CBO TESTIMONY

Statement of
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NOTICE

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Mr. Chairman, and Members of the Budget Committee, I appreciate the opportunity to discuss with you the possible effects of a balanced budget amendment to the Constitution.

Opinion polls indicate that the American public strongly favors a balanced budget amendment. And for good reason. People sense that continued deficits have contributed to sluggish economic growth and will undermine their children's standards of living. They also realize that concern over deficits has hampered our ability to address pressing national problems. Enactment of a balanced budget amendment is seen as a way to break out of the economic doldrums and to reenergize and redirect our governmental institutions.

If only it were so simple. The problem has never been that the nation could not agree on the goal--a greatly reduced deficit. Rather it has been that we could not summon up the will to achieve this objective because it requires sacrificing other desirable objectives--namely, keeping taxes low and maintaining government services.

Under certain circumstances, a balanced budget amendment could strengthen our resolve and ability to address the deficit problem. But under other circumstances, it could be little more than another empty promise, one that further erodes public confidence in our political institutions. Even in the

best of circumstances, a balanced budget amendment could limit the government's flexibility and distort its policies.

In the remainder of my remarks, I will elaborate on these points and will put forth the following three propositions:

- A large reduction in government borrowing is highly desirable over the long term;
- A balanced budget amendment, on its own, does not advance the chances for lowering federal borrowing, and if it worked it would undermine the stabilizing role of the federal government; and
- The only way to make a balanced budget amendment work is to take actions that achieve fiscal discipline during the ratification period.

Lower Government Borrowing Is Desirable over the Long Term

Without a doubt, there are very real benefits to be reaped from reducing government borrowing. Lower deficits would encourage economic growth in the long term by *raising net national saving* and investment, and would reduce borrowing from foreigners. From an accounting point of view, any reduction in the deficit--provided it does not come out of government investment--is a reduction in government dissaving and, therefore, an increase in national saving. Although some analysts are concerned that private saving will decline

as government dissaving drops, the offset is not likely to be very large. Studies indicate that reducing the deficit by one dollar might reduce private saving by 20 cents to 40 cents, which implies that national saving will increase by 60 cents to 80 cents for every dollar of deficit reduction.[1] More net investment and lower borrowing from foreigners, both of which would result from increased national saving, will eventually permit a higher standard of living.

Deficit reduction will also promote long-term economic growth by *providing a more stable environment* for financial markets. Participants in the bond, stock, and foreign exchange markets carefully track the government's demands on credit markets; they react adversely to news that reflects a continuing lack of fiscal discipline.

As deficits fall and the pool of funds available for loans to the private sector grows, inflation-adjusted interest rates should drop. This outcome will help to stimulate activity in interest-sensitive sectors, such as construction and business investment. Lower interest rates will also help to make the dollar

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1. See Lawrence H. Summers, "Issues in National Saving Policy," in Gerald F. Adams and Susan M. Wachter, eds., *Savings and Capital Formation* (Lexington, Mass.: Lexington Books, D.C. Heath & Co., 1986), pp. 65-88; and Michael J. Boskin, "Alternative Measures of Government Deficits and Debt and Their Impact on Economic Activity," in K. J. Arrow and M. J. Boskin, eds., *Economics of Public Debt* (New York: Macmillan, 1988), pp. 72-112.

more competitive. A more competitive dollar boosts exports and makes domestic products more competitive with imports.

Because government borrowing reduces investment and slows growth, it is also likely to impose a burden on future generations. In many people's minds, this is the single most important reason to reduce the federal deficit. This burden is in part reflected in the interest costs of servicing the federal debt. As you well know, these costs have risen already from the 6 percent to 8 percent of tax revenues that persisted through the 1960s and 1970s to 18.6 percent of taxes in 1991. Once the effects of recession and deposit insurance are removed, interest costs are now about equal to the deficit. The only way to reduce these costs is to eliminate further federal borrowing.

