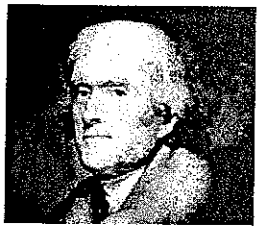
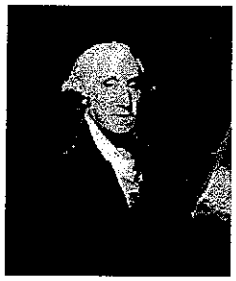
"To preserve our independence, we must not let our rulers load us with perpetual debt. I wish it were possible to obtain a single amendment to our Constitution ... an additional article, taking from the federal government the power of borrowing,"

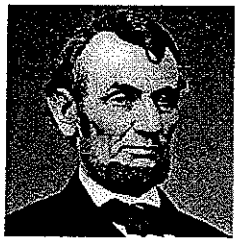
Thomas Jefferson.





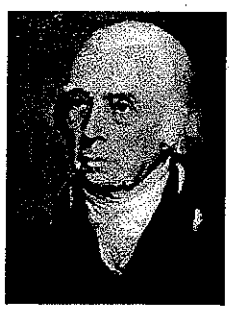
In a letter from George Washington to John Armstrong, our first president wrote "It should be remembered that a constitutional door is open for such amendments as shall be thought necessary by nine (2/3) States"

Debt, Deficits, and the Balanced Budget Amendment



President Lincoln endorsed the power of the people to amend the Constitution through an amendments convention, during his 1st Inaugural Address ... "This country, with its institutions, belongs to the people who inhabit it. Whenever they shall grow weary of the existing Government, they can exercise their constitutional right of amending it ... I will venture to add that to me the convention mode seems preferable.

In James Madison's Report On the Virginia Resolutions, he wrote "...or two thirds of themselves (states), if such had been their opinion, might, by an application to Congress, have obtained a convention for the same object."



In a letter to Lewis K. Uhler, President Ronald Reagan wrote, "... it is clear that we must rely on the states to force Congress to act on our (balanced budget) amendment. Fortunately, our Nation's Founders gave us the means to amend the Constitution through action of state legislatures."

Presented by the Balanced Budget Amendment Task Force, a collection of national and state organizations, and individuals dedicated to adding a Balanced Budget Amendment to the Constitution of the United States.

www.bba4usa.org

Balanced Budget Amendment Convention

Debt, Deficits, and the BBA

In 2010, the Florida Legislature placed on the general election ballot the following question:

BALANCING THE FEDERAL BUDGET ...
A NONBINDING REFERENDUM CALLING FOR AN AMENDMENT
TO THE UNITED STATES CONSTITUTION

Should the United States Constitution be amended to require a balanced federal budget without raising taxes?

Yes ___ No ___

With almost 5 million votes cast, 72% of Florida voters said "Yes." The measure passed by large margins in every Florida county.[1]

Why are Florida voters supporting a Balanced Budget Amendment? They are fearful of the economic and political future of our nation.

Over the last several years, there have been riots in France, Spain, Portugal, Italy, Cypress, and especially in Greece. This unrest was spurred on by government cutbacks, tax increases, and high unemployment.

There is great unrest in most European nations. Virtually every European nation teeters on economic and political collapse. Why?

European governments borrowed money every year to pay for massive entitlements, government worker wages, and retirement benefits. They reached the point they cannot afford the programs and cannot borrow any more money.

Some believe the United States is immune to such a crisis. It is not. Congressional spending and borrowing to pay for new government programs has accelerated. The Federal government is running out of places from which to borrow.

The U.S. Department of Treasury determined that on July 10, 2013, the United States had a national debt of $16,738,227,772,946. The department projects the debt to exceed $17,000,000,000,000 by October.

