

Ronald Reagan Presidential Library
Digital Library Collections

This is a PDF of a folder from our textual collections.

Collection: Barr, William: Files
Folder Title: Constitutional Amendment –
Balanced Budget (3)
Box: 3

To see more digitized collections visit:

<https://reaganlibrary.gov/archives/digital-library>

To see all Ronald Reagan Presidential Library inventories visit:

<https://reaganlibrary.gov/document-collection>

Contact a reference archivist at: reagan.library@nara.gov

Citation Guidelines: <https://reaganlibrary.gov/citing>

National Archives Catalogue: <https://catalog.archives.gov/>

Constitutional Convention Poses Questions

Although the United States has not held a national constitutional convention in 192 years, the threat of the states calling another convention has become a useful political tool in the 20th century.

Since the Constitutional Convention of 1787, nearly 400 resolutions have been submitted by the states for constitutional conventions. But no constitutional convention has been called because no movement for a convention has resulted in applications from the required two-thirds of the states on any one subject.

That failure, however, has not prevented the thwarted convention application—most of which have been submitted since 1900—from having an impact on the American political system. Calls for constitutional conventions have become an effective mechanism to prod Congress to act. In the last 80 years requests for constitutional conventions on specific subjects have preceded the Congress on its own committing four constitutional amendments and passing one major legislative program.

The current drive by the National Taxpayers Union for a constitutional convention to consider a mandatory balanced federal budget amendment may have a similar effect on the 96th Congress. The NTU claims 27 of the required 34 states have applied for a convention.

A new political wave has been sweeping across America and it is beginning to break over Washington," Rep. Peter W. Rodino Jr., D-N.J., said Feb. 8 in announcing that

—By Charles W. Hucker

he would hold hearings — perhaps within two or three months — on proposals pending in Congress to ban deficit budgets by the federal government.

Spur to Action

Part of the prodding effect of requests from the states for a constitutional assembly results from a fear of the unknown. There are few, if any, clear answers to myriad legal questions that would surround the calling of a convention to propose amendments to the Constitution.

Apprehension that such a convention would become a runaway and propose rewriting the country's fundamental law prompts some legislators to seriously consider proposals states want added to the Constitution. Not all legal scholars, however, believe that a constitutional convention is such a fearsome prospect, but that does not detract from the motivating effect of state convention calls.

The direct election of U.S. senators is the most notable example of how a constitutional convention drive by the states helped spur Congress to propose an amendment on its own. In the 1890s public sentiment grew for popular election of senators instead of election by state legislatures.

In 1900 the House voted 240-15 in favor of submitting a direct election amendment to the states, but the Senate still would not act. That failure provoked states to call for a constitutional convention to propose the direct election amendment. As state convention calls approached the required two-thirds by 1912, the Senate — with many of its



Signing the Constitution in 1787. Will there be a second constitutional convention?

members by then designated in preference primaries — relented and the direct election amendment was submitted by Congress to the states.

Action by Congress submitting constitutional amendments to repeal Prohibition, to limit a president to two terms and to provide for presidential succession in case of the chief executive's disability was in each instance preceded by national convention calls from a handful of states. In the late 1960s and early 1970s more than a dozen states asked for a constitutional assembly concerning a federal revenue sharing program. Congress established revenue sharing by statute in 1972.

While other political forces also were at work in each of these cases, the constitutional convention calls provided Congress with concrete evidence of serious interest in these issues among the states.

Amendment Methods

The convention route is one of two basic methods provided in Article V of the Constitution for originating amendments. One is for two-thirds of both chambers of Congress to submit amendments to the states and the second is for two-thirds of the states to call for a convention which would submit amendments to the states. All 26 amendments to the Constitution have been proposed under the first method.

The Constitution also provides for two methods of ratification — either by legislatures in three-fourths of the states or by special conventions in three-fourths of the states. The convention ratification method has been used only once — to approve the 21st amendment that repealed Prohibition. (Article V text, this page)

The proceedings of the 1787 federal convention suggest that the delegates did not view the national convention method of originating amendments simply as a mechanism to prod Congress to act. The convention method was inserted late in the 1787 convention's deliberations to provide an alternative to Congress controlling completely the offering of changes in the Constitution. (1787 convention background, CQ Guide to Congress p. 217)

Constitutional Uncertainties

Every time a drive for a constitutional convention approaches support from the two-thirds of the states required, questions and fears are brought out of hibernation. Arguments on the disputed points are spirited because the debates of the 1787 federal convention, Supreme Court cases and congressional procedures offer only limited guidance.

U.S. Constitution, Article V

"The Congress, whenever two-thirds of both houses shall deem it necessary, shall propose amendments to this Constitution, or, on the application of the legislatures of two-thirds of the several states, shall call a convention for proposing amendments, which, in either case, shall be valid to all intents and purposes, as part of this Constitution, when ratified by the legislatures of three-fourths of the several states, or by conventions in three-fourths thereof, as the one or the other mode of ratification may be proposed by Congress. . . ."

The details of calling a new constitutional convention are perplexing not only to modern-day politicians and legal scholars. They also were puzzling to former President James Madison, a member of the 1787 federal convention. Madison told his fellow delegates that he had no objection to providing for a convention to propose amendments, "except only that difficulties might arise as to the form, the quorum etc. which in constitutional regulations ought to be as much as possible avoided."

Birch Bayh, D-Ind., chairman of the Senate Judiciary Committee's Constitution Subcommittee, has spoken of

"We've had only one constitutional convention and it tore up the Articles of Confederation."

—Rep. Don Edwards, D-Calif.



the balanced budget convention drive as threatening "a constitutional crisis." Don Edwards, D-Calif., chairman of the House Judiciary Committee's Civil and Constitutional Rights Subcommittee, also is alarmed by the specter of a constitutional assembly.

"There is no assurance that [a constitutional convention] could not be a runaway," Edwards told Congressional Quarterly. "We've had only one constitutional convention and it tore up the Articles of Confederation."

But that trepidation is not shared by a special constitutional convention study committee of the American Bar Association (ABA). The committee's report, which was adopted in August 1973 by the ABA, said the convention method of proposing amendments could be "an orderly mechanism for effecting constitutional change when circumstances require its use."

"The charge of radicalism does a disservice to the ability of the states and people to act responsibly when dealing with the Constitution," the ABA report continued. In any event, the work of a "runaway" convention would require the approval of three-fourths of the states.

Several 20th century drives for constitutional conventions gained substantial support from the states. Each time questions were raised about how such an assembly would operate.

Some have claimed that the effort for a constitutional convention on direct election of senators obtained the necessary two-thirds (31 of 46 states in 1911), but it is unclear whether that actually occurred. One academic study has identified 30 states that made applications for a constitutional convention from 1901 to 1911. An 1895 resolution by the Wyoming Legislature apparently was a request for passage by Congress of a direct-election amendment rather than an application for a convention on the subject.

From 1901 to 1916, 26 states requested a constitutional convention to propose an amendment prohibiting polygamous marriages.

Long Countdown for Constitutional Convention

The National Taxpayers Union lists 27 states as having called for the assembling of a national constitutional convention to propose a balanced federal budget amendment.

The NTU count includes Alabama, Arizona, Arkansas, Colorado, Delaware, Florida, Georgia, Idaho, Kansas, Louisiana, Maryland, Mississippi, Nebraska, Nevada, New Mexico, North Carolina, North Dakota, Oklahoma, Oregon, Pennsylvania, South Carolina, South Dakota, Tennessee, Texas, Utah, Virginia, and Wyoming.

Idaho, which approved a convention application Feb. 13, is the most recent addition to the list. The Senate and the House of the Iowa Legislature have passed applications in different forms and now must reconcile them. The NTU does not count the 1957 application of Indiana.

The total listed by NTU is seven short of the 34 states required to convene a constitutional assembly, but several factors make the calling of such a convention less imminent than it might first seem.

First, the validity of several of the applications listed by the NTU are subject to challenges in Congress. Second, at least three states say that their applications would become void if Congress on its own proposes a balanced budget amendment.

One of the states whose current application might be contested as invalid is Nevada. Its 1977 convention resolution was vetoed by the governor.

NTU officials concede that the application of North Dakota may have validity problems because it does not specifically ask Congress to call a convention and because no provision was made for it to be sent to Congress. An effort is under way in North Dakota to pass an application that repairs the defects.

Several applications, particularly Delaware's, might be challenged because they appear to attempt to limit a constitutional convention to considering only certain specific language. A study by a special American Bar Association committee concluded that it would be invalid to take away from a convention its deliberative function.

If Congress were to submit its own balanced federal budget amendment, it appears that several state applications would no longer be in effect. The resolutions of both Kansas and South Dakota state that their calls "shall no longer be of any force" if Congress submits such an amendment. The Tennessee application says if the Congress approves a balanced budget amendment prior to 60 days after 34 states apply for a convention then the convention is unnecessary and should not be held.

The NTU count is not accepted in all quarters of Congress. The staff of the Senate Judiciary Committee's Constitution Subcommittee reported on Feb. 6 that it found in its files only 16 applications that appeared to be in good order. But that number did not include documents from the five states that have passed convention requests since Jan. 1.

Although the NTU last summer listed 22 states as requesting a convention, the drive did not receive widespread national attention until California Gov. Jerry Brown said Jan. 8 that he favored a convention if Congress did not approve its own balanced budget amendment.

While Brown's comments brought the drive more notice, the attention is likely to focus greater scrutiny on the merits of a balanced budget amendment itself and on the convention method to achieve that goal.

—By Charles W. Hucker

In the 1940s and 1950s a substantial drive was made to call a convention to deal with the limitation of federal taxes, but a number of states rejected their applications.

By one count 35 states (one sixth of the necessary two-thirds) had applied by 1969 for a constitutional convention to allow at least one house of each state legislature to be apportioned on a basis other than population, such as geography or political subdivisions.

That drive prompted former Sen. Sam J. Ervin Jr., D-N.C. (1946-1974), to introduce legislation in 1967 that would establish procedures for calling and running a constitutional convention. The Ervin legislation did not pass. (*Background, 1967 CQ Almanac p. 461*)

Ervin again introduced the procedures bill in 1969, but no action was taken.

The North Carolina senator had better luck in 1971 when it passed the Senate by an 84-0 vote. The House did not act on the bill. (*Background, 1971 CQ Almanac p. 758*)

In 1973 the Senate passed the Ervin procedures bill by a unanimous voice vote; but again the House took no action.

Bills similar to Ervin's have been introduced in the 96th Congress, but so far have not aroused great interest from key legislative leaders. An aide to Bayh said it "would be putting the cart before the horse" to hold hearings on a

convention procedures bill before scheduling hearings on balanced budget amendment proposals themselves.

Edwards also is reluctant to have his civil and constitutional rights subcommittee explore the procedures bills. "We have never felt it was significant enough to hold hearings," Edwards said.

Edwards also fears that passage of a procedures bill would encourage the push for a constitutional convention. "Anything that encourages this sort of utilization of Article V is unwise," he said.

The ABA's special committee endorsed congressional action to enact a statute dealing with convention procedures, but criticized several items in the Ervin bill.

Legal Questions

The legal questions spawned by constitutional convention drives provoke little agreement as to their answers. Some questions have given rise to diametrically opposed answers that often appeal to the same precedents. Among the constitutional uncertainties:

Valid Call. What constitutes a valid call for a convention by the required two-thirds of the state legislatures?

There appears to be little dispute that the petitions of the state legislatures must specifically ask Congress to call

a national convention for proposing amendments. A legislature's resolution stating merely that it favored a certain amendment or asking Congress to submit an amendment to the states would not be sufficient, according to the ABA.

The ABA study doubted that an application would be valid if it proposed a specific amendment, giving the convention no function other than to approve or disapprove its specific proposal. Yale law professor Charles L. Black Jr. contends that the Founding Fathers intended any convention called under Article V to be without limitation, and that applications calling for a convention limited to a specific subject are not valid in that light.

The question also arises whether applications must be identical in their wording and, if not, how similar must they be. And if conventions may be limited to one subject area, how closely worded must the applications be in order to be considered valid?

The validity of a state's application could be thrown into doubt if it had not passed both chambers of the state legislature in the same form or if it was not properly certified by state officials.

A state's application also might have trouble being counted as valid if the resolution were not sent to Congress. "We cannot count what we don't have," commented a staff aide to Bayh's Constitution Subcommittee.

Time Periods. In what time period must the required two-thirds of the states submit their resolutions?

The Constitution says nothing about this, but the Supreme Court has upheld the right of Congress to set time periods for ratification of amendments it has proposed. A 1973 Senate Judiciary Committee report on the Ervin bill said that the applications for a convention should be "contemporaneous," but it is unclear what period would fit that standard.

State Rescission. Can a state rescind its own previous call for a convention?

The Constitution is also silent on this question, but the Ervin bill and the ABA study both endorse the right of states to rescind their applications.

Congress' Role. If the required two-thirds of the legislatures apply for a national constitutional convention is Congress obligated to call the convention?

Once the previous three questions are answered in the context of a particular convention drive, this question would become easier for Congress to answer. If Congress determined it had received valid applications from two-thirds of the states, the explicit language of the Constitution suggests that Congress would have no choice but to call the convention.

However, Congress' determination whether it had valid applications from two-thirds of the states might be challenged, and it is unknown whether the courts would consider Congress the final judge of those petitions.

It has been argued that the phrase in Article V "shall call" may be interpreted as "may call" for all practical purposes because the courts are not likely to try to enforce the obligation if Congress wishes to evade it.

Convention Scope. Does Congress have the power to limit the scope and authority of a constitutional convention called by the states?

This is probably the most debated question surrounding the calling of a constitutional convention and the one on which opinions are the most vehement and divided.

The ABA study and the 1973 Senate Judiciary Committee report support the view that Congress can limit the subject matter in convening a convention.

"A failure to provide for such limitation would be inconsistent with the purposes of Article V and, indeed, would destroy the possibility of the use of the convention method for proposing amendments," the 1973 Senate committee report says.

That view apparently is supported by most of the state legislatures. Virtually all state applications for conventions made in the 20th century have been limited in subject area. Indeed, one state currently calling for a convention on a balanced federal budget specifically declares that its application is null and void if Congress does not limit a convention to that subject.

