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THE BALANCED BUDGET AMENDMENT

HEARING

BEFORE THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

NINETY-EIGHTH CONGRESS

SECOND SESSION

SEPTEMBER 11, 1984

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THE BALANCED BUDGET AMENDMENT

TUESDAY, SEPTEMBER 11, 1984

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, DC.

The committee met, pursuant to notice, at 9:35 a.m., in room SD–562, Dirksen Senate Office Building, Hon. Roger W. Jepsen (chairman of the committee) presiding.

Present: Senators Jepsen, Abdnor, and Symms; and Representative Smith.

Also present: Dan C. Roberts, executive director; James K. Galbraith, deputy director; Charles H. Bradford, assistant director; and Christopher J. Frenze, Dale Jahr, and Paul B. Manchester, professional staff members.

OPENING STATEMENT OF SENATOR JEPSEN, CHAIRMAN

Senator JEPSEN. This hearing on the balanced budget amendment will come to order.

It gives me great pleasure to welcome the distinguished witnesses testifying before us today. As a long-time cosponsor of the balanced budget amendment, I believe it is one of the most important issues now before the Congress. Speedy adoption of a balanced budget amendment is imperative if we are ever to gain control of Federal spending and the Federal budget.

A balanced budget amendment would immediately send a positive signal to the entire financial community of this country as well as the rest of the world. The Congress, like all other governmental bodies in this country, would be in a position of being restricted from spending more than it takes in.

The longer we wait, the worse our budget problems will become. Had a balanced budget amendment been in place, Federal spending would not have grown so rapidly and we would not have had Federal deficits for 23 out of the last 24 fiscal years. Basic institutional reform is urgently needed. The time to act is now.

The pressure that special interests bring to bear on the Congress in support of favored programs is obviously very powerful. Coalitions of these special interest groups are usually capable of thwarting any serious effort of budget control. These groups continually pressure Congress to raise the level of Federal spending higher and higher. Without some kind of institutional reform to limit tax and spending growth, this situation will drive us into national bankruptcy.

We hear the term "the budget is out of control" and we also hear, especially in the political rhetoric every election year, that much of the budget is uncontrollable. The fact is, it hasn't been the budget that's been out of control all these years; it's the people that make the budget that have been out of control. And it is not uncontrollable. In fact, the power to rectify the situation rests with the authority of the Congress, in its constitutional powers to appropriate funds and to levy taxes.

For most of our history, the principle that Federal spending should not exceed tax receipts was violated only in exceptional circumstances, such as war, and acquired such universal acceptance that it was referred to as part of our unwritten constitution. This maxim of fiscal responsibility was long respected by both parties in Congress. In recent decades, however, liberal economists and politicians extolled the virtues of deficits. Intentional creation or expansion of the deficit during recession was seen as the basis of countercyclical macroeconomic policy.

This was like opening Pandora's box. The natural tendency of Congress to increase constituent spending was unshackled. Since the 1960's we have run deficits in good times as well as bad. In this new environment, congressional responsibility for the budget process was akin to making Dracula head of the blood bank. The balanced budget amendment is needed to restore congressional self-control and fiscal responsibility.

Critics oppose the amendment because they contend it would handcuff the Congress and limit its discretion. There is some truth in this. The whole purpose of the amendment is to limit the fiscal discretion of Congress. However, this is perfectly consistent with the nature and purpose of the Constitution. As James Madison pointed out, "If men were angels, no government would be necessary. If angels were to govern men, neither external nor internal controls on government would be necessary." Since neither of these conditions is apt to arise any time soon, I'm glad we have a realistic Constitution whose purpose is the limitation and control of Government. The balanced budget amendment merely applies this sound principle to fiscal policy.

Critics argue that incorporating any element of economic policy in the Constitution is a novel or bizarre idea. Apparently these critics are unfamiliar with sections of the Constitution regarding delegation of taxing and spending powers, property rights, issuance of bills of credit by the States, the 16th amendment, and other provisions. The proposed amendment is completely within the spirit of the Constitution.

Now that 32 of the needed 34 States have petitioned Congress requesting the amendment, Congress must act. With over 80 percent of all Americans supporting the amendment, it's only a matter of time before the 34th State forces Congress to adopt it. Under article V, the only alternative will be a constitutional convention. Congress should board the train before it leaves the station.

Senator Abdnor.

OPENING STATEMENT OF SENATOR ABDNOR

Senator Abdnor. Thank you, Mr. Chairman. I commend you for calling this important hearing and I will say I am very impressed with the distinguished and knowledgeable panel of witnesses you have assembled here. I know my colleague and good friend from California is anxiously waiting for an opportunity to get his statement made, so I will try to hurry along.

We are here this morning because of the huge Government deficits that have our country in very serious financial straits.

These deficits have put us in uncharted economic waters. The Congressional Budget Office has projected that between 1984 and 1989 deficits will average 5.4 percent of gross national product. This compares with an average 1.7 percent for the period 1965 to 1981. By now two things I think have become very clear. First, huge deficits are a driving force behind high interest rates. Second, they contribute to an overvalued dollar and that in turn aggravates our trade deficits which are already at record levels.

What other rude awakenings are in store for us if we continue to let deficits spiral to where they have never been before? I won't even begin to hazard a guess.

I would be encouraged by all the talk of reducing deficits if there were reason to believe it is anything more than rhetoric. For some reason, Mr. Chairman, we do a lot of talking around the Halls of Congress but take little action to solve the problem.

The only way we are going to achieve progress toward a balanced budget is to hamstring Congress so it can't continue to spend billions more than it receives. That isn't a very nice way to put it, but Congress has demonstrated over and over again that it simply cannot be trusted to manage this country in a fiscally responsible fashion.

An amendment to the Constitution is one way of clamping down on Congress. I wish we didn't have to resort to such a drastic step, but there is little choice. That's why I have been a long-time cosponsor of the balanced budget amendment.

Still, as much as I support this amendment, I have much concern about what happens until the time it becomes law. Even if Congress would pass it tomorrow, ratification by the States could be a lengthy process.

For this reason, I have introduced a bill which would require immediate action to reduce the deficit. This legislation which I'm talking about is S. 2516 and it requires steady actions and progress over a 10-year period toward a balanced budget. The bill contains no "sacred cows." Every area would be subject to scrutiny for savings, including defense and entitlements. Every single item of the budget must carefully be reviewed.

My bill sets out a mandatory schedule of reductions in the deficit. For the first 2 years we must rely primarily upon spending reductions as opposed to tax increases. It would give to Congress both the first and last chance to decide where savings are to be achieved. But if Congress continued to refuse to do its job, the President would be granted a carefully defined power to rescind funds and keep Congress from busting the budget. If still further action proved necessary to meet the deficit-reduction targets, spending would be reduced across the board. But, one way or another, deficits would steadily decline.

Frankly, I think this legislation is one of the most comprehensive, responsible and "doable" long-range budget plans that I've seen. In fact, I am pleased to see that Senator Domenici has agreed to hold budget hearings on my bill.

Enactment of this bill would be a practical and achievable interim step to see that we don't let deficits continue to spiral out of control pending passage and ratification of the balanced budget amendment. I just happen to have copies of my legislation available at the desk and I hope that everyone here would take a serious look at the legislation. In addition, the comments and views of our respected witnesses would be appreciated.

While I strongly endorse a constitutional amendment for a balanced budget, it does take time. And in the interim, proposed legislation such as mine should be enacted.

Thank you, Mr. Chairman.

Senator JEPSEN. Thank you.

Congressman Smith from Oregon has joined us. Congressman, do you have any opening remarks?

Representative SMITH. No, thank you, Mr. Chairman.

Senator JEPSEN. I welcome you.

At this time I welcome Senator Wilson from California. The distinguished Senator from California brings to the Senate a rich background of experience and performance in government and in service to his constituents and State. Without fear or favor, Senator Wilson has been at the forefront of many issues and has quickly and rapidly gained a respect and reputation among his colleagues for telling things as they are, saying what he means and meaning what he says.

Senator, thank you for being here today, and you may proceed in any manner you so desire.

STATEMENT OF HON. PETE WILSON, A U.S. SENATOR FROM THE STATE OF CALIFORNIA

Senator WILSON. Thank you very much, Mr. Chairman. I think after the eloquent opening statement which you have made and the very pertinent remarks by our colleague, Senator Abdnor, it's clear that I'm going to be preaching to the Choir. It's clear that you don't need the lecture and you've just given it very effectively.

To avoid repetition, I would simply point out that I think history indicates very clearly that the time for action, as you have stated, is now. That history, unfortunately, is not one that would give great confidence to our constituents.

Yes, the Congress has gone on record before as favoring a balanced budget. In 1978 we adopted the Harry F. Byrd amendment which became part of Public Law 95-435: "Beginning with fiscal year 1981, the total budget outlays of the Federal Government shall not exceed its receipts."

Then in 1981 we incurred a budget deficit of $58 billion. How did we do that? Well, it was simple; just by agreeing in 1980 to amend the Byrd amendment, to change it so that it now reads, "Congress reaffirms its commitment that beginning with fiscal year 1981, the total budget outlays of the Federal Government shall not exceed its receipts."

In other words, Mr. Chairman, we went from a mandate to a reaffirmation of commitment or, to be more accurate and a little bit more blunt, we went from a control to an expression of a good intention, and clearly that good intention has failed to work, has failed to be the control which you gentlemen clearly understand to be necessary.

Now you and I both know our colleagues are people of decent impulses. They have the best of intentions. It's just that they differ with respect to what our priorities should be. They also seem to collectively have an inability to appreciate the full impact of what we have done year after year as we have allowed the national debt to mount. And I would suggest that short of the kind of amendment, or something very similar to it that the Judiciary Committee is now entertaining, we will never see a better collective performance.

It is simply against human nature, it would appear, for those who seek elective office and who, therefore, seek to ingratiate themselves with their constituents, to have the stomach to do the kinds of things that are really required. That is particularly difficult if we assume complete integrity on the part of all 535 Members of the Congress but a differing set of priorities.

Prior to the Budget and Reconciliation Act, we were described frequently in a bromide that said Congress is a family of 535 Members all writing checks on a joint checking account but never checking with each other to determine what the balance is.

Unfortunately, that metaphor was all too appropriate and the result is that today we have a national debt in the neighborhood of $1.5 trillion.

In just the years from 1960 to 1981, we saw the interest paid by the American taxpayer on that national debt mount from roughly $10 billion to over $130 billion annually.

Now, Mr. Chairman, what that means, stated in another way, is that we have allowed runaway spending by the Congress to result in debt interest payments that have become the third single largest item of Federal expenditure. And if we continue to compound the error by not having the guts to bring this growth under control, what it means very simply is that this item threatens to overtake even defense spending.

This didn't happen overnight. It has occurred with unhappy regularity over the past half century. There are only a handful of years in which Congress has not operated at a deficit. This practice, when combined with the spending tendency of the Congress, brings about the sharpest possible deficit escalation.

From 1970 to the time this administration took office in 1981, we tripled Federal spending. It has doubled since 1975. That simply cannot go on, or, as the chairman has so accurately and so tragically predicted, we will not just mortgage the future of our children and our Nation, we will indeed plunge it into the same kind of bankruptcy from which the German Republic had enormous difficulty in extricating itself after World War I.

Now I would say this as well, Mr. Chairman. We have had an opportunity in the recent past here in Congress to do something about this. Indeed, in 1982, the Senate actually voted by a 2-vote margin in favor of a constitutional amendment that would balance the Federal budget, with the required two-thirds plus two.

Unfortunately, although that same amendment received a majority vote in the House, it was not sufficient. It was not the two-thirds required by the Constitution.

The result is that the dismal history that we have discussed has been continuing to repeat itself. Indeed, even in the Senate, in the year following that vote in which we got the two-thirds required, the most stringent of all the budget options presented us in 1983 was offered by Senator Hatch. It was endorsed by the U.S. Chamber of Commerce, and would have resulted in a mere $170 billion of deficit—now I say that with what I hope to be understood as deliberate sarcasm. Although some 69 Members of the Senate had in the prior year voted for the concept of a balanced budget amendment, only 23 could bring themselves to vote for even a $170 billion deficit, that being the most fiscally stringent of those that were offered to us.

That is not surprising. Human nature, I repeat, is such that it is understandable that those of us that seek public affirmation, who go after votes, do not go out of our way to alienate our constituents. In fact, in the course of campaigns, we are asked to give support to specific spending programs and we do so and then feel that as men and women of integrity we are honor bound to support those things that we said we would support on the campaign trail.

What has happened is that instead of actually setting priorities and keeping them, we have engaged in conversation about priorities and have failed to set them.

I will not go on, Mr. Chairman, because I do not intend to lecture. I am lecturing to the record. And I am hoping gratefully that the attention which you and the committee have focused upon this problem this morning will serve to make some of our colleagues recognize that we should once again bring forward from the Judiciary Committee this measure and have a full debate upon the floor and actually take action, not simply talk about priorities, but set and keep them.

It is a tragic irony that the Congress of the United States is one of the few public agencies in the entire land that is incapable of operating within a balanced budget. Small businesses do it. Households do it. Almost every city council, every board of commissioners or county supervisors, and every State legislature in the Nation almost does it. Why? Are we weaker and more grasping? Do we have a limitless appetite to spend? The answer is that they are constitutionally or by charter compelled to operate within a balanced budget and we are not. And, we don't. When we try to set good intentions by statute, we simply change them. We increase the debt limit; we are almost honor bound to do so. We've already spent the money.

Well, Mr. Chairman, I will conclude by congratulating you and the members of the committee for holding this hearing. You have my gratitude. It's not a surprise that you, Senator Abdnor, and Senator Symms, who are not only long cosponsors of the amendment, have also assumed key positions in CLUBB, the acronym we have given to the Congressional Leaders United for a Balanced Budget.

I have, in conclusion, a statement by my dear friend, the Governor of California, the Honorable George Deukmejian, who has recently given I think eloquent testimony by action to what it means to live within a balanced budget. California is required by its State constitution to do so. Nonetheless, by some sleight of hand, his predecessor managed to leave him a papered-over deficit of about $1 billion. Without new taxes, Governor Deukmejian has brought about a reform and indeed a surplus, but what he has offered here this morning is testimony which I think is quite relevant to our purpose. It is an eloquent advocacy of not only the balanced budget, but of the line item veto.

The line item veto is an instrument which, like the balanced budget requirement, the California Governor enjoys. His testimony points out that he has been remarkably successful in blue penciling over $1 billion from an out-of-balance budget sent to his desk by the State legislature. His legislature is perhaps no different than this Congress. Indeed, having served now in both, I see the same impulses to be generous with other people's money with the best intentions in the world.

But the difference is, that legislature can't do that. Further, the Governor of California has a line item veto which allows him to very carefully, with a scalpel, go through that budget and whittle out the fat in a way that the President of the United States lacks the authority to do. This President simply must take it or leave it, all or nothing, on any appropriation measure.

That is not a way to allow the Chief Executive to exercise the kind of fiscal leadership that the people of this Nation, I think, really meant him to have.

So, I join Governor Deukmejian and ask that his statement be entered in the record.

I join him in making the request that your committee and the Congress consider in addition to the balanced budget amendment to the Constitution the necessary action that would be required to give the President of the United States this same line item veto authority. Without it, he is compelled to accept or reject a bill in total and send back to the Congress a rejected measure. This is not an efficient way to operate. It is not a way that allows the President or the Congress to engage in the real setting and keeping of priorities.

Mr. Chairman, you have been generous with your time. There are a long list of distinguished witnesses behind me. I appreciate your courtesy and theirs in allowing me to speak first. I would be happy to answer any questions that you have, but beyond that, I simply commend you, I thank you, and I pray that you are successful in this effort.

Senator JEPSEN. Thank you. The Chair would ask that the record show that the prepared testimony by the Governor of California be entered in the record at this point.

[The prepared testimony of Governor Deukmejian follows:]

State of California
GOVERNOR'S OFFICE
SACRAMENTO 95814

GEORGE DEUKMEJIAN
GOVERNOR

TESTIMONY BY GOVERNOR GEORGE DEUKMEJIAN

BEFORE THE

JOINT ECONOMIC COMMITTEE

OF THE

UNITED STATES CONGRESS

SEPTEMBER 11, 1984

MR CHAIRMAN:

I appreciate this opportunity to discuss my use of the line-item veto as Governor of the nation's most populous state, as well as my views about granting similar authority to the President.

When I became Governor of California in January 1983, our state faced a budget shortfall of $1.5 billion. We were on the verge of insolvency and close to paying our bills with registered warrants instead of cash. During my campaign, I pledged to balance the budget without raising general taxes on the people or on business.

Instead, we reduced the growth of spending. Without the authority to "blue-pencil" $1.1 billion from the out-of-balance budget sent to my desk by the State Legislature in 1983, a major tax increase would have been necessary or a massive deficit created.

Today, California is back in the black, and we even have a $950 million reserve for budget emergencies.

The line-item veto was absolutely critical to restoring stability to the economic affairs of 25 million Californians. Yet no one who has observed the governmental process in Sacramento these past two years could claim that the line-item veto has denied our Legislature its rightful place in shaping the budget. Furthermore, the Legislature had the right to subject each and every line-item veto to a potential override. The Legislature chose not to override my vetoes.

California is not the only state with the line-item veto. Forty-two other governors have this authority, and it has been an effective tool. These states have a far better record of balancing their budgets and controlling expenditures than does the federal government.

At the state level, governors typically veto one to three percent on spending requests each year. And while a one percent out in federal spending would amount to only a small fraction of the projected budget deficit, the compounding effects of cutting one percent each year would soon become significant. If one percent were out from the federal budget each year for the next five years, total savings could amount to $1.74 billion.

Public support for line-item veto has come from a wide range of organizations, including the League of Women Voters, the United States

Chamber of Commerce, and the American Farm Bureau Federation. A Gallup Poll taken in 1979 showed a record 70% of respondents in favor of giving the President the power to veto specific items in bills passed by Congress.

The line-item veto has been requested by nearly every President, Republican and Democrat, since the Civil War. More than 140 proposals have been introduced in Congress to provide the President with item veto authority since 1876 -- and all have failed.

It is time to give this common sense measure, which has worked so effectively at the state level a chance in Washington, D.C. Doing so would not undermine the authority of Congress. It still must pass the budgets, and would still retain the critical authority to override a President's veto.

We must acknowledge that the current federal budget process is flawed. No matter who is in the White House, budget deficits, caused by runaway federal spending, have become routine in this country. It's a routine we can no longer afford.

The brilliance of our U.S. Constitution is that it sets forth timeless rights and principles, while permitting prudent consideration of additions or changes, to reflect changing times and pressing national needs unforeseen by our founders. Whether accomplished by statute or constitutional amendment, line-item veto is a reform whose time has come. The Founding Fathers did not include it because for them, it went without saying that our nation would live within its means. They would be appalled by our current inability to control the federal deficit and I'm convinced they would view line-item veto as totally consistent with our democracy and our delicate system of checks and balances.

It's hard to find any office holder in this political year who is not proclaiming his or her allegience to teh virtues of a balanced federal budget. I respectfully call upon members of this committee and the Congress to back their words with action. Regardless of whether we inaugurate President Ronald Reagan or President Walter Mondale on January 20, 1985, that President needs and deserves line-item veto authority. The country can afford no less.

Thank you.

Senator JEPSEN. The Chair would ask the distinguished Senator from California for his opinion on how strong a restraint on Federal spending growth could be exerted by a process that included both a line item veto and the balanced budget amendment?

Senator WILSON. I think it would make all the difference in the world. I think either one would be of great importance.

I would have to say that the correct thing, as the chairman's question suggested, is to have both. But I think that first we must get into the situation where we are required like any city council, like any State legislature, to live within our income. Such a requirement is the only way that I see us ever being forced to make the hard decisions, to set and keep the priorities, and to not engage in spending money that we don't have simply because we are the Federal Government and we can get away with it. One day we won't be able to get away with it. Your statement about bankruptcy is no exaggeration. I don't see that as a hyperbole in any sense.

