



NEWS from U.S. Senator Bob Dole

(R.—Kans.)

New Senate Office Building, Washington, D.C. 20510 (202) 224-6521

FOR IMMEDIATE RELEASE
MONDAY, MARCH 12, 1979

CONTACT: BOB WAITE, BILL KATS
(202) 224-8953, -8947

BALANCED BUDGET AMENDMENT THE ONLY REALISTIC WAY TO RESTORE FISCAL RESPONSIBILITY, DOLE SAYS

WASHINGTON -- Calling it "the only realistic prospect for restoring fiscal responsibility to Washington," Sen. Bob Dole (R-Kan.) today urged the Senate Judiciary Committee to adopt a measure calling for a constitutional amendment to balance the federal budget and to reduce federal spending and taxation.

Dole urged the committee action in testimony before the subcommittee on the constitution of the Senate Judiciary Committee today at noon.

"I subscribe to the proposition that changes in the Constitution should be infrequent and carefully considered," Dole said. "However, I believe that the fundamental changes that have occurred in our national fiscal policy warrant an equally fundamental change in the basic document of our government. For a number of decades, the country has been charted on a disaster course of uncontrolled growth in federal spending, of ever more oppressive taxation and of burgeoning budget deficits. A succession of past presidents and Congresses have been simply unwilling or unable to reverse this course."

On Jan. 15, 1979, Sen. Dole introduced Senate Joint Resolution 5, a proposed constitutional amendment that comprehensively addresses the problems of deficit spending, excessive federal expenditures and excessive taxation. S.J. Res. 5 would impose three new limitations on the federal government: a limit on federal spending to 18 percent of the gross national product, a limit on federal taxation to 18 percent of the gross national product, and a mandate for a federal balanced budget, unless both houses of Congress approve a deficit by a two-thirds vote.

The Dole balanced budget provision has two innovative features. First, deficits in the federal budget can be run only four out of nine years, thus giving Congress ample flexibility to manage the economy and to respond to economic emergencies. Second, any deficit must be repaid within four years. This feature should eliminate any additional long-run growth of the national debt.

"The proposed constitutional amendment is no 'gimmick' or 'quick fix' as some critics have charged," Dole said. "Rather, it represents a fundamental philosophical shift toward greater fiscal discipline and towards a smaller and necessarily more efficient federal government. If Congress fails to heed the message now being delivered by the states by moving forward on a reasonable measure such as S.J. Res. 5, the states will have no choice but to impose their own solution through a convention."



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TESTIMONY OF SENATOR BOB DOLE

BEFORE

THE SUBCOMMITTEE ON THE CONSTITUTION

OF

THE SENATE COMMITTEE ON THE JUDICIARY

March 12, 1979

Mr. Chairman and Members of the Subcommittee on the Constitution, I appreciate this opportunity to testify on the pressing need for a Constitutional amendment to balance the federal budget and to reduce federal spending and taxation.

Mr. Chairman, I subscribe to the proposition that changes in the Constitution should be infrequent and carefully considered. However, I believe that the fundamental changes that have occurred in our national fiscal policy warrant an equally fundamental change in the basic document of our government. For a number of decades, the country has been charted on a disaster course of uncontrolled growth in federal spending, of ever more oppressive taxation and of burgeoning budget deficits. A succession of past presidents and Congresses have been simply unwilling or unable to reverse this course.

After years of observing and participating in fruitless efforts to stem the growth of government, I have reluctantly reached the conclusion that a Constitutional amendment offers the only realistic prospect for restoring fiscal responsibility to Washington. Accordingly, I have introduced a proposed Constitutional amendment which is a three-prong attack on the fiscal ills that beset us. My proposal not only requires a balanced budget, but it also directly limits federal spending and taxation. The proposal is drafted to provide the flexibility needed to manage the economy and to respond to any financial or political crisis, yet it still requires reasonable fiscal restraint.

A MESSAGE FROM THE PEOPLE

Mr. Chairman, there is broad and vigorous public support for adoption of a balanced budget Constitutional amendment. Already 28 states have passed resolutions which direct Congress to convene a Constitutional convention to draft a balanced budget amendment. It is noteworthy that every state in the Union, except Connecticut and Vermont, has adopted a balanced budget requirement on the state level. Also, recent polls indicate that more than 80 percent of the American people favor adoption of a balanced budget amendment.

Those who would scoff at the states' efforts to restore fiscal responsibility to Washington ignore the Constitutional role of the states as the ultimate check against the federal government's abuse of authority. The message the states are trying to deliver to Congress should be met with sober reflection, rather than threats of cuts in state aid to bring the states into line. Those in Congress must sometimes be reminded that all wisdom in this country does not reside on Capitol Hill.

EXCESSIVE GOVERNMENTAL SPENDING

Over the past 50 years, governmental spending has skyrocketed. In 1929, total governmental expenditures—federal, state and local—amounted to 10 percent of our gross national product, the sum of all goods and services produced in the country. Since 1929, governmental spending has dramatically increased as a percentage of gross national product so that by last year it reached nearly 38 percent of GNP. Obviously, government spending has increased without any relation to increases in the nation's productivity.

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Federal spending, of course, accounts for the largest part of total government expenditures. Accordingly, it has played a dominant role in the explosion of overall governmental spending. In absolute terms, federal outlays have increased from slightly over \$100 billion in 1962 to approximately \$500 billion this year. This represents a remarkable 400 percent increase in just 17 years.

