

Remarks

by

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before the

Joint Congressional Study Committee on Budget Control
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I appreciate the opportunity to appear before you today to add a few words of further encouragement as you undertake the difficult task of finding the most appropriate way for the Congress to reorganize the structure of its Federal Government fiscal policy responsibilities.

My appearance before you today is in the role of a concerned citizen, growing largely out of my experience as a Treasury official, as staff director of President Johnson's Commission on Budget Concepts, and as President Nixon's first Director of the Bureau of the Budget. My views do not express any official position of the Federal Reserve System. Nevertheless, as a Federal Reserve official, it is appropriate for me to note that whatever success the Federal Reserve may be able to achieve in combating inflationary pressures through monetary policy obviously will depend to a large degree on the effective use of fiscal policy.

Even though the Congress fell just short of enactment of a specific Federal spending ceiling last fall, those of us who are concerned about better fiscal control took comfort in the establishment of your Joint Study Committee on Budget Control. As your interim committee report points out succinctly, "... if

Congress is to effectively maintain and carry out its Constitutional power over the purse, it is evident that it must establish an effective permanent mechanism for budget control which will assure a more comprehensive and coordinated review of budget totals and determination of spending priorities and spending goals, together with a determination of the appropriate associated revenue and debt levels." I heartily applaud that statement of your convictions.

Your present endeavor, if successful, could provide the Nation with an outstanding milestone of progress toward Congressional budget reform. I am reminded immediately of the relationship of your objectives to President Johnson's Commission on Budget Concepts, which had its initial meetings just six years ago this month. Rather than aiming at procedures of budget enactment, the Commission on Budget Concepts aimed at spelling out the confusion surrounding the use of many different concepts of the budget--administrative budget, cash budget, national income accounts budget, etc.--and proposed the use of the unified budget which has been adopted by Presidents Johnson and Nixon and by the Congress. That Commission also made great strides, I believe, toward a better definition of the scope of the Federal Government, toward a

better appreciation of a need for greater reliance on accrual accounting, toward a more logical redefinition of Federal securities and the public debt limit (if, indeed, we must have one), and toward better public information on the budget--not only with regard to interim revisions but with regard also to the preparation of longer range budget estimates as have been presented in all three of President Nixon's budget messages.

That Commission, chaired by former Secretary of the Treasury David M. Kennedy, included former Treasury Secretaries Anderson and Fowler, former Budget Director Charles Schultze, Comptroller General Elmer Staats, Paul McCracken, and the chairmen and ranking minority members of both the Senate and House Appropriations Committee, as well as many other distinguished citizens. To me, it is an important thread of continuity that the Joint Study Committee on Budget Control includes both of the living Congressional members of the 1967 Commission on Budget Concepts--Congressman George H. Mahon and Senator Milton R. Young.

Turning specifically to your current inquiry, I think we can all agree that there is much to be done if the

Congress is to reorganize effectively to give much more concentrated attention to overall goals of fiscal policy than in the past. A strengthened determination by the Congress to exercise positive leadership with regard to the whole budget rather than just its individual parts is absolutely essential. I believe the Congress has a mandate from the American people to take timely appropriation action before the fiscal year starts. I also believe it has a mandate to avoid bickering with the Executive branch, which forces the President to take actions he feels he must take in the interest of overall fiscal soundness despite programmatic difficulties and unpleasantness. Undue prolonging of legislative-executive dissension only creates widespread mistrust among the American people in the entire financial structure of the central government and the ability of their elected representatives to get things done.

Your Committee has wisely adopted a list of tentative recommendations which, at this stage of your proceedings, are sufficiently general that I have no reservations about giving them my wholehearted support. I am no great lover of ceilings. They are arbitrary. They are bound to limit flexibility at times when flexibility is needed. Yet I see no alternative to

the provision of overall ceilings, both on expenditures and budget authority, with appropriate targets assigned quite firmly to individual functional categories or, perhaps more practically, to individual departments and agencies. The patient needs discipline--not just another aspirin or a pep talk. I would urge that these targets and ceilings be set far enough in advance of authorizing committee and appropriations committee hearings so that virtually irrevocable decisions are not made before overall agreement is reached. These must be tough ceilings and tough targets. To the extent that they are adjustable later on in the session the adjustments should be held to an absolute minimum and be related only to legitimate changes in circumstances--otherwise the whole system will break down.