In the present session, the most we can expect of Congress is to act upon the so-called downpayment. Next year we will no longer be able to duck, no longer be able to defer the action that's required to set the current deficit in order.

But what I am suggesting—and I think Mr. Abdnor's comments were absolutely right—what I'm suggesting is that some future Congress, without this kind of restraint, will again engage in the same mistakes, the same good intentions, and we will be crisis lurching once again.

Only with the consistent compulsion of the Constitution will we consistently, year after year, as a Congress live within our income, or more accurately, the income of our constituents. And only then will we avoid this tragic mounting debt, and the increasing interest payments that threaten to overtake the item even for national defense.

The line item veto is a necessary help to the President. Candidly, it will affect a much smaller part of the Federal deficit than it does in the State of California. But nonetheless, it would be a very valuable tool in the hands of the President.

Senator JEPSEN. You were mayor of San Diego?

Senator WILSON. For 11 years. They thought I'd never leave.

Senator JEPSEN. Were you permitted to spend more than you took in in that local government?

Senator WILSON. No, sir; and I was grateful, I must tell you, that as we had raging debates with my city council on whether we should spend more for police, sanitation, parks and recreation, that we had a city charter that stated that we could not spend more than we took in. Otherwise, we would have been no different than Congress, I am sure. I think I would have been overruled. I think we would have engaged in the same kind of deficit spending that has tragically marked the history of the Congress.

Senator JEPSEN. Has San Diego suffered a great deal from not having that type of operation?

Senator WILSON. No, sir. To the contrary, they have, in my opinion, benefited enormously because in fact we were able to persuade the citizens of that city that, in addition to the charter requirement for a balanced budget, that we should go further and indirectly put a limitation upon our taxing authority—we did that even before proposition 13—by imposing a spending limit with a formula that was based on that subsequently adopted by the State of California. Again, adopted by popular vote of the people of that State.

What the requirement brought about is not suffering. It brought about the benefit that businesses seek—a stable political environment that doesn't threaten to soak them with heavy taxes. These businesses have come to San Diego in great numbers, and we employ an enormous number of people. We need to do so because we are a growing city, as are so many in the Sun Belt. But, I must tell you that I have been told time and again—and newspaper stories have appeared giving explicit testimony by those who sought to bring new economic development to the city—that it was because of our fiscal discipline in part that we were successful.

Senator JEPSEN. I think it's a very important example of a unit of government that is limited by fiscal restrictions. You have a charter that says you can't spend more than you take in, just like the balanced budget amendment would do for the Congress?

Senator WILSON. That's correct.

Senator JEPSEN. In addition to that, you have a tax limitation restriction?

Senator WILSON. Yes. Before the people of California passed proposition 13, the so-called Jarvis initiative which limited property taxes, we had imposed it upon ourselves really as a "rule of thumb." We later codified it and put it into the city charter by a vote of the people. We said that we would have a formula taking a base year. We allow increases beyond that base year, spending only what would reflect the percentage increase in population and three-quarters of the percentage increase in inflation.

Senator JEPSEN. And with those restrictions the record will show that San Diego not only survived, but flourished.

Senator WILSON. I think that's a fair statement. I don't pretend to be dispassionate about it. I'm no longer running for reelection as mayor there, but I will say it was true then and I think it's true now.

Senator JEPSEN. One of the reasons you are such a positive addition to the U.S. Senate is because of that. We need a few more like you.

Senator Abdnor.

Senator ABDNOR. I know that the Senator is needed at another committee, so I will be brief. I, too, want to commend you for your remarks and I'm certain we in the Congress are very deserving of the statements you made about us. We could all do much better when it comes to controlling our impulses to spend money. You're certainly one of the real leaders in fiscal responsibility, whether it's been back in San Diego as the mayor or here in Congress.

You've talked about three things needed to help balance the budget. First, the constitutional amendment itself; second was the line item veto; and third was Senator Hatch's proposal. All three have, for one reason or another, failed in this Congress, even with all our rhetoric in the debates.

Let me go back to this bill that I have introduced. It's similar to the one you're talking about, it's a limitation. It doesn't tell Members of Congress what they're going to cut or give them a detailed listing of spending. All it says to them is that you will cut the deficit in the first year by 15 percent, and in the second year by 15 percent less than that. If the Congress won't do it, the President goes ahead with certain steps. Congress can even review those steps. They can even take a look at what the President proposes they do and if the Congress doesn't want to make the changes, then the President can go ahead and act.

Do you think something like that could ever be sold to this Congress? Talk is cheap around here. If they are really serious, I don't know how they could condemn something like that because it doesn't tell them where to make the cuts. That's still up to the judgment of the Congress. If they really want to cut, this makes it mandatory that it be done. Do you think something like that could be worked out? I ask you because you're probably one of the more qualified experts we have around here on trying to do something of this type.

Senator WILSON. I would like to think so and I will tell you this much, Senator Abdnor. Your impulse, I think, reflects that of the people. The people in my State not only voted for proposition 13, they also voted for a subsequent proposition 4 which imposes a spending limit of the kind that we imposed on ourselves in San Diego.

I think there's no question that the American people would back what you're doing. I don't know whether or not your colleagues would. But I would certainly commend the effort even if it were to be unsuccessful. It may further dramatize the need for precisely this kind of a constitutional amendment. Although I think the people have gotten that message, as the chairman indicated in his opening statement, 32 of the 34 States required under article V of the Constitution have already petitioned it.

Now, the only question in my mind is whether or not we are going to take the initiative, as he suggests we should quite rightly do, and begin to fashion this amendment so that it can go back through the ratification process.

While I worked for California to be either the second or next to last of the last States required to petition Congress, we, unfortunately, have now been denied that opportunity. Public opinion surveys show that more than 70 percent, in fact, 76 percent of the people of California would have voted for what would have been proposition 35 placed on this ballot by the initiative process. But regrettably, the California Supreme Court has seen fit to strike that from the ballot in what the San Francisco Chronicle stated in an editorial to be a display of dismaying judicial error by once more killing off the people's initiative before it had a chance to appear on the ballot.

There is no question what the people of California would have done, and there's no question that the people of America are behind certainly the impulse that prompted your legislation.

Senator ABDNOR. Thank you.

Senator JEPSEN. Congressman Smith.

Representative SMITH. Thank you, Mr. Chairman.

I just want to say one of the reasons I'm here this morning is this is a much more friendly atmosphere for this subject than I'm used to. As everyone knows, the leadership in the House has this issue bottled up and without a parliamentary maneuver such as the discharge petition which 179 Congressmen and women have signed already, we can't even get the issue to the floor.

I want to commend you, Senator, for your statement because I think an early vote in the Senate would certainly enhance the possibilities of our efforts in the House and if we are going to have economic sanity in this country, the constitutional amendment is mandatory. So I thank you for being here and I'm here to support you in any way I can and I hope we can get it to the House soon.

Senator WILSON. Thank you very much.

Senator JEPSEN. Senator Symms.

Senator SYMMS. Thank you, Mr. Chairman, and thank you, Senator Wilson.

Senator WILSON. Excuse me, Mr. Chairman. If I may, I don't wish to be rude and I apologize to my good friend, Senator Symms, but I understand that Senator Hatch is conducting a committee hearing and holding its start for me. I'd be happy to return and answer whatever questions Senator Symms might have.

Senator SYMMS. Well, I'm not going to ask any questions. I just want to say that I thank you for your congressional leadership for a balanced budget that you and Congressman Craig have been working on, and I can't help but note that the problem is that you're preaching to the choir. The people who need to hear it aren't here.

Senator WILSON. That occurred to me, Senator.

Senator SYMMS. I hate to be partisan, but Walter Mondale made—I don't hate to make it partisan, I'm happy to make it partisan—but Walter Mondale offered his program yesterday and I think what we need to do here in the Senate is to pass our own program which would call for chaining down the Congress with the Constitution of the United States so that they are forced to balance the budget and have a spending limitation and not raise people's taxes to solve the problem. Send that out to people and make that the issue this fall. If that's what they want, Mondale's plan, they can have it; but I think the people are going to vote for this more rational, reasonable plan.

Senator WILSON. I doubt that Mr. Mondale would embrace this proposal, but I must tell you I would welcome his support and I wish to make clear that while the panel this morning happens to consist entirely of Republicans, this is not a partisan issue. There are indeed many Democrats in the House and in the Senate who support it. That is true in my home State as well.

Senator JEPSEN. I thank you, Senator.

Senator SYMMS. Well, I thank you very much, too, Senator. I would say again about the partisanship, there are many Democrats that support it, that's true, but they're not the ones that are in the leadership, because to be in the leadership of the Democratic Party in Washington, DC, you have to be liberal and the liberals want to keep on taxing, spending, and electing as they have been doing for years. That's what our problem is.

Senator Jepsen, I compliment you for this. You have done an outstanding job of trying to focus attention on this and I have to say I'm a little puzzled as to why we can't get the leadership in the Senate to get this thing moving or the President to make it the cornerstone of his campaign. That's what he should be doing, in my judgment, because the people understand this issue and sometimes we do things in Washington that are too complicated, but this is one thing people understand.

Senator JEPSEN. Well, this meeting might help, as we say in Iowa, to "turpentine" things.

Senator SYMMS. Good. Well, I'm for it.

Senator JEPSEN. Mr. Manuel Johnson, Assistant Secretary for Economic Policy of the Treasury Department. Mr. Johnson, welcome. Your prepared statement will be entered into the record and you may proceed in any manner you so desire.

Senator SYMMS. We hope maybe he will comment on what Treasury is doing to get this moving.

STATEMENT OF HON. MANUEL H. JOHNSON, ASSISTANT SECRETARY FOR ECONOMIC POLICY, DEPARTMENT OF THE TREASURY

Mr. JOHNSON. Well, I hope I can help out.

Thank you, Mr. Chairman and members of the committee, it is a pleasure to be with you today to discuss a proposal that would amend the Constitution to require a balanced budget.

The President and the administration strongly endorse enactment of a balanced budget amendment as the only certain way to restore fiscal responsibility to the Federal Government.

In his fiscal year 1985 budget, his last State of the Union message, and in his acceptance speech at the Republican Presidential Convention, the President reconfirmed his strong support for a constitutional amendment mandating a balanced Federal budget. He has challenged the Congress to enact such a measure during the remaining months of this session. The last time a vote was taken in the Congress in 1982, a balanced budget amendment was approved by more than two-thirds of the Senate and by more than a majority but less than the necessary two-thirds of the House.

The public is overwhelmingly behind the concept of a balanced budget. Thirty-two State legislatures have approved resolutions calling for a constitutional convention to consider the issue, and there are several more States where action is possible soon.

In view of popular support in this country, the Congress has a right and a duty to debate and vote on this matter. The legislatures of the various States clearly expect and deserve a positive response from the Congress in the form of an amendment which they can consider in accord with their constitutional responsibilities.

It is crystal clear to the President and to the general public that something must be done to restrain the upward spiral in Federal spending. In spite of the limited success that President Reagan has had working with Congress to enact spending reductions, the Federal Government continues to absorb too great a share of GNP. Between 1960 and 1983, the growth of Federal spending was much faster than the growth of the economy. As a result, the Federal Government share of total output jumped from 18.5 percent in 1960 to 24.7 percent by 1983, in spite of the solid growth of GNP during that period.

The growth in Government spending has been accompanied by large increases in the Federal tax burden. By 1981, corporate taxes had more than doubled since the mid-1960's, leaving real after-tax, after-inflation profits below levels reached some 15 years ago. In spite of tax reductions, personal income taxes as a percent of personal income rose from about 10 percent in 1975 to 11.5 percent by 1980 and had been projected to rise to over 15 percent by 1986 without any major tax reduction. If we take account of social security tax increases, the average tax rates rose from 12.7 percent to 14.5 percent during this period and would have increased to nearly 19 percent by 1986. Marginal tax rates rose even faster to sharply higher levels.

Throughout the economy, the rising tax burden seriously eroded incentives to work, save and invest, and contributed to the economic mess that we experienced until recently—high inflation, slow growth, and high unemployment, which, in turn, have contributed to higher budget deficits.

In spite of the tax reductions in 1981, the overall tax receipts of the Federal Government rose nearly $250 billion from fiscal year 1977 to fiscal year 1983 and still we accumulated deficits of $500 billion.

Mr. Chairman, the only conclusion is that Federal Government spending continues to grow out of control. Some critics are quick to put the blame for large deficits on the administration's tax reductions and defense spending increases. This is just not correct, however. The revenue estimates in the 1984 Mid-Session Review show that under administration policies the Government's tax claim on income in the 1985–89 period would be between 19.4 percent and 19.7 percent of GNP—more than a full percentage point above the nearly 18.1 percent share of the 1946–70 period. The national defense share of the GNP will stabilize at less than 7.5 percent of GNP, well below the 9.7 percent share during the 1946–70 period.

In reality, the driving force behind the rise in the budget deficit and Federal spending is not the administration's tax and defense policies but the combination of the past recession and the growth of nondefense spending. In spite of the President's efforts to slow the growth of nondefense spending, it continues to accelerate.

If the Federal Government did not have such a dismal record on spending control, I might be more optimistic that we could move toward a balanced budget. Indeed, the favorable impact of the recent downpayment package, especially when fully implemented, and the income growth fostered by the administration's economic program should reduce the remaining structural budget problem to levels that can be handled by reasonable spending restraint on the part of the Congress.

However, I would feel much more confident that the political process was conducive to dealing head-on with the structural budget problem if we had a balanced budget requirement. Over the years the Congress has tried to respond to concerns about Government spending, deficits and budgetary control. The most recent attempt at reform was the Congressional Budget and Impoundment Control Act of 1974 which was intended to bring about congressional control over the budget process. Unfortunately, the reforms implemented by this act have not been successful in constraining Federal spending.

Congress has made other attempts to bring about fiscal responsibility. In 1978, for instance, the Congress approved a statute requiring a balanced budget beginning in 1981. It is quite evident that this statutory approach for requiring budget balance has not been successful. Indeed, it was ignored.

Obviously, something is amiss in the budget making process if the Congress, even after enacting legislation requiring budgetary discipline, frequently fails to live within its means. It has not always been this way. For most of our history through the 1920's, Federal spending ranged between 1 and 3 percent of national output; spending for past or current wars accounted for the major variations in this share. During most peacetime years in this period the Federal budget was in surplus. Since 1930, a period spanning more than 50 years, there has been a budget surplus on only eight occasions and half of those were shortly after World War II.

The pressure for ever-larger Government is intense and very hard to resist. Those who gain directly or indirectly from Federal transfer or spending programs perceive the benefits of such programs very clearly. However, the tax cost to benefit recipients is very low because taxes to pay for special programs are distributed throughout the population rather than to a few special groups. Therefore, a net transfer of wealth from taxpayers to programs beneficiaries takes place. It is only when we total up the bill and begin to experience the adverse consequences of overspending and overtaxing on economic growth, employment, living standards and interest rates, that the costs become evident. Transfer recipients have become powerful organized lobbyists because the benefits they receive are highly concentrated and quite obvious. Unfortunately, taxpayers in general are not organized as effectively because the additional taxes necessary to pay for these transfer payments are diffused among all taxpayers. Hence the burden on any one taxpayer seems modest, although in total the burden is very real and very serious.

In addition, Federal spending has increased rapidly over the years because of the emphasis on Keynesian countercyclical stabilization policies. In the past, the Government has enacted spending programs intended to help spend the economy out of a recession. Although these programs, such as public service employment, were to be temporary, in fact some turned out to be permanent. Thus, instead of being phased out after economic recovery was undeway, spending continued indefinitely, expanding the Government expenditure base.

On the revenue side, it has long been too easy to raise the tax burden, primarily through inflation and bracket creep. Revenue increases have been largely automatic, seldom requiring legislation.

Prior to enactment of the Economic Recovery Tax Act of 1981, inflation, a progressive tax code, and outmodeled depreciation rules had combined to raise revenues in a particularly damaging fashion, striking directly at the rewards to savings, work effort and investment. As inflation drove taxpayers into higher tax brackets, the rate of return on additional savings and work effort fell. As inflation crippled the depreciation writeoffs, the after-tax cost of plant and equipment rose and the rate of return fell. The reduced supplies of labor and capital retarded economic growth.

Reduced growth has cost the Government a large portion of the revenue it might otherwise have expected, and has required higher outlays on income support programs. The Government has had more receipts, but it has collected them by driving tax rates higher on a smaller economy, and has had to spend them relieving the suffering that slow growth has caused.

Unfortunately, some individuals have not learned a lesson from our past mistakes. They continue to argue for increasing tax rates in order to balance the budget. This approach has not worked in the past and it will not be successful in the future. Economic growth is the key to the deficit problem: and the key to economic growth is restraint in the growth of Federal spending.

This is why we need a balanced budget amendment. Such an amendment will restrain the size of Government as well as reduce the frequency and size of budget deficits, while maintaining sufficient flexibility to be workable and to function in time of crisis. All these considerations prompted the administration to support the adoption of House and Senate joint resolutions during the 97th Congress calling for a balanced budget and to restate its support for similar resolutions now pending in the current 98th Congress. In addition, President Reagan has called for passage of a constitutional amendment that would permit the Chief Executive to veto individual items in appropriation bills without having to veto the entire bill. Forty-three of our 50 States grant their Governors this right that works as a powerful tool against wasteful or extravagant spending. It works in these States and it should be put to work in the Federal Government.

I have some more in my prepared statement about the summary of the resolutions and how they might work, but I think everyone is familiar with those and I think I'll stop at this point and answer any questions you might have.

[The prepared statement of Mr. Johnson follows:]

Prepared Statement of Hon. Manuel H. Johnson

Mr. Chairman and members of the Committee.

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The Need For An Amendment

The President and the Administration strongly endorse enactment of a balanced budget amendment as the only certain way to restore fiscal responsibility to the Federal Government.

In his FY 1985 budget, his last State of the Union message, and in his acceptance speech at the Republican Presidential Convention, the President reconfirmed his strong support for a constitutional amendment mandating a balanced Federal budget. He has challenged the Congress to enact such a measure during the remaining months of this Session. The last time a vote was taken in the Congress in 1982, a balanced budget amendment was approved by more than two-thirds of the Senate and by more than a majority but less than the necessary two-thirds of the House.

The public is overwhelmingly behind the concept of a balanced budget. Thirty-two State legislatures have approved resolutions calling for a Constitutional Convention to consider the issue, and there are several more States where action is possible soon.

In view of popular support in this country, the Congress has a right and a duty to debate and vote on this matter. The legislatures of the various States clearly expect and deserve a positive response from the Congress in the form of an amendment which they can consider in accord with their Constitutional responsibilities.

It is crystal clear to the President and to the general public that something must be done to restrain the upward spiral in Federal spending. In spite of the limited success that President Reagan has had working with Congress to enact spending reductions, the Federal Government continues to absorb too great a share of GNP. Between 1960 and 1983, the growth of Federal spending was much faster than the growth of the economy. As a result, the Federal Government share of total output jumped from 18.5 percent in 1960 to 24.7 percent by 1983, in spite of the solid growth of GNP during that period.

The growth in government spending has been accompanied by large increases in the Federal tax burden. By 1981, corporate taxes had more than doubled since the mid-1960's, leaving real after-tax, after inflation profits below levels reached some fifteen years ago. In spite of tax reductions, personal income taxes as a percent of personal income rose from about 10 percent in 1975 to 11.5 percent by 1980 and had been projected to rise to over 15 percent by 1986 without any major tax reduction. If we take account of social security tax increases, the average tax rates rose from 12.7 percent to 14.5 percent during this period and would have increased to nearly 19 percent by 1986. Marginal tax rates rose even faster to sharply higher levels.

Throughout the economy, the rising tax burden seriously eroded incentives to work, save and invest, and contributed to the economic mess that we experienced until recently -- high inflation, slow growth, and high unemployment, which, in turn, have contributed to higher budget deficits.

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If the Federal Government did not have such a dismal record on spending control, I might be more optimistic that we could move toward a balanced budget. Indeed, the favorable impact of the recent downpayment package, especially when fully implemented, and the income growth fostered by the Administration's economic program should reduce the remaining structural budget problem to levels that can be handled by reasonable spending restraint on the part of the Congress.

