WHY A BALANCED BUDGET AMENDMENT MUST INCLUDE TRUE TAX LIMITATION

(Updating *Backgrounder Update* No. 204, "Why America Needs A Balanced Budget Amendment," October 15, 1993, and *Backgrounder* No. 899, "Solving the Federal Spending Crisis with a Balanced Budget Amendment," June 4, 1992.)

Spurred by dramatic changes in the composition of Congress and widespread support among the American people, Congress is poised to approve an amendment to the Constitution requiring a balanced budget.[1] This long-overdue step is designed to restore fiscal control to the federal budget and prevent politicians in the future from increasing spending and leaving the bills for future generations. Simply requiring a balanced budget is not enough, however, since many politicians then would try to use the amendment as a lever to raise taxes after failing to keep spending under control. To ensure that the deficit is eliminated by tightening the federal budget—rather than by cutting the family budget—a tax limitation provision is a necessary component of a balanced budget amendment. An amendment with a tax limitation feature (H.J. Res. 1) has been introduced by Republican Representative Joe Barton of Texas and Democrat Representative Billy Tauzin of Louisiana.

If they lack the votes needed to approve a tax limitation/balanced budget amendment, lawmakers should not compromise and approve a watered-down alternative. Amending the Constitution is not something to be done lightly. If the only choice, both now and in the foreseeable future, was between a weak version of the amendment and nothing, then a weak version would be acceptable. But given the sweeping changes in Congress and the likelihood that those who oppose genuine reform will be replaced in the future by those who favor tax limitation, it would be better for reformers to wait two years and do it right. Some argue that a weak version is needed to maintain momentum for spending cuts in this year's budget process. But a change in the Constitution is not a tool for achieving short-term legislation. The decision over which version of the amendment to support should be based on which is most likely to result in lower spending in the long run. On this basis, the tax limitation version is the only choice.

That the budget should be balanced is no longer a question for serious debate. For 25 consecutive years, politicians have saddled the nation with budget deficits. The national debt now stands at more than $3.5 trillion.[2] Nearly 90 percent of this debt has accrued since 1969, the last time the nation had a balanced budget.

---

1 To become a part of the Constitution, the amendment first must be approved by a two-thirds vote in both the House and the Senate. The amendment then is sent to the states, where three-fourths of the state legislatures must ratify it. Only after that process will it become part of the Constitution.

2 Many politicians use a national debt figure in excess of $4 trillion. But this number includes money the government "owes" itself, largely because of the Social Security Trust Fund. The accurate number, at least from an economic policy

Because of profligate spending, the federal government now owes more than $13,000 for every man, woman, and child in the nation. And while some say the national debt is meaningless, that it is money we "owe ourselves," the annual interest payments on the debt will reach $235 billion this year, a direct financial burden of more than $3,500 for every family of four in America.

Politicians opposed to an amendment maintain that the solution is not to change the Constitution, but simply to enact budget legislation that will lead to a balanced budget. While good in theory, the results in practice have been dismal. Using this theory of deficit reduction, many of these same lawmakers voted for record tax increases in 1990 and 1993. What has happened? The deficit, which was $152 billion and falling when President Ronald Reagan left office in 1989,[3] is now almost $200 billion and is projected to rise every single year into the future.

Relying on Congress to correct the structural deficit problem is thus mere wishful thinking. Needed instead is the kind of tight control only the Constitution can provide. But sending just any balanced budget amendment to the states for ratification is not enough. If lawmakers want to promote growth and reduce the burden of government while bringing the budget into balance, the proposed amendment must include a provision requiring a three-fifths supermajority to raise taxes. There are several reasons for this:

- ✓ **A supermajority averts a bias in favor of enacting higher taxes.** The government finances its spending through taxes and borrowing.[4] Weak versions of the balanced budget amendment include provisions requiring three-fifths approval to run deficits and increase the national debt. However, if there is not a similar restraint on the ability of Congress to finance new spending through additional taxes, political decisions will be tilted in this undesirable direction. The balanced budget amendment should be a device to control spending, not a mechanism to raise taxes if politicians fail to limit spending.

