

Business Cycle Balanced Budget Amendment

Rep. Justin Amash, R-MI

Solid Spending Limit Based on Past Tax Revenue

Limits yearly spending to the average annual revenues of the three prior years. Adjusts those revenue levels for changes in inflation and population: usually about 2% and 1% per year, respectively.

- **Countercyclical:** Allows deficits during recessions to insulate programs during hard times. Most recessions are short enough for the economy to rebound before cuts, if any, would take place.
- **Focus on Spending:** The spending limit is “baked into the cake” by the time a budget is adopted, so tax increases cannot be used to close any current gap. Spending must adjust to account for any mismatch between the limit and desired spending. Although increasing taxes is possible, any revenue raised will take several years to work into the limit and be spent, and at least one election cycle will take place during that period.
- **Surpluses over the Business Cycle:** Deficits can be run during years when tax revenue drops off, but the limit will catch up to taxes. Over the business cycle, however, this proposal creates structural surpluses. The surpluses are dedicated to paying down the national debt.
- **Encourages Tax Cuts:** When surpluses are projected, revenue can be trimmed without threatening current spending levels. Congress would have some room to eliminate the most harmful taxes.
- **Encourages Smaller Government:** When spending is paid for with borrowing, voters feel like government costs less than it does. By aligning spending and revenue, the true cost of government becomes apparent, and voters will likely prefer less.

Three-Fourths Emergency Exception

Three-fourths of both Houses of Congress may declare and describe an emergency and provide for funding to meet related needs.

- **Emergencies Can Take Many Forms:** An open-ended exemption gives Congress flexibility to meet unforeseen needs of whatever kind.
- **Consensus Required:** A high supermajority checks the natural impulse to deficit spend instead of reprioritizing and thinking creatively.

Gradual Transition to the Spending Limit

Establishes a ten-year transition by decreasing each year the level of spending permitted above the limit by at least one-tenth of the amount in the year of ratification.

- Accounts for business cycle ups and downs, locks in progress towards closing the fiscal gap
- Nothing prevents Congress from making more rapid changes

Leaves Enforcement to Implementing Legislation

- **Constitutional Language:** Constitutions are meant to set broad, general parameters. Statutes are the appropriate place for procedural details.
- **Flexibility and Process Expertise:** A constitutional amendment should be simple to explain and understand. Proper implementation and enforcement require special knowledge of the budget process, including congressional appropriations and agency expenditures. Provisions worth debating include restrictions on judicial review, sequestration, points of order, definition of “emergency,” prohibition on debt issued without congressional approval, the structure of a reserve fund once debt is eliminated, and many others. These provisions are complicated and should be relatively open for congressional reform when improvements are possible.