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**NATIONAL PRIORITIES AND THE
BUDGETARY PROCESS**

GOVERNMENT

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HEARINGS

BEFORE THE

SUBCOMMITTEE ON

PRIORITIES AND ECONOMY IN GOVERNMENT

OF THE

JOINT ECONOMIC COMMITTEE

CONGRESS OF THE UNITED STATES

NINETY-THIRD CONGRESS

FIRST SESSION

APRIL 25, 26, AND 27, 1973

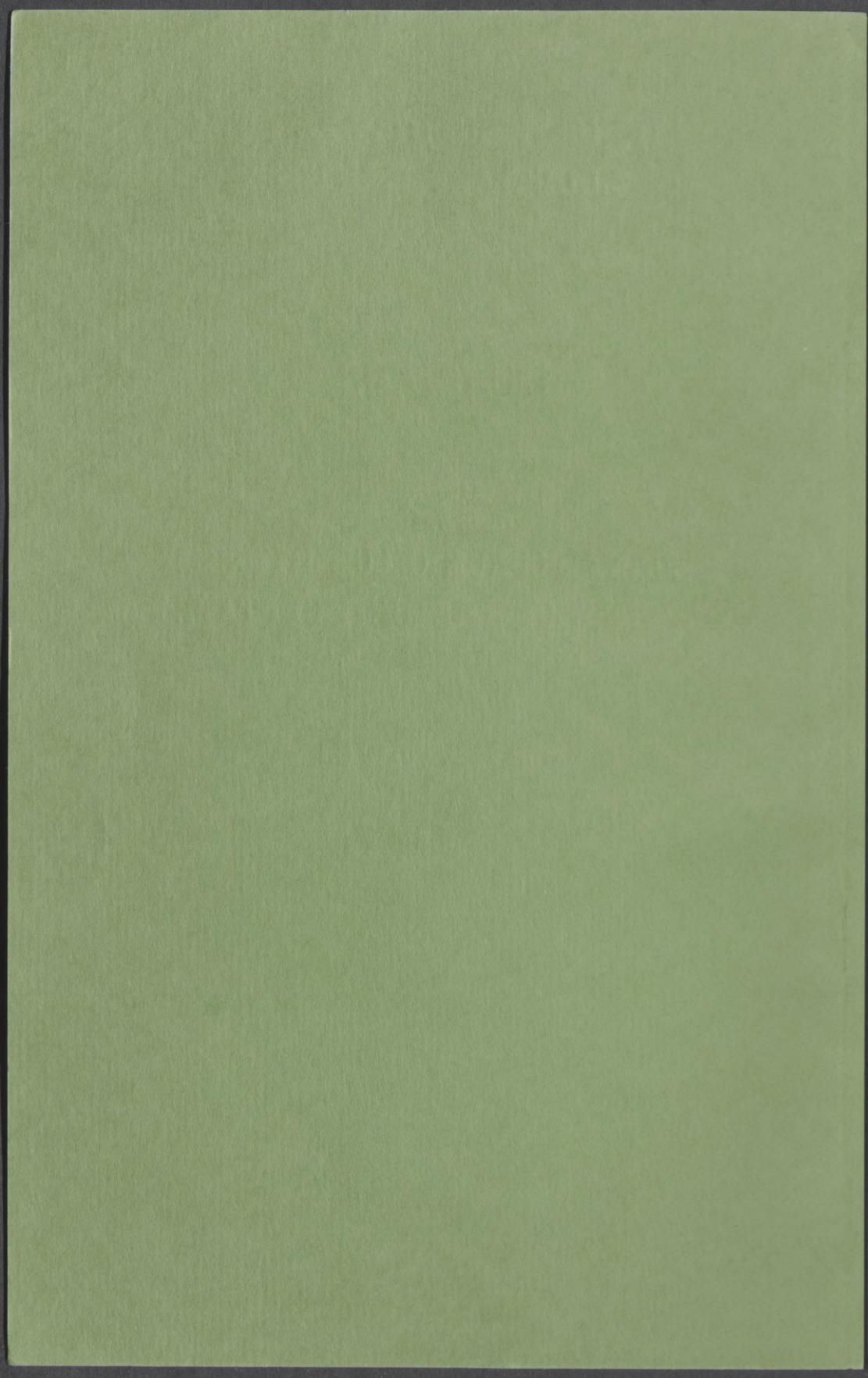
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HEARINGS BEFORE THE SUBCOMMITTEE ON PRIORITIES AND ECONOMY IN GOVERNMENT OF THE JOINT ECONOMIC COMMITTEE CONGRESS OF THE UNITED STATES NINETY-THIRD CONGRESS FIRST SESSION