Attorney General Griffin B. Bell also believes that Congress can place limits on a constitutional convention.

Yale's Black and others take a totally opposite view. Black believes that the language of Article V refers to a convention "for proposing such amendments as to that convention seem suitable for being proposed," in other words, an illimitable convention.

The 1787 federal convention has been cited as an example of a body that exceeded its authority. Congress, acting under the Articles of Confederation, called the 1787 convention "for the sole and express purpose of revising the Articles of Confederation." Instead the convention scrapped the articles and proposed a new constitution.

The 1973 Senate Judiciary Committee report argues that the events of 1787 are not a good precedent for a modern-day convention exceeding its authority. The Senate committee report notes that the Articles of Confederation did not have a satisfactory means of amendment (unanimous approval of the states was required) and Congress approved the new constitution when it submitted it to the states for ratification.

Representation. How would delegates be apportioned among the states for a constitutional convention?

Again the Constitution is silent on this point. At the 1787 convention each state had only one vote, but there were differing numbers of delegates from the various states. Ervin initially favored his idea, but later changed his bill to provide for a convention giving each state the number of delegates that equaled its senators and representatives in Congress, and allowing each delegate one vote.

However, the ABA study criticized that method as being out of line with the one man-one vote rulings of the Supreme Court and suggested that each state could have the number of delegates that equaled its members of the House of Representatives.

Choosing Delegates. How would delegates be chosen?

This question could be answered by Congress or left to each state to decide. The Ervin bill provided for two delegates to be elected at large in each state and one to be elected from each congressional district.

The question also arises whether members of Congress would be eligible to run for the delegate positions. Article I, Section 6, of the Constitution prohibits members of Congress from "holding any office under the United States." However, the ABA study said it did not believe that provision would be a bar to members of Congress being delegates to a constitutional convention.

Procedural Bills

Four bills introduced in the 96th Congress attempt to provide answers to some of the legal and procedural questions surrounding a constitutional convention. The bills have been introduced by Sen. Jesse Helms, R-N.C., (S 3);

(Constitutional Convention continued on p. 279)

National Taxpayers Union:

Group Wants to Balance Nation's Checkbook

In April 1978 the National Taxpayers Union (NTU) issued its "Congressional Spending Scores" for the first session of the 95th Congress, a rating the group called "perhaps the most far-reaching congressional voting study ever produced."

Based on more than 100 votes, including those on every appropriations bill considered in 1977, the rating was designed to call attention to congressional "big spenders." The results? Only seven senators and 42 representatives agreed with NTU more than half the time. The reason becomes readily apparent.

"We didn't exactly take positions on the votes," explained NTU research director David Keating. "If it spent money, we considered it a negative vote. If it saved money, it was positive."

In other words, the less members voted to spend the better their scores — no matter what the issues. In effect, NTU opposed virtually the entire fiscal 1978 federal budget.

A similar broad brush, "anything can go from the budget" line of reasoning underlies NTU's current campaign for a constitutional convention to write an amendment that would require a balanced federal budget. And it is in part this very lack of definition that has made NTU the largest and fastest growing organizational embodiment of the "tax revolt" in the country.

Broad Brush Approach

NTU has, from time to time, opposed specific government spending proposals such as Armatank, the B-1 bomber, federal insurance for the nuclear industry and the super-sonic transport (SST).

But the group's relatively recent strength and national prominence lie in the fact that it has served as a national sounding board for a major grass-roots movement of taxpayers angered and frustrated over inflation and taxes.

A large measure of NTU's success appears to lie in its opposition to all federal spending. That way it avoids attacking too many specific spending proposals, which could alienate one interest group or another. At the same time NTU subsumes the merits of all specific spending proposals to the taxpayer's demand over inflation and taxes. And in applying a principle of home economy — the balanced checkbook — to the federal budget, it advances the kind of solution with which most Americans can identify.

Ironically, while NTU has lost faith in Congress' ability to cut the federal budget — thus the need for a constitutional convention — it appears willing to defer to Congress' judgment in making such cuts if a constitutional amendment is adopted requiring a balanced budget.

Background

The National Taxpayers Union and the "tax revolt" have done well by one another.

Founded in 1969, NTU was fighting "wasteful" government spending long before Howard Jarvis, the leader of the

—By Alan Berlow

There are very few persons who still think it is unimportant to balance the federal budget.

Unfortunately, about 400 of them are members of Congress.

In their privileged position, Congressmen don't have to worry about the effects of deficit spending upon their personal finances. Whenever inflation restricts their lifestyle they can raise their own salaries, as they recently did—by \$12,800 annually.

But consider what has happened to the average worker. Thanks to higher taxes and inflation, his real weekly purchasing power is lower than it was five years ago, and only a few cents a week higher than it was a decade ago.

Ten years of massive deficits have meant ten years of stagflation.

The American people understand this. A Gallup Poll shows that 78%—an overwhelming majority—favor a constitutional amendment now to force the federal government to balance the budget. Young and old, black and white, rich and poor, we must halt deficit spending and its punishing effects.

budget, there is little chance we can halt the process which threatens to bury the American way of life under an avalanche of inflation and debt. Balanced budgets are a progressive cause also. Without them, the poor, the weak, and the helpless suffer most. That is why I am supporting National Taxpayers Union's efforts. It is a matter of common sense.

It is a matter of common sense. It is also a matter of arithmetic. Each month that passes without a balanced budget generates billions in additional government debts and financial obligations—money which you may have to pay.

WHAT YOU CAN DO

If you want to help pass a constitutional amendment to Balance the Budget, now is the time to sign to.

A portion of a National Taxpayers Union ad that appeared in *The Washington Post* in 1977 urging Congress to pass a constitutional amendment requiring a balanced budget.

"Proposition 13" movement, became a household word. But as NTU's 24-year-old executive director Grover Norquist noted, the group never had a high profile. As recently as 1976, Norquist said, NTU had only 20,000 members. Since then it has doubled its membership annually with about 100,000 members currently enlisted.

NTU spent \$1.1 million in 1978 for such activities as newspaper advertising, a monthly newsletter and other mailings. Norquist said he expected the group to spend more than \$2 million in 1979. NTU Treasurer William Bonner said most of NTU's funding comes from its \$15-a-year membership fees. No more than 5 percent comes from wealthy individuals making large contributions, he said.

Proposition 13 and other taxpayer initiatives have contributed to NTU's growth. "Proposition 13 made a lot of local people much more confident. More people began seeing themselves as Howard Jarvises," said Bonner.

Bonner said it has been only in the last six months or so that NTU has "reached a turning point" in taking on the national leadership role it has always sought.

That role was explained by A. Ernest Fitzgerald, a celebrated whistleblower who exposed cost overruns on the C-5A cargo plane. Fitzgerald, who was one of NTU's first chairmen, said the group was set up as "an umbrella organization and listening post for local organizations." The problem with the tax revolt, Fitzgerald is that "a lot of these groups work well locally but they can't do anything about the feds."

Since 1975 the federal solution NTU has been pushing — through loose affiliations with more than 500 state and local groups — is the constitutional convention to approve an amendment requiring a balanced budget.

Norquist and others at NTU insist they would prefer that Congress pass an amendment and avoid the delay of a convention. And they acknowledge that the convention drive is an effort to force Congress' hand to approve such an amendment. "It's a vote of no confidence in Congress," says Norquist. "It says Congress is screwing up."

But neither Norquist nor Bonner expect Congress to approve such an amendment. And both say that the 34 states needed to call a constitutional convention will do so before Congress begins taking the amendment seriously. Norquist said he expects to get approval by the requisite 34 states within the next three months. (*Constitutional convention, p. 273*)

Conservative Alliances

NTU's case for a constitutional convention is based on an economic analysis that sees deficit spending as the cause of inflation and the reduced real income — after taxes and inflation — of the average American family.

Reducing spending, NTU argues, will reduce the amount of money in circulation and reduce deficits. This in turn will reduce inflation, leaving more "real" money in the private sector for expanded production. Theoretically, this will also eliminate the need for higher taxes.

Speculating on the effect of the constitutional amendment in Congress, Bonner said the amendment would "make a tax increase very unlikely. I don't think the clowns up the street would come in and raise taxes," with an amendment on the books.

NTU concludes, in a recent *Wall Street Journal* advertisement, that a constitutional convention is necessary to force a balanced budget because Congress has been "unable to resist pressures to spend."

On Capitol Hill, NTU has found the most receptive audience among conservatives, most of them Republicans. NTU literature is replete with praise for such supporters of the convention drive as Sen. Harry F. Byrd, Jr., Ind.-Va., and Rep. Phillip Crane, R-Ill., both of whom scored high marks as penny pinchers in the NTU ratings. And NTU touts the economics of Sen. Malcolm Wallop, R-Wyo., a leading advocate of the balanced budget concept, and Sen. William Roth, R-Del., author of a plan to cut federal taxes to encourage people to save and invest.

While NTU and its budget-balancing allies rarely say anything about where federal spending should be cut, they are not unaware of the issue.

Bill Burt, director of the California NTU office, noted that there "comes a point when the services people have come to depend on are called into question" by a balanced budget amendment.

NTU is apparently willing to face such questions after it wins a constitutional amendment. NTU's critics are less patient.

The Critics

"NTU is very good at saying 'cut, cut, cut,' 'taxation is theft' and 'bureaucrats are a bunch of drones,'" said Tom Field, director of Taxation With Representation, a Washington, D.C.-area tax reform group. "I'd like to see some evidence of where those cuts are to come. If Amtrak is their idea of a big cut, it's not going to do much to reduce taxes."

Field's organization works to eliminate loopholes in tax laws and for more "equitable" taxation, an effort that is clearly distinguishable from NTU's mission. Bonner of the Taxpayers Union, says, for example, "We don't oppose loopholes. We think everyone should have one."

Field characterizes the balanced budget drive as "an exercise in political symbolism" and "nothing but pious wishes decked out in constitutional language." Field charges NTU with misleading the public into believing that a balanced budget would necessarily reduce spending and

taxes. "The spectacle of a major national effort to amend the Constitution, followed by its failure to reduce spending and taxes will further promote public cynicism," Field said.

NTU has some even harsher critics. AFL-CIO President George Meany has called on all state and local AFL-CIO affiliates to oppose a constitutional convention and to lobby for rescission where state legislatures have approved a convention resolution.

In a Jan. 24 letter to affiliates, Meany wrote that "an anti-government sentiment, inflation, increasing taxes and 'Proposition 13' fever continue to engender voter discontent which lends support" to the constitutional convention drive. Meany characterized that drive as a "very dangerous right wing legislative effort." And the AFL-CIO's Committee on Political Education has undertaken a campaign that seeks to show the affiliation of NTU members with such organizations as the John Birch Society, the National Association of Manufacturers, the Heritage Foundation, a conservative Washington, D.C., research organization, and Americans Against Union Control of Government.

NTU officials deny that their politics are "right wing," noting that the constitutional convention drive has won support from "liberals" such as California's Democratic Gov. Edmund G. Brown Jr. and Rep. Andy Jacobs Jr., D-Ind. They also note that NTU has been aligned with liberals in opposing such projects as the B-1 bomber, the SST and legislation providing federal subsidized insurance to the nuclear industry. As Bonner sees NTU, "Our tradition is that of classical liberal politics where big government, big labor and big corporations are unable to dominate."

But if NTU isn't besting of its conservative affiliations, they are clearly identifiable in the records of its political action committee, the Taxpayer Action Fund.

Records of the fund on file with the Federal Election Commission show that the group has funded only conservative and ultra-conservative candidates. In 1978 the fund gave \$500 to Sen. Jesse Helms, R-N.C.; \$1,500 to Woody Jenkins, a New Hampshire Senate candidate who was a former supporter of former Alabama Gov. George C. Wallace, D, and \$500 to Republican Sen. William L. Armstrong, who defeated liberal Floyd K. Haskell, D-Colo. The group also spent \$3,600 on newspaper ads on behalf of Republican Larry Williams who ran against liberal Max Baucus, D-Mont., for vacant Senate seat.

Fund records also show that it received a \$2,000 non-interest loan from the National Conservative Political Action Committee to get started in 1976. The political action committee and groups like it, such as the Committee for the Survival of a Free Congress, came to prominence at that time. Gerald Ford's moderate Republicanism had disillusioned many conservatives who sought to bypass the organized GOP and build a national conservative majority. Those efforts became known as the "new right." (*Background, 1978 Weekly Report p. 122*)

NTU officials claim responsibility for helping Malcolm Wallop unseat former Sen. Gale McGee, D-Wyo. (1959-77), in 1976. NTU ran a newspaper campaign in Wyoming calling McGee "the bureaucrats' best friend." The ad said, in part, "we don't know anything about McGee's opponent. But he could hardly be worse than McGee."

Organization

NTU officials say they have worked with legislatures in 25 states that have either called for a constitutional conven-

tion or asked Congress to pass a constitutional amendment to require a balanced budget.

According to Bonner, NTU began to actively engage in building grass-roots coalitions five years ago. "For awhile we naively thought we could just spill the beans and tell the story of government waste, but it didn't work."

So more recently NTU has sought instead to "find operatives and activists in various communities" who are willing to work with the national organization.

In a typical state, NTU will work with one of its stronger affiliates, picking one or two strong leaders to present the case for the convention to state legislators. NTU may also encourage its members in the state to write letters, make phone calls or visit key members in the legislature. And the national organization may run newspaper ads to generate public support for a local effort. In some states, such as California, the mail and lobbying effort were targeted at key members of committees responsible for the constitutional convention measure.

NTU rarely funds local organizations to any large extent, although it provided \$2,400 to start a group in Oregon and has loaned money to other organizations to keep them afloat.

The California Campaign

One exception to NTU's standard approach is California, where the organization has 20,000 members. NTU set up an office there in July 1978 to lobby the state legislature for the constitutional convention. That office is designed to work with the Santa Barbara-based Local Government Center, an NTU-funded research affiliate that makes recommendations on how local governments can cut spending. Bonner estimated NTU would spend \$30,000 to \$40,000 on its California effort. "California is where skateboards and Hula-Hoops come from. If California does something, there's a good chance the rest of the country will follow."

