

Research Department  
Federal Reserve  
Bank of  
San Francisco

July 26, 1974

## New Procedures, Old Problems

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On July 12, 1974, President Nixon signed into law HR 7130, the Congressional Budget and Impoundment Control Act of 1974. This measure contains the most radical revisions in Congressional budgetary procedures since at least the Budget and Accounting Act of 1921, which set up the Bureau of the Budget—now Office of Management and Budget, or OMB—in the executive branch of the government. The new procedures will shape the budget for fiscal 1977, which will be put together in calendar 1976.

### **New organization**

A joint Congressional Committee on the Budget will be established with a 23 member standing committee from the House of Representatives and a 15 member committee from the Senate. These committees, singly and jointly, will consider as a complete document the budget prepared by OMB and sent up to Capitol Hill by the President. Under present procedures, soon to be supplanted, appropriations for expenditures and receipts for revenues are acted upon by entirely separate committees in each House, commencing with the thirteen House Appropriations subcommittees (expenditures) and the Ways and Means Committee (revenues). Under this scheme of things, the total budget comes together only when these committees have finished their work, so that the final budget surplus or deficit is determined by the independent actions of the concerned committees. The

Joint Committee on the Budget, on the other hand, will approach the total budget at the very outset, with the size of the budget deficit or surplus one of a number of initial determinants of expenditures, revenues and the public debt.

The budget reform bill also provides for a Congressional Budget Office with a director appointed by the Speaker of the House and the President pro tem of the Senate. The staff of the Budget Office will provide information pertaining to the budget, appropriations bills or tax expenditures, as well as receipts, revenue estimates and changing revenue conditions. Up to now, Congressional budget makers have been seriously disadvantaged with respect to the executive branch. The legions of people in OMB and the budgetmaking sections of the various departments and agencies far outnumber the budget manpower now available to Congress.

Although the fiscal year will begin October 1 the President will continue to submit his budget on the 15th day after Congress meets each year. After receiving reports from various committees and the Budget Office, the Budget Committees will complete action on the first budget concurrent resolution on or before May 15. Between May 15 and September 15, Congress will work on the requisite bills and resolutions providing budget and spending authority to fund federal programs. By September 15, Congress—acting through the joint Budget Committee—will

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complete action on the second required concurrent resolution.

## **Concurrent resolution**

The language of the budget reform bill is quite specific as to the nature and content of each concurrent resolution. It must set forth:

1. The appropriate level of total budget outlays and of total new budget authority;
2. An estimate of budget outlays and an appropriate level of new budget authority for each major functional category (federal programs) based upon allocations of the appropriate level of total budget outlays;
3. The amount, if any, of the surplus or deficit in the budget which is appropriate in light of economic conditions and all other relevant factors;
4. The recommended level of Federal revenues and the amount, if any, by which the aggregate level of Federal revenues should be increased or reduced;
5. The appropriate level of the public debt, and the amount, if any, by which the statutory limit on the public debt should be increased or decreased.

Thus, in the concurrent resolutions, both Houses of Congress must come to grips with the amount of money to be spent for all programs, the ordering of priorities among federal programs, and the manner in which revenues will be provided to fund Federal activities. The deliberate decision to run a surplus or deficit in the budget in the "light of

economic conditions" reflects the determination to use the Federal budget as an instrument of fiscal policy and control. If Congress wishes to stimulate the economy, a budget deficit is in order. On the other hand, if restraint upon the economy is appropriate, a budget surplus is called for. Of course, the impact of the budget upon the economy will be no different than under present budgetary procedures, but it will be a matter of deliberate policy rather than a residual resulting from the independent determination of each side of the budget.

## **Same old problems**

The budget-reform package will ensure a better measure of control over expenditures and deficits in fiscal 1977 and beyond, but there remains a legacy of problems for the 1975 and 1976 Federal budgets. Between the post-Korean War low in 1955 and the proposed budget for fiscal 1975, Federal expenditures increased by 344 percent, or at an 8-percent average annual rate. Rather less than half of this increase can be attributed to inflation. The major run-up in Federal expenditures came in a rush in the mid-1960's—and not entirely because of Vietnam.