Congressional Budget Reform

However, I would feel much more confident that the political process was conducive to dealing head on with the structural budget problem if we had a balanced budget requirement. Over the years the Congress has tried to respond to concerns about government spending, deficits and budgetary control. The most recent attempt at reform was the Congressional Budget and Impoundment Control Act of 1974 which was intended to bring about Congressional control over the budget process. Unfortunately the reforms implemented by this Act have not been successful in constraining Federal spending.

Congress has made other attempts to bring about fiscal responsibility. In 1978, for instance, the Congress approved a statute requiring a balanced budget beginning in 1981. It is quite evident that this statutory approach for requiring budget balance has not been successful. Indeed, it was ignored!

Obviously, something is amiss in the budget making process if the Congress, even after enacting legislation requiring budgetary discipline, frequently fails to live within its means. It has not always been this way. For most of our history through the 1920's, Federal spending ranged between 1 and 3 percent of national output; spending for past or current wars accounted for the major variations in this share. During most peacetime years in this period the Federal budget was in surplus. Since 1930, a period spanning more than 50 years, there has been a budget surplus on only eight occasions and half of those were shortly after World War II.

Expansion of Government

The pressure for ever-larger government is intense and very hard to resist. Those who gain directly or indirectly from Federal transfer or spending programs perceive the benefits of such programs very clearly. However, the tax cost to benefit recipients is very low because taxes to pay for special programs are distributed throughout the population. Therefore, a net transfer of wealth from taxpayers to program beneficiaries takes place. It is only when we total up the bill, and begin to experience the adverse consequences of overspending and overtaxing on economic growth, employment, living standards and interest rates, that the costs become evident. Transfer receipients have become powerful organized lobbyists because the benefits they receive are highly concentrated and quite obvious. Unfortunately, taxpayers in general are not organized as effectively because the additional taxes necessary to pay for these transfer payments are diffused among all taxpayers. Hence the burden on any one taxpayer seems modest, although in total the burden is very real and very serious.

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On the revenue side, it has long been too easy to raise the tax burden, primarily through inflation and bracket creep. Revenue increases have been largely automatic, seldom requiring legislation.

Prior to enactment of the Economic Recovery Tax Act of 1981, inflation, a progressive tax code, and outmoded depreciation rules had combined to raise revenues in a particularly damaging fashion, striking directly at the rewards to saving, work effort and investment. As inflation drove taxpayers into higher tax brackets, the rate of return on additional saving and work effort fell. As inflation crippled the depreciation writeoffs, the after-tax cost of plant and equipment rose and the rate of return fell. The reduced supplies of labor and capital retarded economic growth.

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Unfortunately, some individuals have not learned a lesson from our past mistakes. They continue to argue for increasing tax rates in order to balance the budget. This approach has not worked in the past and it will not be successful in the future. Economic growth is the key to the deficit problem; and the key to economic growth is restraint in the growth of Federal spending.

This is why we need a balanced budget amendment. Such an amendment will restrain the size of government as well as reduce the frequency and size of budget deficits, while maintaining sufficient flexibility to be workable and to function in a time of crisis. All these considerations prompted the Administration to support the adoption of House and Senate Joint Resolutions during the 97th Congress calling for a balanced budget and to restate its support for similar resolutions now pending in the current 98th Congress. In addition, President Reagan has called for passage of a constitutional amendment that would permit the Chief Executive to veto individual items in appropriation bills without having to veto the entire bill. Forty-three of our 50 States grant their governors this right that works as a powerful tool against wasteful or extravagant spending. It works in these States and it should be put to work in the Federal Government.

A Summary of Current Amendments

Currently, H.J. Res. 243, H.J. Res. 617, and S.J. Res 5 are pending before the Congress and would amend the Constitution to require a balanced budget. I am sure that the Committee is familiar with these Resolutions, which are identical. Therefore, I will briefly summarize what the amendment proposed in these resolutions would do.

Section 1 would restrain deficits. It would require Congress to adopt a budget for each year in which planned Federal spending could not exceed receipts, except in the case of a super-majority vote. In other words, the First Congressional Resolution on the Budget would be required to plan outlays that equal receipts including so-called off-budget spending. Should Congress decide to plan a deficit, it would have to approve a specific dollar amount of deficit spending by a three-fifths vote of the entire membership of each House of Congress -- that is, at least 60 of the 100 Senators and 261 of the 435 Representatives. The amendment charges the Congress and the President with ensuring that actual outlays (including off-budget) do not exceed the amount of outlays adopted in the budget statement, unless approved by a similar three-fifths vote. Language has been included in this Section to clarify an ambiguity in the earlier version of the amendment concerning the extent of the President's powers to ensure that actual outlays do not exceed stated outlays.

Section 2 would limit the growth of government. It would limit receipts so they could not increase at a rate faster than the growth of some measure of the previous year's income. That growth limitation could be overridden only by a bill directed solely to increasing taxes which was approved by a constitutional majority (50 percent of the total membership plus one) of both Houses of Congress and signed by the President.

Section 3 would allow Congress to waive the amendment for any fiscal year in which a declaration of war was in effect.

Section 4 defines the terms "outlays" to include all outlays of the United States except those for repayment of debt principal, and "receipts" to include all receipts of the United States except those derived from borrowing. These definitions would apply when Congress adopts the annual statement as required by Section 1 of the amendment.

Section 5 states that the provisions of the amendment shall be effective as of the second fiscal year beginning after the amendment is ratified.

Section 6 provides and makes clear that the Congress has the legislative authority to implement the powers and responsibilities of the amendment.

How the Amendment Would Work

Section 1 would not require a balanced budget statement. It simply sets more stringent voting requirements for an unbalanced budget. Congress can adopt an unbalanced budget statement if three-fifths of the entire membership of each House vote for it. Also, the Congress is not restricted in amending the budget statement during the fiscal year, as long as the voting requirements--three-fifths of the entire membership of each House for a deficit, and an ordinary majority for a balanced budget--are met.

Thus, the flexibility of the budget process would be maintained. If for reasons of great national concern it were necessary for Federal spending to exceed revenues, Congress could vote to allow this to happen. However, by requiring Congress to otherwise "adopt a statement of receipts and outlays for that year in which total outlays are no greater than total receipts," the amendment would establish a balanced budget as the budgetary "norm," which would be passed by a normal majority vote. An institutional bias in favor of deficit spending would thereby be corrected.

The House and Senate Joint Resolutions also provide for deficits in wartime, permitting the Congress to waive its requirements for any year in which a declaration of war is in effect. A wide variety of events, not necessarily entailing a declaration of war may, however, pose threats to national security. The Administration has, therefore, in the past encouraged the Congress to amend the current language of the amendment to allow a broader range of events -- unforeseen events posing an imminent threat to national security -- to qualify for a waiver.

Section 2 would limit the growth of Federal revenues to the rate of growth of some measure of income unless Congress, by a majority vote of the membership of each chamber, decided to raise taxes to a higher level. For example, if the GNP rose by ten percent in the previous calendar year, tax receipts could not rise by more than ten percent in the succeeding fiscal year unless a majority of all the members of Congress explicitly voted otherwise.

This procedure contrasts markedly with the operation of the tax system in recent years, during which taxes have grown more rapidly than GNP even without a Congressional vote. For whenever inflation reached a level of, say, 10 percent, the government collected roughly 16 percent more from personal incomes due to "bracket creep," and took in further revenue by causing depreciation to be understated. Indeed, the government profited substantially from inflation.

To some extent, this problem has been addressed by the indexation and Accelerated Cost Recovery System provisions of the Economic Recovery Tax Act of 1981. However, Section 2 would extend this safeguard against unlegislated tax increases to other forms of taxation as well. For example, it would prevent bracket creep due to real income gains. There is no justification for the government's share of GNP to increase automatically as GNP grows, whether the growth is real or due to inflation. Just because the output of the economy is expanding is no reason for the government to expand faster than the economy's output. On the other hand, there is every reason to encourage the government to pursue sound policies to induce economic growth, thereby making additional government spending as well as private spending possible.

The amendment would further strengthen the principle of accountability by requiring Congress to vote on a specific bill to increase taxes instead of adding a tax increase as an amendment to another bill, as is often done now.

The Founding Fathers intended that the people would never be taxed without their express consent, which is why they required that all revenue bills originate in the House -- at the time the only chamber directly elected by the people. The Founding Fathers did not anticipate that a progressive income tax, coupled with inflation, would negate this principle. This amendment would restore the clear intent of the creators of the Constitution.

Section 4 of the pending Joint Resolution addresses the growing problem of so-called "off-budget expenditures" -- expenditures which are made by the Federal Government and thereby add to the total public debt burden, but are not included in the regular budget.

In 1974, when this device was first adopted, off-budget agencies spent $1.4 billion; in 1984 this spending is estimated to reach $13 billion. Both for the sake of fairness and accurate economic accounting, this amount of spending should be added to the deficit as Section 4 would require. Federal Government expenditures would no longer be divided into on- and off-budget outlays. The term "outlays" would mean just that--<u>all</u> government obligations of taxpayer funds, with the single exception of repayment of debt principal.

<u>Workability of the Amendment</u>

Critics of the balanced budget/tax limitation amendment object to it on two principal grounds: that the amendment would be such an "iron commandment" that it would force the United States into a depression, and that it would be so ineffective as to be constantly circumvented.

Those who argue that the amendment is a "formula for a depression" claim that the amendment would force drastic spending cuts during recessions. In fact, the amendment would do no such thing. Unanticipated revenue declines would not require immediate offsets in spending. The balanced budget rule would probably lead to an actual budget deficit when the economy is weaker than expected in the official Administration economic forecast and an actual budget surplus when the economy is stronger than expected. In addition, the amendment does not impose any constraints on the use of monetary policy.

Furthermore, Congress could continue to enact unbalanced budgets during an economic downturn if three-fifths of the members of both Houses agreed. While this standard is stringent -- as it should be -- it is by no means insuperable. If an economic crisis urgently demanded additional Federal spending, the mechanism for permitting it is firmly in place.

Moreover, unforeseen spending needs could be accommodated in advance through the establishment of a reserve or contingency fund to cover outlays that exceeded their expected level. During the past two recessions, the increase in actual 1980 and 1981 outlays resulting from unexpected economic developments, higher unemployment for instance, was about 5 percent of total outlays each year. Thus, a reserve of 5 to 8 percent should be sufficient.

At the same time, economic downturns should not be automatic justifications for greatly increased spending. While certain payments, such as those for income support, would rise with higher unemployment levels, the Congress should be expected to make up at least part of the difference by further trimming back lower priority spending. The three-fifths vote requirement would ensure that this option is given a fair hearing. Similar procedures for prioritizing outlays and contingency funding have been used by businesses and state and local governments for many years.

The second major objection, that the amendment would be circumvented, is similarly without foundation. In particular, the terms "outlays" and "receipts" are explicitly defined both in the amendment and in the legislative history; there should be no dispute about their meaning, and thus no successful attempt to subvert the amendment's intent by redefining its terms.

Similarly, the amendment specifically prohibits the exclusion of off-budget outlays from the budget statements. Thus, the present tactic of maintaining high spending levels by shifting programs "off-budget" could not be used to circumvent the requirement for a balanced budget statement.

It is true, of course, that the amendment will not eliminate spending pressures; this is neither possible nor necessary. The amendment will, however, provide a far more effective means for coping with these pressures, to ensure that they do not play the inordinate role they have in recent years in keeping spending high.

A final concern is the wisdom of addressing economic matters in the Constitution. This is a false issue; the Constitution already applies to many areas of economic activity. For example, it regulates certain taxing powers, the imposition by States of tariffs or duties, Congressional appropriation procedures, and the coinage of money. It also assigns Congress the authority to regulate interstate commerce. The addition of the balanced budget/tax limitation amendment to the Constitution, by establishing a standard for budget-making procedures, merely follows in this spirit.

Conclusion

The fact that thirty-two State legislatures have approved resolutions calling for a Constitutional convention to consider a balanced budget amendment, and several more States are considering such a resolution, shows that the amendment has massive support in State legislatures. The overwhelming popular support for a balanced budget amendment stems directly from Americans' understandable frustrations with years of high inflation, rising taxes, real declines in purchasing power, and a seemingly endless cycle of Federal deficit spending. Individual Americans, who must live within their own means, have every right to expect and demand that their government do so as well. Therefore, the Administration urges the Congress to adopt the Constitutional amendment now pending before it.

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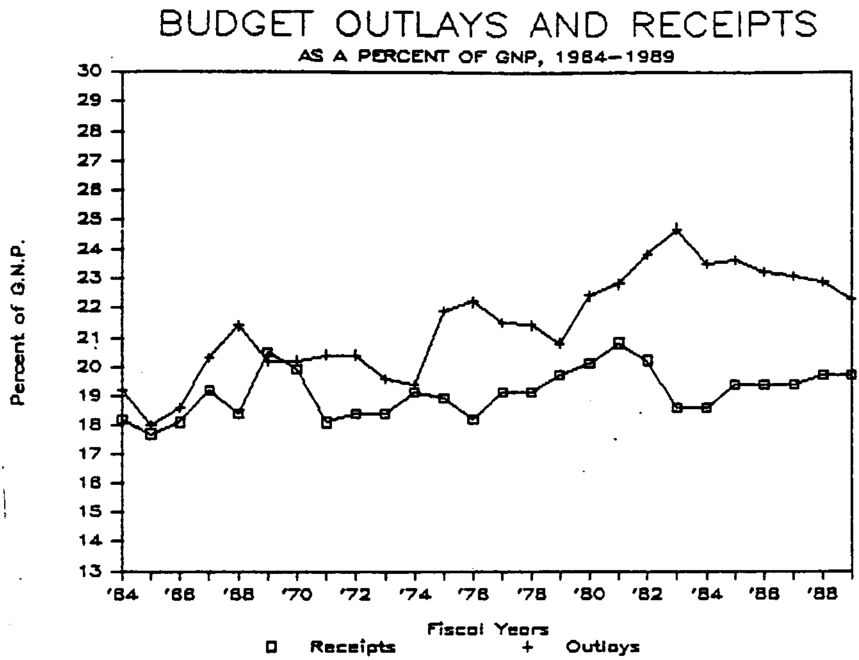
BUDGET OUTLAYS AND RECEIPTS
AS A PERCENT OF GNP, 1964-1989
Percent of G.N.P.
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Fiscal Years
Receipts
Outlays

Senator JEPSEN. I thank you, Mr. Johnson.

For the record, you are conveying the support of the administration for a balanced budget amendment; is that correct?

Mr. JOHNSON. That is correct.

Senator JEPSEN. Under our current budget procedure, has deficit spending become institutionalized, in your opinion?

Mr. JOHNSON. Yes, I'm afraid it has, Mr. Chairman. As I mentioned before, even in the 1974 Budget Act, we failed not only to balance the budget over that period but also to even achieve a budget for the U.S. Congress in the majority of years since the act.

Senator JEPSEN. So in reality, an accurate analysis of the situation would indicate that there has become somewhat of an institutionalization of the deficit; and if that's true, then, doesn't this fact support the view that fundamental institutional reform is needed?

Mr. JOHNSON. I think that's very strong evidence. In fact, institutional reform is needed because we have made all the passes we can at simply trying to enact flexible legislation to deal with the spending process.

As I said, the 1974 act has at least brought about the budget resolution process which has allowed Congress to look at the overall spending and revenue levels in the context of its appropriations bills and tax bills. But this hasn't solved the problem of bringing the budget into balance or reducing the rate of growth of Federal spending, nor has it even improved the process of adopting a budget by the Congress of the United States. In fact, the Congress has not been able to put together a complete budget in most instances. We have been on continuing resolutions almost consistently.

Senator JEPSEN. Throughout the years we have heard all the rhetoric about the fact that three quarters of the Federal budget is classified as uncontrollable. As I indicated in my opening remarks, I never felt that the budget has been out of control; it's the people that make the budget that have been out of control.

Under a balanced budget amendment, as you understand it, would Congress be able to leave such a large portion of the budget on the automatic pilot, which is I think more descriptive than saying it's uncontrollable?

Now would a constitutional amendment go directly to that at all, in your opinion?

Mr. JOHNSON. Yes, I think it will.

Senator JEPSEN. How?

Mr. JOHNSON. Well, first of all, the constitutional amendment would simply limit or restrain the growth in the Federal Government and in all outlay programs, both the supposedly noncontrollable items as well as the so-called discretionary items, by limiting outlays to receipts, and receipts would be constrained to grow at a rate no faster than the rate of GNP growth in the preceding year.

So in fact Congress would be required to make responsible decisions about so-called controllable as well as uncontrollable items and bring those into line with receipts through a planning statement like the budget resolution unless they chose to vote by three-fifths majority vote to override this balanced budget requirement.

So I think that Congress would indeed be forced to face up to these decisions, tough though they may be. They are certainly not uncontrollable items.

Senator JEPSEN. It would force Congress to set priorities, which it ought to be doing now, and to make those decisions?

Mr. JOHNSON. Absolutely.

Senator JEPSEN. And it wouldn't go to a specific area but it would just be on the overall area that necessitate those decisions to be made. As I pointed out, one of the big steps that has been taken that I hope the country understands is that for the first time in history, to the best of my recollection, we have both sides of the aisle talking about balancing the budget and cutting Federal spending. That's a step in the right direction, the first time I think in history, certainly recent history, that both parties have said that we have to cut Federal spending.

In balancing the budget we also talk about how to do it, and that is where a lot of debate is taking place now. There are some who are saying that we ought to balance the budget with massive tax increases.

Would you comment on that?

Mr. JOHNSON. Yes, surely, I would be happy to. First, I applaud these resolutions and the balanced budget amendment in the form that it's presented because it would try to avoid circumstances where large tax increases were used as a primary means of trying to bring the budget in balance. It does restrain the growth in receipts to the growth rate in GNP in the preceding year and actually forces Congress, unless it votes by 51 percent majority of both Houses of the full Congress. There is this restraint on receipts and I think that is extremely important in dealing with the balanced budget issue because the major problem that we have is not that the American people are taxed too little; it's that the Federal spending is growing out of control. And the vast amount of economic studies that look into the budget issue and its effect on the economy demonstrate that Federal spending is the primary problem in crowding out and in affecting interest rates and that raising taxes and borrowing are simply methods of financing that level of Government spending. Both borrowing as well as taxation are bad. Taxing appears to be, in some instances, even worse than Federal borrowing, depending on how it's applied.

So one clear thing that comes out of these amendments is simply that it recognizes that Federal spending is the critical problem. Federal spending is the force that puts demands on the taxpayers' income and requires more borrowing or more taxing or both, and these are the factors that damage the economy. So it's Federal spending really that is requiring the drain on the real incomes of private individuals who create the wealth in the United States and, therefore, it's spending that we want to get under control because that's the only way that you can do less taxing or less borrowing or less of both, and those are the damaging factors. We have to get the rate of growth of spending down and I think that this type of proposal goes in exactly the right direction.

Senator JEPSEN. Congressman Smith.

Representative SMITH. Thank you, Mr. Chairman.

Mr. Johnson, there's been a great deal of finger pointing across the country lately, as always I suppose, as to who's really responsible for the deficit. Some blame the President. Some blame the Fed. Most do not blame the Congress, which is at the root of the problem, in my opinion.

But I'd like for you to comment on the issue that's being bantered about that rather than restrain the Congress through a constitutional amendment to balance the budget, we ought to restrain the President. In other words, mandate by Constitution that the President offer a balanced budget.

Would you comment on that?

Mr. JOHNSON. Well, I think that that's an interesting proposal. I think that the President traditionally has tried to come as close to budget balancing as possible in his proposal every January.

I think that certainly if there were a balanced budget amendment that that would put more pressure on an administration to in fact offer a budget proposal that indeed tried to conform to the balanced budget amendment so that it would be equally responsible with Congress in terms of offering a plan that Congress could act on.