California may indeed be a turning point. NTU counts 27 state legislatures that have voted for a constitutional convention. But NTU and its opponents are devoting considerable resources to the battle now being fought in the Way and Means Committee of the California House. There, Speaker Leo McCarthy, D, has positioned himself against the governor in a fight that is viewed not only as a bellwether for states yet to take up the issue but as a test of Brown's strength as a presidential candidate.

Brown's support for the convention route has been a key factor in focusing national attention on the issue. But Brown's support is viewed as a mixed blessing by convention advocates who would normally welcome support from such a high visibility public figure.

"I would have been better to let a shaping dog lie," said Bonner, acknowledging that NTU would like to have gotten closer to the required 34 states before the national media began examining the issue. "There was no point in heating things up. When Brown announced, we had to go more public."

Brown not only focused attention on the issue in the nation's most populous state, but generated the first wave of serious criticism of the proposal at the national level by economists, congressmen and other tax and spending limitation groups. And Brown may have made it more difficult for state legislators to support what until then had been a relatively easy vote. Now with serious questions being raised about the dangers of a constitutional convention, legislators may be more reluctant to approve the proposal. ■

Constitutional Convention

(continued from p. 276)

Rep. Robert McClory, R-Ill., (HR 84), and Rep. Henry J. Hyde, R-Ill., (HR 500 and HR 1964).

The bills are similar to each other and to the Ervin bill that passed the Senate in 1971 and in 1973. The 1973 Senate committee report on the Ervin bill said the legislation was needed "in order to avoid what might well be an unseemly and chaotic imbroglio if the question of procedure were to arise simultaneously with the presentation of a substantive issue by two-thirds of the state legislatures. Should Article V be invoked in the absence of this legislation, it is not improbable that the country will be faced with a constitutional crisis the dimensions of which have rarely been matched in our history."

But Black of Yale contends that such legislation would be "both unconstitutional and unwise." Black believes it would be unconstitutional on the basis that one Congress cannot bind a later Congress on questions of constitutional law and policy. He also argues that it would be unwise because the conditions of the future are unknowable.

All four bills would require state legislatures, when calling for a constitutional convention, to specify the nature of the amendment to be proposed. None of the bills requires approval by a state's governor of its application for a convention.

The bills provide for the states to transmit applications to the President of the Senate and to the Speaker of the House. Applications would remain effective for seven years and states would be permitted to rescind their applications.

When applications on one subject were received by Congress from two-thirds of the states, the four bills would require each chamber to determine whether the applications were valid. If there were a proper number of valid applications, Congress would be required to pass a concurrent resolution calling for the convening of a convention, designating the place and time of the convention and the subject of the amendments to be considered.

The bills all specify that each state would elect two delegates at large and one from each congressional district in the state.

All the bills except HR 1964 provide for the convention to submit proposed amendments to the states by a simple majority vote of the convention delegates. HR 1964 calls for a two-thirds vote. That is the same requirement contained in the 1971 and 1973 bills passed by the Senate. The ABA study criticized this requirement, stating it was of questionable validity for Congress to attempt to regulate the internal proceedings of a constitutional convention.

The four bills allow Congress to prohibit a convention-initiated amendment from being submitted to the states that is outside the subject named in the call.

All the bills provide for Congress to be the final arbiter of questions about the validity of state applications for constitutional conventions and about whether a convention-initiated amendment exceeded the subject of the convention's call. The bills would prohibit any court from reviewing Congress' decisions in those areas. Identical provisions in the Ervin bill were criticized by the ABA study as too far-reaching. Instead, the ABA proposed the right of limited judicial review in cases where the findings of Congress were "clearly erroneous." ■

2-18-79

The Washington Post

PRESERVATION COPY

AN INDEPENDENT NEWSPAPER

A Budget-Balancing Amendment

THE NATIONAL drive now under way for a constitutional amendment requiring a balanced federal budget is not unique. There have been similar efforts by state legislatures in the past to amend the Constitution in one way or another by means of a constitutional convention. What's different about this one is that it seems to be getting perilously close to the point at which Congress may have to act, either by calling a convention or drafting an amendment itself; 26 of the necessary 34 states have approved convention calls. We say *perilously* because we think this is a bad idea, for many of the reasons set forth in a series of articles on the opposite page on Monday, Wednesday and Friday of last week, attempting to put the issue into some sort of legal and historical perspective. When the issue is subjected to that sort of analysis, as distinct from a discussion on the virtues of a balanced budget, it seems clear to us that the first and perhaps conclusive test of any such amendment to the Constitution has to be what it would mean for the Constitution itself.

So we would set aside for now the question of what a budget-balancing amendment of any kind would do to the ability of the federal government to deal with the economic well-being of the country—the short answer to that question, in our view, is that the budget-balancing amendments, in their simplest forms, would wreak economic havoc. As for the more complex formulations now being advanced—the ones designed to give the federal government a little more economic flexibility—we think they would wreak constitutional havoc. And we would take as Exhibit A the proposal of Nobel Prize-winning economist Milton Friedman and the Committee on National Tax Limitation. Its sophisticated escape clauses may make it an economist's dream. But it is a constitutionist's nightmare. The Constitution is beautifully written, phrased in succinct and clear language, so broad in its meaning—and possessed of just the right measure of essential ambiguity—that most of it has survived intact for almost 200 years. Compare its language, if you will, with just one passage from the Friedman amendment:

Total outlays in any fiscal year shall increase by a percentage no greater than the percentage increase in nominal gross national product in the last calendar year ending prior to the beginning of said fiscal year. If inflation for that calendar year is more than three percent, the permissible percentage increase in total outlays shall be reduced by one-fourth of the excess of inflation over three percent. Inflation shall be measured by the difference between the percentage increase in nominal gross national product and the percentage increase in real gross national product.

Hardly the work of James Madison or Benjamin Franklin, would you not agree? It was Madison who ar-

gued against one provision proposed at Philadelphia in 1787 because the public would never understand it. And it is hardly the kind of material John Marshall was referring to when he wrote, "... we must never forget, that it is a *constitution* we are expounding," a constitution "intended to endure for ages to come."

The authors of the Constitution used only three words to give Congress the ultimate power a government holds—"to declare war"—and only 16 to give it control over interstate and foreign commerce. They needed only 429 words to describe almost all of the vast powers given to Congress. The authors of this budget-balancing amendment have used 476 words to say Congress must balance the budget. Their amendment, in fact, is longer than the entire Bill of Rights.

Reflect on some of the terms used in the proposed amendment. "Gross national product" is an inexact accounting statistic, devised by economists as a tool to measure the goods and services produced by a nation's workers. The initial figure reported for any year is subject to revision as additional data are collected. It is influenced not only by business conditions in this country, but also by such things as the nationalization of American-owned property abroad. Its meaning may be clear to economists, but what about the judges and lawyers who would be required—presumably for the next 200 years—to translate it into specific numbers? Due process of law, equal protection, freedom of speech—these are matters of high principle, appropriate to a constitution. "Gross national product" and "inflation"—these are the necessarily arbitrary and imprecise mathematical calculations of economists, appropriate to the president's annual economic report.

There is more that can be said about what this particular amendment would do to the Constitution. It would be the first part of the Constitution that would authorize members of Congress to file suit in federal court to enforce its terms; it even names the specific court in which the suit would be filed—a court whose existence is not even acknowledged in the original Constitution. It would also be the first part of the Constitution that could be altered by a system other than the adoption of an amendment; it would provide that the "limit on total outlays" could be changed by a three-fourths vote of Congress, if approved by a majority of the state legislatures.

Leaving aside the compelling point that the Congress right now has all the authority it needs to impose a balanced budget by the appropriation process, this version of the proposed budget-balancing amendment is so at odds with the principles on which constitutions are written that it should be rejected out-of-hand by even the most ardent budget-balancers. The document it would amend is not some municipal code or even a piece of national legislation. It is the Constitution of the United States of America, and it deserves to be treated with some respect.

The Administration seeks to hold workers to the rigid 7 percent wage guideline but workers would be forced to pay uncontrolled price increases throughout the year before receiving any benefits under RWI. Therefore, we believe there must also be a tax-based program to insure business compliance with price guidelines.

Therefore, the AFL-CIO urges Congress to enact an excess profits tax that will deny businesses any advantage they receive from exceeding the Administration's profit-margin guideline. Without this Fair Price Incentive Tax, violators would make excessive profits denied their competitors who comply with the profit-margin guideline.

The goal of such a tax should be to keep operating profit margins in line with base period levels. This should encourage corporations to increase profits through increased productivity, efficiency, output and sales, rather than through price and profit margin manipulation.

Such a tax would provide added tax revenue needed to fund the RWI program. It would also provide more balance and equity to the Administration's program by restraining profits as wages are restrained and prevent companies from padding cost increases with added profits.

Enacting an excess profits tax would not however, resolve all of the inequities in the RWI program. We believe the following changes should be made:

- Participation by smaller employers should be mandatory not optional.
- All workers with incomes below the low wage exemption cutoff should automatically be covered by RWI.
- Eligibility for RWI should be based on wage and salary increases alone.
- Any employee with a 1979 wage increase of less than 7 percent should be automatically qualified for RWI.

This does not in any way imply our support for so-called voluntary wage guidelines but rather demonstrates our recognition that there are groups of workers who might receive some benefit from the RWI program. (End of Text)

- 0 -

U.S. BUDGET: PACKWOOD, CONABLE TO OFFER BILL TO CONTROL SPENDING, INFLATION TAX RISES

Sen. Bob Packwood (R-Ore) and Rep. Barber Conable (R-NY) plan to introduce a bill this week to require the President to submit balanced budget alternatives and to force Congress to recognize and act on tax increases due to inflation.

One provision of the bill would require the President to include in his annual budget an estimate of tax increases due to inflation, and the distribution of the increases by income group and family size.

The President would recommend whether these increases should go into effect, and Congress would have to consider them as part of the first and second concurrent budget resolution.

Inflation increases tax revenues when persons receive raises that just keep them even with the increased cost of living go into higher tax brackets.

The Republican response in the past has been to push the idea of indexing taxes automatically for inflation every year, by increasing the bracket amounts and the personal exemption according to increases in the Consumer Price Index.

This new approach would allow the inflation increases to go into effect, but only after they have been considered by the tax-writing committees and the budget committees.

The tax-writing panels would report on how much of the inflation increases would be offset by any recommended tax cuts, and the budget panels would indicate how much of the inflation rises would be expected to go into effect.

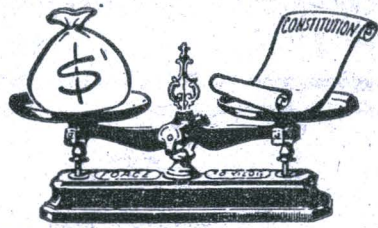
The balanced budget alternative would have to be submitted by the President in any year his recommended budget calls for a deficit. This is designed to help Congress pinpoint where the most likely targets for spending cuts are.

In addition, the Packwood-Conable bill would require the President to submit spending reduction alternatives to Congress in any year that spending or the deficit exceeds the amount projected in the second concurrent budget resolution for that year.

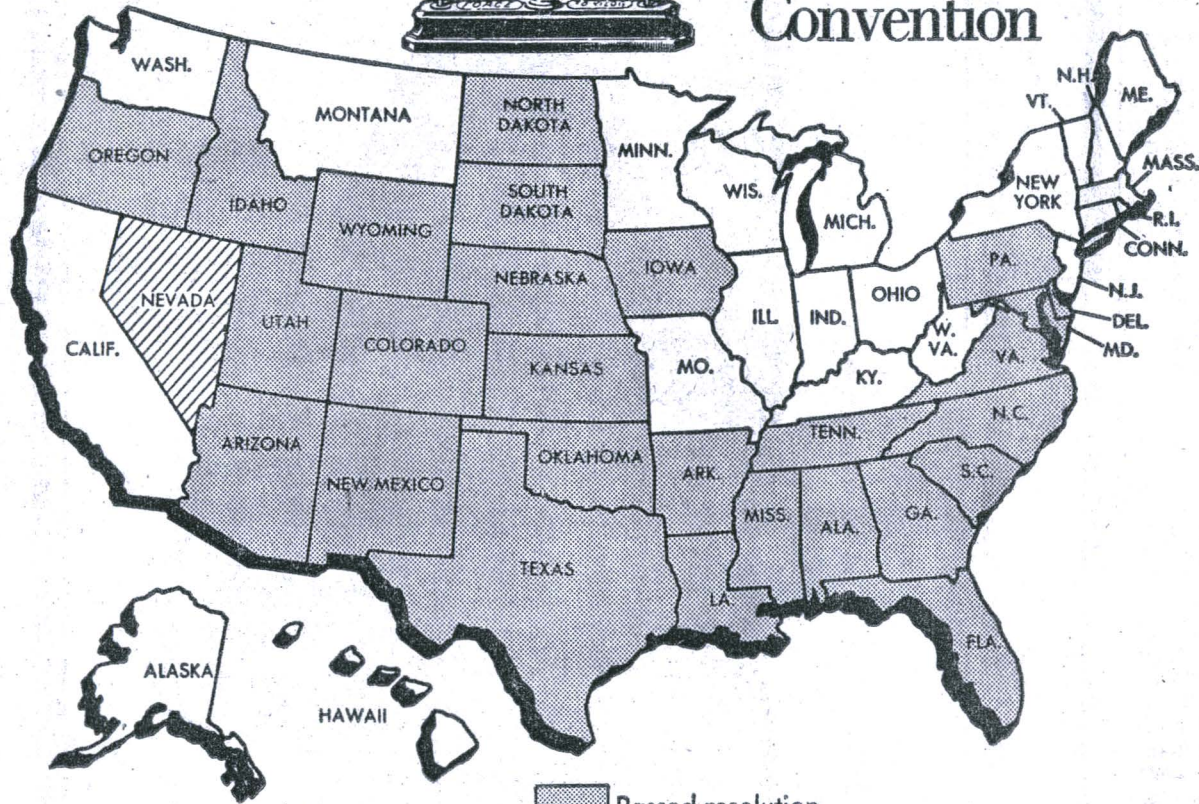
Packwood is a member of the Senate Finance Committee. Conable is ranking Republican on the House Ways and Means Committee.

