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YOU CAN'T BALANCE THE BUDGET BY AMENDMENT

GARDNER ACKLEY

A constitutional amendment to balance the budget would not achieve its stated aim. It would only hamstring the efforts of policy-makers to correct weak economic performance—the main cause of deficits.

Editor's Note: On October 1, the U.S. House of Representatives defeated a proposed Constitutional Amendment requiring a balanced budget. Nevertheless, the issue may not be dead, since the vote—236 to 187 favoring the proposal—merely lacked the two-thirds majority necessary to send the amendment for consideration to the states. Professor Ackley's well-reasoned article presents a valuable analysis of the issues.

The proposed Constitutional Amendment to restrict both federal government deficits and the level of federal government expenditures relative to the national income lacks economic or political justification. Its enactment, I believe, would severely damage the ability of the federal government effectively to carry out its responsibilities, and could significantly reduce the welfare of the American people.

I believe, as well, that its enactment would demean the Constitution of the United States; however, I leave this aspect to legal and constitutional scholars, many of whom have made their opposition clearly known. The proposal also raises serious political problems, both structural and electoral, which I should probably leave to political scientists. However, I cannot refrain from comment on one line of political argument that seems to appeal to some economists—namely, that an inevitable tendency exists for democratic governments to overspend, and therefore, perhaps, to overtax. The Senate Judiciary Committee Report on the proposed amendment began by presenting this view, quoting at some length from Vilfredo Pareto, who almost a century ago theorized about a built-in bias in favor of public spending. This bias is supposed to result from the fact that each of the limited number of beneficiaries of public spending has a larger interest in the size of the budget (and thus the level of taxes) than does the typical taxpayer.

It is conceivable that Pareto's classic theory may have had some validity in nineteenth-century Italy, where taxes were, for the most part, indirect and hence invisible, paid by a mainly unenfranchised population, while expenditures were directed toward a relatively small range of purposes, benefiting mainly hereditary aristocrats, or members of a newly emerging entrepreneurial class. However, this argument seems to me to have little validity in the current U.S. setting. Indeed, exactly the reverse proposition may be more relevant to our situation. Our taxes are mainly direct taxes (levied on property, incomes, and payrolls), and thus are highly visible—to a completely enfranchised taxpaying public. On the other hand, government expendi-

