

# Balanced budget amendment

[Economics](#), [Budget](#)



As we discussed and read about this week in our class, the topic of the US Budget and how, why and what should we do about it has become a topic with many views and opinions. The United States of America currently holds over 16 Trillion dollars in debt based on our governments spending practices for the last ten years. Two wars, numerous fiscal collapses and cliffs, a bubble popped housing market, looming medical care costs from a socialized healthcare law and a recession have caused the government to acquire enormous amounts of debt.

This debt with caused by what seems to be from irresponsible spending on both the Legislative and the Executive Branches have done nothing to lessen this deficit. One idea that has been discussed not only in Congress, but on prime time news networks is the passage of a Balanced Budget Amendment. A Balance Budget Amendment (as recently seen in House Bill HJR2, 28 NOV 2011) would require that Congress balance its budget every fiscal year unless a three-fifths majority of both houses approved of maintaining a deficit[1].

In a CNN Poll, conducted by ORC International, 74% of Americans surveyed would be in favor of a constitutional amendment to require a Balanced federal budget. So, why did it miss passing by the House of Representatives 23 votes short of the two-thirds majority needed? In the graph we see that federal debt will remain above 73 percent of GDP, far higher than the the 39 percent seen over the last four decades as stated by the Congressional Budget Office. This level is of debt is unsustainable to the our economy and a Balanced Budget Amendment may be the answer to get wasteful spending under control and reduce out national debt.

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There is a lot of debate for a Balanced Budget Amendment in the United States. The trade-off between “ discipline” and “ flexibility” is at the core of the debate surrounding the establishment of a Balanced Budget Amendment[2]. Those who oppose a Balanced Budget Amendment argue that it may limit the scope and power of the Government to fully discharge its duties. Under this version of the amendment , three-fifths of congress would have to vote suspend requirements, the government would have to cut expenditures or raise taxes during a recession.

This in theory would make the recession worse and limit the ability of the government to use fiscal policy to stabilize the economy. Also, Congress could simply devise special budgets to get around the requirements. An example would be to take some programs “ off budget”, which means that they would not be counted towards the total amount of expenditures by the government and not counting them as part of the Official Budget. However these expenditures would have to get funded from somewhere.

Third, Congress could issue regulations or impose mandates or requirements on businesses or other government regulations as non-budgetary ways to get programs funded and these actions could have serious ramifications on the taxpayers and economy. Those in favor of the Balanced Budget Amendment say that if we look at the States within the US who have Balanced Budget laws (all but Vermont have some form of budgetary regulation) there are excellent examples we can use in drafting an amendment which could work for this country.

Marina Azzimonti, writes in her article, “ The Political Economy of Balanced Budget Amendments”[3] several very good theoretical findings supporting <https://assignbuster.com/balanced-budget-amendment/>

ways that Congress can use the lessons of the States in drafting a Balanced Budget Amendment that introduces a rule that restricts deficit spending and limits increases in government debt. Her first point is that stricter budgetary rules induce policymakers with discipline regarding how money is spent. Reducing these expenditures it is argued supports positive economic growth by lowering interest rates, higher savings rates, and hence more consumer confidence and economic growth.

Also the inclusion of an "Escape Clause" proposes that a bill to increase revenue or public borrowing may become law if two-thirds of the members of each house approve it. Thus allowing the government to be able to meet certain "emergencies" to include war, national crisis, or natural disaster. Proponents of these amendments also state that running deficits over the long term or persistent deficits can be dangerous as well. When the government runs persistent deficits, an increasing portion of consumer's savings is used to purchase government debt instead of being invested in private capital goods.

This is called "crowding out", and this effect lowers output and incomes in the future. Growing Federal Debt can lead to a sudden fiscal crisis in and of itself. This type of crisis can occur when debt levels become so large in relation to the economy's output that the government has difficulty selling it. Current and potential bondholders lose confidence with the government's ability to repay its debt and refuse to buy anymore. The government is then forced to purchase new debt at higher interest rates, often leading to inflation, reduction in government services and programs and increased economic hardship on its citizens. There are several good examples of this type of debt

crisis in Argentina, Mexico and Greece. The US saw a version of this in 2011, when S&P concerned with the US climbing debt and its credit worthiness reduced its credit rating or the ability of the country to borrow money at lower interests rates. A federal Balanced Budget amendment based loosely on those instituted by the States of this country has many benefits. One such advantage is that a Balanced Budget Amendment can reduce inefficiencies in spending.

Azzimonti argues in a theoretical environment model, Politicians tend to be short-sighted since they have no guarantee of being being reelected next time around. This short-sightedness often leads them to increase spending to their constituencies now through excessive deficit spending and accumulate too much debt. These deficits are are less politically costly than raising taxes, which often is a good way for a politician to get voted out in their next election. However, with fiscal restrictions in place politicians are forced to take long view and be fiscally responsible.

This leads into the next positive of a Balanced Budget Amendment, and that is reducing future financial burden on taxpayers. When the government releases bonds to be purchased, it agrees to repay its holders in the future for spending today. Those repayment burdens are placed on future taxpayers who may not have received the benefits of current spending. This future tax burden also can hamper long term interests rates today, which can hamper economic activity in the short term.

Despite arguments both for and against enacting a Balanced Budget Amendment, Congress needs to come to a solution regarding its fiscal policy. The Federal reserve Bank can not continue to print money to stimulate the

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economy, and the government can not keep spending money wastefully and hope for our economy to get better. The American People deserve a government that is responsible with its wallet and looks out for all Americans in making the economy stringer and reducing the national debt for future generations.

When properly explored and drafted, and if Politicians can agree, transcend party lines and focus on getting spending and debt under control a Balanced Budget Amendment could work to makes the United States financially stronger and more prosperous than ever before. Resources O'Sullivan, Sheffrin and Perez Economics: Principles, Applications and Tools 7th Ed 2012 Azzimonti, Marina. “ The Political Economy of Balanced Budget Amendments. ” Business Review Q1 2013 Eddlem, Thomas R. “ Before the Income Tax: How the Federal Budget Government Balanced the Budget Before 1913. The New American February 2013 McCullouch, J. Huston. “ An Improved Balanced Budget Amendment. ” The Independent Review Fall 2012 ----- [ 1 ]. McCulloch, J. Huston. An Improved Balance Budget Amendment (Art). Independent Review, Fall 2012 [ 2 ]. Azzimonti, Marina. The Political Economy of Balanced Budget Amendments (Art). Business Review, Q1 2013 [ 3 ]. Azzimonti, Marina. The Political Economy of Balanced Budget Amendments (Art). Business Review, Q1 2013