Unless there is further legislation to reduce the deficit, the problem of excessive government borrowing is not going to resolve itself. For a few years, it will look as if things are getting better: the federal deficit could fall from around 6 percent of gross domestic product (GDP) in the early 1990s to around 4 percent in the early years of the next century (see Table 1). But this apparent improvement is entirely the result of the rebound from the current recession and the swing in the deposit insurance accounts. Together, these two temporary factors account for about half of the deficit in the early 1990s.

Table 1. The Budget Outlook Through 2002 (By fiscal year)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
In Billions of Dollars											
Revenues	1,088	1,173	1,262	1,340	1,413	1,490	1,578	1,665	1,755	1,851	1,953
Outlays	1,455	1,510	1,529	1,543	1,602	1,726	1,843	1,962	2,089	2,226	2,376
Deficit	368	336	267	203	189	236	265	296	333	375	423
Standardized-Employment Deficit[a]	208	198	186	179	202	245	262	289	322	360	406
Debt Held by the Public	3,049	3,385	3,656	3,865	4,061	4,304	4,576	4,879	5,220	5,602	6,032
As a Percentage of Gross Domestic Product											
Revenues	18.6	18.8	19.1	19.1	19.1	19.0	19.0	19.1	19.1	19.1	19.1
Outlays											
Discretionary	9.4	8.7	8.1	7.7	7.5	7.3	7.2	7.1	7.0	6.8	6.7
Mandatory											
Social Security	4.9	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8
Medicare/Medicaid	3.4	3.6	3.7	4.0	4.2	4.4	4.7	4.9	5.2	5.5	5.9
Other	3.9	3.7	3.5	3.4	3.2	3.3	3.2	3.2	3.1	3.1	3.1
Subtotal	12.1	12.0	12.0	12.1	12.2	12.4	12.6	12.9	13.1	13.4	13.7
Deposit insurance	1.1	1.1	0.5	-0.2	-0.6	-0.4	-0.2	-0.2	-0.1	-0.1	-0.1
Net interest	3.4	3.4	3.5	3.5	3.5	3.6	3.6	3.6	3.7	3.8	3.8
Offsetting receipts[b]	-1.2	-1.1	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0
Total	24.9	24.2	23.1	22.0	21.6	22.0	22.2	22.5	22.7	23.0	23.3
Deficit	6.3	5.4	4.0	2.9	2.5	3.0	3.2	3.4	3.6	3.9	4.1
Standardized-Employment Deficit[a, c]	3.4	3.1	2.8	2.5	2.7	3.1	3.1	3.3	3.5	3.7	4.0
Debt Held by the Public	52.2	54.3	55.2	55.2	54.8	54.8	55.2	55.9	56.7	57.8	59.1

SOURCE: Congressional Budget Office (March 1992).

a. Excludes deposit insurance and Desert Storm contributions.

b. Includes contributions from allied nations for Operation Desert Storm.

c. Shown as a percentage of potential gross domestic product.

The more revealing calculation excludes these two factors and shows the deficit *rising* from around 3 percent of GDP in the early 1990s to 4 percent in 2002. This increase will take place even with the substantial policy changes that will be necessary to meet the targets of the Budget Enforcement Act (BEA). The deteriorating outlook in large part stems from growth in health care programs, which have proven to be extremely difficult to control. By 2002, the ratio of debt to GDP will have risen to nearly 60 percent--over twice the average level that prevailed during the 1970s.

Shortcomings of a Balanced Budget Rule

Over the course of the past two decades, a number of procedural steps have been taken in an effort to rationalize budget policy and control the deficit. These measures include the Congressional Budget and Impoundment Control Act of 1974, the Balanced Budget Act (Gramm-Rudman-Hollings legislation) of 1985 and 1987, and the Budget Enforcement Act of 1990. While they have heightened the attention paid to budget decisions, they have not reduced the deficit to acceptable proportions.