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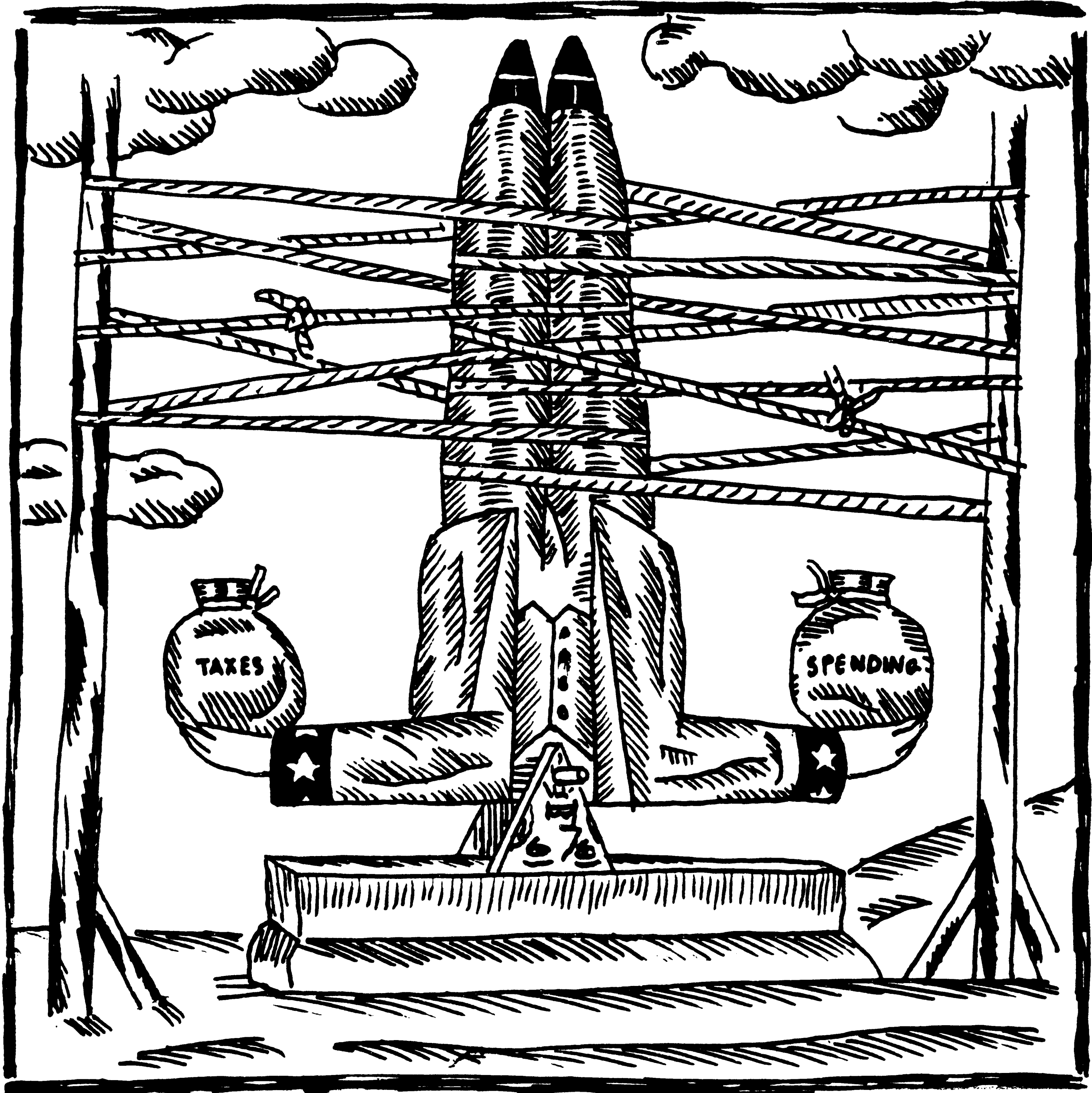
tures are scattered over a multitude of complex programs, serving a wide variety of public interests. In this situation, the more relevant phenomenon may be the "tax revolt"—by voters most of whom know or care very little about many of the purposes and results of government spending, but who are very conscious of their taxes. Each voter, and each legislator, can be sure that there is plenty of room for the *particular public services that interest him* within whatever tax (or spending) limit that he may support. In my view, the proposed amendment here under consideration is a product of that "tax revolt"—not a necessary correction for a built-in bias toward spending.

Moreover, whatever the political theory that supports a constitutional limit on government deficits



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and government spending, it has disturbing implications for believers in representative government. By permitting a minority of two-fifths of the membership of either House to block actions supported by a substantial majority (and to do so merely by being absent), it implies that our representative system cannot be trusted to make intelligent choices in budgetary matters. If this is the case for taxes and spending, can we trust it for questions involving social relations, education, foreign affairs, and civil rights? Indeed, most spending and taxing decisions seem to me ultimately to rest on broader considerations in some or several of these areas.

The proposal for a Constitutional Amendment to limit deficits and/or spending has been under discussion for quite some time. In recent years, some 31 state legislatures have passed resolutions asking Congress to convene a constitutional convention to adopt an amendment banning federal deficits. In July of this year—partly because of fears that such a constitutional convention might not restrict itself to budgetary matters—the Senate approved (by the necessary two-thirds majority) a proposed Constitutional Amendment which requires the Congress to adopt each year a balanced budget for the following fiscal year, unless a three-fifths vote of the whole membership in each House should specifically authorize a deficit; it further directs the Congress and the President to "ensure that actual outlays" do not exceed the outlays in such a budget. It also contains a "ratchet" provision limiting the increase in fiscal receipts in any fiscal year to the growth rate of national income in the previous calendar year, without a majority vote of the whole membership of each House. Neither limit would apply in a year in which a Declaration of War was in effect.

The Amendment also would make the current debt limit (as of the time of passage) a permanent limit, requiring a three-fifths vote of the whole membership of each House ever to increase it. This last provision—added on the Senate floor, and supported partly by enemies of the Amendment—would be the most severe practical obstacle to any *actual* (as opposed to a proposed or predicted) deficit.

