I

THE BALANCED BUDGET AMENDMENT: NEEDED? EFFECTIVE? EFFICIENT?[1]

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The narrow defeat in March 1995 of the proposed constitutional amendment to require an annually balanced budget did not kill it. Only an improbably large and quick shift in the political climate can prevent its return in the near future as a major issue for public debate and congressional vote. Consideration of the issues raised by the amendment will not be a waste of time.

The core of the amendment that passed the House and was defeated in the Senate would require a three-fifths vote of the entire membership of both bodies in the Congress (i.e., a majority of all members, with failure to vote counting as a "nay") to run a budget deficit and a similar vote to raise the debt limit. A majority of the entire membership in both bodies would be required to raise taxes. Taken together, the requirements constrain spending to a somewhat greater extent than current procedures, but not to the same degree that deficits are constrained.[2]

I start with two underlying premises. First, it would be strongly in the national interest for the federal government to move in a relatively prompt manner (say, over the next 6 to 8 years) to balance its budget. The central rationale for moving to budget balance is to raise the national saving rate, which has shrunk to a low level. Measured net of capital consumption, domestic investment has fallen significantly as a share of the gross domestic product (GDP), and even that level is made possible only by a large, and probably unsustainably high current account deficit with its associated inflow of foreign capital. Moreover, given the demographic changes facing the country over the next 3 to 4 decades, and the rising costs of medical care for the elderly, a strong argument could be made for setting a moderate budget surplus as a goal of national policy, so as to raise future national income and thereby reduce the burden that the future generation of workers will have to pay to support the present generation in its retirement. The real problems of the proposed constitutional amendment lie not in the fact that it aims at budget balance.

Second, for the reasonably foreseeable future, there is no reason to believe that the maintenance of high levels of employment requires a persistent budget deficit in good times as well as bad. The balanced budget amendment does raise seri-

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ous issues of short-run stabilization policy, which will be discussed later. However, the history of the postwar years strongly supports the conclusion that the combination of financial market adjustments and appropriate Federal Reserve policy can make high employment consistent with budget balance in most years, and without the trauma of adjustments through price deflation.[3]

In my judgement, therefore, balancing the budget over the medium-term future and on average maintaining long-run balance (at least) thereafter are desirable goals. The amendment should be judged on its utility as a means to that desirable end. Judged that way, however, the proposal is seriously flawed in several ways.

THE MAIN ISSUES AT STAKE

I want to pose and then answer the following five questions about the proposed amendment:

1. Will the amendment promote or hinder the nation in getting from where we are now headed (a deficit of $350 billion[4] by the year 2002) to a balanced budget?
   The amendment is not being proposed as a precautionary measure in a country whose budget is already in balance. It must be evaluated not only in terms of its long-run effects on the federal budget process, but as a short-run tool to force major changes in current political priorities.
2. Granted that budget balance is somehow achieved, is a constitutional amendment nevertheless needed to keep fiscal policy on a responsible course as the years go by? The theoretical rationale for a balanced budget amendment stems from the proposition that majoritarian decision-making rules, aided and abetted by the log-rolling, parochial nature, and other institutions of our political system, impart a systematic bias towards excessive federal spending and/or deficit financing. Does U.S. fiscal history bear this out?
3. Would enforcement of the requirement for an *annually* balanced budget substantially increase the cyclical instability of the U.S. economy? Could the amendment be modified (without excessive complexity) to minimize such a possibility?
4. Over the decades, and even the centuries, we should think about when considering constitutional changes, what is likely to be the amendment's effects on the budgetary and other policy-making institutions of the federal government, and on the substance of economic and social policy?
5. Who interprets the meaning of the amendment when questions arise and who, other than a simple majority of the Congress, enforces those interpretations, and what are the implications of the answer to those questions?