NEED TO BREAK THE SPENDING CYCLE

Recent history has proven that in a political world it is nearly impossible to get a majority of the legislature to make the hard decisions necessary to reduce federal spending. It is elemental that each new federal spending program gives birth to a new constituency that begins to rely on government support. Today's federal largesse is tomorrow's inalienable right. The result is that constituencies organize themselves and lobby Congress both to prevent any spending cuts and to increase the funding for their programs.

This is not a criticism of political activity--it is merely a statement of a fact of life. The most recent example of this phenomenon is the banding together of welfare and social security groups to oppose the cuts in their programs proposed by the President's budget. This axiom is equally true for business. They fight just as vehemently as any group to protect their particular federal benefits.

The only way to break this spending cycle is through a Constitutional balanced budget amendment. Such an amendment will at last allow Congress to say "no," and it will force Congress to make the necessary hard decisions.

GROWING TAX BURDEN

The explosion of government spending has resulted in a growing tax burden on the American people. Currently, federal taxes drain more than 20 percent of our gross national product. In addition, federal taxes are consuming an ever-increasing percentage of taxpayers' personal income. As the tax system is now structured, inflation propels taxpayers into higher and higher tax brackets, even if their real income remains the same. Many respected economists believe that high taxation is the single greatest impediment to investment and increased productivity.

FEDERAL BUDGET DEFICITS

Despite repeated increases in taxation, federal spending has persistently outstripped available revenues. Since 1950, the federal budget has been balanced in only five years. Even more alarming is the fact that the budget has not been balanced at all during this decade. Deficit spending seems to have become the norm for federal fiscal policy. Thus, deficits are incurred regardless of whether business conditions are poor or whether the economy is booming.

At the same time, federal budget deficits have been increasing in size. This has brought about a dramatic growth in the already staggering national debt. In 1970, the national debt stood at \$383 billion. However, by 1978, the national debt has more than doubled to \$780 billion. The Administration is currently seeking authorization to increase the total national debt by another \$38 billion to \$836 billion just to finance our debt needs through the end of this fiscal year.

ROOT CAUSE OF INFLATION

The President has correctly identified inflation as our most serious domestic problem. Inflation has been called the cruelest tax of all because it hits the poor and elderly the hardest. The federal government itself is largely responsible for the problem since substantial and persistent federal deficit spending is one of the root causes of inflation. When the government runs a deficit, it pumps more money into the pocketbooks of its citizens than it collects from them in taxes. Since more money is "chasing" the same number of goods, in the long run the price of goods must increase.

Another way to view the inflationary impact of deficit spending is to examine the dilemma faced by the Federal Reserve System. Government borrowing to finance the federal deficit forces the Federal Reserve either to increase the supply of money or to watch interest rates rise to unreasonable levels. When the money supply is increased, this naturally fuels inflation.

This process is exacerbated by the fact that inflation tends to feed on itself. It makes businessmen leery of economic expansion; it tends to depress the stock market; and, it encourages labor to demand extremely high wage settlements.

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DISPLACEMENT OF CAPITAL

In order to finance its deficit spending, the federal government must borrow enormous amounts of additional capital each year. Last year the government borrowed \$72 billion to finance deficits and this year it will borrow another \$67 billion. This heavy governmental borrowing has a significant adverse effect on the money markets by creating an upward pressure on interest rates and by displacing investment that would otherwise be made in the private sector. Thus, federal deficit spending diverts capital from more productive investment in the private sector, further aggravating the serious shortage of private investment capital.

SENATE JOINT RESOLUTION 5

Mr. Chairman, on January 15th, I introduced Senate Joint Resolution 5, a proposed Constitutional amendment that comprehensively addresses the problems of deficit spending, excessive federal expenditures and excessive taxation. This proposal pulls together the thoughts of a number of respected economists and fiscal experts.

S.J. Res. 5 would impose three new limitations on the federal government. First, federal spending would be limited to 18 percent of gross national product. It is projected that in the next fiscal year federal spending will be approximately 22 percent of gross national product. This level is simply too high. S.J. Res. 5 would require that federal spending be decreased to its historic level of 18 percent within 3 years. In order to maintain some flexibility to deal with unknown contingencies, spending would be permitted to rise above the limitation if the increase is approved by two-thirds of both houses of Congress.

Secondly, S.J. Res. 5 would limit federal taxation to 18 percent of gross national product. This limit will insure potential tax relief to the overburdened taxpayer. The present level of taxation creates a disincentive to investment and stifles economic growth. Again, there is flexibility built into the limitation on taxation since the limit can be exceeded with the concurrence of two-thirds of both houses of Congress.

Finally, S.J. Res. 5 would require a balanced budget, unless both houses of Congress approve a deficit by a two-thirds vote. This balanced budget provision has two innovative features. First, deficits in the federal budget can be run only four out of nine years. This will give Congress flexibility to manage the economy and to respond to economic emergencies. Second, any deficit must be repaid within four years. This feature should eliminate any additional long-run growth of the national debt.

NO "GIMMICK"

The proposed Constitutional amendment is no "gimmick" or "quick-fix" as some critics have charged. Rather, it represents a fundamental philosophical shift toward greater fiscal discipline and towards a smaller and necessarily more efficient federal government. By its terms, S.J. Res. 5 would permit a brief transition period to permit compliance with its dictates. The proposal is also drafted to include enough flexibility to permit an effective response to any unforeseen contingencies or to special economic circumstances. The net result is a flexible and workable system that requires reasonable fiscal restraint.

Mr. Chairman, I urge the Committee to give prompt and favorable consideration to S.J. Res. 5. If Congress fails to heed the message now being delivered by the states by moving forward on a reasonable measure such as S.J. Res. 5, the state will have no choice but to impose their own solution through the Constitutional convention procedure.

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