Getting out in front of the public mood is one of their few alternatives in struggling against the necessity of having to deal with the dilemma posed by those who would amend the Constitution to require balanced budgets.

This is a happy cause for roaring conservatives or political surfers riding the waves of public sentiment. But those whose genuine concern is to make the system work better find little merit in it.

Congress can punish the states for bringing the issue to a head. The governors declined to join the majority of their legislatures in endorsing the amendment. They see the danger that Congress will cut all funds for state revenue sharing, some $2.5 billion. This may seem a reasonable slap at the headlessness of state legislators.

More to the point, Congress can, as Jimmy Carter already has, raise the specter of a wild constitutional convention, a threat to the stable underpinnings of the system. There will be no move, in the House or Senate, to act on legislation that would set procedures for this unprecedented convention.

This action would, in the opinion of the leaders, only encourage those who are promoting the amendment.

Some believe the reform, which has been slipping through state legislatures without the illumination of informed debate, will be slowed by public education.

Support for it has dropped sharply since the first of the year, expert opinion is consolidating against it, and the use of it by Jerry Brown as a magic carpet to the White House will enlarge the controversy.

Ultimate avoidance of the reform, however, will depend on the resourcefulness of Congress in finding ways to propitiate the taxpayers without accepting their pressures to change the Constitution.

This is a risky game—as Gov. Pierre duPont of Delaware warns, actions that appear to thwart the will of the people and the states can precipitate a constitutional crisis.

But a promising compromise has been advanced by Barber Conable, the Republican wise man on tax issues. He urges that the president henceforth be obliged to submit twin budgets each year—a regular budget reflecting his decisions and an alternate detailing the cuts necessary to attain a balanced budget.

The beauty of this plan is that it would lay specific choices before the people.

In forcing these choices, the alternate budget would puncture the delusions of those who behave as if it were possible to be for all the good things, from balanced budgets to trained nurses.

[From the Washington Post, Mar. 6, 1979]

Don't Balance Budget, Hill Warned

Three well-known economists warned the Senate Budget Committee yesterday that Congress should not try to balance the fiscal 1980 budget.

"This budget before you already shows a sharp move toward budgetary restraint," said Walter Heller of the University of Minnesota, a former chairman of the Council lf Economic Advisers. "Pushing all the way to balance would worsen the (coming) recession."

Another former CEA chairman, Alan Greenspan of Townsend-Greenspan & Co., declared, "I don't think you could balance the budget in 1980 unless there was a huge increase in taxes." But he added, "You could do great things for 1982, possibly for 1981."

And Michael Evans, who has his own economic consulting firm, said flatly, "I'm not in favor of balancing the budget in 1980 . . . That would mean a much more severe recession than our model runs now predict."

The trio testified at a hearing on various proposals to require a balanced budget, such as the constitutional amendment that has been backed by 26 or so state legislatures. All three opposed the amendment.

However, Greenspan and Evans argued that there should be a better balance between federal revenues and spending.

"Wrong-headed as the move for a rigidly balanced budget may be, it reflects a mood that demands a response," Heller said. ". . . given that the constitutional approach is unwise, unworkable and unworthy of democratic self-government, one hopes that Congress will work out a statutory solution that will be responsive to the public will without imposing destructive shackles on itself."

[From the New York Times, Mar. 11, 1979]

A Budget Amendment Could Be the Wrong Easy Answer

(By Leonard Silk)

The nation's No. 1 problem, the double-digit inflation that last week's 1 percent wholesale price rise dramatized, is fast becoming a national neurosis, breeding a revolt against higher taxes, rising government spending and big budget deficits. The most recent, and most popular, solution the middle-class rebels have proposed is a constitutional convention to mandate a balanced Federal budget. Twenty-eight states have already voted for it, and such Presidential hopefuls as the Democratic Governor of California, Jerry Brown, and Republicans Senator Robert Dole, Senator Howard H. Baker Jr. and Representative Philip M. Crane have endorsed it.

President Carter, tooling up for his 1980 campaign, has shown himself anything but immune to the lastest strain of the Proposition 13 virus. Indeed, the politically sensitive Mr. Carter anticipated it, in 1976 pledging a balanced budget by 1981 and continuously talking of his determination to shrink Government spending from 22 percent of gross national product to 21 percent or less. The real balance-the-budget zealots, however, regard his plans as mere shilly-shallying, as they do his proposal to cut the Federal deficit to $29 billion in fiscal 1980. Their contention is that politicians will not cut spending or balance the budget until not doing so is made unconstitutional.

Almost all economists, however, consider the amendment idea simplistic and unworkable. Prof. Hyman Minsky of Washington University in St. Louis calls it "the contemporary equivalent of the Scopes trial." Like William Jennings Bryan's effort to convict a Tennessee schoolmaster for teaching evolutionary theory instead of the fundamentalist version of man's creation, it strikes neo-Keynesian economists as an attempt to wipe out modern fiscal theory and policy.

They contend that the Government needs flexibility to deal with both unemployment and inflation. If the economy is depressed and joblessness is high, tax revenues fall, and the Federal budget falls into deficit. Balancing the budget by raising taxes or cutting spending, they maintain, would only aggravate the slump, and if a boom caused the Government's receipts to soar above expenditures, trying to balance the budget by cutting taxes or increasing expenditures would only intensify inflation. The prime trouble economists see with mandating a balanced budget is that is assumes that the economy is more stable than it really is and ignores the fact that the surplus or deficit in the budget is a consequence, as well as a cause, of the economy's instability.

Quite apart from restricting the Government's ability to stabilize the economy, a constitutional amendment would force shifts in Federal taxes and expenditures far greater than those most supporters of the amendment realize. The 1974–75 recession caused the fiscal year 1974 deficit to climb to $45.2 billion in fiscal 1975. To have balanced the budget in fiscal 1975, Charles L. Schultze, chairman of the Council of Economic Advisors, says, would have required raising taxes or cutting spending by $90 billion, almost surely causing the recovery to drag or abort.

Many economists also consider a budget-balancing amendment unenforceable—more so, says Robert Solomon, former adviser to the Board of Governors of the Federal Reserve System, than was the 18th Amendment. It was possible that most Americans would agree to foreswear Demon Rum—they did not—but it is not within the power of Presidents or legislators to sear off recessions or booms.

What would happen if the President was caught with an unbalanced budget in the Oval Office? Would Eliot Ness move in for a shot-out on the Whlte House lawn? Congress would be even more of a problem, and not just because the mass roundup would beat anything seen in the sin parlors of Chicago. The legislators, in response to the pressures of interest groups and lobbyists, would find various ways of giving in, from "off-budget" expenditures to tax breaks, loans, tariffs and monopolistic protection. Already expenditures that do not show in the budget, such as mortgages issued by the Farmers Home Administration and loans to the United States Postal Service, swell the true total of Federal expenditures by well over ten billion dollars. The concealed costs of regulation come to tens of billions more. In the old days, at least the Federal deficit could be seen.

Yet such is public displeasure with huge Federal deficits and rising taxes that the campaign for a constitutional amendment to wipe them out might have some significant legislative and policy results. Variations to the budget-balancing amendment have been proposed by sophisticated economists and legislators.

The best-known was drafted by a committee headed by Milton Friedman, the conservative Chicago Nobel laureate; Paul McCracken, former chairman of President Nixon's Council of Economic Advisers, and Charls E. Walker, a Deputy Secretary of the Treasury for Mr. Nixon and now a leading tax lobbyist. It would amend the Constitution to limit any increase in spending to that of the rise in the nominal gross national product (total national spending on goods and services unadjusted for inflation) in the preceding year—with some escape hatches for national emergency. The purpose is not to balance the budget as an end in itself, but to shrink the proportion of Government spending and thus the role of Government in the economy.

Senator John Stennis, the conservative Mississippi Democrat, would impose a surtax to make up for any accidental deficit. A liberal version, proposed by Senator William Proxmire of Wisconsin, would require Congress to balance the budgeti n any year in which real economic growth exceeded 3 percent.

Although most economists are against budgetary gimmickry as a sop to a public mood, which would accomplish little or nothing and might even be counterproductive, rising inflation has eroded the reputation of conventional economic theory. Both politicians and the public are looking for a new rule as simple and plain as the Keynesian run-deficits-to-check-unemployment, run-surpluses-to-check-inflation, and that old household remedy, balance-the-budget, looks appealing. And if the public refuses to believe that the analogy between family finances and Federal finances is false, by hook or by crook, the politicians are likely to respond.

[From the Wall Street Journal, Mar. 12, 1979]

To Balance or Not To Balance

(By Herbert Stein)

The unpoetic but Hamlet-like title of this essay reflects my true uncertainty. Whether to bear the ills of the deficits we have or fly to the balanced budgets whose consequences we know not—or have forgotten?

The problem is not that there are strong arguments on each side of this question. The problem rather is that the arguments on both sides are so weak.

I will offer, dogmatically, a summary of reasons for not being dogmatic about either side of the argument.

WHY BALANCE THE BUDGET?

1. The people want the budget balanced. Polls show that a large majority of the American people "favor" a balanced budget. But this has been continuously true for the past forty-five years. During this period the budget has been balanced only eight times. The people have not elected government officials who would balance the budget, or turned out of office those who ran deficits. If the people "favor" balancing the budget, they apparently don't care very much.

2. Deficits cause inflation. But deficits don't cause inflation all the time. We have had deficits almost all the time since 1929, and haven't had inflation all that time. Whether deficits are inflationary or not depends on their size, their timing, their rate of change and how they are financed. The currently fashionable view of the connection between deficit and inflation is that deficits cause monetary expansion which is inflationary. However, it is not clear that deficits have been a major cause of excessive monetary expansion in the past, or that deficits need to have this effect in the future. And if this is the problem, the appropriate remedy may lie in the monetary system rather than in the budgetary system.

3. Deficits cause, or permit excessive government spending. The argument is that government will tend to spend too much if it does not have to count the costs of its expenditures fully, and that it would have to count the costs if it had to raise all of its funds by taxation. There are several problems with this. One is that the "discipline" argument assumes that there is a correspondence between a Congressman's perception of his constituents' aversion to higher taxes and the real costs that government spending imposes on the society. This correspondence is loose, at most.

But even at its best this is not an argument for equality of total spending and total taxes. It is an argument for balancing taxes and expenditures at the margin—where decisions are made. For example, we may take it as given that federal expenditures will never again be under $400 billion. Then the discipline requirement would be met by saying that we should collect one dollar of taxes for every dollar by which expenditures exceed $400 billion.

4. Deficits absorb private saving that would otherwise flow into investment, and deficits therefore reduce the rate of economic growth. This argument assumes, in the first place, that private saving is given, or at least that a deficit does not generate an equal amount of private saving. This assumption has been contested by some economists. Moreover, there is no law of nature or economics which tells us that the right amount of private investment is the amount of private saving. In an economy that is rapidly becoming richer for a variety of reasons, one could argue that it is as reasonable for the government to draw funds out of the private saving-investment stream through borrowing as to draw funds out of the private consumption stream through taxing.

Also, it should be noted that if the government makes expenditures which raise the growth rate this argument would not bar financing such expenditures by deficits.

WHY NOT BALANCE THE BUDGET?

While the arguments for balancing the budget leave many uncertainties, this is also true of the arguments against balance.

1. Full employment cannot be achieved without a deficit. This persistent notion is without empirical foundation, and once it is accepted that the money supply matters at all it is without theoretical foundation, since there is always some money supply that will generate full employment, even if the budget is in balance or in large surplus.