Otherwise, I think that the administration would look out of place under the requirements of a balanced budget amendment by issuing a budget proposal that did not attempt to achieve balance. So I think that the balanced budget amendment would get at the issue, but as we've said a number of times, and the President is on record as saying over and over, he's willing to make those tough decisions to try to bring the budget into balance regardless of whether we have a balanced budget amendment or not, but he finds it very difficult to do so.

We have offered three budgets now—well, four budgets now before Congress and very few of the proposals have actually been enacted to cut back on Federal spending and the President has pointed out that it would be much easier to make these tough decisions if in fact he had line item veto authority or some form of impoundment authority to deal with these decisions and he's pointed out that if in fact Congress is not willing to bring itself to pass a balanced budget resolution or amendment that he would like to have line item veto authority or impoundment authority to make these tough decisions.

Now, obviously, not every President would choose to do that, so I think the balanced budget requirement is necessary and I think that's why the President embraces that as well as the line item veto.

Representative SMITH. Well, I would just comment, the President's budget received one vote on the floor of the House of Representatives, so much for his budget having any impact on the Congress.

Mr. JOHNSON. Well, I agree. It's been a frustrating process to try and work hard during the fiscal year to put together a fairly rigorous and detailed budget plan only to find the proposal not taken seriously when it's offered to Congress.

Representative SMITH. Just one other quick question, Mr. Chairman.

There have been several alternatives offered—the freeze, the pay as you go, the downpayment, and umpteen other plans. Do you see any of those alternatives as direct or as fundamental or as a greater improvement than the balanced budget amendment?

Mr. JOHNSON. No. As I mentioned in my prepared statement, I think that these resolutions for a balanced budget amendment are the best alternative among alternatives. I think that there's more discipline involved in this amendment proposal. It puts it directly into the Constitution and I think would be much more subject to public scrutiny and ridicule if in fact these principles were violated. So it becomes a matter of violating the Constitution with a balanced budget amendment and I think that that's really the only way that you can deal with the problem significantly.

Representative SMITH. Thank you, Mr. Chairman.

Senator JEPSEN. Senator Symms.

Senator SYMMS. Thank you, Mr. Chairman, and thank you very much, Mr. Johnson, for excellent testimony. And I would have to make a comment as much as a question, Mr. Chairman, and just say that I don't know how the budget used to be arrived at before we had the Office of Management and Budget. Did Treasury used to come up with a budget for the President?

Mr. JOHNSON. There was always a sort of budget office within the Executive Office of the President. Most parliamentary systems, though, have a finance minister who's in charge of the budget as well as the revenue and taxation side. But in fact, the executive branch budget office I think used to prepare that statement.

Senator SYMMS. I'm also on the Finance Committee as well as this committee and I would have to say that it seems like the relationship between taxes and spending needs to be kept in the minds of the public, and I have to say, as a Republican, that it seems to me like that the strategy that the White House has used with respect to the budget has been way less than imaginary and it hasn't been a strategy that I would be using even though I am supportive of the President. I just think out in Main Street America, when the President sends his budget down here to the Congress with as much money as the Congress is willing to spend, that it sometimes makes him look like just as much of a spender as anybody else. I'd like to see the President send a budget over here that the Congress wouldn't pass because it's too little spending, so you could quantify the issue out here in the minds of the voters so they could see what's happening here in Washington. We have to pass and change laws in the so-called uncontrollable portion of the budget if we're going to actually resolve the budget question. I think you know that at Treasury, that half of the budget is the so-called entitlement spending programs which without changes in the eligibility standards are going to keep right on growing, and I think that we have up to now missed a great opportunity, but I don't think it's too late.

I would just ask you to encourage your boss, Secretary Regan, to go to those cabinet meetings and raise hell with the administration because they ought to be pushing a constitutional amendment to balance the budget so they can make it clear and then send a budget over here, whether it can pass or not. If we vote it down, then the voters can say, well, this Congressman or that one voted against it because he didn't want to vote for those spending cuts, and I agree with you totally that we certainly don't need to raise taxes to balance the budget. We just need to restrain the rate of growth of spending because the revenues are coming in at an all-time high. Isn't that correct?

Mr. JOHNSON. That is correct. Well, certainly revenues in absolute terms are at the highest level they have ever been. In terms of percent of GNP, the only time they've really been much higher was in the latter part of the 1970's and in 1980 when inflation and bracket creep were forcing people into higher and higher tax brackets. But as I pointed out, current taxes as a percent of the GNP are a full percentage point higher than they averaged during the whole 1946 to 1970 period.

So it's certainly not a matter of having too few revenues to deal with it, and I assure you that my boss sympathizes with what you say.

Senator SYMMS. Well, I know your boss testified here before Senator Jepsen's committee last month and he couldn't have made it any more clear where he was coming from, but it's a big government and a big administration and many, many voices, and I think the President's instincts would be to take this position.

I know the President favors the constitutional amendment for the balanced budget, but when I look at all the recommendations in the Grace Commission, I remember the freeze that Senator Hollings offered in March or April 1981 on the COLA's, which was not a cutting of anybody's benefits but a reduced rate of growth, and some of those other opportunities were the Office of Management and Budget and others did not favor some of those things. I mean, it just looks to me like that we first have to decide we can reduce spending.

When Lincoln was President, he kept firing generals until he found one that thought he could win the war. When he finally got one that could win, he let him keep on going. And it seems to me that we are faced with that kind of dilemma on the budget, and that there is an air of pessimism somehow from the administration that we can pass what we propose through Congress. I would like to get rid of that pessimism and say we will offer a budget out here and if Congress won't pass it, then we will make that the issue in the election and that will reflect what the people out there think, because I'm convinced from my travels around this country and in my State that 75 to 80 percent of the people disagree with the spending habits in Washington, DC. But the special interest groups and the news media in this town promote a bigger government, even though the public out there would like to have us reduce the spending and they would be willing to take some reductions even in the areas that they have an interest in if it meant fiscal solvency with respect to the budget. I am convinced of that. I am also convinced that a constitutional amendment would be ratified very rapidly if the people and the State legislatures of the country were allowed the opportunity for a rejection or ratification process.

So I hope that you could take that message back, and I don't think it's too late. I think we should still try to do it this year and make it an issue in the 1984 election that we are in fact going to chain down the U.S. Congress with the constitutional amendment that will force fiscal responsibility here in Washington without an increase in taxes.

I think that you have to develop a public consensus, but up to now there have been people around the President and people in the Office of Management and Budget that somehow are pessimistic about what they think can be done, and I don't share that pessimism. I think the public wants less spending in Washington and I'm convinced that that's the case.

Mr. JOHNSON. Well, those are excellent points and I assure you there's a lot of sympathy for that view in the administration and I think that's why we are here promoting the balanced budget amendment resolution, and we would like to see it acted on in this Congress.

Senator SYMMS. Thank you.

Senator JEPSEN. Congressman Smith.

Representative SMITH. Thank you, Mr. Chairman.

Senator JEPSEN. Excuse me. The Chair would advise both the panel and the members of the committee that we do have a five-member panel plus Congressman Conable yet to work in, so please proceed.

Representative SMITH. I will be very brief. Thank you, Mr. Chairman.

One of the threads that everybody agrees may unravel any kind of recovery in this country is the issue of high interest rates, and we all know that high deficits cause high interest rates. Sometimes that's discussed with your boss, I know, but I understand we have information that upon passage of a balanced budget amendment, not ratification but passage, interest rates would come down immediately short term by two or three points and long term by a point or two. That would be a tremendous encouragement to the economy and to the market makers down the road.

Does Treasury have any information regarding studies that might confirm or reject that point?

Mr. JOHNSON. I can't offer any today that would actually support those findings. I think that there is significant research that acknowledges the fact that expectations of future events do dramatically affect economic outcomes and in fact there are a number of studies that do show that the higher the probability of certain economic events the more likely it is that current economic behavior will adjust to those expectations.

So I think that in fact if it were certain that a balanced budget amendment would be passed or indeed it were passed and ratified, that it is likely there would be an expectational effect from such a passage, knowing that there would have to be tougher decisions about spending programs and the deficit in the Congress. I think that it's certainly rational and responsible to consider the possibility that interest rates could fall in a situation like that. I wouldn't want to predict to what degree, but I certainly think that you could make a case that interest rates would come down upon passage of such an act, given that no other negative events took place at the same time.

Senator JEPSEN. I thank you, Congressman; and I thank you, Mr. Johnson.

Mr. JOHNSON. Thank you, Mr. Chairman.

Senator JEPSEN. The Chair now calls Lewis Uhler, president, National Tax Limitation Committee; David Keating, National Taxpayers Union; Mr. Richard Rahn, U.S. Chamber of Commerce; Grace Ellen Rice, American Farm Bureau Federation; and Mr. Thomson, of the American Bankers Association.

The Chair would advise the entire panel that your prepared statements will be entered into the record and the Chair would appreciate it if possible if you would summarize, but.you may proceed in any manner that you so desire.

You may proceed, Mr. Uhler.

STATEMENT OF LEWIS K. UHLER, PRESIDENT, NATIONAL TAX LIMITATION COMMITTEE, WASHINGTON, DC

Mr. UHLER. Thank you, Mr. Chairman. We want to commend the Chair for the long years of support of the amendment and, of course, Congressman Smith and Senator Symms and Senator Wilson and all the others who have testified here. Obviously, we have much posturing going on politically and otherwise about the deficit these days. We note that presidential aspirant Mondale has now offered his method of getting to deficit reduction and, of course, some of the leaders in the House of Representatives in their political ploy have now dumped in H.R. 6066, trying to get an immediate response out of the President as to how he's going to immediately balance the budget, et cetera, all of which is generally posturing nonsense as far as we are concerned.

We didn't get into this box of enormous deficits overnight and nobody responsible is suggesting that we will get out of them overnight, but the change in course is much like stopping and changing course with the Queen Mary—you've got to reverse engines miles before you expect to stop and change the course of the ship.

It is clear to use that the first stake in the ground that must be driven in order to have any hope of changing the course of the spending habits of the Congress is the congressional approval of the tax limitation/balanced budget constitutional amendment. And while that is in the States for ratification which we feel will be relatively rapid—Milton Friedman says it will move like a wildfire—then the Congress will have an environment in which it is likely that a responsible constraint on the growth of spending can in fact occur.

We keep talking about this mysterious structural deficit which I think all of us agree is general nonsense. If we froze Federal spending at today's level of spending, on the average it would be no more than 2 to 2½ years before we would have a balanced budget. The growth of revenues each year under current law is somewhere like $70 billion and as Richard Rahn—I might add, not that we're going to have a mutual; admiration and love-in arrangement here—but Rahn and the others at the chamber have been about the only people who have figured out and gotten the right numbers about the growth of this economy and the other things, and as they predicted, we are on a high growth pattern, higher than CBO predicted last year, and we are generating tremendous revenues under current law.

We do not need new tax increases in order to reach a balanced budget. All we have to do is have a modest amount of will, as Pete Wilson mentioned in his testimony, the modified spending freeze. We had the pleasure last year of working with the chamber and Orrin Hatch and Phil Gramm to fashion a modified spending freeze program which under current law—that is under current tax law—with modest restraints across the board, would bring us to a balanced budget by 1988 or 1989. That was given short shrift by the Senate, about 23 votes in favor of it a year ago May, and it is a good sound plan and it is clear that the Senate and the House of Representatives aren't going to have the will to adopt such a plan until they must, and they must when a balanced budget amendment is en route to becoming the law of the land.

The key to making such a plan work without a wrenching effect on the economy of this Nation is to maintain that high growth. How do we do that? By creating the world of certainty, of predictability which the world of an amendment en route to approval will produce.

We have rejuvenated a study that we did a couple years ago that is being done of money managers on Wall Street, their reaction to congressional approval of the amendment, and their view of its effect on interest rates. Preliminary results of that inquiry among money managers who manage hundreds of billions of dollars of pension funds and other dollars, indicate that they believe congressional approval of the constitutional amendment will have an immediate and positive downward reaction on both short and long term interest rates.

If we have that result, there isn't the slightest question that we can maintain and accelerate the growth of this economy and make it one of the greatest booms in the history of this country and we can enjoy a balanced budget at the time the amendment then and thence forward requires it.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Uhler follows:]

PREPARED STATEMENT OF LEWIS K. UHLER

The need for a constitutional solution to the problems of excessive federal spending and enormous deficits has been clear for some years. The Budget Control Act and congressional resolution requiring a balanced budget simply have not worked.

But the enemies of permanent fiscal discipline are tough and resilient. Despite overwhelming public support for a balanced budget amendment -- some 83% of Americans want such an amendment -- the anti-amendment forces, although now in retreat, have continued their counter-attacks and guerilla warfare strikes. Among other tactics, they have ...

- Mounted efforts to rescind state convention-call resolutions in Maryland and Iowa through an ad hoc committee, "Citizens to Protect the Constitution." They have used the scare tactic of the "runaway" convention as their primary weapon. -- But Maryland and Iowa have held firm on their convention call resolutions.
- Kept the amendment bottled up in the House Judiciary Committee, necessitating the use of burdensome petition efforts (in September 1982, following a successful House discharge, they used all the procedural devices

at their disposal to deny amendment proponents the two-thirds necessary for victory.

- Filibustered the amendment in the Senate Judiciary Committee.
- Prevailed upon the very liberal Supreme Court in California to knock the balanced federal budget initiative off the November ballot, thereby denying the citizens of the Golden State an opportunity to influence the balanced budget amendment outcome in Washington.

Now comes the latest ploy -- a House Bill -- H.R. 6066 -- coauthored by Congressman Jim Jones of Oklahoma and a host of other anti-amendment big spenders. This blatantly political gambit ...

- Claims that the deficit must be addressed by legislation <u>now</u> because an amendment will not have any immediate affect on deficits.
- Requires the President to propose a balanced budget each year (or to explain why not) and urges that Reagan -- by late this month -- present a budget for fiscal year '86 that is in balance.
- Sets up a commission to advise Congress and the President.

Of course, there are no real teeth in the bill. It is another in the genre of procedural budget bills and pledges to "do fiscal good," and it is designed to embarrass <u>this</u> President during <u>this</u> presidential election by forcing him to be the first to "swerve" in the game of budget "chicken." What the House leadership is really proposing is that they continue to collect the "political income" from the deficit-producing spending programs they have enacted and refused to control, while demanding that the President present a budget plan which must -- necessarily -- involve enormous, immediate slashes in a wide range of very sensitive programs. Then the big spenders -- those born-again budget balancers -- would roast the President with every constituency whose ox was gored by the President's plan.

H.R. 6066 is not a serious proposal designed to solve the basic federal fiscal disfunction. It demonstrates that the leadership in the House prefers political gamesmanship to fundamental solutions.

Furthermore, no one who is serious about balancing the budget, including the National Tax Limitation Committee, reasonably expects a balanced budget for this year. Most experts, including DRI, the Brookings Institution, and the National Association of Realtors, among others, believe a reasonable transition period is necessary.

The Tax Limitation/Balanced Budget Amendment remains the only viable source of long-term fiscal discipline. Congress must approve the amendment and send it to the states for ratification without further delay. Only then can we expect the Congress to develop the political will to revisit all federal programs and expenditures and to control the growth rate of aggregate federal spending.

The enthusiasm and sense of relief with which congressional approval of the amendment will be met in the private sector is certain to sustain, and even accelerate, economic recovery. Declining interest rates and a high rate of increase in real G.N.P. will assure a federal revenue base that will make budget balancing that much easier, as we head toward a world controlled by the amendment.

Senator JEPSEN. Thank you, Mr. Uhler. Mr. Rahn, from the chamber of commerce.

STATEMENT OF RICHARD W. RAHN, VICE PRESIDENT AND CHIEF ECONOMIST, CHAMBER OF COMMERCE OF THE UNITED STATES

Mr. RAHN. Thank you, Mr. Chairman. I'm most appreciative of this panel again holding these hearings and the efforts that you have made over the recent years to highlight this issue in this forum and I think they are invaluable.

I fully subscribe to the comments of Mr. Uhler. Our basic dilemma, of course, is that we have a dispersion of costs for any Federal Government spending program and a concentration of benefits. Particularly since the passage of the 16th amendment to the Constitution, the income tax amendment, the basic checks and balances our Founding Fathers have come up with has been out of balance and we have seen the ever-growing share of our national income going to Government spending and the detrimental effects this has had on economic growth.

It is quite clear that if we run over the next few years a high growth policy and over the last 12 months our economy has grown at an average annual rate of about 7.6 percent—if we keep up just a growth rate of 5.5 percent by 1989 we would have a balanced budget even at the current services level.

Unfortunately, I don't believe the Congress has the will to just keep the balance of current services and indeed I think we need the additional discipline of the Federal spending balanced budget, tax limitation amendment.

We in the business community have been working together to develop an alternative Federal budget we will be presenting to the Congress and to the administration within a couple of months. Major business organizations will be behind us. This is merely to give you a guideline for slowing down the growth path of Federal Government spending, but most importantly, as Mr. Uhler pointed out, we must maintain the policies that have brought us the high rate of economic growth and we believe it is quite feasible for our economy to grow at an average of 5 to 6 percent over the next 4 or 5 years. We did that during the mid-1960's. That is only 60 percent of the rate that the Japanese have grown over the last decade, for instance. A number of other countries have grown in the double digit range and there is no reason why the U.S. cannot.

The tax reductions and the regulatory improvements in the deregulation of the economy made in 1980 and 1981 have had enormous benefits, in fact, even greater benefits than many on the supply side orientation had expected, and there is no reason why these benefits ought not to continue.

My great fear is that we will not keep spending under control or that we will go along with some form of major tax increases. The tax increases proposed by Mr. Mondale yesterday, in my judgment, are ludicrous. They basically increase marginal tax rates. They will not bring in the revenue. They will only penalize the economy. It seems to me that is a program for penalizing the most productive citizens without raising revenue, talking about increasing taxes for people making more than $25,000 a year, but there's no mention in that program of the very severe impact it will have on economic growth.

Now, there are certain things that economists do know. We cannot forcast the future with certainty, but we do know that a major tax increase—and Mr. Mondale's program is a major tax increase—could cause a severe slowdown in the American economy and, as a result, you can expect Government revenues to all off and high levels of spending as we have in various income support programs. At all cost, we must avoid that.

We at the chamber believe that over the long run that you must put in something like the balanced budget, tax limitation amendment to ensure that we do not engage in a counterproductive economic folly that we during the decade of the 1970's which resulted in increasing levels of poverty, slow economic growth, increased the misery for many of our citizens.

We have reversed that course in the last couple of years. It is imperative that we continue on the course for high levels of economic growth, reducing poverty, increasing real per capita levels of income of our citizens, and keeping inflation down, and that can only be done through low levels of taxation.

We think deregulation of the economy and passage of this amendment would be something to help ensure that positive policies will be followed throughout the next decade.

[The prepared statement of Mr. Rahn follows:]

PREPARED STATEMENT OF RICHARD W. RAHN

I am Richard W. Rahn, Vice President and Chief Economist for the Chamber of Commerce of the United States. On behalf of the Chamber's more than 200,000 business, trade association and local and state chamber members, I welcome this opportunity to present our views on a Constitutional Balanced Budget/Tax Limitation Amendment.

Summary

Our present budget process is plagued by the asymmetry that exists between powerful special interest groups and the general taxpayer. The voices of special interest groups are loud and clear, but the effect of each program, taken individually, on the taxpayer is miniscule. This encourages Congress to pile up one program after another. As a result, the general taxpayer is saddled with high tax rates and growing deficits.

The extraordinary expansion in the scope of activities considered appropriate for federal intervention has increased enormously the number of people who benefit from federal largesse. The number of transfer payment beneficiaries has been growing at an alarming rate relative to the number of taxpayers. This makes it increasingly more difficult to control expenditure growth.

This spending bias is reflected in the failed attempts to limit such growth by statute. The problem is that we are becoming a nation that is at war with itself. On the one hand, as taxpayers, we can see the devastating effects of excessive taxation. On the otherhand, large segments of the population have become increasingly dependent upon some form of transfer payment.