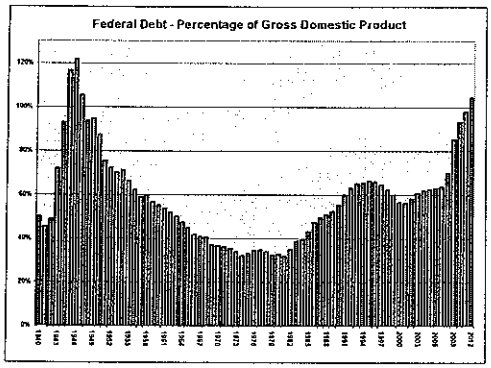
How much money is this? This is more money than all the debt of all European Union nations combined. It is more money than all the stars in the sky. **It is greater than our gross domestic product (GDP).**

Only 12 of the world's 182 nations have a debt greater than the size of their economy.[2]

2012 Debt/GDP	
Greece	153%
Italy	123%
Portugal	112%
France	89%
Spain	79%
Cyprus	74%
United States	107%
China	22%
Russia	11%

International Monetary Fund

The Gross National Debt in 2012 for our nation was 104% of the GDP. It has never been this high during peacetime.[3]



During the height of World War II, the national debt reached 122% of the GDP. After the war, as a result in the reduction of government spending and a growing economy, the national debt dropped to 36% of GDP in 1980.

Unfortunately, for 41 of the last 43 years (1970 – 2013), "the world's richest nation" borrowed money to fund the general operations of the government.

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[1] Florida Secretary of State, Division of Elections.

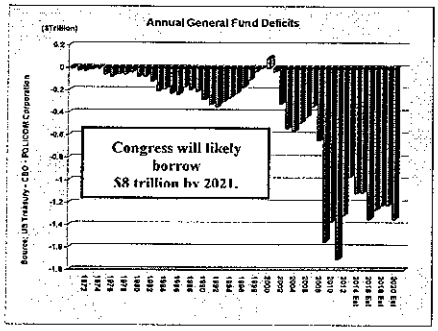
[2] International Monetary Fund (IMF)
[3] History of Federal Debt - US Department of the Treasury

Deficits Cause Debt

During the ten years from 1993 to 2002, Congress borrowed $1.3 trillion to pay for its expenditures. For every dollar of income, Congress spent $1.13.[4]

From 2003 to 2008, $3 trillion was borrowed. Some of this debt was attributed to expansion of the Medicare program and costs of the Iraq and Afghan wars. On average, for every dollar of income, $1.35 was spent.

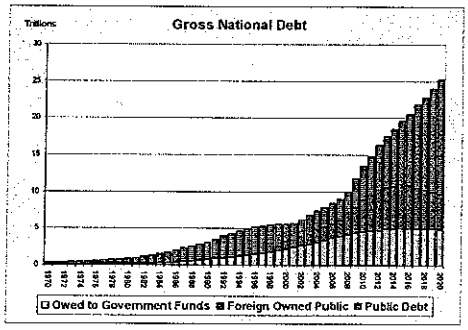
Unfortunately, borrowing during the four years from 2009 – 2012 exploded. Even though expenditures for the wars declined significantly, $6 trillion was borrowed over four years. **On average each year, for every dollar of income, Congress spent $1.90!**



Unfortunately, Congress will likely borrow another $8 trillion by 2020.

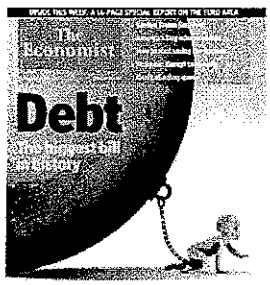
One of the big questions ... from where will it get the money?

The Gross National Debt is the accumulated total of all the money borrowed over the years by Congress.



[4] Summary of Receipts and Outlays – Historical Series – US Department of the Treasury.

In 1970, the Gross National Debt was $381 billion. By the end of the 2013 fiscal year, it will be more than $17 trillion. A brief eight years from now, in 2021 the debt will reach $25 trillion.[5]



The government borrows from two sources: 1) the private sector (Public Debt), and, 2) Federal government trust funds.