THE ROLE OF THE AMENDMENT IN ELIMINATING THE DEFICIT

Although most of the public has probably heard that "entitlement programs" constitute a large fraction of federal expenditures, the implications of this fact for the balanced budget amendment are too little understood. There is a widespread view that if Congress simply refrained from voting large expenditure sums, the deficit could be closed. In fact, however, the bulk of federal expenditures no longer arises from positive actions by Congress to appropriate funds but from the automatic payment of cash or other benefits to individuals or firms under the laws previously enacted, governing programs such as Social Security, Medicare, Medicaid, farm price supports, and veterans' disability payments. On the revenue side, receipts flow in under the rules of existing tax laws, as conditioned by the state of the economy. In practice, therefore, Congress cannot even come close to balancing the budget merely by sitting on its hands and pursuing a conservative policy with respect to its spending votes. It must take positive legislative action, either by way of slashing existing benefit formulas under popular entitlement programs or by passing revenue-raising tax bills. However, the proposed amendment does not identify or cut any specific benefit or reduce any entitlement, and, of course, it makes raising taxes more difficult. Also, it cannot force any member of the House or the Senate to vote for any of the specific and difficult actions that will be needed to balance the budget.

By the year 2002, when the balanced budget amendment would take effect if ratified, the federal budget deficit is projected to reach some $350 billion, according to the latest published projections of the Congressional Budget Office (CBO). The proposed amendment would slightly strengthen the already high barriers against raising taxes, so I will assume that all of the action to balance the budget would have to come from cuts in spending below those which underlay the CBO deficit projections. Spending cuts that reduce annual budget deficits also reduce the federal debt and therefore lower future expenditures for interest payments. A gradually phased-in program of spending cuts that reached $280 billion annually in the year 2002, together with an $70 billion of associated reductions in interest payments, would achieve budget balance by that year.[5]

There is a bipartisan consensus in Congress—and apparently among the constituents of Congress—that a large fraction of the budget is fully or partially off limits when it comes to achieving the goal of a balanced budget. The leaders of both parties have competed in the strength of their pledges to take Social Security off the table. With respect to defense, there seems to be a consensus not to cut significantly below the path already envisaged in the administration's defense budget. The administration's long-run defense budget in the year 2000 would be about $20 billion below the level implicit in the CBO projections.[6] Thus, some $260 billion would have to be cut out of other parts of the budget. However, Social Security and defense, together with interest on the debt, account for half of federal expenditures. Cutting that amount from the remaining half of the budget would require across-the-board reductions of almost 25 percent in the expenditures for those programs.

Some programs will not, of course, be cut by anything like 25 percent. For example, the Senate Budget Resolution passed in late May 1995 provides for a hefty increase in outlays for federal prisons, law enforcement, and justice administration activities. Also, it is a foregone conclusion that the huge Medicare program will not be cut by 25 percent. Thus, most federal spending programs would have to be reduced by 30 to 35 percent.

To highlight the draconian consequences of achieving budget balance without touching Social Security and defense or raising taxes, I projected outlays in the general operating budget of the federal government for the year 2002. I define *general operating outlays* to be total budget outlays minus the outlays for the three payroll-tax-financed trust funds—old-age and survivors, disability, and hospital insurance—OASDHI. If the expenditure targets contained in the Senate Budget Committee resolution were achieved, the general operating outlays of the federal government, excluding interest—everything the federal government does except pay interest and provide cash and hospital insurance to the elderly and disabled—measured as a share of the GDP, would fall to approximately the level it had reached in a number of years during the mid-1930s. While the spending reductions now being targeted for the next year or two may indeed be achieved, the deep cuts targeted for the later years simply will not happen.

In reality, the federal budget will not be balanced until at least two, and more likely all three, of the following conditions are met (in addition to more moderate versions of the kinds of measures now being considered): (1) Either through exogenous developments or a tough and comprehensive health care reform, the growth of national health care costs is sharply slowed, substantially moderating the rise in Medicare and Medicaid outlays. (2) The long-run financial problems of the Social Security programs begin to be addressed in the near future with some combination of benefit cuts and earmarked tax increases. (3) Other taxes are raised. The balanced budget amendment does nothing to bring about either of the first two of these conditions and makes it somewhat more difficult to realize the third.

