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Statement by

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before the

Joint Study Committee on Budget Control

March 6, 1973

In a year when Congress is demonstrating a determination to reform its procedures, your Committee faces a challenge worthy of its talents. You have the opportunity to enable Congress to turn its power of the purse into a truly effective instrument for stabilizing our economy. The fiscal policies of this Government--its total outlays, the priorities they reflect, and their relationship to revenues--bear significantly on the lives of the people you represent. Income levels, the cost of living, the balance of international payments, and even the quality of life in this country are directly and substantially affected by the Federal budget. If you can develop procedures that will enable Members of Congress to vote on an overall fiscal policy that adequately reflects Congressional priorities, you will revitalize representative government in this country. I am pleased to have been asked to discuss these issues with you.

Thoughtful people everywhere are aware of the need for more effective Congressional review of the budget. A recent indication of this fact is Senator Mansfield's statement on February 8, disclosing that "all the new Senators of the class of 1973" had written to him and to Senator Scott urging that reform of the congressional budgetary process be given "top priority." In this letter thirteen new Senators, from both political parties, fresh from election victories in States

from Maine to Idaho, unanimously and "wholeheartedly" agreed that "Congress has the obligation to set priorities under which expenditures are to be authorized by this Nation, and present procedures of the Congress do not in fact achieve that aim." They concluded with this perceptive comment: "The first step toward establishing priorities has to be setting a ceiling on appropriations and expenditures. This must be done first, rather than last. Unless we do this, we are not really budgeting at all."

Yet along with this awareness of the need for better budgetary procedures, there is concern and even cynicism about the prospects for achieving them. We hear speculation that the President does not really believe Congress will heed his call for a ceiling on expenditures but expects, instead, the Congress to overspend and thus become responsible for a tax increase that would then be inevitable. Congress, by its own actions, has lent some support to this pessimistic view. The early response of the House and Senate to the President's efforts to hold outlays for fiscal 1973 to \$250 billion has been to pass bills requiring release of some of the impounded funds. And the Ervin bill restricting the authority to impound funds seems likely to pass the Senate soon. Thus, people are understandably concerned that Congress, in exercising its unquestioned right to determine priorities

among national needs, may produce budget deficits that no one wants-- not the President, not the Congress, and not the people you represent.

The problem is too acute to allow its solution to be frustrated by acrimonious debate about who is to blame. Representative Mahon recognized this in a challenging discussion of our budget problems in Nation's Business last April. Let me quote a few key sentences from his paper: "Who is to blame for this distressing record? The President? The Congress? The American people? I think nearly all of us are. Large segments of the population tend to demand more and more government services, and at the same time there is a demand for lower taxes."

I believe the American people understand that government spending, taxes, inflation, and interest rates are all interrelated. If they seem to favor more spending and lower taxes at the same time, it may well be because Congressional procedures lead to votes on taxes and spending as though they were unrelated issues. Members are asked, in effect, to cast a number of separate votes for or against cleaner air, for or against better schools, and for or against a host of other good things government can help to provide. A vote does not occur on the question of whether expenditures for a particular category are desired strongly enough to raise taxes, or

to cut back on another category. Until votes can be cast on such questions, we cannot be sure what answers people generally would give.

At present, the decision-making process that results in a unified budget being presented by the Administration has no counterpart in Congress. Instead, the decisions that determine the ultimate shape of the budget are made by acting (or at times taking no action) on a large number of separate measures--160 for fiscal 1973, as recently reported by your Committee. Only after the results of these separate votes are determined can we put the pieces together and discover what kind of a budget has emerged. In this process, Members of Congress have no opportunity to express the wishes of their constituents on choices such as what total expenditures should be, or whether more should be spent for housing or for education or health care. Choices of this type are of greater importance to the electorate as a whole than the single proposals on which Congressional votes actually occur.

Some of the choices that the 93rd Congress will have to make can be readily anticipated. The economy is expanding vigorously. We can look forward to a good increase in physical output and further reductions in unemployment in 1973. Thus, there is no need at this

stage of the expansion for further fiscal stimulus and the Administration has therefore recommended that the budget be brought into balance at full employment. Along with the new prosperity, however, we have some old problems. Persistent inflation--albeit at a somewhat diminished pace--is one of them, and the chronic deficit in our international balance of payments is another.

The recent devaluation of the dollar, combined with the Smithsonian realignment, have now placed us on the road back towards equilibrium in our balance of payments. We cannot, however, take that improvement for granted. Indeed, confidence in our own economy will be strengthened if we set a firm and definite goal for the balance of payments--namely, to end the deficit within a period of two to three years. And while devaluation will help in restoring payments equilibrium, it will also add to upward pressures on our prices at a time when both domestic and international considerations require a determined effort to restore price stability. The level of Federal spending, and the way it is financed, will have an important bearing on our ability to solve these persistent problems of inflation and international imbalance.

