Joint Economic Committee
Republicans
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MEMBER VIEWPOINT: SENATOR JIM DEMINT

The Senate Republican Balanced Budget Amendment Will Guarantee Getting Federal Debt Under Control

Raising the Debt Limit without Sending a Strong BBA to the States Jeopardizes the Future

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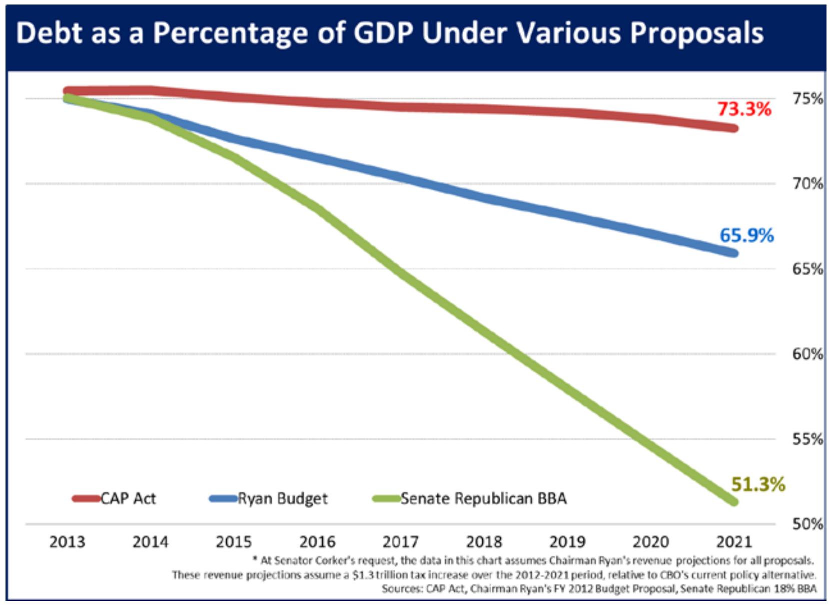
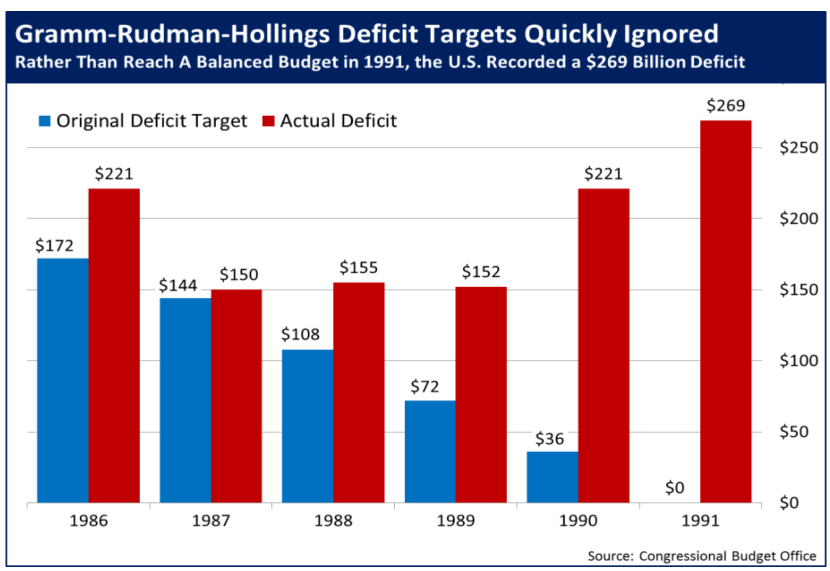
America is facing fiscal catastrophe. The recent massive increase in federal government spending has placed the U.S. government on an unsustainable path. The problem is so severe that in the near term the U.S. government will exhaust its capacity to service its debt – regardless of the statutory authority to borrow. Failing to address this problem today could bankrupt the nation.



There is a path forward that fundamentally fixes the systemic problems. It is a Balanced Budget Amendment (BBA) that caps federal spending at 18% of Gross Domestic Product (GDP).[1] While important reforms in addition to the BBA must be enacted, absent this strong BBA all other proposals will falter.

The Senate Republican BBA includes the essential components that will ensure we tackle our debt crisis; air tight enforceability, a prohibition on spending more than we take in, and the right-sized cap on federal spending.

A Bulletproof Cap



The most effective way to cap federal spending is through an amendment to the Constitution. The Senate Republican BBA does just that by placing in the Constitution a prohibition on spending more than we take in and a bulletproof cap on spending at 18% of GDP.