Public Debt

The Pubic Debt is owed to private and public entities outside the Federal government including the Federal Reserve Bank and foreign entities. Interest must be paid on this debt. The proportion of the debt held by the Public has increased significantly over the years.

Over the years, investment banks, pension funds, foreign entities, and individuals have purchased Federal government securities.

In 2007, the Public Debt accounted for 56% of the gross debt. The remainder of the debt was owed to Federal Trust Funds. In 2012, of the $16.3 trillion gross debt, $11.5 trillion was owed to the public, 71% of the gross debt. By 2020, Public Debt will grow to 77% of the gross debt.[6]

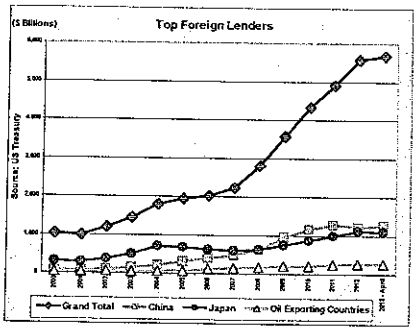
In order to find sources of funding for its annual deficits, over the years the Federal government has turned to foreign entities. In 2001, foreign entities owned 30% of the Public Debt. However, by 2012, their stake grew to 48%.

Between 2001 and 2012, the Federal government borrowed $6.8 trillion from the "public" to finance its deficits.

However, $4.6 trillion, or 67% of the money, came from foreign entities.[7]

[5] Debt estimate is based upon projections by the CBO, OMB, and Department of Treasury, which reach a total of $25 trillion by 2023. However, the projections do not take into account additional spending for any armed conflict, natural disaster, new spending programs, expansion of current entitlement benefits, or costs above what was projected for ObamaCare on the day of passage.
[6] Bureau of Public Debt, US Department of the Treasury.
[7] Major Holders of Treasury Securities, US Department of the Treasury

China and Japan were the biggest lenders. In 2001, these two countries combined had loaned our government $364 billion. By 2012, the debt owed to these countries grew to $2.2 trillion, 20% of the Public Debt.



Unfortunately, foreign entities are losing interest in loaning our government money to finance its annual expenditures. Investment made so far in 2013 is much less than the previous five years. China and Japan's investment is modestly more than a year ago. The actual amount of money invested in Federal government securities might actually begin to decline five years from now.

Owed to Government Trust Funds

Congress has created almost a hundred "trust funds" over the years. A trust fund is essentially a savings account within the government.

A trust fund typically has a dedicated source of funding for expenditures, which are legally limited to the purpose of the trust fund. When the trust funds have surpluses, the fund trustees "invest" the money so it can be used in later years.

Unfortunately, Congress has not invested the trust fund surpluses in the private sector, as is the case for funds managed by state and local governments.

For example, the Ohio Public Employees Retirement System has about $86 billion in assets.[8]

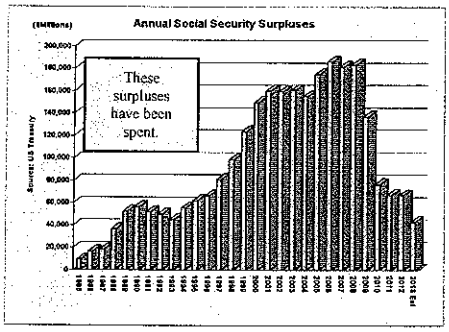
This money is invested in stocks, real estate, bonds, and private enterprises. The profit from these investments typically is enough money to meet the annual cost of the pensions for retired government workers. The trustees expect at least a 7% return on the investments. There is usually no demand on the state's treasury. In the future, if there is a shortfall, the trustees of the fund can sell assets to pay for the pensions, not draw from the state's general fund.

The largest of the Federal government's trust funds is the Social Security Trust Fund.

