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Constitutional Balanced Budget Amendment Poses Serious Risks

Would Likely Make Recessions Longer and Deeper, Could Harm Social Security and Other Trust Funds

By Richard Kogan

A balanced budget amendment to the U.S. Constitution would be a highly ill-advised way to address the nation's long-term fiscal problems. It would threaten significant economic harm while raising a host of problems for the operation of Social Security and other vital federal programs.

The economic problems are the most serious. By requiring a balanced budget every year, no matter the state of the economy, such an amendment would raise serious risks of tipping weak economies into recession and making recessions longer and deeper, causing very large job losses. That's because the amendment would force policymakers to cut spending, raise taxes, or both just when the economy is weak or already in recession — the exact opposite of what good economic policy would advise.

When the economy slows, federal revenues decline or grow more slowly and spending on unemployment insurance and other social programs increases, causing deficits to rise. Rather than allowing the "automatic stabilizers" of lower tax collections and higher unemployment and other benefits to cushion a weak economy, the amendment would force policymakers to cut spending, raise taxes, or both. That would launch a vicious spiral of bad economic and fiscal policy: a weaker economy would lead to higher deficits, which would force policymakers to cut spending or raise taxes more, which would weaken the economy further.

As Macroeconomic Advisers, one of the nation's preeminent private economic forecasting firms, concluded in 2011 when Congress last voted on these proposals, "recessions would be deeper and longer" under a constitutional balanced budget amendment, and uncertainty would be cast over the economy that could retard economic growth even in normal economic times.[1] The analysis found that if a constitutional balanced budget amendment had been ratified in 2011 and were being

[1] See Richard Kogan, "Economic Forecasting Firm Harshly Criticizes Proposed Constitutional Balanced Budget Amendment," Center on Budget and Policy Priorities, November 8, 2011, http://www.cbpp.org/cms/?fa=view&id=3611.

enforced for fiscal year 2012, "the effect on the economy would be catastrophic" and would cause the unemployment rate to double.

The fact that states must balance their budgets every year — no matter how the economy is performing — makes it even more important that the federal government not also face this requirement and thus further impair a faltering economy. And, while most recent constitutional balanced budget amendments introduced in Congress would allow Congress to waive the balanced budget requirement with a supermajority vote in both chambers, that hardly solves the problem. Recent experience shows the difficulty of securing a supermajority vote in both chambers for almost any major legislation. Moreover, data showing that the economy is in recession do not become available until the economy has already begun to weaken; it could well take many months before sufficient data are available to convince a congressional supermajority to waive the balanced budget requirement, if it were possible to do so at all. In the meantime, substantial economic damage — and larger job losses — would have occurred.

Beyond the economy, a balanced budget amendment would raise other problems. That's because of its requirement that federal spending in any year must be offset by revenues collected in that same year. Social Security could not draw down its reserves from previous years to pay benefits in a later year but, instead, could be forced to cut benefits even if it had ample balances in its trust funds, as it does today. The same would be true for the military retirement and civil service retirement programs. Nor could the Federal Deposit Insurance Corporation or the Pension Benefit Guaranty Corporation respond quickly to bank or pension fund failures by using their assets to pay deposit or pension insurance, unless they could do so without causing the budget to slip out of balance.

Amendment proponents often argue that, because states and families must balance their budgets each year, the federal government also should do so. Yet this is a false analogy. While states must balance their operating budgets, they can — and do — borrow for capital projects such as roads, schools, or water treatment plants. Families often borrow, as well, such as when they take out mortgages to buy homes, dealer-financed loans to buy cars, or government loans to send children to college. The proposed constitutional amendment would bar the federal government from making worthy investments in the same way.

This paper outlines the risks of a constitutional balanced budget amendment. In addition, Box 1 explains why policymakers should be skeptical of claims that the states could control a constitutional convention called to propose a balanced budget amendment or similar amendments, as some are now advocating.[2]

[2] For more on the risks of a constitutional convention, see Michael Leachman and David A. Super, "States Likely Could Not Control Constitutional Convention on Balanced Budget Amendment or Other Issues," Center on Budget and Policy Priorities, updated January 18, 2017, http://www.cbpp.org/research/states-likely-could-not-control-constitutional-convention-on-balanced-budget-amendment-or.

