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Balanced Budget Amendment Could Lead to Extreme Budget Cuts

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Programs such as Social Security, Medicare, national defense, and veterans' benefits could be cut by an average of one-fifth under a constitutional amendment before the House this week to require a balanced budget in every year. If policymakers chose to protect some programs from cuts, the cuts in other programs would be even deeper. If they protected Social Security and Medicare, for example, all other programs would be cut by two-fifths.

Previous CBPP analyses have discussed other reasons why such a constitutional amendment would be harmful.[1] For example, it would make recessions longer and deeper by forcing spending cuts or tax increases when the economy is weak, and it would undercut the structure of funds such as Social Security by preventing them from using their accumulated savings as intended. Moreover, balancing the budget is a far more draconian response than needed to stop the debt from spiraling out of control.

The likelihood that it would lead to unnecessarily deep program cuts is an additional serious problem with a balanced budget amendment. To be sure, policymakers could balance the budget with large tax increases instead of large budget cuts, or with some combination of the two. But if they relied solely on budget cuts, those cuts would be extreme, as the table below shows.

We calculate those cuts under the following assumptions:

- We assume that Congress will pass the proposal now before the House and that three-fourths of the states will ratify it within two years, so that the budget would have to be balanced by 2025.

[1] Richard Kogan, "Constitutional Balanced Budget Amendment Poses Serious Risks," updated March 16, 2018, https://www.cbpp.org/research/federal-budget/constitutional-balanced-budget-amendment-poses-serious-risks; Richard Kogan, "5 Reasons Why the House Balanced Budget Amendment Is a Bad Idea," April 11, 2018, https://www.cbpp.org/blog/5-reasons-why-the-house-balanced-budget-amendment-is-a-bad-idea; Paul N. Van de Water, "Why a Balanced Budget Amendment Would Harm Social Security and Federal Deposit Insurance," April 9, 2018, https://www.cbpp.org/blog/why-a-balanced-budget-amendment-would-harm-social-security-and-federal-deposit-insurance.

- We assume that Congress, to hit the balanced budget target in 2025, will start cutting programs in 2020, with the cuts phasing in each year. Thus, the cuts achieved *before* 2025 would lead to a lower debt — and lower interest costs — in 2025, reducing somewhat the cuts needed in that year.
- We build our calculations from the "baseline," or projection of revenues, expenditures, and deficits, that the Congressional Budget Office (CBO) issued on April 9.[2] This projection is arguably optimistic about projected deficits, since it assumes that policymakers will not extend the recently enacted tax cuts or funding increases.

On this basis, we calculate that the required cuts to balance the budget in 2025 would *average* 21 percent in that year, would total $1.1 trillion in 2025 alone, and (if those program cuts were simply extended and not deepened) would total $9.2 trillion through 2028.[3]

If those cuts were distributed proportionally across all programs, Social Security would be cut by about $325 billion in 2025 alone and by a total of $2.6 trillion through 2028, for example. But policymakers could choose to leave Social Security untouched and focus the cuts on other programs. For instance, if they protected Social Security from cuts and did not raise taxes, they would have to cut all other programs, including Medicare, by an average of 30 percent. If they also protected Medicare, the cuts in all other programs would reach 41 percent.

That 41 percent figure includes defense. CBO projections assume that defense spending will be 2.6 percent of gross domestic product (GDP) in 2025, down from the current 3.1 percent; under the balanced budget requirement, it would fall to 1.6 percent of GDP in 2025. If policymakers chose to leave defense untouched at 2.6 percent of GDP in 2025 and instead cut all other programs, including Social Security and Medicare, those programs would be cut an average of 25 percent.

[2] CBO's projections include an extremely high level of natural disaster costs because the law requires CBO to assume that emergency funding provided this year for those costs will grow with inflation in future years. We, in contrast, assume that future natural disaster costs will reflect the statistical likelihood of major and minor disasters occurring; as a result, our projections reflect a lower amount for this funding than the CBO projections.

[3] In the table, we round our figures to reflect the uncertainty of any projection.

TABLE 1

Additional Budget Cuts Required to Balance the Budget in 2025

Assumes revenues at current law, compliance with Budget Control Act caps (with sequestration resuming in 2020)

In billions of dollars

	No program spared from cuts; 21% cut for all programs in 2025		Social Security spared; 30% cut for all other programs in 2025		Social Security and Medicare spared; 41% cut for all other programs in 2025		Defense funding at CBO baseline (2.6% of GDP); nothing else spared; 25% cut for all other programs in 2025	
	in 2025	**2020-28**	**in 2025**	**2020-28**	**in 2025**	**2020-28**	**in 2025**	**2020-28**
2025 deficit	1,275		1,275		1,275		1,275	
Required program cuts (interest savings will also occur)	1,100		1,100		1,100		1,100	
Cuts to Selected Programs								
Social Security	325	2,625	0	0	0	0	375	3,050
Medicare	200	1,725	300	2,400	0	0	250	2,000
Medicaid/Children's Health Insurance Program/Affordable Care Act subsidies	150	1,150	200	1,600	275	2,175	175	1,325
Supplemental Security Income, Supplemental Nutrition Assistance Program, child nutrition, refundable parts of Child Tax Credit and Earned Income Tax Credit	50	475	75	650	100	900	75	550
Federal retirement	40	325	50	450	75	600	50	375

Veterans' disability compensation and other entitlement benefits	30	250	40	350	50	475	30	275
Defense (including war costs)	150	1,250	200	1,775	300	2,400	0	0
[resulting level as a % of GDP]	[2.1%]		[1.8%]		[1.6%]		[2.6%]	
Non-defense discretionary	150	1,225	200	1,725	275	2,350	175	1,425
[resulting level as a % of GDP]	[2.0%]		[1.8%]		[1.5%]		[1.9%]	
Grand Total, all cuts (including cuts in other programs not mentioned in this table, except interest)	**1,100**	**9,175**	**1,100**	**9,175**	**1,100**	**9,175**	**1,100**	**9,175**

Source: CBPP analysis of Congressional Budget Office data