2. The ability to run a deficit of the proper size on the proper occasions increases the government's ability to stabilize the economy. This proposition is being more and more questioned for several reasons. There is doubt whether variations in the size of the deficit or surplus affect aggregate demand, and also whether the effects on aggregate demand influence the real variables, output and employment, or only the rate of inflation. At a more pragmatic level, there is great skepticism about the ability of the government to manage its deficits and surpluses in a way that contributes to stability rather than to instability.

3. Unavoidable fluctuations in economic activity affect revenues and expenditures in such a way that even if the government plans to balance the budget a deficit may result. Of course, if the government made its tax and expenditure decisions so that there would be a large surplus under the forecast economic conditions, there would be a cushion to avoid a deficit even if the economy fell moderately below the forecast path. However, there are probably more realistic solutions to this problem.

One would be to state the budget-balancing requirement in terms of the budget plan, rather than in terms of the budget outcome. Also, the problem is less acute if the requirement is not that the budget be balanced each year but that it be balanced over several years.

4. Balancing the budget will require that we spend less and/or tax more than we would otherwise have done. This is obvious, but it is an objection only if it is true that a) there are some expenditures worth borrowing for but not worth taxing for, or b) that some taxes are "worse" than deficits. Many people take one or both of these positions. Undoubtedly there is some truth in both of them. The real question is whether the political process can be trusted to live with this proposition and not make it an excuse for irresponsible behavior.

5. A requirement that the budget be balanced would be easily and widely evaded. Government receipts and expenditures as those terms are now defined in the budget are only two of the many ways in which the government can influence the allocation of resources in the economy. "Off-budget" transactions are the most obvious among the other ways available. Probably much more important are regulations which require private parties to make expenditures of kinds specified by the government, as for environmental purposes, or requiring employers to provide certain pension or health benefits to workers, and so on. One can argue that limiting the ability of the government to exert its influence overtly through the budget will force the government's influence into less visible and less efficient forms, which would be a loss.

On the other hand, limitation of the government's options would probably reduce the total scale of its activities, and the options outside the budget are probably less inflationary than financing through the conventional deficit.

One cannot draw strong conclusions from the weak arguments I have briefly covered. Probably the strongest conclusion one can find is to make no irrevocable commitments. This is, in my opinion, an argument against enacting a constitutional amendment in an area about which we still know so little.

Another conslusion is that one cannot hope to achieve all desirable goals for the federal budget by operating on whether the budget is balanced or not. Even if the budget were continuously in balance, we would have to attack the problems of the expenditure level and the taxation level, and there is much room for improving policy and procedures in that regard.

However, the general negativism of the preceding argument does not mean that we are unable to find some rules for deficits or surpluses which are superior to the mixture of political expedience and economic fine-tuning by which we have been living. The combustion of inflation, low capital investment and high government expenditures yielding doubtful benefits, from which we are suffering, indicates that the need for better rules of fiscal policy if urgent. And these same conditions suggest that appropriate rules would include elements of the budget-balancing idea in some form.

These rules would not be simple—as "balance the budget" only seems to be—but neither would they be incomprehensible. I believe that they might include a variant of the idea of balancing the budget at high employment, advanced by the Committee for Economic Development in 1947, and modernized primarily to take account of the fact of inflation.

However, it is not my point here to advance a specific proposal in this regard. It is only to suggest that we need to get beyond the shouting-match between the fundamentalists who keep repeating "balance the budget" and the economist-politicians who say, "Leave it to us and we will take care of the budget." If the current furor over budget-balancing should settle down to a constructive search for a synthesis of what is valid in both viewpoints, it will have been most valuable.

[From the Wall Street Journal, Mar. 16, 1979]

Balanced Budget Fallacies

(By Walter W. Heller)

In an era of dissatisfaction with big government, high taxes, and stubborn inflation, it is not too surprising that the Gallup Poll shows a six-to-one majority favoring a balanced-budget amendment to the Constitution. And it must be a strong temptation for elected officials—if they want to be reelected—to do a Jerry Brown and embrace such a proposal.

But this is one case where the majority is simply wrong—not in seeking some curbs on government, for that is their inherent right in a democracy—but in seeking to do so by putting the federal government in a fiscal straitjacket. This is a clear-cut case where responsible political leadership consists in leading voters out of the valley of error and seeking better and sounder ways to achieve their goals.

Since the major thrust for the balanced-budget amendment (and some of its half-siblings) comes from a misinformed public, it may be useful to examine some of the fiscal fallacies that seem to underlie public thinking on this subject.

Fallacy Number One

"Individuals, families, and households have to run a balanced-budget—so why shouldn't Uncle Sam?" People forget that typically when they buy a car or a boat, or, most obviously, a house, they are doing anything but running a balanced budget. At times, they run deficits—often huge deficits—relative to current income. So they are asking Uncle Sam to adhere to a rigid and austere standard that they don't observe themselves.

Fallacy Number Two

Closely related to the first fallacy is a second one that runs something like this: "We consumers (homeowners, corporations) pay back our debts, but Uncle Sam just keeps piling up his debts without end."

The surprising—to some even jolting—truth is that in the period since World War II, the federal debt has been the slowest growing major form of debt. As the following table shows, the federal debt today is less than three times the size it was in 1950, while consumer installment debt is nearly 14 times, mortgage debt 16 times, corporate debt 12 times, and state-local debt 13 times.

Even with the unprecedented run-up of federal debt in the face of two recessions in the 1970s, the doubling of that debt since 1970 is just about matched by the rise of state-local debt, while corporations, consumers, and homeowners have expanded their debt at a considerably faster rate than Uncle Sam.

POSTWAR GROWTH OF MAJOR FORMS OF DEBT
(Billions)

Type of debt	1950	1978	Ratio of 1978 to 1950 (times)
Consumer installment	$22	$299	31.6
Mortgage (1–4 family homes)	45	732	16.3
Corporate (nonfinancial)	71	834	11.7
State-local	22	390	13.2
Federal (in hands of public)	217	611	2.8
Gross national product	228	2,110	7.4

[1] Estimate.

Sources: "Economic Reports of the President," "Economic Indicators," Federal Reserve System Flow-of-Funds estimates.

None of this is meant to justify the present level of federal deficits or debts nor to suggest that the federal debt poses no problems. But the foregoing figures do serve to put the federal debt in perspective.

FALLACY NUMBER THREE

"State and local governments have to live by the balanced-budget rule, so why shouldn't Uncle Sam?"

True, states and localities have to balance their budgets annually, *except for* capital outlays, for which they can borrow. But federal budgetary accounting throws current and capital outlays (as it should) into the same pot. So balancing the federal budget means matching total outlays with current tax revenues, which is quite different from the balanced-budget concept for states and localities.

Let me underscore another decisive difference between state and federal budget impacts: A state or local budget can be balanced by tax hikes or spending cuts without jarring the whole U.S. economy. The federal budget cannot. If the national economy starts to slide, joblessness rises, income and profits fall, and the federal budget automatically goes into deficit as revenues shrink and spending rises. Try to balance it by boosting taxes or forcing cuts in spending, and the result will inevitably be to draw that much more purchasing power out of an already soft and sluggish economy.

This would send the economy into a deeper tailspin, thereby throwing more people out of work, further cutting tax revenues and boosting unemployment compensation, food stamps, and similar entitlement expenditures, thus throwing the budget even more out of whack. A dog chasing its own tail comes to mind.

FALLACY NUMBER FOUR

"Unlike private and state-local deficit financing, federal deficits are a major, perhaps even the major, source of inflation." Both analysis and evidence fail to support this proposition.

Except where federal deficits pump more purchasing power into an already prosperous or overheated economy, they do not feed inflation. When the economy is slack or in a recession, when there are idle workers and idle plants and machinery to be activated by additional demand for goods and services, tax cuts or spending hikes that enlarge the deficit help the economy get back on its feet.

In other words, there are both destructive federal deficits and constructive deficits, depending on the state of the private economy. What we should seek is fiscal discipline—avoidance of waste, inefficiency, boondoggling and unnecessary government programs—but not at the cost of strangling the federal government in its attempts to serve as a balance wheel for the national economy and an instrument for avoiding the greatest of economic wastes, namely, idle workers, machines and factories.

Even a cursory inspection of the data on deficits and inflation shows little relation between the two, for example:

—Milton Friedman reminds us that 1919–20 produced "one of the most rapid inflations" in U.S. history when the budget was running a large surplus, while 1931–33 saw "one of the most extreme deflations we had in history" when "the federal government was running a deficit."

—From 1959 to 1965, federal deficits were the order of the day, yet price inflation was little more than 1% a year.

—In the face of huge deficits in 1974–76, inflation dropped from over 12% to less than 6%.

FALLACY NUMBER FIVE

"Well, even if deficits aren't as bad as we thought, the federal budget is out of control, and the only way to get it under control is to slap some kind of a constitutional lid on it."

Once again, the facts run to the contrary. As a proportion of the gross national product, the budget is being reduced from 22.6% in 1976 to 21.2% in 1980. As against 12,2% annual increases in spending for 1973–78, the rise from 1979 to 1980 will be only 7.7%. And according to the Congressional Budget Office staff, President Carter's proposed $530 billion budget for 1980 falls $20 billion short of the amount that it would cost simply to maintain current services under current law.

Quite apart from the numbers, the popular clamor for "getting the budget under control" seems to ignore two important facts:

—For the past four years, the Congress has been operating under a new budget procedure that has brought vastly more discipline and responsibility into the budget process. In other words, the mechanism for getting the budget under control is already in place and is working.

—Both the White House and the Congress have heard and heeded the message implicit in Proposition 13, calls for constitutional budget limits, and the like. Whether one likes it or not, budget austerity is the political order of the day.

FALLACY NUMBER SIX

"The balanced-budget mandate is a simple, sure-fire way to force the White House and Congress at long last to match spending and tax revenues."

The simple truth is that this simplistic approach is beset with simply prohibitive difficulties of definition, administration and evasion.

A mandate to balance taxes and expenditures first has to define them. Does spending include outlays of Social Security and highway trust funds? (It didn't until 1968.) Noes it include lending activities? If not, moving things from expenditures into loan programs would be an inviting loophole. Imagine the Founding Fathers two centuries ago trying to draw a dividing line between "on-budget" and "off-budget" expenditures. No less an authority than House Minority Leader John Rhodes has noted that "it would be so easy to end-run it."

Administering the mandate would be a nightmare. In January each year, the President submits a budget for a fiscal year that ends eighteen months later. Given the unexpected twists and turns of the economy, revenues may well fall below the forecast path. Imagine the scramble to adjust the budget as revenues misbehaved or unexpected shifts occurred in the costs of farm programs, Medicare, cost of living adjustments in Social Security benefits, and so on.

It does not take too much imagination to foresee Congress, caught in the balanced-budget vise, shoving some expenditures off into the private sector (e.g., by requiring private industry to support laid-off workers) or onto consumers by relying more on higher farm price supports and acreage set-asides and less on federal deficiency payments.

So many exceptions, exclusions, and special emergency provisions would be necessary to make the amendment workable that it would no longer be meaningful. The drafters of the amendment would find that they were writing a prescription for congressional action, not a constitutional mandate. A meaningful amendment would not be workable, and a workable amendment would not be meaningful.

Even if some magic formula could be found to hold the government's nose to the balanced budget grindstone, it would be an affront to responsible democratic government to do so. The essence of that government is to adapt economic, social, and other policies to the changing needs of the times and the changing will of the majority. It is the job of the Constitution to protect basic human rights and define the framework of our self-governance. Taking the very stuff of democratic self-determination out of the hands of legislative bodies and freezing them into the Constitution would not only hobble our ability to govern ourselves but dilute and cheapen the fundamental law of the land.