Box 1: Problems With Constitutional Convention on Balanced Budget

Not only does a balanced budget amendment itself pose serious risks, but the idea of convening a *constitutional convention* to propose it or similar amendments raises other grave problems. A number of states have passed resolutions calling for such a convention, and proponents of a constitutional convention are targeting more states in an effort to obtain the 34 states needed to call one. A number of legal experts across the political spectrum have warned that a convention could open up the Constitution to radical and harmful changes. As former Chief Justice of the United States Warren Burger wrote in 1988:

> [T]here is no way to effectively limit or muzzle the actions of a Constitutional Convention. The Convention could make its own rules and set its own agenda. Congress might try to limit the Convention to one amendment or one issue, but there is no way to assure that the Convention would obey. After a Convention is convened, it will be too late to stop the Convention if we don't like its agenda.

Such serious concerns are justified, for several reasons:

- **A convention could write its own rules.** No constitutional convention has been called since the 1787 meeting that wrote the Constitution, and the Constitution provides no guidance whatsoever on what a convention's ground rules would be. This leaves wide open to political considerations and pressures such fundamental questions as how delegates would be chosen, how many delegates each state would have, and whether a supermajority vote would be required to approve amendments. To show the importance of these issues, consider that if every state had one vote in a convention and the convention could approve amendments with a simple majority vote, the 26 least populous states, with less than 18 percent of the nation's people, could approve constitutional amendments for ratification.
- **A convention could set its own agenda, possibly influenced by powerful interest groups.** The only constitutional convention in U.S. history, in 1787, went *far* beyond its mandate. Charged with amending the Articles of Confederation to promote trade among the states, the convention instead wrote an entirely new governing document. A convention held today could set its own agenda, too. There is no guarantee that a convention could be limited to a given set of issues, such as balancing the budget.
- **A convention could choose a new ratification process.** The 1787 convention ignored the ratification process under which it was established and created a new process, reducing the number of states needed to approve the new Constitution and removing Congress from the approval process. The country then ignored the pre-existing ratification procedures and adopted the Constitution under the new ratification procedures that the convention proposed. Given these facts, it would be unwise to assume that ratification of the convention's proposals would require the subsequent approval of 38 states, as the Constitution specifies. For example, a convention might remove the states from the approval process and propose a national referendum instead, or approval by a simple majority of states.
- **No other body, including the courts, has clear authority over a convention.** The Constitution provides for *no* authority above a constitutional convention, so it isn't clear that the courts, Congress, state legislatures, or a President could intervene if a convention went beyond the language of the state resolutions calling for a convention or the congressional resolution establishing it. Likewise, there may be no recourse if the convention altered the process for ratifying its own proposed amendments. The Constitution has virtually no restrictions on the operations of a constitutional convention or the scope of the amendments that it could produce, and the courts would likely regard legal challenges to a convention as "political questions" that the judiciary does not wade into.

Potential for Serious Economic Harm

The nation faces challenging, though manageable, long-term fiscal problems,[3] but a balanced budget amendment to the U.S. Constitution is an ill-advised way to address them. It would require a balanced budget every year regardless of the state of the economy, unless a supermajority of both houses overrode that requirement. This is an unwise stricture that many mainstream economists have long counseled against because it would require the largest budget cuts or tax increases precisely when the economy is weakest. It holds substantial risk of tipping faltering economies into recessions, making recessions longer and deeper, and precipitating very large additional job losses. When the economy weakens, revenue growth drops and revenues may even contract. And as unemployment rises, expenditures for programs such as unemployment insurance (UI) — and to a lesser but significant degree, SNAP (food stamps) and Medicaid — increase. These revenue declines and expenditure increases are temporary; they largely or entirely disappear as the economy recovers. But they are critical for helping struggling economies avoid falling into recessions and for moderating the depth and length of recessions that do occur.

During economic downturns, consumers and businesses spend less, which in turn causes further job loss. But the increases in UI and other federal benefits that occur automatically help cushion the blow, by keeping purchases of goods and services from falling even more. Increased spending on UI, SNAP, and Medicaid during a recession, when jobs are scarce, not only helps the families that receive the benefits, but also helps preserve the remaining jobs and incomes of those who produce or sell groceries, school supplies, health care, and other essentials.

