Testimony on SCR 134, Balanced Budget Amendment Resolution
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Thank you Mr. Chairman for the opportunity to speak on this resolution. My name is Jason Bailey, and I am Director of the Kentucky Center for Economic Policy.

The amendment to the U. S. constitution that SCR 134 supports would lock away a key tool the country needs to address economic downturns, and would be a barrier to the country’s long-term growth and prosperity.

When recessions hit, deficits increase for two reasons. First, tax collections fall; second, spending automatically and temporarily goes up for programs like unemployment insurance and nutrition assistance because more people qualify. So-called “automatic stabilizers” like unemployment insurance are designed to provide assistance to people who have lost jobs and income due to the recession, and to act as a counter-cyclical force to inject demand in an economy where consumer spending and private business investment have fallen.

A balanced budget amendment, by requiring that outlays be no greater than receipts every year no matter the economic conditions, would make recessions much more severe. Take the recession we are just now coming out of. If this amendment had been in effect in 2009, Congress would have had to abolish every discretionary spending program (including everything from Head Start to roads to the National Institutes of Health, as well as the entire national defense budget), and would still need another several hundred billion dollars from programs like Social Security and Medicare in order to balance the budget. That would have led to massive job and income loss and deepened what was already the biggest downturn since the Great Depression.

These impacts are why in 1997 more than a thousand economists, including 11 Nobel Prize winners, signed a statement opposing a balanced budget amendment.1 A 2003 survey of members of the American Economic Association, the main professional organization of economists, found that 90 percent agreed with the statement, “If the federal budget is to be balanced, it should be done over the course of the business cycle, rather than yearly.”2

The super-majority requirements in SCR 134 to suspend the balanced budget requirement would allow a small minority to play a game of chicken with the entire economy—extracting special favors and increasing rather than decreasing the chance of default on the debt. The structural biases in the amendment against ever raising revenue would make it very difficult to close tax loopholes that emerge from corporate tax evasion, and would keep us from being able to make the investments in education, infrastructure and other areas that are needed to grow our economy.

We need good, constructive conversation about the relationship between the budget and our economic well-being. At the moment, our biggest concern should be the jobs deficit facing the country, which we feel deeply here in Kentucky with a 10.3 percent unemployment rate. Reducing the short-term budget deficit now—at a time of fragile economic recovery—would make that problem much worse.

Large long-term budget deficits are an important issue to address for our future. But by far the biggest task there is the need to address the unsustainable growth of private health care costs, which squeeze the entire economy in addition to increasing the budget deficit. Additional rounds of health care reform are
needed to make our health system both more effective and more affordable. We’ll also need plans that address revenue needs—including scrutinizing the $1 trillion in tax expenditures—and re-examine defense and discretionary spending while making sure at the same time we are making the investments that will grow our economy and improve the quality of our lives.

I urge you to reject this resolution and help lead a needed conversation about real ways to secure our economic future.

Thank you for the opportunity to testify today.

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1 http://www.ombwatch.org/files/bba/econ.html