

Balancing the budget over the business cycle is a smart strategy

Feb 5, 2025 By Kurt Couchman   

Educational freedom, pro-growth tax reform, and personalized health care are among the most important priorities being held back by federal and state governments' wasteful spending and excessive debt. Effective budget targets can help policymakers do better and unleash even more American potential.

Recently on *National Review*, [Vance Ginn argued for](#) a spending growth limit tied to population and inflation. That seems to work well enough for Colorado through its multifaceted Taxpayers' Bill of Rights (TABOR), which voters approved by initiative in 1992.

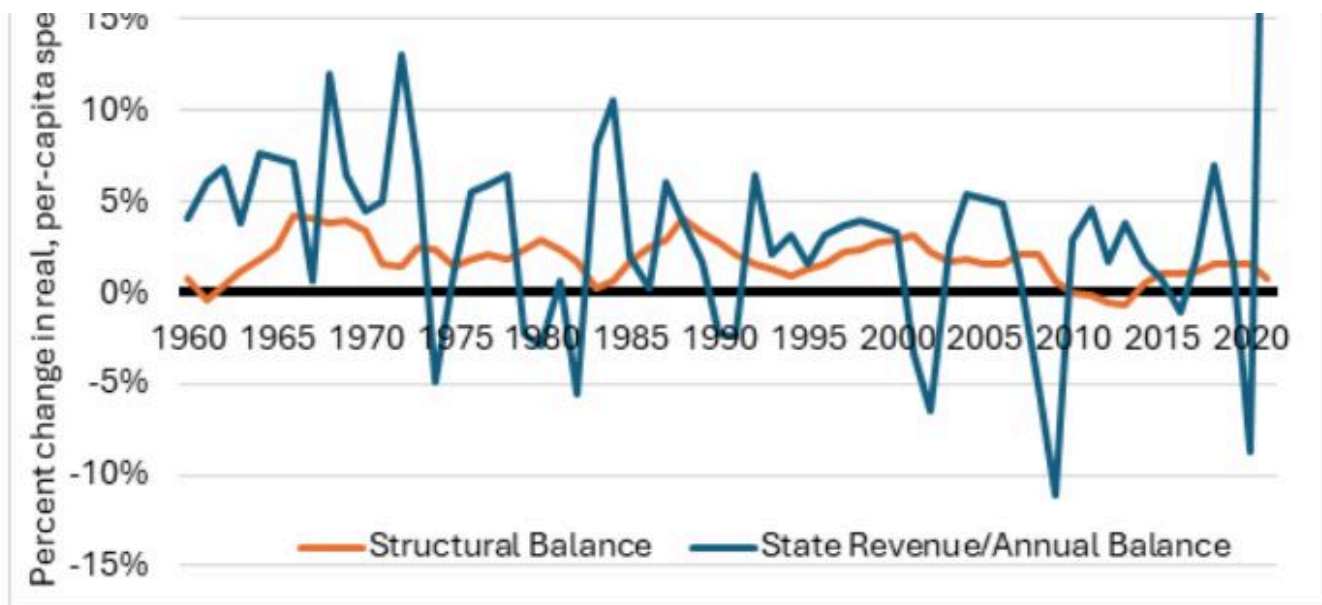
Unfortunately, Vance misled readers about another promising option for budget goals: structural balance targets that tie the *trends* of spending and revenue together.

[Structural balance](#) – balancing the budget over the medium term – simply reflects the common-sense idea of income smoothing: consistent spending despite volatile revenue.

Tax collections [bounce around](#) from year to year. Limiting spending to revenue each year through annual balance, as some states pretend to do, drives policy instability. The resulting uncertainty holds back productivity-boosting private sector investments. Annual balance also forces legislators to react to governors' proposals for adjusting to revenue swings, which can crowd out legislators' priorities.

By contrast, structural balance targets have [many benefits](#). Spending and revenue policies can be stable and predictable, as figure 1 shows. They help legislators avoid overspending during good years or hiking taxes during bad years. Instead, surpluses in good years bulk up reserves that can be tapped during bad years and for emergencies. Avoiding cyclical pressures prevents forced ratchets in either direction.

Figure 1: Structural balance supports stable and predictable policy



Instead, budget stability lets legislators be more proactive in driving real policy upgrades. For the private sector, expectations of policy stability provide more confidence to invest in better and higher-paying jobs.

Fiscally independent states – and their members of Congress – can better resist federal bailouts and strings that remain long after the money runs out. In this way, [smart budget targets](#) can help states reclaim their sovereignty.

Switzerland’s famously successful and popular [debt brake](#) connects spending to revenue over the business cycle. Budget targets in Indiana, Connecticut, Florida, Washington state, and elsewhere do something similar, and those four have relatively low and efficient [spending per capita](#). Structural balance is well designed and highly effective around the country and abroad.