In the early 1990's, revenue to the Social Security Trust Fund was projected to fall short of disbursements to retired recipients. As a result, Congress effectively doubled the social security payroll tax.

Congress told the people the huge tax increase would save the social security program until 2040. It explained that the new taxes would create huge surpluses in the fund, which would be available when expenditures exceeded revenues when the baby boom generation retired. The surplus money would be "invested" and saved until needed.

The surpluses generated in the Social Security Trust Fund between 1985 and 2012 totaled $2.6 trillion. If the money had been invested in the private sector for the past 27 years, like state pension funds, even if it generated a modest profit of only 4% per year, there would be $4.1 trillion "real" dollars in the fund.



However, Congress did not invest fund surpluses in anything other than Congress. Congress borrowed the money from **every trust fund** and used the money for anything it desired.

Congress issued non-marketable bonds (cannot be sold to the public) to the trust funds, promising interest and repayment in the future. Unfortunately, Congress does not have a source of funding for repayment and literally issues an IOU for the interest due each year.

[8] Ohio Public Employees Retirement System.

Major Trust Funds - 7-1-2013	
Total Owed All Trust Funds	$4,830,830,900,000
Social Security & Disability	$2,783,454,000,000
Civil Service Retirement	$819,444,000,000
Military Retirement & Medcal	$614,058,000,000
Medicare	$285,828,000,000

Source: Bureau of Fiscal Service, Treasury Department

For the last 30 years, the American people paid Social Security taxes. Since Congress spent this money, we will have to pay these taxes a second time.

Beginning about 2017 or 2018, the Social Security Trust Fund will likely cease to have surpluses. The baby-boom generation will begin to retire in larger numbers. Income to the fund from taxes will not cover expenditures.

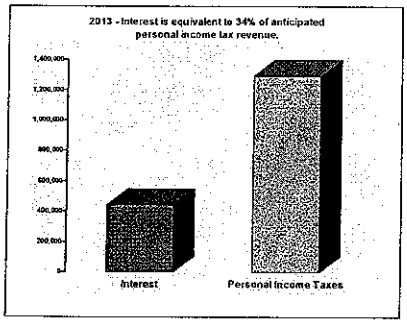
At this point, the fund balance is supposed to make up the difference.

Not only is there no money in the fund, but Congress has been addicted to borrowing $50 to $100 billion a year from the fund to finance the deficits. Congress will have to find another source to pay for its annual shortfalls.

Interest Rate Razzle-Dazzle

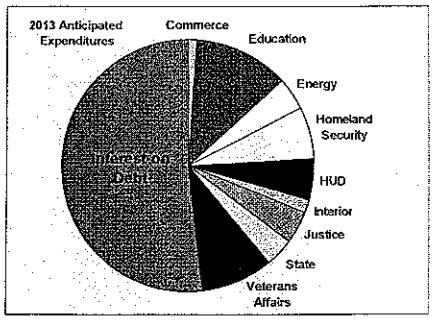
Some people fear this debt will hurt our children in the future. Actually, the burden of this debt has already fallen upon the shoulders of every American today.

For Fiscal 2013, interest payments on the debt will total about $420 billion.[9] This is equivalent to 34% of the anticipated personal income tax collection.[10]



[9] Includes interest payments to the Trust Funds.
[10] Monthly Treasury Statement – Summary of Receipts and Outlays – June 2013 – US. Department of the Treasury.

For Fiscal 2013, interest expense will be greater than the cost of ten government departments.[11]



In 2007 the federal deficit, the amount Congress spent over income, was $342 billion. Interest paid that year was $430 billion including that owed to the Federal Trust Funds. That year we essentially borrowed the money to pay the interest on the money we previously borrowed.

Wait a minute. How can the interest payment in 2013 be less than 2007 when the debt was much less?

	Gross Debt	Interest
2007	$9 Trillion	$429 Billion
2013	$17 Trillion	$420 Billion

The interest is less because the Federal government is doing the old "razzle-dazzle" with interest rates.[12]

Enter the Federal Reserve Bank of the United States.

