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An Appraisal of Our Capabilities for  
Meeting Public Needs:  
The Federal Experience Viewed from the  
Executive Office of the President

It is a pleasure to meet with you today to discuss a few aspects of the national resource allocation process and the role of the "Budget of the United States Government" in that process. I want to talk to you not only from the viewpoint of one who has labored--seemingly endlessly --in the preparation of the budget (and as a former Treasury official who felt the heavy hand of budget constraints on program administration), but also as a citizen who has thought considerably about the budgeting process since laying down the directorship burden. But despite the title of my remarks, let me emphasize that I'm speaking strictly on my own. No one in the Executive office has seen my text.

Some initial questions. Fundamental to any appraisal of our capabilities of meeting national needs is the requirement that we distinguish between desires and needs, that we have an accurate appraisal of the extent of our resources, and that we learn to allocate those resources wisely. The key words are "planning" and "priorities." We live in a world where resources and capabilities are not limitless. We should be used to this by now, but oftentimes we refuse to believe it. We cannot have everything we want--not even we Americans.

We must make choices. We must use priorities to allocate our resources in a practical way, both in terms of the assignment of resources to specific Federal programs and in the implications of resource distribution between the Federal government sector and the rest of the nation's economy.

This process of resource allocation requires that some critical questions--easy to ask but difficult to answer--be answered for every program we examine:

1. Is it a program that the nation really wants, needs, and can afford?
2. Is the Federal sector the proper arena for the program's activity?
3. What share of the total resources available should be assigned to the program in the light of other needs?
4. What commitments of future resources are being made when the decision is made to start the program?

Answering these questions may be easy in a dictatorship. In a democracy, particularly one which has such an elaborate system of checks and balances of power as ours, the necessity for broadly based support means that the process is extra-ordinarily complicated. We get the job done, but the process is cumbersome. "To muddle through" is a well-known British phrase; yet it quite effectively describes the way many American problems of resource allocation are "solved."

The three phases of resource allocation. The process of resource allocation at the Federal Government level occurs essentially in three phases. The first is the year-long (plus) executive task of program examination, resource evaluation, and related tasks which culminate in the formal budget documents presented by the President to the Congress

at the end of the January preceding the new fiscal year beginning July 1. The second phase is the legislative task of examining, altering and authorizing specific programs, providing the obligational authority to incur expenditures, and levying the taxes to pay for them. The third phase is the administrative implementation of the spending authority. The Congress only authorizes; the Executive obligates and spends. The President's powers over the timing of some expenditures and the staffing of executive agencies can, of course, further alter previously assigned priorities--but mostly in a relatively minor way. This third phase is important too--witness the recent outcry again from Capitol Hill that the Executive Branch is withholding spending in direct disobedience of Congressional intent. But today I am primarily concerned with the first two phases of the process.

What is the budget. The conceptual development of the budget has been evolving gradually over many years. Yet only half a dozen years ago it was hard to tell what someone meant when he talked about the budget--or indeed what agencies he included when he talked about the Federal Government. There was the old traditional administrative budget--the Congress' favorite approach. There was the consolidated cash budget with its more comprehensive approach. The national incomes account budget had special appeal to the economist. And we add to these the confusion of new obligational authority forms, capital versus operating budget concepts, and other ways of viewing the financial expectations of the Federal Government for the year ahead.

The growing need to improve the usefulness of the budget to the Congress which has to act upon them and to the public that bears the ultimate responsibility led, in 1967, to the establishment by President John-

son of the "President's Commission on Budget Concepts," to evaluate the various budget approaches. The end result of the efforts of this group was the concept of a unified budget, a framework that has been used for all budget presentations from January 1968 on. Within this framework the budget has become a much more coherent plan for the financial operation of the government in the year ahead. But the budget is even more than this in its time span. The continuing nature of the governmental process requires planning beyond the budgeted fiscal year. President Nixon was the first President to appreciate the importance of publicly released forward planning information. As a result, both the budget document and the President's Economic Report for the last three years have included explicit summaries of 5-year forward planning for both the Federal Government and the Nation, with the implications for the future of the detailed fiscal planning for the budgeted year.

The budget process. The preparation of a new budget is a long process which begins well before the ink is dry on the current documents. Although policy determinations by the President, evaluation of agency proposals, and other exchanges of information go on almost continuously from the beginning to the final editing of the budget documents, there are distinct steps in the process. In early spring each analytical group in the Office of Management and Budget begins to evaluate the programs of each agency and to make cost projections with particular emphasis on modifications to existing programs, innovations, and alternative long range plans. Even before then, program evaluation studies will have provided in-depth appraisals of individual programs, quite independent of the timing of the budget itself.