APRIL 25, 26, AND 27, 1973

Printed for the use of the Joint Economic Committee



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NATIONAL PRIORITIES AND THE
BUDGETARY PROCESS

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NATIONAL PRIORITIES AND THE BUDGETARY PROCESS

WEDNESDAY, APRIL 25, 1973

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON PRIORITIES AND
ECONOMY IN GOVERNMENT OF THE
JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 2 p.m., in room 4221, Dirksen Senate Office Building, Hon. William Proxmire (chairman of the subcommittee) presiding.

Present: Senators Proxmire and Schweiker; and Representative Blackburn.

Also present: Lucy A. Falcone, Richard F. Kaufman, and L. Douglas Lee, professional staff members; Michael J. Runde, administrative assistant; Leslie J. Bander, minority economist; and Walter B. Laessig, minority counsel.

OPENING STATEMENT OF CHAIRMAN PROXMIRE

Chairman PROXMIRE. The subcommittee will come to order.

This afternoon marks the fifth consecutive year that the Subcommittee on Priorities and Economy in Government has conducted hearings on national priorities. We are altering our previous practice somewhat by planning a series of hearings on national priorities. Following the first 3 days of testimony to be received today, Thursday, and Friday of this week, we intend to resume our inquiry during the month of June and again next fall.

These hearings will all be related to a constant theme, namely, that Congress needs to change its procedures in order to play its intended role in the formulation of national priorities. As a first step, we hope to be able to kick off the battle of the fiscal year 1975 budget.

If Congress is to have any real influence on what goes into next year's budget, it is essential that we start now.

In the past, we have been presented with an accomplished fact. The President's budget is put together entirely in secret without any public review or public contribution. It becomes the priorities document and ends up with only minor changes at the end of the process.

If Congress is to regain some of the power of the purse, affect the choice over priorities, and play a significant role in deciding what is spent and how it is spent, Congress must begin its own budget process and begin it now. This is the way the excellent recommendations of the Joint Study Committee on Budget Control can become a reality.

How does the Government really decide how much of the Federal budget goes for defense and how much for civilian programs?

Does Congress play any significant role in this process?

Presently, not until the budget is formally transmitted from the White House in January does Congress even begin to think about these problems. In January it is, for all practical purposes, already too late in influence the new budget.

By the time the budget is released many, if not most, of the decisions about national priorities have been made.

In these hearings, we are concentrating on the fiscal year 1975 budget. We will examine the need for Congress to develop its own procedures and capabilities to analyze economic data and to determine budgetary requirements prior to the submission of the President's budget.

Among the specific questions to be raised in these hearings are the following:

1. What are the kinds of steps Congress can take this year to influence the decisions that will be made about the 1975 budget?
2. Would it be useful and practical for Congress to develop its own budget before the President's budget is issued?
3. Would it be preferable for Congress to develop guidelines rather than a detailed budget to aid in the consideration of the President's requests?
4. In doing its preparatory work, what information and assistance can Congress obtain from OMB and other executive agencies? What kind of information does Congress need to have?
5. Should Congress develop new procedures to consider trade-offs between the military and civilian sides of the budget?

We are happy to welcome as our first witnesses three men who have played and are playing important roles in the discussion of economic policy and national priorities. Arthur M. Okun and Murray Weidenbaum are both professional authors and are well known as economic analysts. Mr. Okun was a member of the Council of Economic Advisers from 1964 to 1968 and was Chairman of the Council from 1968 to 1969. He is presently a senior fellow at the Brookings Institution.

Mr. Weidenbaum, who is presently a professor of economics at Washington University in St. Louis, served as Assistant Secretary of the Treasury from 1969 until August 1971. From 1949 to 1957, he was a fiscal economist in the Bureau of the Budget.

Following the testimony of Mr. Okun and Mr. Weidenbaum, we will hear from Sol M. Linowitz, chairman of the National Urban Coalition. Mr. Linowitz was formerly chairman of the board and the chief executive officer at Xerox International and chairman of the executive committee and general counsel of the Xerox Corporation.