Ginev that the constitutional approach is unwise, unworkable and unworthy of democratic self-government, one hopes that the White House and Congress will work out a statutory solution that will be responsive to the public will without imposing destructive shackles on their ability to govern.

[From the Journal of Commerce, Mar. 20, 1979]

No Way to Balance the Budget

(An editorial)

Unexpected increases in tax receipts mean the federal deficit for the current fiscal year which ends Sept. 30 will be $33.2 billion, $4.2 billion less than projected as recently as two months ago when the president presented the budget to Congress. Good news? Hardly, for the $5.8 billion rise in revenues to $467.6 billion—there was an offsetting $1.8 billion rise in spending to $495 billion—results entirely from a bigger than expected rise in inflation.

This says quite a bit about the current efforts of some unenlightened folk to bring about a balanced budget by way of a constitutional amendment. If a 2 percentage point rise in the inflation rate will cut the budget deficit a little more than one tenth, then up the inflation rate 20 points and get rid of the deficit entirely. Absurd? No more so than the notion that a balanced budget, no matter how it is obtained, should become the be all and end all of national economic policy.

Look for a moment at the $1.6 billion rise in spending. Some $500 million is accounted for by destroyers and aircraft for Iran that it no longer will be getting. We're paying for them now. Another $600 million will be added to $500 million already in the budget's contingency fund. Almost all of this will be going to Egypt and Israel as a consequence of their peace settlement. And $500 million will go to the Small Business Administration for loans to farmers and businessmen because of the severe winter.

But no problems, it's all quite painless. We could have financed three times as many Iranian destroyers and aircraft, two more Egyptian-Israeli settlements, and two more harsh winters without feeling a thing. Or could we'? The $5.6 billion in added financial receipts is only part of the tax levied on the population by the higher rate of inflation, the direct federal take from this unlegislated—and hence, many feel, illegal—impost.

Multiply 2 percentage points by the total of all goods and services produced in the economy, the gross national product, and the result is closer to $50 billion. That is a sum that more than offsets the $19.5 billion returned to taxpayers by way of this year's reduction in personal and corporate income taxes. At some point, assuming consumers cannot continue to add to their borrowings or send more wives back to work, a tax increase of this size has to become a drag on economic activity. In other words, whether legislated or unlegislated, a sharp rise in taxes will quickly balance the budget. But it will just as quickly plunge the nation into deep recession—or worse.

What is needed is not a legislative mandate requiring a balanced budget but one denying government any benefit from the unlawful tax of inflation. It is unfortunate but true that government, which through its power to control the creation of money is solely responsible for inflation, is also one of the chief beneficiaries. Until this ends, we may have balanced budgets, but we shall continue to suffer all of our present ills and more.

[From the Boston Sunday Globe, Mar. 25, 1979]

The Balance—The Budget Myth

There's Little Unanimity Among the Pro-Amendment Forces

(By Thomas Oliphant)

Washington—"Let me say again," the senator said the other day, "that I believe that calling a constitutional convention would require us to embark on unknown unchartered and highly perilous legal waters.

"I agree . . . that the drive for a constitutional convention to balance the budget threatens a constitutional crisis. It should be avoided at almost any cost."

Sounds like another pointy-headed liberal playing Horatio at the bridge on behalf of big government.

In fact, it was John Stennis, the senior senator from Mississippi, who is so conservative he favors a constitutional amendment to balance the federal budget.

If that sounds anomalous, there is an explanation: As a conservative, Stennis believes the amendment process must proceed as it always has, through congressional initiative and subsequent ratification by the states.

"No," the governor was saying the other day when asked about the merits of a budget-balancing amendment, "I don't think it would be right to have something in the Constitution that would prevent the country from acting forcibly if other things dveloped.

"If it were in the Constitution, it would give us nothing to turn to if a recession should make federal action necessary. The way things are now has served as well for some time."

Sounds like another version of the classic liberal line.

In fact, it was Massachusetts' own Edward J. King in a conversation during the recent National Governors Association meeting here, a man whose sternly conservative views on state tax and spending limitations helped elect him in 1978.

Indeed, this is one rare major issue on which he and the state's lieutenant governor, Thomas P. O'Neill 3d, are united. O'Neill feels so strongly about it that with the quiet encouragement and support of the White House and congressional leaders, he is organizing a national coalition to fight both a convention and the amendment itself.

The views of Stennis and King are illustrative of an important facet of this political tussle—things aren't at all what they seem.

The constitutional convention described almost daily as simply a few state votes from reality is in fact nowhere near it.

Moreover, very few of the 50-odd resolutions and petitions extant on the subject actually involve "balance." Most of them, including those with the widest followings, are much tamer or infinitely more restrictive.

And now there is a new wrinkle—a counterattack against the whole idea. President Jimmy Carter has set up a working group composed of his own and Vice President Walter F. Mondale's aides; they are in regular touch with congressional leaders, above all the office of House Speaker Thomas P. O'Neill Jr.; and both of these operations have a loose but clear link to the effort O'Neill's son is organizing from Massachusetts.

What will actually happen from now on is impossible to predict, but, in barely a month, this counterattack has produced the spreading realization that there is infinitely more to this fight than keeping score on which states have "called for" a constitutional convention.

It is perhaps best to begin with Article Five of the US Constitution, which established the two procedures for amendment. One is the route that has been followed on all 26 current amendments—adoption by a two-thirds vote in each house of Congress, followed by ratification by three-fourths of the states.

The other route has been tried before, but never successfully. Here's what the constitution says about it:

"The Congress... on the application of the legislatures of two-thirds of the several states, shall call a convention for proposing amendments which... shall be valid to all intents and purposed as part of this constitution when ratified by the legislatures of three-fourths of the several states or by convention in three-fourths thereof, as the one or the other mode of ratification may be proposed by the Congress..."

It doesn't sound all that complex. The required number of applications is 34. Right now there are 28, and Indiana is widely assumed to be on the verge of making it 29. That would leave just five more to be obtained, following which the call for convention would issue.

That widely held view, however, neatly sidesteps a few questions.

What, for example, constitutes a valid "application"? Must the required two-thirds of them be uniform as to content and method of adoption?

And what of the "call" Congress is required to issue? How specific should it be or not be? Can a convention be limited to consideration of one topic or even one specific proposal?

Finally, is it proper to speak of the 28 states now in the Yes column as a group? Since many have conditioned their applications on the failure of Congress to act first, aren't invalid while the Senate and House are considering amendment proposal, as they now are?

These questions don't come from thin air. When Carter set up his White House working group, one of its first acts was to ask for a legal memorandum from one of the Harvard Law School better-known constitutional scholars, Laurence Tribe, a committed foe of convention and amendment alike.

Versions of them showed up in his memo, which he revised for public release last month in the form of testimony before the California State Assembly. That body rejected a call for convention, requesting instead action by Congress, to the considerable chagrin of the state's governor and semi-presidential candidate, Edmund G. (Jerry) Brown, Jr.

They are not just questions, moreover. Sources involved in the effort Lt. Gov. O'Neill has begun, said last week that active consideration is being given to constitutional challenges at virtually every step of the process, if necessary.

Moreover, sources close to proponent groups say they, too, have thought of constitutional challenges to actions Congress might take with regard to a convention that they would deem excessively restrictive.

And, further complicating things, the only universally acknowledged words of guidance on this topic are those of the Constitution itself. Though proposals have been made over the years, Congress has never legislated any rules for a states-initiated convention.

"What people have totally failed to realize is that this isn't idle constitutional chatter," one source in the opponents' camp said. "We're talking about fights that could easily before the courts for years."

In part, this legal mess reflects the lack of uniformity and specificity in the campaign for a "balanced" federal budget. It is totally different from all other previous attempts to force constitutional conventions.

Just since 1960, for example, all the attempts have constituted efforts to reverse specific US Supreme Court decisions—banning prayer in public schools, requiring legislative and US House districts to be apportioned on a "one man-one vote" principle, prohibiting state laws banning all abortions, and upholding use of busing and race-based assignment in carrying out school desegregation orders.

In every case, the proponents were after something quite precise, and there was never much doubt at the time that if they got 34 states a convention would have to be called.

Things are completely different this time around. Not only is there no uniformity in the applications thus far approved by the states, there is also no consensus around a definition of "balance" or the method that should be enshrined in the Constitution to achieve and maintain it. In addition, the effort is unique in its attempt to add to the Constitution a concept which the existing document does not prohibit.

Just to give three examples of applications included in the current total of 28: the one approved by the Nevada legislature was vetoed by the governor, the one from Iowa is conditional on Congress having failed to act first by July of 1980; and the one from Delaware is conditional on 33 other states approving language identical to its, which none so far has done.

As to the issue of specificity, the evidence is in the more than 50 proposals currently filed with Congress. The Senate Judiciary Committee began constitutional amendment hearings earlier this month; its House counterpart will follow suit shortly.

Some of the resolutions simply require balance, that is that spending in any fiscal year not exceed revenues. As with virtually all proposals an exception is provided for undefined "emergencies."

Upon declaration by the President that one exists, a vote by two-thirds or three-fourths of each House of Congress could suspend the requirement for a given year.

Ironically it is this kind of "pure" proposal that sources on both sides say is least likely to be approved. This is because of the nature of the budget-making process, which is far from widely understood.

Every January, a President announces his administration's estimate of revenues for the fiscal year that begins Oct. 1, along with detailed spending proposals. The Congress then takes over, setting its own overall revenue estimates and spending targets, and enacting appropriation bills within them.

Once the fiscal year actually begins, anything can happen and often does. In a half-trillion-dollar government all that is needed is for the unemployment rate to be one percentage point above the expected level, and a balanced budget goes $20 billion into the red as a result of lower revenues and higher mandatory spending for things like jobless benefits.

In other words, a balanced budget, even during a slight economic downturn, would require the constant lopping off through a year of already budgeted spending.

An idea with a growing following, and presented this year by Sen. Stennis, has been called the "pay as you go" approach.

Within 20 days of the end of each fiscal year, the President must report on the actual receipts and expenditures for the period. Then, if there is a deficit, he must—except in a declared "grave national emergency"—set whatever percentage surtax on personal and corporate incomes is necessary to wipe it out.

If the balanced budget proposals have anything in common it is that they don't specifically require that the federal government become any smaller or take a lower share of the national income in taxes. The possibility would always exist that future political generations would opt for higher spending and taxes.

For this reason, many conservatives oppose the approach, and none is more prominent than the Nobel economics laureat, Milton Friedman.

A prime mover behind an ad hoc group called The National Tax Limitation Committee, Friedman has backed a constitutional amendment covering two primary situations—when inflation is three percent or less, and when it is more.

In the former case, spending could rise by no more than the previous year's increase in the gross national product. In the latter situation, an extremely complex formula would limit the rise to something less.

This would involve a great deal more than budget-balancing. It would constitute nothing less than the elevation of conservative economic doctrine to the status of constitutional law.

According to the committee's own estimates of impact, if the proposal had been in effect since 1969, the actual budget deficit last year of $48.8 billion would have been a required surplus of $39.9 billion.

Much more revealing is the impact on spending. In 1978, the government spent $461.2 billion. If the committee's proposal had been part of the Constitution, it could only have spent $362.1 billion.