To resolve this dilemma, a new set of fiscal norms needs to be firmly established. This is the purpose of the Balanced Budget/Tax Limitation Amendment. It contains a set of Constitutional constraints that helps deflect the self-destructive dynamics of our piecemeal and "me too" approach to the budget.

While all amendments of this type are susceptible to implementation problems, we support S.J. Res. 5 because it restrains both deficits <u>and</u> the growth of tax rates. Balancing the budget by itself is not enough, for that would not restrain the political pressure for higher spending and could lead to successively higher taxation. However, S.J. Res. 5 limits growth in taxes by requiring that the increase in taxes in any given fiscal year be no greater than the prior year's growth in national income. It thus ends automatic increases in the tax burden.

<u>Need for Fiscal Discipline</u>

Over the past decade, it has become increasingly clear that existing congressional budget procedures are incapable of curbing the growth of federal spending and credit programs. Despite massive deficits, Congress continues to allow federal spending to rise at excessive rates. In fact, the real growth of federal expenditures continues at rates comparable to the Carter era. With real government expenditures for FY 1985 projected to grow at 3.3 percent, it stretches the imagination to believe that excessive spending has been tamed.

These trends are not a recent phenomenon. Over the past century, public spending has been rising at an annual rate almost 2 to 3 percent faster than the Gross National Product (GNP). While this trend is noteworthy in itself, its ramifications can be shocking. According to some estimates, if we extrapolate the historical trend into the future, federal expenditures will approach 40 percent of GNP by the year 2000 and 100 percent by 2036. By this timetable, federal expenditures for 1984 would be in the neighborhood of 24 percent, which means that the FY 1983 share of 24.7 percent was ahead of schedule!

These ominous trends suggest that our federal budget process contains serious defects; in particular, a systematic bias that leads to runaway spending and excessive taxation. Curiously, this problem was diagnosed over 200 years ago. Having recognized the need for government, the Founding Fathers were equally, if not more, concerned with controlling the failures of government. For the most part, these failures spring from the bifurcated decision-making on spending and taxing. Spending decisions are typically made separate from and without regard to tax decisions. This means that dominant majorities and powerful minorities can push through programs that create substantial benefits for themselves but inflict substantial costs on the rest of the electorate.

James Madison recognized this problem as "the violence of the faction." In this case, a well organized minority can profit by legislation that disperses the costs of a program over a large group of people. The former has every incentive to organize since its per capita benefits are high, and the latter fails to organize since per capita costs are low or insignificant. Indeed, while many members of the large group may fail to take notice, others can be duped by the minority's propaganda. In the words of Mark Twain, "the free traders won the debates but the protectionists seem to win the votes."

Unfortunately, spending bias is not limited to special interests, because broad based coalitions have similar incentives as long as they can pass a disproportionate share of the costs onto other citizens. This explains, in part, the virtual explosion of entitlement programs. For example, Social Security and Medicare benefits have been boosted by Congress because voters had few difficulties in accepting prospective payments that would exceed their own contributions. In this case, perhaps unwittingly, the voters of one generation have shifted a sizable portion of costs onto later generations. This bias is apparent from the continual deferral of decisions on automatic entitlement spending. With the ratio of privately employed people to transfer payment recipients declining from 5 to 1 in 1950 to only 1.3 to 1 in 1983, the necessary reform of the programs is all but stymied.

Our Fiscal Heritage

The Founding Fathers attempted to contain these problems by establishing a political obstacle course--the two houses of Congress and the veto power of the President. This system seemed to have worked well as total government spending remained below 10 percent of GNP until about the late 1920's. There was a widespread belief that government should be limited and that danger arose from its growth. Grover Cleveland maintained that people should support government, the government should not support the people. And Woodrow Wilson maintained that the history of liberalism was a history of restraints on government.

In addition, balancing the budget was considered part of our unwritten constitution. Excessive public debt was considered dangerous. When deficits were incurred because of war or recession, efforts were made to repay them expeditiously. Twenty-eight years of surpluses followed the deficit years of the Civil War. Ten years of surpluses followed the deficit spending of World War I. But since 1950, the budget has been in deficit in 28 of 33 years.

In modern times, the ethos of limited government and balanced budgets has disintegrated. The expenditure biases, foretold by the Founding Fathers, now infest the political system. In part, this has been encouraged by the fact that it has been unnecessary for Congress to make evident the consequence of its spending decisions by voting for tax increases. Tax increases have occurred automatically due to the progressive tax structure and inflation. However, spending extravagance has also been the result of the Keynesian legacy, which has made it acceptable policy for governments to run deficits. Both factors have been abused by Congresses that were eager to generate votes in the short run, irrespective of the long run consequences.

In view of the mounting problems caused by runaway spending, Congress has attemped a number of solutions. The budget process was reformed in 1974 to increase accountability. There have also been statutory attempts to limit expenditure growth. However, it is evident that these solutions have failed. As a consequence, we believe, along with many other Americans, that stronger medicine is necessary. At this point in our history, constitutional fiscal norms are needed to restore budgetary discipline. This is the purpose of a tax limitation-balanced budget amendment.

Balanced Budget-Tax Limitation Amendment

As presently formulated, the amendment repesents a simple and straightforward attempt to legislate a limit on federal spending. The measure would establish strict limits on Congress' ability to engage in deficit spending and would prevent further perverse interaction between the urge to spend and bracket creep.

The key provisions of the amendment are to be found in the first two sections.

The first section requires that Congress plan for a balanced budget and that Congress and the President make sure that actual spending does not exceed planned spending. Note that nothing is said about assuring that actual receipts equal (or exceed) planned receipts. This is because an administration has some control over spending, but it cannot exercise the same degree of control over receipts, which are affected much more by cyclical conditions in the economy. If a boom develops, actual receipts will exceed planned receipts; in a recession, receipts will drop. The first section does not rule out such automatic surpluses or deficits. This is one of the most important subtleties of the amendment. It avoids a rigidity that would be intolerable and harmful. It requires no year-by-year budget balance, but balance over the length, or course, of business cycles. By itself, the first section would not directly limit the growth of government. It would simply require that taxes and spending go up together.

The second section contains the most important element. It provides that planned receipts may not increase from one year to the next by a greater percentage than the increase in national income. Under section one, planned spending must be less than or equal to planned receipts, and actual spending must be less than or equal to planned spending. Hence, limiting receipts limits spending.

The amendment is sufficiently flexible to allow Congress to override some of its provisions, for example, if a prolonged recession or threat of war necessitates deficit spending. For such reasons, an unbalanced budget can be adopted. It must, however, be adopted explicitly by a vote on that subject alone. Congress can accept a deficit if three-fifths of the full membership of both houses feel such a deficit is necessary. Also, by regular statute, Congress and the President may approve an increase in taxes greater than the growth rate of national income.

It would be naive to think that such an amendment is a cure all for our fiscal problems. In this respect, the amendment is far from an ironclad guarantee. In truth, fiscal discipline depends upon the will of the people and their elected representatives. If such conviction is not mustered, the forces behind tax and expenditure growth will continue to dominate.

Not A Perfect Solution

Although the enactment of the amendment would lead to firmer restraints on spending growth, it is by no means a perfect solution. For one, Congress and the President could secure the necessary majorities to push through both tax and expenditure increases. Second, it may lead to a bias in favor of tax increases, since the required majority for tax increases is smaller than that needed to approve a deficit, and a large portion of the budget is stacked with "uncontrollable" outlays. Third, the pressures to balance the budget could give added incentive to move programs off budget for the purpose of achieving illusory budget balance. In a related manner, federally guaranteed loans, which are excluded from the amendment's control, could then be used to provide financial support. New York State, which has a balanced budget requirement, finds itself precisely in this situation. Finally, the proposal does not provide the President with any spending control mechanisms beyond what he aleady possesses. He is still constrained by a limitation on his impoundment and recission authority. Thus, it is not clear how he would enforce the provision in the absence of a cooperative Congress.

Upon closer inspection, most of these reservations pose relatively minor problems. While it is true that the override provisions allow for both tax and spending increases, the amendment makes that more difficult, compared to the present system. The three-fifths majority requirement for deficit spending affords more protection than is now in existence, and an increase in taxes greater than the growth of national income has to be voted upon explicitly.

The objection that much of the budget is already uncontrollable and that there is little room for budget discipline misses the central reason for such an amendment in the first place. The whole point of a balanced budget amendment is to impose a set of behavioral norms upon the workings of Congress. In this way, the power of vested interests may be broken in favor of the general public. As a consequence, we would expect that the amendment would cause Congress to increase the range for budget cutting. This is precisely the goal, to gain control over the "uncontrollable".

The other objections refer to possible "escape routes" that Congress might pursue if such an amendment is enacted. However, no scheme is foolproof. Given the ingenuity of politicians, a certain amount of gamesmanship is to be expected. However, many of the off budget "tricks" are now becoming known to the public, and this avenue may be eventually closed. In any event, the amendment should be construed as a means to repair our presently porous budget process. Lastly, nothing in the amendment precludes the President from gaining increased powers over the budget by the use of other tools, one of which, the line-item veto, would be an excellent complement to it.

Finally, the amendment's most important feature is that legislators will find it in their own interest to honor it. This point has been illustrated by the experience of legislators in states that have adopted similar spending limits. Prior to the enactment of such amendments, they had no effective defense against lobbyists urging spending programs. Now they do. They can say: "Your program is an excellent one; I would like to support it, but the total amount we can spend is fixed. To get funds for your program, we shall have to cut elsewhere. Where should we cut?" In the words of Milton Friedman, the effect is to force lobbyists to compete against one another rather than, as now, against the amorphous and poorly represented body of taxpayers.

Conclusion

A little more than 3 years ago, the American electorate voted overwhelmingly for a President who promised to reduce the size of government. Despite this mandate and the public opinion polls that continue to show that American people prefer spending restraint to tax increases as the way to reduce the deficit, Congress has expanded the scope of government. This makes it clear that statutory reform has not worked. We cannot depend upon the will of Congress. Consequently, it is time for binding constraints upon congressional behavior. The Tax Limitation/Balanced Budget Amendment offers an oppurtunity for such discipline.

Senator JEPSEN. I thank you. Next, David Keating, National Taxpayers Union.

STATEMENT OF DAVID L. KEATING, EXECUTIVE VICE PRESIDENT, NATIONAL TAXPAYERS UNION, WASHINGTON, DC

Mr. KEATING. Mr. Chairman, members of the committee, I'd like to thank you for the opportunity to appear today on behalf of the balanced budget-tax limitation amendment to the U.S. Constitution.

Through our efforts since 1975, 32 of the required 34 States have made application to Congress for a convention limited to this topic of drafting a balanced budget amendment.

I have complete confidence that should such a convention be held, it would draft a fine proposal and stay on the subject of a balanced budget amendment.

I would like to briefly update the committee about the status of the State drive for the convention. Senator Wilson earlier touched on the unfortunate decision of the California Supreme Court. Even with that decision, I am fairly optimistic that we may persuade the California legislature to act next year. In the final weeks of its session we demonstrated that we have a clear working majority in the State senate for the balanced budget convention resolution and we also have a very strong level of support in the assembly. With the coming elections in November and the changes that are likely in California, we may be able to pass a balanced budget resolution there.

A similar initiative is on the ballot in Montana. A record 62,500 signatures were gathered there. Over 88 percent of them were valid. That initiative, which comes before the voters this November, will likely result in the State legislature adopting a balanced budget convention call resolution early next year, perhaps as early as January.

That could make State number 33 or indeed State number 34. Two days from today the Michigan house committee on constitutional revision and women's rights will be casting a vote on the balanced budget convention call resolution. That resolution has already been approved by the State senate. If it clears the committee and comes to the floor, I am quite optimistic about our chances for passage there this fall. If not this fall, then early next year because we are very close to passage there.

We are also continuing to work in Ohio where we have already gathered 50,000 signatures for a November 1985 ballot initiative.

Those States and in addition other States, such as Washington State, Wisconsin, West Virginia, Vermont, and Rhode Island, I think are all very likely prospects for action in 1985. I think we are going to see the States call for a convention very, very soon.

I'd also like to briefly draw your attention to a bill which was approved by the Senate Judiciary Committee in May. It was adopted unanimously. This bill is called the Constitutional Convention Implementation Act of 1984 and would provide procedures for a constitutional convention. The legislation very closely follows the legislation offered by former Senator Sam Ervin who held extensive hearings on this issue back in the late 1960's and early 1970's.

In fact, this legislation was unanimously adopted by the Senate in 1971 and again by a voice vote in 1973.

The bill provides for limitation of the convention to the subject the States request. The delegates would be elected from each congressional district in the country plus two at-large from each State. Procedures are provided for conduct of the convention's business and guidelines and procedures are set for making and transmitting applications to Congress.

Finally, it also allows for expedited judicial review by the Supreme Court if controversies develop before or after the convention meets.

I think there's now a widespread concern, to say the least, that the Federal Government is spending too much and the deficits have become chronic. Deficits are now the norm during both bad years and good years and, as the table in my prepared statement shows, the deficits are getting ever larger. In fact, for the 5 fiscal years ending in 1985, we expect over $789 billion of budget deficits. Compare that to the 5-year period 1961 through 1965 when we incurred just about $23 billion in Federal deficits.

I think the reason for the ever larger deficits come from five distinct factors. My prepared statement outlines those details. I will just mention them briefly.

One is pressure group politics. Special interest groups can exert more pressure for any particular spending program than the general interest can oppose.

Two, deficit financing helps magnify these effects by helping to hide the costs of Government spending in a way that no one can calculate exactly.

Three, automatic tax rate increases. As Mr. Johnson noted earlier, inflation has pushed the taxpayers into ever higher tax rate brackets over the last few decades.

Four, each individual Member of Congress faces what is known as the prisoner's dilemma. If you vote for reducing spending on every single vote that comes to the floor, you're likely to get special interest groups mad and not have terribly much effect on that particular appropriation. After all, there are 535 Members of Congress. You can only cast one vote on any particular bill. Quite often, the vote margin is much, much larger than a handful.

Five, individual taxpayers also face a prisoner's dilemma. Although people could decide not to ask what the country can do for them, most people feel that it's in their self-interest to consume as many free Government benefits as possible once they pay the taxes.

The proposed balanced budget-tax limitation amendment is well designed to correct these defects and my prepared statement details the features.

I would like to say in conclusion that based on our experience in the State legislatures I think we can have that amendment ratified within a 3-year period. I think it would represent a significant improvement in the Federal budgetmaking procedures.

With the amendment we will finally be able to bring spending and taxes under control and if Congress doesn't approve it I am confident that the States will force approval of the amendment through the constitutional convention process and subsequent State ratification.

Thank you very much.

[The prepared statement of Mr. Keating follows:]

Prepared Statement of David L. Keating

Mr. Chairman and members of the Committee, thank you for the opportunity to appear today on behalf of S.J. Res. 5, the Balanced Budget-Tax Limitation Amendment. I appear representing over 140,000 members who live in all 50 states. Since 1975 we have been working on behalf of a constitutional amendment for fiscal responsibility. Through our efforts, 32 of the required 34 state legislatures have made application to Congress to call a limited constitutional convention for the sole purpose of drafting an amendment requiring that the federal budget be balanced.

We have pursued the convention method as an alternative method of obtaining this amendment. I have complete confidence that, should a convention be called, it would be limited to this topic and would draft a fine proposal.

Before commenting on the need for this constitutional amendment, I would like to bring the Committee up to date on the status of the convention drive. Thirty-two state legislatures have passed resolutions which have been certified by the appropriate state officials. All thirty-two resolutions clearly call for a limited constitutional convention on a balanced federal budget amendment. As of today, the thirty-two state legislatures which have passed these resolutions are:

Alabama	Idaho	Nebraska	Pennsylvania
Alaska	Indiana	Nevada	South Carolina
Arizona	Iowa	New Hampshire	South Dakota
Arkansas	Kansas	New Mexico	Tennessee
Colorado	Louisiana	North Carolina	Texas
Delaware	Maryland	North Dakota	Utah
Florida	Mississippi	Oklahoma	Virginia
Georgia	Missouri	Oregon	Wyoming

California, Illinois, Kentucky and Montana have passed resolutions which ask Congress to propose a balanced budget amendment but do not call for a convention. Some of the states which were once on this list have since called for a convention. Thirty-six states have endorsed the balanced federal budget amendment, and 32 have further called for a limited convention on this subject.

Convention resolutions have passed at least one house in previous legislative sessions in California, Hawaii, Kentucky, Montana, Ohio, Rhode Island, Vermont, Washington, and West Virginia. Although these resolutions must be reintroduced, this reflects the strong interest in the amendment in those states. In all, action has been taken in 42 states, an indication of the issue's strong support.

A June, 1983 Gallup poll on this subject found that "seven out of every ten Americans familiar with the proposal favor a constitutional amendment that would require Congress to balance the federal budget each year."

Other opinion polls also show that an overwhelming majority of citizens from all walks of life, young and old, rich and poor, black and white -- all agree that a constitutional amendment is needed to force the federal government to follow practices of sound finance.

Article V of the U.S. Constitution requires that the legislatures make applications to Congress for a constitutional convention. To date all of the 32 state resolutions petitioning Congress for a constitutional convention for a balanced budget amendment were originated by the state legislatures.

A mechanism to force recalcitrant legislatures to act on the balanced budget resolution through the state initiative process was developed by the National Taxpayers Union. The model initiative we drafted proposes a law requiring the state legislature to pass the balanced budget resolution by a certain deadline. If the deadline passes, and the state legislature has not yet acted, pay and benefits would be suspended to each state legislator until the resolution is approved.

The following is an overview of balanced budget amendment activity in the states:

California: On March 18 California's Secretary of State certified Proposition 35, the balanced federal budget amendment initiative, for the November ballot. The petition drive collected more than 605,000 signatures, well over the 393,835 signatures needed. The campaign for Proposition 35 is being led by NTU Chairman James Davidson, Senator Pete Wilson (R-Calif.) and Representative William Dannemeyer (R-Calif., 39th dist.), and State Senator Dan Boatwright (D-Contra Costa County) through a campaign committee called Californians to Balance the Budget.

George Deukmejian, Governor of California, endorsed the initiative August 17. A recent poll shows the balanced budget amendment has the support of 72 percent of those Californians polled.

The AFL-CIO and many other special interest groups filed a lawsuit urging the California Supreme Court to remove this initiative from the ballot. The Court heard oral arguments August 21. On August 27, in a 6-1 decision, removed Proposition 35 from the November ballot. An application to stay the decision has been made to the U.S. Supreme Court and a decision is expected by today's hearing.

Montana: On July 13 an NTU-backed organization, Montanans for a Balanced Federal Budget, succeeded in placing the Montana Balanced Budget Amendment initiative on the November ballot by collecting 62,500 signatures. This figure was the largest number of signatures ever collected in Montana for a state initiative.

CI-23, as the initiative has been designated, is an amendment to the Montana Constitution because statutes approved through the initiative process may be repealed by the legislature. If the legislature does not adopt the resolution by the end of its regular session, in addition to serving without pay, the legislators must remain in session to discuss and deliberate the balanced budget amendment resolution. No other issues could be discussed at that time. The legislature would go out of session only when the balanced budget resolution is approved. Unlike the California initiative this initiative is not subject to preelection review by the Montana Supreme Court because it proposes an amendment to the Montana Constitution. That initiative could make Montana the 33rd state to call for a limited constitutional convention on this subject.

Ohio: Ohioans for a Balanced Federal Budget, chaired by State Representative Michael Fox, and backed by NTU is continuing to collect signatures to place the balanced budget initiative on the November 1985 ballot. More than 50,000 signatures have already been collected toward the 335,673 signatures needed.

Michigan: The crucial date for the Balanced Budget resolution is September 13. That's the second day of the fall session, when the resolution is scheduled for a vote in the Constitutional Revision and Women's Rights Committee in the state House of Representatives. The measure was overwhelmingly approved by the state Senate 23-15 in April. The Committee vote in September was forced by five of the nine members of the Committee, who, under the leadership of Representative Margaret O'Connor (R-Ann Arbor), petitioned the chair to schedule a meeting for a vote on the issue. A floor vote on the resolution may be taken in late September.

