A Pollution Control Approach to Analysis of the Balanced Budget Amendment

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By Dwight R. Lee and Robert L. Sexton*

Abstract. Fiscal pollution (excessive budget deficits), in certain aspects, is like environmental pollution. In both types of pollution some, possibly most individuals would be willing to reduce their own pollution if others would do the same. In the case of fiscal pollution individuals would be willing to give up their special interest demands if others would reciprocate in kind. But as long as individuals are forced to pay for the programs of others there is little incentive to reduce their own demands. Hence, restraints on political behavior such as a balanced budget amendment to the U.S. Constitution are needed to control excessive fiscal pollution.

There is widespread agreement that the federal budget is out of control. Since 1960 the federal budget has been balanced only once, and that was when it recorded a tiny surplus in 1969. Not only are we experiencing chronic federal deficits, but these deficits have been escalating at an alarming rate. Over the decade of the 1960s the average federal budget deficit was $6.1 billion per year. Over the 5 year period, 1971–75, it was $24.1 billion per year. Over the next 5 year period, 1976–80, the average deficit rose to $60.1 billion. The first half of the 1980s has seen this escalation continue, with the average annual deficit over the fiscal years 1981–86 over $160 billion.1

It is obvious that we cannot continue along this path of fiscal irresponsibility without unfortunate economic consequences. Either we will control the deficits through responsible fiscal restraint or a mushrooming interest burden will force the Federal Government to take action which will result in rapid inflation, economic stagnation, and ultimately fiscal default. It is the recognition of these fiscal alternatives which has prompted a drive to enact a balanced-budget amendment to the U.S. Constitution. Unless the Congress passes such an amendment of its own and sends it out to the states for ratification, the states soon will force the Congress to call a constitutional convention for the purpose of drafting that amendment.

The possibility that the spending proclivities of the Federal Government may be constitutionally restricted is terrifying to those whose interests are tied to

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ever larger government programs and transfers. These interests have become increasingly vocal in their opposition to a balanced-budget amendment. Their arguments can be summarized as follows: First, at best, a balanced budget amendment would be ineffective since there is no way to guarantee that revenues and expenditures will always match up on an annual basis. Second, at worst, a balanced-budget amendment would reduce the fiscal flexibility of the Federal Government, thereby making it more difficult to respond appropriately to changing economic circumstances. Furthermore, if the public really wants the government to balance its budget, our elected representatives have the power to respond to this desire. It is silly then to clutter up our Constitution with a complicated balanced-budget amendment.

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AT FIRST GLANCE these arguments appear reasonable. It is certainly true that no amendment to the Constitution can insure that the budget will ever be perfectly balanced. It is impossible to predict with precision either revenues or expenditures over a specified interval. Therefore, surpluses and deficits will occur, no matter how dedicated the effort to balance the budget. While only the most naive can still believe that the Federal Government can successfully fine tune the economy with adroit fiscal policy, there are circumstances in which budgetary flexibility can be justified. Also, it is true that Congress has the control over taxing and spending needed to eliminate the chronic deficits if it chooses to do so. So why should we clutter up the Constitution with a balanced-budget amendment?

The best way to explain the need for a balanced-budget amendment is by applying these "plausible" arguments to government restrictions on pollution and then, recognizing the similarity, in certain respects, between the problem of excessive environmental pollution and the problem of excessive budget deficits, consider the following argument.

While it may be true that we have burdened our environment with increasing quantities of pollution, there is no need to have the government impose a host of complicated restrictions on polluting activities. At best, such restrictions are ineffective and, at worst, they reduce the flexibility needed by private sector enterprises to remain competitive in world markets. Furthermore, we already have the ability to reduce pollution without government restrictions if that is what the public wants. If people want less polluting, all they have to do is reduce their polluting activities and refuse to purchase goods produced by companies that are environmentally irresponsible.