Just what that means can be seen from a few additional numbers. In 1978, the government spent $105.2 billion on the military, $92.2 billion on Social Security payments to the elderly, and $25.2 billion on Medicare payments for the elderly.

Assume for a second that these politically near-sacrosanct efforts had been permitted to reach these levels even with the amendment in the Constitution. That means the government could not have done nearly 50 percent of what it did do in all activities last year.

Roughly $100 billion would have come out of such hides as veterans benefits, aid to state and local government, price supports to farmers, housing programs, highway programs and welfare.

This much is clear after two months of debate: This fight is not nearing its climax; it has in fact barely begun.

[From the Washington Post, Mar. 28, 1979]

President Denounces 'Political Gimmickry' of Drive To Balance Budget by Constitution

(By Edward Walsh)

President Carter has denounced calls for a constitutional amendment to require a balanced federal budget as "political gimmickry" that would be of no help in efforts to reduce the budget deficit.

The president, who earlier had criticized the proposed amendment in generally mild terms, made his stronger views known in a letter to Vern Riffe, speaker of the Ohio House of Representatives. The letter, a response to Riffe's request for Carter's views on the subject, was made public yesterday by the White House.

Release of the letter suggested that after an initially cautious approach, the president is now anxious to take on personally one of his chief Democratic Party rivals, California Gov. Edmund G. (Jerry) Brown Jr., on an issue of Brown's own choosing. Brown, who is expected to challenge Carter next year for the presidential nomination, is an advocate of the balanced-budget amendment and of a constitutional convention to adopt such a law if Congress doesn't act. The president called the convention idea that has been pushed by Brown a "radical and "unprecedented action" that "might do serious, irrevocable damage to the Constitution."

Such a convention is not worth the risk of an attempt to rewrite whole sections of the Constitution, Carter said, "particularly when the expressed purpose of the convention would be to consider an amendment as flawed and harmful as one mandating a balanced federal budget."

An amendment that provided "sufficient exemptions" to deal with possible economic and national security emergencies would be so long and complicated that it "would truly be a sham," the president argued. And in that event, he said, crucial budget decisions might be left to "the interpretation of a mathematical formula or economic statistics by a computer analyst or other unidentifiable federal bureaucrat."

"In short," the president said, "any amendment would either be so filled with loopholes as to be meaningless or so rigid as to tie the nation's hands in time of war or depression. I have yet to see proposed constitutional language which does not run one of these dangers. Nor do I expect to see such language because I do not believe it can be written."

Twenty-eight states thus far have enacted measures mandating a constitutional convention to write a balanced-budget amendment. The Ohio House has not acted on the issue, according to the National Taxpayers Union, which supports the convention proposal. Approval by 34 states would, under the Constitution, force Congress to call the convention.

The White House has organized a task force, directed by Richard Moe, Vice President Mondale's chief of staff, to combat the convention proposal in state legislatures around the country. White House political aides believe Brown made a serious mistake, which could haunt him next year, in his advocacy of the balanced-budget amendment and the convention proposals. But until now, the president's involvement and rhetoric have been muted.

Carter promised in his 1976 election campaign to balance the federal budget by the end of his term. He long ago abandoned that pledge. In his letter to Riffe, he said he will attempt to eliminate the federal deficit through "prudent, responsible and equitable spending reductions."

Two of the nation's most prominent economists cautioned Congress yesterday to go slow on a constitutional amendment requiring a balanced budget as the House Judiciary Committee opened hearings on the issue.

Arthur F. Burns, former Federal Reserve Board chairman and, before that, chief economic adviser to President Eisenhower, told the committee that while he favored the principle of requiring a balanced budget, he was also mindful of the practical difficulties of putting it into the Constitution.

If this document of fundamental principle should become a "textbook on public finance," he said, "novel fiscal devices" to get around it would be spawned. He suggested that Congress begin mandating a balanced budget by statute and, if that works, perhaps add it to the Constitution in a few years.

Paul Samuelson, Nobel laureate in economic science from Massachusetts Institute of Technology, said economics is too inexact a science on which to base a constitutional amendment. "It will be much harder to get out of the mess you make than to get in," he said. Also, it would be a sad day, he said, if "rhetorical flourishes" are added to the Constitution and become dead words such as the guarantees of free speech in the Soviet constitution.

[From the Washington Post, Mar. 29, 1979]

Schultze Warns of Impact of Balanced Budget Rule

(By Mary Russell)

The Carter administration continued its campaign against a constitutional amendment to balance the budget yesterday as Charles L. Schultze, chairman of the Council of Economic Advisers, told a House subcommittee such an amendment would have turned the 1974–75 recession into "the first real depression since the 1930s."

If a balanced budget requirement was in place in 1974 "huge expenditures cuts would have been required and . . . unemployment would have skyrocketed," Schultze said.

He said estimates made from three econometric models showed the gross national product would have dropped 12 percent below the 1973 level, unemployment in 1975 would have risen to 12 percent and spending cuts of $50 billion in fiscal '75 and $100 billion in fiscal '76 would have been necessary.

Schultze's testimony before the House Judiciary Committee was part of a stepped-up campaign by the White House to head off the balanced budget drive which has now been endorsed in some form by 29 states. President Carter has already sent a letter to the Ohio state legislature asking them not to endorse such a proposal.

Freezing "a particular economic policy that may happen to fit the needs of the moment" into the Constitution makes as much sense as writing into the Constitution "a 55 mile-per-hour speed limit law, a 65-degree thermostat setting, a value-added tax or a prohibition on alcohol," Schultze said.

Schultze declined to endorse passage of any law, constitutional or otherwise, requiring a balanced budget.

But Schultze said Congress has in place a budget process that would allow it to balance the budget right now if Congress had the will. Though the budget act could be improved upon, no further laws were needed, he said.

Despite what Judiciary Committee Chairman Peter Rodino (D.N.J.) called "the ballyhoo" over a balanced budget, no more than 25 people were in the committee room for Schultze's testimony, and only slightly more than that attended a morning session at which former chairman of the Council of Economic Advisers Alan Greenspan and James Dale Davidson, chairman of the National Taxpayers Union, testified.

Greenspan endorsed a constitutional amendment requiring a two-thirds vote of both houses to pass money bills. In the meantime Greenspan said he would support legislation doing the same thing to fill the five to seven-year gap that might be required to get approval of a constitutional amendment.

Davidson endorsed a balanced budget amendment that would include a provision to set aside the requirement in times of emergencies.

He said nothing short of a constitutional amendment would stop Congress from voting for deficits which he said are in the political self-interest of members of Congress.

[From the Wall Street Journal, Apr. 4, 1979]

Would a Budget Amendment Work?

(By Robert H. Bork)

The most, and perhaps only, beneficial aspect of the rising number of states calling for a balanced budget amendment to the Constitution is that it may force Congress to some useful political response to heavy taxation, high spending, and double-digit inflation—problems, in one way or another, of Congress' own making.

The initiative of the states raises two specters. The first—a balanced federal budget, no matter what—seems a thoroughly primitive notion. Its inadequacies have been thoroughly discussed on this page. The second specter is that the state initiatives necessarily call for a convention, but a convention called under Article V of the Constitution, according to much responsible scholarship, cannot have its agenda restricted either by Congress or by the form of the state demands. It can consider and propose anything, and "anything" is an apt description of what a lot of organized groups would fight for.

Liberals and conservatives alike shun the convention, each supposing, with some objective evidence in support, that the Republic is currently in short supply of Madisons and Washingtons and not wishing to learn who their modern replacements might turn out to be. Whatever the merits of this dismal view of the nation's political talent and the electorate's good sense, the aversion to a general constitutional convention is surely sound. The continual reexamination of basic principles is a very bad political habit and one not to be encouraged. A constitutional convention ought to be the last resort of a foundering nation, not the casual practice of a successful one.

But specters have their virtues, and this pair may impel Congress to consider proposing a more responsible constitutional approach. It will have before it a proposal drafted by the National Tax Limitation Committee, whose best-known member is Milton Friedman. This amendment would control federal spending by accepting present levels but allowing increases only in proportion to increases in the gross national product. Government-created inflation would be deterred by reducing the allowed spending increase when inflation exceeds three per cent annually.

This spending-limit amendment deserves serious consideration. The case for it is compelling. It is unfortunate that the case against it seems hardly less so.

CASE FOR THE AMENDMENT

The case for the amendment is simply that we must somehow stop the seemingly inexorable rise in the share of society's wealth claimed by the federal government, and so far nothing short of a constitutional limit has worked. Perhaps only a constitutional check, one beyond the reach of ordinary majorities, can cope with the well-known pathology of social democracy: intense constituencies press for particular federal spending programs; generalized unhappiness with total outlays, taxes, and inflation prove ineffective to defeat specific claims; and, as a result, total spending mounts to levels that hardly anyone wants.

The long-term growth of government's share of national wealth (coupled with heavy regulation) is a serious, near-term threat to the vitality of the economy, particularly since it involves income redistribution that weakens incentives for both producers and recipients. Less obviously, perhaps, rising government spending is a long-term threat to American political freedom. Social and political discontents may increase beyond tolerable levels as the decreased size of the pie intensifies disputes about its division. Inflation, which may become endemic if spending is not controlled, has destroyed democracies before. Increasing subsidies, with conditions attached, are a mode of coercion that may evade constitutional guarantees, allowing government to buy decreased freedom it could not order directly. Rising spending also fosters the growth of great bureaucracies whose choices increasingly displace those of elected representatives. Even if the rule of the bureaucracies proves both stable and benevolent, which is by no means to be assumed, it is not the sovereignty of the people.

We may, therefore, brush aside some common objections to any amendment dealing with fiscal matters. One, difficult to fathom, is that fiscal responsibility is inherently a matter for statutory control and does not "belong" in the nation's basic document; the hands of future voters ought not be tied. All constitutional provisions tie the hands of future voters, and, in many cases, a good thing too. The question is instead one of the gravity of the danger addressed. Any systemic malfunctioning of government serious enough to threaten prosperity and freedom may properly be addressed by the Constitution. Nor is the aesthetic objection to the necessarily detailed, technical language of the amendment well taken. It comes not only from dedicated statists, whose literary sensibilities are perhaps suspect in this instance, but also from persons like James Kilpatrick, who writes of the spending-limit: "This is not constitutional language, this is statutory language, and it has no place in the supreme law of the land." The notion that the Constitution is reserved for grand statements of moral principle (whose vagueness has upon occasion caused a great deal of trouble) is neither an accurate description of the original document nor, if the need be plain, a sufficiently wieghty objection to the amendment.

There is, then, very good reason for the temptation to seize the moment, to capitalize upon the mood of tax revolt and transform it into constitutional structure before the mood fades. There are, unfortunately, three very real and substantial problems with the outlay amendment as it now stands.

1. Defense spending would have to compete under the outlay cap with rising costs of existing entitlement programs, such as Social Security, and these costs seem certain to soar even if no new programs are added. Defense is one of the few really discretionary items in the budget for any particular year, and the temptation will always be to meet the limit by deferring defense expenditures for one more year. Given Soviet attitudes and levels of military spending, far beyond their defense needs, delays in our defense spending could prove calamitous. The amendment's emergency clause is no safeguard because complex weapons systems require years of lead time. Unless the clause were routinely invoked, which is unlikely since it requires a declaration by the President and two-thirds vote of each house, by the time an emergency was perceived, it would be too late.

CAUGHT BETWEEN TWO DANGERS

This may suggest that we are hopelessly caught between the dangers of rising government spending and the dangers of the outside world, that our choice is between the hegemony of the Soviet Union or that of HEW. Bleak as that thought is, most people would prefer HEW. Perhaps an amendment should contain a permanent exemption for defined defense spending. That might hurt its chances politically but so does the danger it now poses to national defense.