In order to reduce the amount of money paid for interest on the national debt and to provide a new source to fund annual deficits, the Federal Reserve Bank is now "printing money" to purchase existing bonds and notes and to pay for current Federal deficits. [13]

[11] Monthly Treasury Statement – June 2013.
[12] Razzle-dazzle: a complex maneuver designed to confuse an opponent.
[13] The Federal Reserve does not actually print money, but makes a request to the Treasury Department, which orders the Bureau of Printing and Engraving to issue the currency. Today creating "money" might be a simple as a computer data entry.

Between 2008 and 2013, the Federal Reserve Bank printed $1.5 trillion and purchased Federal government securities. The interest rate charged by the Federal Reserve Bank is virtually zero.[14]

Federal Reserve Bank Ownership of Federal Debt	
July 1, 2008	478,866,000,000
July 3, 2013	1,942,678,000,000

Source: Federal Reserve

The printing of currency to pay for its government is the last act of a desperate nation.

As a result, the average interest rate on the national debt in July of 2013 was only 2.43%. In 2007 it was 4.8%.[15]

In 1997, the interest rate was 7.1%.

Average Interest Rate National Debt	
2013*	2.43%
2007	4.83%
2001	5.74%
1997	7.10%

* As of July 1, 2013

So, what would the interest payment have been in 2013 if the rate was the same as in 2007? At least $800 billion.

Since the current interest paid on money borrowed by Congress to finance the deficit is unusually low and unattractive to private investors, in the future the main sources of funding for the deficits will have to come from Trust Funds or from the Federal Reserve Bank by printing currency.

However, the Trust Funds will not have surpluses in the future.

The only other alternative is to have interest rates rise to a point they are attractive for private sector investors.

However by doing that total interest payments paid by Congress annually will likely grow to more than a trillion dollars, adding another $600 billion to the national debt each year.

Therefore, the Federal government now has a very difficult problem if it wants to continue deficit spending.

Congress could encourage the Federal Reserve Bank to continue to print currency to fund the Federal government, significantly devaluing our currency and leading to hyperinflation.

Alternatively, Congress could let the marketplace determine interest rates, which will balloon interest payments to be possibly the largest expenditure of the Federal government.

Either scenario could cause a collapse of our national economy and place our system of government in jeopardy.

Congress has placed the American people in an unconscionable position of being responsible for a debt it did not have to create. Never before in the history of this country has one generation left the next generation in such a precarious fiscal situation.

We the people of this country are the victims of the excesses of our government. We will suffer for it.

What can we do to stop it? There are several alternatives.

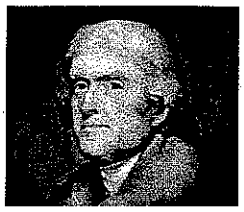
We can do nothing. Doing nothing is always an alternative.

We can elect people to office who will stop spending and borrowing. This alternative has not worked for the last 30 years.

We can riot in the streets like so many do in Europe. This is not a good idea.

The best solution is to make it unlawful for Congress to borrow money by way of a Balanced Budget Amendment to the Constitution.

Balanced Budget Amendment



"To preserve our independence, we must not let our rulers load us with perpetual debt. I wish it were possible to obtain a single amendment to our Constitution ... an additional article, taking from the federal government the power of borrowing,"

Thomas Jefferson.

[14] U.S. Treasury securities held by the Federal Reserve – Federal Reserve Bank of St. Louis – July 1, 2013.
[15] Interest Bearing Securities – June 30 - US Department of Treasury

What would a Balanced Budget Amendment look like?

The following is one sample approach. Let us build an amendment and take into consideration several different issues.

We begin with simple language:

> ***Appropriations by Congress shall not exceed total revenues for any fiscal year, save for accumulated surpluses.***

But what if there is a war or other emergency? Let's add a provision for that, but make it hard for Congress to borrow money.

