Senate Judiciary Committee
Hearing on "A Balanced Budget Amendment:
The Perils of Constitutionalizing the Budget Debate"
November 30, 2011

Questions for the Record from U.S. Senator Al Franken
for Mr. Robert Greenstein

1. Eleven winners of the Nobel Prize for Economics condemned the last proposed balanced budget amendment for mandating perverse actions in the face of recessions. They said it was unsound and would aggravate recessions. More recently, Macroeconomic Advisers, a private economic forecasting firm, said that if a balanced budget amendment took effect in 2012, unemployment would double from 9 percent to 18 percent and our national GDP growth would be reduced by 19 percent.

Would a balanced budget amendment make our current economic recession worse?

> No matter the state of the economy, a balanced budget requirement would increase the risk of recession and make recessions worse. As I mentioned in my testimony, "This is an unwise stricture that large numbers of mainstream economists have long counseled against, because it would require the largest budget cuts or tax increases precisely when the economy is weakest. It holds substantial risk of tipping faltering economies into recessions and making recessions longer and deeper. The additional job losses would likely be very large."

2. The Federal Deposit Insurance Corporation keeps my bank accounts safe. They hold a large number of Treasury securities as insurance. The Pension Benefit Guarantee Corporation makes sure that if a Minnesota company goes bankrupt, Minnesotans don't lose their pensions. The PBGC has assets they hold in order to help pay for this when they need to. These financial agencies keep "rainy day" reserves, just like most states do, reserves they built up when economic times were good. They use these reserves to fulfill their national obligations when times are hard.

Do any of the current balanced budget amendment proposals allow for the use of this type of fund without a supermajority vote or a subsidy from some other part of the government?

> Under a balanced budget amendment, all federal spending in any year must be offset by revenues collected in that same year — including spending for programs paid for through trust fund savings. As Richard Kogan and I noted in a November 14, 2011 report by the Center on Budget and Policy Priorities, under a balanced budget amendment "Social Security could not draw down its reserves from previous years to pay benefits in a later year but, instead, could be forced to cut benefits even if it had ample balances in its trust funds, as it does today. The same would be true for military retirement and civil service retirement programs. Nor could the Federal Deposit Insurance Corporation or the Pension Benefit Guaranty Corporation respond quickly to bank or pension fund failures by using their assets to pay deposit or pension insurance, unless they could do so without causing the budget to slip out of balance." In other words, programs such as Social Security and PBGC could draw

on their reserves only if there is an offsetting surplus in the rest of the budget (either through budget cuts elsewhere or revenue increases), or if the balanced budget requirement were waived. All current balanced budget amendment proposals would require a supermajority vote to waive the balanced budget requirement, except in times of war (and, under Rep. John Carney's proposal, times of economic downturn). All Republican-sponsored balanced budget amendment proposals would also require a supermajority vote to raise taxes, and only some of these proposals would allow a simple majority vote to raise taxes in times of war. In short, each current balanced budget amendment proposal would endanger the economy and threaten the integrity of programs like Social Security, FDIC, and PBGC as described in my testimony.