By summer these initial projections will have been reviewed within the White House, revised, shaped into a preliminary summary, and sub-

mitted to the President for his consideration. During this same period revenue estimates have been prepared by the Treasury after consultation with the Council of Economic Advisers and the budget experts. With both sides of the budget in hand, the President establishes his framework of program and fiscal policy within which the final budget is to be constructed. Each agency is given policy guidelines within which it is told plan its activities. Needless to say, each agency is given a target which it finds unduly restrictive--if not downright unfair. But it is the role of the Budget Director to be "equally unfair to everyone!" During the fall and early winter detailed individual agency plans are prepared and reviewed and finally presented to the President for his final consideration, with agency head appeal to the President if he feels he must. The economic and revenue considerations are simultaneously updated, reviewed, and presented to the President for final policy determination. From these deliberations the formal budget is assembled for submission to Congress and the whole process begins again. At the same time the Congressional committees start their detailed review.

It would be nice to believe that this whole budget process were highly analytical, smoothly determining priorities and costs. Unfortunately, the real world is not that accommodating. It is true that a number of analytical tools have been developed which facilitate both revenue estimating and certain aspects of program evaluation. Use of program analysis has become widespread throughout the government and it has certainly proved useful in evaluating the relative merits of two similar programs--such as two different weapon systems or alternative space programs. When it comes to determining the relative merit of a socially-oriented program such as the Job Corps vs. a new nuclear carrier we have

a long way to go. We face a major challenge in the development of useful yardsticks, particularly for socially-directed programs. The development of good social statistics, measures of social well-being--analogous to the national income accounts for measuring economic well-being--is just one new approach which is still in its infancy.

The heavy hand of the past. At present the budgeting process is largely pragmatic. The pragmatic element will never be eliminated, no matter how complete the stock of analytical tools becomes. There are too many constraints which limit budgeting freedom, quite apart from the effectiveness of program evaluation. The past lays a heavy hand on the whole budget process. Programs initiated years ago make major demands on today's resources. Although the budgetmakers may spend substantial time and energy in devising better ways to meet current problems through alteration and replacement of current programs, they can never start the preparation of a new budget with a clean slate.

The past presents its demands in several ways. First, there are always outstanding appropriation balances to cover contracts and other firm commitments where the Congress has previously provided funding covering more than one year. Obligational authority of this type accounted for 40 percent or more of spending proposed in recent budgets. These long-term authorizations affect much more than just the current year. Funds carried forward to years beyond the budget year from these past actions have averaged 70 percent of annual outlays during the past five years. During this same period the total authority to be carried forward, including the new authority requested in the budget for expenditure in future years, has been, on average, more than 20 percent larger than the proposed current year's expenditure. These carryovers of funds, and the commit-

ments they represent, are a major restraint on budget planning; but they are not the only ones.

Many of the outlays which the Federal Government must make are classified as "relatively uncontrollable," either by virtue of continuing authority or the nature of the expenditure. These include such programs as veterans' pensions, social security benefits, and similar costs almost totally determined by legislation that the Congress will almost never restrict and almost always expand. Other "relatively uncontrollable" items are farm price supports, largely determined by farm productivity, political considerations, and world market conditions, and interest on the public debt, determined by past fiscal policy and, to some extent, dictated by the money and capital markets. Taken as a whole, in any particular year about 70 percent of total proposed spending is relatively uncontrollable--and the percentage is growing.

The fact that 70 percent of the outlays are classed as "relatively uncontrollable" does not mean that the remaining 30 percent is available for discretionary allocation. Much of this is needed to meet the rising costs of existing programs because of the normal growth of the population or the number of eligible recipients of benefit programs, because existing programs are enlarged in accordance with pre-existing plans, or because they grow out of firm contracts to purchase goods and services.

I mentioned earlier that the budgeting process must include planning. What is likely to happen in future years is another constraint. Very rarely are programs initiated, funded, and completed in a single year. Programs, both new and in being, must not only fit within current resources, but within the resources which will be available in the future. Furthermore, some future resources should be left available to fill future needs.