An approach that is often cited to make it look easy to balance the budget runs something like the following: All you have to do to balance the budget by the year 2002, with a little to spare, is to hold the growth of entitlement programs to, say, 3 percent a year. That surely would not be so difficult! Let's see. Because the number of Social Security retirees is rising and so are the average wages and prices on which their benefits are based, Social Security spending is now projected to grow by 5¼ percent a year over the next 7 years. Holding it to 3 percent a year would entail a cut in real benefits of 15 percent for retirees by the year 2002—and deeper cuts in later years. Medicare provides an even more dramatic example. Because medical costs are rising so rapidly, and the utilization of high-tech medical services is growing so fast, Medicare spending is projected to rise by over 10 percent a year. Holding its growth to 3 percent a year would entail a cut of 37 percent by the year 2002—and further cuts in subsequent years. Most of the cuts would have to come by scaling back real benefits, such as enforcing tough managed care (essentially rationing) and increasing beneficiary out-of-pocket payments, probably a warranted, but a highly controversial step. In any event, it is impossible to avoid the tough decisions through a bloodless formula or an easy-sounding cap on entitlement growth.

In the current drive to design a plan that promises to achieve a balanced budget, while avoiding many of the specific choices that would be required to produce it, proposals are likely to be made in the current Congress to make some modest initial cuts in entitlement programs, accompanied by some sort of automatic "fall-back" process to be applied in the future to allocate further cuts if actual growth exceeds the ceilings. However, such attempts at expenditure constraint are likely to fall by the wayside, either immediately as their implications become clear, or later when they actually threaten to take effect.

Proponents of the amendment argue that ratification would give the President and Congress protection against the wrath of voters, allowing them to claim "constitutional necessity" when enacting painful budget balancing measures. However, voters now simultaneously demand (or are widely believed to demand) a balanced budget, protection for their favorite programs, and no tax increases. It is hard to believe that the plea of constitutional necessity would eliminate this kind of cognitive dissonance. Support for the balanced budget amendment is a good way to cast a vote for budget austerity without having to educate and persuade the voters about the really hard measures that will ultimately be necessary if balance is to be achieved. It is for that reason that the amendment would be more likely to postpone rather than to advance the date of budget balance.

KEEPING SPENDING CONTROLLED AND THE BUDGET IN BALANCE ONCE WE GET THERE

If the necessary steps were somehow taken to reduce federal spending and balance the budget, would we still need constitutional protection to keep the federal government on the straight and narrow in the future? The main political impetus behind the balanced budget amendment undoubtedly arises from its attraction as a device to help eliminate the current budget deficit. However, the main intellectual basis for constitutional budget limitations arises from the theoretical analyses of those who argue that majoritarian political institutions, freed by the Keynesian attack on the earlier balanced budget conventions, and combined with the log-rolling and other characteristics of special-interest politics, tend systematically to produce two unwanted consequences: excessive budget deficits and excessively high levels of government spending.[7] Thus, the national welfare requires the continuing shield of a constitutional set of limitations on budget outcomes to prevent a recurrence of excessive spending and deficits. Does the evidence confirm these hypotheses? There are two aspects of budget history to consider: the deficit and the level of spending.

The Deficit

Until recently our political system did not have a tendency to produce large deficits in periods outside of recessions and during the Vietnam era, when a policy mistake was made in refusing to raise taxes and cut spending to finance that war. The budget does regularly swing into deficit during recessions. Periods of high inflation also bring on deficits; inflation drives up interest rates, which in turn raises the cost of paying interest on the federal debt. However, because the inflation also lowers the ratio of federal debt to GDP, the budget ends up no worse off once the inflation has subsided. The cumulative sum of the postwar deficits we had up until the 1980s, even including the effect of recessions and the period of the policy mistakes of Vietnam War finance, were small enough that the federal debt-to-GDP ratio fell continuously and substantially—from 100 percent of the GDP at the end of the Second World War to a little under 30 percent in 1970. The ratio then stabilized during the 1970s and into the first years of the 1980s. The high employment budget balance, adjusted for the effects of inflation on interest payments, along the lines and for the reasons outlined by Robert Eisner, showed a modest surplus on average in the 1950s, and deficits in the 1960s and 1970s (including the deficits of the Vietnam era) that were only a small percent of the GDP, 0.2 and 0.4 percent, respectively.[8] Our already existing constitutional system of divided powers and manifold checks and balances is not, as a matter of course, biased toward large deficits. (The essentially conservative nature of American budgetary institutions is discussed in the next section of the paper.)