The balanced budget amendments that are under consideration are another attempt to set up a procedure that will make the deficit even more

central to Congressional budgetary decisions; indeed, such an amendment will make eliminating the deficit the single most important consideration of budgetary policy. Proponents hope that by enshrining a balanced budget in the Constitution, they will raise the stakes and force the hard decisions about spending cuts and tax increases that have not yet been made. Before taking such a radical step, it is worth considering the following questions:

- What is to be included in the budget to be balanced?
- How can the rule be designed to give sufficient flexibility for dealing with recessions and other shocks?
- Will the rule mandate undesirable instability in programs and taxes?
- What kind of incentives will policymakers face when evaluating programs?
- Will the amendment be honored or evaded? and
- Does state experience provide any support for a federal balanced budget amendment?

<u>What Should Be Included?</u> There is no consensus about what should be included in the budget to be balanced, and how conformity with a balanced budget rule is to be measured. Should the federal government be permitted to borrow to finance capital spending--perhaps at the cost of imposing less budgetary discipline on this spending? Should transactions that embody commitments to future costs and benefits be recognized only insofar as they

affect cash flows, or should the accrual of future liabilities and benefits also be recognized? How should the balanced budget rules treat Social Security and other trust funds? These questions are largely left unresolved in the amendments currently proposed.

Is There Enough Flexibility? Another issue that arises is whether the amendments provide sufficient flexibility to allow for responses to shocks, such as recessions or natural disasters. The amendments generally provide a measure of flexibility in that the balanced budget rule can be temporarily waived by a supermajority. However, this measure may not be enough, and the Congress should consider whether more flexibility should be provided.

A balanced budget amendment risks interfering with the ability of the federal government to stabilize the economy. Economists are less convinced than they used to be that even the federal government should undertake discretionary countercyclical fiscal policy. They hold these reservations because recessions are often not easily recognized in their early stages, while explicit actions to stimulate the economy take too long to plan and carry out and, once established, are hard to get rid of as the economy recovers. Thus, fiscal stimulus often starts too late and continues too long.

Few economists object, however, to the automatic stabilizing that goes on when a recession temporarily lowers revenues and increases spending on unemployment insurance benefits and welfare programs. This automatic stabilizing occurs quickly and is self-limiting--it goes away as the economy recovers--but it temporarily increases the deficit. It is an important factor that dampens the amplitude of our economic cycles.

Some proposed amendments provide limited flexibility through a super-majority vote to suspend balanced budget rules during recessions or in other emergencies. But this means stabilizers could not operate automatically, since it would be necessary for the Congress to recognize and act on the problem.

One way to increase the flexibility of a balanced budget rule would be to lengthen the period over which compliance is gauged. For example, one might call for a balanced budget over two-year budget periods--this measure would fit in well with suggestions that budget policies should not be reconsidered every year. Alternatively, the budget might be balanced over a moving five-year period, including the two immediately preceding years, the current budget year, and the two next budget years. This approach would allow for temporary deviations from a balanced budget, provided that they are made up later.

Will It Cause Frequent Policy Reversals? Even with increased flexibility, however, a balanced budget rule would be likely to require much more frequent policy changes than currently occur, just to meet the balanced budget rule. This instability in policy could harm the economy if it leads to frequent changes in tax rates; it could also harm the goals of government programs if it leads to unstable funding.

The economic harm from frequent tax rate changes occurs because people cannot adjust their behavior to reflect the effects of taxes on incentives to work and invest if those taxes are continually changing. The harm from this instability is sufficiently large that most economists would agree that it is better to allow temporary deviations from a balanced budget than to achieve continuous balance through frequent changes in taxes.[2]

Under a balanced budget rule, the only other option is to meet the rule through variations in government spending programs. That, too, could cause harm by increasing the level of uncertainty attached to entitlement programs and procurement contracts. Government agencies would have to shorten their planning cycles. Government contractors would demand higher prices to do work for the government knowing that it could be terminated abruptly. People receiving government benefits might lose those benefits during hard

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2. See Robert J. Barro, "On the Determination of the Public Debt," *Journal of Political Economy*, no. 87 (October 1979), pp. 940-971.

economic times, precisely when such support is most needed. Such uncertainty would not provide a reliable backdrop for economic activity.