It is instructive to look at the growth of a specific program in the years following its inception to see how today's initiatives can command tomorrow's resources. The Social Security Act of 1935 first provided for retirement benefits in 1940. By 1950 the number of beneficiaries had grown from nothing to 1 3/4 million and the average monthly benefit had reached almost \$44. Total annual expenditures were about \$1 billion--about 2 1/2 percent of the budget. Twenty years later, in 1970, 17 million persons received retirement benefits, the average monthly benefit had grown to \$100, or more than \$18 billion in total expenditures--almost 10 percent of all Federal expenditures. And we have been talking about retirement payments only. Total social security expenditures in 1970 totaled \$31 billion. They had reached over 16 percent of total expenditures. The 1973 budget estimates social security expenditures will reach \$42.5 billion, 17 1/2 percent of the total budget. This assumes that the President's proposal of a 5 percent increase in benefit level is adopted--and there are, of course, indications that Congress is seriously considering a larger increase. And it matters not to say that these expenditures are made out of a self sufficient trust fund and therefore we have no problem. From a strictly economic viewpoint there is no difference. A dollar of Federal spending for a given purpose is the same regardless of the accounting fund structure that records it.

I have gone into detail on this one example because it shows clearly the growth pattern of a major program--a program laudable in its social objectives--to show the limits it places on budget flexibility. Of this massive total of \$42.5 billion, only the proposed 5 percent increase can be considered in the "relatively controllable" category. Given the public desire for increased human resource spending and the



impact of inflation on benefit levels over the past several years, the priority assigned to this increased commitment must be rated very high. Furthermore, if I had to guess, I would expect that the level of expenditure for social security will be higher in 1976 than any current estimates of that level used for analysis now indicate.

As we look ahead. Forward planning is needed not only on the expenditure side of the budget but also on the revenue side. Resources for new Federal programs can be obtained in only three ways:

1. The normal growth of revenues associated with the growth of the economy, insofar as that growth rate is larger than the aggregate growth of current programs.
2. Curtailment or elimination of existing spending programs.
3. Increasing the Federal Government's share of total economic activity, financing it either by increased taxes or borrowing.

All of these sources of funds must be viewed from a standpoint of priorities and the political and economic realities of the time. The revenue may not grow enough faster than current programs to provide resources for new initiatives. Existing programs will, by the very nature of our political process, have priority over new programs merely because they were on the scene first. As long as they are serving a popular purpose they will also have the first stubbornly-held claim on new funds, although, as we demonstrated in 1969 and 1970 with both the military and space programs, when conditions are right, growth can be restrained.

Curtailment or elimination of existing programs typically is politically even more difficult than restraint on program growth. This

alternative will never provide a large source of funds for new initiatives as long as it is easier for both the agencies which make proposals and the Congress which provides the funds, to continue existing (although relatively inefficient) programs, rather than to do the work necessary to establish more useful alternatives. Furthermore, there are limits, and there should be in my judgment, on the share of the total economy which belongs in the Federal sector in a free society. Many people forget that except for the impact of the Vietnam military commitments this share has been remarkably constant for many years. Thus the margin of the available resources for new initiatives after meeting existing commitments each year is exceedingly small.

Despite what I have said about the stability of existing programs, it is possible to achieve changes over time, and this is precisely why forward planning is urgent. The 1971 budget allocated 41 percent of expenditure to human resource needs, 36 percent to national defense, and 23 percent to all other costs. That budget represented the beginning of a trend to reduce the share of total expenditure allocated to national defense and transfer that allocation into human resource needs areas. Both the 1972 budget and the recently submitted budget for 1973 have continued this trend. The most recent allocations assign 45 percent for human resource needs, 32 percent for national defense, and 23 percent for all other needs.

Considering the rigidity of the framework in which budgeting must be done, what, then, are our capabilities for meeting these growing and changing needs? When the 1971 budget was prepared, it was estimated that the nation's output would rise from \$960 billion in 1970 to \$1,360 billion in 1975. Government revenues were expected to rise from \$199

billion to \$266 billion, somewhat less than proportionately because of the effect of tax reductions. With these assumptions and the projected estimates of growth of already existing or publicly budgeted programs, it was estimated that \$22 billion would be available in 1975 to cover new programs initiated during the period. (Parenthetically, if the 1969 tax reduction had followed the lines of the Administration proposal instead of the final Congressional enactment, the margin would have been \$12 billion higher). It was believed at the time that this \$22 billion margin was exceedingly small as compared to the demands likely to be placed on our resources (less than 1 1/2 percent of gross national product)--and events have proved that belief to be correct.