Deficits and the economy

My own position on deficits has always been, and remains, that deficits, *per se*, are neither good nor bad. There are times when they are not only appropriate but even highly desirable; and there are times when they are inappropriate and dangerous. During a recession or a period of "stagflation," deficits are nearly unavoidable, and are likely to be constructive rather than harmful. An attempt to balance the budget in recession years such as 1954, 1960, 1970-71, 1975, or 1981-82, by raising taxes or cutting expenditures, would be prohibitively costly—in jobs, production, and real incomes—and perhaps even impossible to achieve on any terms. Any anti-inflationary effects would be problematical. On the other hand, large deficits in a period of substantially expanding output and employment are dangerous and damaging. They can easily produce excess demand, over-full employment, and escalating inflation. The deficits that President Johnson tolerated (against my advice)—in 1966 and 1967—were largely responsible for bringing to an end a period of essentially stable prices that had lasted from 1958 through 1965 (average increase in consumer prices: 1.25 percent per year). A large deficit in 1972 was also unfortunate. Some deficits are good; some are bad. Prohibiting them, or making them more difficult, not only limits the ability of the government to stabilize the economy, but can be positively destabilizing.

Why has this proposal been so actively considered in recent years, and why is it now so urgently advocated? The reason, quite clearly, is that the economy has obviously not functioned as well in recent years as it could or should; we have also had budget deficits in most of these years. It is easy, therefore, to hypothesize that the deficits are responsible for our poor economic performance. That hypothesis has been strongly expressed by President Reagan, by many members of Congress, and by many important leaders in the private sector. Unfortunately, such "post-hoc, propter-hoc" reasoning is—as is often the case—basically erroneous.

It is much closer to the truth—although still far from the whole truth—to say that the main *causal* relationship between deficits and the state of the economy runs in exactly the opposite direction: a weak and poorly functioning economy is responsible for most budget deficits. At the very least, the weak economy of recent years has surely made it extremely difficult to avoid deficits.

The dependence of the budget outcome on the

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state of the economy has surely become obvious during the past several frustrating budgetary seasons. Projections of revenues, expenditures—and thus of deficit or surplus—have had repeatedly to be revised, as assumptions about the current and future course of the economy have had to be altered. Revenues from almost every form of federal taxation clearly depend upon levels of employment, incomes, production, and sales, in both real and dollar terms; if these fall below expectations, so do revenues. Outlays under many important expenditure programs also depend materially on the level of unemployment and output; on the number of persons drawing unemployment benefits; on the associated economic pressures toward early retirement; on rates of interest and of inflation; on the prosperity of farmers; on interest rates and corporate profits; and so on.

Economists are acutely aware of these interdependencies between the economy and the budget outcome. We have tried for years—although quite unsuccessfully, I confess—to get the Congress and the public to consider as the appropriate measure of fiscal performance not simply the actual budget outcome, past or predicted, but also—or instead—the expenditures and outlays and thus the deficits or surpluses associated with some *standardized level* of overall economic performance. Such a "standardized" budget outcome can be calculated in several different ways, and on the basis of any of several alternative "standards" of economic performance. However, the primary effort of economists in and out of government has come to center on the measurement of what government income would be (or would have been)—tax by tax—and what government outlays would be (or would have been)—program by program—at a level of overall economic performance usually described as the "high-employment level." In the actual calculation of this "high-employment budget," the particular employment-unemployment level used to represent high employment changes gradually over time, reflecting trends in labor-force composition and other relevant factors that affect what should be considered "high" employment.

Given this level of employment-unemployment, and given the "normal" levels of weekly hours, productivity, etc., that go with high employment; and given the actual or anticipated price level, one can calculate the associated levels of real and dollar GNP; of national, personal, and taxable incomes; of corporate profits; of interest rates; and so on. Given any particular applicable set of tax laws and any budgetary program, one can, for each year, calculate estimated aggregate high-employment revenues, high-employment expenditures, and high-employment deficit or surplus. If this is done for *all* years, one has a set of "standardized" budget outcomes; the year-to-year differences between these depend *only* on differences in tax laws and in the scope and character of expenditure programs. Differences that reflect variations in employment and real incomes above or below "high-employment levels" have been essentially "scrubbed out."