One other note before I ask Mr. Okun to start off. We were informed about an hour ago that former Defense Secretary Melvin Laird had to return to Wisconsin because of an illness in his family and will not be able to appear at our hearings tomorrow. Mr. Laird had already prepared his written testimony, which has been received by the subcommittee, and we hope to reschedule his appearance for another time.

So, Mr. Okun, you can go right ahead, unless Mr. Schweiker has a statement he would like to make. We are delighted to have Senator Schweiker here. I think this is the first subcommittee meeting at which

I have had a chance to preside at which Senator Schweiker has had a chance to be present and we are delighted that he has joined our committee and subcommittee.

Senator SCHWEIKER. I thank you, Mr. Chairman. I do want to say that I join with you in concern for Congress reasserting itself in the role of budget-making, and I believe a very important part of it is to set up mechanical and legal and fiscal procedures that Congress can follow as a matter of course to regain that initiative and regain that approach that I am sure was originally intended. So I think that the hearings can be very useful to pointing the way that Congress should go to not just set spending ceilings and limits but to regain fiscal responsibility in our operations. I think that will have a long way in meeting some of the constitutional problems that have been raised in recent months because we have not had these procedures in the past. So I am pleased to be here and join in the hearings today.

Chairman PROXMIRE. Thank you very much, Senator Schweiker.

Mr. Okun, may I say in the past I have tried to persuade witnesses to confine their verbal remarks, however long the prepared statement may be, to 10 minutes. We would appreciate it if you could do something like that today. You are very experienced and fine witnesses, and take whatever time you want. Your statement will be printed in full in the record and I would appreciate it, however, if you would make your remarks about 10 minutes long.

STATEMENT OF ARTHUR M. OKUN, SENIOR FELLOW, THE BROOKINGS INSTITUTION¹

Mr. OKUN. In calling these hearings, Mr. Chairman, you have posed an inspired and intriguing question: How can the Congress contribute to the formulation of the President's budget program instead of merely responding to it as an accomplished fact? I believe that the Congress can and should make such a contribution.

In my judgment, it should be an integrated part of comprehensive reforms establishing procedures for improved fiscal control by the Congress. In particular, I would stress the urgency of implementing the recommendations of the Joint Study Committee on Budget Control, including the establishment of budget committees in the Senate and the House. Those committees should serve as the main forum for looking ahead to future budgets as well as for coordinating action on the current budget.

If a provisional evaluation of the fiscal 1975 budget is begun promptly and released in the fall, it can be the first installment of a careful and continuing legislative monitoring of that budget that will insure efficient and effective fiscal policy. Assuming that the budget committees are formed promptly—as they should be—the work done on the fiscal 1975 budget during the current session could give the committees an important head start for the task of setting forth explicit limitations for action by May 1, 1974. I see three main purposes and advantages in an “early-bird” procedure—(1) communicating to the administration information about Congress' attitudes toward the shape and size of the budget for the year ahead; (2) focusing public

¹ The views expressed are my own and are not necessarily those of the officers, trustees, or other staff members of the Brookings Institution.

opinion at an early date on the issues that will be raised by the President's budget; and (3) reinforcing the discipline on the Congress to think ahead in making its current choices. None of these objectives requires—or, indeed, would be furthered—by a detailed line-by-line development of a congressional budget program. Rather, they require a set of guidelines—a sketch rather than a blueprint—of the budget for the year ahead.

In drawing this sketch, the committees should build on the preview information presented in the President's Budget for fiscal year 1974 regarding the broad outline of his plans for the expenditure program of fiscal 1975. The administration should be congratulated for the specific information about its future plans presented in the section entitled "The Budget Outlook for 1975 and Beyond."² This is a valuable innovation. The Office of Management and Budget should be able to provide somewhat more detailed backup material underlying the estimates for broad functional and agency categories.³

Second, the committees should take full account of all congressional actions this year insofar as they affect expenditures for fiscal 1975. In any given fiscal year, most budget outlays are determined by decisions made in previous years. Congress is now making decisions that will influence the 1975 budget. Monitoring and totalling these impacts during the course of the current session should help to keep the legislative eyes properly focused on the longer run horizon.

