

A Federal Balanced Budget Amendment Would Harm the Economy

Position Statement Supporting Senate Joint Resolution 5

Given before the Senate Health, Education, and Environmental Affairs Committee

Maryland should rescind its prior calls for a constitutional convention that date back decades. One of those calls, in support of a federal balanced budget amendment, could lead to longer, deeper recessions because the government would not be able to take the kinds of actions that helped stabilize the economy during the Great Recession.ⁱ Furthermore, any constitutional convention would be an opportunity for great harm and mischief. For these reasons, the Maryland Center on Economic Policy supports Senate Joint Resolution 5.

While a balanced budget amendment in itself poses great risks, as outlined below, the danger of a constitutional convention is that the topics available for discussion and alteration are unbounded. Rights and laws that protect Americans would be at stake. A convention can write its own rules and set its own agenda, which could be heavily influenced by special interest groups. Further, other branches of government have no clear authority to weigh in on any policy changes that take place during a convention.ⁱⁱ

A constitutional convention with the purpose of proposing a federal balanced budget amendment could cause serious damage to the economy. A balanced budget amendment requires that federal spending in any year must be offset by the revenues collected in the same year. When the economy is weak, a balanced budget amendment would force policymakers to cut spending, raise taxes or both.

It would also mean that vital federal programs like Social Security would not be able to rely on reserves built up in previous years to pay for future years. Policymakers would be forced to cut Social Security benefits, despite having ample balances in the Social Security trust fund. Other key organizations like the Federal Deposit Insurance Corporation and Pension Guaranty Corporation also would be crippled by a balanced budget amendment.ⁱⁱⁱ

Macroeconomic Advisers, a leading private economic forecasting firm, found that if a constitutional balanced budget amendment had been ratified in 2011 and enforced in 2012, “the effect on the economy would be catastrophic.” If in 2012, the budget was balanced through spending cuts, those cuts would be equal to about \$1.5 trillion and the U.S. economy would have lost 15 million more jobs. The unemployment rate would have doubled,

reaching 18 percent, and it would have caused the economy to shrink 17 percent versus the 2 percent growth that was expected.^{iv} Spending on some of the most important priorities of both major political parties – national defense, school lunches, veterans’ benefits, and Medicaid – would all have faced severe cuts.

To tackle the nation’s long-term budget issues, policymakers can reduce the federal deficit to the point that it is no longer growing faster than the economy. Interest payments made on the debt would be manageable and programs like Social Security and Medicaid would be protected. This can be done without balancing the federal budget or running surpluses as long as the economy continues to grow more quickly than the debt. ^v Requiring a balanced budget every year would likely place a heavy toll on the economy, American businesses, and workers in the future and would likely make recessions more frequent and more severe.

For these reasons, the Maryland Center on Economic Policy respectfully requests that the Appropriations Committee give a favorable report to Senate Joint Resolution 5.

ⁱ 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>.

ⁱⁱ Michael Leachman, “A Constitutional Convention Poses Great Risks,” Center on Budget and Policy Priorities, July 16, 2014, <http://www.cbpp.org/blog/a-constitutional-convention-poses-grave-risks>

ⁱⁱⁱ Federal Service, Transcript of Senate Budget Committee hearing, January 27, 2011.

^{iv} Kogan, 2011

^v Richard Kogan *et al.*, “CBPP’s Updated Projections Show Long-Term Budget Outlook Is Significantly Improved but Remains Challenging,” Center on Budget and Policy Priorities, May 5, 2014.