Center on Budget and Policy Priorities

820 First Street NE, Suite 510
Washington, DC 20002

Tel: 202-408-1080
Fax: 202-408-1056

center@cbpp.org
www.cbpp.org

November 28, 2011

AMASH CONSTITUTIONAL SPENDING CAP WOULD RADICALLY SHRINK FEDERAL BUDGET

"Starve the Beast" on Steroids

By Richard Kogan

Rep. Justin Amash (R-MI) has introduced an amendment to the U.S. Constitution that would impose an extraordinarily severe cap on federal spending. The amendment would force radical shrinkage of the federal government, taking the nation down the road toward antigovernment activist Grover Norquist's vision of "starving the beast." If the proposal were in full effect today, for example, the spending cap for fiscal year 2012 would be 14.7 percent of GDP, a stunning *$1.3 trillion* below projected spending for this fiscal year.

Under the proposal, the spending cap for any year would equal the average level of revenues for the three prior fiscal years, adjusted for inflation and population growth since those years. As a result, whenever the economy weakened and pushed tax revenues down — *and* whenever Congress cut taxes — the spending cap would drop automatically and force still deeper budget cuts.

To waive the cap would require a *two-thirds* vote of the House and Senate, even in the midst of a recession. (The two-thirds requirement would also apply during wars and other military conflicts.) In other words, a determined minority such as the Republican Study Committee (a group of strongly anti-government House Republicans) would have the votes to ensure that massive budget cuts be instituted regardless of the state of the economy or to demand other concessions in return for their votes.

To secure budget cuts of this extraordinary magnitude, Congress would almost certainly have to severely cut or dismantle programs like Social Security, Medicare, and Medicaid. To illustrate: if Congress fully protected Social Security, Medicare, and Medicaid but total expenditures had to be $1.3 trillion lower in 2012, all other programs would need to be cut *70 percent,* on average. Everything else — veterans' health, basic research, education, law enforcement, transportation, defense, and the safety net for low-income children, parents, and elderly and disabled people — would be at serious risk.

Moreover, the proposal places no limitation whatsoever on tax cuts. To the contrary, it invites antigovernment crusaders to propose unlimited tax cuts because, the amendment is designed to guarantee that all tax cuts — no matter how large or how tilted toward high-income households, powerful corporations, or other special interests — would eventually be paid for by cutting government programs.

This is why the proposal comes as close to, or closer than, any other in embodying Grover Norquist's dream of huge tax cuts and massive shrinkage of government. The proposal is essentially a "starve the beast" spending cap as a matter of Constitutional law.

Although Rep. Amash is presenting his proposal as a balanced budget requirement, it is not.[1] Based on past revenue ups and downs, the result would be deficits in some years and surpluses in others.

Nor would the deficits and surpluses work out on a schedule beneficial for the economy. Were the Amash proposal now in effect, it would require a budget *surplus* in fiscal year 2012, because the $1.3 trillion in spending reductions it would mandate would place spending *below* the level of revenues this year — precisely the opposite of what the current weak economy needs. If policymakers then used up the surplus by enacting still more tax cuts, that would lower the caps further for the years that would follow, requiring still deeper spending cuts.

Cap Would Be Even Lower Than Under Recent Balanced Budget Amendment Proposals

As noted, the spending cap for any fiscal year would equal the average level of revenues over the three prior fiscal years, adjusted for inflation and population growth since those years. When the economy weakened and revenues slowed, or when Congress enacted tax cuts, the spending cap for subsequent years would fall.

Maximum Spending as a Percentage of GDP in 2012 If Proposal Were Fully in Effect	
Amash	14.7%
House Judiciary	18.0%
McConnell-Hatch	16.8%

The Amash spending cap for 2012 would be 14.7 percent of GDP if the proposal were in full effect today, making this an even more draconian stricture than the one imposed under the constitutional balanced budget amendment (BBA) that the House Judiciary Committee approved on June 23 or the BBA that Senators Hatch and McConnell separately introduced earlier this year. The House Judiciary Committee's BBA would cap outlays at 18 percent of "economic output." The Hatch and McConnell BBAs would cap outlays for any year at 18 percent of Gross Domestic Product (GDP) in the prior calendar year, which would generally equate to between 16 percent and 17 percent of GDP for the current fiscal year.

To be sure, 2012 would be a very unusual year under the Amash proposal, because the three prior fiscal years all had unusually low revenue levels. So, in order to get a more typical picture, we calculated the spending caps that would have applied in each year from 1970 through 2011 under the Amash formula, given the actual levels of revenues in those years. Over this 42-year period:

[1] Rep. Amash introduced his first version of the proposal, H J Res 73, "proposing a spending limit amendment to the Constitution of the United States," on July 21, 2011. It required a three-quarters vote of the entire House and Senate to exceed the spending cap. He introduced his second version, H J Res 81, on October 14, 2011; it is identical in every respect except that the waiver requirement is a two-thirds vote and the purpose is restated as a "balanced budget amendment."

- The spending caps would have averaged 17.7 percent of GDP. The caps would have ranged from under 16 percent of GDP to almost 20 percent, bouncing up and down from year to year and leading to unpredictable budget policy. For example, the cap would have *grown* by 7.2 percent in 2008, after adjusting for inflation, but then *shrunk* by 6.1 percent in 2010 even as the economy remained weak.

- To meet the caps, policymakers would have had to cut total federal expenditures by almost unimaginable amounts in some years — by 36 percent in 2012, 34 percent in 2011, and 27 percent in 2010, amidst a deep economic downturn, and by 27 percent in 1985 and 1986 (when the Reagan defense build-up reached its peak). The cuts would have been so severe that policymakers would have had to scale back Social Security, Medicare, defense, and veterans' programs or eviscerate or eliminate many other programs wholesale.