During fiscal 1971 there were several developments which were not foreseen when the budget was prepared. Inflation has been at a higher rate than had been anticipated. Economic activity has been softer than expected. Congressional action did not implement the budget exactly as proposed. The net result when the 1972 budget was prepared a year later was that the margin of \$22 billion for new programs which had been predicted for 1975 had shrunk to \$12 billion. And there was only partial consolation in the fact that the new projections led to an estimate of a \$30 billion margin for 1976 in the new 5-year look.

During fiscal 1972 the Government again chose to reduce the available margin by direct actions and still more of it has eroded because of economic circumstances. The 1976 margin was reduced by \$7 billion through more individual, corporation, and excise tax reductions, transferring those resources back to the private sector. Further reductions resulted from the higher pay scale needed to spur an all-volunteer armed service. These and other factors produced estimates

in the 1973 budget that the remaining 1976 margin is now only \$5 billion and the 1977 margin will be \$23 billion. So if we are reluctant to return to a higher tax structure once again and if we refuse appropriately to refuel inflation, we have essentially already made our spending choices through 1976.

Only a few years ago the phrase "Peace Dividend" received widespread currency. The coiners of this phrase were saying that the resources normally available for social welfare programs which result from the growth of revenues would be substantially supplemented by the drop off of military expenses in Vietnam. The funds which had used to keep the military pipe-lines full could be diverted to many new initiatives. Estimates that as much as \$30 billion a year could be transferred to these new programs were given wide publicity, since this was the Johnson administration's estimate of peak Vietnam spending. Now we have reduced substantially our commitments in Vietnam and are reaching the time when these billions are supposed to make their appearance--but it seems they have mysteriously vanished. But those who forecast the dividend weren't wrong; the funds haven't really vanished. What has happened is that the dividend has already been declared. First, part of the funds have been absorbed by rapid growth of some nondefense programs and by ongoing defense programs--some of which were severely curtailed as long as Vietnam expenditures were growing. Second, funds have been returned to the private sector by means of very substantial tax reductions, where their allocation has become a matter of private judgment rather than public policy.

The actual resource allocations made in each year thus completely change the basis for planning in the next budget cycle. Nevertheless the

planning process is our only tool for insuring the availability of some resources for future, unspecified needs.

There is one last constraint on the budgeting process which must be emphasized. The budget as it is delivered to the Congress is the President's financial plan for the nation. It fully reflects his policies as leader of the nation, his assessment of the nation's needs and resources, and his assessment of political realities. It must also be a plan which he believes can be approved successfully by the Congress, during the second major step in the resource allocation process. It must also be a plan which, in his judgment, will command popular support. As I see it the budget document is, each year, the most definitive overall state paper emanating from the Presidency. It is the detailed statement of executive policy, set forth not in high sounding phrases but in quantitative terms for the nation to see and evaluate.

The Congress plays its role. Now we turn our attention to the second phase of the Federal resource allocation process--the authorization of programs and the appropriation of funds by the Congress. Unfortunately the Congress really has no formal way of looking at the total budget picture as such. After brief meetings between Administration spokesmen and the House and Senate Appropriations Committees to discuss the overall outlook, the Congress examines the budget requests piecemeal, by agency (initially through 13 House subcommittees), and takes up the revenue side separately. Furthermore, with some exceptions, each agency program request is also examined by the substantive committee having jurisdiction over that agency to provide authorization--e.g., the Joint Atomic Energy Committee, the Armed Services Committee, etc.--after which funds are provided in separate bills coming from the Appropriations

Committee. Still further complicating matters is the fact that the whole process is usually duplicated in both houses, often with separate bills leading to the development of a final bill in a joint conference committee of the two houses. The whole process is complicated, it is cumbersome, it is lengthy. It is so lengthy that Congress rarely passes any of the major appropriation bills before the new fiscal year starts --thus adding to confusion and inefficiency.

By its very nature the Congress operates in a different framework than the executive branch of government. The President is most concerned with the nation as a whole and is responsive to a nationwide constituency. Each of our legislators has a local constituency to whom he must pay close heed and whose views and needs he must represent. In many ways the sum is not necessarily the same as the whole. The Congress must resolve its internal differences by discussion and compromise, while the President can, and sometimes does, resolve differences among his subordinates simply by making the decision himself.