- ✓ **Supermajorities do work, controlling the size of government in the states that have them.** Ten states require supermajorities to raise tax revenue. In the seven that have lived under this requirement for a long time—Arkansas, California, Delaware, Florida, Louisiana, Mississippi, and South Dakota—the evidence shows substantial savings to the taxpayers.[5] In the supermajority states, per capita state spending on average increased by 95.25 percent between 1980 and 1990. While this is hardly a record to be proud of, states without supermajority tax requirements experienced average total per capita spending increases of 101.98 percent.

  The tax side of the ledger shows even more dramatically the beneficial impact of supermajority requirements. States with supermajorities saw their per capita tax collections jump by 87.35 percent. Again, this is too high, but it is much better than the 104.41 percent increase in per capita tax collections that occurred in states without the supermajority protections. In other words, the tax burden rose nearly 20 percent faster in states that did not limit the ability of politicians to raise taxes.

- ✓ **Tax limitation in the weak version of the amendment exists in name only.** Proponents of a watered-down amendment such as that sponsored by Democrat Representative Charles Stenholm of Texas and Republican Dan Schaefer of Colorado argue that their version includes tax limitation. Yet this version—requiring a majority of the whole membership (as opposed to a majority of those voting) to approve tax hikes—would offer scant protection to the taxpayer. Of the nearly 50 tax increases approved since 1962, only three, the Interest Equalization Tax Act of 1964, the Investment Credit Suspension Act of 1966, and the Surface Transportation Assistance Act of 1982, failed to reach the threshold in the

---

standpoint, is "debt held by the public." This figure is $3.5 trillion.

3 Congressional Budget Office, "Economic and Budget Outlook," January 1989.

4 Some countries finance government spending by printing money (one source of Mexico's current financial crisis). In the United States, fortunately, this is not a problem.

5 Three of the states—Arizona, Colorado, and Oklahoma—adopted the restriction in 1992, so it is too early to see the effect.

weak version of the amendment. And even those three bills passed by lopsided votes of 45-28 in the Senate, 161-76 in the House, and 180-87 in the House, respectively, so it is likely that the additional handful of votes needed could have been found among the members who were absent.

✓ **The budget can be balanced by controlling spending only.** Some politicians say taxes must be part of any effort to balance the budget, since it is impossible to eradicate red ink with spending control alone. But this claim is contradicted by recent evidence. For one thing, tax increases seem to unleash new spending rather than cut the deficit. As discussed above, the budget deficit was $152 billion and falling when Reagan left office. Politicians since then have imposed two record tax increases on the economy, supposedly for the purpose of deficit reduction. Yet the deficit is now higher, and the Congressional Budget Office projects that it will soar to $421 billion by the year 2005.

Another reason to be skeptical about the "need" for new taxes is that deficits can be eliminated by reasonable limitations on spending. According to the Congressional Budget Office, the budget can be balanced by the year 2002 (the target date in the balanced budget amendment) if policymakers simply limit spending *increases* to 2.6 percent annually between now and then. Ideally, federal spending should be cut deeply, freeing up resources for the productive sector of the economy—where they will be used to create jobs and increase family incomes. But even a modest level of restraint in future increases would achieve balance. Politicians would just have to set real priorities so they could increase programs with strong political support by more than 2.6 percent each year but would have to offset that higher spending by holding other programs to less than 2.6 percent growth. A supermajority requirement to raise taxes would make it harder for politicians to escape this need to set priorities and would protect the economy and taxpayers from excessive taxes.

