

Fact Sheet: Why Compact for America's Balanced Budget Amendment is Our Best Hope for the Future

The Compact for America is our best hope for ratifying a Balanced Budget Amendment that could save us and our kids from a mortgaged future.

Debt is the problem. More than any other policy, unlimited debt spending is the source and enabler of an ineffective, overstretched and overreaching federal government. Throttling back limitless debt spending will create a structure that forces a debate over the proper priorities and sustainable functions of the federal government that will otherwise be easily evaded.

CFA's BBA will not be gamed. The CFA's BBA is uniquely effective because it requires total expenditures, broadly defined, never to exceed total receipts, defined narrowly to include tax receipts or their equivalent and to exclude proceeds from debt financing, trillion dollar coins, etc. This definition of "balance" cannot be gamed because its effectiveness is not dependent on budget estimates that can be cooked; likewise, cash or accrual accounting gimmicks such as delays in paying amounts due or floating checks cannot alter its hard and fast requirement of a perfect balance between spending and receipts at all times. The only exception from the BBA's strict requirement that spending not exceed receipts is that any gap must be financed exclusively by full faith and credit debt, i.e. treasury bonds, which is subject to a hard constitutional limit that can only be increased with the approval of a majority of state legislatures. Far from being a deviation from the principles of a balanced budget amendment, we have discovered that there is no way to have a truly non-gameable definition of a balanced budget without this sort of debt cushion to handle volatility and mismatches from day to day between revenues and spending. A revolving line of credit, so to speak, is the price of a definition of a balanced budget that cannot be gamed. Enforcing a balanced budget that channels any borrowing exception to transparent bonding, which is subject to a hard constitutional limit on the amount of credit available, is far better than the status quo of limitless borrowing coupled to budgetary gamesmanship.

State approval restores a missing check and balance. By requiring state legislative approval of any increase in the federal debt above a hard constitutional debt limit, the CFA's BBA restores a modest portion of the original power states had to check and balance Washington when the Constitution was originally ratified, while targeting the state's engagement to a clear problem area, much like we expect a board of directors to intervene in a mismanaged business.

State approval will help fix the debt. State legislative approval of increases in the federal debt decentralizes power and encourages a truly nationwide debate over debt policy. This will limit abusive increases in the federal debt more so than leaving debt policy in the hands of Congress, the President, and the concentrated interests that dominate Washington. Moreover, the CFA's BBA prohibits *quid pro quo* trades of state approval for federal spending or tax increases. Any attempt to do so jeopardizes the approval process and could render the approved increase in debt void. This will be a powerful incentive for states not to abuse their restored role in debt policy.

Presidential impoundment is a balanced enforcement measure. Giving the President the power to impound spending to enforce a debt limit, subject to override within 30 days by

Congress proposing alternative impoundments, is far less power than the line item veto that is already common in most states. It does not radically shift power to the President because the power to impound spending is implicated only if the nation continues to borrow money up to the BBA's debt limit. Congress is fully in charge of whether the President ever has the power to impound anything because Congress still controls the appropriations process in the first place. This is why the CFA's BBA strikes the right balance.

Fixing the debt is good public policy. There is no trade-off between holding the line on taxation and enforcing a BBA because **debt is taxation**. It is taxation in the form of inflation because debt increases the money supply, generating a price level that is necessarily higher than it would otherwise be. Debt is also taxation for future generations who are stuck with the bill for our current spending—assuming the debt is repaid. Limiting debt therefore limits taxation. At worst, a BBA forces a choice between taxes today or taxes tomorrow. And if we have to choose, it is better to choose taxes today instead of taxes tomorrow because there is no effective political check on shifting the costs of our policies to non-voting future generations. This is why the BBA's hard debt limit is good public policy.

CFA's BBA will generate better tax policy. Tax policy with the CFA's BBA in place would be far better than under the status quo. The requirement of supermajority approval for general tax increases, with simple majority approval retained for completely junking the income tax code in favor of a sales tax, or eliminating exemptions, deductions and credits, is a powerful force for reforming our tax code. It forces nearly any attempt to raise taxes to do so either in a more voluntary manner through a sales tax, or more fairly through a flatter income tax; both of which are more conducive to economic growth. This is why the CFA's BBA is far better than the status quo of class warfare tax increases under the current regime.

CFA's BBA is a spending limit. Finally, the CFA's BBA is a spending limit as much as a debt limit because spending cannot exceed tax receipts or the equivalent, and cannot be funded by proceeds of borrowing (above a hard debt limit), much less by simply minting new trillion dollar coins or printing money. The status quo affords no such protection from such limitless spending.

The Compact for America Initiative is a safe and effective means of restoring our Nation and protecting our Liberty. Learn more at www.compactforamerica.org