- - - End of Section G - - -

Constitutional Convention Drive May Not Reach Finish Line



States Calling for a Constitutional Convention



By Richard Furno—The Washington Post



Sen. Richard Lugar (R-Ind.), left and Rep. Andrew Jacobs (D-Ind.) announcing that they expect Indiana to join

By James K. W. Atherton—The Washington Post
call for a constitutional convention. At right is James Davidson, president of the National Taxpayers' Union

By T. R. Reid

Washington Post Staff Writer

Despite the political hoopla and the lopsided public opinion polls, the national campaign for a constitutional amendment on the federal budget faces growing prospects of being derailed.

A backlash from the Washington political establishment and closer scrutiny of the campaign's reported success to date are raising serious doubt about what seemed, just a few weeks ago, a near-certainty: the convening of a constitutional convention to propose a balanced-budget amendment.

There's no doubt that the convention campaign, propelled by a charismatic national leader, California Gov. Edmund G. (Jerry) Brown Jr., and a broad grass-roots network, has acquired considerable momentum. Polls say that more than two-thirds of the American people support a balanced-budget amendment, and that most favor calling a convention, if necessary, to propose one.

The National Taxpayers' Union, the Washington-based lobby coordinating the drive, said Friday that 28 of the required 34 states have approved a resolution asking Congress to call a convention. The group said two more states, Indiana and Montana, are likely to do so within two weeks.

But the campaign's recent successes may be misleading. Political and legal realities suggest that chances are slight that a constitutional convention

"Everybody here is afraid of the rogue elephant idea of a convention . . . so we would give them something . . ."

will be called. The drive probably will prompt some action from Congress on the budget issue—but it is likely to fall far short of a constitutional requirement for a balanced budget.

Proponents of the convention drive face three obstacles.

They have an uphill fight to win the approval of the additional states needed to reach 34. If they do accumulate 34 state resolutions, Congress is likely to hold many of them invalid. And if proponents ever approach 34 valid resolutions, Congress is likely to adopt legislation or propose a mild amendment in order to avoid calling a convention.

The Constitution says amendments can be proposed by a two-thirds vote in Congress or by a convention called at the request of two-thirds (34) of the states. In either case, any proposed amendment would have to be approved by three-fourths (38) of the states to take effect.

The drive for a constitutional convention started slowly four years ago

and then picked up steam last summer in the furor surrounding California's Proposition 13. Brown's declaration of support six weeks ago added new impetus.

But Brown's support, and the attention it won for the convention campaign, spawned a counterattack from Washington. House Speaker Thomas P. (Tip) O'Neill Jr. (D-Mass.) established a task force on the issue. Last week the task force chairman, Rep. David Obey (D-Wis.) sent a tough letter to every governor warning that federal aid to state and local government is sure to be a victim of a balanced-budget austerity wave.

When the governors gather here for a conference this week, congressional leaders will be among them for anti-convention lobbying—although this effort may be offset by the personal lobbying of Jerry Brown.

The National Conference of State Legislatures has scheduled a meeting here this week, too, and the legislators will be welcomed to Washington by Sen. Edward Muskie (D-Maine), chairman of the Senate Budget Committee and a caustic critic of the balanced-budget proposal. Muskie will reinforce the message that local aid will be slashed if the states force any budget-cutting action on Congress.

To counter the Obey-Muskie argument, some proponents of a constitutional amendment have proposed add-

ing language that would prohibit any significant cuts in local aid. That idea, in turn, hardens the congressional leadership's opposition to any budget amendment.

Two Senate committees will hold hearings early in March on the wisdom of holding a convention and on the need for a constitutional regulation of the budget. The witness lists suggest that the sessions will portray a constitutional convention as an invitation to disaster and a balanced-budget requirement as an economic straitjacket.

On the House side, Chairman Peter W. Rodino Jr. (D-N.J.) of the Judiciary Committee has planned a cautious, drawnout investigation of the various proposals for an amendment limiting government spending. "Rodino has launched a turtle," said one aide to the House leadership. The purpose is to create enough evidence of congressional activity to deter additional legislatures from demanding a constitutional convention.

President Carter and Vice President Mondale are as strongly opposed to a balanced-budget convention as the congressional leadership, but the White House has not yet been active in the opposition campaign. That may be starting to change.

Political advisers are urging the president to take a visible position against the convention drive. They argue that Brown, a potential rival for the presidency, erred badly in boarding this bandwagon, and that Carter can capitalize by fighting it. And they think such an effort would win back Democratic liberals who are disenchanted with Carter.

The burgeoning backlash from Washington comes just as the convention drive is moving into already hostile territory. Since most states in the South and West already have passed resolutions, the fight for the last half-dozen states will have to focus on the industrial northeast—where local budgets are particularly dependent on federal money.

The proponents recently have suffered the first serious setbacks of their four-year effort. Last week's defeat of a resolution in Brown's own state, California, was a significant psychological blow. Although the Taxpayers' Union lists Iowa as one of the states that passed a resolution, that legislature two weeks ago defeated a call for an immediate convention, approving in its place a request for a convention only if Congress fails to act on the budget issue by July 1, 1980.

If more states do demand a convention on the budget issue, Congress will begin to scrutinize the resolutions it has received—and that could be fatal to the convention drive.

Of the 28 resolutions approved to date, 16 ask Congress either to convene a constitutional convention or to propose an amendment of its own. Congressional lawyers studying the issue say flatly that such conditional requests are not valid demands for a convention. Some of those 16 set no time limit for Congress to propose an amendment—so there is no date when the "conditional" convention call becomes effective.

Although the intent of most of the 28 resolutions is clear, the states have passed a hodgepodge of different proposals. In some cases, different houses of the same legislature sent in different resolutions. A dozen states that passed resolutions have not sent them to Congress.

There also are technical difficulties in some state resolutions. Delaware, for example, asked for a convention only if 33 other states propose an amendment identical to Delaware's version. To date, no other state has adopted Delaware's wording.

Backers of the convention drive say Congress would be guilty of outrageous nitpicking if it rejected a convention on these technical grounds. Dave Keating of the Taxpayers' Union agrees that some resolutions are "marginal," but says it is unrealistic to expect 34 different legislatures to agree on nearly identical language.

Keating says any resolution rejected by Congress would be revised and resubmitted quickly. But Fred Wertheimer, a vice president of Common Cause, which opposes a convention, says this is not the case. "A lot of states that passed this back when nobody was looking very hard at it might think twice if they got another chance."

In any case, there is a broad and bipartisan consensus on Capitol Hill that Congress would not call a consti-

tutional convention even if 34 arguably valid resolutions were submitted. "Everybody here is afraid of the rogue elephant idea of a convention,"

said one senior House Republican. "So we would give them something, a balanced budget next year or maybe even a proposed amendment, before

we would let the states get into the amending business."

Staff writer Mary Russell contributed to this report.

2-26-79

(No. 39) L - 1

**U.S. BUDGET: GOVS. REJECT BALANCED BUDGET AMENDMENT,
FEAR CONGRESSIONAL RETALIATION ON REVENUE SHARING**

The nation's governors, meeting in Washington at their winter conference, today re-affirmed their support for a balanced federal budget, but stopped short of a call for a constitutional amendment urged on them by California Governor Edmund G. Brown, Jr.

Aware that he lacked support from his colleagues for a full-fledged endorsement of a constitutionally imposed balanced budget, Brown had pressed for creation of a committee "to evaluate the implications of amending the constitution." The Governors' Committee on Fiscal Affairs rejected even this approach, however, and voted instead to recommend that the full National Governors' Association affirm stands taken last year to support efforts to balance the budget by the end of FY 1981.

Brown, a possible challenger to President Carter in 1980, has called for a constitutional convention to draft a balanced budget amendment. He warned that the country is going "down the road of the printing press," and said that federal budget deficits were the cause of America's "decline abroad and decadence at home."

Discussion of the balanced budget question dominated today's first general session of the conference and indicated how widely the governors differ in their views on the subject. Democratic Governor Bruce Babbitt of Arizona told his colleagues that debate over the issue had taken on "a poisonous cast" and warned that it threatened to obscure the real issues facing the states in their attempts to adjust to a climate of fiscal restraint.

Other governors expressed concern that state pressure for a balanced budget constitutional amendment could cause Congress to retaliate by slashing general revenue sharing funds. James Thompson, Republican Governor of Illinois, and Republican Richard Snelling of Vermont urged Congress and the Administration to consolidate the 492 categorical aid programs to the states rather than aiming cuts at the \$2.2 billion general revenue sharing program.

"Revenue sharing funds are the only federal monies states and cities can use as they see fit," Thompson said. He criticized Congress for adding 50 new categorical grants last year, arguing that categorical grant expenses had increased by 15 percent a year while revenue sharing costs had gone up by only 3 percent a year.

The Governors' Executive Committee, on February 25, unanimously passed a resolution calling for the renewal of federal revenue sharing, but pledging that the states were willing to absorb a fair share of the spending cuts needed to balance the budget.

Rep. Peter Rodino (D-NJ), Chairman of the House Judiciary Committee, told the governors that the climate surrounding the movement for a balanced budget constitutional amendment was becoming "tense" and urged the state executives not to lock themselves into a fixed pro or con position.

"We are faced with a proposal of enticing, apparent simplicity: balance the budget. These three words fit with precise alliteration into newspaper headlines. They make a fine bumper strip. They are words which, if uttered without qualification or question, probably mean public support, votes, reelection and -- perhaps for some -- election to higher office," Rodino said.

He warned that the danger of "this climate of simplification, urgency and tension is that we might be tempted to rush pell-mell into a decision without even being aware of the profound consequences."

Though Rodino's remarks drew applause from the governors, his cautious approach to consideration of a balanced budget amendment also evoked criticism. Republican Governor Pierre du Pont of Delaware warned, "The people are mad as hell. Don't make the mistake of thwarting the will of the states or there will be a constitutional crisis the likes of which we have never seen before."

Republican Lee Dreyfus of Wisconsin echoed the warning, insisting that "there will be a balanced budget whether Congress likes it or not." Minnesota Republican Albert Quie told Rodino that the American people "feel as strongly about federal spending now as they did about England during the Revolution."

IN BRIEF

TRADE POLICY: LEATHER INDUSTRY UNHARMED BY FOREIGN IMPORTS, ITC RULES

The International Trade Commission has ruled the leather wearing apparel industry is not being injured by imports from Brazil and Columbia.

The ruling came after an investigation by the Treasury Department. The investigation had been prompted after a petition was filed by the Amalgamated Clothing and Textile Workers Union which claimed the imports were damaging the industry.

According to the ITC, approximately 75 U.S. firms which produce leatherwear are affected by the imports. In 1978, Brazil was the seventh largest exporter of leather merchandise to the United States with a value of \$5.6 million; Columbia was 14th with an export value of \$700,000.

- 0 -

TRADE POLICY: CHINA TRADE COULD JUMP IF U.S. BARRIERS ENDED, REP. AUCOIN SAYS

U.S. trade with the People's Republic of China should roughly equal that of China's trade with Japan if the United States removes high technology export controls and discriminatory tariffs, Peking officials told Rep. Les AuCoin (D-Ore) recently.

AuCoin said in a cable from China during a visit to the Mainland, that he was told "China looks to the United States for the technology to explore and develop some of its offshore oil resources and to develop coal resources, including coal gasification."

"It was clear, however," he said, "that trade will not fully develop between our nations until certain trade barriers are removed. Chief among these are high tariffs and export controls on high technology."

According to a statement from AuCoin's office, there have been discussions on a series of specialized trade missions between China and Oregon and an exchange of technical experts in the forest management, port and agricultural fields. In a meeting with Zhang Jianhua, general manager of the Trading Corporation, AuCoin stressed the need to resolve the problem of infected U.S. wheat, which the Chinese have refused to import.

"I underlined the lengths we will go to accommodate this concern and settle the problem," AuCoin said, "noting that Chinese teams will be in the U.S. some time soon to investigate. I was assured that if the problem can be solved, wheat shipments from the Northwest will increase considerably."

AuCoin also said Peking's guidelines on joint ventures "do not appear to have been developed" but that China appears "willing to listen to any deal and consider it on a case-by-case basis."

Turning to payment, AuCoin said "it is clear the Chinese want foreign capital, whether through direct credits or cooperative ventures of some type."

EXIMBANK: CREDIT APPROVED FOR SALE OF FREIGHTER TO ISRAELI AIRLINE

The Board of Directors of the U.S. Export-Import Bank has announced the following guarantee and credit approved for the sale of U.S. goods and services abroad:

Israel: Sale of one Boeing 747-258F freighter with related spare parts and ground equipment by the Boeing Corporation, Seattle, to El Al Israel Airlines, Ltd., to be delivered in March 1979 at a cost of \$50.5 million, to receive loan of \$17.5 million (34.6 percent) from Private Export Funding Corporation (PEFCO) with Eximbank guarantee; private sources to provide \$17.5 million without Eximbank guarantee; obligor to make cash payment of remaining \$15.5 million (30.8 percent); Eximbank to charge commitment fee of 1/8 of 1 percent and guarantee fee of 3/4 of 1 percent; repayment scheduled in 20 semiannual installments beginning September 1979; unguaranteed private loans to be repaid from early installments, PEFCO loan from later installments; specific information on Guarantee #6620 available from Annmarie Emmet at (202) 566-8008 or John Lentz at (202) 566-8863.

Sale of one Boeing 747-200B aircraft by Boeing to El Al Israel Airlines, Ltd., for \$52.8 million to receive Eximbank credit of \$47.5 million or 90 percent of cost; obligor to make cash payment of remaining \$5.3 million; Eximbank lowered its usual 15 percent cash payment requirement to 10 percent in a successful bid to meet French competition, the bank notes; interest rate of 8.25 percent plus .5 percent commitment fee resulting in blended interest rate of 8.42 percent; specific information on Credit #6617, available from Annmarie Emmet at (202) 566-8008 or John Lentz at (202) 566-8863.