The large deficits of the 1980s, which still plague us, stemmed initially from an aberration rather than from some systemic bias in the American constitutional system. I suggest that they began because the nation made an enormous budgetary blunder in the early 1980s, acting on the mistaken notion that we could have a massive tax cut while at the same time sharply increasing the defense budget. The gamble did not work, and the failure fed on itself as one year's big deficit increased next year's interest payments on the debt. Two other developments exacerbated the problem as the decade wore on. (1) The individual income tax was indexed against inflation, which may have made correcting the deficit problem marginally more difficult.[9] (2) The two major health care programs, Medicare and Medicaid, became large enough so that the rapid growth of health care costs began to drive total spending up sharply. Then the very inertia in our constitutional system that is normally a bulwark against excessive deficits and spending began to act as a barrier to taking the draconian measures necessary to get the system back under control. As I have argued, the proposed constitutional amendment will not help us break the inertia; it imposes none of the concrete measures needed to balance the budget and cannot force any members of Congress to vote for them.

The Level of Federal Spending

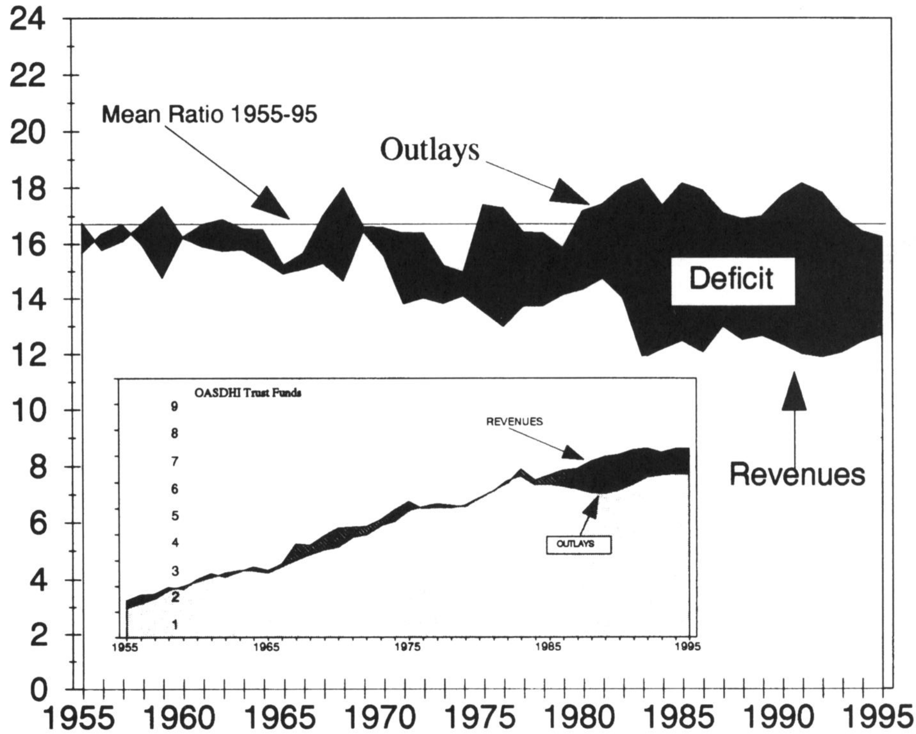
The political theorists who advocate a constitutional amendment argue that there are several major flaws in the democratic majoritarian process of making budgets that bias the federal government toward excessive spending financed by excessive borrowing. Two are especially serious. First, they propose, the benefits from most government programs are highly concentrated among a few recipients, while the costs of each such program are spread widely among all taxpayers. Advocacy of higher spending is therefore organized and effective; opposition is diffuse and feeble. Second, voters and their representatives are afflicted with myopia; they value highly the benefits of government programs that are immediate and discount the tax costs that are often postponed to the future by the device of federal borrowing. Because of this myopic bias, the budget process persistently generates excess spending, financed by deficits.

