

Projecting the Impact of the Balanced Budget Amendment

**David Brown**Deputy Director,
Economic Program[@DavidBrownDC](https://twitter.com/DavidBrownDC)

The United States has a problem with projected long-term deficits. At the end of this decade and continuing in the 2020s, unchecked growth in entitlement costs, fueled by an aging population, will create unsustainable deficits. Left unaddressed, this trend will crowd out critical spending on public investments—in education, research and infrastructure—and hamper economic growth. It will also necessitate sizeable tax increases on the middle class, if not addressed. Policymakers will need to address the problem soon and in a balanced way.

While there are numerous approaches to this critical policy challenge, policymakers need to be especially wary about the effects of a proposal to amend the U.S. Constitution to add a Balanced Budget Amendment (BBA). While the name evokes fiscal responsibility, the BBA launches four blunt and misdirected missiles that could inflict serious harm on our economy. The BBA would: 1) largely eliminate fiscal policy as a tool for Congress to address future recessions, * 2) require indiscriminate cuts much larger and sooner than are necessary, 3) fail to ensure that cuts occur in the right areas, forcing harmful cutbacks across core government services, and 4) hike taxes for just about everyone.

* Some approaches to the BBA, such as that proposed by Rep. Justin Amash (D-MI), allow for more flexibility in response to the business cycle.

Supporters of a balanced budget say that they can achieve zero deficits without raising any taxes. This sort of alchemy is better suited for carnival barkers; however, for this memo, we will accept their premise that we can achieve balance without new taxes. Specifically, this memo addresses the third danger posed by the BBA by projecting the impact it would have on government services, in areas such as Social Security, food safety, education, and law enforcement.

The Balanced Budget Amendment

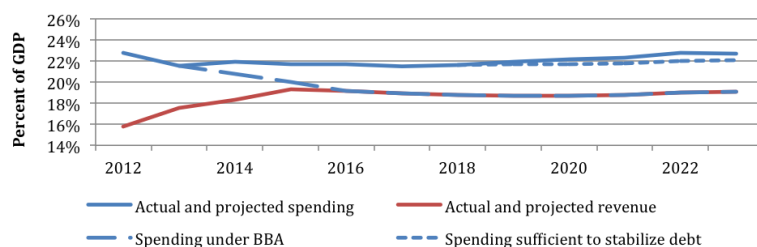
While there are a number of different BBA proposals, this memo analyzes an amendment introduced in January, H.J. RES 11.¹ This amendment would impose severe requirements on future Congresses. The most stringent rules would:

- Require spending never exceed revenue in any fiscal year
- Require a three-fifths majority of each chamber to suspend the balanced budget rule, increase revenue, or raise the debt ceiling *

* A provision in the amendment would allow Congress to suspend the balanced budget requirement during wartime, with only a simple majority.

If enacted next fiscal year, the Balanced Budget Amendment's rules would take effect in Fiscal Year 2016. That year, under current policy, the deficit is projected to be 2.5% of GDP, safely below the 3% threshold many economists recommend for a sustainable debt burden. As a result, U.S. debt-to-GDP is actually projected to decline in 2016. But under the BBA, projected spending would be 2.6% of GDP (\$445 billion in 2013 dollars) over projected revenue. The following graph and table show the spending level Congress must follow to reach a balanced budget, on a glide path, by 2016.

The Federal Budget under a Balanced Budget Amendment



Cuts Required Under the Balanced Budget Amendment²

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Projected spending	3,614	3,732	3,863	3,956	4,104	4,271	4,440	4,549	4,765	4,858
Spending under BBA	3,426	3,437	3,418	3,478	3,572	3,647	3,740	3,835	3,971	4,087
Primary cuts required	4.5%	6.9%	10.0%	10.5%	11.3%	12.7%	13.7%	13.6%	14.5%	13.8%

NOTE: Projected spending and spending under BBA are in billions of real, 2013 dollars.