U.S. Congress

Convention Procedures Bill: The U.S. Senate Judiciary Committee approved, without dissent, S.119, the "Constitutional Convention Implementation Act of 1984" on May 17. The bill, which is designed to provide procedures and limitations for a possible constitutional convention, closely follows legislation drafted by former Senator Sam Ervin. The Ervin bill was adopted overwhelmingly by the Senate in 1971 and 1973.

The bill provides for: 1) limitation of convention to subject of state applications, 2) method of delegate selection, 3) procedures for conduct of convention business, 4) guidelines and procedures for making and transmitting applications to Congress (including a "grandfather" clause for existing applications), and 5) expedited judicial review by the Supreme Court.

Action on the convention procedures bill is possible this month.

House Discharge Petition: On June 11 Representatives Barber Conable (R-N.Y.) and Ed Jenkins (D-Ga.) initiated a petition to discharge H.J. Res. 243, the Balanced Budget-Tax Limitation Amendment from the House Judiciary Committee. To date the discharge petition has gained about 180 of the 218 signatures necessary to dislodge the bill from Judiciary Chairman Rodino's grasp.

In 1982 a similar discharge petition succeded in bringing the Balanced Budget-Tax Limitation Amendment to the House floor for a vote. Although the Amendment received a clear plurality of 236-187, it fell short of the 2/3 majority necessary for constitutional amendments.

Senate Judiciary Committee: Action on S.J. Res. 5, the Balanced Budget-Tax Limitation Amendment is pending before the full Senate Judiciary Committee. On March 15 the Subcommittee on the Constitution approved S.J. Res. 5 by a vote of 4-1.

Sen. Howard Metzenbaum (D-OH) has been conducting a filibuster in committee. It's expected that the committee will end the filibuster and approve the proposal soon.

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The full committee approved a nearly identical proposal in 1981 and a slightly modified bill passed the Senate by a vote of 69-31 in August 1982.

Deficits Have Become Chronic

There is now a widespread concern that the federal government spends too much and that the resulting deficits have become chronic. The budget has been in balance just once in the last 24 fiscal years. Budget deficits are now the norm during good years and bad. Further, as the record clearly indicates, the trend toward ever larger deficits is worsening.

Fiscal Years	Dollars In Billions
1961-1965 inclusive	$ 23
1966-1970 inclusive	37
1971-1975 inclusive	121
1976-1980 inclusive	315
1981-1985 inclusive	789 (est.)

1976-1980 total includes a transitional quarter deficit of $14.7 billion between 1976 and 1977. Includes off-budget items.

This year, the federal government will spend over $150 billion to pay the interest on the national debt. That's over $285,000 per minute. That represents about one-half of individual income tax receipts.

Federal spending continues its rapid increase. The 1983 federal budget set new records for the budget deficit and federal spending. Federal spending claimed 25 percent of the Gross National Product, the first time federal spending has ever taken one-quarter of our nation's economy during peacetime. In 1965, federal spending took 18 percent of GNP. Federal spending grew by 583 percent between 1965 and 1983, while the private sector grew by only 380 percent.

To the extent that deficits are financed through borrowing from the public, real rates of interest increase and federal government borrowing "crowds out" the private borrower. Funds that would have been used for capital investment are diverted to support a federal deficit that largely pays for consumption expenditures.

Persistent deficits are also a major cause of inflation. Because the deficits have become persistent, the Federal Reserve often has to accommodate the deficits by expanding the money supply. This is inflation.

Federal deficits and excessive spending at all times are a clear symbol of federal fiscal irresponsibility and help encourage an inflationary psychology and higher interest rates.

How Budgetary Politics Causes Excessive Spending and Deficit Financing

Some people believe that, as long as there are free and open elections, fiscal excess can be controlled. Empirically, the fiscal record demonstrates that electoral constraints are not enough.

The tendency for government spending to take an ever-greater share of national income is common to all countries with representative government. In spite of many promises to the contrary, no leader has succeeded in actually reducing government spending. There is a reason for this uniform failure. It is not a coincidence. A distinct political bias, an institutional defect, in favor of deficit finance and excessive spending is a common failure of representative institutions. This bias is caused by several factors which I shall briefly outline.

1) Pressure Group Politics. Well organized special interest groups make strong demands for programs that benefit them greatly. On the other hand, these demands are weakly opposed because costs are spread over all taxpayers, each of whom stand to lose comparatively little. Add to this the well documented phenomenon of legislative log rolling for reciprocal political benefit,

and it's easy to see why pressures for increasing spending usually exceed the opposition that can be brought to bear.

The result is that the total of government spending is higher, even though the majority of voters would oppose the higher total if given a chance.

2) Deficit financing helps magnify this defect. It enables Congress to make the benefits of increased spending immediately evident to special constituencies while disguising the costs in the form of borrowing, reduced economic growth, higher interest rates and inflation which are diffused over large numbers of the rest of society.

Voters are pleased by tax rate reductions; they are displeased by tax rate increases. The simple arithmetic of the process can produce permanent and continuing deficits.

3) Automatic Tax Rate Increases. The political cost of imposing higher taxes to pay for increased spending is reduced because inflation has enabled Congress to raise the real tax burden without explicitly having to vote to do so. Indeed, political benefits can be reaped by tax cuts that don't cut the real tax burden.

4) Each individual congressman faces a "prisoner's dilemma." The prisoner's dilemma describes a situation where pursuit of each person's self-interest can produce an outcome undesirable to all. Individual congressmen bear a far higher political cost for attempting to restrain spending than they do from contributing to spending in excess of revenues. Even if an individual congressman voted against every single appropriation in its entirety, his or her impact on spending would be negligible. But that same congressman would incur the wrath of special constituencies whose pet projects he or she opposed.

5) Individual taxpayers face a similar dilemma. Ideally, all taxpayers should "ask not what their country can do for them." But selfish behavior

points in the other direction. Once the seemingly inevitable taxes are paid, it is in each citizen's self-interest to consume and lobby for as many "free" government benefits as possible. Self-denial is impossible for over 230 million citizens who have no effective means of communication and have even less reason to expect complete cooperation.

That is why President Reagan and his predecessors have failed to achieve spending reductions through ordinary political process. Mr. Reagan made a gallant effort, but the federal government continues to grow. If he couldn't succeed in cutting outlays, who can? The likely answer is no one can. The job is undoable under our current system. The only way spending growth can ever be controlled is by constitutional amendment.

The proposed amendment, S.J. Res. 5, is well designed to correct these institutional defects.

Section one of the amendment requires Congress to adopt a statement, or budget, before each fiscal year that is in balance. It allows Congress to amend the budget statement provided that "revised outlays are no greater than revised receipts." Should Congress want to approve an unbalanced budget, a specific dollar amount of deficit spending can only be authorized by a three-fifths vote of the whole number of each house of Congress. In other words, at least 60 senators and 261 representatives would have to vote to approve a deficit. Congress and the president are also directed to ensure that "actual outlays do not exceed the outlays" adopted in the budget.

This section forces a balance between benefits from spending programs and tax costs. It simply requires that government make explicit the costs for promised benefits. It directly addresses one very important source of the bias for excessive spending by limiting congressional access to deficit financing.

Section two of the amendment limits taxes so that they could not increase at a rate faster than the growth of the economy as measured by the "rate of increase in national income." That limit can be exceeded only by a bill directed solely to increasing taxes which is approved by constitutional majority of both houses of Congress and signed by the president. A constitutional majority is the vote of 51 senators and 218 representatives.

Section two of the amendment prohibits government from taking a larger portion of our national income. This provision is well designed to permanently correct the bias caused by the problem of automatic tax increases cited above. By requiring a constitutional majority of members of Congress to go on the record to approve a tax increase, this provision ensures that the same legislators who advance new spending programs will also have to account for their costs.

It's worth noting that sections one and two would require a roll call vote to approve a deficit or an increase in the tax burden. In each case, these votes would have to be taken separately, that is, they could not be combined with another bill. This sharply limits the possibilities for log rolling. It also ensures that citizens will have a clear understanding of their federal legislators' position on the size of the federal budget.

Section three of the amendment allows Congress to waive the provisions of the amendment for any fiscal year during a declared war.

Section four clarifies the terms used in the amendment by defining receipts and outlays in a comprehensive manner. So-called off-budget outlays would be prohibited by the amendment.

Section five says that the amendment would go into effect at the beginning of the second fiscal year after its ratification.

Section six requires Congress to enforce and implement the amendment through legislation. Such legislation will be necessary to provide the new budgetary procedures needed to implement the amendment.

The amendment will greatly increase political accountability. Currently, hundreds of votes are taken each year on the floor of each house of Congress to determine the size of the federal budget. Under this amendment, there will normally be only one vote a year on the size of the federal budget. Even if the voting rules are used in section one and two to adopt a deficit or a tax increase, it is unlikely that more than a handful of votes will be taken on the size of the federal budget. This would allow voters to determine exactly how their federal legislators stand concerning the amounts of federal spending, taxes and deficits. Such comparisons are difficult to make with any precision today.

The amendment also indirectly provides for a spending limit. The balanced budget requirement in section one and the limit on taxes in section two combine to limit federal spending. As Nobel prize winning economist Milton Friedman has said, S.J. Res. 5 "is more sophisticated than it appears on the surface. . . . It is an effective measure, in my opinion, to limit government receipts and spending, on the one hand, and to produce a balanced budget on the other."

The voting rules in sections one and two are carefully crafted so as to eliminate any bias for increased spending or taxes. Although I would personally prefer to see a two-thirds vote requirement in each section, I believe the voting rules in S.J. Res. 5 are both a necessary minimum and sufficient to the task. These rules reflect the consensus among proponents of constitutional budgetary reform.

As a constitutional restraint, S.J. Res. 5 addresses both the "pressure group politics" and the "prisoner's dilemma" factors by governing all the rules for federal spending. It will force the federal government to control spending by setting rules for controlling the amount that can be spent in any fiscal year.

Richard E. Wagner, a leading theorist on the subject, has written, "One valuable service of constitutional constraints is to prevent undesirable outcomes that would emerge from ordinary legislation. Most of the Bill of Rights comes quickly to mind -- protecting unpopular lines of thought and advocacy, which would often be banned by legislative majorities. Yet over time, such legislation would destroy liberty. Constitutional rules are valuable means of escaping prisoner's dilemmas inherent in ordinary legislative processes."

James Buchanan, author of Democracy in Deficit, the seminal work on constitutional budget restraint, has written, "the argument for an explicit amendment to the written United States Constitution is based on the conviction that . . . the fiscal constraint must be made explicit and that it must be enforceable. The effects of a balanced budget constraint would be both real and symbolic. Elected politicians would be required to make fiscal choices within meaningfully constructed boundaries . . . . They would be forced to behave 'responsibly,' as this word is understood by the citizenry, and knowledge of this fact would do much, in its turn, to restore the confidence of citizens in governmental processes."

This constitutional amendment would increase the incentive effects of any tax rate reductions. Citizens would be assured that the reductions would be permanent because the amendment effectively eliminates automatic tax increases. Citizens would also have greater incentive to save for the future because the amendment would ensure that federal spending and taxes would be limited.

Because the amendment would help reduce inflation, reduce interest rates, prohibit automatic tax increases, and increase public confidence in future fiscal policy, prospects for reduced unemployment and renewed long-term economic growth will greatly improve.

During the Senate's debate on the Balanced Budget-Tax Limitation Amendment (S.J. Res. 58) last summer, several amendments were offered. Only two were passed. The first, an amendment of a technical nature, was adopted by a 97-0 vote. This amendment helped define the respective authorities of the president and Congress in section one of the amendment, required Congress to adopt implementing legislation, and broadened the base for computing the growth in national income.

We supported this amendment, as long as it was made clear that Congress could not arbitrarily change the base period for computing national income from year to year.

The other amendment adopted was an amendment offered by Senators Bill Armstrong and David Boren to cap the national debt limit. The Armstrong-Boren Amendment, which proposed adding another section to S.J. Res. 58, requires that "the amount of federal public debt limit be permanent, unless three-fifths of the whole House and Senate approve a bill to raise the debt ceiling."

Senator Armstrong said during the debate that his intention was to add "sharks teeth" to the Balanced Budget-Tax Limitation Amendment. He said he wanted "a definite point of reference" such as the national debt ceiling written into the amendment.

While on the surface, the Armstrong-Boren Amendment appears to be a sound way of increasing the potency of the balanced budget amendment, it in fact is unnecessary, will increase opposition to the proposal and could create a pro-tax bias.

The last sentence of section one of S.J. Res. 5 states: "The Congress and the President shall, pursuant to legislation or through exercise of their powers under the first and second articles, ensure that actual outlays do not exceed the outlays set forth" in the annual budget. Congress cannot simply pass a budget based on optimistic spending projections and then spend as it pleases because actual outlays must equal budgeted outlays. S.J. Res. 5 adequately provides for enforcement of budget control, making the Armstrong amendment unnecessary.

The Armstrong-Boren Amendment, if added, could make the Balanced Budget-Tax Limitation Amendment vulnerable to the charge that it could make a recession worse. If the economy should take a sudden, unanticipated downturn leading to a shortfall in government revenues, Congress, unable to raise the debt ceiling under the Armstrong provision, could be forced to increase taxes or cut spending at precisely the time these actions could be unwise. Under S.J. Res. 5, if the economy tumbled into a recession during a fiscal year, actual receipts could fall below expected levels, and create a small deficit. However a debt caused by increased spending would not be permitted by S.J. Res. 5.

Senator Armstrong wanted to guarantee that all debt be approved by a three-fifths vote. But his proposal won't guarantee either a balanced budget or a vote on a deficit for each year since the requirement for an increase in the national debt ceiling would not necessarily cover each fiscal year. For example, Congress could raise the debt ceiling by enough to cover a period for more than one fiscal year.

Under the Armstrong-Boren Amendment Congress would probably respond at the last minute if income fell below actual levels. The easiest way to balance the budget in such a situation might be to raise taxes. This is because the amendment requires a constitutional majority to raise taxes, not three-fifths.

Armstrong's amendment could create a pro-tax bias in the amendment.

Finally, the Armstrong-Boren Amendment could be better drafted to achieve its goals. For instance, the amendment makes no provision for lowering the debt ceiling, only for raising it. It could be interpreted as saying that it would permanently set the level of federal debt, making repayment of the debt during surplus years impossible. The possibility also exists that a lame duck Congress may vote to double or even triple the federal limit, making that part of the amendment a dead letter for years or decades.

Although no other amendments were adopted, several came close to adoption. The one that came closest was the amendment offered by Senator Howell Heflin. His amendment would allow Congress, during times of declared military emergencies, to exempt outlays required by the military emergency from the balanced budget requirement.

We are unalterably opposed to such a weakening of S.J. Res. 5 since such a change is designed to solve a non-problem. The amendment already provides for situations that may threaten our nation's security, short of war. First, there should be a contingency fund in the budget. Part of the contingency fund could be used for an unforeseen threat.

Second, other programs could be cut, and the funds could be redirected to meet the threat.

Third, the amendment allows for more spending when new taxes are authorized or when a specific deficit is approved.

Any language drafted to provide for waiving the amendment would be necessarily vague, and an open invitation to future Congresses to subvert the amendment. Defining threats to our nation's security in a constitutional amendment that should qualify for a waiver, but which would not be abused, is impossible.

A complete waiver of the amendment for defense spending to protect the nation would also allow uncontrolled increases in spending for programs unrelated to our national defense.

Drafting a partial waiver so that it applies only for defense spending has severe problems too. It could allow the entire defense budget to be placed off the budget, leaving no yardstick for citizens to judge how well other federal spending was being controlled. A waiver for defense spending would make the amendment complex and hamper the public's ability to monitor congressional compliance.

Another danger would come from congressional attempts to redefine essential national security programs. This problem is analogous to the capital budget: the definition of what could qualify as capital expenditure is vague; the definition of defense spending is equally vague.

Finally, history points to the superfluousness of such a waiver. A study by the National Taxpayers Union shows that, since before World War II, Congress has always passed urgent military spending bills during times of national emergencies by margins that would easily meet the requirement of a three-fifths vote that is already in place in S.J. Res. 5.

Another amendment narrowly rejected by the Senate was an amendment by Senator Gorton to restrict the judicial power of the United States in most issues arising under the proposed amendment. The amendment would have specified that the power of the federal judiciary could not "extend to any case or controversy arising under this article, except for cases of controversy seeking to define the terms used herein, or directed exclusively at implementing legislation adopted pursuant to this section." Adoption of this amendment would be unwise.

Although I feel that the federal courts have, at times, pursued a course of harmful judicial activism, this amendment does not properly address that concern. It also erodes protections against abuse of S.J. Res. 5.

This particular provision would seem to intimidate a cautious court, while perhaps also extending an invitation to an activist court. I agree with Senator Heflin's remarks in opposition to this amendment which he made on the Senate floor last July. He compared our structure of government to "a three legged stool." The three legs consist of the legislative branch, the executive branch, and the judicial branch. As Senator Heflin said, "if we act to cut off one of the legs of the three legged stool, it would mean that the stool cannot stand, and if it is a sitting stool, you can not sit upon it."

S.J. Res. 5 offers protection for the American people from fiscal abuses by the Congress and the president. The most important controversies that may arise under S.J. Res. 5 are those where these two branches seek to violate the limits of S.J. Res. 5. If such an event were to occur, the third branch, the judiciary could prove to be an essential check.

In conclusion, S.J. Res. 5 represents a truly significant improvement in federal budget making procedures. With this amendment, we will finally be able to bring spending and taxes under control and enjoy the benefits of a balanced budget. We hope the Congress will approve it. If not, I believe that the people will demand a constitutional convention to draft a similar proposal.

Senator JEPSEN. I thank you.

Grace Ellen Rice, of the American Farm Bureau Federation.

STATEMENT OF GRACE ELLEN RICE, ASSISTANT DIRECTOR, NATIONAL AFFAIRS DIVISION, AMERICAN FARM BUREAU FEDERATION, WASHINGTON, DC

Ms. RICE. Thank you, Mr. Chairman.

The Farm Bureau is a large organization. We represent approximately 3 million member families throughout the country. I believe that you could probably say that we are one of the largest voluntary organizations in the world and in fact here in the United States we would say that we probably represent anywhere from between 6 and 8 million voters.

Our members have adopted fairly strong policy in support of a balanced budget amendment and, I might add, a constitutional amendment that would provide for a line item veto.

Last January our members adopted the following policy through their voting delegates:

> We support a constitutional amendment to require the federal government to operate on a balanced budget each year. Only in extreme emergencies could this requirement be waived with the concurrence of the legislative and executive branches of government. A balanced budget should not be achieved by levying new taxes or increasing tax rates.
>
> We support a constitutional amendment to restrict the spending authority of the federal government to a realistic percentage of the gross national product (GNP).

Mr. Chairman, those are the policies that we would like to discuss with you today. You have already heard an overview of the situation in State legislatures and an update of the activities that various organizations have taken, but I should say that we have worked on this issue along with these other groups in the 96th, the 97th, and now the 98th Congress. We were overjoyed when the Senate passed the amendment back in 1982. We were dismayed when the House of Representatives did not pass it. But that has only served to strengthen the resolve we have to see that this amendment is adopted this year in this Congress.

We need a balanced budget. I think if you talk to the individual farmers and ranchers who are members of our organizations, they can't understand why Congress, why the Federal Government, why the executive branch, cannot operate on a balanced budget. They have to. That's been previously pointed out today.

Some people argue that we don't really need to operate on a balanced budget year in and year out, but we believe that given the size of the deficits that we now have that this is an absolute necessity.

We also believe that a constitutional amendment is necessary. Reference has been made to new legislation that's been introduced in the House. We believe that this could lead toward a balanced budget but it's not a permanent remedy. It could be too easily repealed and we believe that a permanent remedy is needed such as S.J. Res. 5 and H.J. Res. 243.