Yet sizable deficits in the Federal budget continue to plague us. The Administration estimates that outlays, if held to \$250 billion,

will exceed revenues by \$25 billion for fiscal 1973. And while the Administration has recommended that the budget be brought into a position of full-employment balance for fiscal 1974, outlays are still scheduled to rise another \$19 billion and the unified budget deficit is expected to be about \$13 billion.

In addition to its implications for employment, price stability, and our international payments position, the budget is bound to leave its mark on interest rates. With credit demands strengthening because of the marked advance in economic activity, interest rates have been moving up. Treasury financing requirements, stemming from large budget deficits, have added to the pressures on credit markets. So far the advance in interest rates has been mainly confined to short-term credit. But our chances of continuing to avoid significant increases in long-term rates will depend heavily on whether Treasury demands for credit can be held at moderate levels.

It is clear to me that your Committee fully realizes the pressing need to reestablish order in our Federal finances. The question is not whether it must be done, but how. A solution requires a firm ceiling on expenditures or a tax increase, or some combination of the two. There are several reasons, I believe, for choosing a curb on spending in preference to a tax increase.

First, government expenditures--counting outlays by State and local governments as well as Federal--have been rising much faster than our national production, so that an increasingly large fraction of the wealth that our citizens produce is being devoted to the support of government. In 1929, total government spending amounted to about 10 per cent of the dollar value of our national output. Since then the figure has risen to 20 per cent in 1940, 30 per cent in 1965, and 35 per cent in 1972. It is time to call a halt.

Second, the expansion in government outlays has not produced the kind of benefits the public has a right to expect. As government assumes wider responsibilities, it becomes increasingly apparent that we must have a better system of controls to screen out low-priority programs and to ensure that high-priority programs operate efficiently. The best way to get effective controls of that kind is for Congress to decide that one-third of our national output is quite enough for the tax collector.

Third, I have the impression that the American people feel that they are already carrying a sufficiently heavy tax burden, and will strongly resist any increase. If that impression is correct, raising taxes may not be a realistic alternative to a ceiling on spending.

In its interim report of February 7, your Committee has sketched out a tentative plan to achieve better control over expenditures, as a part of an overall plan for reviewing tax and expenditure policies. You have already accomplished much in the short time your Committee has been in existence, and I find your report most encouraging.

Under this tentative plan, Congress would establish two overall spending ceilings early in the session. One would govern total outlays for the ensuing fiscal year, which stem in part from obligational authority previously enacted. The other would limit new obligational authority, which will form the basis for expenditures not only in the ensuing fiscal year but in later years as well. Each of these comprehensive ceilings would be accompanied by subceilings for major categories of expenditures, so as to reflect Congressional priorities and to assist in achieving compliance with the overall ceilings.

Your report notes that earlier experiments with rubbery ceilings have failed, and that procedures must therefore be developed to assure reasonable compliance with the ceilings. Representative Findley's proposal, H. Res. 17, which would amend the rules of the House to require a two-thirds vote for passage of any bill that would exceed the previously determined ceiling for the particular category

of expenditure, has much to commend it in my view, provided it is expanded to assure participation by the Senate in establishing the ceilings--as your report contemplates.

Representative Reuss has suggested a somewhat different procedure--namely, that the overall ceilings and subceilings established early in the session be treated as tentative, so that appropriations bills and other measures providing new obligational authority could be passed as now by majority vote even though they breached the ceilings. Thus, the tentative ceilings would help to guide action on individual spending measures, but adjustments would be made late in the session, in the form of a Final Budget Statute. This proposal seeks to achieve flexibility and an opportunity for late-session review, as proposed by your report, without destroying the effectiveness of the ceilings established early in the session.

I recognize that it may be too much to expect the House and Senate to agree early in the session, on the basis of limited information, on ceilings for major categories of expenditure that could be overridden only by a two-thirds vote. It may therefore be necessary to rely, as Representative Reuss has suggested, on action late in the session to set the overall ceilings and subceilings in their final form.

For the reasons I have mentioned, I would hope that where the tentative overall ceilings are exceeded, the late-session adjustment would usually take the form of reduced spending authority rather than a tax increase. But there may be circumstances where Congress should consider accepting a higher deficit than originally contemplated, or financing expenditure over-runs by raising taxes. The essential point, to my mind, is that Congress should take one of these courses deliberately, in full awareness of its consequences.

Moreover, if reliance is placed on a Final Budget Statute for the needed adjustments, special rules would seem to be required in order to assure that such a measure is in fact brought to the floor and acted on. Rules such as those which speed consideration of resolutions relating to reorganization plans would seem to be useful in this connection.

As an alternative approach, you may wish to consider a procedure by which Congress would adopt a joint resolution establishing overall spending ceilings as early in the session as possible, but in no event later than June 30. The resolution would set firm overall ceilings on outlays and new obligational authority for the coming year, and direct the Executive to submit within 45 days a detailed budgetary plan for complying with these ceilings. The plan would take effect

within 45 days after its submission unless either House meanwhile passed a resolution disapproving the plan. With reasonable cooperation between the Executive and the Congress, which would of course include consultation with the House and Senate budget committees proposed in your report, such a procedure would assure that the ceilings were effective and that they also adequately reflected Congressional priorities. Again, rules would be needed, analogous to those for reorganization plans, to give each House the opportunity to vote on a resolution of disapproval if it so wished.