Third, one of the key objectives should be to make room for new legislative initiatives to achieve urgent social goals by holding down expenditures on those existing programs which are lower on the priority list. In terms of my personal priorities as an informed citizen, the President's budget for this fiscal year is more deficient in what it does not do than in what it does. While some of the cuts it proposes are undesirable, in my judgment, many are appropriate and constructive. What is most troubling, however, is the absence of any provision for new efforts that deserve top priority—to reform a welfare program which is unanimously recognized as highly ineffective and inequitable; to meet a national health need of major proportions; to capitalize on an economic environment in which the promise and potential of manpower programs are greatly enhanced; to promote scientific and technological research that would increase energy supplies.

The first step in setting priorities should accentuate the positive. We should decide what we as a nation must do, what we cannot afford to neglect. If we take the positive initiatives, and meanwhile institute procedures to guarantee that we do not overspend our means, we will develop the discipline to cut back in less urgent areas, to prune down old programs which may have outlived their urgency, and to give revenue-raising tax reform the fundamental consideration it deserves. Neither the budget committees nor any other agency of the Congress could hope to prescribe or predict what major new legislation the Congress will enact next year. But they can and should attempt to review and summarize the competing claims for major new Federal initiatives; in so doing, they would be encouraged to provide an ample reserve fund to meet urgent needs by new programs.

Third, the committees could begin this year to appraise prospective and possible needs for fiscal restraint or fiscal stimulus to help stabilize

² See pp. 38-46.

³ See pp. 40 and 41.

the economy during the fiscal year 1975. But they can only begin, let me emphasize. Whether the fiscal 1975 budget ought to be more restrictive or more stimulative than that of fiscal 1974 will depend on the vigor of consumption and investment demand, the stance of monetary policy, the success of price-wage policy. These are fundamentally unpredictable more than a year in advance. A budget preview can finesse part of that uncertainty by framing the fiscal outlook in terms of the full employment budget—rather than setting any specific surplus or deficit target for the actual budget. At least then, a sudden upsurge in economic activity will not encourage more spending and an unexpected weakening will not point to destabilizing belt tightening. But even the full employment budget must be flexible and responsive. If the economy is particularly strong, a substantial full employment surplus is in order; while if it is weak, a deficit in the full employment budget is desirable.

Budgetary control must be a continuing operation that makes fiscal policy responsive to the needs of the economy; it must not be frozen into position prematurely. The purpose of budgetary control is to make fiscal policy proper, not to make it tighter or looser on average. From my reading of history, I see no evidence of a general tendency by the Congress to spend “uncontrollably” or to create inflationary pressures through fiscal policy. Only 3 years of the past 20 have had overly stimulative fiscal policies—full employment deficits at a time that the economy was overheating—and these were all during the height of the Vietnam war. In other cases, the budget drifted through lack of control and remained too tight when the economy weakened. Surely in retrospect, Congress should have gone further than it did in fiscal 1970 and fiscal 1971 to help bolster a weak economy through additional fiscal stimulus. The ultimate aim is to adjust fiscal policy deliberately and decisively so that the economic impact of the total budget promotes sustainable prosperity while the social impact of the component programs promotes efficiency and equity.

In my judgment, the importance of the new techniques of fiscal control extends far beyond their contribution to an improved allocation of public resources or an improved management of economic stabilization. It goes to the very heart of the relations between the legislative and the executive branches of our Federal Government. To put it candidly, I believe the most important potential benefit of congressional budgetary control would be the elimination of any rationale for the wholesale impoundment by the President of appropriated funds. In the present situation, the President has an uncontestable case that excessive budgetary expenditures would endanger our national economic health. That case is the foundation for a controversial—and, in my personal judgment, highly undesirable—redirection of priorities within the Federal budget. If the President is to take on the responsibility for keeping the size of the budget on track, he is bound to get undue power to control the shape of the budget. He will decide where and what to cut. The converse, of course, is that the Congress must take a full share of responsibility to control the size in order to block executive incursions designed to change the shape. Both the Congress and the President should clearly recognize that, once effective procedures on budgetary totals are instituted, there could be no excuse for and no toleration of extraordinary reliance on executive discretion to alter duly enacted programs.

Overall economic management is now a three-legged stool, resting on fiscal policy, monetary policy, and price-wage policy. The recent report of the Joint Study Committee on Budget Control and the current hearings before this subcommittee are cause for optimism that we are making a good beginning in strengthening the fiscal leg of the stool. But recent events relating to price-wage policy are disconcerting. Just a few weeks ago, the Congress seemed to be taking seriously the possibility of rolling back prices to levels of early January—a thoroughly unmanageable and excessively ambitious project. Fortunately, the unfeasibility of that project became clear to the majority. But now the Congress seems about to issue an implicit endorsement of the administration's phase III program in its present inadequate and ineffective forms. If I may be permitted a gross caricature, I see a little resemblance to the act of a magician who promises to unscramble omelettes but then cannot even dispose of a rotten egg. Seriously, I would stress that advance planning for fiscal policy should be accompanied in other forums of the Congress by greater attention to the longrun requirements for appropriate price-wage policy and for the maintenance of a flexible and responsive monetary policy.