You have already heard statistics from Mr. Johnson this morning about the growth in the size of the Federal Government both in terms of spending and in terms of receipts of Government. We see that, the size of the Government, as being one of our major problems. As the size of the Government has increased they have increased their borrowing. You get the familiar term of crowding out. That's been higher interest rates for farmers, ranchers, and small businesses, and while we would acknowledge that lower interest rates will not necessarily lead to higher market prices, which is what we are after. It would help us increase the profits that we do have because the cost of production would be cut through lower interest rates. Interest charges would be lower.

I would reemphasize we have supported this amendment for three Congresses now. We would also reemphasize that we don't want to see any tax increases, whether they are Mr. Mondale's or Mr. Reagan's. Spending must be cut. We are supporting a statutory freeze on Federal spending, whether it's for 1 year or 3 years. We frankly would like to see a 1-year freeze on cost-of-living adjustments during which time COLA's could be readjusted to, let's say, 60 percent of the CPI or some other figure that would ratchet down the effect of those COLA's. As I mentioned, we would support a line item veto.

This is a summary of our prepared statement. We urge the Congress to adopt this amendment, send it to the States, and let the people decide in the States. Thank you.

[The prepared statement of Ms. Rice follows:]

PREPARED STATEMENT OF GRACE ELLEN RICE

Farm Bureau is the nation's largest agricultural organization representing farmers and ranchers in forty-eight states and Puerto Rico. Our policy is the result of a comprehensive policy development program that involves the active participation of our producer members at the county, state and national levels.

Over three million member families belong to the Farm Bureau. Their livelihood rests primarily in agriculture, but their interests extend to other areas such as tax and budget issues that affect the economic well-being of farmers and ranchers. For this reason Farm Bureau has strong policy support for a constitutional amendment, such as S.J. Res. 5 and H.J. Res. 243, to balance the federal budget. The following policy was adopted by voting delegates of member State Farm Bureaus at the 65th AFBF annual meeting in Orlando, Florida, in January:

Monetary and Fiscal Policies

> "We support a constitutional amendment to require the federal government to operate on a balanced budget each year. Only in extreme emergencies could this requirement be waived with the concurrence of the legislative and executive branches of government. A balanced budget should not be achieved by levying new taxes or increasing tax rates.
>
> "We support a constitutional amendment to restrict the spending authority of the federal government to a realistic percentage of the gross national product (GNP)."

As you can see, our members are specific about the type of constitutional amendment(s) that they support to require the Congress and the President to balance the budget and eliminate deficits. Another message is loud and clear: The budget must be balanced by spending cuts, not tax increases.

Farm Bureau members worked diligently in the 96th and 97th Congresses to enact a balanced budget amendment. We were pleased to see S.J. Res. 58 pass the Senate in 1982, but our pleasure was short-lived. We watched with disappointment as the balanced budget amendment failed to pass the U.S. House of Representatives after a successful discharge petition drive. Despite our disappointment, we continue to put forth our strong support for S.J. Res. 5 and H.J. Res. 243. In fact, we are again heavily involved with the discharge petition drive in the House to bring H.J. Res. 243 to the House floor.

Farm Bureau support has been evidenced not only in the United States Congress, but in state legislatures. Currently, 32 states have adopted constitutional convention calls to draft a balanced budget amendment. Thirty-four states must approve convention calls before Congress is required to call a convention. Work in the state legislatures has been successful, while opponents' efforts to repeal the convention calls in two states, Iowa and Maryland, were unsuccessful. We are continuing to focus attention on the fall elections in Montana and hopefully California where the convention call issue will be on the ballot. Moreover, we anticipate that success in those states will spur the Congress into approving S.J. Res. 5 and H.J. Res. 243.

We need a balanced budget amendment. Our members believe that if states have balanced budget requirements and if farmers and ranchers must act responsibly with regard to their own finances, then it is possible for the federal government to act in the same responsible way. Arguments have been made to the contrary by those who believe that it is impossible for the federal government to operate on a balanced budget and, indeed, that it is not desirable to do so. With the prospect of $200 billion deficits in the foreseeable future, we would like to think that opponents of the balanced budget amendment will come to realize that such an amendment is necessary. So far, the Congress has not taken the responsibility for achieving a balanced budget either through statute or a constitutional amendment. Clearly, an amendment to the Constitution is needed to provide a permanent remedy. A statutory remedy to the country's budget problems is unacceptable because it could be too easily repealed.

The dismal statistics are well known: The federal budget has been balanced only once in the past twenty years. The deficit surpassed $100 billion for the first time in 1982, whereas only twenty years before, the federal budget itself was only in the neighborhood of $100 billion. By 1987, the federal government is projected to reach its first trillion dollar budget. To say that these numbers are alarming is an understatement, but an even bigger problem rests in the size of federal government spending in relationship to Gross National Product. Using 1962 as a reference point, federal spending then was 19.5 percent of GNP. By 1982, the percentage had grown to 23.8 and reached a high of 24.7 percent in 1983. Taxes continue to take a bigger share of the nation's resources, too. In 1962, federal receipts were 18.2 percent of GNP. By 1982, the share had risen to 20.2 percent. These numbers indicate that both federal spending and the federal tax burden continue to increase. The long-term effect is to choke economic recovery and risk re-inflation and continuing high interest rates.

We believe that S.J. Res. 5 (H.J. Res. 243) is an amendment that can work. The first two sections of the amendment provide for a balanced budget and a tax limitation. In conjunction, these two sections do have the effect of limiting federal spending. In addition, a provision has been made to override the balanced budget requirement of the amendment by a 3/5th vote of the United States Congress.

While we believe that S.J. Res. 5 (H.J. Res. 243) is a good amendment, it could be strengthened by the addition of a specific, rather than implied, spending limitation. The addition of a provision to limit federal spending to a realistic percentage of the gross national product is desirable. Without it, the size of the federal government could continue to increase in relation to the private sector. Without a ceiling on the percentage ratio of federal spending to GNP, spending restraint may not be sufficient to balance the budget.

Farm Bureau re-emphasizes this point: We do not support tax increases to balance the budget and reduce deficits. Spending must be reduced by reform of federal entitlement programs, including agriculture. A statutory spending freeze in conjunction with federal entitlement reform and a constitutional balanced budget amendment would go a long way toward solving the economic problems of the nation, particularly in agriculture.

As Farm Bureau indicated in similar hearings before the Senate Judiciary Committee in 1981 and 1984, we believe that the balanced budget amendment is a step in the right direction and illustrates real progress toward fiscal responsibility.

Thank you for allowing us to present testimony.

Appendix A

1984 Monetary and Fiscal Policies
American Farm Bureau Federation

"Farm Bureau strongly supports the continued reduction in the size of the federal government to stop inflation and increase productivity. This is our top priority. Balancing the federal budget will not be possible unless there are further substantial cuts in federal spending.

"Farm Bureau supports an across-the-board freeze on all federal spending at the previous year's total appropriations level with the exception of interest payments on the national debt and an adequate defense. This freeze and spending limitation shall take priority over all other federal spending policies adopted by Farm Bureau.

"Farm Bureau supports a freeze-and-fix program to reform all federal entitlement programs. The plan would require a three-year freeze, or moratorium (no increase), in all federal cost-of-living adjustments. If Congress does not fundamentally fix the entitlement programs within the three-year period, the freeze would continue until Congress accomplishes necessary reforms.

"We support legislative or constitutional changes to give the President line-item veto power in appropriations bills.

"We support a constitutional amendment to require the federal government to operate on a balanced budget each year. Only in extreme emergencies could this requirement be waived with the concurrence of the legislative and executive branches of government. A balanced budget should not be achieved by levying new taxes or increasing tax rates.

"We support a constitutional amendment to restrict the spending authority of the federal government to a realistic percentage of the gross national product (GNP).

"Off-budget federal outlays, including federal credit programs, should be brought on-budget as direct federal outlays. The Federal Financing Bank should be abolished.

"The goal of monetary policy should be general price level stability. The Federal Reserve System should conduct a sustained, long-term monetary policy which will minimize inflation and deflation of prices. Should the Federal Reserve System fail to maintain sound discretionary monetary policies, we will support legislation to instruct the Federal Reserve System to achieve a specified rate of growth in the stock of money consistent with real economic growth, productivity and general price level stability. The Congress of the United States should conduct an audit and special public hearings on the Federal Reserve System.

"Recognizing that a significant portion of federal spending is incurred through government contracts, competitive bidding should be encouraged. The use of 'cost-plus' contracts should be minimized."

Senator JEPSEN. Thank you.

Mr. Thomson, of the American Bankers Association, you may proceed.

STATEMENT OF THOMAS D. THOMSON, MEMBER, ECONOMIC ADVISORY COMMITTEE, AMERICAN BANKERS ASSOCIATION

Mr. THOMSON. Thank you, Mr. Chairman.

Mr. Chairman and members of the committee, I am Thomas D. Thomson, senior vice president and chief economist, Crocker Bank, San Francisco, CA, and a member of the Economic Advisory Committee of the American Bankers Association.

I would like to thank you for the opportunity to present the views of the American Bankers Association on the balanced budget amendment. We feel that this is an important initiative that is necessary to achieve the necessary changes in fiscal policy.

Our president, Robert Brenton, would like to be here this morning. He's also engaged at this very time in getting grassroots support for this initiative.

Our association feels that this action is of major importance. At a recent meeting of our association's banking leadership conference, the largest policymaking body of our association, the conference accepted a recommendation of our communications council and our Economic Advisory Committee that the enactment of the balanced budget amendment be made a priority goal for our association and that a major grassroots effort be undertaken to try to get it enacted in this session of Congress so that the process of ratification by the States could begin as soon as possible. Our board of directors affirmed this recommendation.

The U.S. economy is in the midst of a strong recovery from a deep recession. Overall, the near term outlook for the economy is positive. But there are significant concerns about the longer term outlook related to our fiscal crisis.

Our association believes urgent action is needed now to restrain the growth of Federal spending and borrowing. We believe the priority goal of economic policy should be the achievement of long-term stability. Long-term stability would mean less inflation, lower interest rates, lower unemployment, and more steady long-term real growth. Long-term stability can best be achieved by restraining the growth of Federal spending, thereby allowing more private sector savings, investment, and job creation.

All ways of financing Federal spending have harmful effects which inhibit the achievement of this goal. The first and most obvious way of financing Federal spending is through taxation. A major problem with this method is that our current tax system is seriously biased against savings and investment. This bias could be changed, but, with the exception of the Economic Recovery Act of 1981, policymakers have shown little inclination to do so. Borrowing from domestic sources to finance the spending tends to put pressure on domestic interest rates, and crowd out private sector borrowers. Such pressure eventually inhibits growth in interest-sensitive sectors such as housing, automobiles, and business investment in plant and equipment. In order to borrow from foreign sources, interest rates must be high enough to attract foreign investors. High interest rates are currently resulting in a high value of the dollar which is doing great damage to our ability to sell U.S. goods abroad. Finally, spending over and above the level of taxation can be financed by monetization of the debt which in an economic sense is analogous to printing money. Such a process is inflationary. It causes inflation premiums to be built into interests rates with concomitant economic disruption.

The new budget procedures put into place in 1974 have not been successful in bringing about effective control of the budget, and many witnesses have mentioned this this morning. They were designed to result in consideration of the budget as a whole, facilitating a rational examination of the tradeoffs among the positive and negative effects of all spending and revenue raising programs. This was to be done through congressional adoption of the budget resolution and reconciliation instructions. The instructions were to direct the various congressional committees to cut spending by certain amounts and/or raise revenues by certain amounts to meet the budget resolution. The fiscal policy record of the last 10 years shows plainly that these procedures have not worked. The last year of a budget surplus was 1969.

In 1983 and 1984, Congress did not fulfull the requirements of the budget procedures. By the end of 1983 Congress had failed to enact any of the measures required by the budget resolution adopted in June 1983. As of this moment, most of the downpayment legislation that is pending has not been enacted.

In short, the historical record since 1969, the last year a balanced budget was enacted, demonstrates that current institutional arrangements do not provide satisfactory incentives for policymakers to maintain a sound fiscal policy. No one group or person is responsible for this sad record. All of the Presidents, Senators, and Congressmen who held office over that period are responsible. And the American people who elected them are responsible. Yet, we believe evidence from all quarters indicates the American people want a sound fiscal policy. Current institutional arrangements are not satisfactory. Enactment of the balanced budget/tax limitation constitutional amendment would significantly improve the prospects for a sound fiscal policy. Ratification of the amendment could take up to 7 years, but we believe it will occur much sooner because the American people want it. During the ratification process, the proposal of the amendment by Congress will have sent a clear message that policymakers will adhere to a better standard in fiscal policy matters.

We do not view endorsement of the balanced budget amendment as a substitute for significant action by the Congress on budgetary problems now. While we are testifying here today, our association's president, Robert Brenton, is participating in a joint press conference with the Bipartisan Budget Coalition, a group of over 30 national trade organizations joined with the Bipartisan Budget Appeal Group, a group sponsored by Peter Peterson, former Secretary of Commerce, and several former Cabinet officers from Democratic and Republican administrations, and hundreds of distinguished Americans. We are coming together in a coalition to enhance our grassroots efforts in support of significant budgetary reform.

Mr. Chairman, I hope I have been able to convey how strongly our association feels about the necessity of a balanced budget.

[The prepared statement of Mr. Thomson follows:]

PREPARED STATEMENT OF THOMAS D. THOMSON

Mr. Chairman and members of the Committee, I am Thomas D. Thomson, Senior Vice President and Chief Economist, Crocker National Bank, San Francisco, California and a member of the Economic Advisory Committee of the American Bankers Association. The combined assets of our nearly 13,000 member banks represent approximately 95 percent of the industry total. While our members range in size from the smallest to the largest banks, approximately 90 percent of them have assets of less than $100 million.

I would like to thank you for the opportunity to present the views of the American Bankers Association on the balanced budget amendment. We feel that this is an important initiative that is necessary to achieve necessary changes in fiscal policy.

The balanced budget amendment is a proposal to amend the Constitution to make it much more difficult for policymakers to engage in deficit financing. This proposal would require a three fifths vote of the whole number of both houses of Congress—not merely three fifths of those present at the time of the vote--to enact any legislation that would cause expenditures to be greater than receipts in any fiscal year. Total receipts of the federal government are limited to a rate of increase not greater than the rate of increase in national income in a specified 12 month period prior to the current fiscal year. This provision can be waived only if two conditions are met: 1) The legislation that would cause the limitation to be exceeded is supported by a majority of the whole number of both houses of Congress, not merely a majority of those present at the time of the vote; and 2) The legislation that would cause the limitation to be exceeded must be a devoted solely to specific revenue increases. This limitation together with the requirement of a balanced budget should promote restraint on the growth of federal spending. All receipts and expenditures are included in the limitations specified in the amendment. Thus, so called "off-budget financing" would be included. Congress may waive the provisions of the amendment in any fiscal year in which a declaration of war is in effect.

Our Association feels that this legislation is of major importance. At a recent meeting of our Association's Banking Leadership Conference, the largest policymaking body of our Association, the conference accepted a recommendation of our Communications Council and our Economic Advisory Committee that the enactment of the balanced budget amendment be made a priority goal for our Association and that a major grassroots effort be undertaken to try to get it enacted in this session of Congress so that the process of ratification by the states could begin as soon as possible. Our Board of Directors affirmed this recommendation.

Necessity of Reducing the Deficit

The U.S. economy is in the midst of a strong recovery from a deep recession. Overall, the near term outlook for the economy is positive. But there are significant concerns about the longer term outlook related to our fiscal crisis.

Our Association believes urgent action is needed now to restrain the growth of Federal spending and borrowing. We believe the priority goal of economic policy should be the achievement of long term stablity. Long term stability would mean less inflation, lower interest rates, lower unemployment, and more steady long term real growth. Long term stability can best be achieved by restraining the growth of federal spending, thereby allowing more private sector savings, investment, and job creation.

All ways of financing federal spending have harmful effects which inhibit the achievement of this goal. The first and most obvious way of financing federal spending is through taxation. A major problem with this method is that our current tax system is seriously biased against savings and investment. This bias could be changed, but, with the exception of the Economic Recovery Tax Act of 1981, policymakers have shown little inclination to do so. Borrowing from domestic sources to finance the spending tends to put pressure on domestic interest rates, and crowd out private sector borrowers. Such pressure eventually inhibits growth in interest sensitive sectors such as housing, automobiles and business investment in plant and equipment. In order to borrow from foreign sources, interest rates must be high enough to attract foreign investors. High interest rates are currently resulting in a high value of the dollar which is doing great damage to our ability to sell U.S. goods abroad. Finally, spending over and above the level of taxation can be financed by monetization of the debt which in an economic sense is analagous to printing money. Such a process is inflationary. It causes inflation premiums to be built into interest rates with concomitant economic disruption.

Our Association's Economic Advisory Committee has developed a set of recommendations concerning the federal budget. These recommendations advocate reducing spending growth in all areas with tax increases to be consumption-oriented and enacted only after promised expenditure reductions have been achieved. A copy of these recommendations is attached. The balanced budget amendment is a way of imposing more discipline on the budget process to help achieve the desired budget policies.

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The Balanced Budget Amendment

The new budget procedures put into place in 1974 have not been successful in bringing about effective control of the budget. They were designed to result in consideration of the budget as a whole, facilitating a rational examination of the trade-offs among the positive and negative effects of all spending and revenue raising programs. This was to be done through Congressional adoption of the budget resolution and reconciliation instructions. The instructions were to direct the various Congressional committees to cut spending by certain amounts and/or raise revenues by certain amounts to meet the budget resolution. The fiscal policy record of the last ten years shows plainly that these procedures have not worked.

The last year of a budget surplus was 1969. The deficit increased significantly in the 1975-76 recession and never returned to the relatively low levels of the early seventies. It increased again significantly in the early 1980s, as tax cuts were followed by a very steep recession which further lowered revenues. Once again, prospects do not seem good for a return to the lower, but still high levels of former years.

The projected deficits remain high, although there is some disagreement over their size. The baseline projection of the Congressional Budget Office is for deficits of $263 billion in 1989, while the Administration projects current services deficits of $162 billion for 1989. In either case, without additional policy measures, there will be a continuation of frightening deficits.

The picture is only slightly better when looked at as a percent of GNP. Outlays on balance show a significant upward trend over the period

1970-83. Receipts relative to GNP are relatively flat over the period. But it is important to note that the sharp rise in this series that occurred during the second half of the seventies was only partially reversed by the tax cuts of the early eighties. Deficits relative to GNP may decline somewhat in future years but they are still expected to remain very high.

In 1983 and 1984, Congress did not fulfill the requirements of the budget procedures. By the end of 1983, Congrees had failed to enact any of the measures required by the budget resolution adopted in June 1983. The 1974 act made the reconciliation process one of the key means of controlling the budget. In 1984, although some tax increases and spending cuts have been enacted, the budget process as envisioned by the 1974 act has again been bypassed. Both the House and the Senate have passed budget reconciliation measures, but as yet they have not been able to work out their differences. The majority of the down-payment on the deficit is still to be enacted, and the instructions from the reconciliation process are still not in place. As a result, it is uncertain whether the down-payment on the deficit will actually be accomplished.

The balanced budget amendment will not solve these problems. They must be worked out within Congress. However, it will impose additional discipline over the budget process. It does this by requiring a balanced budget and bringing into the calculation of the balance expenditures in areas that are currently not included in the budget process. Currently, many areas of spending are off-budget, thereby escaping the scrutiny of the budget process. Although these off-budget expenditures do not go through the appropriations process, they still result in increased financing needs of the government. They need to be controlled along with the general levels of spending and taxes.

Conclusion

The historical record since 1969, the last year a balanced budget was enacted, demonstrates that current institutional arrangements do not provide satisfactory incentives for policymakers to maintain a sound fiscal policy. No one group or person is responsible for this sad record. All of the presidents, senators, and congressmen who held office over that period are responsible. And the American people who elected them are responsible. Yet, we believe evidence from all quarters indicates the American people want a sound fiscal policy. Current institutional arrangements are not satisfactory. Enactment of the balanced budget/tax limitation constitutional amendment would significantly improve the prospects for a sound fiscal policy. Ratification of the amendment could take up to seven years, but we believe it will occur much sooner because the American people want it. During the ratification process, the proposal of the amendment by Congress will have sent a clear message that policymakers will adhere to a better standard in fiscal policy matters.