> *Appropriations by Congress shall not exceed total revenues for any fiscal year, save for accumulated surpluses* ***and, with the approval of 2/3 both Houses, the extraordinary costs of armed conflict or national emergency.***

But what if Congress just raises taxes to pay for its new programs? This is a real concern. Certainly the growth of congressional spending is not reduced by the amendment language we have so far. Congressional spending caused the deficits and the debt.

However in the future there might be a special reason why Congress will need additional revenues. Let's try this ...

> *Appropriations by Congress shall not exceed total revenues for any fiscal year, save for accumulated surpluses and, with the approval of 2/3 both Houses, the extraordinary costs of armed conflict or national emergency.*
>
> ***No new tax or fee shall be levied, nor any existing tax or fee be increased, without the approval of 2/3 of both Houses.***

Additionally, we need to prevent Congress from borrowing money from the trust funds. It has been too convenient for Congress to use this money to pay for current programs.

We must now draw the line, preventing Congress from using this money. We must enable the trust funds to build true surpluses for the future.

> *Appropriations by Congress shall not exceed total revenues for any fiscal year, save for accumulated surpluses and, with the approval of 2/3 both houses, the extraordinary costs of armed conflict or national emergency.*
>
> *No new tax or fee shall be levied, nor any existing tax or fee be increased,* ***nor shall Congress borrow from any of its funds or trusts,*** *without the approval of 2/3 of both Houses.*

By preventing Congress from borrowing money and conveniently raising taxes, spending by Congress will be limited to increased revenue caused by economic growth.

As a result, Congress will have greater interest in having a dynamic private sector economy if it desires to create new spending programs.

This amendment is an example of the process of creating a Balanced Budget Amendment. You might like other language such as 3/4 instead of 2/3. However, the actual amendment will be written by the group, which will "propose" the amendment.

In order to amend the Constitution, an amendment must first be proposed. After it is proposed, it is either accepted (ratified) or not.

> ***Article V – United States Constitution***
>
> ***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 the Congress; ...***

Article V of the Constitution spells out the process. An amendment can be proposed in two ways:

• by a resolution adopted by two-thirds of both houses of Congress which it can do at any time,

• by the states at a convention called for the purpose of proposing an amendment.

After the amendment is proposed, 38 states must agree to the amendment (ratify) in order for it to become part of the Constitution.

Congress will not propose a Balanced Budget Amendment. It enjoys spending money too much to place restraints upon itself. There have been repeated efforts to get Congress to propose an amendment. It has refused.

As a result, the state legislatures much convene a **Balanced Budget Amendment Convention.**

Convention for Proposing Amendments

A *Convention for Proposing Amendments* is not a "Constitutional Convention" and never should be called such. There is no provision in our Constitution for such a meeting.

Instead, a Convention for Proposing Amendments is an assemblage of representatives from the states with the limited purpose of proposing amendments - the same authority granted to Congress 365 days of the year.

Unfortunately, some good conservative groups fear a Balanced Budget Amendment Convention. They have been told "terrible things" can happen at a convention.

They call it a "Con-Con," a derogative term describing what they believe will be a "run-a-way" convention.

It is somewhat understandable some believe an amendments convention could somehow get out of control, run-a-way, and make unilateral changes to the Constitution.

This notion was manufactured by liberal, central government advocates who know if the states exercised their authority to hold an amendments convention, power would shift to the states, away from Washington.

These advocates will say and do anything to prevent the states from holding a convention.

Therefore, they made up a doomsday scenario, which unfortunately is believed by some conservative groups.

Liberal Washington groups popularized the "fear" of a convention in the 1980's, working quietly behind the scenes, to discourage states from holding a Balanced Budget Amendment Convention.

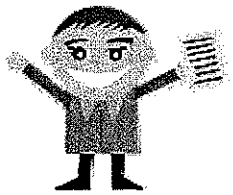
That was a time when 32 states (34 needed) had passed resolutions to convene a Balanced Budget Amendment Convention. Unfortunately, the effort stalled because of the myth of a run-a-way convention.