Likewise, during recessions, tax revenues fall faster than wages and business profits, because lower wages and profits push people into lower tax brackets. This means that after-tax incomes decline by less than pre-tax incomes, mitigating the harm to purchasing power caused by the recession. And like the automatic spending increases, this automatic feature of tax law helps not only those who have lost wages but also helps preserve the remaining jobs and incomes of people who produce or sell goods and services throughout the nation. That is why economists use the term "automatic stabilizers" to describe the automatic declines in revenues and automatic increases in UI and other benefits that help to stabilize the economy when it turns down.

A constitutional balanced budget amendment, however, essentially suspends the automatic stabilizers. It requires that federal spending be cut or taxes increased to offset the automatic stabilizers and prevent a deficit from occurring — pulling money out of the economy at exactly the wrong time, the opposite course from sound economic policy.

This is not to say that rising deficits are always good for the economy. To the contrary; when the economy booms, deficits should fall or even turn to surpluses, to prevent overheating and so lengthen an ongoing expansion. And the net of deficits and surpluses over time should, *on average*, be sufficiently low that the ratio of debt to Gross Domestic Product (GDP) does not grow to unmanageable heights. Broadly, however, sound fiscal policy is all about getting the timing of deficit

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[3] See Richard Kogan, Paul N. Van de Water, and Chloe Cho, "Long-Term Budget Outlook Has Improved Significantly Since 2010 but Remains Challenging," Center on Budget and Policy Priorities, August 18, 2016, http://www.cbpp.org/research/federal-budget/long-term-budget-outlook-has-improved-significantly-since-2010-but-remains.

increases and decreases right. That's why a balanced budget requirement is dangerous — it prohibits getting the timing right because it requires balanced budgets in every year, regardless.

Over the years, leading economists have warned of the adverse effects of a constitutional balanced budget amendment. For example, in congressional testimony in 1992, Robert Reischauer — one of the nation's most respected experts on fiscal policy and then director of the Congressional Budget Office (CBO) — explained: "[I]f it worked [a constitutional balanced budget amendment] would undermine the stabilizing role of the federal government." Reischauer noted that the automatic stabilizing that occurs when the economy is weak "temporarily lowers revenues and increases spending on unemployment insurance and welfare programs. This automatic stabilizing occurs quickly and is self-limiting — it goes away as the economy revives — but it temporarily increases the deficit. It is an important factor that dampens the amplitude of our economic cycles." Under a constitutional amendment, he explained, these stabilizers would no longer operate automatically.[4]

Similarly, when Congress considered a constitutional balanced budget amendment in 1997, more than 1,000 economists, including 11 Nobel laureates, issued a joint statement that said, "We condemn the proposed 'balanced-budget' amendment to the federal Constitution. It is unsound and unnecessary. . . . The proposed amendment mandates perverse actions in the face of recessions. In economic downturns, tax revenues fall and some outlays, such as unemployment benefits, rise. These so-called 'built-in stabilizers' limit declines of after-tax income and purchasing power. To keep the budget balanced every year would aggravate recessions."[5]

At a Senate Budget Committee hearing in January 2011, CBO director Douglas Elmendorf sounded a similar warning when asked about a constitutional balanced budget amendment:

> Amending the Constitution to require this sort of balance raises risks… The fact that taxes fall when the economy weakens and spending and benefit programs increase when the economy weakens, in an automatic way, under existing law, is an important stabilizing force for the aggregate economy. The fact that state governments need to work … against these effects in their own budgets — need to take action to raise taxes or cut spending in recessions — undoes the automatic stabilizers, essentially, at the state level. Taking those away at the federal level risks making the economy less stable, risks exacerbating the swings in business cycles.[6]

Finally, Macroeconomic Advisers (MA), one of the nation's preeminent private economic forecasting firms, concluded in 2011 that if a constitutional balanced budget amendment had been ratified and were being enforced for fiscal year 2012, "the effect on the economy would be catastrophic."[7] If the 2012 budget were balanced through spending cuts, MA found, those cuts

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[4] Statement of Robert D. Reischauer before the House Budget Committee, May 6, 1992.