Will Policies Be Distorted? In addition to forcing frequent policy changes, a balanced budget rule could set up perverse incentives for policy decisions. According to some analysts, the overriding concern over deficits has already led to a paralysis in policy: they claim that it contributed to the delay in funding the resolution of the savings and loan crisis, and deepened the problem as a result. The concern over current deficits may also have delayed consideration of long-term reform of the nation's health care system, even though one goal of reform could be to cut budgetary costs in the long run.

A balanced budget rule could make it even harder to conduct discussions of policies on their own merits, and could lead to distortions of policies simply to meet budget goals. For example, accounting rules could be changed for some government programs, such as shifting to accrual instead of cash accounting (or vice versa). There are frequently good arguments for changes in accounting rules, including those that led to the recent reform in accounting for credit programs. It would be a pity to have these arguments displaced by the need to meet current budget targets. Similarly, burdens might be shifted to state and local governments (through unfunded mandates) or to the private sector (through regulation or trade policy) even when the public good would

be enhanced by keeping the programs at the federal level. And spending cuts that would result in immediate savings most likely would be made first, without much consideration of the long-run merits of the programs. Major deficit reduction surely entails spending cuts, but the reductions should be based on the long-run effectiveness of the benefits provided, not on meeting a rigid annual dollar target.

Will the Budget Rule Be Honored or Evaded? Probably the most important difficulty with a balanced budget rule is that it offers many opportunities for avoidance or evasion. The President and the Congress could get around an apparently rigid balanced budget rule primarily in three ways. The first involves using timing mechanisms and other budget gimmicks to achieve short-run budget targets, including such actions as shifting pay dates between fiscal years, accelerating or delaying tax collections, delaying needed spending until future fiscal years, and selling government assets.

The second way to evade the balanced budget constraint might be to base the budget on overly optimistic economic and technical assumptions. It was a major step forward in the 1990 Budget Enforcement Act to remove these incentives, which would be reinstated by a balanced budget amendment. In fact, Section 1 of H. J. Resolution 290 seems to be an invitation to such gimmicks, since requiring the President and the Congress to adopt legislation

estimating total receipts does not guarantee that the estimate will be realistic. Forecasters would agree that it is already difficult enough to estimate outlays and revenues accurately. The forecasting record around turning points in the economy is not encouraging (see Table 2, especially years 1982, 1983, and 1990).

Third, the President and Congress could seek to create off-budget agencies that would have authority to borrow and spend but whose transactions would not be directly recorded in the budget. Sometimes exclusion of certain types of spending can improve budgetary control procedures: for example, CBO supports the decision not to include the spending of the Resolution Trust Corporation under the caps in the Budget Enforcement Act rules. But off-budget agencies could be misused to take some spending off-budget simply to avoid having to make large cuts to meet a balanced budget rule. Such a transparent evasion of the constitutional amendment would undoubtedly be challenged in the courts, which would leave to the judiciary part of the task of setting procedures to control the budget.

These methods and others have been used to circumvent the annual deficit targets required since the Balanced Budget Act of 1985 (Gramm-Rudman-Hollings) was passed. The balanced budget rule could fall prey to the same sorts of maneuvers.

Table 2.
Sources of Differences Between Actual Budget Totals and First Budget Resolution Estimates for Fiscal Years 1980-1991 (In billions of dollars)