In the past, Congress enacted budget deficit caps with great fanfare. While sometimes they worked to limit spending growth for a year or two, Congress returned to its free spending ways and abandoned the deficit caps once the spotlight dimmed.

Even if there were a core group of Senators committed to statutory spending caps, there is little they could do to prevent the caps from being circumvented.

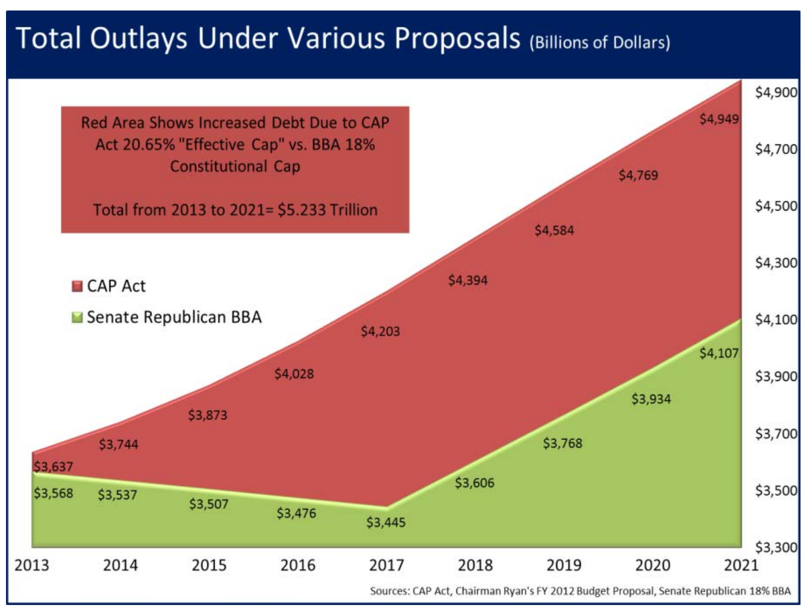
The threshold for passing most legislation in the Senate is the 60 votes needed for cloture (note: Reconciliation is a major exception). While a statutory cap could establish a higher threshold in law (i.e., 67 votes), there's nothing to prevent a future Congress from suspending or completely repealing the threshold under regular order. A likely scenario is that the leadership of Congress could come to an agreement that they needed to dramatically increase spending to address some concern (e.g., TARP) despite 35 Senators who are opposed to the proposal. To get around the opposition, Congress could pass simple legislation to temporally suspend the statutory caps with only 60 votes in the Senate and then pass the budget-breaching legislation in contravention of the 67 vote requirement. In the House they could pass the legislation to waive the statutory caps with a simple majority vote. Without a constitutional barrier, advocates of higher spending only need 60 votes in the Senate to increase spending, regardless of statutory impediments.

Balancing the Budget

Most importantly, the Senate Republican BBA ensures that the federal budget be balanced – spending does not exceed revenues. The Senate Republican BBA also requires a 2/3 majority to raise taxes to ensure that the budget is not balanced on the backs of hard working Americans. With a balanced budget, Washington will stop piling on more federal debt, economic growth will help reduce debt as a percentage of GDP, and eventually we can begin to pay down the debt, reduce unproductive debt service costs, and lower interest rates.

The Right Cap

Capping spending in and of itself is not enough. The caps have to be at the right level to reduce the size and scope of government and ensure that we do not continue to pile on more debt. Eighteen percent of GDP is the appropriate level. Spending at this level would bring spending into line with the historical average of revenue over the last 40 years. It would also reduce the size of government and begin to reduce the debt to GDP ratio. Finally it's the only iron-clad mechanism to ensure that we address the looming crisis in entitlement spending.



[1] The debt and outlay levels shown for the BBA in the graphs "Debt as a Percentage of GDP under Various Proposals" and "Total Outlays Under Various Proposals" assume that the BBA is ratified by the states by the conclusion of FY 2012. The 18% of GDP spending level (which is a percentage of the previous year's GDP) goes into effect in FY 2017. From FY 2012 to FY 2016, spending levels are assumed to gradually decline from 23.9% in FY 2012 to 19.1% in FY 2016, and then to the full 18% in FY 2017. Please note that proposed amendment does not require the gradual decline in federal spending prior to its effective date at the beginning of the fifth fiscal year after ratification. Nor does any existing law require this gradual decline in federal spending. This gradual decline in federal spending is an assumption. Alternative assumptions may yield significantly different results.