[5] This statement was issued on January, 30, 1997. In 2011, when Congress was again considering a constitutional balanced budget amendment, five winners of the Nobel Prize for Economics issued a statement opposing a constitutional balanced budget amendment for these reasons. See "Nobel Laureates and Leading Economists Oppose Constitutional Balanced Budget Amendment," Center on Budget and Policy Priorities, updated July 28, 2011, http://www.centeronbudget.org/cms/index.cfm?fa=view&id=3543. That warning was repeated on March 16, 2016. See http://www.epi.org/publication/economist-statement-constitutional-balanced-budget-amendment/.

[6] Federal Service, Transcript of Senate Budget Committee hearing, January 27, 2011.

[7] Kogan, 2011.

would total about $1.5 trillion in 2012 alone — and would throw about 15 million more people out of work, double the unemployment rate from 9 percent to approximately 18 percent, and cause the economy to shrink by about 17 percent instead of growing by an expected 2 percent. Such a budget cut would be radical in every sense; for example, it could entail cutting all budget programs excluding Social Security by more than six of every ten dollars in 2012 alone: Medicare, veterans' benefits, cancer research, national defense, and school lunches, to name just a few.

Even if a balanced budget amendment were implemented when the budget was already in balance, MA concluded, it would still put "new and powerful uncertainties in play. The economy's 'automatic stabilizers' would be eviscerated [and] discretionary counter-cyclical fiscal policy would be unconstitutional…. Recessions would be deeper and longer."

MA also warned that "The pall of uncertainty cast over the economy if it appeared a [balanced budget amendment] could be ratified and enforced in the middle of recession or when the deficit was still large would have a chilling effect on near-term economic growth." MA concluded that a balanced budget amendment would have detrimental effects on economic growth in both good times and bad.

Proponents of a constitutional amendment often respond to these admonitions by noting that most recent proposals would allow a vote of three-fifths (or two-thirds) of the House and the Senate to waive the balanced budget requirement. However, it is difficult to secure three-fifths votes for any major legislation, much less a two-thirds vote. Moreover, much data on the economy is collected and published with a lag of several months, and it could well take a number of months after the economy has begun to weaken before sufficient data are available to convince three-fifths of both houses of Congress that economic conditions warrant waiving the balanced budget requirement, if three-fifths were willing to waive the requirement at all. Furthermore, it is all too likely that even after the evidence for a downturn is clear, a minority in the House or Senate would hold a waiver vote hostage to demands for concessions on other, possibly unrelated, matters.

By the time a recession is recognized *and* the required votes are secured in *both* chambers, extensive economic damage could occur and hundreds of thousands — or millions — of additional jobs could be unnecessarily lost.

The fact that states must balance their operating budgets even in recessions — which causes the economy to contract further — makes it even more important that the federal government *not* be subject to the same stricture. As Norman Ornstein of the American Enterprise Institute has written:

> Few ideas are more seductive on the surface and more destructive in reality than a balanced budget amendment. Here is why: Nearly all our states have balanced budget requirements. That means when the economy slows, states are forced to raise taxes or slash spending at just the wrong time, providing a fiscal drag when what is needed is countercyclical policy to stimulate the economy. In fact, the fiscal drag from the states in 2009-2010 was barely countered by the federal stimulus plan. That meant the federal stimulus provided was nowhere near what was needed but far better than doing nothing. Now imagine that scenario with a federal drag instead.[8]

[8] Norman Ornstein, "Four Really Dumb Ideas That Should Be Avoided," *Roll Call,* January 26, 2011.

The bottom line is this: the automatic stabilizers need to continue to protect U.S. workers and businesses. A balanced budget amendment would preclude them from doing so.

