**Key Points on the Standard BBA (H.J.Res. 2) and More Restrictive BBA (H.J.Res. 1)**

* **The BBA would sabotage the economy.** By requiring a balanced budget every year, no matter the state of the economy, the standard BBA would raise serious risks of tipping weak economies into recession and making recessions more frequent, longer, and deeper, causing very large job losses and hurting long-term growth. That’s because it would force policymakers to cut spending or raise taxes just when the economy is weak or already in recession — the exact opposite of what good economic policy calls for. Specifically, before 1929, the budget was balanced or close to it in most years (except during major wars), while from 1933 on, the government actively fought recessions by allowing deficits to increase when the economy was weak and then shrink as it recovered — and the latter approach worked better:

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| --- | --- | --- |
|  | “Balanced budget” period (1854-1929) | “Fight recessions” period (1929-2017) |
| Average number of recessions per decade | 2.8 | 1.6 |
| Average length of economic expansions | 25 months | 63 months |
| Average annual real economic growth per person | 1.4% | 2.0% |

* + We don’t need to balance the budget in every year to put the federal budget on a sustainable path. Even with modest-sized deficits, it is possible to stabilize or reduce the debt-to-GDP ratio, which is the best measure of sustainability over the long run.
* **The BBA would undercut the structure of Social Security, Medicare, and other such funds.** The BBA prohibits Social Security, Medicare Part A, the FDIC, the military and civil service retirement funds, and other funds from using their accumulated reserves. That’s because the BBA prohibits expenditures from exceeding revenues collected *in that year*. The $2.9 trillion in Treasury securities held by Social Security would not be available to help pay benefits to the baby boomers in retirement since almost all of it was collected in prior years.
* **The BBA is much stricter than state requirements**. Every state is permitted to borrow to finance some or most capital expenditures; state and local governments are currently $3 trillion in debt. But H. J. Res. 2 prohibits all federal borrowing. States also use Rainy Day Funds, but the BBA would prohibit the federal government from doing so, because it prohibits expenditures from exceeding revenues collected *in that year*, as noted above.
* **The BBA is *far* stricter than constraints on families.** Prudent families balance their checkbooks but *not* their budgets, because that would mean no borrowing: no mortgages, no student loans, no dealer-financed cars. And even if a rich family never borrowed, it might use its savings or inheritance to buy a house or pay for college. But if this BBA applied to families, they would have to finance houses entirely out of *current* *income*: they could not use savings!
* **What can the courts or president do under the BBA?** The BBA and its proponents are silent about the role of the President and the courts. If Congress cannot balance the budget, can the President cut programs or raise taxes unilaterally? Can the courts? No one knows.

This more restrictive version of the BBA has all the features and drawbacks of the Standard BBA but *also* prohibits tax increases and caps total federal expenditures at 20 percent of GDP. This version of the BBA may be more about small government than balanced budgets.

1. **The more restrictive BBA, H. J. Res. 1, *also* prohibits tax increases**.

* Taxes could be cut by majority vote but could only be raised by obtaining a waiver, which would require a three-fifths vote in the House and the Senate.
* Revenue levels may ratchet down over time, since tax and program cuts can be approved by majority vote, but any tax increases — even those reversing prior tax cuts — would be unconstitutional, i.e., would require supermajorities.
* Because the budget must be balanced every year, the level of revenues would constitute a de facto *constitutional expenditure cap*.
* We currently estimate 2019 revenues at 16.5 percent of GDP. If this BBA were in effect, that would be the expenditure cap — but expenditures have not been that low since 1956, before Medicare, Medicaid, Disability Insurance, and the national highway system existed.
* To cut expenditures to the level of revenues over the 2018-2027 decade would require *$10 trillion* in ten-year program cuts. The cuts would *average* more than one-fifth of all program costs.
* Protecting any program would increase the required cuts in all others. If Social Security and Medicare were protected, for instance, the 2019 cuts would need to *average* 48 percent in all other programs (defense, veterans, Medicaid, education, environmental protection, infrastructure…)

1. **The more restrictive BBA, H. J. Res. 1, *also* limits spending to 20 percent of the economy.**

* Total government spending currently exceeds 20 percent of GDP and has so in 30 of the 43 years since the Congressional Budget Act was enacted — including *each* of Reagan’s eight years. Ditto for the four years of Trump’s current term, according to OMB. This constitutional spending limit would apply no matter how much revenues grew — even if the budget were in surplus.
* Social Security and Medicare are growing faster than GDP (due to the aging of the baby boomers), but the combined costs of all other programs are shrinking. Because Social Security and Medicare dominate and will continue to do so, total spending will increasingly breach this 20 percent limit, even without legislation expanding *any* budget programs.

And just like the standard BBA, this version —

* **would sabotage the economy** by forcing budget cuts at the wrong time, when the economy is weakest, thereby weakening it still further;
* **would undercut Social Security, Medicare Part A, and other trust funds** by defining as deficit spending their use of the Treasury securities those funds accumulated in prior years;
* **would be stricter than what states require**, since states can borrow for capital projects and can use Rainy Day Funds (money saved from prior years);
* **would be far more rigid than prudent families**, because families borrow (e.g., mortgages, student loans) and pay for big purchases out of savings, not just their *current* wages; and
* **would raise a wide variety of unanswered legal questions**, such as whether the President or courts could unilaterally cut programs of their choice if Congress can’t achieve balance.