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Balanced Budget

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Mark,
As we discussed,
FYI
J.

November 3, 1993

NOTE TO GENE SPERLING

FROM: Jody Greenstone

RE: Letter to Leadership on the Balanced Budget Amendment

In the context of fighting to defeat the Balanced Budget Amendment, I believe there are two potential political pitfalls which should be considered.

First, it is important that the President not diminish his hard-earned credibility on continued fiscal restraint. If the press and the public perceive that the President is opposed to the amendment because of the "painful choices" balance would require or because of our desires to spend more money on investments, the seriousness of his underlying concern for cutting spending and maintaining true fiscal restraint would be questioned. Moreover, this risk will be intensified because credible, bipartisan voices like Pete Peterson and Paul Tsongas will concurrently be calling for precisely these "painful choices" as the only path to restore economic prosperity and the American dream. Finally, the decision to avoid committing to a balanced budget by a date certain -- even a date after a second term -- (a point which is sure to be repeatedly raised) will only exacerbate our credibility problem on this issue.

While I understand the overriding importance of defeating this amendment, we should not underestimate the importance of keeping the President on the high ground on budget discipline. The momentum of the Balanced Budget Amendment itself coupled with consistent poll data attests to the public's concern for this issue and their belief that we have not done enough. Moreover, as David, Bill and I argued in our memo, the President's ability to increase investment (and gain the confidence of skeptics on the budgetary impact of health care) would be enhanced by reinforcing his genuine concern for fiscal discipline.

In short, opposition to the Balanced Budget Amendment which rejects the measures that would be required to bring the budget even close to balance -- even over a long period of time -- will erode our credibility on the essential political issue of fiscal restraint.

Second, there are a number of reasons why the President may choose in the future to consider some of these "painful choices." For example, if things do not go as we now forecast, the President could find himself on the verge of being the biggest borrowing President in history on the eve of the 1996 election. Or he may decide that some of the "painful choices" are the only way to free up real money to fund the investments he believes this country needs. If we discredit these "painful choices," we limit our flexibility to rely on them in the future.

I believe we can make a compelling public case against the amendment without resting our case on the undesirability of "painful choices" and exposing the President to these two risks. (Note, that using a "painful choice" strategy in private legislative meetings would not pose the same concerns.) Laura's draft letter makes all of the right arguments. I have attached her draft with some minor language changes I would propose to strengthen the rhetoric on commitment to fiscal restraint and to clarify the impact of our current initiatives (i.e. make certain we don't overpromise).

However, I am most concerned about paragraphs 3 and 4. My preference would be that they be deleted for the reasons described above. Alternatively, I would propose minimizing the specifics and tying our concerns to the required pace of balance. I have edited the attached letter in this manner. I recognize that emphasizing the pace of balance exposes us to greater pressure to state our preferred pace and, thus, commit to a date of our own to balance the budget. However, I believe we will face this pressure anyway and this strategy allows us, at a minimum, to maintain more credibility and flexibility on the key issue of fiscal responsibility.

cc: David Gergen

JAG 11/2/93

DRAFT LETTER TO THE LEADERSHIP CONCERNING THE BALANCED BUDGET AMENDMENT

10/27/93

Dear:

I write to express my ~~firm opposition to~~ the proposed balanced-budget amendment to the Constitution of the United States (S.J. Res. 41 and H.J.Res. 103). While I ~~applaud the goal of further~~ am firmly committed to deficit reduction, and look forward to working with the Congress toward that end, a balanced-budget amendment--which is more slogan than solution--is not the right vehicle. More important, the proposed amendment endangers both the economy and the Constitution.

The balanced-budget amendment is, in the first place, bad economics. As you know, the Federal deficit depends not just on Congressional decisions, but also on the state of the economy. In particular, the deficit increases automatically whenever the economy weakens. If we try to break this automatic linkage by a Constitutional amendment, we will have to raise taxes and cut expenditures whenever the economy is weak. That not only risks turning minor downturns into serious recessions, but would make recovery from recession far more difficult. Contractionary fiscal policy in the 1930s turned an economic slowdown into a Great Depression.

[Let's This be clear: This is not a matter of abstract economic theory. ~~A~~ balanced-budget amendment would threaten the livelihoods of millions of Americans. I cannot put them in such peril.] le

[The amendment It is a gimmick that allows public officials to hide from the tough choices that must be made to reduce the deficit by itself would not reduce the deficit by a single penny. Programmatic changes would have to be made. Given the pace at which this amendment requires balance and the current outlook for the FY99 budget, the amendment would require ~~one of these~~ painful choices: ~~a~~ huge increases in taxes on the middle class, dramatic spending cuts ~~reduction in Social Security, or debilitating cuts in Medicare and Medicaid that would make a mockery of health security for millions of Americans and might kill the prospects for meaningful health care reform. I am firmly opposed to all three of these alternatives, and I believe that most members of Congress are equally opposed.~~] le

What would happen if the balanced-budget amendment were passed and easy political rhetoric gave way to tough political choices? The most likely outcomes are gridlock and accounting subterfuge. Where economic policy is concerned, the amendment virtually changes the definition of a democratic majority to 60%, and it is virtually impossible to imagine a 60% vote in favor of the unpalatable choices that would be required to balance the budget by the end of this decade. A gridlocked Congress would encourage members to look for an easy way out--for example, by moving more federal programs off budget or by imposing more unfunded mandates on the states. Ironically, the amendment might easily encourage less rather than more fiscal responsibility.

Enforcement of the balanced budget amendment would be problematic at best and nightmarish at worst--possibly even precipitating a Constitutional crisis. Economic policy would wind up being made in the Courts rather than in the Congress, threatening the very integrity of our Constitution.

There are far better ways to reduce the deficit. As you know, I worked tirelessly with the Congress to gain passage of the largest deficit reduction package in the nation's history. I am now working to ensure that my health-care plan is a deficit-reducer rather than a deficit-increaser for I continue to believe that controlling health-care costs ~~is the~~ key to long-term deficit reduction. Enacting the savings proposed in the National Performance Review would also ~~go a long way toward~~ contribute to resolving our deficit problem. So would procedural innovations such as enhanced rescission authority or a line-item veto. We might also follow the lead of many states and other nations by developing a separate capital budget distinguishing between the current operating expenses and the investment programs financed by the federal government. The Kerrey commission will come forward with suggestions on controlling entitlement costs. Finally, I have just submitted an additional deficit-reduction package to the Congress. While I am open to these and other possibilities, I am not open to a rigid Constitutional amendment that would create more problems than it solved.

I remain firmly committed to the this goal of deficit reduction. But I am just as firmly opposed to ~~the~~ balanced budget amendment. Not only does it do nothing to realize this goal but it is both bad law and bad economics. It would threaten the Constitution and imperil the macroeconomic stability of the nation.

Yours truly,

William J. Clinton