Budget outcomes could, of course, be standardized at some other level of employment-unemployment. But since we all place intrinsic value on "high employment," and on the corresponding "high-output economy," the decision to standardize at "high employment" is a natural one.

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It is also necessary to choose what definition of the federal budget should be used. Without dispute —so far as I know—economists prefer the so-called "National-Income-and-Product-Account (NIPA)" concepts of revenues and outlays, and thus of surpluses or deficits. Substantial federal receipts and payments—but particularly the latter (the so-called "off-budget outlays")—are omitted from the official Budget of the United States; but these are included in the NIPA budget. Moreover, the NIPA accounts use the economically most relevant definitions of what a receipt or expenditure is, and of the time when it should be calculated as received or paid.

Budgetary outcomes in the United States, 1958-1981

Table 1 presents data on U.S. budget outcomes for the years 1958-1981. Column (2) of Table 1 shows the annual (calendar year) federal NIPA surplus or deficit for each year, 1958-1981, expressed as a percentage of gross national product (GNP). In a growing economy, and one, unfortunately, also subject to considerable inflation in recent years, dollar figures cannot appropriately be compared over a period of years; but percentages of GNP can be.

Column (3) shows the NIPA surplus or deficit for federal, state, and local governments combined. I supply these *combined* federal-state-local figures for four compelling reasons:

1. Whatever effects government surpluses and deficits have on the economy, these effects are the same for federal, state, or local governments; thus the economic effects of government are best represented by the combined figure.

2. It is often the case that a shift in one direction for the federal budget automatically produces a shift in the opposite direction in state and local budgets, mainly but not exclusively through the impact of federal grants to state and local governments. As an outlay for one and a receipt by the other, grants need not affect the *combined* surplus or deficit; but only its location. Over the period covered, there has been an explosion of federal grants.

3. In every year shown in the table (except 1958 and 1975) the amount of federal grants exceeded—usually greatly exceeded—the federal deficit: that is, without the grants, the federal budget would have been in surplus. Moreover, in *every* year shown, federal grants exceeded—ordinarily greatly exceeded—combined state and local government surpluses. Without the grants, state and local governments would have had large budget deficits in every year.

4. I will later be making some international budgetary comparisons; since almost all other governments are integrated (rather than federal), comparative data are available only on a consolidated basis.

Column (4) of Table 1 shows the federal "high-employment-budget" surplus, already explained. These data are calculated by the U.S. Department of Commerce, and, as recently revised, come from the April 1982 issue of the U.S. Department of

Table 1 **Government Surpluses and Deficits as Percentages of Gross National Product, 1965-1981[a]**

Calendar year (1)	Federal government surplus (2)	Combined federal, state, and local government surplus (3)	Federal high-employment-budget surplus (4)
	Percentage of gross national product		
1958	−2.3	−2.8	0.0
1959	−0.2	−0.3	1.1
1960	0.6	0.6	2.3
1961	−0.7	−0.8	1.3
1962	−0.7	−0.7	0.5
1963	0.0	0.1	1.2
1964	−0.5	−0.4	0.2
1965	0.0	0.0	0.1
1966	−0.2	−0.2	−0.8
1967	−1.7	−1.8	−1.9
1968	−0.7	−0.7	−1.3
1969	1.0	1.0	0.5
1970	−1.2	−1.1	−0.5
1971	−2.0	−1.8	−1.0
1972	−1.4	−0.2	−1.0
1973	−0.4	0.6	−0.7
1974	−0.8	−0.3	0.0
1975	−4.4	−4.1	−1.8
1976	−3.1	−2.1	−1.0
1977	−2.4	−1.0	−1.1
1978	−1.4	−0.0	−0.7
1979	−0.6	0.5	−0.1
1980	−2.3	−1.2	−0.7
1981	−2.1	−0.9	−0.1

Source: United States Department of Commerce.

[a]Surplus and Deficit are defined as in the National Income and Products Accounts. See text for meaning of high-employment-budget surplus.

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Commerce monthly publication, *Survey of Current Business* (pp. 21-33).