No one's crystal ball is perfect, of course. Even with all of its experts, the Executive branch has time after time failed to predict very satisfactorily the rate of spending on many open-ended programs. With all of the best intentions in the world, I doubt if the Congress can do any better. So some allowance must be made for deviation from expenditure targets in their

eventual administration where strict adherence could produce gross inefficiency in program management, either because the flow of spending exceeded a prescribed rate even though authorizations were still available, or, conversely, where a program gets started much more slowly than expected and funds should not be spent just to make poorly designed targets look good. Therefore, one of the most difficult challenges facing the Committee is how to provide for enforcement of ceilings and targets as time progresses. Unless there is adequate enforcement at both ends of Pennsylvania Avenue, whatever system you set up will collapse.

I have urged for some time that if a centralized Congressional committee is assigned direct responsibility for the budget and fiscal policy coordination, that Committee must be adequately staffed in a way that does not now exist. One of the most satisfying experiences in my career as Director of the Bureau of the Budget was the confidence I developed in a highly professional and dedicated staff who were able to provide timely answers to tough questions objectively, with what I believe to be a minimum of bias reflecting the positions of self-interest deeply entrenched in each department and agency

of the Executive branch. A highly professional group, beholden to no one except its own dedication to objectivity of budget policy could do wonders for Congressional budget decision-making. The legislative committees now have expert staffs, of course, but they, like the departments downtown, are strongly oriented to their particular missions--and only secondarily to the overall fiscal health of the Nation.

I applaud, also, your interim report recommendation to broaden the conceptual coverage of your endeavors to include the entire budget regardless of whether appropriated funds are involved or whether the authority to spend derives from other sources. I assume that this includes all trust funds since from a broad economic point of view they are just as much a part of the unified budget as are so-called "federal funds." The American tourist couldn't care less whether the road he is driving on is paid for out of the Highway Trust Fund or the Treasury General Fund.

And, if the new system which you develop works smoothly and effectively, it might be well to consider after a year or two whether we should phase out the public debt limit.

To my way of thinking, the only rationale for a public debt limit at the present time is that it is perhaps the only place in Congressional procedure where the focus of the revenue and expenditure sides of the budget currently comes together for appraisal (except for the brief introductory fiscal policy sessions conducted by the Appropriations Committees). If the Congress can design a system to fulfill the principles outlined in your interim report, you will have locked the barn before the horse is stolen. You will then have substituted fiscal planning for fiscal autopsy.

Fiscal planning is a rocky road under any circumstances. The year-long path to each budget presented by the President to the Congress is strewn with injured feelings, accusations of bad advice, and bureaucratic frustrations and outbursts. The Budget Director isn't called the "Abominable No-Man" for nothing. Yet the President's budget always miraculously appears on time--even complete with appendix detail requested by Congressional committees which should be handled some more efficient way.

If the Executive branch can crank out the budget with reasonable efficiency and in timely fashion, I have no doubt the Congress can do its part too.

I know it won't be easy. I am quite aware of the sensitivity of the prerogatives of individual committees and the understandable pride of their chairmen. A new joint committee set up to perform basic resource allocation and to authorize specific fiscal policy goals can easily become the most powerful committee in the Congress. It is absolutely essential, therefore, that whatever you come up with has the enthusiastic support of the leadership of both parties--in both houses. If that is not forthcoming, you might just as well erect another tombstone in the cemetery of broken hopes along side of the monument to the Legislative Reorganization Act of 1946 and the efforts to achieve reform in the mid-50's.

You are now presented with a rare opportunity. It is an opportunity to restore the Congressional share of overall fiscal responsibility to its rightful place in the balance of governmental powers. But even more importantly, it is an opportunity in the broader sense to build a new confidence among the American people (plus our concerned friends abroad) that Washington does indeed have a strong sense of fiscal responsibility and, furthermore, that it has the methodology as well as the will and determination to accomplish its goals.