



Testimony to the Senate Government Operations Committee on Senate Joint Resolution V

Gilda Z. Jacobs, President & CEO
November 5, 2013

Good afternoon Chairman Richardville and members of the committee. I am Gilda Jacobs, president and CEO of the Michigan League for Public Policy. I appreciate the opportunity to express opposition to Senate Joint Resolution V.

A balanced budget amendment would be extremely damaging to the state of Michigan and the country as a whole.

There's no doubt that the federal government faces very serious challenges getting its fiscal house in order, but a balanced budget amendment is not the answer. The truth is it would just make things worse.

Let me say first that calling a Constitutional Convention – for whatever purpose – would be extremely dangerous for all of us. Once such a convention is called, its delegates could propose changing the Constitution in any number of ways. Don't let anyone lull you into thinking that's not the case. Some people think they have good legal arguments that would assure a neat and tidy Constitutional Convention, but the bottom line truth is that nobody knows what would happen.

One thing's clear, though: the country would be thrown into extreme turmoil by a Constitutional Convention. Does anyone really think they know what will come out the other side? And our country itself would be at stake. We'd be throwing open our Constitution, the very core of American democracy, to whomever Congress decides to appoint as delegates. That is – very simply – nonsensical and extremely dangerous. The people of Michigan do not want you, its elected representatives, to take them down that path.

Now let me address the balanced budget amendment, which in itself would do great damage to Michigan and the country generally.

There are many reasons why a federal balanced budget amendment would hurt our state, but I want to highlight three today.

1. **First, it would threaten federal funding for Michigan's schools, highways, water treatment plants, police officers, and more.** A balanced budget amendment would force Congress to choose between deep cuts in funding for state and local priorities – like schools and police

departments – and deep cuts in federal priorities – like the FBI and border enforcement. Guess who would win out. It's not us.

2. **Second, the requirement to balance the budget each year would jeopardize Social Security and other programs that retirees depend on.** Under the balanced budget amendment, the government can only spend what it collects *in that year*, not money saved up in the past. But the Social Security Trust Fund has almost \$3 trillion which has been collected from working Americans over the decades to help pay for the Social Security checks they receive after the retire. Spending money collected in past years would not be allowed because the amendment only allows spending of money collected *in the same year*. Medicare hospital insurance and military and civil service retirement programs would face the same problem too.
3. **Third, a balanced budget requirement would make recessions longer and deeper, causing large and unnecessary job losses.** That's because when the economy is struggling and people are losing their jobs, tax revenues fall quickly and need for things like food stamps, Medicaid, and unemployment insurance spikes. If the federal government is required to balance its budget every year, Congress would have to either raise taxes or dramatically cut federal investments that people in Michigan rely on each and every day, or both. When the economy is weak or already in recession this is the opposite of what the economy needs.

Those pushing for this destructive amendment rely on several arguments, but they just don't hold up to scrutiny.

It's misleading to say families have to balance their budget so Congress should too. Families save for years for big expenses, such as sending their kids to college, and then spend those savings quickly as they pay the tuition bills. Often during their kids' college years, families are spending more money than they are bringing in, but it's okay because they saved up for it. And most families that buy a house can only do it by borrowing the money in the form of a mortgage. Those few families that can afford to pay for a house without borrowing still are not "balancing their budget" the way this amendment would require. They are buying their house out of savings, not out of the money they *earned in that same year*. So, families certainly don't balance their budgets in the way this amendment would force the federal government to.

Similarly, a federal balanced budget amendment is not the same as the balanced budget requirements in place in Michigan and other states. While states must balance their *operating* budgets, they can — and do — borrow for capital projects. The proposed constitutional amendment would bar the federal government from making investments in the same way. That's wrong. We need to be able to invest so the country remains strong for our kids.

When Congress was considering a constitutional balanced budget amendment in 1997, more than 1,000 economists, including 11 Nobel Prize winners, issued a joint statement that said, "We condemn the proposed 'balanced-budget' amendment to the federal Constitution. It is unsound and unnecessary The proposed amendment mandates perverse actions in the face of recessions."

We all want a strong economy and the opportunity to prosper, but it is clear that this amendment will make that much more difficult. If Michigan approves this resolution it will bring our country one step further along a very dangerous path. I urge you to reject it today.