2. A different problem is that the amendment may not work at all. Forbidden to spend beyond a stated limit set by the previous year's expenditures and the increase in GNP, government has the power to force the private sector to make the expenditures it cannot. The technique is shown by current environmental and occupational safety laws and could easily be applied to Social Security or a national health plan. Real costs to the economy might be higher than direct government spending.

Perhaps this would be better than the hidden tax of inflation because the costs of regulation would presumably be opposed by an articulate business sector. At least the political choices would be more visible. But even that gain could be undercut by devices such as tax credits and government loan guarantees to replace direct spending.

Proponents of amendment admit this problem, and its apparent insolubility by drafting techniques, but argue that the amendment would nevertheless crystalilze a potent political opposition to such evasions. Perhaps. But it is impossible to forecast whether the symbol would prove effective or whether evasion would demean the Constitution and bring the ideal behind the amendment into contempt.

3. There is, finally, the problem of enforcement. A purely admonitory amendment seems undersirable, so court enforcement is provided. This provision avoids porblems of multiplicity of lawsuits, judicial control of particular outlays, and the like, but grounds for worry remain. The language and the subject matter are technical, so that almost endless opportunities for litigation, and hence for judicial dominance in the budget process, exist. Terms must be defined under endlessly varying circumstances; conventions about statistics, accounting, budget making and other arcane matters must be probed and specified. The prospect may be for nightmare litigation that would be damaging both to the judiciary and to the budgetary process.

[From Newsweek, Apr. 9, 1979]

Too Much Democracy?

(By Paul A. Samuelson)

Many American votes are fed up with taxes. They see prices rising at double-digit annual rates. As their real wealth melts, they fear for their future living needs.

The governmental share of the national income seems to them to grow remorselessly. Four months of the year are now spent working for the Washington octopus, the state-capital politicians and the town-hall bureaucrats. If the trend of the twentieth century's middle two quarters continues, by the year 2000 the people best educated and most industrious in the arts of commerce and production will be turning over to the rest of the community half the fruits of their effort.

John Adams and Alexander Hamilton warned against democracy. So did Edmund Burke and Thomas Babington Macaulay. Universal suffrage, they prophesied, would inevitably mean that the poorest 51 percent of the population would pillage the property of the frugal middle classes.

CONSERVATIVE LAMENT

Present-day Jeremiahs are even more gloomy. They expect no part of the public to reap net benefit from the logrolling inherently involved in the legislative process. Even the poor do not receive what the rich lose.

The deadweight loss of inefficient and unresponsive representative government simply decimates the total social pie that we call real gross national product.

The pace of economic progress is brought to a veritable halt as the government fritters away the resources needed for producing new capital equipment and plant, and as inept regulation poisons the wellsprings of technological advance and entrepreneurial innovation.

Workers are hurt along with owners of property, since any rise in real wages must come primarily from the accumulation of capital and the improvement of skills and managerial techniques. At best, it is only the politicians and bureaucrats who fatten and thrive under populist democracy.

I believe that the above paragraphs fairly summarize what many Americans have come to believe. My own analysis of the causes underlying our chronic stagflation has to run along different and less simple lines. If only it were true that old-fashioned demand-pull inflation was our primary problem!

Nor will historical experience with the political economy of social choice bear out the diagnosis that democracy by its nature must produce overlarge public spending. The economic principles of collective decision making and of competitive game theory demonstrate that there is as much an inherent tendency for governments to spend *too little* as too much. What is everybody's business may be nobody's business. The pursuit of private profit will not keep carcinogens out of our rivers and atmosphere. Self-interest will not lead you and me to hire an army and navy to preserve the system that lets us be go-getters and private-utility maximizers.

As the philosopher John Rawls has reemphasized in his "A Theory of Justice," we do not vote for social-security and welfare assistance out of love for Washington civil servants. Being human and realizing we are subject to the unknown perils of unemployment and destitution, we cannily opt for the mutual reinsurances of the modern welfare state, knowing that, but for the grace of God, the bell that tolls could be tolling for us. Your typhoid is my typhoid and we are all, so to speak, citizens of the same Hiroshima.

BEARING WITNESS

When I was asked last week to testify before the Rodino Congressional subcommittee dealing with constitutional amendments for balancing the budget, all the above conflicts came up. On such occasions I do not deem it my function to press my value judgments on those with different ethical views. My duty as an economist is to present as accurately and objectively as I can what will be the likely costs and benefits from each proposed policy decision.

Even from the standpoint of those anxious to contain and reverse the trend toward an expanding public sector, historical experience suggests that it is unwise to use the Constitution to fix upon the nation for all time some particular formula of macro-economic policy.

Only recall 1930–32. Herbert Hoover tried disastrously to raise tax rates in the teeth of a worsening depression in order to balance the budget that inevitably had gone into deficit because of reduced tax collections. Had Roosevelt been forced by the Constitution to do the same, blood would have run in the streets.

Economics is an inexact science. Rules that first seem good wreak havoc later. Winston Churchill was right. Democracy is a poor system; but no one has ever been able to design a better one. If a preponderant majority permanently want less public spending, they'll get their way!

Government by law and not by men means flexible evolution through due process. It doesn't mean freezing into the Constitution each passing economic fad.

[From the Washington Star, Apr. 15, 1979]

Putting a Budget Crutch Into the Constitution

(By William F. Buckley Jr.)

As we all know who know anything at all about polemics, the most frequent technique for attempting to abort a proposed reform is to recite a litany of the apocalyptic horrors that await its adoption. There are those who remember that organized labor in opposing the Taft-Hartley bill predicted that it would bring on slave labor. So it goes with the proposed constitutional amendment to limit federal spending.

The most popular outcry against it has been that it would convene an assembly of mad men whose jacobinical passions would transform the Constitution of the United States. There is nothing, it is widely believed, that would prohibit a constitutional convention, once convened, from going on to do anything it liked: prohibit abortion, prohibit affirmative action, repeal the Bill of Rights, hang Jimmy Carter from a sour apple tree, and so on. Concerning the above, a few observations:

(1) It is gradually creeping into the public consciousness that, of course, no measure promulgated by the constitutional convention would become a part of the Constitution until ratified by three-quarters of the states. The assumption that any fever that seized the convention would communicate to the deliberative mansions of 38 states is to say the least unreasonable. Another way to put it is that if three-quarters of the states are indeed willing to repeal the Bill of Rights, we've had it anyway.

(2) Who says the convention called to consider tax limitation could consider measures that are unrelated to tax limitation? The Constitution is silent on the subject. And "since the Constitution is silent on details, the details become a political question. Since Congress issues the call it can define the jurisdiction of the convention." That is the view of Paul Freund, distinguished constitutional scholar at Harvard. That also is the view of Attorney General Bell. That also is the view of a Constitutional Convention Study Committee commissioned by the American Bar Association in 1971.

(3) There is the practical economic argument that flexibility is needed. Professor Milton Friedman, who wrote the amendment to which Senators Heinz and Stone have given their name, is quick to acknowledge that the notion of balancing a budget every single year is not an economic, let alone moral, imperative.

Professor Laurence Tribe of the Harvard Law School, a lending critic of the proposed convention, comments, "The goal of a balanced budget would have to be couched either in such flexible and general terms as to be meaninglessly lax, or in such rigid terms as to be unthinkably harsh." Now that, in consideration, really doesn't make much sense.

One of the 68 versions of a constitutional amendment sitting before the various judiciary committees calls for a very simple change, namely that all money bills must be approved by three-quarters of both houses. That is hardly a "meaninglessly lax" proposal.

Milton Friedman's is shrewder. He would permit an increase in spending but no greater than the increase in the preceding year's GNP. And then he would permit a two-thirds majority to increase that spending by a limited amount, and a three-quarters majority to spend without reference to the amendment.

Laurence Tribe's principal opposition—and in this he is joined by such distinguished conservatives as James Jackson Kilpatrick—has to do with the nature of the amendment. "The Constitution embodies fundamental law and should not be made the instrument of specific social or economic policies."

The point is well taken. But the Constitution-worshipers should impose upon themselves a little perspective. In the first place, if they do indeed venerate the Constitution, then they should also venerate that clause in it which specifically provides for a constitutional convention called by two-thirds of the states. Why? The ABA report said, "the 'state' method (of amending the Constitution) was prompted largely by the belief that the national government might abuse its powers. It was felt that such abuses might go unremedied unless there was a vehicle of initiating amendments other than Congress."

Now that is exactly what has happened. During the past generation, it is the Supreme Court that has, in effect, amended the Constitution. But what has developed is that the voting public both desires a sound dollar, is hopelessly bewildered by congressmen and senators who engage in systematic deception during the campaign periods, and is therefore reaching not for a deus ex machina, but for a broad underlying imperative.

It is on the order of the alcoholic who makes it a point to bar booze from his larder. Or the Christian who requires himself to go once weekly to church. Or the man who instructs his employer to deduct 10 per cent for the pension fund. It is sophisticated insight into the frailties of democratic government, and the people are crying out for a little constitutional crutch.

[From the Washington Star, Apr. 23, 1979]

A Constitutional Ban of Profligacy

(By William F. Buckley, Jr.)

We have seen that the argument over the proposed constitutional amendment proceeds at many levels. One argument currently being stressed by the amendment's opponents is that economic doctrine ought not to be written into the Constitution, both because economic doctrine is a modish thing and because it is uncrystallized.

That is certainly true. The disestablishment of John Maynard Keynes during the past two decades is as convulsive an experience in iconoclasm as Dorothy's discovery that the dreaded Wizard of Oz was a cowardly middle-aged man, with amplifiers and a lightning-machine.

A couple of years ago Professor John Kenneth Galbraith, interviewed in London, confessed that 15 years before, his fellow economists were pretty sure they had all the answers. "Now," said Professor Galbraith, "we know how much more there is to learn." If there is much more for other economists to learn, we can reflect, *a fortiori*, how much there is left for Professor Galbraith to learn.

Here is the way Professor Laurence Tribe of the Harvard Law School frames his complaint. Let us agree, he says, that during the recent period Congress has tended to overspend, i.e., it has been politically fashionable to overspend.

"But suppose," he says, that tomorrow it became "equally fashionable" to underspend. There is, he insists, an argument against underspending, even as there is an argument against overspending. It is preposterous, he concludes, to lock the Constitution into an attitude in the matter which changes, and rightly so, with the social seasons. Just as it is wrong to spend so wildly as to bring on inflation, it is wrong to underspend when today's capital investment can yield a generation's profit.

This criticism of the proposed amendment, although theoretically appealing, is unrealistic. Unrealistic because economic husbandry, in a democratic society, is far less likely than economic profligacy.

The late Professor Wilhelm Roepke observed in a book published a generation ago that in the history of democratic government, no defeat of a political party can safely be attributed to public resentment of inflation.

It does not follow that economic sophistication might not give us the first exception to that rule. Even so, practical experience teaches us that the intensity with which an individual voter desires his particular benefit—whether social security, or high farm prices, or rent controls, or hospital care, or corporate protectionism, or educational benefits—tends, in the crunch, to outweigh the less specified brief against inflation.

But the principal reason for writing some kind of economic flywheel into the Constitution is precisely the power accumulated by Congress to bribe the states into prolonged submission. And here nobody has spoken more eloquently than the nation's principal and most powerful wheeler-dealer, House Speaker Thomas P. O'Neill.