We do not view endorsement of the balanced budget amendment as a substitute for significant action by the Congress on budgetary problems now. While we are testifying here today, our Association's President, Robert Brenton, is participating in a joint press conference with the Bipartisan Budget Coalition, a group of over 30 national trade organizations joined with the Bipartisan Budget Appeal group, a group sponsored by Peter Peterson, former Secretary of Commerce, and several former cabinet officers from Democratic and Republican administrations, and hundreds of distinguished Americans. We are coming together in a coalition to enhance our grass roots efforts in support of significant budgetary reform. Our proposed actions are guided by three principles: (1) The focus of reforms should be long-term, large, structural, and permanent; (2) The poor and needy must be protected and all groups must share in the burden of expenditure reductions; (3) The focus of budgetary actions should be on the need for greater investment, savings, capital formation, and private sector job creation. If a deficit reduction program is to enhance our prospects for economic stability and non-inflationary growth, it must contain three elements: (1) A slowdown in the growth of broad non-means tested entitlements programs; (2) A realigning of the growth in defense expenditures to a real growth rate closer to the sustainable growth capacity of the economy; (3) After these cuts in prospective expenditures have been achieved, tax increases may be needed. These tax increases should be consumption oriented, and tied to and exceeded byspending cuts. Our goal is to ensure that the budget deficit is no more than 2 percent of GNP within three years and ensure that future budget deficits move steadily into balance. No one single action will ensure that these goals are reached, but endorsement of the balanced budget amendment by the Congress now will certainly be a great help.

Bankers believe enactment of this amendment would be good for their businesses, good for their customers and, most importantly, good for our entire nation. A major priority of our Association is to generate grass roots support for S.J. Res. 5 and H.J. Res. 243. A first step in our effort has been to send to all 14,473 banks a booklet, "A Balanced Budget Amendment," to help generate support for this amendment. This booklet contains sample speeches, newspaper editorials, and other materials that will help generate support. This is only the beginning of a ground swell effort. Many other important organizations and people are engaged in this effort.

In presiding over the convention which wrote our original Constitution, General George Washington urged the delegates to "raise a standard to which the wise and honest can repair." We believe the balanced budget/tax limitation constitutional amendment is such a standard. We urge its adoption.

July 18,1984

ECONOMIC ADVISORY COMMITTEE
Federal Budget Recommendations

The results of attempts to restrain the growth of Federal spending and borrowing so far have not been very good relative to the criteria adopted by the Economic Advisory Committee (see attached sheet for recommendations).

On July 18, the President signed a bill that would raise taxes by about $50 billion and cut spending by about $13 billion through fiscal 1987. This bill represents a portion of the down payment on the federal budget deficit that is to total around $140 through fiscal 1987. Although the committee recognized that a tax increase may be necessary as part of a political compromise, it advocated consumption oriented taxes. Most of the tax increases in the recently signed legislation are not consumption oriented and are biased against investment. So far only small portion of the spending cuts have been achieved, and it is still uncertain whether all of the decreases necessary to complete the down payment on the budget deficit will be achieved. Relative to the magnitude of the problem, even if the down payment is accomplished it is only a small step forward.

Given this picture of meager progress towards budgetary discipline, the Economic Advisory Committee believes the highest priority should be placed on the acheivement of longer term institutional reforms to impose external discipline. An important first step would be the adoption of the Balanced Budget/Tax Limitation constitional amendment.

April 26, 1984

FEDERAL BUDGET RECOMMENDATIONS

Economic Advisory Committee

* Urgent ACTION needed now to restrain the growth of Federal spending and borrowing.

* GOAL - to achieve more long term economic stability - less inflation, lower interest rates, lower unemployment, more steady long term real growth.

* MECHANISM - restrain the growth of Federal spending to allow more private sector savings, investment, and job creation.

* REASON - <u>all</u> ways of financing Federal spending have effects which inhibit achievement of goal.

    ** Taxation - current tax system seriously biased against savings and investments.

    ** Domestic borrowing - puts pressure on domestic interest rates, crowds out private sector borrowers.

    ** Foreign borrowing - must, of necessity, be associated with high value of the dollar and a trade deficit which hurts our export industries.

    ** Monetization of debt - causes inflation.

RECOMMENDATIONS

* Policies advocated should emphasize spending growth reductions in all areas, including defense and entitlements to the greatest extent possible.

* Our committee is against tax increases on principle. If they are needed as part of a political compromise, they should be consumption oriented.

* ABA should be against the enactment of any tax increases that are part of a political compromise until promised expenditure growth reductions have been signed into law.

* Longer term institutional reforms which impose external discipline on spending and borrowing should also be advocated. These include a constitutional amendment which requires a balanced budget and imposes restrictions on the amount of taxation relative to national income, a line item veto, and budgetary restrictions on federal credit programs.

Senator JEPSEN. Thank you, Mr. Thomson.

I have a question for the panel. Some critics of the amendment argue that Congress in its wisdom could find ways to circumvent the restrictions of a constitutional amendment.

In a brief comment, how easy do you think it would be to end-run or erode this amendment? I'm referring now to the amendment that you referred to, Mr. Uhler, that passed the Senate.

Mr. UHLER. Well, I will respond to that. The way in which the Senate Joint Resolution 5 is structured, it requires that both the Congress and the President have a joint constitutional responsibility to enforce the requirements and that duality we are confident will produce the desired results. As long as the Congress and the President are making a good faith effort to adhere to it, as the Governors and the legislatures do in those many States that have balanced budget requirements, that's what all of us and what the American people want, and we are confident that the amendment has been thoughtfully crafted for its own internal enforcement abilities.

Senator JEPSEN. Does anyone else want to comment on that?

Mr. RAHN. Just very quickly. Of course, it's always possible to devise ways to get around it, but I would think that the outcry from the American people would be so great if it was obviously being evaded that Members of the Congress would not find it in their own self-interest to do so, and certainly organizations like the chamber and many of the organizations represented here will serve roles of watchdogs and be willing to blow the whistle upon any of you who try to find ways around it. But I think it's basically a very well crafted amendment and clearly will improve the situation greatly.

Mr. KEATING. Mr. Chairman, I think the amendment would be fairly difficult to evade. First of all, any constitutional amendment can be evaded or gotten around if there is no support for it among the public, and I think this amendment, if adopted as part of the Constitution, would have probably one of the highest levels of support of any provision in the Constitution.

So I think it would be very carefully monitored and enforced by the people and also by the checks and balances we have in our constitutional system. So I am quite confident it would stand up.

I think also the experience that we see from the States is instructive too. There have been exceptions from time to time, your State being probably the worst example, but by and large the States have abided and found that the constitutional restrictions are effective and have worked well, even without resorting to use of the courts.

Senator JEPSEN. Does anyone else care to comment?

[No response.]

Senator JEPSEN. Maybe I could just get a yes or no and go from the panel on my left, Mr. Thomson, beginning with you and to the right. Do you believe that Government spending can be brought under control without a constitutional amendment?

Mr. THOMSON. No; I don't believe it will be.

Ms. RICE. No.

Mr. KEATING. I think it could be, but it's not going to be.

Mr. RAHN. No.

Mr. UHLER. No.

Senator JEPSEN. That's rather unanimous.

Congressman Smith.

Representative SMITH. Mr. Chairman, I don't have any questions, but I do want to make the point that I admire the courage of these organizations which have come forward, recognizing the manner in which business is done here. You have many other issues that you're concerned about before the Congress, some of them integral to your businesses. But to step forward on this controversial question, without doubt, takes courage. So I admire you for doing it. I think it's a fundamental change that must occur in this country and if it occurs you will be responsible for it to a great degree. So thank you for coming here this morning.

Senator JEPSEN. Senator Symms.

Senator SYMMS. Thank you, Mr. Chairman.

I just want to ask one question of the panel and that is, section 2 of the tax limitation balanced budget amendment states that total receipts cannot rise at a faster rate than the national income.

Now my question, first of all, Is that an effective tax limitation proposal; and do you think it's possible that we could still, in the Congress, figure out a way to stay under that tent and still raise the taxes of the people who pay for all this operation that goes on here in Washington? Just start down here. Lew, you're the original author. What do you think?

Mr. UHLER. Yes. We feel that this is exactly what is needed. The problem has been that spending has been growing as an increasing share of the gross national product.

Senator SYMMS. What is your estimate of where this would put us, if it says that it can't grow faster than the national income? Right now revenues are about 18.5 or 19 percent of the GNP. Is that the figure you would use then?

Mr. UHLER. Revenues aren't increasing at that kind of rate.

Senator SYMMS. That was just an approximation, where are they exactly?

Mr. RAHN. The revenues are 19.6 percent of GNP.

Senator SYMMS. 19.6 of GNP, so what you would say then is that Congress would have to keep revenues below 20 percent of GNP; is that correct?

Mr. UHLER. No; taxes and hence spending cannot increase at a rate greater than the increase in the rate of national income, not revenues. If the revenues shoot up in a good year as we have now, then we would create surpluses under the operation of the amendment; and in bad years, of course, you accommodate a little greater spending relative to the then state of the economy because the amendment is actually designed to have countercyclical effects built into its operation and the amendment is designed to produce a balanced budget over the life of a business cycle rather than seeking to create a balanced budget within each precise 12-month period known as a fiscal year. This would then allow the Congress to choose a biannual budgetary approach or whatever.

The key is that had this amendment been in effect over the past years, instead of the share of national income or GNP growing to as high as 25 percent, we would have kept the growth of Federal spending in the range closer to revenue growth in the range of 18 to 20 percent.

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Senator SYMMS. Does anybody else want to comment?

Mr. RAHN. There is a danger here and that is that it doesn't say anything about the nature of the tax structure. Again, I don't want to harp on Mr. Mondale's proposal, but I feel very strongly about it, that it is just a counterproductive type of tax increase that does great economic damage. And even though he does not project a big increase in taxes as a percentage of GNP, actually what you would find is that this would dampen economic growth so much by hitting the taxation of the productive sector that work, save and invest, increasing the marginal tax rate, that you could end up getting faulty economic policy if you go into what I consider to be unenlightened—in the last several years the Congress has been much more enlightened and tried to reduce those strong impediments in work, saving and investment by reducing the American taxes. But I don't know how you fashion a constitutional amendment to guarantee that you have an optimum tax system and I think that again would be the responsibility of the organizations represented here to try to continue to educate the Congress.

Senator SYMMS. To get back to this so the guy on the street can understand what you're trying to do, you're saying that if we went into a business cycle where we went into a recessionary period and there was a slowdown and therefore a slowdown in revenues coming into the Federal Treasury, then Congress would have to make necessary adjustments in outlays to come back in line with the projected revenues.

Mr. RAHN. Yes; there's always a lag and I think that's what Lew meant about the countercyclical characteristics of the program, because you have nearly a 2-year lag from the time you first propose a budget until it's finally carried through.

Senator SYMMS. The exception to this, of course, is the Federal Highway Program, which is the only program the Federal Government has where they actually get the money in the bank before they spend it; and otherwise, we do it all on projections and the lag in this case is revenues are coming in at a faster rate than spending is growing at the present time. What is the present rate? You're the economists.

Mr. RAHN. On the Federal Highway Program?

Senator SYMMS. Just in Federal revenues in general.

Mr. RAHN. I thought it was very interesting, if you take a look at the month of July's receipts, Federal revenues in the month of July 1984 were up 18.3 percent higher than the month of July 1983. And for those people who claim that supply side economics doesn't work of reducing the tax rates doesn't increase revenue, I don't know how they explain that.

Senator SYMMS. How much was spending up in July?

Mr. RAHN. It was up considerably less than that, quite modestly actually. Revenues right now are increasing much more rapidly than spending and that is why the Federal deficit is coming down so rapidly. We need more publicity on this because people keep talking about the $200 billion Federal deficit. It never reached $200 billion. It's not going to reach $200 billion. It will probably come in at about $168 billion this year and next year it ought to be considerably lower. In fact, the total Government sector dropped to about 4 percent of gross national product last year and about 2.8 percent this year. That's just from economic growth and that's why economic growth is so important and this amendment helps ensure that high level of economic growth.

Mr. UHLER. May I add too, Senator, that the point that Richard is making about the shape of tax policy and the shape of tax increases that the Congress might in its wisdom, or lack thereof, in the future enact, could have adverse effects on savings and investment. But it's been our feeling for some time that the mood of the people in favor of some major reform of the tax structure, whether we like to call it in buzz words a "flat tax" approach—and there are many that are being offered—that we have the most likely opportunity for a real revamping of the whole tax structure within a world constrained by this constitutional amendment because then we could be assured that at a low effective tax rate—15, 16, 17 percent, whatever it may be across the board—where an explicit increase of a modest amount—a quarter of 1 percent or a half of 1 percent—which could be the engine of enormous additional aggregate revenue to the Federal Government will be constrained by the operation of the amendment.

We do not want to go through the experience of a value added tax of the European Economic Community where small increases have increased the aggregate tax load. But I see a world in which passage of this amendment followed by a real reform of the tax system is a very realistic probability.

Senator SYMMS. But you say we ought to get this amendment first?

Mr. UHLER. Absolutely. I might add, in the genre of the add-on, which is you can pay me now or you can pay me later, Dave outlined what is happening in the States. We are all working together as the legal proponent of the California proposition which our local court just shot down. I was very disturbed, but nevertheless, in Montana, in Michigan, and some of the other States, Vermont, that may in the future enact this, we have such juggernaut underway that the Congress is going to have to respond one way or the other. I would urge that while you are in session at this moment in time that the Senate Judiciary Committee this Thursday approve the amendment and put it on the floor for a vote and get it out, and that the House under the leadership of Bob Smith and some of the others who are doing the discharge—Barber Conable, Larry Craig—that we are now at 180 discharge signatures, that we really get to work and complete that and get it on the House floor and get this approved before the Congress is confronted with the need to convene a constitutional convention.

Senator SYMMS. Amen.

Senator JEPSEN. With that, it's a good place to end. I thank the panel for coming. Is there anyone who has a final statement they would like to make just briefly for the record? If so, you are invited to do so. If not, I thank you for coming.

The Chair would now welcome Congressman Barber Conable. The Chair would advise the Congressman that his prepared statement will be entered into the record and that he may proceed in any manner he may so desire. We are looking forward to hearing your testimony, as you have been in the leadership in the Congress. I thank you for taking the time to come over and I appreciate it.

Senator SYMMS. Congressman Conable, I want to thank you for coming over too, and say how much that I will personally miss the Congressman next year when he is no longer part of this Congress. It was my pleasure to work with him for 8 years in the House and I have always had the highest respect for him. I note we have a vote on and I wanted to say that before I ran off—Congressman Conable.

STATEMENT OF HON. BARBER B. CONABLE, A U.S. REPRESENTATIVE IN CONGRESS FROM THE 30TH CONGRESSIONAL DISTRICT OF THE STATE OF NEW YORK

Representative CONABLE. Thank you, Senator Symms.

Mr. Chairman, and members of the committee, it's a pleasure to be back with the Joint Economic Committee. I spent 6 years here learning the palaver, if not the substance, of economics. I'm sure that the process is as fascinating to you as it was to me and I studied history in college and I needed the instructions that the Joint Economic Committee could give me. It's a very important forum and I know this group takes its responsibility seriously and I thank you for your interest in fiscal policy which is embodied in the balanced budget amendment.

I have not been a great leader on this, unfortunately. If I had been, we would have it in place by now. It's a frustrating process to try to get Members of Congress to face up to the absolute necessity that they accept some restraint on their unfettered fiscal judgment, given the history of fiscal policy in the Congress of the United States.

The American people are far ahead of us on this issue and if we don't accept the responsibility for tailoring the restraint that we are willing to accept, we will have restraint imposed on us from outside in some form that we may not be able to live with. That's one of the major concerns I have here that I would like to stress.

I am absolutely convinced, irrespective of the constitutional convention efforts in Montana and in Michigan, that it's only a matter of time, and that time is running out, before we are going to be told what we must do if we are not willing voluntarily to give up some of the discretion which has been so badly abused in the past, and perenially abused.

So I think the inevitability of this effort is absolutely obvious to anybody who looks at it objectively. There are interests which resist anything that they fear might in some way impinge on their own program opportunities. There are interests that are going to take the short term position of opposition irrespective of the long term inevitability of some element of fiscal restraint as the final antidote of poison of fiscal excess.

Now I don't want to go through a lot of repetitive discussion of the amendment. This amendment has not come out of a vacuum, nor does it come out of the fertile minds of one or two people. This amendment is an evolved piece of legislation out of the wisdom of both House and Senate which has a substantial history of legislative judgment behind it.

It is something with which the Congress could live while elevating the issue to the constitutional level so that without a doubt it would impose a much stronger presumption in favor of fiscal restraint. It does not ensure a balanced budget. It's called a balanced budget amendment. The effect of such an amendment inevitably would be to balance the budget over a business cycle, but because it's necessary to adopt a statement in advance of the economic year, one doesn't know if the economy is going to be headed down or up, and therefore, if the economy is headed up, you will have a surplus; and if it's headed down, you will have a deficit under this proposal. But over the business cycle, it will balance and it clearly will bring us much closer to balance than the kind of "do what you want to do whenever you want to do it" type of fiscal policy we've got now.

So I do believe that it's a sophisticated piece of legislation with which the Congress can live, that it would be effective, and I submit that this bird in the hand is worth any number of possible birds out there in the constitutional convention bush if Congress takes its responsibilities seriously and wishes to head off real trouble and the potential of serious abuse. I personally believe a constitutional convention, the first one since 1787, would be a profoundly disillusioning experience for the American people, fraught with litigation possibilities.

If we wish to avoid that, we had better take seriously our responsibilities of a historical nature based on a Federal Government that's run a deficit for 25 of the last 26 years and 46 of the last 54 years and which faces, rather than an improvement, a rapid deterioration as a result of the burgeoning deficit figures that now stretch out in the indefinite future.

We used to have a wonderful device working for us called bracket creep. The big deficits out in the future are not going to be automatically whittled by people marching to a higher bracket as inflation robs them of their purchasing power. A lot of people haven't focused on this and the need to redouble our efforts because we don't have any automatic fiscal dividend reducing the deficit which is going to be fairly static unless we take heroic efforts to deal with it in the future.

That doesn't mean I'm opposed to indexing. I think it's the most important reform I've voted for in the 18 or 20 years I've been in the Congress. It means only that it's a whole new ballgame and the deficit is going to stay there unless we take a strong action to deal with it, and now is the time. A postponement is only going to find us in the game of fiscal Russian roulette because unless we do it here it will be done to us from outside.

The American people understand the problem. That's all I want to say now, rather than go through a lot of technical discussion of the amendment. I'm sure you're satisfied that this amendment does not come from nowhere but has been evolved through negotiation of House and Senate, through the best in the way of legal scholars, through the strong effort and wise counsel of groups like the National Tax Limitation Committee, and so it does come before us with a history that should give us some confidence in its feasibility.

Senator JEPSEN. I would like to thank the distinguished Congressman for his remarks. In deference to the Senate, which is holding up a vote for me, I would like to expedite the closing statements.

Representative CONABLE. Thank you, Senator. I'm so sorry for taking your time.

Senator JEPSEN. Congressman Smith.

Representative SMITH. We've talked about this.

Representative CONABLE. Let me say that Congressman Smith has been very helpful. He's brought a new dimension in organizing ability to the effort in behalf of the balanced budget amendment and I think we have reason to be proud of his contribution in that respect, and I'm most grateful to him.

Senator JEPSEN. Thank you, sir, and thank you for your testimony, and the best of luck and we will miss you.

Representative CONABLE. Good luck to you, Senator.

Senator JEPSEN. Thank you. The committee stands adjourned.

[Whereupon, at 11:45 a.m., the committee adjourned, subject to the call of the Chair.]

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