EMPLOYMENT: NUMBER OF UNEMPLOYED RECEIVING BENEFITS DECLINES

Some 3,198,700 workers were receiving unemployment insurance benefits during the week ending February

James Dale Davidson

Requiring a Balanced Budget

The first success of the movement for a balanced-budget amendment has been to open debate about the conduct of government finances to popular participation. Now that 29 legislatures, of a needed 34, have called for a limited constitutional convention for the sole purpose of outlawing incessant deficit spending, leaders in Congress and other supporters of the prevailing orthodoxy have no choice but to defend their position.

That will prove more difficult than they suspect.

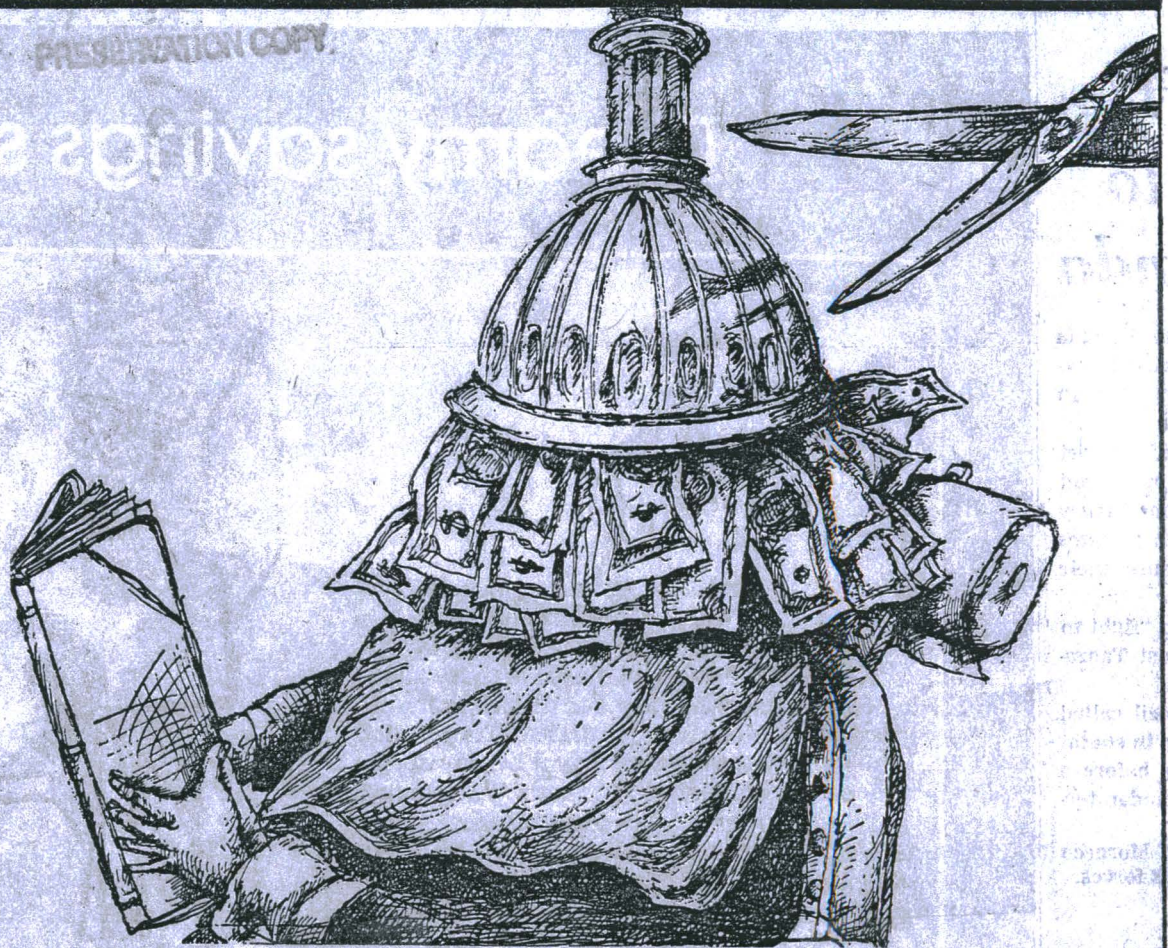
The writer is chairman of the the National Taxpayers Union.

They have not been prepared by recent experience to argue the case that deficit spending is beneficial. Now that they must do so, they will find that the arguments of 50 years ago, upon which the Washington spending consensus depends, no longer carry the weight of conviction. The feeling in Washington has been that the public cannot be relied on to comprehend complex issues, so politicians are obliged to do what they know is best while deceiving or mollifying the public as to the fiscal consequences.

Such an attitude leads the politicians to deceive themselves as well as their constituents. By pretending to seek balanced budgets while chronically failing to do so, they have suppressed or ignored the true reasons for far-reaching policy decisions. Thus they have trivialized their own thinking.

This is evident from the responses which have been forthcoming now that the defenders of deficit spending have been moved at a frantic speed to prepare their case. They could have entered the argument long ago. They did not, perhaps in hope that by ignoring the movement for a balanced budget they could make it go away. Since this has not happened, and the call for a limited constitutional convention is nearing success, the public is finally hearing the best arguments for deficits, along with an incredible va-

PRESERVATION COPY



By Geoffrey Moss for The Washington Post

riety of alarms about every aspect of the spending-reform movement. At this stage, readers of The Washington Post are well aware of many arguments which allegedly make it useless, dangerous or impossible to balance the budget. Unfortunately, there is not room at this writing to fully answer all of the objections. An attentive citizen would note, however, that the opponents refute many of their own points by arguing at cross-purposes. They claim, for example, that the budget cannot be balanced because the Congress lacks the forward vision to project revenue and expenditure accurately. With the next breath, they claim that the same congressmen, who lack the foresight to do their sums, can predict when the economy will fall into a tailspin and need the

fiscal tools to "fine tune" the economy. That is like saying that someone who is too blind to wield an axe should be trusted as a surgeon.

The efficiency of debt in stimulating the economy is already declining markedly through over-use, as a recent Solomon Brothers study confirms. Beyond that, when the budget is in balance there is no necessity that control of the money supply be tied to fiscal policy. The Federal Reserve Board has the power to regulate the money supply without a growth of government debt.

You also have heard that a convention, once convened, would celebrate a sort of witches' Sabbath by "dismantling" the Constitution (according to Sen. Kennedy), repealing the Bill of Rights, and, as one writer in The Washington Post recently charged, un-

leasing "conflicts that would make the other political crises since the Civil War look puny."

We invite anyone who has been persuaded by these alarms to consider a more sober interpretation. Not only is it highly unlikely that a convention could get out of hand, but there are also actually more checks upon an amendment emerging from a convention than is the case with a congressionally proposed amendment.

If the convention decided to turn America into the Land of Oz, any amendment it proposed would not

only have to be ratified by 38 states. It would also be subject, as congressionally initiated amendments are not, to review in the courts for having strayed beyond the call. The sum of these considerations is such that a reasonable observer would have no more basis to object to a constitutional convention than to the Congress itself. It is effectively sitting as a perpetual convention whose constitutional deliberations are neither limited nor subject to court review. And our view of the matter is hardly idiosyncratic. The deans of Harvard Law School and The University of Chicago Law School; the American Bar Association, former senator Sam Ervin and many other constitutional experts conclude that the convention route can be a safe, limited, method of proposing specific amendments.

The true significance of a convention call to bal-

Taking Exception

ance the budget and its true danger from the point of view of Congress, is not that it would do something preposterous but that it is a repudiation of the current way of doing business. If our movement should succeed it would be, as *The Wall Street Journal* said, "a colossal vote of no-confidence in the United States Congress. The people would be saying that they have finally decided that Congress can't be trusted with money."

That is exactly the point. There really is a difference between the career interests of congressmen and the public interest. As everyone who is alert to politics knows, the first commitment of most politicians is to themselves. Beyond everything else, most congressmen wish to be re-elected. As a matter of pure logic, they improve their chances by resorting to deficit spending. It enables them to make the benefits of increased spending immediately evident to special constituencies while disguising the costs in the form of borrowing and inflation which are diffused over large numbers of the rest of society. Under such conditions, the incentives of the politicians clearly point toward ever-increasing spending with continued inflationary deficits.

Even the classic Keynesian formulation of deficits in lean years and surpluses in good years has proven impossible to follow in practice. The corollary to the deficits, the off-setting surpluses, can never be achieved because they involve making the political costs of the budget more evident than the benefits. Thus, since 1969, the dollar total of deficits over the one surplus has been at a ratio of 100 to 1. This does not reflect "flexibility needed to deal with changing economic conditions," as proponents of unfettered spending propose. It reflects the degeneration of the system because of perverse incentives which lead in-

dividual congressmen to make spending decisions which are favorable to their career interests but bad for the public.

Furthermore, as Edward R. Tufte has documented in his book, "Political Control of the Economy," the ups and downs of the economy which politicians claim unfettered deficit spending is needed to counter, are at least partly caused by political manipulation in the first place. In addition to the business cycle (which may be ultimately caused by expansion of the money supply), we must consider the "electoral-economic cycle" which is clearly caused by politicians seeking to heat up the economy prior to elections.

A balanced-budget amendment would have other good consequences beyond merely making government more accountable. A balanced budget would reduce "crowding out." When deficit spending leads government to borrow massive amounts of money, it soaks up available capital, raising interest rates and reducing stock prices. A balanced budget would lower borrowing costs throughout the economy, stimulating investment, raising stock prices and promoting faster real growth.

Furthermore, an end to deficit spending would lead to less waste of resources by government. Currently, much wasteful spending is excused because it is considered part of a needed "stimulus for the economy." Without a balanced-budget requirement as a check on federal spending, Congress rarely asks, "Is this program worthwhile, or is it the best use of the taxpayers' money, or should we reduce taxes?" As Otto Eckstein puts it: "If the political process must levy the taxes to pay for the expenditures, there is likely to be a more careful scrutiny than if the expenditures can be clothed in the virtue of deficit-creating stimulus packages."

Beyond all these considerations is the greater good—the almost universally acknowledged fact that balancing the budget would reduce inflation. That is something we must do, not merely to save money but to preserve the civic virtues of democracy. These cannot be maintained through long-protracted inflation. The experience of many countries proves this.

As Thomas Mann wrote: "There is neither system nor justice in the expropriation and redistribution of property resulting from inflation. A cynical 'each man for himself' becomes the rule of life." Under such conditions when the majority is deprived, defrauded, and frightened, politics can take frightening turns. We dare not attempt to prove that America would be an exception to the rule that protracted inflation weakens and eventually destroys free institutions.

That is why we must heed the advice of responsible people of all parties, and enact a constitutional amendment outlawing inflationary deficit spending.

1969-1970

no longer should the color of one's skin, one's religious affiliation or any other accidental attribute determine whether one is or is not permitted to attend a school or apply for a job. And statistics alone ought never again to determine one's fate or to impair one's dignity.

There is no suggestion on my part that we as a nation withdraw one iota from our commitment to end discrimination. On the contrary, the legislation I offer once it is enacted into law, will enforce the principles of non-discrimination and the equality of opportunity that are essential to a just and free society.

Mr. ROBERT C. BYRD. Mr. President, I ask unanimous consent that a bill relative to quotas under titles VI and VII of the Civil Rights Act of 1964, introduced by the Senator from Utah (Mr. HATCH), be referred jointly to the committees on Judiciary and Human Resources with each committee limited in its consideration to matters within its jurisdiction.

The PRESIDING OFFICER. Without objection, it is so ordered.

By Mr. STONE:

S.J. Res. 44. A joint resolution to continue certain programs, transactions, and activities with respect to the people on Taiwan, pending further legislation, and for other purposes; to the Committee on Foreign Relations.

(The remarks of Mr. STONE when he introduced the joint resolution appear elsewhere in today's proceedings.)

By Mr. HARRY F. BYRD, JR.:

S.J. Res. 45. A joint resolution to amend the Constitution of the United States to mandate a balanced budget; to the Committee on the Judiciary.

S.J. Res. 46. A joint resolution to amend the Constitution of the United States to provide for balanced budgets and elimination of the Federal indebtedness; to the Committee on the Judiciary.

Mr. HARRY F. BYRD, JR. Mr. President, I send to the desk two Senate joint resolutions and ask that they be printed in the RECORD and appropriately referred.

There being no objection, the joint resolutions was ordered to be printed in the RECORD, as follows:

S.J. RES. 45

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled (two-thirds of each House concurring therein), That the following article is hereby proposed as an amendment to the Constitution of the United States, which shall be valid for all intents and purposes as part of the Constitution when ratified by the legislatures of three-fourths of the several States within three years after its submission to the States for ratification:

"ARTICLE —

"SECTION 1. In exercising its powers under article I of the Constitution, and in particular its powers to lay and collect taxes, duties, imposts, and excises and to enact laws making appropriations, the Congress shall assure that the total outlays of the Government during any fiscal year do not exceed the total receipts of the Government during such fiscal year.

Sec. 2. During the first fiscal year beginning after the ratification of this article, the total outlays of the Government, not

including any outlays for the redemption of bonds, notes, or other obligations of the United States, shall not exceed total receipts, not including receipts derived from the issuance of bonds, notes, or other obligations of the United States.

"Sec. 3. In the case of a national emergency, Congress may determine by a concurrent resolution agreed to by a rollcall vote of two-thirds of all the Members of each House of Congress, that total outlays may exceed total receipts for the fiscal year designated in such concurrent resolution.

"Sec. 4. The Congress shall have power to enforce this article by appropriate legislation.

S.J. RES. 46

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled (two-thirds of each House concurring therein), That the following article is hereby proposed as an amendment to the Constitution of the United States, which shall be valid for all intents and purposes as part of the Constitution when ratified by the legislatures of three-fourths of the several States within three years after its submission to the States for ratification:

"ARTICLE —

"SECTION 1. In exercising its powers under article I of the Constitution, and in particular its powers to lay and collect taxes, duties, imposts, and excises and to enact laws making appropriations, the Congress shall assure that the total outlays of the Government during any fiscal year do not exceed the total receipts of the Government during such fiscal year.

