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FOR IMMEDIATE RELEASE:

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Nobel Laureates and Leading Economists Oppose Constitutional Balanced Budget Amendment

A group of leading economists, including five Nobel Laureates in economics, today publicly released a letter to President Obama and Congress opposing a constitutional balanced budget amendment. The letter outlines the reasons why writing a balanced budget requirement into the Constitution would be "very unsound policy" that would adversely affect the economy. Adding arbitrary caps on federal expenditures would make the balanced budget amendment even more problematic, the letter says. The Economic Policy Institute and the Center on Budget and Policy Priorities organized the letter.

"A balanced budget amendment would mandate perverse actions in the face of recessions," the letter notes. By requiring large budget cuts when the economy is weakest, the amendment "would aggravate recessions."

The signatories of the letter are Nobel Laureates **Kenneth Arrow**, **Peter Diamond**, **Eric Maskin**, **Charles Schultze**, **William Sharpe** and **Robert Solow**; **Alan Blinder,** former Vice Chair of the Federal Reserve System's Board of Governors and former member of the Council of Economic Advisors; and **Laura Tyson,** former Chair of the Council of Economic Advisors and former Director of the National Economic Council.

The letter is below.

# # #

July 28, 2011

President Barack Obama
The White House
Washington, D.C.

The Honorable John Boehner
United States House of Representatives
Washington, D.C.

The Honorable Nancy Pelosi
United States House of Representatives
Washington, D.C.

The Honorable Harry Reid
United States Senate
Washington, D.C.

The Honorable Mitch McConnell
United States Senate
Washington, D.C.

Dear President Obama, Speaker Boehner, Minority Leader Pelosi, Majority Leader Reid, and Minority Leader McConnell,

We, the undersigned economists, urge the rejection of proposals to add a balanced-budget amendment to the U.S. Constitution. While the nation faces significant fiscal problems that need to be addressed through measures that start to take effect after the economy is strong enough to absorb them, writing a requirement into the Constitution that the budget be balanced each year would represent very unsound policy. Adding additional restrictions, as some balanced budget amendment proposals would do, such as an arbitrary cap on total federal expenditures, would make the balanced budget amendment even worse.

1. A balanced budget amendment would mandate perverse actions in the face of recessions. In economic downturns, tax revenues fall and some outlays, such as unemployment benefits, rise. These so-called built-in stabilizers increase the deficit but limit declines of after-tax income and purchasing power. To keep the budget balanced every year would aggravate recessions.

2. Unlike many state constitutions, which permit borrowing to finance capital expenditures, the federal budget makes no distinction between capital investments and current outlays. Private businesses and households borrow all the time to finance capital spending. A balanced budget amendment would prevent federal borrowing to finance expenditures for infrastructure, education, research and development, environmental protection, and other investment vital to the nation's future well being.

3. A balanced budget amendment would invite Congress to enact unfunded mandates, requiring states, localities, and private businesses to do what it cannot finance itself. It also invites dubious accounting maneuvers (such as selling more public lands and other assets and counting the proceeds as deficit-reducing revenues), and other budgetary gimmicks. Disputes on the meaning of budget balance would likely end up in the courts, resulting in judge-made economic policy. So would disputes about how to balance an unbalanced budget when Congress lacks the votes to inflict painful cuts.

4. Balanced budget amendment proposals typically contain escape hatches, but in peacetime they require super-majorities of each House to adopt an unbalanced budget or to raise the debt limit. These provisions are recipes for gridlock.

5. An overall spending cap, which is part of some proposed amendments, would further limit Congress's ability to fight recessions through either the built-in automatic stabilizers or deliberate changes in fiscal policy. Even during expansions, a binding spending cap could harm economic growth because increases in high-return investments — even those fully paid for with additional revenue — would be deemed unconstitutional if not offset by other spending reductions. A binding spending cap also would mean that emergency spending (for example on natural disasters) would necessitate reductions elsewhere, leading to increased volatility in the funding for non-emergency programs.

6. A Constitutional amendment is not needed to balance the budget. The budget not only attained balance, but actually recorded surpluses and reduced debt, for four consecutive years after Congress enacted budget plans in the 1990s that reduced spending growth and raised revenues. This was done under the existing Constitution, and it can be done again. No other major nation hobbles its economy with a balanced-budget mandate. There is no need to put the nation in an economic straitjacket. Let the President and Congress make fiscal policies in response to national needs and priorities as the authors of our Constitution wisely provided.

7. It is dangerous to try to balance the budget too quickly in today's economy. The large spending cuts and/or tax increases that would be needed to do so would greatly damage an already-weak recovery.

Signed,

Kenneth Arrow
Stanford University
Winner of the Nobel Prize in Economics and the John Bates Clark Medal, and Past President of the American Economic Assn.

Peter Diamond
Massachusetts Institute of Technology
Winner of the Nobel Prize and Past President of the American Economic Association

William Sharpe
Emeritus, Stanford University
Winner of the Nobel Prize in Economics

Charles Schultze
Emeritus, Brookings Institution
former Chairman of the Council of Economic Advisers and Past President of the American Economic Assn.

Alan Blinder
Princeton University
Former Vice Chairman of the Board of Governors of the Federal Reserve System and former member of the Council of Economic Advisers

Eric Maskin
Princeton University
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Robert Solow
Massachusetts Institute of Technology
Winner of Nobel Prize in Economics and the John Bates Clark Medal, and Past President of the American Economic Assn.

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