Asked what were the prospects of the states ratifying a tax-limitation amendment, he commented that a hard look at federal aid to the states would "drive them to their senses."

In other words, a state would finally fear to subscribe to a constitutional amendment after realizing that the resultant economies would mean an end to revenue sharing. We have here the ultimate cynicism: The state cannot afford to risk its own emancipation from federal overspending for fear that in doing so, it will lose that money which is collected by the federal government, mostly from that state's own taxpayers, and then remitted to that state.

The Constitution is based on broad philosophical assumptions, many of them, but not all, stated in the Declaration of Independence. It would appear that the tendency of democratic governments to practice economic policies that induce inflation is now sufficiently pronounced, over a long enough period of time, to justify explicit recognition in the Constitution. For this reason, it is unjustified to say that the proposed reform is a question of economic tinkering.

[From Black Enterprise, May 1979]

Politics and the Balanced Budget

(By Andrew Brimmer)

The campaign to amend the United States Constitution to require the federal government to balance its budget each fiscal year is rapidly making headway. Those who advocate a balanced budget differ among themselves as to the best way to achieve their goal, but they seem convinced that they are floating on a rising political tide. The evidence—at least superficially—appears to support them. For example, a CBS-New York Times poll published last winter found that 73 percent of the public favored a constitutional amendment mandating a balanced budget.

The roots of the political support for some form of limitation on government spending (at the federal, state, and local level) are clear. There is a great deal of frustration—even anger—over the high and rising burden of taxes and the growth of government activities which such taxes finance. This resentment was typified by the overwhelming support for Proposition 13 in California last year, requiring a sharp reduction in property taxes.

That action is now being followed by a campaign, "The Spirit of 13," to amend the state constitution to put a ceiling on spending by the state of California and local jurisdictions within its borders. Parallel movements are underway in other states—as well as at the national level.

Whatever form these efforts take, however, a ceiling on public spending would be an unwise approach to managing the economy.

BALANCED BUDGET CAMPAIGN

The movement that is creating the most political drama is the effort to get a constitutional amendment which would mandate a balanced federal government budget. The National Taxpayers Union is the principal promoter of this thrust. There are two basic approaches. The stronger of these is the drive among the states to call a constitutional convention which would adopt a balanced budget amendment. Thirty-four of the 50 states would have to pass resolutions—and Congress would also have to act—before such a convention could meet. At the end of February, 28 states had taken the step, and many proponents were optimistic that the remaining six states would act during the current year.

The constitutional convention approach is opposed by many political figures who otherwise favor a mandatory balanced budget. They fear a "runaway" convention might go beyond the budget and bring up other, more controversial subjects, such as abortion, anti-bussing and prayers in the public schools.

For this group, a better alternative would be for Congress to propose a constitutional amendment requiring a balanced budget and recommend it for adoption by three-fourths of the states. So far, the congressional leadership has been cool to the idea.

LIMITATION ON GOVERNMENT SPENDING

Conservatives also oppose the mandatory balanced budget concept. This group is led by the National Tax-Limitation Committee (NTC). It proposes a constitutional limit on federal government spending. The National Tax-Limitation Committee argues, quite correctly in my judgment, that a balanced budget could be achieved by raising taxes to finance a high level of government spending.

Advocates of this approach would allow federal spending to increase each year only as much as the proportionate increase in GNP. Moreover, when the rate of inflation exceeds 3 percent, the permitted growth of expenditures would be held below the rise in overall economic activity.

Setting a limit on actual spending appears to be more appealing than the balanced budget strategy to a number of businessmen and bankers. It also seems to have some support in Congress.

ECONOMICS AND THE BALANCED BUDGET

The argument for a mandatory balanced federal budget shows no recognition of the fact that the budget is an *economic* as well as a political instrument. Most of the proposals for a constitutional amendment would permit the requirement for balance to be suspended in the case of a congressionally declared war. They would also allow deficits in the case of other "national emergencies"—if two-thirds (or three fourths in some drafts) of both houses of Congress approve.

However, these proposals fail to see that the federal budget is a *plan* for spending and not an ironclad blueprint. It is based on a given set of tax rates and a range of assumptions about the behavior of the economy. There is no way to predict with any degree of certainty that the configuration of planned expenditures and expected revenues will result in a budget balance, rather than in a budget surplus or deficit. There is an especially serious risk of a deficit during a recession and, at this juncture, it appears that a recession will probably occur during the last half of the current year.

In each past recession, federal government revenues *fell* automatically, and expenditures *rose* automatically. The reasons are clear: during a recession, *private* sector spending declines and tax revenues decrease. The cutback in private economic activity—the hallmark of a recession—leads to a reduction in income. With given personal and corporate tax rates, government revenue also declines. At the same time, rising joblessness leads to an increase in unemployment compensation. Welfare payments to needy individuals and grants-in-aid to state and local governments also expand. In combination, these payments assure a rise in government spending. The net result is the creation—or expansion—of a deficit in the federal budget.

Given this economic behavior, a constitutional requirement of a balanced budget would mandate actions which would have a seriously adverse impact on an economy that would already be weak. To avoid a deficit, sharp cuts in programs or dramatic increases in tax rates—or both—would be required. These measures would throw the economy into a deeper recession, and also create an even bigger deficit.

What is needed is a strong commitment to a responsible fiscal policy by the federal government, both in the White House and in Congress. A mandatory provision requiring a balanced budget is not what is needed.

[From the Boston Globe, May 6, 1979]

HIGH STAKES IN THE FIGHT FOR REVENUE

(By Thomas Oliphant)

WASHINGTON—"I think it's gone."

Lt. Gov. Thomas P. O'Neill 3d rarely makes pessimistic comments about political fights he's involved in, so that crack during an interview last week is worth noting.

He was talking about general revenue sharing, specifically the $2.5 billion portion of it that goes from the federal government each year to the states to spend as they wish.

Since its inception in 1972, revenue sharing has seemed politically untouchable, but, in a remarkable development it has become anything but untouchable this year.

In its consideration of the budget resolution for the federal fiscal year that begins Oct. 1, the House Budget Committee voted to drop the state share of the $6.8-billion program (the rest of the money goes to localities).

The first crucial test is scheduled to take place this week.

The resolution is on the House floor, and an amendment to restore the money should come up for a vote in a few days.

The stakes involved are huge. Many state legislatures have adjourned for the year, and all have enacted appropriations based on revenue sharing funds, believing that because the program authorization extends through next year they had no reason not to expect the money.

And it is a lot of money for every state. One important example: Massachusetts receives $72.5 million in general revenue sharing money and, like many states, uses it all for construction and capital improvement program.

Federal revenue sharing money pays nearly a third of each year's interest on the bonds that finance the construction. According to state officials, to make up for the loss of this money would require either a 3-percent increase in state taxes or a 5-percent cut in the programs—that's trouble that Gov. Edward King does not need.

But it could happen, and the reason involves another political fight that the lieutenant governor is in up to his neck.

This one is the effort to bring about a constitutional convention to consider amending the constitution to require a balanced federal budget. As the principal force behind a group called Citizens for the Constitution, O'Neill is in the forefront of the opposition, which has had considerable success in beating back resolutions in state legislatures.

Ever since the declaration by Gov. Edmund G. (Jerry) Brown Jr. of California that he was for the amendment, there has been much grumbling in Congress about hypocrisy in the states.

The kind of thing Congress is grumbling about was most dramatically illustrated in Pennsylvania, whose legislature passed Resolution 235, calling for the constitutional convention on the balanced budget, and then passed Resolution 236, calling on Congress to extend the life of revenue sharing.

The message from the House Budget Committee has been that the states can't have it both ways—that balance at the federal level would require reduction of the $82 billion in aid that goes to states and localities, of which revenue sharing is a prominent part.

O'Neill is aware of the very real nature of the link between the drive for the balanced budget amendment and the reaction here against aid to the states (22 to 30, depending on how you count) that have joined the drive.

Indeed, his concern about revenue sharing's fate is matched by his concern that the effort to force a constitutional convention on Congress is far more dangerous than many people, President Jimmy Carter included, seem to realize.

For people in Massachusetts, there is an important parallel in all this to be drawn. King has used what's left of the surplus he inherited from Michael Dukakis and cuts in state services to finance a large shipment of money to the cities and towns.

However, to make sure it is used to reduce property taxes, he is trying to limit increases in local spending. What makes that so controversial is that it puts cities and towns in the position of either cutting services or raising the property taxes and state aid is designed to reduce.

Something like that is happening nationally. Balancing the federal budget forever inevitably would mean reduced aid to the states, and that would only make the states' fiscal situations more severe.

Perhaps that is why Ed King opposes on the national level the kind of rigid austerity he preaches on the state level.

[From The Washington Post, May 6, 1979]

The Federal Deficit

(Editorial)

The size of the federal budget deficit is drawing more hostile attention than ever, as congressional anxieties over inflation rise. There seems to be a prevailing inclination to regard federal deficits as a national bad habit, like smoking, to be broken by exercise of will power. It's quite true that in the past several years the deficits have been, by any previous standard, stupendous. The rule has always been that a bigger deficit means greater stimulation of business activity—and yet, despite a $45-billion deficit last year and one estimated at $53 billion this year, the current growth rate is at best uncertain.

The explanation is that the federal government tilts its budget to counterbalance other things that have gone awry in the economy. Before Congress gets carried away with deficit-reduction fever. it might want to consider a bit more carefully what that deficit is offsetting. Before you take away the prop, you're always wiser to find out what it's holding up. In this case, there are three points at which the American economy has got monumentally out of line since the last recession four years ago.

1) State and local governments are suddenly running a gigantic surplus. It's now something over $30 billion a year and, apparently, rising. About half represents the sums being paid into state and local employees' pension funds. The rest

results from inflation, which raises taxes at a time when circumstances—the effect, for example, of falling birth rates on school costs—are slackening the pressure for state and local spending.

2) The United States is spending vastly more abroad than it earns. The net outflow on goods and services was $20 billion last year, and so far this year it's running substantially higher. This outflow is due partly to the very large American imports of foreign oil. Partly it's due to low economic growth in other countries, reducing the demand for American exports. President Carter's energy policy, and business conditions in Japan and Europe, are all elements in setting the size of the U.S. budget deficit.

3) American business is investing somewhat less, currently, than it has usually done at this stage of the business cycle. By the end of last year the shortfall in business investment appeared to be running in the range of $6 billion:

Each of those three factors represents purchasing power that is being taken out of the U.S. economy, or, in the case of investment, expected and accustomed purchasing power that isn't being put in. If you add the three together—$30 billion in state and local surpluses, more than $20 billion in foreign deficits, a $6-billion shortfall in business investment—it comes to a total that's even a little larger than the $53-billion federal budget deficit. That's why the country can run a huge federal deficit without seeing any great spurt of economic growth.

The point of this arithmetic exercise is a simple one. There is a danger in reducing the federal deficit, if all those other imbalances continue to run at their present levels. The purpose of the deficit is to restore, at one point in the economy, the purchasing power that is being drained out at others. Those drains, if they are not offset, will make the economy run more slowly until, before long, it tips into another recession. The safe way to cut the federal deficit is to begin by reducing the state and local governments' surpluses, curbing the foreign deficits and encouraging more business investment.

[From the AFL-CIO News, May 19, 1979]

Ceiling on Federal Spending Quick Formula for Depression

(By Gus Tyler)

There's a mad mix-up in the capital's high places and in the nation's low places about two hot proposals to amend the Constitution of the United States. One set of ideas talks about balancing the budget; the other about limiting spending. They are not at all the same, except in the somewhat foggy fantasies of sloppy rhetoricians.