	Policy	Economic	Technical	Total
		Revenues		
1980	6.2	8.4	-3.5	11.1
1981	-3.7	5.0	-12.6	-11.2
1982	13.0	-51.9	-1.1	-40.0
1983	-4.6	-58.0	-2.7	-65.3
1984	-13.7	4.5	-3.9	-13.1
1985	-0.2	-20.0	3.3	-16.8
1986	-1.5	-23.0	-2.1	-26.6
1987	22.1	-27.0	6.7	1.7
1988	-10.9	3.6	-16.5	-23.8
1989	0.7	33.5	-7.8	26.4
1990	-7.0	-36.5	9.4	-34.0
1991[a]	-0.7	-31.4	-23.6	-55.7
Average Difference	b	-16.1	-4.5	-20.6
Average Absolute Difference	7.0	25.2	7.8	27.2
		Outlays		
1980	19.6	12.4	15.6	47.6
1981	24.5	6.4	16.0	46.9
1982	1.2	24.1	7.7	32.9
1983	17.6	0.5	8.1	26.2
1984	1.5	7.1	-18.0	-9.4
1985	22.8	-5.2	-12.9	4.8
1986	14.2	-12.1	20.1	22.2
1987	6.8	-11.9	13.0	7.9
1988	-2.0	11.7	12.0	21.7
1989	17.5	13.9	11.8	43.2
1990	13.0	13.0	59.0	85.0
1991[a]	-19.5	0.8	-21.7	-40.4
Average Difference	9.8	5.1	9.2	24.1
Average Absolute Difference	13.4	9.9	18.0	32.4
		Deficit		
1980	13.4	4.0	19.1	36.6
1981	28.2	1.4	28.6	58.1
1982	-11.8	76.0	8.8	72.9
1983	22.2	58.5	10.8	91.5
1984	15.2	2.7	-14.1	3.7
1985	23.0	14.8	-16.2	21.6
1986	15.7	10.9	22.2	48.8
1987	-15.3	15.1	6.3	6.2
1988	8.9	8.1	28.5	45.5
1989	16.8	-19.7	19.6	16.8
1990	20.0	49.5	49.6	119.1
1991	-18.7	32.3	1.8	15.3
Average Difference	9.8	21.1	13.8	44.7
Average Absolute Difference	17.4	24.4	18.8	44.7

SOURCE: Congressional Budget Office.

NOTE: Differences are actual outcomes less budget resolution assumptions.

a. Based on the fiscal year 1991 budget summit agreement, as assessed by CBO in December 1990.

b. Less than $50 million.

Does State Experience Provide Any Support? Despite all of these shortcomings, many proponents argue that the federal government should (and can) balance its budget because the states are required to do so. But there are many differences between state governments and the national government that make comparisons between the two levels difficult to sustain. States have frequently taken actions to evade their own balanced budget requirements. Moreover, financial markets impose constraints on the fiscal policy of state governments that operate independently of, and reinforce, constitutional or statutory limitations.

The differences between federal and state governments have partly to do with responsibilities and partly to do with the distribution of political power. The federal government assumes some major responsibilities not assumed by state governments, including providing for national defense, maintaining the stability of the national economy, and providing disaster assistance. These responsibilities periodically may require intentional budget deficits. Further, state governors often exercise much more power over state budgets than do state legislatures (including the ability to use the line-item veto and to impound funds), in contrast to the relatively equal division of fiscal responsibilities between the President and the Congress.

The fiscal structure of states also differs from that of the federal government, and this has relevance for the budget that is to be balanced. Balanced budget requirements of states normally apply only to operating budgets, with capital budgets and employee pension funds excluded from consideration. In contrast, the amendments under consideration would require the total federal budget to be balanced, which includes investment (capital) activities, pension funds, as well as operating expenditures.

In many cases, the state balanced budget rules, which vary substantially from state to state, offer broad scope for evasion. Many more states require the Governor to submit a balanced budget to the state legislature than require the legislature or the Governor to approve a balanced budget. In addition, requirements imposed during the preparation of state budgets do not force them to be balanced in reality. The *Fiscal Survey of the States*, recently released by the National Association of State Budget Officers, indicates that three-fourths of the states spent more money than they took in during fiscal year 1991. States have been known to use mechanisms such as shifting revenues and expenditures between fiscal years, engaging in short-term borrowing, and creating quasi-governmental entities (off-budget agencies) to get around fiscal strictures. This problem, coupled with the dissimilarities between the national and state governments, calls into question the appropriateness of arguing for a balanced budget based on state experience.