- Despite these massive cuts, there would still have been deficits in nearly half of the years since 1970.

Cap Would Not Represent Countercyclical Fiscal Policy

The Congressional Budget Office, the private economic forecasting firm Macroeconomic Advisers, numerous Nobel Laureates in economics, and mainstream economic analysis all agree that a key drawback of any balanced budget requirement is that it would force Congress to draw money out of the economy (by cutting spending or raising taxes) just when the economy is weakest. Any version of the balanced budget amendment thus would be "procyclical" — that is, it would make the business cycle of booms and busts more extreme. In the words of Macroeconomic Advisers, "the economy's automatic stabilizers would be eviscerated … recessions would be deeper and longer," as a result of a constitutional balanced budget requirement.[2]

Rep. Amash has reportedly argued that his proposal would embody countercyclical fiscal policy and thereby dampen economic booms and busts rather than exacerbate them. But this claim is incorrect. To test it, we examined what would have occurred had the Amash cap been in place since 1950.

- During the ten recessions that have occurred since 1950, deficits averaged 2.3 percent of GDP while the economy was contracting. A standard balanced budget amendment would have required a balanced budget during those years; that is, it would have required spending cuts and tax increases averaging 2.3 percent of GDP.[3] The Amash spending cap would have permitted deficits averaging 0.2 percent of GDP during those years and hence would have required spending cuts totaling 2.1 percent of GDP. The result in either case would have been fiscal policy that was highly damaging to the economy.

[2] Richard Kogan, "Balanced Budget Amendment = Bad News for the Economy," *Off the Charts* blog, November 8, 2011, http://www.offthechartsblog.org/balanced-budget-amendment-equals-bad-news-for-the-economy/.

[3] In reality, the program cuts and tax increases would have had to be even larger, because those actions would have slowed the economy still further, losing still more revenue, and thus requiring still more spending cuts and tax increases.

- In the first year following the formal end of a recession, the economy typically has started growing again but has not climbed fully out of the hole, and unemployment insurance costs continue to be much higher than normal while revenues are still much lower than normal. The standard balanced budget amendment would have required program cuts and tax increases averaging 4.0 percent of GDP in the first year after the post-1950 recessions, while the Amash proposal would have required program cuts averaging 2.6 percent of GDP.[4]

In short, both the Amash proposal and the standard balanced budget amendment would have been procyclical and harmed the economy, with the Amash proposal doing significant economic damage and the standard BBA doing even more damage. The Amash cap is not countercyclical, but is slightly less procyclical than a standard BBA.

Unlimited Tax Cuts

To be sure, there is one way in which the Amash proposal could turn out to be less procyclical than we have modeled — by encouraging unlimited tax cuts at any time, including when the economy is weak. But as noted, a tax cut in one year, even if temporary, would automatically cause the spending caps for the following three years to shrink.

This dynamic would almost certainly lead to an explosion of new *tax expenditures*. The crunch on the spending side of the budget would be so excruciating that policymakers would increasingly seek to meet public needs through tax expenditures. This would likely lead to a plethora of public programs being turned into some type of tax credit, deduction, or other tax break, making the tax code even more inefficient than it is today.

Also, any tax cuts enacted to relieve the pain of a recession would be unlikely to assist those who would need help most — those who have lost their jobs and therefore are no longer paying income or payroll taxes. This is because the refundable portions of tax credits are classified as expenditures and so would be subject to the constitutional spending cap.

Furthermore, under the Amash proposal, policymakers could seek to enact popular tax cuts without having to identify the specific ways the tax cuts would be paid for. Then, within a few years, the Amash amendment would constitutionally compel deeply unpopular budget cuts that otherwise might not be politically feasible in order to meet the shrinking caps caused by the new tax breaks. "I certainly did not want to cut Social Security or Medicare," a Member could say several years after a tax cut had been enacted, "but the Constitution requires these cuts; there is no way around them."

Programs Would Shrink *Forever* as a Percentage of the Economy

Even if public opinion restrains tax cuts so that they occur only in the face of budget surpluses, the Amash formula would unrelentingly "ratchet down" the spending cap over time. The reason is straightforward: the formula for the cap adjusts only for population and inflation, not for real per-

[4] The budgetary effect of a recession almost always proves to be even greater the year *after* the recession than the year *of* the recession. This is in part because some revenue loss is delayed until the following April, when tax returns are due, and in part because businesses tend to delay rehiring after the economy has stopped contracting and started growing again until the recovery seems certain; this prolongs the period in which tax receipts are lower than normal and unemployment and other benefit payments are higher than normal.

person economic growth. Broadly speaking, the economy grows as productivity increases, but the cap does not grow accordingly, so spending falls ever further behind the economy.

In effect, the Amash proposal could condemn the public to the same real standard of governmental benefits and services as existed when the proposal became fully effective — forever.

If the proposal had been in full effect since 1954, for example, the armed forces would still have 1954 standards of weaponry; unemployed people or those in poverty would receive the equivalent of 1954 levels of benefits (yet housing and food cost substantially more, even adjusting for inflation); there would be 1954 standards of Medicare and Medicaid coverage (that is, zero, since neither program existed in 1954) and 1954 quality of health care for veterans; there would be 1954 levels of aid to education (near zero); there would be a 1954 interstate highway system (none, as the system had not yet been started); and so on.

In short, the cap by its design is likely to shrink federal spending forever as a share of GDP — unless the public is willing to support significant tax increases even while the budget is balanced, presumably on the argument that future societal needs will grow with the economy, requiring higher spending and higher revenues. And because tax cuts would ultimately force spending cuts, the proposal can be thought of as a steroid-enhanced mechanism to "Starve the Beast."