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Balanced Budget Amendment

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For a few decades, America's national debt and annual deficit spending have captured public and political attention. Calls for a Balanced Budget Amendment (BBA) to somehow rein in out-of-control government spending and the massive deficits and debts that accompany it have issued periodically from both political parties. Amending the Constitution to compel venal politicians to exert fiscal discipline sounds viscerally appealing, but would it actually solve the problem? And how do today's multitrillion-dollar debts and deficits compare with historical levels of federal government spending and indebtedness?

The Debt Crisis

On January 8, 1835, a unique and wonderful event transpired in American history. On that forgotten date, President Andrew Jackson paid off the entire U.S. national debt, putting the federal government in the black for the first and only time in its entire history. This blessed interlude of solvency was remarkably short-lived; by January of the following year, the national debt had reappeared, in the now-negligible amount of $37,000. Aside from that single American *annus mirabilis*, the national debt has been a permanent fixture of American politics. America began her existence as an independent nation deep in debt from the economic ravages of the Revolutionary War, and subsequent conflicts, from the War of 1812 onward, have added to the tally. At several points in American history, the debt as a percentage of gross domestic product (or GDP, a figure more or less equivalent to the national income) has reached dangerous levels, including the Civil War and World War II. In 1946, the national debt-to-GDP ratio hit a new record level at 119 percent. But by the following year, as the postwar boom gained steam, the debt to GDP was already trending downward, at a still worrisome but much-improved 103 percent. Ten years later, in 1957 (a recessionary year), the debt to GDP had declined, aptly enough, to 57 percent, and by the end of the 1960s, it was down in the vicinity of 35 percent. Until well into the 1980s, the debt-to-GDP ratio remained under 40 percent, although the illusionary effects of inflation caused the actual dollar amount of the debt to soar.

But in 1985, the debt-to-GDP ratio edged above 40 percent for the first time in decades, beginning a more or less accelerating rise that has continued into the 2020s. Only three years after passing 40 percent, the debt-to-GDP ratio surpassed 50 percent, and just four years after that — in 1992 — it breached 60 percent. Through the rest of the '90s and early 2000s, the ratio hovered between the mid-50 and low-60-percent level, before exploding into the stratosphere with the onset of the Great Recession. In 2009 it jumped to 82 percent, and by 2012 had reached 99 percent. In 2014 it breached 100 percent for the first time since 1947, and by 2019 it sat at 107 percent. Then came the Covid pandemic, the ensuing economic contraction, and the massive federal stimulus programs. Result: The debt-to-GDP ratio jumped to 129 percent in 2020, a new all-time high in American history. It eased off slightly in 2021, but remained in record territory, at 124 percent.

Thus we have, since the mid-1980s, piled on national debt at an unprecedented pace and have reached truly unprecedented levels — all without experiencing a crisis anywhere close to the severity of the Civil War, World War I, the Spanish Flu pandemic, the Great Depression, or World War II. In fact, most of the growth in debt has occurred in times of relative peace and prosperity; in 2001, for example, the year of the 9/11 attacks, the ratio remained unchanged from the previous year, at 55 percent, and in 2002, during the onset of the War on Terror, it increased by only two percent. The big jumps, at least in recent years, have been triggered by massive stimulus and bailout programs in response to the Great Recession and the Covid pandemic.

When the stock market crashed in 1929, the national debt was only 16 percent of the GDP, a very modest figure by modern standards. Two years into the Great Depression, the figure still stood at a relatively modest 22 percent. But by the middle of the 1930s, the ratio had reached 40 percent, and by the end of that lost dec-ade, 50 percent — figures much more in line with what modern Americans have become accustomed to, and, as we have seen, comparable to what was achieved in the 1960s through early 1980s. What we have not seen in the nearly 100 years since the Great Depression is anything close to a return to pre-1930 figures. What has changed?

The answer is fiat money, meaning money not backed by gold or silver. In 1933, under FDR, America's first true leftist president in the modern sense of the word, America went off the gold standard, meaning that American citizens not only could no longer convert dollars into gold on demand, they were also prohibited from owning any gold other than jewelry. While a very limited gold standard for non-American citizens holding U.S. dollars was reinstated as part of the Bretton Woods agreement in 1944, Americans have effectively lived under a fiat money regime since 1933. This means that, from that year onward, there have been no limits on how much money the American Federal Reserve System, in cahoots with the Treasury Department, can create, because it is no longer required to redeem paper money for specie on demand. And it is no accident that, in 1933, the debt-to-GDP ratio surpassed 40 percent for the first time, a roughly minimum level it has maintained ever since.