These arguments are identical to those against the balanced-budget amendment, and they are wrong for the same fundamental reason. The problem with
both arguments is that they assume people will see private advantage in refraining from activities which are harmful to their collective interests. Some people will continue to pollute, and to buy from companies which pollute, even though everyone would be better off with less pollution. While each individual would like to see others reduce their polluting activities, the private sacrifice from reducing their own polluting would far exceed the private benefit from doing so. For exactly the same reason some people will continue to demand more spending on their special-interest programs, even though everyone would be better off with less spending on all special-interest programs.

In the absence of environmental restraints, excessive pollution results because the private advantage each of us realizes from polluting is paid for almost entirely by a defenseless public. Of course, each of us suffers from the pollution of others, and most of us would be willing to reduce our own pollution if others would do the same. But we all recognize that, as long as we continue to be assaulted by the pollution of others, there is no advantage in reducing our individual demands on the environment. In such an uncontrolled setting we would be in a polluting free-for-all with penalties for the environmentally responsible and rewards for the environmentally irresponsible.

In the absence of fiscal restraints, excessive government spending results because the private advantage each of us realizes from spending on our government programs is paid for almost entirely by the defenseless taxpayers. Of course, each of us suffers from having to pay for the programs of others, and most of us would be willing to reduce our special interest demands if others would do the same. But we all recognize that as long as we continue to pay for the programs of others there is no advantage in reducing our individual demands on the government treasury. In this uncontrolled setting we are in a spending free-for-all with penalties for the fiscally responsible and rewards for the fiscally irresponsible.

It takes more than spending to generate budget deficits, of course. It takes spending in excess of taxes. So is the problem too much government spending or not enough government revenue? In drawing a parallel between excessive pollution and excessive deficits, it does not make any difference. Even if everyone thought that the government should raise more tax revenue, few would be willing to unilaterally sacrifice their tax loopholes. Individuals will continue to fight for special tax preferences for the same reason they pollute. They receive the benefits while others bear the costs.

If all it took to balance the federal budget was for the American public to want it balanced, it would have been balanced long ago. The vast majority of
the American public has long wanted the Federal Government to balance its budget. In an ideal world in which broad public preferences were transmitted effectively through political institutions, there would be no need for a balanced-budget amendment. However, we do not live in such a world. Political institutions, even democratic political institutions, are easily exploited by the organized few to gain special interest benefits at the expense of the unorganized many. Our founding fathers were fully aware of this elementary fact, and the restrictions on political discretion built into the U.S. Constitution have until recently served our country well by making it more profitable to exploit market opportunities for wealth creation than political opportunities for wealth transfer.

Although not explicitly in the U.S. Constitution, there existed an unwritten understanding for over 150 years of our nation's history that the Federal Government was not to engage in deficit financing except during periods of national emergency. When deficits did occur, budget surpluses were to begin paying off the resulting national debt as soon as the emergency was over. This fiscal discipline has obviously broken down as the understanding of our founding fathers has been replaced in modern times with the naive notion that political indiscretion is a force for social progress. It is the essential purpose of a balanced-budget amendment to impose on our political decision-makers the fiscal discipline they are now incapable of imposing on themselves.³

The critics of a balanced-budget amendment are correct when they argue that politicians would still find ways to run deficits. But it is also true that polluters are able to find ways around the restrictions on polluting. Do we hear anyone suggesting that this is a justification for abandoning these restrictions? Of course not. The critics of a balanced-budget amendment are also correct when they fear that it would reduce fiscal flexibility. Of course it would, and that is the very reason a balanced-budget amendment is so desperately needed.

It is widely recognized that restraints on market behavior are needed if we are to control excessive environmental pollution. It is now time to recognize that restraints on political behavior are needed if we are to control excessive fiscal pollution that takes the form of chronic and escalating budget deficits.

Notes


2. This point is, of course, recognized by everyone, and all versions of the balanced-budget amendment contain provisions for deficits in emergencies.

3. From 1946 to 1960 the Federal Government had seven years of budget surplus—four in the Truman Administration, three in the Eisenhower. The surplus in the Johnson Administration (1969) was the last recorded (World Almanac, 1986, p. 102).