To balance a budget, you do not need to cut spending. You can balance by raising taxes. Many fiscal conservatives know this—like Howard Jarvis, James J. Kilpatrick, and the economic guru of America's right wing, Milton Friedman—and so they shy away from pushing the balanced budget amendment. The alternate idea is to put a limit on spending.

But to put a ceiling on what Uncle Sam plans to spend in any one year is no easy matter. The obvious question is what shall the ceiling be: shall it be some absolute sum that would quickly lose all meaning as the country, its population, its wealth, and its price levels grow? Or should it be the same as last year? Or what?

The ever-burgeoning brain of Dr. Friedman has come up with a proposal: to permit an increase in spending that is, percentage-wise, no greater than the increase in the gross national product the previous year. If the GNP grows by 3 percent this year, then next year spending may grow by the same percent.

Sane and simple as the notion seems, its application could drive us into insane complexities. Here's why:

We make a decision to spend X number of dollars next year in line with the formula. But that year, inflation pushes up the cost of everything beyond anyone's expectations, just as it is doing to us right now. So Uncle Sam must pay more for everything: submarines and school lunches, paper and pencils, prisons and playgrounds. Whatever the original cost estimate was when the year began, it is wrong when the year ends.

Then there are the "entitlement programs" that say that a person in this country is "entitled" to certain benefits if he or she meets certain conditions. Social security, aid for dependent children, disability payments, veterans' benefits and the like are typical "entitlement" programs.

How much will go out in payments in these programs in any one year depends on dozens of unpredictable factors. That's why no one can firmly foretell how big these items will be.

More important, the Friedman formula is almost a built-in way of making sure that a recession will become a depression. If in any one year the economy stands still (no growth) or slips (a drop in the GNP) then the next year the federal government will not be permitted to step up its expenditures to stimulate the economy.

Then who will revive the sickly system? Workers can't do it with their purchases, because if they were spending money the economy would not be in trouble in the first place. Employers won't invest their money to expand production and hire people at a time when the market is falling. Why produce what you know you are not likely to sell?

But if the government, too, is not permitted to step up its spending to pump some adrenalin into the failing economy, then the GNP will slip still further and the year after that the federal government will have to spend even less and our miseries must multiply.

In sum, the Friedman formula is an impractical, unworkable contraption that, at its best, can only turn bad into worse.

[From the Chicago Tribune, June 3, 1979]

Is Balancing Federal Budget Cure for Economy's Ills?

(By Joseph Winski)

PRO & CON

The idea that balancing the federal budget would be a good way to reduce inflation, taxes, and government spending is proving irresistable to many people.

Thirty of the 50 states have passed resolutions calling for a constitutional convention to consider making a mandatory federal balanced budget part of the U.S. Constitution. Only four more state resolutions are needed.

The issue is a controversial one. Fiscal conservatives such as economist Milton Friedman and Howard Jarvis, leader of California's Proposition 13, have opposed it. According to the National Taxpayers Union the group generally considered as most responsible for the momentum behind the balanced-budget amendment, 23 senators and more than 200 congressmen have sponsored proposals for a balanced budget amendment.

Labor unions generally oppose the idea. Financial reporter Joseph Winski questioned labor representative Gus Tyler and David Keating of the taxpayer group on the issue. The following is an edited transcript of those interviews.

Q—Is a balanced federal budget necessary? Why or why not?

KEATING: It's necessary for a number of reasons. One is to provide government accountability for the tax dollar. Currently, the decisions to spend money are not linked with decisions to impose taxes, and we feel that this would have an effect of congressmen looking more carefully at the budget and cutting out old programs if new ones are needed.

Also, if the total budget was required to be paid for through direct taxation instead of indirectly through inflation or borrowing, it would force the current size of the budget to be lower. How much, we can't say, but all indications are that raising taxes will be very difficult, and that budget cuts are more popular.

Another reason for a balanced budget is the necessity to reduce inflation. The budget deficits which we have seen in the last 20 years have come at all times of the business cycle. There's no question that deficits in the last 20 years have been inflationary quite often. Imposing a barrier making it more difficult to deficit-spend will result in fewer deficits.

It may be true, as people against the proposal have said, that you can balance the budget with high taxes and high spending as well as with low taxes and low spending. But I think given the mood of the taxpayer, that if people decide to raise taxes, they won't find themselves in office.

TYLER: It's not necessary, and it is terribly undesirable. A balanced budget accomplishes absolutely nothing. The general impression is that if you balance the budget you will reduce taxes. The truth of the matter is that a balanced budget in no way whatsoever reduces taxes. Indeed, it may mean greater taxes.

All a balanced budget means is that you may not borrow money to pay government bills. Once you prohibit the borrowing of money, then you must do one of two things: Either reduce your expenditures or increase your taxes so that you can pay in cash for your expenditures. It is not likely that the expenditures will be reduced very much because most of the items—not all—of the federal budget are rather fixed. But whatever the expenditures are, you have to pay in cash, and that necessity means higher taxes, not lower taxes.

I do not see any connection, at all, historically, between the budget deficits and inflation. We have had many years where we had tremendous budget deficits with virtually no inflation.

Inflation is an evil thing. but there are many factors that produce inflation that are totally irrelevant to the whole question of deficits and debt.

Q—Would requiring a balanced budget allow the government enough flexibility to act in times of sharp ups and downs in the business cycle?

KEATING: It certainly is possible to draft an amendment that allows for no flexibility. That's not what we're looking for, and I can't possibly foresee any amendment being proposed and ratified by the 38 states that would be too inflexible.

What we're looking for is an amendment which raises the barriers and makes it harder to run deficits that are planned in advance. Most likely this would require some sort of super majority vote; in other words, a two-thirds vote to run a planned deficit for any given fiscal year.

We haven't had a surplus in 20 years. except for one year. But that's not to say that we won't have surpluses in the future that we could apply to a recession.

If a deficit was considered necessary by the appropriate vote, then you could run a deficit for that year. Proposals that we favor would allow for temporary deficits to respond to economic needs. But not without sufficient checks on them, such as using them as an expenditure for next year.

TYLER: From 1933 down to 1979 we've had 50 years of no depression. Now if you examine the half-century before 1933, you had predictable depressions.

In 1933, we found a way of coping with them, and that way was to have the government intervene in the economy in order to boost buying power at a time when the economy was in a slump, and by stimulating buying power, it was possible to begin to restore the economy.

If the government of the United States is not free to borrow when necessary in order to overcome a crisis, whether that crisis is an economic recession or that crisis is a war (that's when we borrow most heavily), or when that crisis may be some kind of an internal national catastrophe—a riot or explosion or an earthquake—then the government is in a straitjacket and is unable to respond to necessary circumstances.

Q—If we assume that a mandatory balanced budget is desirable, is the constitutional convention the best way to do it.

KEATING: The constitutional convention petition process is obviously a necessary step.

We feel since Congress was part of the problem, and since the amendment would limit the powers of Congress, it is unlikely that Congress would propose this amendment on its own without pressure from the outside.

In this case, it's from the states, and judging from the past, it's one of the most effective pressures that can be put on Congress to propose an amendment.

TYLER: A Constitutional Convention is kind of a dangerous instrumentality. Most people would prefer to do it in the traditional way, if you're going to do it at all.

If the matter comes before the U.S. Congress, you have a body of 535 reasonably intelligent, reasonably responsible human beings to debate the subject.

You also are submitting the matter to people who have had to wrestle for most of their waking hours with questions of expenditures and income, so they have some acquaintance with the matter.

Q—How likely is it that a constitutional amendment calling for a mandatory balanced federal budget will be adopted, either through tradition means or through a convention?

KEATING: I think it's very likely. I think congressional action is more likely than a convention.

Thirty states have adopted the necessary resolution out of a required 34. When we reach that point (34) it will force Congress into one of two things: Either to propose the amendment, or to call a constitutional convention.

We'll reach that point of 34 states adopting resolutions by the 1980 election. I would say that next year the amendment will be proposed by Congress and that it will be ratified within a three-year period.

TYLER: I think it's very unlikely.

Let's assume you have a constitutional convention. At that point there would be serious debate, and the facts would all be presented to the American people and the American people, I think, would reject it. I think the convention would reject it.

When they discover that it isn't a "quicky" way to reduce taxes, and that will be perfectly obvious the moment they sit down and give it serious thought. I don't think there will be any such amendment proposed.

If it gets to the states, the states will absolutely not do it. The first thing to go (in a balanced budget) will be aid to the states. I do not see state legislatures ratifying a constitutional amendment that says each of them will lose several billions of dollars in federal aid a year. The (proponents) just haven't thought it through.

David Keating is director of research of the National Taxpayers Union in Washington, D.C. Keating, 24, has been the group's liaison with state legislators and other people interested in calling a convention to consider amending the U.S. Constitution to require a balanced federal budget. The nonprofit group claims to have 116,000 dues-paying members.

Gus Tyler is assistant president of the International Ladies' Garment Workers Union. Among other things, Tyler heads the union's department of politics, education, and staff training. He has written nine books on politics, economics and urban affairs and is a nationally syndicated columnist. Tyler also has taught at a number of universities.

[From Business Week, June 18, 1979]

A Debate Over Fiscal Discipline for Congress

FEARS THAT MANDATORY BUDGET-BALANCING WOULD BE A SERIOUS MISTAKE

In the aftermath of California's Proposition 13, which cut real estate taxes by 50%, much of the public's frustration with the federal government's inability to control runaway inflation has been channeled into efforts to bring the federal budget into balance. Some 30 states have petitioned Congress to hold a constitutional convention to consider an amendment requiring a balanced budget. But both Democratic and, surprisingly, more and more Republican economists argue that mandatory budget-balancing would be a serious mistake.

Democratic economists say that a constitutional amendment requiring a balanced budget would handcuff the federal government's ability to stabilize the economy, especially when it slows appreciably. "Right now, balancing the budget by cutting spending would turn a mild downturn into a genuine recession," says Michael D. McCarthy, a forecaster at the Wharton School.

The Republicans also oppose budget-balancing, but not for the same reasons. They fear that mere balance would not stop Congress from increasing federal expenditures. "All Congress would have to do is to raise taxes and balance at a higher level," explains Paul W. MacAvoy, Yale economist and former member of the Council of Economic Advisers.

SLIM CHANCES

Instead, the Republican economic establishment favors a constitutional amendment that would limit the growth of federal expenditures directly and thereby cut the size of government. And it is over this issue that an economic debate is raging, with an intensity not seen since the knock-down-drag-out battles of the 1960s between the monetarists and Keynesians.

Not that a constitutional amendment requiring either a balanced budget or an expenditure limitation is very likely right now. Congress is leery of having its hands tied. A deep recession might strike the balanced-budget movement a mortal blow by showing the need for a dose of Keynesian deficit spending to bring the economy around. Some of the 30 petitions already calling for a Constitutional Convention to consider a balanced-budget amendment are probably invalid, experts say. And the prospects of getting 34 valid petitions submitted —the number needed to force a Constitutional Convention—this year are bleak. Nevertheless, the issue is unlikely to die easily. It could be central to next year's primaries and the Presidential campaign itself.