"Sec. 2. During the first fiscal year beginning after the ratification of this article, the total outlays of the Government, not including any outlays for redemption of bonds, notes, or other obligations of the United States, shall not exceed total receipts, not including receipts derived from the issuance of bonds, notes, or other obligations of the United States.

"Sec. 3. In the case of a national emergency, Congress may determine by a concurrent resolution agreed to by a rollcall vote of two-thirds of all the Members of each House of Congress, that total outlays may exceed total receipts for the fiscal year designated in such concurrent resolution.

"Sec. 4. During the fifth fiscal year beginning after the ratification of this article and for the next twenty-four succeeding fiscal years thereafter, the total receipts of the Government shall exceed outlays by an amount equal to 4 per centum of the Federal indebtedness at the beginning of the fifth fiscal year. The President shall, not later than the thirtieth day after the close of the fifth fiscal year, ascertain the total Federal indebtedness and transmit said total to Congress by special message.

"Sec. 5. Thereafter, whenever the Congress determines under section 3 that an emergency exists and authorizes outlays to exceed receipts, any indebtedness ensuing therefrom shall be extinguished within five fiscal years of being incurred.

"Sec. 6. The Congress shall have power to enforce this article by appropriate legislation."

ADDITIONAL COSPONSORS

S. 43

At the request of Mr. HATCH, the Senator from Oregon (Mr. HATFIELD), the Senator from Alaska (Mr. GRAVEL), and the Senator from New York (Mr. MOYNIHAN) were added as cosponsors of S. 43, the National Ski Patrol System Recognition Act.

S. 76

At the request of Mr. STONE, the Senator from Montana (Mr. BAUCUS) and the Senator from New Jersey (Mr. WILLIAMS) were added as cosponsors of S. 76, a bill to amend title XVIII of the Social Security Act to authorize payment under medicare for certain services performed by chiropractors.

S. 100

At the request of Mr. PACKWOOD, the Senator from Minnesota (Mr. DURENBERGER), the Senator from Montana (Mr. MELCHER), the Senator from Alaska (Mr. GRAVEL), the Senator from Kansas (Mr. DOLE), the Senator from Idaho (Mr. McCURE), the Senator from Wisconsin (Mr. NELSON), and the Senator from Wyoming (Mr. WALLOP) were added as cosponsors of S. 100, a bill to amend the Internal Revenue Code of 1954 to provide a deduction for expenses incurred for reforestation, and for other purposes.

S. 107

At the request of Mr. MORGAN, the Senator from Texas (Mr. TOWER) and the Senator from Missouri (Mr. DANFORTH) were added as cosponsors of S. 107, a bill to create a National Agricultural Cost of Production Board.

S. 195

At the request of Mr. BUMPERS, the Senator from California (Mr. CRANSTON) was added as a cosponsor of S. 195, a bill to extend through October 1, 1979, provisions which expired on October 1, 1978, relating to payment under the Social Security Act for services of physicians rendered in a teaching hospital.

S. 219

At the request of Mr. PACKWOOD, the Senator from Indiana (Mr. LUGAR), the Senator from Mississippi (Mr. COCHRAN), the Senator from Arizona (Mr. DECONCINI), and the Senator from Minnesota (Mr. DURENBERGER) were added as cosponsors of S. 219, a bill to amend the Internal Revenue Code of 1954 to allow the charitable deduction to taxpayers whether or not they itemize their personal deductions.

S. 222

At the request of Mr. DURKIN, the Senator from Iowa (Mr. CULVER) was added as a cosponsor of S. 222, the Alaska National Interest Lands Conservation Act of 1979.

S. 226

At the request of Mr. MORGAN, the Senator from Arizona (Mr. GOLDWATER), the Senator from Wyoming (Mr. WALLOP), and the Senator from South Carolina (Mr. HOLLINGS) were added as cosponsors of S. 226, a bill to provide for military registration and mobilization assessment, and for other purposes.

S. 233

At the request of Mr. DANFORTH, the Senator from North Carolina (Mr. HELMS), the Senator from New Hampshire (Mr. HUMPHREY), the Senator from Alaska (Mr. STEVENS), the Senator from Michigan (Mr. RIEGLE), and the Senator from Pennsylvania (Mr. SCHWEIKER) were added as cosponsors of S. 233, a bill to amend the Antidumping Act, 1921, the Tariff Act of 1930, section 801 of the Revenue Act of 1916, and for other purposes.

the national tax limitation committee

JBR
WBB



7330 Morningside Drive
Loomis, CA 95650
(916) 791-1193

NEW ADDRESS & PHONE
PO Box 513
Loomis, CA 95650
916/652-0471

April 6, 1979

OFFICERS

William F. Rickenbacker, Chairman
(Author, economic consultant)

Lewis K. Uhler, President
(Attorney, businessman, consultant)

David Copeland, Vice President
(Tennessee State Representative)

Donald L. Totten, Vice President
(Illinois State Representative)

Jameson G. Campaigne, Jr., Treasurer
(Publisher, consultant)

FOUNDERS & SPONSORS

C. Austin Barker
(Consulting Economist - V.P.
Loeb Rhoades, Hornblower & Co.)

Robert Carleson
(former U.S. Commissioner
of Welfare)

George Champion
(former Chairman, Chase
Manhattan Bank)

M. Stanton Evans
(Author, columnist, broadcaster)

Milton Friedman
(Author, Economist, Nobel laureate)

Arthur Godfrey
(Entertainer, commentator)

Allan Grant
(President, American Farm
Bureau Federation)

James M. Hall
(former Secretary, California
Human Relations Agency)

Clare Boothe Luce
(Author, columnist, former
U.S. Ambassador, congresswoman)

Vern I. McCarthy, Jr.
(President, Vulcan Containers)

John McGoff
(President, Panax Corp.)

William A. Niskanen
(Chief Economist, Ford Motor Co.)

William H. Shaker
(Founder, Taxpayers United of
Michigan)

Frank Shakespeare
(former Director, United States
Information Agency; President RKO)

William Craig Stubblebine
(Professor of Economics,
Claremont College)

General A. C. Wedemeyer
(U.S. Army, Retired)

**Memo re: Senate Joint Resolution 56 — The Heinz-Stone
Spending Limit Constitutional Amendment**

From: Lewis K. Uhler, President

On April 5, 1979, Senators John Heinz (R-Pa) and Richard Stone (D-Fla) jointly introduced SJR 56 in the Senate of the United States. This amendment is patterned after the proposal prepared by a blue-ribbon drafting panel convened by the NTLC.

SJR 56 is the only amendment pending before Congress which will fight inflation, limit federal spending, lead to a balanced budget and assure certain control over the size and power of the federal government in the future.

In brief, the amendment

- Limits growth in federal spending to the people's ability to pay (increases in Gross National Product - GNP) and allows for gradual reduction in the share of GNP taxed and spent by the federal government,
- Controls inflation by imposing a penalty on the federal government if it generates or allows inflation to remain above three percent,
- Allows for repayment of the national debt,
- Provides for national emergencies and permanent limit adjustments,
- Protects states and local units of government from costly federal programs and preserves state/local share of federal revenues.

(Continued on reverse side)

Attached are materials which provide further important details:

Attachment A - Full text of SJR 56 and the Heinz-Stone press releases.

Attachment B - Summary of SJR 56.

Attachment C - Questions & Answers re: SJR 56.

Attachment D - Calculations and charts which compare actual federal outlays and deficits over the last decade with those which would have occurred had the spending limit amendment been in effect. (Note on D-2 that in Fiscal Year 1979, the federal debt per household is nearly \$11,000; it would now be slightly less than \$6,000 under the amendment. D-3 demonstrates how effective the inflation penalty would have been — instead of a \$271 Billion cumulative deficit over the last decade, we would have enjoyed a \$20 Billion surplus.)

Attachment E - A list of the members of the Federal Amendment Drafting Committee.

Attachment F - News articles on the amendment.

96TH CONGRESS
1ST SESSION

S. J. RES. 56

Proposing an amendment to the Constitution to protect the people of the United States against excessive governmental burdens and unsound fiscal and monetary policies by limiting total outlays of the Government.

IN THE SENATE OF THE UNITED STATES

APRIL 5 (legislative day, FEBRUARY 22), 1979

Mr. HEINZ (for himself and Mr. STONE) introduced the following joint resolution; which was read twice and referred to the Committee on the Judiciary

JOINT RESOLUTION

Proposing an amendment to the Constitution to protect the people of the United States against excessive governmental burdens and unsound fiscal and monetary policies by limiting total outlays of the Government.

1 *Resolved by the Senate and House of Representatives*
2 *of the United States of America in Congress assembled*
3 *(two-thirds of each House concurring therein), That the fol-*
4 *lowing article is hereby proposed as an amendment to the*
5 *Constitution of the United States, which shall be valid to all*
6 *intents and purposes as part of the Constitution when ratified*
7 *by the legislatures of three-fourths of the several States*

1 within seven years after its submission to the States for rati-
2 fication:

3 "ARTICLE —

4 "SECTION 1. (a) Total outlays of the Government of the
5 United States during any fiscal year shall not increase by a
6 percentage greater than the percentage increase in the nomi-
7 nal gross national product during the last calendar year
8 ending prior to the beginning of such fiscal year. If the infla-
9 tion rate for that calendar year is more than 3 per centum,
10 the permissible percentage increase in total outlays during
11 such fiscal year shall be reduced by one-fourth of the percent-
12 age by which the inflation rate exceeds 3 per centum.

13 "(b) For purposes of subsection (a)—

14 "(1) the inflation rate for a calendar year is the
15 percentage by which the percentage increase in nomi-
16 nal gross national product for that calendar year ex-
17 ceeds the percentage increase in real gross national
18 product for that calendar year; and

19 "(2) total outlays includes both budget and off-
20 budget outlays, but does not include redemptions of the
21 public debt or emergency outlays authorized under sec-
22 tion 3 of this article.

23 "SEC. 2. When, for any fiscal year, total revenues re-
24 ceived by the Government of the United States exceed total

1 outlays, the surplus shall be used to reduce the public debt of
2 the United States until such debt is eliminated.

3 “SEC. 3. Following declaration of an emergency by the
4 President, the Congress may authorize, by a two-thirds vote
5 of both Houses of Congress, a specified amount of emergency
6 outlays in excess of the limit prescribed by section 1 for the
7 current fiscal year.

8 “SEC. 4. The limit on total outlays prescribed by section
9 1 may be changed by a specified amount by a three-quarters
10 vote of both Houses of Congress. The change shall become
11 effective for the fiscal year following approval.

12 “SEC. 5. For each of the first six fiscal years beginning
13 after ratification of this article, total grants to State and local
14 governments shall not be a smaller fraction of total outlays
15 than in the last three fiscal years beginning prior to the ratifi-
16 cation of this article. Thereafter, if such grants for any fiscal
17 year are less than that fraction of total outlays, the limit on
18 total outlays prescribed by section 1 for such fiscal year shall
19 be decreased by an equivalent amount.

20 “SEC. 6. The Congress may not by law require or au-
21 thorize any agency of the Government of the United States
22 to require, directly or indirectly, that State or local govern-
23 ments engage in additional or expanded activities without
24 compensation equal to the necessary additional costs.

1 **"SEC. 7. This article shall apply to the first fiscal year**
2 **beginning after the date of its ratification and to each suc-**
3 **ceeding fiscal year.**

4 **"SEC. 8. The Congress shall have power to enforce this**
5 **article by appropriate legislation."**

○

NEWS

U.S. Senator Richard (Dick) Stone

Florida

Contact: Jean Parvin
Phone: 202-224-3041

April 5, 1979

STATEMENT BY U.S. SEN. RICHARD STONE (D-FL) INTRODUCTION OF CONSTITUTIONAL AMENDMENT TO LIMIT FEDERAL SPENDING

I am joining in introducing this amendment because I believe it would put our economy back on the road to prosperity by keeping more money in the hands of those who earn it.

What does this amendment do? It limits the growth of federal spending by setting a ceiling on how much more the federal government will be allowed to spend every year. The formula says that next year's government spending can't grow faster than this year's production, as measured by the gross national product.

Beyond that, the amendment also contains a strong inflation-fighter. That part of the amendment states that whenever inflation is more than three percent a year, then the growth in federal spending is limited even more sharply. Because of this, federal budget deficits would be gradually reduced.

Another very important feature of this Constitutional amendment is the section that protects the states against suddenly having to shoulder more of the burden of government. The federal government would have to maintain its grants to state and local governments at their current level for six years after the amendment is adopted.

For the last 50 years, the government has been soaking up more and more of our nation's wealth. This saps the vitality of our economy, encourages inflationary policies, and hurts the welfare of

with stable prices, more private sector employment, and a stronger dollar. It would mean that as we look toward old age, we would know that our savings are enough to see us through. As we try to increase job opportunities for our young people, we would see this new government policy spur employment in the private sector. And as we try to maintain our national security commitments at home and abroad, they would be backed up by a strong dollar and by a country where prosperity is shared by all.

That is why I am sponsoring this Constitutional amendment. It is strong medicine -- but statutes alone don't seem to force Congress to tighten the federal pursestrings over the long run.

I think it's time to stop talking about economic problems and start trying to solve them. It's time to admit that what we've been doing hasn't gotten the results we want. We need to try a different approach -- one which offers a real hope that we'll succeed.

#

News from Senator John Heinz

Release Thursday, April 5, 1979

Contact Larry McCarthy O: (202) 224-7754

HEINZ, STONE OFFER CONSTITUTIONAL AMENDMENT TO LIMIT GOVERNMENT SPENDING

WASHINGTON -- Senators John Heinz (R-Pa) and Dick Stone (D-Fla) today introduced a constitutional amendment that would place tough limits on government spending.

The Heinz-Stone Amendment was developed with the help of Nobel Prize-winning economist Dr. Milton Friedman and the National Tax Limitation Committee, and includes these provisions:

- *prohibits Congress from increasing overall spending by a rate any larger than the most recent increase in the gross national product. When the inflation rate exceeded 3%, even tighter limits would be applied.
- *requires Congress to apply any Federal surplus to reducing the national debt.
- *authorizes emergency spending increases in times of war or similar crises.
- *allows an increase in general spending limits only after approval by three-fourths of both houses of Congress.

