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Reform of the Federal Budget

Address by  
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I deeply appreciate the privilege of addressing this graduating class, for--despite the difference in our ages--I feel that we have much in common. Both you and I have spent some years in the lively atmosphere of a university. Both you and I have been concerned with problems of economics, finance, and administration. Both you and I, as residents of this fascinating city, have had the opportunity of observing at close range the understanding, selflessness, and compassion that government officials usually bring to their daily tasks; but we have also had the disquieting experience of witnessing some abuses of governmental power.

As graduates of this School of Government and Business Administration, you are embarking on your careers at a moment in history that is fortunate in numerous respects. Our nation is again at peace, the economy is again prospering, the number of good jobs is expanding rapidly, industrial strife is at a minimum, and civil order is returning to our schools and cities. By every reasonable criterion, so it would seem, you can--and should--look forward with confidence to the future of our country and its economy. And yet, if I read the nation's mood correctly, a spirit of unease and even frustration is now widespread.

There are numerous causes of the concern and scepticism with which many Americans, especially young men and women, now view the contemporary scene. But I believe that most of these causes can be captured in two broad generalizations. First, the American people have come to feel that their lives, their fortunes, and their opportunities are increasingly beyond their control, and that they are in large part being shaped for them by their government. Second, more and more Americans have also come to feel that their government lacks either the knowledge or the competence to make good on the promises that it holds out to the people.

It is this simultaneous dependence on government and diminishing confidence in government that is at the heart of the disquiet that so many Americans are experiencing. I wish I could say that this mood will pass quickly, but I cannot do so. Building confidence in social and political institutions is inevitably a long process, and it can only be accomplished if thoughtful citizens are willing to devote their minds and energy to the task.

When I was your age, the problem that particularly concerned university students was the periodic recurrence of economic depressions that wiped out business profits, caused widespread bankruptcy, and brought mass unemployment to wage-earners. This problem no

longer afflicts our society on anything like its earlier scale; and we have made even more marvelous advances in conquering disease, prolonging human life, and reducing the drudgery of physical labor. We have made progress in these fields by diligent application of thought and reason--that is, by identifying each problem, diagnosing its causes, and seeking constructive solutions. It took the best effort of many thoughtful and earnest men to solve the problems that stirred social and political unrest in the past. And it will likewise require much thoughtful and earnest effort to regain the confidence in government which is so essential to our own and our country's future.

In my own profession of economics I have seen large advances in knowledge and also substantial improvements in the application of this knowledge to public policy. I can assure you that those who participated in these developments have found the experience richly rewarding. And it is precisely because you graduates may be able to contribute to the improvement of our political processes that I want to discuss with you today one of the issues that has brought us much trouble and agony in recent years--namely, the need to achieve rational control over the Federal budget.

Those who administer the affairs of government share a common problem with business executives: no private enterprise

and no government can do everything at once. Both must choose among many desirable objectives, and the degree to which their efforts prove successful depends largely on their skill in concentrating available resources on those objectives that matter most. That is the very purpose of budgets. The fact that the Federal budget has in recent years gotten out of control should therefore be a matter of concern to all of us. Indeed, I believe that budgetary reform has become essential to the resurgence of our democracy.

Fortunately, political leaders of every persuasion are by now convinced that Congress must change its procedures if it is to exercise effective control over the Government's domestic and international policies. The old debate between free-spending "liberals" and tight-fisted "conservatives" is dying away. For the most part, liberals as well as conservatives realize that the level of Federal spending, and whether it is financed by taxes or by borrowing, have a powerful effect on jobs, prices, and interest rates.

In the Employment Act of 1946 Congress declared it to be the responsibility of the Federal Government to "promote maximum employment, production, and purchasing power." The authors of this legislation were well aware that a stimulative fiscal policy can

be useful in taking up slack in the economy, and that a restrictive fiscal policy can help to cool an economy that is overheating. Yet, despite the prosperity that our nation has generally experienced since the enactment of that statute, budget deficits have greatly outnumbered surpluses. Experience has thus demonstrated that failure to attend properly to governmental priorities leads to excessive fiscal stimulus, and that this in turn is more apt to produce inflation than jobs.

Recognizing this fact, the Congress is now seeking a way to determine an overall limit on Federal outlays that will be rationally related both to expected revenues and to economic conditions. This is essential not only to achieve overall stabilization objectives, but also to enable Congress to play its expected role in determining national priorities. Early in this session of Congress, Senator Mansfield disclosed that all of the newly elected Senators had written to him and to Senator Scott urging reform of the budgetary process because "Congress has the obligation to set priorities . . . and present procedures do not in fact achieve that aim." Their unanimous conclusion was that the "first step toward establishing priorities has to be setting a ceiling on appropriations and expenditures;" and that unless this is done at an early stage of each session, the Congress is "not really budgeting at all."

The budget that the President recommends to Congress at the beginning of each session is the product of a systematic process aiming to establish an overall limit on outlays and to determine priorities within that limit. This process, however, has no counterpart in the Congress. Instead, Congressional decisions that determine the ultimate shape of the budget are taken by acting separately--or at times by taking no action--on a hundred or more entirely independent measures. It is only after separate **votes** have been taken on housing, education, defense, welfare, and whatnot that we can put the pieces together and discover what kind of a budget has emerged.