State and federal policymakers are increasingly taking an interest. I’ve testified and presented on this subject to state legislators including in Pennsylvania, Michigan, Indiana, Minnesota, Idaho, [Kansas](#), and from [across the country](#).

The U.S. House Budget Committee recently invited me to [discuss balanced budget amendment proposals](#) and implementing legislation based on this concept. One of the best BBAs even attracted broad bipartisan support when it was first introduced, then with [46 Republican and 14 Democratic supporters](#).

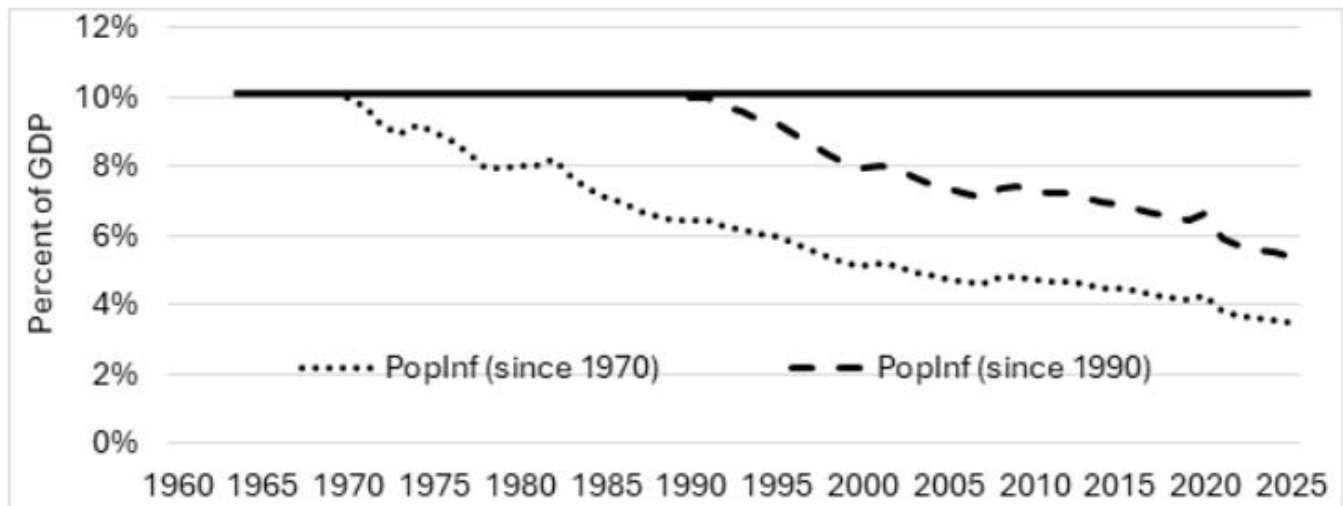
Without question, Colorado’s [TABOR](#) includes [many useful features](#) to keep state and local government accountable to the people. It has certainly checked Democrats’ big spending and tax ambitions as they’ve taken control of state politics.

For better or worse, however, that model hasn’t spread, and not for lack of effort. Most state legislatures have tried and failed at least once.

In 2022, for example, the Republican-majority Pennsylvania House considered a constitutional amendment for an inflation-and-population spending growth cap. An insider promised it would pass the House but might get hung up

It's worth exploring why some Republicans might not want to adopt such a tight spending limit. Perhaps because excluding productivity growth – the third part of GDP growth after inflation and population – from spending growth would push spending lower as a share of the economy, as figure 2 shows. Perhaps they worried that having to make persistent cuts would lead to budget fatigue, like the burnout from dieting.

Figure 2: An inflation-and-population spending limit would reduce spending forever



After all, providing policing, education, health, roads, parks, and other services requires the government to compete with the private sector for talent and materials. As private sector incomes rise, public sector incomes must follow eventually for a given level and efficiency of services. By reducing their need to react to revenue changes and governors' proposals, structural balance expands legislators' capacity to seek efficiencies and to consider programs' relative values under calmer circumstances.

Of course, spending less than a structural balance budget target would allow can be a very good thing when government is bloated, as [North Carolina has done](#) over the last decade. Spending restraint can reduce debt burdens while expanding opportunities for competitiveness-boosting tax cuts and education-enhancing freedom and choice programs, among other priorities.

Budget targets are among [many aspects](#) of responsible budgeting, although they are an especially important component. The key is to balance restraint with flexibility so governments – and legislators in particular – can weigh how best to serve their fellow citizens within reasonable bounds.

Structural balance supports lean, effective government in U.S. states and abroad. Policymakers and the public benefit from stable and predictable platforms that balance the budget over the business cycle. As a neutral, practical foundation for better governance and restoring federalism, structural balance has broad appeal and can empower legislators to drive real upgrades.

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