The relationship between fiat money and the national debt is fairly simple in principle. Governments and banking systems cannot simply manufacture money and throw it out of helicopters; they need some kind of plausible pretext for adding new money to the existing supply. That pretext is usually debt. Via various artifices like "open market operations," governments create new money by selling debt to their own central banks — in America's case, debt issued by the Treasury is purchased by the Federal Reserve — which pays for the new government debt by creating new money, i.e., by inflation. In other words, governments finance deficits and debts by expanding the money supply. The higher the inflation, the faster the national debt grows, and vice versa. Thus fiat currency is license for a government not only to print money without limit, but also to borrow without limit. It is no accident that the modern post-World War I era has been both the age of inflation and the age of debt, not only in the United States but all across the world. And by "inflation," we do not mean only rising gas and food prices; we also mean less widely-recognized manifestations of inflation such as stock and asset bubbles of all kinds, which are also driven by the process of fiat money creation in response to excessive government borrowing and spending.

Will a BBA Solve the Problem?

Yet the solution to the problem of burgeoning deficits and debts pushed by political leaders and opinion-molders is a "balanced budget amendment" that would allegedly straitjacket our fiscally irresponsible leaders by making deficit spending, except in times of national emergency, illegal. If government were required by law to balance the budget every year, goes the reasoning, ballooning deficits and out-of-control debts would be things of the past.

In the first place, as we have seen, the efficient cause of towering modern national deficits and trillion-dollar annual budget overruns is a fiat money system that requires enormous levels of debt in order to offset the government's continual appetite for printing money. As Federal Reserve Chairman Mariner Eccles explained to an incredulous Congress back in the fateful year 1933, "[debt] is what our money system is. If there were no debts in our money system, there would be no money."

Eccles was perhaps a little more forthright in making such admissions than his modern counterparts at the Fed, but the principle has not changed: Fiat money is to debt what oxygen is to fire. Get rid of fiat money, and you will kneecap government's ability to run up gargantuan, unsustainable debts. Besides, fiat money is unconstitutional; the American Founders already had a lot of experience with fiat money and inflation during the Revolutionary War, and had no intention of foisting such poisonous fruit on their posterity. This is why the Constitution empowers Congress to "coin money" (*not* to "print money") and, for good measure, explicitly prohibits the states from having anything other than gold and silver as legal tender. A first and most critical step toward fiscal sanity and reining in out-of-control borrowing and spending will be to get rid of unconstitutional fiat money and reinstate the precious-metal standards of the past.

Sound money: Money backed by specie (gold or silver) is the only way to stop the flood of new money and the irresponsible deficit spending that enables its creation. A Balanced Budget Amendment, by contrast, would do little to fix the problem. *(Photo credit: jansucko/ iStock / Getty Images Plus)*

Besides the temptation, endemic to the fiat monetary system, to borrow and print money, there is a second major problem: widespread spending on completely unconstitutional programs. In fact, just about everything referred to as a "government program" is outside the pale of constitutionality. It has been estimated that, if government were to refrain from spending money on everything not authorized by the Constitution, the federal budget would shrink to a fraction of what it is now. The vast majority of non-military spending, for example, would be disallowed, including entire departments, such as the Department of Education, the Department of Housing and Urban Development, and the Department of Health and Human Services, whose respective mandates are nowhere countenanced in the Constitution. Such matters, to the extent that they merit government oversight at all, are the concern of state, not national government.

But even if all of this were not true, how would a Balanced Budget Amendment even work? The dozens of proposals for such have usually included a provision for "emergency spending," while otherwise requiring Congress' annual expenditures to equal annual revenue. House Joint Resolution 32, issued last year, is perhaps the most recent such, and includes a provision for deficit spending only if authorized by a two thirds majority vote in both houses. In other words, a Balanced Budget Amendment would only tweak the standards for deficit spending, not eliminate it altogether. And given the dozens of "national emergencies" now on the books, it would not be hard for politicians to concoct new "emergencies" to keep the deficit-spending gravy train from being derailed.

Nor can debts and deficits be outlawed absolutely. Governments — like individuals — do sometimes face genuine crises that up-front taxation and by-the-books budget line items cannot adequately address. Credit and borrowing, while risky, remain important features of public and private finance. But the solution to the debt and deficit problem is not to try to rein in the current perverse system, whose intrinsic features (inflation and fiat money) incentivize unlimited borrowing and spending. The proper solution is, first, to abolish the fiat monetary system and replace it with the bimetallic standard required by the Constitution, and second, to end all unconstitutional government spending. These two dramatic steps would result in a "Great Reset" that would be truly salutary; they would jolt America back to the fiscal sanity and low rates of taxing, borrowing, and spending that were the rule before the 1930s. And unlike the forced austerities of the Biden administration — the crushing energy prices, spiraling inflation, chronic underemployment, ever-higher taxes, etc. — the dislocation entailed by such a change would be brief and lead to an enormous expansion of opportunity and prosperity. Americans need not be gulled by the misleading promises of "balanced budget amendments" to restore fiscal sanity and prosperity; a return to Constitutional money and limits on government spending will do the trick.

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