A longer-term view of history simply does not confirm these propositions. Figure 1 separates government revenues and expenditures into the two categories defined earlier: the expenditures and payroll tax revenues of the OASDHI trust funds (including the hospital insurance program under Medicare), and the general operating budget, which includes all the other activities of the federal government—defense, interest on the debt, welfare programs, and so forth. Spending and revenues are expressed as a percentage of the GDP. Figure 1 plots the course of expenditures and revenues as a share of the GDP over the past 40 years.

As the small insert in Figure 1 makes clear, Social Security benefits and the taxes to pay for them have indeed risen steadily. However, these are precisely the programs that do not fit the stereotype of a program which generates an upward bias in spending. Benefits are not concentrated, but are widely distributed. If there is any one program that seems to have the overwhelming support of the American people—wisely or not—it is this program. The voting public wants the benefits and is perfectly willing to pay for them. In 1983, for example, the public clearly approved of legislation that substantially raised the total sum of Social Security payroll taxes (at least over the next 75 years) relative to the total value of benefits.

The general operating budget, shown in the main part of Figure 1, includes all of those areas where the bias towards excessive spending is presumed to occur. Yet, as you can see, general operating spending has remained a remarkably constant share of the national economy. Within the total, the share devoted to defense spending fluctuated around a declining trend, while the share devoted to civilian spending rose. However, the total remained stable. (In fact, were it not for

FIGURE 1. Federal general operating budget (percent of GDP)

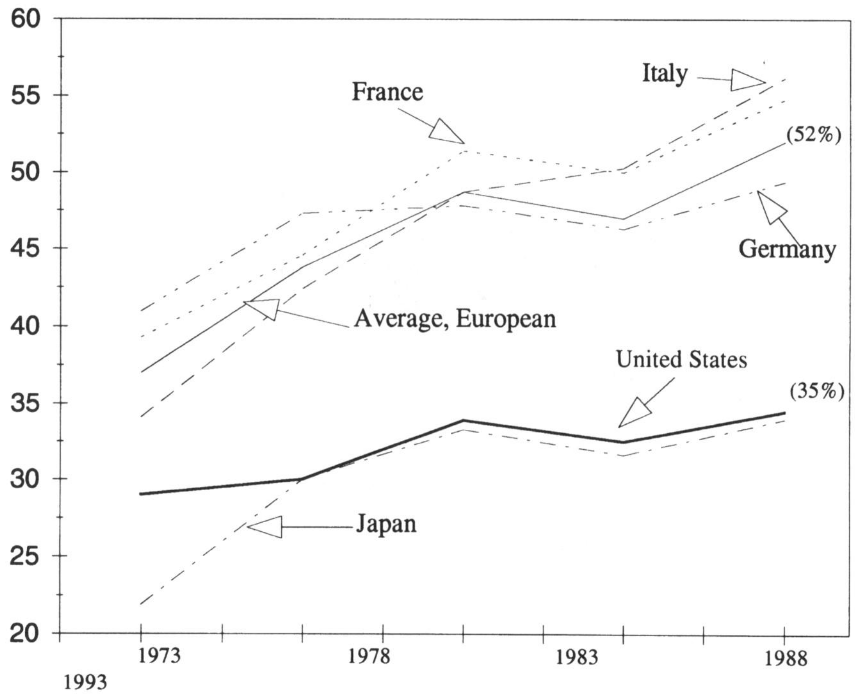


Source:
Historical tables, Budget of the U.S. Government, Fiscal Year 1996 and author's calculations.

mounting interest payments on the debt, the total spending share would have declined over the past 10 to 15 years.) On the other hand, federal revenues in the general operating budget—that is, all revenues except for payroll taxes to support Social Security and hospital insurance—have fallen significantly when measured as a fraction of the GDP. Today's federal deficit is the result. A disinterested observer could find a number of places where that budget should be cut. However, the fact remains that the traditional budgetary controls and constraints built into our system have not tended to produce an inexorable uptrend in the general operating budget of the federal government.