"A few years ago, a popular political slogan was 'Send Them a Message,'" Heinz said. "The American people have been trying to send a message to Washington for a long time now -- a message that says government should slow down, limit spending, and cut waste.

"Unfortunately, that message seemed to get lost in the mail for a few years and was just delivered in the 1978 elections.

"In the past, many of us in Congress have tried to slow government down. We haven't succeeded. I believe that the only effective way to control government spending is through a constitutional amendment.

"The amendment we are offering today will be a major weapon against inflation and lead to a balanced budget, while preserving the flexibility we need to respond to economic problems and national emergencies.

MORE

"If our amendment had been enacted ten years ago, it would have acted as a brake upon government and prevented the spending of nearly three hundred billion dollars.

"I am convinced that our amendment is the best way yet devised to limit spending. It not only starts with bipartisan support, but I believe it will have the strong support of the American people."

The full text of the amendment and a detailed question and answer sheet are attached.

MORE

Bill Summary

Bill Number: S.J.R. 56
Name: Federal Fiscal Amendment
Subject: Constitutional Amendment to limit increases in Federal Spending
Sponsors: Heinz (R-Pa) and Stone (D-Fla)
Committee:

SUMMARY

S. J. Resolution 56 would provide a constitutional limit to increases in Federal spending. The percentage increase could not exceed the percentage increase in the gross national product. However, if the inflation rate exceeds 3%, the Amendment would apply additional limits on the growth of federal outlays. Any surplus must be used to reduce the national debt. The Amendment provides for emergency situations and for permanent increases or decreases in the limit. It protects the people from an increasing burden of government by protecting state and local government from withdrawal of Federal grants and from Federal mandates.

SECTION-BY-SECTION ANALYSIS

Section 1. THE BASIC LIMIT: The increase in the Federal Government's total outlays in any fiscal year are limited to the percentage increase in the gross national product for the previous calendar year. If that calendar year's inflation is more than three percent, budget growth is reduced by one-fourth of the excess of inflation over three percent. The inflation rate is defined as the percentage difference between nominal gross national product and real gross national product. Total outlays include both budget and off-budget outlays, but not public debt redemption or emergency outlays under Section 3.

Section 2. HANDLING OF SURPLUS: Any surplus of Federal revenues over outlays must be used to reduce the national debt.

Section 3. EMERGENCY PROVISION: Following the declaration of an emergency by the President, the Congress may authorize expenditures in excess of the limit. The action requires a two-thirds vote of each House of Congress. The amount of emergency outlays must be specified. If the need continues, this authority must be renewed each fiscal year. Emergency outlays may not become part of the spending limit base in subsequent years.

Section 4. PERMANENT CHANGE: The spending limit may be changed by a three-fourths vote of each House of Congress.

Section 5. PROTECTION OF STATE AND LOCAL GOVERNMENT GRANTS: During the first six years after ratification, total grants to state and local government must not be less than the current fraction of federal spending. After six years, grant reductions are permitted but only in conjunction with a dollar-for-dollar reduction in Federal spending.

Section 6. STATE AND LOCAL GOVERNMENT PROTECTION AGAINST IMPOSED COSTS: The Amendment prevents the Federal Government from imposing costs on state or local government without compensation.

Section 7. EFFECTIVE DATE OF AMENDMENT: The Amendment becomes effective for the first full fiscal year following ratification by the States.

Section 8. ENFORCEMENT: The Congress will be empowered to enforce the Amendment through appropriate legislation.

HEINZ-STONE AMENDMENT
QUESTIONS AND ANSWERS

Q. What does this amendment do?

A. Simply, this amendment would limit the increase in federal spending to a percentage equal to the percentage increase in the gross national product. If the inflation rate exceeds three percent, however, the amendment would apply additional limits on the growth of federal outlays.

Q. Why do we need a constitutional amendment?

A. Over the years, numerous attempts have been made to either limit federal spending or to force the Congress to balance the budget. The much heralded establishment of the Congressional budget process in 1974 was such an attempt to bring much needed discipline to Congress. But that hasn't worked. The budget deficits are even larger now than before 1974. What we need then is an objective mechanism to force the President and Congress to limit what the federal government can spend.

Q. Why not enact a statutory limit on spending?

A. A statutory limit is inadequate for the same reason the Budget Act of 1974 is inadequate. Legislation is just too easy to change. A constitutional amendment will impose the fiscal discipline on Congress that present procedures do not, and ensure that Congress does not change the limits all too easily.

Q. What's wrong with the balanced budget approach?

A. There's nothing wrong with a balanced budget. In fact that is the goal we hope to achieve with this amendment. However, balancing the budget could mean raising taxes to finance increases in federal spending. Our amendment, on the other hand, would balance the budget gradually by controlling the amount of our nation's wealth that the government could command.

Q. Isn't such an amendment inflexible?

A. On the contrary, our amendment is far more flexible than any other approach that has been proposed. Within the overall spending limit, the Congress and the President are not constrained by a balanced budget requirement in setting policies to maximize growth. Also, if three-quarters of the Congress can agree, they can also raise the federal spending base from which future increases are calculated. Finally, in times of severe emergency, this amendment would allow federal spending to exceed the limits outlined in the main provision of the amendment.

- Q. Won't restricting spending make a recession deeper if one hits?
- A. No. There is a built in counter-cyclical feature in this amendment that would have the effect of allowing increased spending in times of recession and decreased spending in times of excessive growth.
- Q. How does this amendment fight inflation?
- A. By eliminating waste and inefficiency. Also the formula of the amendment would induce Congress to seek out a set of economic policies which would control inflation by decreasing federal spending growth when inflation is greater than 3% annually. When inflation exceeds that 3% rate, spending is limited to a percentage of the increase in the gross national product minus one-fourth the difference between the inflation rate and 3%. In other words, if Congress lets inflation get out of hand, their ability to spend will be severely curtailed.
- Q. Does this amendment limit the growth of the federal government?
- A. It sets limits on how much government can grow by setting limits on how much it can spend, without putting limits on the general growth of the economy.
- Q. How does this amendment reduce the burden of taxes?
- A. Rather than putting the increased revenue brought by economic growth or inflation into expansion of the federal government, this amendment would allow Congress to use the increase to reduce taxes, retire part of the national debt, or both.
- Q. How does this amendment help the average taxpayer?
- A. It will encourage a reduction in the rate of inflation, allow Congress to reduce taxes outright or institute other changes in the national tax structure, stimulate economic growth and reduce the amount of the national wealth which flows to the federal government rather than back to the economy.
- Q. If the amendment had been in effect in the last 10 years, how would things be different?
- A. Over the last ten years, the cumulative deficit has increased by \$271 billion. Had our amendment been enacted in 1969, we would have accumulated, instead, a surplus of \$22 billion. Also, if this amendment had been in effect since 1969, the federal government could have been held to the 19% share of the gross national product that the federal budget took up in the years between the Korean and Vietnam wars instead of the current 22% share.

- Q. How will this amendment help the elderly, the poor and others living on fixed incomes?
- A. Inflation does the most damage to the financial situations of those on fixed incomes, and by restricting federal spending the amendment attacks one of the leading causes of that damaging inflation. The inflation clause of the amendment also adds pressure for further reductions in the rate of inflation through additional methods.
- Q. How does this amendment protect the states from having to assume an increased financial burden in the wake of reduced federal spending expansion?
- A. Federal aid to the states is protected by maintaining the federal aid programs which already exist for a specified grace period of six years. It also prohibits federal action to shift the financial burden of programs to the states.
- Q. Will this amendment help to eliminate the national debt?
- A. By allowing Congress a choice of what to do with any surplus which does develop, the amendment makes it possible for Congress to funnel money into retiring the national debt. Had our amendment been enacted 10 years ago, the national debt would not have been over \$800 billion it is today but rather only \$335 billion. Our amendment would gradually pay off the national debt, and provide a double benefit by reducing the interest we pay on the debt from the present \$57 billion, the third largest category of expenditures in our federal budget.

TOTAL OUTLAYS OF THE FEDERAL GOVERNMENT
1965 - 1982

YEAR	<u>TOTAL OUTLAYS</u>		<u>YEAR-TO-YEAR</u> <u>Percent Change</u>		<u>SHARE OF GNP</u>	
	Actual (billions)	Amendment	Actual (%)	Amendment	Actual (%)	Amendment
1965	118.4	NA	-0.2	NA	18.0	NA
1966	134.7	NA	13.8	NA	18.7	NA
1967	158.3	NA	17.5	NA	20.4	NA
1968	178.8	NA	13.0	NA	21.5	NA
1969	184.6	NA	3.2	NA	20.4	NA
1970	196.6	200.6	6.5	8.6	20.5	20.9
1971	211.4	215.0	7.5	7.2	20.7	21.1
1972	232.0	224.5	9.7	4.4	20.9	20.2
1973	247.1	241.7	6.5	7.7	20.0	19.5
1974	271.1	265.4	9.7	9.8	19.9	19.5
1975	334.2	294.0	23.3	10.8	22.9	20.2
1976	373.7	313.1	11.8	6.5	23.0	19.3
TQ	96.5	79.8	NA	NA	NA	NA
1977	411.4	339.1	8.0	6.6	22.4	18.5
1978	461.2	375.0	12.1	10.6	22.6	18.4
1979	505.4	413.3	9.6	10.2	22.1	18.1
1980	543.5	456.3	7.5	10.4	21.7	18.2
1981	589.5	502.0	8.5	10.0	21.4	18.2
1982	626.0	544.6	6.2	8.5	20.7	18.0

→ LAST
A-546

SOURCE: Actuals: Budget of the U.S. (1980)
Amendment: Simulation assume total
outlays are equal to maximum
permissible outlays.

DEBT OF THE FEDERAL GOVERNMENT

1970 - 1982

Year	ANNUAL FEDERAL DEFICIT (SURPLUS)		TOTAL FEDERAL DEBT		FEDERAL DEBT/HOUSEHOLD		FEDERAL INTEREST PAYMENTS		OUTLAYS LESS INTEREST	
	Actual (billions)	Amendment	Actual (billions)	Amendment	Actual (dollars)	Amendment	Actual (billions)	Amendment	Actual (billions)	Amendment
1970	2.9	6.9	382.6	386.6	6,035	6,098	18.3	18.5	178.3	182.1
1971	23.0	26.6	409.5	417.0	6,319	6,435	19.6	20.0	191.8	195.0
1972	23.4	15.9	437.3	437.3	6,556	6,556	20.6	20.6	211.4	203.9
1973	14.9	9.5	468.4	463.0	6,858	6,779	22.8	22.5	224.3	219.2
1974	6.2	0.5	486.2	475.1	6,956	6,797	28.0	27.4	243.1	238.0
1975	53.2	13.0	544.1	492.8	7,653	6,931	30.9	28.0	303.3	266.0
1976	73.7	13.1	631.9	520.0	8,668	7,133	34.5	28.4	339.2	284.7
1977	53.6	(18.7)	709.1	508.2	9,570	6,858	38.0	27.2	373.4	311.9
1978	59.2	(27.0)	780.4	493.3	10,268	6,491	44.0	27.8	417.2	347.2
1979	49.4	(42.7)	839.2	460.0	10,828	5,935	52.8	28.9	452.6	384.4
1980	40.9	(46.3)	899.0	432.6	11,365	5,469	57.0	27.4	486.5	428.9
1981	12.7	(74.8)	940.3	386.4	11,652	4,788	59.1	24.3	530.4	477.7
1982	(26.6)	(108.0)	951.9	316.7	11,566	3,848	59.5	19.8	566.5	524.8

SOURCE: Actual: Budget of the U.S. (1980) and Bureau of the Census Amendment:
Simulation assumes total outlays are equal to maximum permissible outlays.

SIMULATION OF OPERATION OF PROPOSED LIMITATION FOR 1969 TO 1978

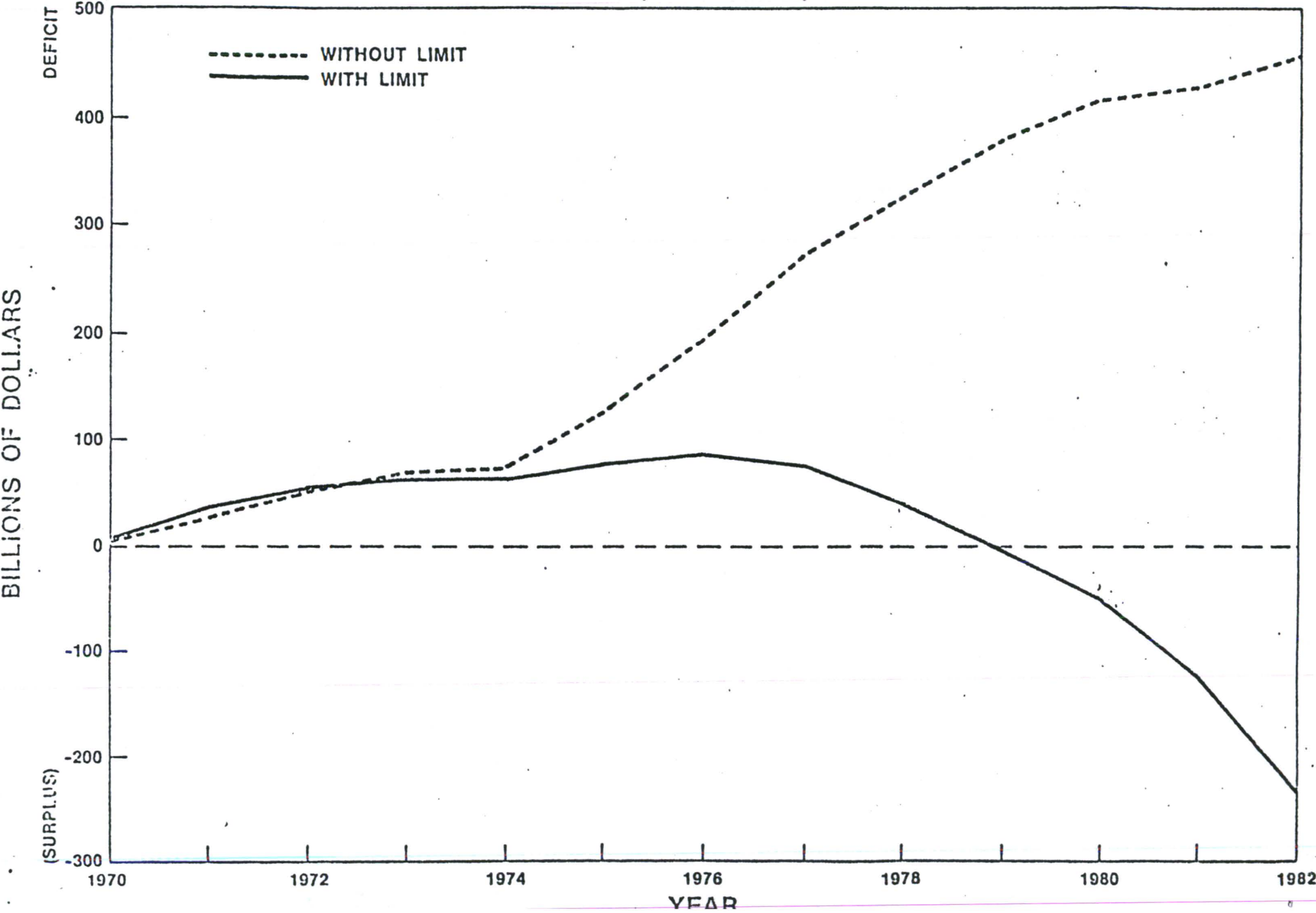
(Simulation for limit assumes total outlays equal to actual outlays or maximum allowed under limit, whichever is lower; assumes receipts equal to actual receipts; assumes gross national product equal to actual gross national product.)