Thus, members of Congress now vote for or against cleaner air, for or against better schools, and for or against a host of other good things that Government can help to provide. But they have no opportunity to vote on what total outlays should be, or whether an appropriation for a particular purpose is needed badly enough to raise taxes or to make offsetting reductions in other appropriations. Yet choices of this type are far more important to the electorate as a whole than the single proposals on which Congressional voting takes place.

This fragmented consideration of the elements that make up the budget is largely responsible for an almost uninterrupted succession

of deficits. Since 1960, we have had a deficit in every year except 1969. Some of these deficits have occurred because of efforts to use the Federal budget as a means of stimulating a lagging economy, but for the most part we have allowed deficits to happen without plan or purpose.

Both the Legislative and Executive Branches of the Government have from time to time recognized the need for reform. In 1946, for example, Congress included provisions for better budget control in the Legislative Reorganization Act, but the experiment was abandoned after a brief trial. Expenditure ceilings enacted for fiscal years 1969 and 1970 again proved ineffective since they could be readily adjusted to accommodate increases in spending. These rubbery ceilings did, however, help to prepare the ground for more meaningful reform. When the President called for a rigid limit of \$250 billion on outlays for fiscal 1973, both the House and the Senate accepted the expenditure ceiling. But they were unable to agree on a method for reducing the previously enacted spending authority so that the \$250 billion limit could in fact be realized.

Actions subsequently taken by the President to hold outlays for fiscal 1973 to \$250 billion have been criticized on the ground that impounding of funds enables the Administration to substitute its

priorities for those established by the Congress. Concern over possible usurpation of Congressional prerogatives is entirely understandable. However, this controversy should not divert our attention from the broad political consensus that has already emerged on the need to limit outlays. If the Congress does the job itself, there will be no occasion in the future for the Administration to cut billions out of authorized outlays in order to achieve the overall level of spending that Congress agrees is appropriate.

Although last year's efforts to impose a legislative budget ceiling proved disappointing, they did prompt the Congress to ponder closely the need for budgetary reform and to create a Joint Study Committee on Budget Control.

This Committee has made excellent use of the brief time it has been in existence. In a recently released report, it recommends specific and practical procedures by which Congress could control the level of Federal outlays, the priorities among programs, and the size of any deficit or surplus. Bills to carry out these recommendations have now been introduced in both the House and Senate, with support from all members of the Joint Committee, as well as others in the Congress.

It would seem, therefore, that prospects for meaningful budget reform are now very good, perhaps better than at any time

since the Budget and Accounting Act of 1921. I find the Joint Study Committee's recommendations most encouraging, but I also think that they need to be supplemented with systematic and frequent review of the effectiveness of Federal programs.

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 by zero-base budgeting, that is, by treating each appropriation request as if it were for a new program. Such budgeting will be difficult to achieve, not only because of opposition from those who fear that it would mean loss of benefits they now enjoy, but also because it would add heavily to the burdens of budget-making. It may be, therefore, that Congress will rely initially on procedures that ensure reappraisal of each program only every two or three years. But whatever form it takes, a method must be found for screening out programs whose costs clearly exceed their benefits, while assuring a satisfactory level of performance for programs that contribute significantly to the general welfare.

The day is past--if indeed, it ever really existed--when only the well-to-do need concern themselves with economy in government.

Perhaps there was a time when those who benefited from the status quo could block social reform by inveighing against governmental spending. But today Big Government is no longer a slogan for appealing to some and frightening others. For better or worse, it has become part of our lives. And those who would use government as an instrument of reform have perhaps a larger stake in eliminating wasteful programs than those who resist change.

We have passed the point where new programs can be added to old ones and paid for by heavier borrowing. With the economy expanding vigorously, with inflation persisting stubbornly, with our balance of payments in serious trouble, with two devaluations of the dollar just behind us, we clearly cannot afford to continue large budget deficits. It is sobering to reflect that in spite of the President's determined efforts to hold down Federal spending, the budget he originally presented for this fiscal year called for outlays that exceeded estimated receipts by about \$25 billion.

In principle, taxes can always be raised to pay for more public services, but the resistance to heavier taxation has become enormous. If we count outlays by all governments, State and local as well as Federal, we find an increasingly large fraction of the wealth our citizens produce being devoted to the support of government.

In 1929, total government spending came 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. I believe that most citizens feel that one-third of our national output is quite enough for the tax collector, particularly since the expansion in government outlays has not produced the kind of benefits they have a right to expect.

The key to rebuilding confidence in government is improved performance by government, and budgetary reform can move us powerfully toward this goal. Rational control of the budget by the Congress should improve our economic stabilization policies. It should facilitate judicious choice among governmental activities. It should improve evaluation of governmental performance. It should help us avoid abuses of power--whether they arise in the world of business, or labor, or government itself. And it should restore to the Congress some of the prestige that it has lost as a result of many years of neglect.

I trust that the members of this graduating class will join other citizens throughout the country to see to it that budgetary reform is carried out with the promptness and on the scale that this nation's interests require. Let us always remember that budgets are a means

for promoting national objectives. For those of you who enter public service, better budgeting can offer more meaningful and rewarding careers. For all Americans, it can mean a rejuvenation of spirit as government becomes more responsive to our aspirations and more effective in fulfilling them.