In conclusion, I would hope that the budget committees are promptly constituted and that one of their first public reports would be a sketch of the desirable shape and tentative size of the budget for fiscal year 1975. Ideally, that report should be approved in a concurrent resolution of the Senate and the House. But even if the schedule does not permit that, such a report issued in October or November as the considered view of a prestigious pair of new committees would contribute importantly to the objectives I have outlined above.

Thank you.

Chairman PROXMIRE. Thank you, Mr. Okun.

Mr. Weidenbaum, please proceed.

**STATEMENT OF MURRAY L. WEIDENBAUM, MALLINCKRODT
DISTINGUISHED UNIVERSITY PROFESSOR, WASHINGTON UNI-
VERSITY, ST. LOUIS**

Mr. WEIDENBAUM. Thank you, Mr. Chairman and Senator Schweiker. It is a pleasure to appear once again before the Joint Economic Committee.

Chairman PROXMIRE. May I say, Mr. Weidenbaum, you have some tables in your prepared statement and the entire prepared statement will be printed in the record including the tables at the end of your oral statement.

Mr. WEIDENBAUM. Thank you.

I have examined the priorities implied in the official projections of Federal spending in the fiscal year 1975 and I regret to report that the results are very disappointing. This statement focuses on 1975 because that is the first year in which policymakers really can make significant changes. Outlays for 1974, in contrast, will mainly reflect decisions which already have been made.

To deal with the underlying budget problem, I will be offering a 10-point program for changing the situation. I urge avoiding a search for villains. The budget situation facing us is the result of many actions taken over a number of years, by many Presidents and many

Congresses. The public good would be better served by turning our attention to solving the substantive problems, rather than trying to pin the tail on the donkey—or the elephant.

Let us begin by seeing what priorities are imbedded in the administration's spending estimates for 1975. As in earlier budget documents there is no formal statement of priorities; hence, we must infer them. Let us recall that the January budget shows a \$19.3 billion rise in outlays from fiscal year 1974 to 1975. Table 1 in my prepared statement indicates how that \$19.3 billion of added spending is allocated among the major purposes and functions of Government. I utilized the Government-wide planning budget introduced in the budget analysis that I presented to the committee last year.

From table 1 you will see that approximately one-half of the projected increase in Federal spending in 1975 occurs in what I call public welfare, mainly social security and medicare.

The largest part of the remainder is devoted to national security, virtually all of it for direct military programs. Rather than choosing between warfare and welfare, we are getting more of both.

In striking contrast, the programs which contribute to the economic development of the Nation such as education and manpower, receive a much smaller share of the rising outlays. Upon closer inspection, it turns out that most of that modest increase is illusory; it merely represents a reduced level of receipts from offshore oil leases.

Another way of looking at future trends in Federal spending is to examine the carryover of unexpended balances—the funds available without further congressional action. Table 2 in my prepared statement presents the available data. Again, it is in the same two areas—the military and the trust funds, which mainly finance the social insurance programs—in which the buildup takes place. While civilian programs financed through Federal funds show a rise of only \$2.4 billion in the carryover of funds from 1972 to 1975, the military is projected to rise by \$8.3 billion and the trust funds by \$33.8 billion.

I do not quarrel with the numbers. Given the generous increases recently enacted for the major transfer payment programs, the figures shown are quite reasonable. In fact, the unprecedented detail on the year 1975, after the budget year, is a welcome addition.

But as a citizen-taxpayer I am concerned by two things: The first is that these transfer payments—by design or default—have become the dominant priority in the Federal budget. Personally, I prefer less of an "income strategy" and more of an "investment strategy" in our human resource programs, thus contributing to increasing the productivity of our people. The second point of concern is that military programs do not seem to have undergone the same degree of belt tightening that has occurred in the controllable civilian programs, although substantial savings are reported.