As I am sure is well-known, years of federal deficit (Column 2) considerably outnumber years of surplus. Surpluses or balance appear only in 1960, 1963, 1965, and 1969. The average outcome over the 24 years was a federal deficit of 1.15 percent of GNP. In seven years, deficits exceeded 2 percent of GNP, ranging up to 4.4 percent in 1975.

If we combine all governments (Column 3), there are two fewer deficit years, and the average outcome is a deficit of 0.78 percent of GNP. In only three years (1958, 1975, and 1976) did the combined deficit exceed 2 percent of GNP. Years of large federal deficits involved substantial grants to state and local governments, which ordinarily showed a budget surplus.

The high-employment federal surplus (Column 4) shows 10 years of balance or surplus, and no year of deficit exceeding 2 percent of GNP. The average for the entire period is a deficit of 0.23 percent of GNP. However, in my view (and that of many other economists), there have been some years of appreciable high-employment deficits when balance or surplus would have been more appropriate, including 1966, 1967, 1968, 1972, and 1978; substantial high-employment surpluses in 1960 and 1961 seem quite inappropriate in these recession years; a larger high-employment deficit might well have been appropriate in the severe recession year of 1981; just as a larger high-employment surplus might have been helpful in the boom year of 1974. The prospective high-employment deficits now contemplated for fiscal years 1983, 1984, and 1985 also seem to me inappropriate and dangerous.

In my view, it would be entirely reasonable to hold that—on the average over any substantial period of years—the high-employment federal budget should be in balance, although, in many *individual years*, high-employment deficits are desirable, and, in many other years, high-employment surpluses are appropriate. You can hardly put a balanced-budget rule like that into the Constitution; but it is an appropriate standard that economic historians can use to evaluate the fiscal effectiveness of a government. Unfortunately, as with most other dimensions of a political system, it is only the later historian who can truly evaluate the success or failure of a fiscal policy.

In part, the validity of the proposed Constitutional Amendment depends on just such a historical judgment: Has the record of U.S. fiscal affairs been so unfortunate that we should feel compelled to impose a budgetary straitjacket on the Congress and the President? As I have indicated, I find a number of occasions on which I can criticize fiscal performance. Nevertheless, by international standards, our economic and fiscal performance still seems to me to surpass that of most or all other countries. According to careful studies, real national

Table 2 **General Government Financial Balances in the Seven Major OECD Countries 1978-1982[a]**

Surplus (+) or deficit (−) as percentage of nominal GNP/GDP

	1978	1979	1980	1981[b]	1982[b]	Average 1978-1982
United States	0	+0.5	−1.2	−0.7	−1.3	−0.54
Japan	−5.5	−4.7	−4.1	−3.6	−2.0	−3.98
Germany	−2.7	−2.9	−3.4	−4.4	−4.0	−3.48
France	−1.8	−0.6	+0.4	−2.4	−2.7	−1.42
United Kingdom	−4.3	−3.2	−3.5	−2.3	−1.4	−2.94
Italy	−9.7	−9.4	−7.8	−9.4	−9.7	−9.20
Canada	−3.1	−1.9	−2.1	−0.1	−0.2	−1.48
Total of above countries[c]	−2.5	−1.9	−2.5	−2.5	−2.4	−2.36

Source: OECD Economic Outlook, December 1981, p. 23.
[a]On a Standard National Accounts basis except for the United States, the United Kingdom, and Italy which are on national income account basis.
[b]OECD estimates and forecasts.
[c]1980 GNP/GDP weighted.

Table 3 **Total General-Government Outlays[a] as Percentage of Gross National Product, 1960, 1970, 1980-81**

Country or group	1960	1970	1980-81
Industrial Countries	28.4	32.6	38.4
United States	27.8	32.2	34.0
Canada	28.9	35.7	40.0
Japan	18.3	19.3	32.0
Common Market	32.1	37.9	48.0
France	34.6	38.9	47.1
Germany	32.0	37.6	47.4
Italy	30.1	34.2	47.5
United Kingdom	32.6	39.3	44.7

Source: Morgan Guaranty Trust Company of New York, *World Financial Markets*, May 1982, p. 3 (probably from OECD data).
[a]Total outlays include purchases of goods and services and transfer payments by central, state, and local governments.

