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Statement by

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before the

Committee to Investigate a Balanced Federal Budget

of the

Democratic Research Organization

House of Representatives

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I am pleased to appear before the Committee to Investigate a Balanced Federal Budget of the Democratic Research Organization.

Our country is now confronted with a serious dilemma. Over 7 million people are still unemployed, and many of them have been seeking work for an extended period. More jobs are clearly needed -- not only for workers who are now unemployed, but also for those who will soon be entering the labor force.

In the current inflationary environment, however, expansionist policies of the traditional type cannot be counted on to restore full employment. Recent experience in both our own and other industrial countries suggests that once inflation has become ingrained in the thinking of a nation's businessmen and consumers, highly expansionist monetary and fiscal policies do not have their intended effect. In particular, instead of fostering larger consumer spending, they may intensify inflationary expectations and lead to larger precautionary savings and sluggish consumer buying. The only sound course for fiscal and monetary policy today is one of prudence and moderation.

One of the urgent tasks facing our Nation is to end the Federal deficits that have been a major and persistent source of our inflation. Since 1960, the Federal budget has been in deficit every year but one. The cumulative deficit in the unified budget over the past ten years, including the official estimate for the current fiscal year, comes to $217 billion. If the spending of off-budget agencies and government-sponsored enterprises is taken into account, the aggregate deficit for the ten years amounts to almost $300 billion.

This sorry record of deficit financing means, of course, that we as a people have been unwilling to tax ourselves sufficiently to finance the recent sharp increases of governmental spending. In this bicentennial anniversary of our Nation's independence, we would do well to reflect on the fact that it took all of 186 years for the annual total of Federal expenditures to reach the $100 billion mark. This occurred in fiscal year 1962. Only nine years later, in fiscal 1971, expenditures already exceeded $200 billion. Four years from that date, in fiscal 1975, the $300 billion mark was passed. And unless expenditures are held under a very tight rein, Federal spending will easily exceed the $400 billion level in fiscal 1977.

One aspect of the sharply rising curve of expenditures is that government has been assuming an ever larger role in the economic life of our people. In 1929, Federal expenditures amounted to less than 3 per cent of the dollar value of our total national output, and expenditures at all levels of government -- Federal, state, and local -- amounted to about 10 per cent of the national product. Last year, Federal expenditures alone were about 25 per cent of the dollar value of our national output, and the combined expenditures of all governmental units reached almost 40 per cent.

Much of this increase in the role of government in our economy was made necessary by the rapid growth of population in recent decades, the increasing complexity of modern urban life, the explosion of military technology, and the enlarged responsibilities of the United States in world affairs. However, the trend of Federal spending has also been significantly influenced by strong intellectual currents, both in our country and elsewhere, that keep nourishing the belief that practically all economic and social problems can be solved through the expenditure of public funds.

Where the line can best be drawn between governmental and private use of resources is, in the final analysis, a matter of social or philosophic values and of political judgment. But regardless of how this question is resolved, it should be clear to everyone that Federal spending, whatever its level, must be soundly financed. The large budgetary deficits that have persisted since the mid-sixties -- and in good years as well as bad years -- added little to our capacity to produce, but they added substantially to aggregate monetary demand for goods and services. They were thus largely responsible for the ten-year stretch of accelerating inflation that culminated in the deep recession from which we are now emerging.

The President's budgetary program for the coming fiscal year, taken on an overall basis, would go far toward breaking the spiral of Federal spending and bringing order to our fiscal affairs. The proposed budget would limit the rise of spending in fiscal 1977 to 5-1/2 per cent, compared with an average yearly increase of 12 per cent over the previous five years. The Federal deficit is projected to decline from $76 billion in the current fiscal year to $43 billion in the next, with a balanced budget finally in view by fiscal 1979.

Some well-meaning citizens are now urging the Congress to provide added fiscal stimulus in the interest of speeding the return to full employment. I would warn this group that still larger Federal expenditures and a bigger deficit may fail of their purpose. A deeper deficit would require the Treasury to rely more heavily on credit markets, thus drawing on funds badly needed for homebuilding and for business capital formation. Worse still, a significantly larger deficit would revive fears of accelerating inflation, and weaken the confidence of businessmen and consumers that is essential to the return of general prosperity.

Moderation in monetary policy is also needed to bolster confidence in the economic future. That is why the Federal Reserve has been so diligently seeking to foster a financial climate conducive to a satisfactory recovery, but at the same time to minimize the chances of rekindling inflationary fires. Since last spring, growth rates of the major monetary aggregates -- while varying widely from month to month -- have generally been within the ranges specified by the Federal Reserve in its periodic reports to the Banking Committees of the Congress.

The recent moderate increases in the monetary aggregates have been accompanied, as we expected, by a sharp rise in the turnover of money balances. The rising velocity of money has not, however, been associated with higher rates of interest or developing shortages of credit -- as some critics of Federal Reserve policy had predicted. On the contrary, conditions in financial markets have eased materially. They are more comfortable now than at any time in the past two years, and thus remain favorable to continued economic expansion.

Before closing, I feel bound to say that fiscal and monetary policies alone cannot be expected to achieve our economic goals in the current economic and financial environment. It is not enough to ask what further fiscal stimulation, if any, or what further monetary stimulation, our economy requires. Nor is this even the basic question. We should rather be asking what governmental policies, covering as they might an enormous range of actions and even inactions, are most likely to strengthen the hope and confidence of our people. Let me briefly comment on some policies outside the monetary and fiscal area that, in my judgment, can make a significant contribution to the restoration of full employment and also to correcting the long-run inflationary bias in our economy.

First, governmental efforts are long overdue to encourage improvements in productivity through larger investment in modern plant and equipment.

Second, we should face up to the fact that environmental and safety regulations have in recent years run up costs and prices and have held up industrial construction across our land.

Third, a vigorous search should be made for ways to enhance price competition among our business enterprises.

Fourth, governmental policies that affect labor markets cry out for review.

Finally, we need to think through the appropriate role of a limited incomes policy in the present environment.

Under current conditions, the return to full employment will have to depend rather heavily on structural policies that serve to reinvigorate competition and release the great energies of our people. Such policies are not, however, a substitute for responsible fiscal and monetary actions. In order to strengthen the confidence of people in their own future and the future of our country, we in government will need to work constructively on all three policy fronts -- fiscal, monetary, and structural.

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