The essential fiscal conservatism of the American system of divided powers can also be seen in Figure 2, which compares the share of government spending in the GDP for various countries. (Because the degree of federalism varies widely from country to country, the only way to compare government spending among differ-

FIGURE 2. Total government outlays, 1973–93 (as a percentage of GDP, 5-year intervals)



Source: Data for 1978 to 1993 taken from OECD Economic Outlook, December 1994, "General government total outlays as a percentage of nominal GDP", Annex Table 27. 1973 data were taken from the December 1992 Economic Outlook (adjusted to reflect differences between the two sources in the 1978 data)

ent nations is to include all levels of government). In 1993 the fraction of the economy taken up by the government outlays in the United States was more than 15 percentage points below the average of European countries, and that of Japan was 13 percentage points lower.[10]

It is no coincidence that the United States and Japan have spending (and revenue) shares of the GDP that are so much lower than other nations. In both of those countries, albeit for different reasons, more consensus is required to get things done than in the parliamentary democracies of Europe. While this requirement for broad consensus is sometimes frustrating, it has on the whole worked to given this country an overall budgetary structure that, with a few notable exceptions, does not easily yield to the whims of transient opinion.

THE DESTABILIZING EFFECTS OF REQUIRING AN ANNUAL BUDGET BALANCE, AND HOW TO FIX THE PROBLEM

In the 50 years since the Second World War, the American economy has been far more stable than it was in the era between the Civil War and the Second World War (even if we exclude the Great Depression from the comparison). Many economists who have studied the period credit part of the improved economic performance to the automatic stabilizing characteristics of the federal budget.[11] In addition to the direct effect in smoothing the outlays of liquidity constrained consumers, there has undoubtedly been an indirect effect of improved income stability in reducing the volatility of business investment.

The combination of market adjustments and appropriate Federal Reserve policy can ensure that the absence of budget deficits, and indeed running a budget surplus of moderate size, will be consistent in the long run with the maintenance of high employment. In the short run, however, even the best run monetary policy cannot be expected to offset perfectly the aggregate demand consequences of substantial demand shocks. In particular, the mean lags of the effects of monetary policy changes on aggregate demand are long, and both the lag profile and the magnitude of those effects are variable and uncertain. Given the inherent difficulties in forecasting the appearance of shocks and in pinning down the time profile and magnitude of responses to monetary policy, the monetary authorities will be neither willing nor able to provide full offsets.

By prohibiting even temporary budget deficits, the constitutional amendment, if enforced, would lead to a situation in which the automatic stabilizing features of the federal budget would be replaced by a procyclical pattern in which any initial falloff in aggregate demand would be reinforced by immediate federal spending cuts (or, less likely, given the structure of the amendment, tax increases). Given the likelihood of imperfect monetary offsets, this process could for awhile feed on itself as increased budget austerity in one period led to greater austerity in the next. The President and Congress would be forced, in proposing and enacting next year's budget, to make further spending cuts to offset a projected recessionary decline in revenues. They could, of course, produce overblown and phony revenue forecasts. However, I assume this is not how the amendment is supposed to operate. The consequences could be severe. Thus, at today's levels of the economy, a deep recession that produced as much unemployment as occurred in the 1982 recession would throw an initially balanced budget into deficit by something like $200 billion. An offsetting cut in spending of that amount would come at just the wrong time, pushing the economy much deeper into recession and seriously postponing the onset of recovery.

Proponents of the amendment will reply that a 60 percent majority of the total membership of both Houses could surely be assembled to avoid this problem—possibly and on most occasions, even probably. However, a constitutional amendment is not a law that can easily be changed; it is a provision meant to last for the ages. I do not think anyone should be willing, on sober reflection, to gamble the American economy on a conviction that there will never be a willful minority in one House of Congress to block the necessary action.