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income per capita remains as high or higher here than in any other major country, although others have, of course, been catching up.

Many observers appear to believe that a number of other major countries have better records of economic performance than ours, at least in some respects. In fact, among the most important Western countries plus Japan, Germany (but only Germany) has a better inflation record since 1960 than ours; and Japan (but only Japan) has a better record of real economic growth since 1960 than ours.

Whatever contributed to those better performances by Germany and Japan, it was surely not smaller government deficits, as Table 2 discloses. *The United States has had, on average, considerably smaller government deficits than any of the major countries—Germany and Japan included.* Taking a longer period for comparison would not materially alter this judgment.

Government expenditures as a percentage of national income

However, a different argument is sometimes made for a prohibition of deficits. It is that the ability to run deficits has permitted a more rapid growth in government expenditures than is desirable. The currently proposed anti-deficit Amendment, like its predecessors, is often supported on precisely this ground. And, of course, the present version of the Amendment also deals directly with the total size of the budget, by prohibiting a faster rise in tax revenues in any year than the previous rise in "national income" (undefined), except when specifically approved by a qualified majority of each House of Congress.

Once again, support for this limitation sometimes rests on an erroneous view that government expenditure in the United States is and has been larger

Table 4 **Government Expenditures in the United States, by Type, as Percentages of Gross National Product, Selected Years, 1956-1981[a]**

Category of expenditures	Percentages of gross national product				
	1956	1965	1969	1978	1981
Total government expenditures	24.8	27.2	30.4	31.6	33.6
Transfer payments to persons	4.1	5.5	6.7	10.1	11.2
Purchases of goods and services	18.8	20.0	22.1	20.0	20.2
Defense	9.5	7.1	8.1	4.6	5.3
Nondefense	9.3	12.8	14.1	15.3	14.9
Other[b]	–0.7	1.6	2.2	3.6	2.2
Federal government					
(Federal gross expenditures)	(17.1)	(17.9)	(20.0)	(21.4)	(23.5)
(Federal grants to state and local governments)	(0.8)	(1.6)	(2.2)	(3.6)	(3.0)
Federal direct expenditures	16.3	16.3	17.8	17.8	20.6
Transfer payments to persons	3.2	4.4	5.4	8.6	9.6
Purchases of goods and services	10.9	9.7	10.3	7.1	7.9
Defense	9.5	7.1	8.1	4.6	5.3
Nondefense	1.4	2.5	2.3	2.4	2.6
Other[b]	–0.3	1.9	1.9	2.1	3.1
State and local government					
Total expenditures	8.5	10.9	12.6	13.8	13.0
Transfer payments to persons	0.9	1.1	1.3	1.5	1.4
Purchases of goods and services	7.9	10.3	11.8	12.9	12.3
Other[b]	–0.4	–0.5	–0.5	–0.6	–0.7

Source: United States Department of Commerce (National Income and Product Accounts), Bureau of Economic Analysis.

[a]Categories are as defined in U.S. National Income and Product Accounts.

[b]"Other" expenditures are net interest (interest paid less interest received), plus subsidies minus current surplus of government enterprises plus transfer payment to foreigners.

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than in other leading countries. Table 3 provides some comparative evidence on that point.

It shows that—in 1980-81—only in Japan were government outlays smaller (*slightly* smaller) as a percentage of GNP than in the United States. However, it should be noted that Japan's government share in GNP has risen enormously since 1960, with most of the increase coming since 1970. This surely does not seem to have made Japan a progressively weaker competitor in the international arena: as Japan's ratio of government expenditures to GNP has risen by considerably more than half since 1970, it has become an ever stronger competitor in trade!

I recognize that these international comparisons do not dispose of the debate over the proposal. They only dispose of some (probably irrelevant) arguments in its favor. For it is clear that both government expenditures and taxes have risen in the United States in recent years relative to the size of our economy—as they have risen in all other important countries. And deficits have been sometimes unwisely incurred here in the United States—as well as in other countries.