Despite all of these problems, state operating budgets are balanced over the long term: no state can continue to borrow to meet current expenditures year in and year out. But this long-run balance may be imposed more by market pressures than by any legal or constitutional requirement. Because they borrow money to finance capital construction, most states must operate under constraints imposed by financial markets. States viewed as fiscally irresponsible are forced to pay higher interest rates on borrowed funds because of a higher probability of default. The federal government does not face such financial constraints. A few economists, however, are concerned that if the budget were to remain grossly out of balance for a very long period, debt could accumulate to such an extent that financial markets would begin to demand a premium for holding U.S. Government debt, just as they do now for states that have excessive debt.

Concurrent Actions Are Needed to Achieve Fiscal Discipline

If a balanced budget amendment is approved and sent to the states for ratification, the Congress would be obligated to begin immediately to take the steps necessary to comply with a balanced budget regime. Two major tasks would have to be accomplished: the deficit would have to be brought down substantially during the interim period; and the procedural detail of the

amendment--its scope and how it would be carried out--would need to be established.

Bringing Down the Deficit. The first task would be to bring the deficit down to the point at which enforcing a balanced budget would not require sudden, draconian cuts in spending or massive, abrupt tax increases. Although this task is by no means easy--it is the problem that has bedeviled the budget process for the past decade--it is critical. If the amendment takes effect with the deficit still in the hundreds of billions of dollars, the Congress would be faced with the Hobson's choice of enforcing the new rule and inducing a deep recession or waiving the rule from the start, which would clearly be an inauspicious beginning for the new era. Should no progress be made during the transition, bond markets are likely to react negatively, making the economy falter and the deficit grow.

It would be preferable for the President and the Congress to reach a consensus concerning the appropriate mix of policy changes necessary to achieve the goal of budgetary balance well before the effective date of the amendment. If such a consensus were not reached, however, transition legislation would need to specify methods to force a reduction in the deficit in a more automatic and mechanized way. Two different broad paths could be taken--granting power to the President to carry out budgetary changes

without the specific action of the Congress, or resorting to formulas to effect automatic reductions if an agreement on alternatives were not reached.

One option for the transition period, then, is to require by law that the President put forward a proposal that balances the budget by the end of a specific time period--for example, five years. To guarantee that such a plan is not mischievous or based on unattainable economic assumptions, the proposal would be automatically implemented unless the Congress were to pass substitute legislation that meets the same goal. (The Congress may give the executive branch this power if it is accompanied by instructions that are clear enough that a court could determine whether the executive branch had obeyed the will of the Congress). Someone would unmistakably be in charge of the nation's fiscal affairs if the President were temporarily given such extraordinary powers.

However, such a reallocation of budgetary power, even on a temporary basis, would be unprecedented and--to many--unacceptable. An alternative set of procedural options would draw on and strengthen the current provisions of the Budget Enforcement Act. For example, one-third (or some other specified proportion) of the needed budgetary savings could be allocated to discretionary programs and the remainder to entitlements or taxes as defined under current pay-as-you-go procedures. The President would then be

required to make proposals for deficit reduction that conform to these allocations. Should the Congress fail to pass the discretionary proposals, or a plan with savings of equivalent value, all discretionary appropriations would be reduced pro rata to attain the targets. Should pay-as-you-go legislation fail to attain the mandated savings, the gap could be filled automatically by raising all tax rates and scaling back all benefits in proportions to be specified by the legislation. If, despite these rules, deficit saving targets were not attained in any year (say because of an incorrect estimate of the spending or revenue consequences of legislation), the shortfall could be allocated to the deficit reduction required in the following year. These measures would retain greater Congressional control over budget outcomes and, unlike present BEA rules, they would spread the burden of deficit reduction broadly.

Most analysts would not favor as a permanent diet these rigid specifications of the budget process for the transition period. The fail-safe procedures are too mechanical, and they would throw to the winds both countercyclical fiscal policy and the automatic economic stabilizers. But just such rigidity may be necessary to have a chance of making a successful transition to a new regimen of constitutionally mandated balanced budgets. Without a consensus on national goals--or the more drastic measures just discussed--a balanced budget amendment is doomed to failure.