Whether you hold a similar or different set of values and concerns, I need to emphasize how difficult it is under present arrangements for the Congress to make rational choices among alternative government spending programs. The crucial problem is not that the executive has imposed its priorities on the budget. Rather, it is that Congress lacks an effective mechanism for asserting its own priorities.

On many domestic policies the President and the Congress seem to be at an impasse. In the long run this deadlock will be broken. One way is through a plethora of congressional investigations of executive activities which will weaken the President's position. This may be justified on political or other grounds but it will do little to improve Government decisionmaking on economic and financial matters.

A more positive approach, what I call the high road, is to strengthen the operations of the Congress so that it can take forceful stands and follow through on them.

When we do examine the congressional budget process over the years, we find that the present procedures have not always been with us. Change does occur. There has been an ebb and flow from centralized to fragmented decisionmaking and back again. We may have reached the point now where the tide of congressional power is about to flow again.

I have no simple panacea to offer. I would like to present a package of 10 changes to help modernize the congressional budget process. Most of these proposals are taken from the recent study, "Matching Needs and Resources," published by the American Enterprise Institute. As senior author, I, of course, take full responsibility. These are the 10 proposals:

1. Streamline the budget. It is unreasonable to expect the Congress to make rational choices among the many hundreds of programs, bureaus, agencies, and activities which it must review each year during the budget process. The basic nature of Federal undertakings must be streamlined. Revenue sharing points the way. The Federal Government is not suited for the role of "doer" or administrative manager of the entire vast array of undertakings that it finances in our society. Its great advantage is, rather, its ability to serve as a policy formulator, financier, and overseer over the public sector.

But one shortcoming is overriding—the lack of any mechanism for relating the numerous actions on specific pieces of legislation—budget and other—to the central issues of budget policy and, hence national priorities. The use of a Government-wide planning budget would help to shift the focus of attention from the bits and pieces to the major choices involved in enacting the budget. Such a reworking of the budget submissions would permit decisionmakers to compare alternative programs of different agencies which contribute to achieving a given national goal. In the absence of an automatic market mechanism, such an approach would introduce a healthy degree of competition among Government spending programs.

2. Reorganize the appropriations committees. It would be a great advantage if the subcommittee structure of the appropriations committees were reorganized to conform more closely to program lines. The possibility of an effective, coordinated review by Congress now is undermined by a subcommittee structure patterned after antiquated department lines. But far more basic is the need to strengthen the role of the House Appropriations Committee vis-avis its subcommittees. The parent committee often resembles a loose confederacy of autonomous components. If the overall power of the committee is strengthened, it will become even more important to make the subcommittees

more responsive to the will and broader outlook of the full committee and, thus, of the Congress itself.

3. Revise the congressional calendar. The Congress cannot, and should not be expected to, complete work on the whole gamut of budget issues in the short period from February to June. It is not surprising that many appropriations bills are not passed until well after the new fiscal year begins. The basic solution, of course, is to require that either the budget be submitted earlier or the fiscal year started later.

Meanwhile, the Congress should alter its own budget calendar. Before the budget is submitted, the committees should turn their attention to the basic economic, fiscal, and program policies that underlie the item-by-item decisions that are to come.

Related to that is point 4: Enhance the role of the Economic Report. The Economic Report is now submerged by the budget message. If the report were submitted in early fall instead of January, then the Congress—prior to receiving the budget—would have a vehicle for exploring some of the basic issues it inevitably will have to address in the next session. Rather than being an after-the-fact rationalization of budget recommendations and decisions, the Economic Report would serve as a means of setting out some common intellectual ground for the program debates to follow. Quite clearly, the Joint Economic Committee would play a far more vital and direct role in the determination of budget priorities.

5. Limit annual authorizations. Many programs each year go through a double-barrelled process requiring, first, an authorization stating an amount to be appropriated and, second, the actual appropriation of funds. There are advantages of periodic authorization, such as wider participation in the Congress in decisionmaking, and this may offset the delays and duplications that are the side effects, but the present practices badly need to be modified.

These authorizations should be substantially limited. They should be enacted before hearings on the budget begin. They should set forth budget policy, not dollar floors or ceilings. That is the province of the appropriations committee. They should be enacted for a period of several years to provide a broader framework than the annual appropriation hearings rather than merely duplicating them.

6. Control spending by a special bill for appropriation increases. In addition to single spending ceiling to correct the fragmentation of budget authority, the Congress should try a new approach—a special bill for increases in total budget authority. In this approach, each subcommittee should be limited to the total amount appropriated in the previous year for activities under its jurisdiction, plus an inflation factor. All increases beyond that should be contained in a special appropriations bill sponsored by the chairman of the full appropriations committee.