In developing better budgeting procedures, it may be that the Federal Government could usefully adopt some of the techniques of the States, where budgets are subject to a relatively firm discipline. I have tried to learn something about State procedures through conversations with State officials and others familiar with the subject.

It appears that State legislatures are normally subject to a very powerful constraint--namely, elected officials of all parties recognize a balanced budget as a prerequisite to reelection. Some States permit deficits for capital expansion but a deficit on current account, even where permitted by law, poses political risks that officials are reluctant to take. The general acceptance of the need for a balanced budget enables the leadership to keep the legislature

in session until it is achieved. I am not advocating that the United States Congress repair to the banner of a balanced budget at all times. But we do need a new sense of discipline--one that recognizes that a constantly stimulative fiscal policy is more apt to produce inflation than new jobs.

One important means by which the States achieve fiscal restraint is by granting considerably larger power to the governors than the Congress has granted to the President. The item veto is authorized in a number of States, and because of the shorter legislative sessions the pocket veto is a more powerful weapon. In some States the legislature is not permitted to increase spending above the level requested in the budget unless it also provides for a new source of revenue. And nearly all governors impound funds frequently. However, it appears that impounding generally involves measures such as reducing the number of State employees or stretching out construction rather than terminating programs.

Experience at the State level thus suggests that where overall outlays are subject to careful scrutiny, impounding--when it occurs--takes a form that is consistent with spending priorities established by the legislature. If the President and the Congress will work together to hold total outlays at a level reasonably related

to revenues, there should be no occasion for resort to impounding on a broad scale.

Congress has made it clear that it does not wish to emulate the States by strengthening the powers of the Executive Branch to trim total outlays to acceptable levels. And Congress is better equipped than are the State legislatures to play a strong role in fiscal policy. But Congress can preserve and strengthen its powers only by exercising them. Procedures that produce deficits that the Congress itself does not desire invite corrective actions by the Executive.

In the long run there would seem to be no political advantage to either the Executive or the Congress in battling over budgetary prerogatives, particularly if the result is bad budgets. Let peace be declared; let Congress play a greater role in reviewing the budget, and perhaps even become involved in the preparation of the budget. Eight States have established means for doing this, generally through a board most of whose members are legislators. While the mechanisms established in these States would have to be modified for application at the Federal level, perhaps some means could be found that would be mutually satisfactory to Congress and the President.

Involving the Congress in budget preparation should help to accomplish speedier action on budget proposals. Both the President's Budget Message and your Committee's interim report recognize the need to reduce or eliminate the delays that have required increasing use of continuing resolutions and have frustrated efforts to make the budget a really useful management tool. For programs that operate under statutory authority that is renewed annually, enactment of the authorization bills a year in advance, as recommended in your report, would eliminate a major cause of delay in considering the related appropriations bills. Cooperation and consultation between the Executive and Congress in formulating the budget should also help to expedite its enactment.

Your report recognizes the need to provide Congress with better information about the effects of existing and proposed legislation, not only in the current year, but up to 3 to 5 years ahead. This would extend to the Federal Government procedures already established in some States, and should prove highly beneficial, particularly if it is buttressed by your proposal for House and Senate committees on the budget, assisted by nonpartisan, professional staffs. Indeed, the President has already taken useful steps in this direction. Thus, in his most recent budget message, he presents estimates, for individual agencies and in functional detail, of the outlays for fiscal 1975 as well as for fiscal 1973 and 1974.

Finally, I feel that any discussion of better budget procedures would be incomplete without some mention of zero-base budgeting. Traditionally, officials in charge of an established program have not been required to make a case for their entire appropriation request each year. Instead, they have had to justify only the increase they seek above last year's level. Substantial savings could undoubtedly be realized if both the Administration and the Congress treated each appropriation request as if it were for a new program. Such a procedure will undoubtedly be difficult to achieve, not only because it will add heavily to the burdens of budget-making, but also because it will be resisted by those who fear loss of benefits they now enjoy. But this reform is so clearly necessary that I believe we will eventually come to it, and I commend to your attention Senator Brock's bill, S. 40, which provides for zero-base budgeting for all major expenditure programs at least once in every three years.

The thoughts I have expressed today are my own, not necessarily those of the Board of Governors of the Federal Reserve System. And, needless to say, I disclaim any special expertise in regard to Congressional procedures. But procedural questions at times have great substantive significance, and this is one of those occasions. I accepted your invitation because as a concerned

citizen, with some knowledge of economics, I have believed for some time--and recent events have reinforced the belief--that better Congressional control of the budget is absolutely essential to maintain the vitality of our economic and political system.