Nor is a recession the only concern. Consider the savings and loan crisis of the 1980s, or the financial meltdown of the fall of 2008. A constitutional balanced budget amendment would have hindered swift federal action to rescue the savings and loan industry or to rapidly put the Troubled Assets Relief Program in place. In both cases, history indicates that federal action helped save the economy from what likely would have been far more dire problems. In the same way, a constitutional balanced budget amendment would have precluded the 2009 Recovery Act, even though recent research shows that the Great Recession would have been far worse without it.[9]

Moreover, the federal government provides deposit insurance for accounts of up to $250,000 per depositor; this insurance — and the confidence it engenders among depositors — is critical to the sound functioning of our financial system so that we avoid panics involving a run on financial institutions, as occurred in the early 1930s. A constitutional prohibition of any deficit spending (unless and until a supermajority of both houses of Congress voted to authorize it) could seriously weaken the guarantee that federal deposit insurance provides. That is a risk we should not take.

These are illustrations of why fiscal policy should not be written into the Constitution.

A parallel problem is that most versions of the proposed constitutional amendment would make it even harder to raise the debt limit by requiring a three-fifths vote for that in both the House and Senate. This is playing with fire. Congress has found it extremely difficult in recent years to raise the debt limit even by simple majority vote; since the turn of the century, only five of the 15 debt-limit increases enacted received a three-fifths vote in both houses. Imposing a supermajority requirement would heighten the risk of a federal government default, which would raise our interest costs and could damage the U.S. economy for years to come.

Effects on Social Security, Medicare Part A, and Military and Civil Retirement

Consider how this requirement would affect Social Security. By design, the Social Security trust fund is building up reserves — in the form of Treasury securities backed by the full faith and credit of the United States — which will be drawn down to help pay benefits when the number of retired "baby boomers" peaks in the late 2020s and early 2030s. Currently, Social Security holds $2.8 trillion in Treasury securities. But under the balanced budget amendment, it would essentially be unconstitutional for Social Security to draw down these savings to pay promised benefits. Instead, benefits could have to be cut, because all spending would have to be covered by tax revenues collected during that same year. More precisely, Social Security would be allowed to use its accumulated Treasury securities to help pay benefits only if the rest of the federal budget ran an

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[9] In a 2015 study, Alan Blinder, former Federal Reserve Vice Chairman, and Mark Zandi, chief economist of Moody's Analytics, concluded that "the massive and multifaceted policy responses to the financial crisis and Great Recession — ranging from traditional fiscal stimulus to tools that policymakers invented on the fly — *dramatically* reduced the severity and length of the meltdown that began in 2008; its effects on jobs, unemployment, and budget deficits; and its lasting impact on today's economy." The economic good produced by these actions, including ones that increased deficits in the short term, was so great that it saved roughly 7 million jobs and prevented much bigger deficits over the next few years. See "The Financial Crisis: Lessons for the Next One," Center on Budget and Policy Priorities, October 15, 2015, http://www.cbpp.org/research/economy/the-financial-crisis-lessons-for-the-next-one.

offsetting surplus (or if the House and Senate each mustered three-fifths or two-thirds votes to permit deficit spending).

Medicare Part A — the Hospital Insurance trust fund — has the same structure as Social Security. That trust fund current holds almost $200 billion in Treasury securities, but under a balanced budget amendment, it would be unconstitutional for Medicare to draw down those savings to pay hospitalization costs because all Medicare spending would have to be covered by taxes collected in the same year.

The military retirement and civil service retirement systems, which have their own trust funds, would be affected in the same way. Because all expenditures would have to be covered by taxes collected in the same year — and the use of accumulated savings thus would be unconstitutional — these trust funds would not be able to draw down their accumulated balances unless the rest of the budget ran offsetting surpluses. As a result, the $600 billion in Treasury securities held by the military retirement trust fund and the $900 billion in Treasury securities held by the civil service retirement trust fund would be unavailable to pay promised retirement pensions.

Effects on the Banking System

The potential effects on the banking system also are cause for concern. The Federal Deposit Insurance Corporation (FDIC) holds more than $75 billion of reserves, in the form of Treasury securities, to insure depositors' savings. These reserves are called upon when banks fail. Similarly, the Pension Benefit Guarantee Corporation (PBGC) has $90 billion of reserves to draw upon if a corporation's defined-benefit pension plan goes bankrupt.