Government expenditures and their composition

How much have U.S. government expenditures risen and of what does the rise consist? Table 4 provides some of the answers. It shows that over the past twenty-five years (1956-1981), total government spending rose from just under a quarter (24.8 percent) of GNP to just over a third (33.6 percent). However, a more detailed examination indicates the following:

1. Almost the entire increase in government spending as a percentage of GNP reflects the expansion of transfer payments, which rose from 4.1 percent of GNP in 1956 to 11.2 percent in 1981. Through transfer programs, government reduces all incomes (by taxation) in order to support the incomes of particular groups; but it draws no net resources from the private sector to public use. (The administrative costs of the transfer programs are not included in Transfer Payments; rather, they appear in Government Purchases of Goods and Services.) Transfer payments are overwhelmingly *federal.* Most of their growth was in Social Security Retirement Benefits, and mainly reflects the maturing of that system and the dynamics of population growth.

2. Total government purchases of goods and services—which include the services of government employees—have remained close to a flat 20 percent of GNP over the entire period. The generalization that one-fifth of total production of goods and services in the United States has typically been put to *public use* is thus well supported.

3. Expenditures of state and local governments grew by 4.5 percent of GNP between 1956 and 1981, while total expenditures of the federal government (net of grants to state and local governments) grew by 4.3 percent of GNP.

4. Federal purchases of goods and services have varied over the period, but show, if anything, a downward trend relative to GNP.

5. Federal *nondefense* purchases of goods and services are trivial; they rose from 1.4 percent of

Table 5

Government Civilian Employment in the United States, and Government Employment as a Percentage of the Civilian Labor Force, Selected Years, 1956-1981

	Number of civilian wage and salary workers employed (millions of workers)			Government civilian employees as percentage of the civilian labor force		
Year	Total government	State and local	Federal	Total government	State and local	Federal
1956	7,278	5,069	2,209	11.4	7.9	3.5
1965	10,074	7,696	2,378	14.1	10.8	3.3
1969	12,195	9,437	2,758	15.7	12.2	3.5
1978	15,672	12,919	2,753	15.3	12.6	2.6
1981	16,025	13,253	2,724	14.7	12.2	2.5

Source: United States Department of Labor, Bureau of Labor Statistics.

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GNP in 1956 to 2.6 percent of GNP in 1981; state and local purchases (essentially all nondefense) are much larger, however, and rose from 7.9 percent of GNP in 1956 to 12.3 percent in 1981.

Table 5 measures the size of government's work force. Although state and local governments employ substantial numbers of workers (teachers are the largest single category), federal civilian employment is small (less than 3 percent of the labor force) and has been declining.

Tax receipts and GNP

Table 6 shows that total government tax receipts were 25.6 percent of GNP in 1956, and rose rather steadily to 32.7 percent of GNP in 1981. Of this increase of 7.1 percentage points, 3.3 is attributable to federal taxes, 3.8 to taxes of state and local governments. Between 1969 and 1981, federal taxes as a percentage of GNP grew from 30.7 to 32.7, hardly a dramatic rise. Federal personal taxes (including half of total Social Insurance Contributions) reached 16.6 percent of personal income in 1981. As a result of tax cuts effective in 1982 and 1983, these percentages are likely to decline, at least slightly.

The burden of government debt

Still another argument often used in support of a constitutional limit on deficits and expenditures is that overspending, and the deficits thus generated, lead to a growing burden of public debt. The bonds that represent that debt are, of course, a valued part of the wealth of their private owners; this is an offset to what may be considered a "burden" of the debt on the public at large. Thus, even if debt were increasing more rapidly than national income or gross national product, it is not clear in what sense the relative growth of debt would create a net burden on the economy. However, that is not a relevant question; for U.S. government debt has actually been falling steadily and fairly rapidly rela-

Table 6

Government Tax Receipts in the United States, and Receipts in Relationship to Gross National Product and Personal Income, Selected Years, 1956-1981

	1956	1965	1969	1978	1981
A. Government tax receipts (billions of dollars)					
All governments:					
Total taxes	108.0	184.0	289.7	664.3	956.0
Personal taxes[a]	44.5	77.1	137.1	329.3	507.5
Federal government:					
Total taxes	78.3	120.0	189.8	414.2	626.0
Personal taxes[a]	38.8	63.7	112.3	253.1	397.4
State and local governments:					
Total taxes	31.7	64.0	99.9	250.1	330.0
Personal taxes[a]	5.7	13.4	24.8	76.2	110.1
B. Total tax receipts as percentage of gross national product					
All governments	25.6	26.6	30.7	30.8	32.7
Federal government	18.1	17.4	20.1	19.2	21.4
State and local governments	7.5	9.3	10.6	11.6	11.3
C. Personal tax receipts[a] as percentage of personal income:					
All governments	13.4	14.3	18.2	19.1	21.1
Federal government	11.7	11.8	14.9	14.7	16.6
State and local governments	1.7	2.5	3.3	4.4	4.6