Republican economists are pushing a specific proposal, drafted by a committee that includes Nobel laureate Milton Friedman and former CEA Chairman Paul McCracken, under the auspices of the National Tax Limitation Committee. The amendment would allow federal expenditures to grow only as fast as the gross national product during periods of stable prices. But if inflation exceeded 3%, total federal outlays would be held below the increase in GNP. Friedman explains that if GNP grew by 10%, of which 7% was inflation, federal outlays would be allowed to increase by only 9%. The government is penalized by one-quarter of the excess of 7% over the 3% allowable inflation rate—or one percentage point. This is deducted from the GNP increase of 10%.

According to Claremont Graduate School economist W. Craig Stubblebine, chairman of the committee, the amendment, in effect, says, "Look, Congress, if you fail to adopt a set of policies that keeps the rate of inflation within 3%, then your share of GNP will go down." This, he argues, would provide Congress with incentive to correct some of its inflationary policies like acreage allotments, minimum wages, and subsidies.

The goal is to end, as Friedman says, "the persistent tendency for federal spending to absorb an ever-larger fraction of our income." He points out that the federal share of GNP was 22.6% in 1978 but would have been only 17.7% under his proposal. But the University of Minnesota's Walter W. Heller, CEA chairman under Presidents Kennedy and Johnson, maintains that the Constitution does not have to be amended to impose additional fiscal discipline on Congress. Federal spending will rise only 7.7% from 1979 to 1980, he says, compared with annual increases of 12.2% from 1973 to 1978. This will lower the federal share of GNP to 21.2% in 1980.

Heller credits much of this heightened fiscal restraint to the success of the Congressional Budget Act of 1974, which requires Congress to set aggregate spending limits and then trim expenditures for particular programs to fit into the totals. "Congress is acting much more responsibly under the new budgeting procedures, and that is showing up in tighter spending," asserts Heller.

More fundamentally, Heller objects to a constitutional limit on federal expenditures because it is "misdirected." "What we should be directing ourselves to is the efficiency of government spending, what the money is spent for, and the effects of regulation," he says. Those backing the limitation amendment "don't look at the whole horse," according to Heller.

Some Republican economists also disagree with the broad-brush limitation on government spending. Economist Robert E. Lucas Jr., Chicago University's conservative heir apparent to the Friedman mantle, maintains that each federal program should be evaluated on its own merits according to strict criteria of economic efficiency. While he feels such evaluations would "lower federal expenditures a lot," he opposes comprehensive limitations. "There is no economic case for expenditure limitation—only a political one," he says.

But Friedman argues that strict limitations are required because of a "defect in our political structure." There is a bias for more government spending than the people really want. According to Friedman, the lobbies for increased spending for specific programs are better organized than the diffuse constituency opposed to increases in total spending and taxation. There is, he says, "no way in which the public at large can express its opinion about the government budget as a whole."

Government buying. Not surprisingly, Yale's James Tobin, CEA member under Kennedy, disagrees that there is too much public spending. "Just look at how dirty public parks are, compared with the grounds of, for example, the General Electric headquarters complex." Furthermore, Tobin looks at the entire government sector of the economy—federal, state, and local—and concludes that it has not grown as fast as the Republican economists make it sound. He calculates that the total government sector is purchasing about the same amount of goods and services as in 1965. And after correcting for inflation, which hits labor-intensive government purchases harder than private purchases, Tobin shows that "the real volume of government purchases declined relative to private purchases" between 1965 and 1978.

Yet transfer payments such as Social Security and medicare have grown, concedes Tobin, from 3.2% of GNP in 1956 to 8.6% in 1978. Tobin maintains that such transfers "have contributed to a sizeable reduction in poverty and to a generally more humane society." Adds Heller: "There are still a lot of unmet social needs in this country" that would be short-circuited by an expenditure amendment.

One of the most difficult problems faced by those who want to limit expenditures is how to stop Congress from finagling with government statistics and definitions. James T. McIntyre Jr., director of the Office of Management & Budget, is concerned that tying federal expenditures to GNP would give Congress or a future Administration an incentive to alter the definition of GNP. By redefining GNP so it is bigger, Congress would then be able to expand government spending. "You could make GNP a lot bigger just by including unmarketed housewives' services, or the illicit drug traffic," McIntyre says.

But those familiar with the budget process note that there are many ways of getting around an expenditure limitation. Instead of collecting taxes and then spending the proceeds on various programs, Congress could merely provide tax credits to the private sector for carrying out the same programs. Such tax credit expenditures are widely used to subsidize the hiring of structurally unemployed workers.

AN APPEAL FROM 30 STATES TO BALANCE THE BUDGET VIA A CONSTITUTIONAL AMENDMENT

"Political pressures." Or Congress could reduce federal expenditures further by setting up public authorities. "All the expenses of the Postal Service were outlays when it was a federal department," explains Tobin. "Now it is a public corporation, and only the subsidy is an outlay."

Such problems do bother Stubblebine. "My mind boggles at how you would pass an amendment to deal with tax-credit expenditures," he confesses. He would prefer to "let the political pressures work their way out," and he is confident that, if Congress tried to circumvent the purpose of the amendment, it would "set the stage for another constitutional amendment to deal with those issues."

But excessive reliance on the Constitution or other ironclad agreements for dealing with current economic problems is exactly what disturbs the Democratic team. In spite of the Friedman proposals' built-in methods of overriding constitutional spending limitations during national emergencies, Heller feels that it still puts national economic policy into a "straitjacket." Nobel laureate Paul Samuelson maintains that, historically, "each such attempt at permanent fine tuning—like the gold standard and pegged exchange rates—has resulted in specific economic crises and inefficiencies."

Tobin agrees: "Amendments freezing currently prevalent economic views are inappropriate. The Constitution is simple, beautiful, and dignified," he says. "To add to it the garbage of gross national product—nominal and real—3% inflation, on- and off-budget outlays, and estimated revenues is obscene."

[From the Washington Post, July 9, 1979]

OMB Director Says Balanced Budget May Become Energy Battle Casualty

(By David S. Broder)

LOUISVILLE, July 8—President Carter's budget director hinted strongly today that the goal of a balanced budget next year may have to be sacrified in the battle for energy independence.

James T. McIntyre, Jr., director of the Office of Management and Budget, told the opening session of the National Governors Association that the energy development program Carter is framing at the Camp David meetings "may mean forgoing or postponing for a short time the balanced budget, but in my judgment, that is a tradeoff worth making."

Carter and McIntyre have been aiming at submitting next January a balanced budget for fiscal 1981, the 12 months to begin Oct. 1, 1980. Today's comments from the budget director were the strongest indication so far that the adverse energy developments of recent months may put that goal out of reach.

Carter had pledged during his campaign to balance the budget by 1980, but a year ago moved the deadline back to 1981.

McIntyre said in an interview after the session that "the economy is weakening," in large part because of the oil price increases imposed by the Organization of Petroleum Exporting Countries (OPEC). "That has caused us to revise our economic assumptions," which will be made public Thursday night when the administration submits its revised estimates for fiscal 1980, McIntyre said.

Jack H. Watson, Jr., assistant to the president, told the governors that the administration now expects the size of the American economy—measured by the Gross National Product—to drop 1 percent in 1979 and another 1 percent in 1980. Two consecutive quarters of economic decline are viewed as a recession.

The slowdown in the economy predicted by both men would reduce government revenues. But the OPEC price increases have fueled inflation and brought Carter to the point of recommending higher energy development expenditures than previously had seemed likely.

The combination of those factors, McIntyre appeared to be saying, is likely to make a balanced budget in 1981 impossible.

He stopped just short of making that as a flat statement, saying "the numbers are awfully close" and the outcome is not certain. But McIntyre told the governors that the president wants to put additional resources into energy development, and "if we have to postpone a balanced budget to deal with such a national problem . . . then that would be my recommendation to the president."

"My own personal philosophy and position is to try to balance the budget if we can," he said, "but not at the expense of risking the security and the energy self-sufficiency that we need for this nation."

McIntyre and Watson fielded questions from the governors for about an hour after Vice President Mondale, substituting for the president, had made a plea for national unity on energy.

Watson conceded to several New England governors that refineries are "running slightly behind" in building up distillate production to assure an adequate supply of home heating oil for winter. But he said the figures were being monitored closely and "we will do whatever needs to be done" to see that homeowners do not suffer.

Other governors pressed the two officials for early action on energy problems ranging from nuclear waste disposal and guaranteed supplies of diesel fuel for the autumn harvest to uniform truck weight limits on interstate highways and the speeding of a new pipeline from Alaska to the Midwest. The answers the governors received were sympathetic but noncommittal.

Watson did say, however, that Carter was considering asking Congress to create an "energy mobilization board," which would have authority to waive normal procedures and regulations to hasten the construction of high-priority energy projects.

And McIntyre suggested that the amount of money set aside from the proposed oil "windfall profits" tax to subsidize low-income users of fuel oil may be increased beyond the $800 million previously discussed.

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More Tinkering With the Constitution

(By James J. Kilpatrick)

Washington—It is getting to be just about impossible to find anyone in high position who doesn't want to halt the practice of recurring federal deficits. But I am very dubious about trying to accomplish this salutary end by means of a constitutional amendment.

That is what is proposed in Senate Joint Resolution 126, reported out of a Judiciary subcommittee a couple of weeks ago. The proposed amendment is the product of endless writing and rewriting upon the part of well-intentioned men who abhor the reckless business of recurring red ink budgets. They want to put an end to the evil, and they are convinced that only a constitutional amendment will suffice.

THIS IS THEIR AMENDMENT:

"1) The Congress shall adopt for each year a budget which shall set forth the total receipts and expenditures of the United States. No budget in which expenditures exceed receipts shall be adopted unless three-fifths of each house of the Congress approve such budget by a roll-call vote directed solely to that subject. The

Congress shall not pass, and the President shall not sign, any appropriation bill which would cause the total expenditures for any year to exceed the expenditures in the budget for such year.

"2) The receipts in any year shall not exceed, as a proportion of the national income, that collected in accordance with this section in the prior year, unless a bill directed solely to approving a specific increase in such proportion has been passed by each house of the Congress by roll-call vote and such bill has become law.

"3) The Congress may waive the provisions of Section One with respect to any single year in which a declaration of war is in effect.

"4) Terms used in this article shall be construed in accordance with their meaning on the date on which this article was submitted to the States for ratification

"5) This article shall take effect on the first day of January of the second calendar year beginning after its ratification."

There is this to be said for the draft, that its provisions are shorter, simpler and more constitutional than most of the balanced-budget resolutions that have been advanced in recent years. But with deference to the sponsors, some serious reservations have to be voiced.

On Jan. 28, Mr. Carter will send to the Congress a budget for the fiscal year ending Sept. 30, 1981. Like every other budget, it will be a work of hope, hot air and conjecture. The President's estimates of revenue will be—or so we assume—the very best and most realistic estimates that can be prepared by his economists, diviners, prophets and readers of entrails.

The advance word is that Mr. Carter will predict receipts of $600 billion and expenditures of $615 billion, but the receipts will depend heavily upon tax bills not yet passed, and the expenditures could be knocked awry in a hundred different ways.

The proposed amendment says that Congress shall adopt a budget that sets forth "the total receipts and expenditures." But these figures can only be estimates—mere guesses, subject to revision at the stroke of a pen. The provisions of Section One, I submit, are paper barricades, useless against the winds of expedience and impulse.

A similar difficulty attaches to Section Two, which is intended to hold federal outlays at about 20 percent of national income. But constitutionally speaking, what is "national income"? It is a figure drawn by professional cogitators from jackstraws and moonbeams. It can never be truly definitive.

I have the same mistrust of Congress that Jefferson voiced 182 years ago. I am all in favor of binding man down from mischief by the chains of the Constitution. I simply doubt these chains will work.

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