Here, too, the balanced budget amendment would make it unconstitutional for the FDIC and the PBGC to use their assets to pay deposit or pension insurance, since doing so would generally constitute "deficit spending." Such payments could be made only if the rest of the budget ran an offsetting surplus that year (or if Congress achieved the necessary three-fifth or two-thirds supermajorities to override the balanced budget requirement).

In general, a constitutional requirement that all spending during a given year be covered by tax revenues collected in the same year would undercut all U.S. government insurance and loan guarantees. Those range from the "full faith" backing by the U.S. government to pay interest on Treasury securities to deposit insurance, pension insurance, FHA loans, small business loans, flood insurance, and the nuclear power industry's liability insurance under the Price-Anderson Act.

Henceforth, the U.S. government would only be able to fulfill its legal commitments if their cost did not cause a deficit, or if both houses of Congress voted by a three-fifths or two-thirds supermajority to waive the balanced budget requirement.

The entire purpose of deposit insurance and other U.S. financial commitments is to *guarantee* financing in case of calamity. How reliable is the "guarantee" if the balanced budget requirement places it at risk or forces it to be withdrawn just when it is needed most?

If banks, thrift institutions, pension funds, small businesses, and mortgagers started to fail during a recession or a financial crisis, the large costs of paying federal insurance and guarantee claims probably could *not* be met within the confines of the balanced budget amendment. And if deposit insurance were no longer effective, panicked depositors could make runs on banks, causing a chain reaction that could turn a recession into a depression. That is what happened from 1929 to 1933. Indeed, federal deposit insurance was enacted in 1933 — after a four-year run by depositors on their banks — to halt that collapse.[10]

In sum, even if programs have built up substantial reserves to pay benefits and claims — such as in deposit insurance and Social Security — those reserves could fail to provide protection under a constitutional balanced budget requirement because the reserves would *not* count as revenues in the current fiscal year while spending from the reserves *would* count as spending in the current fiscal year. In general, a balanced budget requirement in the U.S. Constitution would override any and all government guarantees and promises written into law: the guarantee to pay interest on the debt; or to pay insurance and guarantee claims for bank deposits, floods, loan defaults, and nuclear accidents; or to pay program benefits for Social Security, Medicare, Medicaid, unemployment benefits, veterans' benefits, or military and civil service pensions. The availability of reserves and legal guarantees would be superseded by the constitutional bar against any deficit spending on an annual basis.

Analogies to States and Families Are Mistaken

Proponents of a constitutional amendment sometimes argue that states and families must balance their budgets every year, and the federal government should do so, too. But statements that the constitutional amendment would align federal budgeting practices with those of states and families are not accurate.

While states must balance their operating budgets, they can borrow to finance their capital budgets — to finance roads, schools, water treatment plants, and other projects. The same is generally true of local governments. And most state and local governments do borrow. Currently, state and local debt amounts to $3 trillion. States also can build reserves during good times and draw on them in bad times without counting the drawdown as new spending that unbalances a budget.

Families follow similar practices. While every prudent family balances its *checkbook*, that is not the same as balancing its budget, since balancing its budget means no borrowing. In reality, families borrow — they take out mortgages to buy a home or student loans to send a child to college; they buy cars through dealer-financing, i.e., borrowing from automobile dealers. In short, families borrow to make various investments. Currently, family indebtedness approaches $15 trillion

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[10] Even when the budget is balanced, the Treasury's ability to borrow can play an important role in protecting the U.S. financial system. For example, when a collapse of the U.S. financial system threatened in the fall of 2008, one important action taken to avert that collapse occurred when the Treasury, on its own initiative, borrowed an additional $300 billion that September and deposited the funds in the Federal Reserve. Although that action did not constitute "spending" and thus would not unbalance a budget otherwise in balance, it did constitute borrowing and hence would breach the debt limit, unless the debt limit happened to be far enough above the actual level of debt. The $300 billion that was deposited in the Federal Reserve in September 2008 enhanced the Fed's ability to promise liquidity to a panicky financial system and to mitigate the meltdown that had begun to occur. Almost all versions of the constitutional balanced budget amendment proposed in recent years would, however, have made it more difficult for the Treasury to take such action, because they would have barred any increases in the Treasury's borrowing limit except when authorized by three-fifths votes of the House and the Senate.

nationwide.[11] Families also save for the future and draw down those savings when appropriate. For example, they draw down savings to make down payments on mortgages or pay for college tuition and, when times are tight, to cover expenses that exceed their current incomes.

