budget surpluses regularly so that surpluses could fall toward zero during downturns. But full-employment budgeting is superior to this approach in two respects. First, the political dangers of a BBA still remain relevant to the surplus approach; far fewer (and less acute) political dangers would be associated with full-employment budgeting, partly because there would be no constitutional statement. Indeed, many political problems might be especially significant under the surplus approach since the goal is not merely a zero deficit but the more difficult to reach objective of a budget surplus. Second, the surplus approach assumes that high employment can be obtained regularly without deficits. While full-employment budgeting does not exclude this as a possibility, it puts the goal of balancing the economy (high employment) before the matter of balancing the budget.

24. The FEBGA's 4.0 percent figure reflects a rounding up from the 3.8 percent estimate of cyclical unemployment.

25. As with full-employment budgeting, political dangers of a BBA are also avoided by enactment of a detailed, multiyear plan.

26. The council is aware that under an investment-budgeting system that puts investments "off budget" legislators might feel pressured to mask large budget deficits by classifying nearly all public expenditures as investments. A unified budget deficit calculation is retained in their investment-budget proposal for precisely this reason. An alternative approach (which will be discussed shortly) is offered by capital budgeting, a system that addresses this problem by employing a very narrow definition of capital outlays.

27. For more on biennial budgeting, including evidence of bipartisan support for this reform, see Whalen (1994).

28. The entitlements commission was headed by Senator Bob Kerrey (D–Nebraska) and Senator John Danforth (R–Missouri).

29. The 1983 panel convened to address imminent problems in the financing of Social Security demonstrates that a bipartisan effort focused on problems in a single policy area can indeed be effective. More recent commission successes include the work of the Base Closure and Realignment Commission.

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