It would not, however, be difficult to "fix" this particular and highly dangerous flaw in an amendment. Two changes would be required. First, the federal government should be required to balance the high-employment budget; that is, revenues and expenditures should be estimated as if the economy were in a reasonably prosperous condition. In the event of recession, revenues could fall in response to lower income, and unemployment compensation rise along with the higher unemployment without triggering off counterproductive spending cuts or tax increases. To the objection that Congress could fudge the "high employment" budget estimates, I ask: Why swallow a camel and strain at a gnat? To operate under this amendment, Congress must make many estimates and provide a myriad of interpretations—all of which could be fudged. A second change in the proposed amendment should be made to allow for a high-employment deficit of up to, say, 2 percent of the gross national product (GNP) in any one year, but also to require that one-third of that deficit be "paid back" in each of the next 3 years. The payback would count as an outlay so the balanced budgets of subsequent years would actually be small surpluses.

THE EFFECT OF THE AMENDMENT ON THE QUALITY AND PERFORMANCE OF GOVERNMENT

A balanced budget amendment would inevitably lead to a substantial deterioration in the quality of American government. First, with respect to budget accounting, the standard versions of the amendment refer to balancing "total receipts" and "total outlays," and make it more difficult to "increase revenues." However, there is no legally or even commonly accepted definition of the terms *receipts* or *outlays* or *revenues.* (The fact that the budget balancing requirement is couched in terms of receipts and the section on raising taxes in terms of revenues already opens up a mine field of potential interpretations and exegesis.) Given the inherent looseness of the terminology, the President and Congress would continually be tempted to define items of spending as "off-budget," and to convert expenditure programs into below-market guaranteed loans.

Moreover, in deciding on the adoption of a constitutional amendment it is necessary to think in terms of generations. Budget accounting might well become meaningless over that period as a succession of Presidents and Congresses devised accounting tricks to evade the amendment. Surely a Congress, which in 1987 achieved a temporary budget reduction by requiring the Pentagon to postpone its payday from the day before to the day after the beginning of the fiscal year, would not cavil at inventing imaginative amendment-busting devices.

Second, to the extent that the accounting tricks were not sufficient and the amendment did begin to bite, a succession of Presidents and Congresses would be tempted to substitute regulations and mandates for budget programs. One can imagine a whole series of measures that transfer federal budget programs to the business sector, mandating various business outlays for social programs under detailed government regulation: Medicaid, unemployment compensation, provision of day care for working mothers as a substitute for Head Start, support for local welfare programs, and so on down the list. Indeed, why not take the whole Social Security program off the budget by mandating that employers provide each worker a defined contribution pension program whose benefit levels must meet precisely those now contained in the Social Security law? Some of these measures would transfer equal amounts of both revenues and expenditures off-budget and so would not help in budget balancing. However, they would help avoid the amendment's toughened requirement for tax-raising.

Give me a roomful of former staff members from CBO, the Office of Management and Budget, and the Congress, and in a month—much less a generation—I will tell you how to transfer a hefty part of the civilian budget to the backs of business firms, guided by detailed governmental regulation. From being one of the least regulated economies in the industrial world, the United States could gradually become the most regulated.

Third, while I am no constitutional lawyer, I think it is obvious either that the amendment will require substantial interpretation and enforcement from the Supreme Court, or—if the Supreme Court refuses to become involved—the amendment will soon have no meaning and no force. There are a host of questions that have to be answered. What are receipts? If a bill does not increase total revenues, but eliminates some taxes through conversion to mandates on the private sector while raising an equal or smaller amount of other taxes, can it be passed by a simple majority vote? Are mandates themselves taxes? Is a repayable loan an outlay? Can Congress declare certain government expenses to be "off-budget," and if so, what are the criteria? Can quasi-private trust funds whose activities are closely regulated by federal law be set up outside the constraints of the amendment? Suppose the budget does begin running an unanticipated deficit and Congress cannot find a majority to cut entitlements or raise taxes to balance the budget as is required by the proposed amendment. Who forces them to do so? These are only a few of the questions that have to be answered. The answers will importantly shape the way government is run.