To summarize, if required to operate under the same restrictions as the proposed balanced budget amendments, not only would a family be prohibited from taking out a mortgage to buy a house, it would be prohibited from using years of saving to accumulate enough cash to buy a house. It could buy a house only if all its expenses for the year including the full purchase price of the house were covered out of that year's wages. Probably only 2 percent of American families could ever buy a house under those restrictions.

But the proposed constitutional amendment would bar the federal government from following the normal practices of families and of state and local governments. The total federal budget — including capital investments — would have to be balanced every year; no borrowing to finance infrastructure or other investments to boost future economic growth would be allowed. And if the federal government ran a surplus one year, or deposited some revenues into trust funds such as the Social Security trust fund, it could not draw those savings down the next year to help balance the budget or fulfill legal guarantees — saving for the future would be nearly pointless.

Box 2: Who Would Enforce a Balanced Budget Requirement — and How?

Supporters of the balanced budget amendment tend to sidestep questions about how the constitutional mandate would be enforced. But there are serious questions about this, and no clear answers. For example:

- Suppose the budget falls out of balance. What happens? Would the President have the unilateral power to impose balance? Suppose, for example, that congressional legislation designed to balance the budget is defeated at the end of the congressional session. Can the President unilaterally declare that it is law nonetheless? Can he instead make across-the-board cuts in all spending, including Social Security, Medicare, and defense, without congressional action? Can he select which programs to cut unilaterally? Can he impose across-the-board, or selected, increases in tax rates? How about across-the-board or selected reductions in tax expenditures?
- What about the Supreme Court? If the budget is not balanced, can the Court declare defeated deficit reduction legislation to be law? Can it override a presidential veto of such legislation? If it cannot enact a defeated or vetoed law, can it declare that a bill waiving the balanced budget requirement has been enacted if it received a majority vote but not a three-fifths vote? Alternatively, can it invalidate appropriation bills, in reverse chronological order? If that seems arbitrary and unworkable, can it order across-the-board cuts in all appropriations, or entitlement programs, or tax expenditures? Can it impose across-the-board surtaxes? Can it hold Congress or the President in contempt and possibly jail them if they ultimately do not act?
- If federal courts award claims or judgments against the United States, as they often do, but the costs would unbalance the budget and require an increase in the debt limit, what action would the courts take? Would the Supreme Court say that court-ordered payments are void?

[11] Federal Reserve Board, "Financial Accounts of the United States," Table B.101, at https://www.federalreserve.gov/releases/z1/Current/data.htm.

The Right Budget Target

To address the nation's long-term budget problems, policymakers should seek to stabilize the debt as a percent of GDP in the coming decade and to reduce it, or at least keep it stable after that — importantly, allowing for fluctuations as necessary over the business cycle.[12] This can be done without balancing the budget or running surpluses as long as the debt grows more slowly than the economy on average over time.

For example, over the 33 years from 1946 through 1979, the nation ran balanced budgets or surpluses in only eight years; it ran deficits in the other 25. Yet over those 33 years, the debt fell from 106.1 percent of the economy (gross domestic product) to 24.9 percent because the economy grew faster than the debt. Here, the analogy with families is accurate; if your income grows faster than your debts, you are in better financial shape and more creditworthy. Avoiding all deficits and debt at all costs is unnecessary.

Conclusion

Establishing a balanced budget amendment in the Constitution would be exceedingly unwise. It would likely exact a heavy toll on the economy and on American workers and businesses in the years ahead and would likely make recessions more frequent and more severe. It would involve far more fiscal restraint than is necessary for prudent budgeting. It also would undercut the design of Social Security, deposit insurance, and all other government guarantees. It is notably more restrictive than the behavior of the most prudent states or families. And it raises troubling questions about enforcement, including the risk that the courts or the President might be empowered to make major, unilateral budget decisions, undermining the checks and balances that have been a hallmark of our nation since its founding. It is not a course the nation should follow.

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[12] Kogan *et al.,* 2016.