



Spending Limit Amendment

Q&A

“Still one thing more, fellow-citizens—a wise and frugal Government, which shall restrain men from injuring one another, shall leave them otherwise free to regulate their own pursuits of industry and improvement, and shall not take from the mouth of labor the bread it has earned. This is the sum of good government, and this is necessary to close the circle of our felicities.”

-President Thomas Jefferson, First Inaugural Address

Why is a spending limit needed?

- The projected growth of federal spending—both mandatory and discretionary—is unsustainable, threatening the standard of living of our children and grandchildren. By 2040, taxes would have to double in order to pay for all of the spending that will compound if the federal budget is simply left on automatic pilot—and that’s if no more additional spending is created.

How would the spending limit work?

- The spending limit would be a constitutional amendment to restrain federal spending to the rate of growth in the economy. In 2007, federal spending was 20.0 percent of GDP. With enactment of the Spending Limit Amendment, federal spending could therefore not exceed 20.0 percent of GDP, except for the two exceptions provided by the amendment. However, government spending could grow as GDP grows.

What are these two exceptions?

- The spending limit could be suspended if a declaration of war is in effect or if Congress, by a two-thirds vote of each House, suspends the spending limit for a given year.

When would the Spending Limit Amendment take effect?

- The Spending Limit Amendment would take effect the second fiscal year after its ratification. For example, if the amendment were ratified prior to September 30, 2008, it would be effective for FY 2010.

Why seek to amend the Constitution?

- The advantage of a constitutional amendment is that its requirements cannot be suspended or repealed by Congress (absent another constitutional amendment). A constitutional amendment would be more effective and enduring than any statute. In addition, the past few decades have provided far too many examples of Congress suspending statutory restrictions already in place to control spending.

What is the precedent for a constitutional amendment aimed at preventing over-spending?

- The Spending Limit Amendment would be most similar to two other proposed constitutional amendments, the Tax Limitation Amendment and the Balanced Budget Amendment. These two proposed amendments are meant to make it harder to over-tax and over-borrow, which means both are designed to combat over-spending. Similarly, the Spending Limit Amendment would be directly aimed at checking Congress's ability to over-spend.

What is the precedent for spending limits at the state level?

- The most notable spending limit at the state level is Colorado's Taxpayer Bill of Rights (TABOR), a 1992 amendment to the state's constitution. TABOR limits the growth of state revenues to inflation plus population growth, which because the state has a balanced budget requirement, functions also as a limit on state spending. From 1997 to 2001, TABOR is credited with sending rebates worth \$3.2 billion to Colorado taxpayers. Though TABOR was amended after a very close referendum in 2005, it has inspired efforts to enact similar limits on the growth of government in other states.

What is nominal GDP growth?

- Nominal GDP growth is inflation growth plus real GDP growth. Put another way, the spending limit would allow total federal spending to grow by the rate of inflation growth plus real economic growth.

Why set the spending limit in terms of a percentage of GDP?

- Many economists argue that the best indicator of the size of the federal government is what percentage of the U.S. economy is comprised of federal spending. For example, a \$3 trillion federal budget would be 60% of GDP in a \$5 trillion economy, but only 15% of GDP in a \$20 trillion economy. Spending as a percentage of GDP also informs how much of a burden the federal government is imposing on American families and whether that burden is affordable.

What is the history of federal spending as a percentage of GDP?

- Through most of U.S. history, the federal government was much smaller than today. In 1930, the first year a specific figure is available from the OMB Historical Tables, federal outlays were 3.4% of GDP. In 1943 and 1944, during World War II, federal spending reached its highest level at 43.6% of GDP. Over the past four decades, federal spending has been as low as 18.4% of GDP and as high as 23.5%.

What is the future of federal spending as a percentage of GDP under current spending trends?

- According to CBO, federal spending is projected to more than double, growing from 20.0 percent of GDP in 2007 to 41.8 percent of GDP in 2050.

How much can federal spending grow and still comply with the budget cap?

- Nominal GDP is projected to increase by an average of 4.6 percent a year from 2008 to 2018, which is the amount federal spending could increase by and still comply with the spending cap.

How would the spending limit be enforced?

- Section 4 of the Spending Limit Amendment grants Congress the authority to “enforce and implement this article by appropriate legislation, which may rely on estimates.” One model for such legislation might be the spending limits and enforcement mechanisms established by the Family Budget Protection Act (H.R. 2084). This legislation provides a cap on mandatory spending—but specifically exempts Social Security—with sequestration on other mandatory spending programs to enforce the cap. In addition, the Family Budget Protection Act provides an overall discretionary spending limit, but the growth in defense spending is protected by a “one-way firewall.”

What would the Spending Limit Amendment do to improve the long-term budget outlook?

- Beyond the ten year budget outlook, federal spending could not grow at the same rate as the CBO baseline and still comply with the spending cap. To be sure the U.S. economy is expected to grow at a steady rate beyond the budget baseline—allowing plenty of room for spending to grow above inflation. However, primarily because of the projected growth of entitlements, the baseline assumes very large growth in federal spending as a share of GDP. According to CBO, by 2050 federal spending will grow to 41.8% of GDP. The Spending Limit Amendment would prevent this kind of unsustainable growth.

Isn't federal spending already too high? Why allow it to remain at 20.0% of GDP?

- Many conservatives believe that federal spending was too high in 2007. This amendment is not aimed at establishing an ideal level of federal spending. It sets a cap on federal spending—not a floor.

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