	TOTAL OUTLAYS						DEFICIT	
	Billions of \$		Percentage Increase		Per Cent of GNP		Billions of \$	
	Actual	Limit	Actual	Limit	Actual	Limit	Actual	Limit
1969	\$184.5	\$184.5	3.2%	3.2%	20.4%	20.4%	-\$ 3.3*	-\$ 3.3*
1970	196.6	196.6	6.6	6.6	20.5	20.5	2.9	2.9
1971	211.4	210.8	7.5	7.2	20.7	20.7	23.0	22.4
1972	232.0	220.1	9.7	4.4	20.9	19.8	23.4	11.5
1973	247.1	237.0	6.5	7.7	20.0	19.2	14.9	4.8
1974	271.1	260.2	9.7	9.8	19.9	19.1	4.7	- 4.7*
1975	334.2	288.4	23.3	10.8	22.9	19.8	45.2	7.4
1976	373.7	307.1	11.8	6.5	23.1	18.9	66.4	7.1
1977	411.4	327.4	10.1	6.6	22.5	17.9	45.0	- 30.4*
1978	461.2	362.1	12.1	10.6	22.6	17.7	48.8	- 39.9*

Cumulative Deficit 1969-78 271.0 - 22.2

*Surplus

CUMMULATIVE FEDERAL DEFICIT (SURPLUS)



MEMBERS, FEDERAL AMENDMENT DRAFTING COMMITTEE

C. AUSTIN BARKER

Financial Consultant, Loeb Rhoades, Homblower & Co., New York.

ROBERT BORK

Professor of Law, Yale University; former United States Solicitor General.

JAMES BUCHANAN

Professor of Economics; Director, Center for the Study of Public Choice, Virginia Polytechnic Institute.

ROBERT B. CARLESON

President, Robert B. Carleson & Associates, Inc., Washington, D.C., and Sacramento, California; former United States Commissioner of Welfare.

DAVID Y. COPELAND

Tennessee State Representative; Vice President of NTLC.

MILTON FRIEDMAN

Senior Research Fellow, Hoover Institution, Stanford, California; Nobel Laureate, Economics.

ROSE FRIEDMAN

Economist.

ROBERT J. GORDON

Professor of Economics, Northwestern University, Chicago.

JAMES M. HALL

Attorney, Los Angeles; former Secretary, California Human Relations Agency.

C. LOWELL HARRISS

Professor of Economics, Columbia University, New York; Consultant, The Tax Foundation, Inc., New York and Washington, D.C.

ROBERT B. HAWKINS, JR.

President, Sequoia Institute (public policy research); formerly Woodrow Wilson Fellow, Smithsonian Institution, Washington, D.C.

RICHARD HEADLEE

Chairman, Taxpayers United for Tax Limitation, Michigan; President, Alexander Hamilton Life Insurance Co., Farmington Hills, Michigan.

J. CLAYBURN LaFORCE

Dean, Graduate School of Management, University of California, Los Angeles.

PAUL W. McCracken

Edmund Ezra Day University Professor of Business Administration, University of Michigan, Ann Arbor; Past Chairman, President's Council of Economic Advisers.

Politics Today

The Tax-Limit Bandwagon

By Jack W. Germond and Jules Witcover



WASHINGTON — The National Tax-Limitation Committee includes many of the darlings of the Far Right — the conservatives' favorite economist (Milton Friedman), one of their favorite columnists (M. Stanton Evans), surely their favorite newspaper publisher (John McGoff of the Panax chain), Ronald Reagan's favorite welfare adviser (Robert Carleson), and perhaps even their favorite lobbyist (Charls Walker).

But when the committee outlined its proposal for a constitutional limit on federal spending the other day, it qualified immediately as the "reasonable" or "moderate" alternative to the plan being promoted by another group, the National Taxpayers Union, for an amendment requiring a balanced federal budget.

And what that tells you is that the campaign to extend the logic, such as it was, of California's Proposition 13 to the federal government is serious business indeed.

UP TO THIS POINT, the inclination in Washington has been to shrug off the whole amendment campaign as some harmless exercise being carried on out in the boondocks. It is an attitude strikingly similar to the one the political power structure in California took on Howard Jarvis and Prop. 13 last year — until they realized at the eleventh hour that the damned thing was going to pass.

But the latest tax-limitation scheme is no joke. At this point, 24 of the required 34 state legislatures have approved resolutions calling for a constitutional convention to approve an amendment requiring a balanced federal budget. The measure has passed one house in four others — California, Indiana, Utah and South Dakota. And hearings have been scheduled in Montana and Washington. In other states, the NTU says, resolutions have been prepared and co-sponsors are being signed up daily. And most of this had been accomplished before Jerry Brown's mad dash to the front of the pack to declare himself its leader.

THE OBJECTIONS to the balanced budget amendment center on both its content and the method, the constitutional convention, its supporters have chosen. On the former, the principal complaint is predictably that an amendment would rob federal officials of the flexibility they require to tinker with the economy in recessions or to respond in times of national peril. It is one of those good, logical arguments of the kind that were blithely ignored in California last summer.

The most serious concern, however, is that holding a constitutional convention would open up a whole can of extremist worms. Although the legal situation is far from clear, it seems at least possible that such a convention could deal with all sorts of issues, including but not limited to such things as the proposals for anti-abortion, school prayer and anti-busing amendments.

It is in this context, then, that the National Tax-Limitation Committee's proposal qualifies as the safe, sane alternative. What the committee proposes, somewhat oversimplified, is that spending be allowed to increase each year only as much as the gross national product. And in times in which inflation exceeds 3 percent, the permitted growth would be slightly lower. The committee points out, correctly, that the balanced budget amendment would not, in itself, lower spending, but only require enough revenues for the balance.

BUT THE CORE OF the issue is the politics of the thing, rather than the particulars of the different plans. Few who understand the politics of this year would dispute the judgment of Lewis K. Uhler, president of the committee, that there is "sizeable" momentum for some kind of ceiling on federal spending. Nor would anyone argue with Friedman's contention that Congress is "under the gun" on the issue. That was apparent in the election returns last fall and is equally apparent in such opinion survey data

as the finding of the CBS-New York Times poll that 73 percent of the people favor the balanced budget amendment.

So what Uhler and his group are clearly trying to do is offer the Congress a political escape hatch — a way to satisfy popular demand without buying the whole NTU-Jerry Brown package.

It would be naive in the extreme, of course, to expect politicians here, in Congress or the White House, to rush to embrace the spending limit. On the contrary, it would qualify as an unnatural act.

But it is equally clear that the pressure for some kind of action is achieving impressive dimensions. And if the White House and Congress fail to react, there is at least a demonstrable risk that the state legislatures, and the voters, will take away their options.

Copyright, 1979, Chicago Tribune-New York News

Implementing Humphrey-Hawkins



The Humphrey-Hawkins "full employment" bill was passed in October 1978, by a vote of 70 to 19 in the Senate and by a standing vote, without a roll-call count, in the House. The overwhelming votes are decisive proof that the bill was all form and no content. It legislated ambitious goals—unemployment down to 4 per cent by 1983, inflation down to 3 per cent by 1983 and zero by 1988—but initiated no programs, leaving it up to the President and Congress to determine how to achieve the goals. Almost everyone could vote for the goals, and no one could object to nonexistent means.

Recently, under the auspices of the National Tax Limitation Committee, a group of us drafted a proposed amendment to the Constitution of the United States designed to limit government spending. Though no one would associate the objective of limiting government spending with either Congressman Augustus F. Hawkins or the late Hubert Humphrey, I firmly believe that a by-product of adopting the proposed amendment would be to achieve the goals of the Humphrey-Hawkins bill.

LIMITING FEDERAL SPENDING ...

Our draft amendment imposes a two-part limit on Federal spending, one to apply if the Humphrey-Hawkins inflation goal of 3 per cent is attained; the other if inflation is higher than that.

If inflation is 3 per cent or less, the amendment permits Federal spending to rise by the same percentage as dollar gross national product. If GNP grows from one year to the next by 5 per cent (say 3 per cent because of higher output and 2 per cent because of higher prices), spending may also rise by 5 per cent. If spending rose by the maximum permitted amount, it would remain a constant percentage of GNP—ending the persistent tendency for spending to absorb an ever-larger fraction of our income. In addition, if a thrifty Congress held spending below the maximum for any year, so that spending went down as a percentage of income, that lower level of spending would be the base for spending limits in future years. The result would be a permanent reduction in spending as a percentage of income.

If inflation is more than 3 per cent, the amendment sets an even tighter limit. The permitted percentage increase in Federal spending is reduced by one-quarter of the difference between inflation and 3 per cent. For example, if GNP grows by 10 per cent, of which 7 per cent

is accounted for by inflation, Federal spending is permitted to rise by only 9 per cent instead of 10 per cent, forcing a decline in Federal spending as a percentage of income so long as inflation stays at 7 per cent.*

The amendment does not require a balanced budget, but it certainly encourages one, in two different ways.

... WOULD REDUCE INFLATION ...

In the first place, deficits have occurred and grown primarily because there has been political pressure on Congress to increase spending but not taxes. A firm cap on Federal spending would relieve that pressure. The deficit would disappear as economic growth raised tax receipts as a fraction of income, while the amendment kept spending constant or declining. Soon Congress would have the pleasant duty of reducing taxes in order to keep down the surplus.

Hypothetical calculations simulating the operation of the limit indicate that if the amendment had been in effect from 1969 to 1978, and if tax receipts and GNP had nonetheless been the same as they actually were, Federal spending in 1978 would have been 17.7 per cent of GNP instead of 22.6 per cent; and there would have been a cumulative surplus of \$22 billion instead of a cumulative deficit of \$271 billion.

This calculation gives a reasonable estimate of how the amendment would have affected spending as a fraction of income. However, it doubtless overstates the effect on the deficit. If the amendment had been in effect, inflation would have been lower. The same tax laws would have produced a lower effective tax rate, so tax receipts would have been less than they actually were. The deficits would clearly have been very much lower than they were, but not by as much as this calculation suggests.

In the second place, the amendment encourages a balanced budget by giving Congress and the Administration a strong incentive to reduce inflation below the 3 per cent level and to keep it there. Other-

wise, they face the politically unpleasant task of forcing Federal spending down as a percentage of income. The only way to reduce inflation is to reduce

the creation of money by the Federal Reserve. The easiest way to do that is to reduce the size of the deficits that the Fed has been creating money to finance.

Together, these two effects could be counted on to achieve the Humphrey-Hawkins inflation goal in short order. We have had high inflation because it has been politically profitable for the powers that be to produce inflation. The amendment would make it politically profitable for the powers that be to reduce inflation. Inflation is made in Washington and can only be eliminated in Washington.

... AND UNEMPLOYMENT

What of unemployment? Over the past decade, higher unemployment has accompanied higher inflation, and the relation has not been purely coincidental. Inflation has raised effective tax rates on income from all sources. Higher tax rates on wages have reduced the incentive for people to seek employment, reinforcing the effect of higher benefits to the unemployed in raising unemployment. Higher tax rates on business income have discouraged investment and reduced the incentive to offer employment. Erratic inflation has generated uncertainty about economic prospects that has further discouraged investment and impeded long-range business planning. These effects have been reinforced by the growing tide of regulation that has accompanied higher government spending. Under the circumstances, it is a tribute to the effectiveness of private industry that productivity has continued to increase, albeit at a snail's pace, rather than declining drastically.

Adoption of the amendment would end the growth in government spending as a fraction of income; it would end inflation; it would provide a more stable economic environment. Our creaking economy would be revitalized. Productivity and real income would resume their longtime rise; along with that, employment would increase and unemployment decline.

It would not be the first time that capitalist means were successful, and socialist means a failure, in achieving ends common to both those who favor capitalism and those who favor socialism.

*Space limits make it impossible to discuss in full the technical details of the proposed amendment. However, two points require at least some mention:

1. To permit calculation of the limit before Congress approves appropriations, the change in GNP between two calendar years would determine the limit for the following fiscal year. That is, the change in GNP between calendar years 1978 and 1979 would determine the limit for the fiscal year from October 1980 to October 1981.

2. The proposed amendment contains additional sections that provide for exceeding the limit in case of national emergency, changing the limit permanently, preventing Congress from avoiding the limit by reducing grants-in-aid to states or localities or imposing costs on them, and enforcing the amendment.