**Balanced Budget Amendments (BBAs): Standard vs the “Blue Dog” Democrat Version**

This memo compares a standard version of the BBA, which the House and Senate voted on in the 1990s and the House again voted on again in 2011, with an alternative “Blue Dog” Democrat BBA (H J Res 107), which Rep. Murphy (D, FL) and 9 cosponsors introduced on June 29, 2017. The Murphy version, though destructive, would be *far* less destructive than the standard version.

**Standard BBA:**

* Seven years for ratification
* Budget must be balanced every year; no rainy-day fund; 3/5 vote to waive
* Bars increasing the debt limit; 3/5 vote to waive
* President must submit balanced budgets
* Revenue increases require majority of all sitting members (not of all who choose to vote)
* Provisions waived if war is declared, or “military conflict” according to majority of sitting members

**Murphy version:**

* Seven years for ratification
* Budget must be balanced every year; no rainy-day fund; 3/5 vote to waive
* President must submit balanced budgets
* Provisions waived if war is declared, or “military conflict” according to majority of sitting members

**The four features below are different from the standard BBA:**

1. Receipts (including interest) and expenditures of Social Security (OASDI) and Medicare HI (Hospital Insurance) do not count in the calculations
2. Automatic waiver if economic growth is negative for two consecutive quarters or the unemployment rate exceeds 7% for two consecutive months during the budget year or the preceding fiscal year
3. No court can order cuts to Social Security or Medicare to enforce the BBA (unless ordering cuts from a trust fund that is insolvent)
4. Silent on debt limit and revenue increases

**COMMENTS ON THE WAYS MURPHY IS DIFFERENT:**

1. In the past, Republicans have been unwilling to exempt Social Security from BBA calculations. The Murphy version exempts not only Social Security but also Medicare HI.

Significantly, under the standard BBA the Social Security Trust Fund cannot use the $2.9 trillion in balances it has built up over the last 35 years, and the Medicare HI trust fund cannot use the $200 billion it has accumulated, because drawing down those balances would still be deficit spending. The balances in these trust funds are akin to a state’s rainy-day fund or a family’s savings.

Both the standard and Murphy BBAs require that outlays in a year must be covered exclusively by revenues received *in that same year*. This rigid requirement is destructive for any trust fund that has saved money and invested it in Treasury securities (e.g., Social Security, Medicare HI, Military Retirement, Civil Service Retirement), and also for funds such as the FDIC and PBGC, which likewise would be unable to use their balances to protect depositors or pensioners. But the Murphy version mitigates the rigidity of this requirement by moving Social Security and Medicare HI outside the constraints of the BBA.

1. The Murphy BBA’s automatic economic waiver is critically important. Unfortunately, it would not trigger soon enough to be fully helpful, because it would apply only *after* a recession hits, the economy begins shrinking, and many people lose their jobs. It would not have triggered on at all in the brief 2001 recession, and in the Great Recession it would not have triggered on until 2009, even though in 2008 it was so obvious the economy was starting to collapse that President Bush and Congress agreed on a stimulus bill in the spring, a housing relief bill in the summer, and TARP in the fall.

On the positive side, however, after the recession has hit, the waiver would allow the government to help dig the economy out of the hole by allowing the automatic stabilizers (such as unemployment insurance, SNAP, Medicaid, and declining effective tax rates) to supply households and the economy with extra resources. It also would allow Congress to temporarily enhance those automatic stabilizers or design new ones.

An additional positive aspect of the design is that the automatic waiver would continue to apply even after the economy has stopped shrinking and started growing, as long as the economy is still weak and still needs the assistance of the automatic stabilizers. And, since the unemployment rate has proven a better indicator of economic weakness than the economic growth rate, it is helpful that both tests appear in the Murphy version.

1. The standard BBA is silent on the role of the courts. During the 1990s, Rep. Stenholm and his allies strongly implied that the courts would never design and order budget changes but never actually said that the BBA precluded court intervention. The Murphy version, in contrast, may well settle the issue: by stating explicitly that courts cannot order certain types of spending cuts in certain conditions,[[1]](#footnote-1) it creates a strong legal presumption that the courts *can* order tax increasesandspending cuts to other programs. The Murphy version may also create the legal presumption that the President cannot act unilaterally if the budget falls out of balance (e.g., by cutting programs of his choice or raising taxes of his choice).
2. The standard BBA makes it unconstitutional to raise the debt limit. It does not define the debt limit, but if the limit means what it has throughout US history, then it is important to realize that the “debt subject to limit” can rise even while the budget is in surplus. This happens, for example, if the budget is in surplus while the Social Security Trust Fund is running a bigger surplus; Treasury debt issued to Social Security will rise faster than debt held by the public will fall. In fact, the budget was in surplus in each of the last four years of the Clinton Administration (FY 1998-2001), with those surpluses totaling $559 billion. But the debt subject to limit rose each of those four years and was $405 billion higher at the end of the period. *The Murphy version solves this problem by being silent on the debt limit, focusing solely on the deficit*.

1. The drafting of this provision is confused. The prohibition on courts ordering cuts to Social Security and Medicare almost surely covers Medicare as a whole, not just HI. In addition, the courts would be unlikely to order cuts to Social Security or HI, given that any such cuts would not count towards curing an imbalance. [↑](#footnote-ref-1)