

November 26, 2011

Ted Boettner: Be thankful the balanced budget amendment was rejected

CHARLESTON, W.Va. — Last week, the U.S. House of Representatives rejected a constitutional balanced budget amendment. This is good news. If passed, it could have led to severe budget cuts to vital programs, such as Medicare, Social Security and the Children's Health Insurance Program.

The amendment would have also ensured that future economic recessions are deeper and longer because it would force policymakers to cut spending, raise taxes, or both when the economy is already weak and in recession.

According to Macroeconomic Advisors, one of the nation's preeminent private economic forecasting firms, balancing the 2012 federal budget would have required \$1.5 trillion in spending cuts. These deep cuts would have a catastrophic effect on the economy, throwing about 15 million more people to be out of work, causing the economy to shrink by about 17 percent instead of growing by an expected 2 percent, and doubling the unemployment rate from 9 percent to approximately 18 percent.

Proponents of a constitutional balanced budget amendment often claim that since families and states must balance their budgets every year that the federal government should do the same. Both are poor analogies.

Most families often do not balance their household budgets, and for good reason. For example, a family that takes out a student loan or obtains a mortgage will in essence be running a "deficit" by spending more than it earns that year. However, we know that a college education is a smart investment that pays off over the long-term and that homeownership is an important investment.

In addition, families often save money and draw down those savings in the event that someone loses a job or becomes ill. The proposed constitutional amendment would have barred the federal government from spending any money that has been saved because the government could only spend money it brings in that year.

While most states are required to balance their budgets each year, state balanced budget requirements refer to operating budgets, and not to capital budgets. State spending on land, infrastructure and school buildings is largely financed through debt. The late Senator Robert C. Byrd made this exact point in 1979 when arguing against balanced budget amendments when he said "state governments do not have such responsibilities as national defense and security" and "many states have two budgets; one for government operating expenses, which must balance, and one for capital outlay or construction projects, which need not balance."

As West Virginia historian Ray Smock recently observed, "Senator Byrd said that the goal should always be to balance the budget, but that an amendment to the Constitution 'could endanger the nation's security and economic health by its inherent inflexibility.' He did not want Congress to end up in a constitutional straightjacket that would prevent a quick response to disasters, emergencies, wars, and economic down-turns."

The growth in federal deficits is a real and serious problem that needs to be addressed, but a balanced budget amendment has no place in the Constitution of the United States, and should not be used as a substitute for real leadership on fiscal policy.

The first step to reducing our country's deficit problem is to look at what is causing it. Contrary to what many believe, the recent growth in the deficit was not caused by out-of-control domestic spending, but by a weak economy, a bloated military budget, and the Bush-era tax cuts.

Over the longer-run, runaway health cost increases in our health care system is also driving up the cost of federal health programs. As economist Dean Baker often points out, if the United States

had the same per capita health costs as other wealthy nations we would have huge budget surpluses in the long-term instead of deficits. The Affordable Care Act will help control costs, but we can do more by negotiating better prescriptions drug prices, enacting a strong public option, and opening our medical system to foreign competition and freer trade.

While getting our nation's deficit under control will require difficult decisions, these decisions must be made in a thoughtful and balanced way. Instead of focusing on arbitrary ways to cut spending, policymakers need to redirect their focus to putting more people to work.

As Sen. Joe Manchin often says, "It's time to rebuild America." Let's get to work.

Boettner is the executive director of the West Virginia Center on Budget and Policy.

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Posted By: wjohn101

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Naturally, liberals who are wrong about everything would think its ok to keep piling up debt. After all the money trees bloom from time to time and if a late frost nips the buds, China is always there to bankroll their spending sprees.

The amendment allowed for several years to bring the budget in balance and in time of real emergency a deficit spending mechanism was provided for.

Don't expect the big spending of other people's money liberals to understand math until its reality finally catches up with us as it now is in Europe.

Posted at: November 27, 2011 8:39:53 am

Posted By: MU4WVU2

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I am not sure a balanced budget amendment to the constitution is the answer to what everyone agrees is a problem in the National Debt. This country has spent more than they have taken in each and every year since 1957. It is unrealistic to suggest that our legislators "should" use fiscal restraint. They have shown no history of doing so. They have balanced the budget six of the last 75 years. Does that not suggest that in the absence of a BBA, they will continue to bust their own budget?

Mr B is a little misleading, the bill offered would allow 66% vote of congress to override the agreement , but it could be broken. Also, congress could make an amendment to the bill to split the budget into an "operating budget" and a "capital budget". Operating being the normal operation costs must be paid annually. Capital, or long term, budgets like an economic stimulus or war could be budgeted to retire the cost over a longer(10-20 years) period of time. Capital fund would be paid annually.

Posted at: November 27, 2011 11:58:21 am