At that time, there was little academic research of founding era documents available to refute the claim that a convention could run-a-way. Fear of the unknown is a powerful motivator and liberals know how to use it.

Luckily, we know more today than in the 1980's.

Technology to the rescue.

Because of the ability to digitize information, founding era documents, resolutions, Federal case law, and academic studies, which had been hidden away in state records vaults, university archives, and private sector collections are now indexed and readily accessible for review today.



It has been found what was believed to be true about a "Con-Con" has little basis in fact.

The following has been discovered:[16]

1. The 1787 Philadelphia Convention was not the only convention held by the states. As many as 20 interstate conventions were held prior to 1787 and two afterward.

Almost all were for a single subject; voting was by state, and none "ran-a-way."

[16] Most of the findings clarifying the nature of an Article V convention are the result of the research by Professor Robert Natelson, Ret. He is presently a Senior Fellow in Constitutional Jurisprudence at the Independence Institute, Golden, CO and the Montana Policy Institute, Bozeman, MT.

Professor Natelson has created a series of studies and papers, which can be reviewed at http://www.i2i.org/robnatelson.php.

Conventions were commonplace. Everyone at the time knew a convention could be called by any state for a specific topic, the states could send delegates to the convention, voting was by state, and the only authority of the convention was to recommend a change, not mandate it.

2. Ten of the 12 states attending the 1787 Philadelphia Convention passed convening resolutions effectively to "form a new government," not to just amend the Articles of Confederation.

Trying to hold on to power, the Confederation Congress passed a resolution recommending the convention only amend the Articles of Confederation. However, the Confederation Congress admitted it had no authority over the convention of the states, as Congress has no authority over an amendments convention today.

Since the Philadelphia Convention was not amending the Articles of Confederation (which required approval of all of the states) but replacing them, the Convention provided a method whereby three-fourths of the states were needed to ratify the new constitution.

Most importantly, after George Washington gaveled the close of the Philadelphia Convention, nothing changed. The convention only proposed the Constitution and had no power to force its adoption. Only after the states ratified the new Constitution was there a change in our government.

3. The Framers at the Philadelphia Convention knew the Constitution would have to be amended in the future. In Article V, they enabled the Federal government, via Congress, and the states, via convention, to propose amendments, which would subsequently be ratified by the states.

It was the intention of the Framers to enable the states to unilaterally amend the Constitution starting with a convention followed by ratification. Their purpose was to encourage the states to "restrain" the growth of the Federal government protecting the rights of the people.

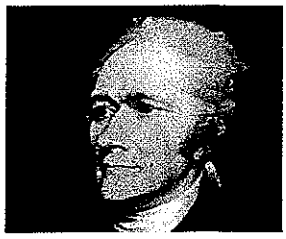
4. Today, since an amendments convention would be convened in accordance with the Constitution, it is limited to "proposing an amendment" and nothing more. Any proposed amendment requires the ratification of 38 states.

5. A convention is limited to the purpose stated in the applications passed by the legislatures.

So how will a convention work today?

- Thirty-four states need to pass a similar resolution for the same subject.
- Congress "shall" convene a convention. It has no discretion in the matter. The only authority Congress has is to set a time and place. It cannot interfere with the convention.
- Each state legislature will determine how to choose its delegates. The delegates are agents of the legislature and can be recalled for violating instructions or the rules of the convention.
- At the assemblage, voting will be by state as it was at all previous conventions, as it is a "convention of states."
- The delegates will vote on the rules of the Convention, which will likely be drafted by a Committee of Correspondence prior to the Convention.
- The Convention will debate the language for a Balanced Budget Amendment. There is no obligation upon the Convention to propose an amendment.
- If an amendment is proposed, Congress will determine the method of ratification, which requires 38 states.