The data shows that the U.S. deficit problem does not reemerge until 2019. And even then, the initial problem is small. But the BBA, in order to balance the budget, would slash government spending far in excess of what is needed. Assuming pain is shared equally across the government, budgets from Defense to Social Security to law enforcement would have to be cut by 10% in 2016, with cuts rising above 14% in 2022.

Effects of the Balanced Budget Amendment

What would these cuts mean for government services? Predicting how agencies will respond to budget cuts inevitably involves making assumptions, especially when looking years down the road. Our method, which is spelled out in our September 2012 report, "[Death by a Thousand Cuts](#)," looks at the difference between projected spending levels under current policies and the levels of cuts needed to meet the BBA's rules.³

Our findings show that the BBA would be devastating: 5,000 fewer FBI agents and other federal law enforcement officers as well as 1.3 million fewer patients treated at community health centers in 2018. Food inspectors would be laid off, and special education teachers will see withering support. The tables below illustrate what these cuts could mean, in 2016 and in 2022.

Shrinking Government Services: In 2016, complying with the Balanced Budget Amendment could result in...

\$133 less in monthly Social Security benefits to the average retiree

68,228 fewer seniors provided nursing home care through Medicaid

5,894 fewer grants to researchers by the NIH and NSF

15,811 fewer special education teachers supported by federal funds

\$7 billion deficit in Medicare payments to doctors

2,898 fewer miles of new federally funded highways (cumulative)

12,941 fewer TSA officers at airport security checkpoints

1,009,226 fewer college students aided by federal Pell Grants each year

5,315 fewer agents employed by the FBI, DEA, ATF, and U.S. Marshalls

1,365,763 fewer patients treated in community health centers that year

875 fewer FSIS inspectors at meat and poultry processing plants

**Shrinking Government Services: In 2022,
complying with the Balanced Budget Amendment
could result in...**

\$206 less in monthly Social Security benefits to the average retiree

116,176 fewer seniors provided nursing home care through Medicaid

9,927 fewer grants to researchers by the NIH and NSF

26,630 fewer special education teachers supported by federal funds

\$15 billion deficit in Medicare payments to doctors

14,609 fewer miles of new federally funded highways (cumulative)

21,795 fewer TSA officers at airport security checkpoints

1,699,769 fewer college students aided by federal Pell Grants each year

8,952 fewer agents employed by the FBI, DEA, ATF, and U.S. Marshalls

2,300,260 fewer patients treated in community health centers that year

1,473 fewer FSIS inspectors at meat and poultry processing plants

The Balanced Budget Amendment is a reckless approach to our long-term fiscal challenges. Rather than handicapping future policymakers with an austere balanced budget requirement—and underfunding critical government services and public investments in the process—Congress should combine modest revenue increases through tax reform with modest, long-term reforms to entitlement programs. This approach will protect government services and the public investments critical to our nation's growth.

END NOTES

- 1.** United States, House of Representatives, “H. J. RES. 11— Proposing a balanced budget amendment to the Constitution of the United States,” 113th Congress, 1st Session, January 3, 2013. Accessed July 9, 2013. Available at: <http://thomas.loc.gov/cgi-bin/query/z?c113:H.J.RES.11.IH:/>.
- 2.** Figures are in real 2013 dollars. Cuts are assumed to be implemented on a glide path to bring spending in line with revenue in 2016. Every \$1 of primary savings is assumed to generate \$0.15 in interest savings. Cuts each year are relative to the Committee for a Responsible Federal Budget Realistic Baseline; accessed July 9, 2013. Available at: <http://crfb.org/crfbs-realistic-baseline>.
- 3.** David Kendall, David Brown, and Gabe Horwitz, “Death by a Thousand Cuts: Why Spending Cuts Alone Won’t Fix the Deficit,” Report, Third Way, September 2012, Accessed July 9, 2013. Available at: <http://www.thirdway.org/subjects/131/publications/586>.