Source: United States Department of Commerce (National Income and Product Accounts), Bureau of Economic Analysis.
[a]Personal Tax Receipts are estimated by adding one-half of "Contributions to Social Insurance" to "Personal Tax and Nontax Receipts."

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Table 7 **U.S. Government Debt, and Debt as a Percentage of Gross National Product, Selected Years, 1949-1981**

Year	Federal government debt held outside U.S. government[a] (billions of dollars)	Debt held outside government as percentage of GNP
1949	202.4	78.3
1956	200.5	47.5
1965	261.6	39.6
1969	279.5	30.7
1978	610.9	29.3
1981	794.4	27.0

Source: U.S. Department of Treasury.

[a]U.S. Government Public Debt Securities held at end of year by private investors—*i.e.*, excluding those held by U.S. Government Trust Funds and other Government accounts, and by the Federal Reserve Banks.

tive to the economy, as Table 7 demonstrates. To be sure, *some* part of the decline in the ratio of debt to GNP is due to inflation. However, I believe that it can be demonstrated that, on average, U.S. government debt would still have declined relative to GNP had there been considerably less inflation than we have actually experienced, and, quite possibly, had there been zero inflation.

Economists' views

Many professional economists oppose a Constitutional Amendment to limit federal deficits. Indeed, it is my confident belief that a substantial majority of American economists oppose such a limitation. In the winter of 1979, I drafted and circulated, with the help of a few friends, an Economists' Open Letter opposing the then proposed Constitutional Amendment to bar federal deficits (different only in detail from the present one). Within a few weeks, more than 500 professional economists had signed the letter, including five who (now) are recipients of the Nobel Prize in Economics, and eight who have (now) served as President of the American Economic Association. The letter, with its list of signers, was printed in a Report of the House Budget Committee dated April 13, 1979: *Toward a Balanced Budget: Report Pursuant to Public Law 96-5.*

Once again, in 1982, I was urged by opponents of the *current* anti-deficit amendment to assemble the views of prominent economists on this question. Perhaps their views had changed since 1979; and the Amendment proposed differed in several respects from the previous one. Once again, I prepared an "Open Letter" by economists, and solicited signatures, this time from a more limited group. The letter, dated June 30, was sent individually to economists known to me as senior and distinguished professionals, selected regardless of what I might know or believe about their opinions on this issue. Because this was a vacation period, when many academics were either on holiday, attending conferences, or travelling—often abroad—the response was incomplete. Nevertheless, well over 200 signatures were obtained for the Open Letter.

The signatures included the names of

—six American recipients of the Nobel Prize;

—twelve Presidents of the American Economic Association;

—seven recipients of the John Bates Clark Medal of the American Economic Association, awarded in alternate years to that economist, who has not yet reached age 40, whose work has achieved the highest standard of distinction (six of these Medalists have subsequently received the Nobel Prize);

—two former Governors of the Federal Reserve System;

—four former Chairmen of the Council of Economic Advisers.

No one can speak for the economics profession. It is nevertheless my sincere *belief* that, by a substantial majority, those who have received advanced degrees in economics, and who "practice" that subject in teaching, research, or similar professional capacities—and particularly those whose principal interest is in "macroeconomics" and/or "economic policy"—oppose enactment of a Constitutional Amendment prohibiting or limiting federal deficits.

GARDNER ACKLEY is Henry Carter Adams University Professor of Political Economy, The University of Michigan, and President of the American Economic Association. He served on the Council of Economic Advisers under President Kennedy and was its Chairman under President Johnson. This article is adapted from his testimony on August 5, 1982 before the Committee on the Judiciary, Subcommittee on Monopolies and Commercial Law, U.S. House of Representatives.

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