The Founding Fathers fully anticipated the states would request Article V conventions to restrain the growth of the national government. Frankly, many of the Founding Fathers who feared the growth of the national government "signed on" to the Constitution relying on this provision.



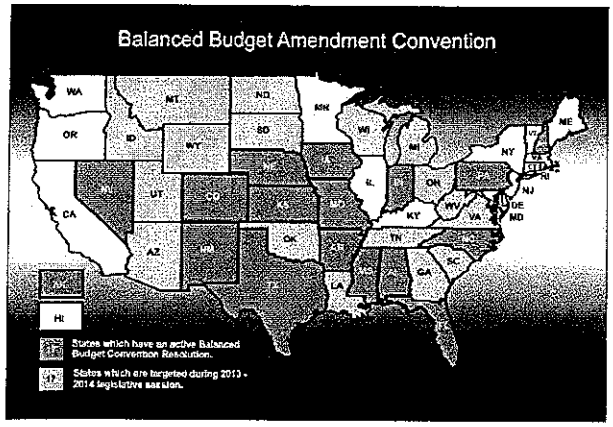
Referring to an Article V Convention, Alexander Hamilton wrote, "We may safely rely on the disposition of the state legislatures to erect barriers against the encroachments of the national authority."

Balanced Budget Amendment Convention

In order to convene a Balanced Budget Amendment Convention, thirty-four state legislatures need to pass a simple resolution (application) requesting the convention.

As of June 1, 2013, at least seventeen states have active resolutions. **Only seventeen more states are needed.**

If you live in a state, which is "yellow" on the map below, contact your state representative and state senator and demand they pass a Balanced Budget Amendment Convention resolution.



More Information

Researchers affiliated with the Balanced Budget Amendment Task Force have created *Debt, Deficits, and the BBA.*

The principal researcher is William H. Fruth, President of POLICOM Corporation, an economic research firm. (fruth@policom.com)

The BBA Task Force is a collection of national and state organizations, and individuals dedicated to adding a Balanced Budget Amendment to the Constitution of the United States.

For more information on the nature of a Balanced Budget Amendment Convention, please visit:

www.bba4usa.org

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The Last Convention of the States ..."Blueprint for an Amendments Convention"

In 1860, Abraham Lincoln was elected President. The nation was sitting on a powder keg ready to explode over slavery. This was the most tumultuous time in our history.

In January of 1861 to avert war, the Virginia legislature passed a resolution to convene a convention of the states to discuss an amendment regarding slavery. Time was too short to get 2/3rd of the legislatures to pass a formal application to convene a "convention for proposing amendments" under Article V. The purpose of the convention was to craft an amendment regarding slavery, then to ask Congress to propose it.

The Washington Peace Conference convened on February 4 in Washington, DC. With seven states declaring secession, 21 of the 26 remaining states sent delegations to the convention. President-Elect Lincoln and President Buchanan attended.

The assembly followed the convention rules that had been established during the 18th century, the same rules contemplated by the Framers when the Constitution was written. They include:

- *The call for the convention set the place, time, and topic, but did not try to dictate other matters, such as the selection of delegations.*
- *At the convention, voting was by state.*
- *The delegations from each state were selected in the manner of the state's legislatures directed. Most delegations were elected by the legislature itself. In some states the legislature delegated the selection to the governor. In some states the legislature was not in session, and the governor selected.*
- *The convention adopted its own rules and selected its own officers. Former President John Tyler served as Chairman.*
- *The convention stayed on topic.*

The delegations wrote a lengthy amendment regarding slavery and asked Congress to propose it. But time was too short. While Congress debated proposing the amendment, war broke out.

The most important thing is – during the time of when our nation had its greatest political divisions, a convention of the states was held, performed its task in an orderly manner, and did not sway from its purpose. It did not "run-a-way."

The summary above has been taken from the writings of Professor Robert Natelson. However, events at the Washington Peace Conference are well documented and can serve as a model for how a Balanced Budget Amendment Convention can be organized.