Constitutional Reform is Long Overdue. The case for a tax limitation/balanced budget amendment is stronger than ever. Despite huge tax increases and incessant rhetoric about cutting the deficit, the deficit continues to grow because of the rapid growth in spending. Under the Bush Administration alone, inflation-adjusted domestic spending climbed by more than it did under Jimmy Carter and Lyndon Johnson combined. Added to a jobs-killing tax hike in 1990, which lost $3 in anticipated revenue for every $1 it was supposed to raise, this spending spree slowed economic growth and drove the national debt to more than $3.2 trillion by the end of the Bush years. Rather than reverse the Bush policies, as he promised during the campaign, President Bill Clinton is continuing them. His 1993 tax increase was the largest in world history, and the Administration now admits that federal spending will increase by a staggering $464 billion over the five years of Clinton's economic plan.

Americans are growing tired of promises to cut the deficit that never materialize, and this translates into strong voter support for a balanced budget amendment. This is welcome news for the sputtering economy. In the absence of a balanced budget requirement, politicians use both taxation and borrowing to increase the size and burden of government. If supermajorities are required for both taxes and borrowing, legislators in the future will find it difficult to increase spending as rapidly as it has grown during the Bush-Clinton era.

Beneficiaries of pork-barrel spending, of course, strongly oppose a balanced budget amendment. In an effort to protect their access to taxpayers' money, interest groups such as public employee unions and social welfare organizations are conducting a well-financed campaign against the balanced budget amendment. Their arguments are strong on rhetoric but rely almost exclusively on flawed analysis and misinformation. Consider the following myths:

MYTH #1: A tax limitation/balanced budget amendment would introduce economic policy into the Constitution.

REALITY: The Constitution already explicitly deals with economics. Guidance on monetary policy, tax policy, private property rights, regulation, and trade is already enshrined in the document. What really matters is whether a proposed amendment is needed to correct a systemic flaw in the political system. With the national debt now over $3.5 trillion and rising, the answer must be yes.

MYTH #2: A tax limitation/balanced budget amendment would harm the economy by "cutting" government spending and preventing government from increasing spending to combat economic downturns.

REALITY: Unfortunately, there are still some economists and politicians who believe in the widely discredited Keynesian theory of economics. This theory holds that government spending somehow stimulates the economy. The assumption is that growth is stimulated more when money is spent by government than when it is invested or spent by the private sector. Decades of experience in America and other countries, however, demonstrates conclusively that the Keynesian theory is invalid. If it were correct, the economy should have boomed during the Bush Administration.

MYTH #3: A tax limitation/balanced budget amendment could not be enforced, raising the danger that the federal courts could seize control of the budget process.

REALITY: The amendment is self-enforcing because of the provision requiring a three-fifths supermajority to increase the debt limit. The government cannot go further into debt once the debt limit is reached. And if congressional leaders can achieve a three-fifths vote to authorize additional debt, they will have attained the votes needed to satisfy the escape clause in the amendment.

MYTH #4 The tax limitation/balanced budget amendment is a hollow gimmick, a substitute for making real choices about how to balance the budget.

REALITY: It is just the opposite. An amendment would force lawmakers to stop the irresponsible practice of increasing spending today while leaving the bill to future generations. Once the amendment took effect, lawmakers would have little choice but to make long-overdue reforms in federal programs and finally set fiscal priorities. By contrast, budget policy in the absence of a balanced budget amendment has been a farce, featuring fraudulent budget deals (raise taxes now and promise to "cut" spending later) that inevitably wind up increasing federal budget deficits.

The national debt is $3.5 trillion and rising. Irresponsible government spending and borrowing has led to more than $13,000 of debt for every man, woman, and child in America. Without a change in policy, by the Administration's own estimates, government spending will add another $1.3 trillion of debt in the next five years alone. Politicians repeatedly have demonstrated that they cannot resist the temptation to engage in deficit spending. The balanced budget amendment may not be a panacea, but the status quo has allowed special interests to dominate and sent the nation deeply into debt. A breakdown of this kind requires constitutional change in the form of a tax limitation/balanced budget amendment.

Daniel J. Mitchell
McKenna Senior Fellow in Political Economy