MICHIGAN LEAGUE FOR PUBLIC POLICY

Testimony Presented to the House Committee on Financial Liability Reform Senate Bill 306 – Balanced Budget Compact

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Good afternoon Chairman Somerville and members of the Financial Liability Reform Committee. I am Rachel Richards, a policy analyst for the Michigan League for Public Policy. I appreciate the opportunity to express opposition to Senate Bill 306 today.

There's no doubt that the federal government faces very real and very serious challenges to getting its fiscal house in order. However, this bill does nothing to help that. In fact, the very language of the bill could make things much worse, for the country as a whole as well as for Michigan.

To begin with, the bill is unnecessary. Michigan has already petitioned Congress for an Article V Convention on the question of a constitutional amendment requiring a federal balanced budget. Also, what many people don't talk about is that compacts such as these generally need congressional and presidential approval to take effect, especially considering the amendment language would take away power from the federal government and would require state approval to raise the debt limit. Additionally, the bill essentially sets up a pro forma convention, and a lot of people believe that it's important for a convention to be a deliberative body.

Now, let me address the actual amendment language itself, which I would characterize more as a constitutionally set debt limit instead of a balanced budget requirement. There are many reasons why this amendment would hurt our state and nation, but I want to highlight a few of the most pertinent today.

1. **It would threaten federal funding for Michigan's schools, workforce development programs, highways and more.** Requiring a balanced budget would force Congress to choose between cuts to state priorities and federal ones. And each and every time, states would likely lose. About 43% of our state budget is paid for with federal funds; if the federal government were required to balance its checkbook even during a deep recession, funding to these state services could be sharply reduced or completely cut off for some programs. Nearly six years after the trough of the recession, Michigan is still recovering, and we were able to start recovering in part due to help from the federal government. If

these provisions before this committee had been in place, the recession—and Michigan's struggles—would have been longer and deeper.

2. **It would hinder the ability to deal with unforeseen circumstances, such as devastating hurricanes, attacks on cybersecurity, acts of war or terrorism, or other national emergencies.** While the bill does allow deficit spending, it strictly limits outstanding debt, provides for no exception for natural or economic disasters, and requires approval by a majority of the states to raise the limit. Getting 26 state legislatures to agree within 60 calendar days is likely an impossible task, compounded by the fact that not all states have fulltime legislatures. Even if the states do agree to raise the limit, it may be too late to help that much.

3. **Finally, slipped in is a requirement that two-thirds of each chamber of Congress must approve any tax increase and most new taxes.** This prioritizes cuts over providing the very services that our citizens rely on and need.

Finally, there are some very real concerns about the fact that the amendment puts a lot of power into the hands of one person the President. Under the language, once the debt limit threatens to be breached, meaning once borrowing exceeds 98% of the debt limit set, the President would be required to cut spending enough to keep the limit from being breached. Essentially, the President—potentially a lame duck President—could force through whatever cuts or program changes he or she wanted in order to get the nation's fiscal house in order, and the typical checks and balances get thrown out the window.

Michigan should be deliberative to determine if this is what is best for the state and its residents. We all want the state and nation to prosper, but it's clear that this bill is not the way to get us there. The League urges you to reject this proposal today.

Thank you for the opportunity to testify today.