I realize that the Supreme Court is usually reluctant to deal with the internal operations of the Legislative Branch, and I am told that there are large open questions as to who would have the standing to sue to enforce compliance with the amendment. If for any reason the Supreme Court did not provide interpretative and enforcement authority, the amendment would quickly become a dead letter through a series of majority votes loosely interpreting the terms of the amendment. In the process, however, questionable accounting practices and the substitution of mandates for direct government programs could substantially weaken such rationality and discipline as does exist in the budget process. This outcome may already be guaranteed. To attract the votes of several Democratic members, the Senate version was amended at the last minute to prohibit judicial enforcement except as specified by legislation.

SOME FINAL THOUGHTS

The way our Founding Fathers dealt with economic matters in the Constitution showed deep wisdom and reflected a restraint for which we should be everlastingly grateful. First, they set up a series of institutional and procedural barriers to government action—which we call "checks and balances"—that in effect limited government to taking only those steps that could command a significant political consensus in the country. Second, taking the Constitution together with the first ten amendments, they went beyond these procedural limitations in the field of human rights and explicitly forbade any governmental actions, obtained by consensus or not, that infringed on a series of specifically defined human rights. However, in the field of economic and social policy they generally refrained from imposing either positive requirements or prohibitions on future governments, nor did they set up special procedural rules for such policies. So long as the actions could make it over the universal barriers erected by the checks and balances, and did not interfere with human rights, the Founding Fathers would permit them.

This approach manifested a profound understanding of human nature and the art of government. Basic human rights are timeless and the framers felt free to hold future generations to a set of specific limitations against infringement of those rights. Also, the system of procedural barriers they put in the way of hasty governmental actions in the economic and social arena has served us well over the years, even if—like all other human inventions—not perfectly. They did not try to impose on future generations the economic and social preconceptions of their own agrarian and incipient industrial age. Hamilton and Jefferson's agrarian allies promoted their opposing economic views before the voters and in the legislative arena, not by embedding them in the Constitution. The modern economy would have been ill-served had either of their views been locked into the Constitution, however appropriate either one might have been for the late eighteenth century. We should continue in the tradition of the Founding Fathers and leave budgetary policy out of the Constitution.

ENDNOTES

[1] The author acknowledges with thanks the helpful comments and suggestions of Robert Reischauer and William Gale.

[2] The Senate proposal was altered at the last minute to exclude judicial review of budgetary actions taken under the amendment, except as specifically authorized by Congress. Judicial review is discussed below.

[3] A caveat must be added to the conclusions of this paragraph. When we consider the long time scale appropriate for evaluating constitutional changes, the range and seriousness of possible (as opposed to probable) unfavorable economic shocks becomes quite large. One or more of those contingencies might require a sustained period of fiscal stimulus but occur under political conditions that would preclude securing the necessary supermajority. Thus a constitutional amendment could present, in this regard, a low-probability threat of large damage.

[4] See Congressional Budget Office (1995), Table A-7, p. 49.

[5] See Congressional Budget Office (1995), Table B-1, p. 52.

[6] The long-run defense budget of the administration envisages inflation-adjusted expenditures that fall by fiscal 1998 15 percent below the current level and 39 percent below the peak cold war level of 1989. Outlays then rise with inflation. The Senate Budget Committee Budget resolution, freezes nominal defense outlays after the year 2000, which produces a further real cut in defense spending in those years.

[7] See Schultze (1992), pp. 25–8, for a summary of the main strands of this literature.

[8] See Schultze (1992), pp. 35–7.

[9] Over the postwar era, before the tax system was indexed, tax cuts were periodically enacted, wiping out the effects of bracket creep. In other words, the absence of indexing was not the reason why deficits were kept under control in those years.

[10] See Organisation for Economic Co-operation and Development (1994), Annex Table 27, "General Government Outlays as a Percent of Nominal GDP," p. A30.

[11] See, for example, DeLong and Summers (1984), Abstract and pp. 24–36.

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