

# Constitutional Balanced Budget Amendments

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## What is a balanced budget amendment?

A balanced budget amendment would permanently amend the U.S. Constitution to limit total federal spending (mandatory and discretionary) to a fixed share of Gross Domestic Product (GDP). Placing a permanent ceiling on the amount of the nation's budget which can be dedicated to spending raises many concerns.

The amendment passed on June 15, 2011 by the House Judiciary Committee raises significant concerns because:

- it would be harder to pay for essential programs, while not holding expensive tax breaks to the same standard,
- it requires high voting majorities to act contrary to the amendment's provisions, and
- it limits spending to no more than the previous year's revenue.

## Why is this a bad idea?

**The amendment is unbalanced.** Tax cuts cost the federal government revenue. While the proposed amendment includes a stringent spending cap, it offers no similar limit on tax breaks. To increase spending beyond 18% of GDP, a 3/5 majority vote in Congress would be necessary, while lost income from tax breaks would not be held to the same standard.

Tax breaks for the wealthiest Americans from 2001 and 2003 have cost the federal government \$2.5 trillion in revenue. They are expected to cost \$5.5 trillion over the next decade if they don't expire in 2013. Unlike tax breaks to low-income families, studies show that tax breaks for the wealthy do not contribute to

The budget proposed by Rep. Paul Ryan, which passed the House and failed in the Senate earlier this year, is estimated to hold spending at around 20% of GDP. This depends on making Medicare into a voucher program, and fundamentally changing Medicaid and Supplemental Nutrition Assistance enough to either sharply reduce benefits or the number of those assisted.

**The amendment would cap spending at 18%, a limit too low to meet the government's obligations.** The last time that federal spending was at 18% of GDP was in 1956, before Medicare and Medicaid even existed. Capping future spending at this low level would automatically force drastic cuts, because the number does not account for new responsibilities the government has taken on - like Medicare and Medicaid. Even more concerning, this cap would limit a program from using revenue gained earlier than the previous year.

**The balanced budget amendment would automatically enact extreme spending cuts.** In order to get to an 18% spending limit, Congress would have to enact spending cuts similar to proposals which ultimately would have cut non-defense discretionary programs close to 70 percent by 2021. This portion of the budget includes obligations like transportation, anti-poverty programs, energy, environment and education.

Social Security relies on revenue drawn in over multiple years to pay out benefits. If the proposed amendment were currently in place, it would mean Social Security benefits in 2011 could not be drawn from reserve funds collected any earlier than 2010. This would drastically reduce the amount of funds available to pay benefits.

**There are other options to balance the budget!**

Spending to meet the needs of people experiencing vulnerability because of poverty or emergencies is smart economic policy. For example:

Of the funds spent in the American Recovery and Reinvestment Act (ARRA, passed in 2009):

\*\$1 spent to boost SNAP (food stamps) generated \$1.73 in economic activity

\*\$1 of extended Unemployment Insurance generated \$1.64.

In contrast, every \$1 spent on making tax cuts for the wealthiest Americans permanent (passed in 2001 and 2003) would generate \$.29 (costing \$.71 in economic activity).

A 2010 Congressional Budget Office report estimated that ARRA created or preserved between 1.4 million and 3.6 million jobs.

In Fiscal Year 2012, proposed Pentagon funding accounts for 54% of discretionary spending. Instead of cutting this budget in areas identified as wasteful, the Pentagon's budget is being increased in many proposals.

***Congress would be unable to increase spending during a recession to stimulate the economy.*** As unemployment rises (like during a recession) GDP decreases as fewer people are working. Jobless workers pay fewer income taxes and many people have a harder time making ends meet. When families purchase fewer necessities, this also drains the local economy.

Because the amendment pegs spending to a percentage, during a recession Congress would have to spend less to stay within this limit.

***This change would happen at a time when more investment in people is necessary.*** Social programs like the Supplemental Nutrition Assistance Program (SNAP, formerly food stamps) and Unemployment Insurance play an important role in helping families meet basic needs when employment is down. These programs provide a buffer to local economies as struggling families spend the assistance on necessities.

***Acting contrary to the amendment would be a difficult process, even during emergencies.*** The 2/3 and 3/5 majorities in Congress required for acting contrary to the provisions of the budget amendment are already difficult to achieve.

During a disaster, like a hurricane or oil spill, if the government had already reached its spending limit, reaching the 3/5 votes needed to spend beyond 18% could make it difficult for Congress to meet the immediate needs of those affected.

***While states and families have to balance budgets, they do it in part by taking on responsible debt.*** Families take on responsible debt like student loans or mortgages. Although states are required to balance their operating budgets, they borrow from the federal government for other expenses.

Even if states and families do have tighter budgetary constraints than the federal government, they are able to do this partially because they can count on federal support, income from previous years, or responsible debt when their own finances are insufficient.

What would it take for the amendment to pass? Two-thirds of both the House and Senate must pass the amendment. Then, 38 states (3/4 of state legislatures) must ratify it.

Neither the president nor state governors could veto the amendment once passed.

Less stringent balanced budget amendments failed twice in the 1990s – by only one Senate vote. Your member could make that difference this time