Transfer payments to persons and grants-in-aid to state and local governments each increased nearly four-fold between fiscal 1966 and fiscal 1975. (Transfer payments include social-security benefits, medicare, aid to the disabled and public

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welfare payments, while grants-in-aid cover a variety of manpower, public welfare and other programs.) With the advent of general revenue sharing with state and local governments in 1973, the growth of grants-in-aid has slowed. But social security benefit payments have continued to rise sharply, from just under \$20 billion in 1965 to more than \$75 billion in 1975.

Unlike social security and unemployment insurance, which are financed out of trust-fund receipts, most of the social programs of the 1960's have been financed out of the general fund of the Treasury. The growth and lack of adequate financing of these programs have been a major factor in the large budget deficits of the past decade. Obviously, even the best and most well-intentioned programs pose budget problems when they are underfunded. In the future, the budget reform procedures will force the consideration of the funding of programs, by bringing program decisions within the scope of a given total level of Federal expenditures. Meanwhile, we remain captive of past decisions to appropriate without accompanying decisions to provide needed funds.

### **Controlling uncontrollables**

At the present time, there is a considerable amount of discussion about cutting Federal spending as a means of fighting inflation. The budget presented to the Congress in January called for total outlays of \$304.4 billion—since modified by

Congressional actions to \$307.3 billion. However, would-be budget cutters must face the fact that not all parts of the budget can be operated upon. Some of the immune expenditures are obvious. Social-security benefits are contractual payments, while interest on the public debt must be paid to maintain the credit of the Treasury.

Open-ended programs and those involving fixed costs, as well as outlays from prior-year contracts and obligations, are regarded as "relatively uncontrollable under present law." This covers 73.5 percent of projected spending in the 1975 budget. "Controllable" outlays include about two-thirds of total defense spending (about \$59 billion) and about \$26 billion of civilian programs. The portion of controllable expenditures in the budget has shrunk from 40.8 percent in 1967 to 26.5 percent in 1975, so that the margin available for change or recession without specific authorizing legislation has lessened.

The budget reform bill will not be of any assistance in current attempts to trim the budget. However, it is specifically designed to avoid the situation which we now face. When funds are to be appropriated, choices must be made among programs contesting for funds, and the money must be provided either through taxes or borrowing. This may eliminate, or at least greatly alleviate the promotion of programs with strong initial appeal but serious cost implications.

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**BANKING DATA—TWELFTH FEDERAL RESERVE DISTRICT**  
 (Dollar amounts in millions)

Selected Assets and Liabilities Large Commercial Banks	Amount Outstanding 7/10/74	Change from 7/3/74	Change from year ago	
			Dollar	Percent
Loans (gross) adjusted and investments*	83,578	+ 69	+9,144	+ 12.28
Loans gross adjusted—	65,625	+ 169	+8,963	+ 15.82
Securities loans	1,177	- 69	+ 10	+ 0.86
Commercial and industrial	23,325	- 24	+3,321	+ 16.60
Real estate	19,558	+ 29	+2,796	+ 16.68
Consumer instalment	9,381	+ 12	+ 810	+ 9.45
U.S. Treasury securities	4,818	- 158	-1,028	- 17.58
Other Securities	13,135	+ 58	+1,209	+ 10.14
Deposits (less cash items)—total*	79,076	+ 234	+6,639	+ 9.17
Demand deposits adjusted	22,575	+ 906	+ 478	+ 2.16
U.S. Government deposits	609	- 628	+ 17	+ 2.87
Time deposits—total*	54,242	- 71	+5,790	+ 11.95
Savings	17,984	- 7	- 232	- 1.27
Other time I.P.C.	27,239	+ 158	+6,291	+ 30.03
State and political subdivisions (Large negotiable CD's)	6,282	- 103	- 342	- 5.16
(Large negotiable CD's)	14,010	+ 90	+3,974	+ 39.60
Weekly Averages of Daily Figures	Week ended 7/10/74	Week ended 7/3/74	Comparable year-ago period	
<b>Member Bank Reserve Position</b>				
Excess Reserves	50	21	-	28
Borrowings	139	247	-	135
Net free (+) / Net borrowed (-)	- 89	- 226	-	163
<b>Federal Funds—Seven Large Banks</b>				
Interbank Federal funds transactions.				
Net purchases (+) / Net sales (-)	+2,091	+1,428		+1,213
Transactions: U.S. securities dealers				
Net loans (+) / Net borrowings (-)	+ 171	+ 172		+ 24

\*Includes items not shown separately.

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