Anyone watching from the sidelines certainly gets the impression that the Congress is not as well organized as the Executive Branch when it comes to dealing with the whole process of resource allocation. Perhaps the most serious deficiency is that the Congress has never faced up to the need for its own budget staff, one that is both large enough and skilled enough to analyze the President's budget independently, to provide the Congress with the tools for expressing priority judgments of its own, and for introducing its own viewpoint into planning for the longer range. Furthermore, such a staff could function only if it is directly responsible to a centrally powerful Joint Committee on the Budget--something which does not exist today. Unless the Congress

adopts such a total viewpoint and provides itself with the necessary expert support and centralized responsibility, it can do little beyond accepting the President's plan, tempered by supplemental information gleaned from departmental hearings--much of it over-detailed and extraneous--and modified by its general feeling for public desires.

The President's budget should be examined primarily program by program rather than agency by agency. As programs become more complex and goal oriented, they also increasingly cross the jurisdictional boundaries that Congress has defined for its major committees. These boundaries must somehow be given a flexibility that allows the committee structure to take the same kind of goal-oriented approach. These steps, taken together, would go far toward returning to Congress a more effective voice in deciding how our national needs are to be met.

Choices between alternative programs are difficult at best. When the capability for detailed analysis has important shortcomings, making choices becomes an extremely difficult task. It is therefore not surprising that the Congress, often in desperation, seeks the easy path. It is usually simpler to expand a well-known ongoing program by "throwing more money at it" even when it may be obvious that the program's operation is inefficient. This tends to resolve the responsibility to consider and choose between new alternatives for achieving the same goals even though they may promise to reach those goals at lower cost.

Congress has, it is true, tried very hard to give some recognition to the total scope and size of Federal action. It has made this attempt principally by setting a maximum limit on the public debt, and by imposing total spending limitations. By now, however, it is clear that these have both been largely ineffectual, with extremely minor impact on either

spending level or total debt. Limits on spending have always had to include enough loopholes to take care of uncontrollable and emergency expenditures so that they were truly inoperative, and while the legal debt limit has provided the opportunity for much political "one-upmanship" whenever an increase has been needed, it is not a significant factor in spending restraint.

To an economist neither limit makes sense. Forces already set in motion by the executive in compliance with Congressional authorization have determined spending and borrowing. But the limits aren't just window dressing. As a pragmatist I have to justify their continued use until Congress itself comes up with something better to focus on. The executive branch can do nothing in any immediate crisis when spending is about to break through such an arbitrary ceiling (except to hold back today's spending, which would set up a howl and be unfair) so Congress can point accusingly to executive irresponsibility (even though Congress may have set the stage for the situation in the first place).

Conclusion. I have spent most of my allotted time discussing the two principal phases of the Federal Government resource allocation process and dwelt on some of their major shortcomings because I think that the process itself plays a major role in determining our capabilities for meeting national needs. The more efficiently we use our resources, the more accurately we define priorities, and the more effectively we choose the best way of achieving our goals, the greater is our capability for meeting newly arising needs.

What then is our capability for meeting our public needs? If we view this question strictly in the framework of adding newly defined desires to the presently met needs within the resources now allocated to the Federal sector, the answer is simple. We can't meet these new needs.



However, this is the simple answer to the wrong question. The real question is not do we have the resources to meet the needs, but rather have we accurately identified those particular needs which are important enough to command the use of our resources.

Measured by this standard we do have major unmet needs, and our citizenry is demanding that these needs be met in the Federal sector. A small part of these needs can be met by redirecting currently misspent dollars if we will face up to the facts. But we must not be naive. Demands on the Federal sector are so strong that it seems inevitable that our Federal tax rates will be higher five years from now than they are today. No hopeful candidate for Federal office in 1972, be he Democrat or Republican, can say this but I don't see any practical way to avoid it.

The key words remain priorities and planning. The Executive branch specialists assigned the budget task must continuously strive to improve the budget process to insure that resource allocations are made in accordance with priorities which reflect accurate appraisals of need and cost. Congress must find better ways to handle the authorization and appropriation process to make its voice more effective in determining our national priorities. But planners, budgeters, and legislators cannot work in a vacuum. All of us, as citizens, must bear a major responsibility. We must utilize the political process to inform our government of our priorities. The proper allocation of resources to the right needs will only occur when the priorities assigned in the total budgeting process coincide with the priorities which arise from the consensus of our society, for it is our society which provides the resources.