Defining the Scope of and Carrying Out the Amendment. None of the amendments is self-enforcing, and the Congress will have to set systems in place to make the amendment work. Doing so could potentially involve resolving many issues, including process, definition, and penalties. In fact, such issues will be critical even before the amendment takes effect so as to guarantee deficit reduction. The resolution of these issues by the Congress would minimize the likelihood that the amendment would become the subject of interpretation by the courts.

The procedural concerns these amendments raise are evident if we take H. J. Resolution 290 as an example. Its first section requires enacting a law in which the Congress and the President agree on an estimate of total receipts for the upcoming fiscal year. However, what happens if there is a stalemate and the fiscal year begins? Some process that performs the same functions as the continuing resolution would have to be developed.

H. J. Resolution 290 raises questions of definition in its second section where it calls for a supermajority vote to raise "the limit on the...debt held by the public." This debt limit is quite different from the one now voted on by the Congress in that it excludes borrowing from trust funds. There is much to be said for this change, but it is not universally agreed upon. Also, Sections 1, 3, and 6 refer to total *receipts*, but Section 4 refers to *revenue* bills, which

are not the only types of legislation governing receipts. Even though the terms are sometimes used interchangeably, the precise meaning intended should be clarified. Some work will be necessary to resolve these and other definitional disputes created by a balanced budget amendment.

In order for budget targets to be hit exactly, without any failure, new kinds of controls will have to be put in place. For example, H. J. Resolution 290 mandates that "total outlays" (not estimated outlays) be no larger than estimated receipts. The current system sets controls over the authority to obligate, not over total outlays. Setting additional controls over actual outlays would require a cumbersome new control system that would be extremely difficult to carry out in practice. It would be preferable to enact some sort of "look-back" provision that required any shortfall resulting from a variance between the estimates and actual experience to be made up in the following year.

Dangers of Subverting the Amendment. No enforcement procedure is foolproof. The amendment could be nullified by precisely the evasions that have in recent years undermined the credibility of the Congress and government. For this reason, in addition to enacting a plan to achieve deficit reduction before the amendment takes effect and procedures for its

implementation, the Congress should be vigilant in opposing actions that would circumvent the goals of the amendment.

It is important, therefore, that the potential for evading the balanced budget rule or enacting inappropriate policies in response to it be recognized explicitly; that the Congress take actions to ensure that the definition of the budget to be balanced does not become fluid; and that burdens are not passed on unduly to others in society as a result of such an amendment. It is not a step forward to pass an amendment, then avoid it through gimmickry or by inappropriately passing on responsibilities to someone else.

CONCLUSION

A balanced budget amendment, in and of itself, is not a solution. Rather it is only a repetition--in an even louder voice--of an intention that has been stated over and over again during the course of the last 50 years. Nearly 20 years ago, we were content to make our balanced budget promises in the budget resolutions and the President's budget proposals. Then we passed laws requiring lower deficits (Gramm-Rudman-Hollings in 1985 and 1987, and the Budget Enforcement Act in 1990). Now we want to put the promise in the Constitution.

We should ask, however, whether a constitutional amendment will do anything to alter the structure of our current system. How will it change the system that now keeps our political leaders and our institutions from adopting the fiscal stance that the vast majority of the public and the preponderance of our policymakers agree is in the country's long-run interest?

It cannot do the job alone. Without credible legislation for the transition that embodies an effective mechanism for enforcement, government borrowing is not going to be cut. But the transitional legislation and the enforcement mechanism are 95 percent of the battle. If we could get agreement on those, we would not need a constitutional amendment.

In this election year, it would be a cruel hoax to suggest to the American public that one more procedural promise in the form of a constitutional amendment is going to get the job done. The deficit cannot be brought down without making painful decisions to cut specific programs and raise particular taxes. The legislative and executive branches can and should work together to achieve some agreement on how the deficit should be reduced, as they did in 1990. A balanced budget amendment, in and of itself, will neither produce a plan nor allocate responsibility for producing one. Even if it is passed, therefore, the hard work will remain to be done.