Reallocations of funding among individual programs should be made freely by each subcommittee within the limits of the amounts established for it. But increases in new budget authority from the previous year's level should be combined into one special bill. This would help to coordinate the existing use of numerous appropriation bills and a single spending ceiling.

7. Reduce backdoor financing. At the present time, many Federal programs escape the annual appropriations process entirely—trust funds, permanent appropriations, as well as authorizations to spend public debt receipts. The latter may be among the most undesirable because, typically, they are included in the same bill that authorizes the program. The key difference from appropriations is not in the availability of funds but in bypassing the appropriations committee. These special pipelines to the Treasury should be eliminated.

8. The “fiscal sacred cows” could be eliminated. By that, I mean items that are included in the appropriations bills but cannot be effectively controlled because of basic statutes. The highway program is a case in point. These sacred cows should be put to pasture by eliminating the legislated barriers to effective congressional and Presidential control through the budget process. Otherwise, much of the annual budget review will continue to be a time-consuming but ineffective ritual, a futile game of “spin the budget.”

9. Use a “budget scorecard.” The Congress should use a budget scorecard to show the cumulative effects of individual budget decisions on the total. The scorecard would provide an up-to-date recording of the impact of congressional action on the overall fiscal picture—thus, a Congressman would be getting the kind of current information given to every football and baseball fan. In the case of the budget, neither the fans nor the players knows who is winning or literally who’s is on first.

My tenth recommendation is: Set up an office of program analysis and evaluation in the GAO, with a nonpartisan staff providing objective, analytical studies of program costs, benefits, and alternatives. Evaluative research is now a virtual monopoly of the executive branch. If Congress is ever to oversee Executive administration effectively, then it needs professional assistance.

To sum up, I believe that these changes will strengthen the hand of the Congress, but they are not a sure cure. There is a more basic and overriding need. The fundamental requirement for enhancing the congressional power of the purse is for its members to demonstrate that they possess the ability to make choices among alternatives, each of which seems attractive in its own right.

Identifying areas of greater priority to which more spending should be devoted is a relatively simple or at least pleasant matter. It is the other side of the coin that is at the heart of reordering priorities—the relatively distasteful task of selecting those areas of lower priority to which lesser proportions of our resources should be devoted. But, gentlemen, making difficult decisions is the basic function of management.

Thank you.

[The prepared statement of Mr. Weidenbaum follows:]

PREPARED STATEMENT OF MURRAY L. WEIDENBAUM

FEDERAL PRIORITIES AND CONGRESSIONAL REFORM: HOW TO RESOLVE THE BATTLE OF THE BUDGET

I have examined the priorities implied in the official projections of federal spending in the fiscal year 1975 and I regret to report that the results are very disappointing. This statement focuses on 1975 because that is the first year in

which policy makers really can make significant changes. Outlays for 1974, in contrast, will mainly reflect decisions which already have been made.

To deal with the underlying budget problem, I will be offering a 10-point program for changing the situation. I urge avoiding a search for villains. The budget situation facing us is the result of many actions taken over a number of years, by many Presidents and many Congresses. The public good would be better served by turning our attention to solving the substantive problems, rather than trying to pin the tail on the donkey—or the elephant.

THE PRIORITIES FOR 1975

Let us begin by seeing what priorities are imbedded in the Administration's spending estimates for 1975. As in earlier budget documents, there is no formal statement of priorities; hence we must infer them. Let us recall that the January budget shows a \$19.3 billion rise in outlays from fiscal year 1974 to 1975. Table I indicates how that \$19.3 billion of added spending is allocated among the major purposes and functions of government. As you will not, I utilize the Government-wide Planning Budget categories introduced in the budget analysis that we presented to the Committee last year.¹

Approximately one-half of the projected increase in federal spending in 1975 occurs in the Public Welfare category, mainly social security and medicare payments. The largest part of the remainder is devoted to National Security, virtually all of it for direct military programs. Rather than choosing between warfare and welfare, we are getting more of both.

TABLE 1.—*Implied priorities in the 1975 budget*

<i>Category</i>	<i>Increase in outlays (billions)</i>
1. Public welfare:	
Income security.....	\$5.6
Health.....	3.5
Veterans benefits and services.....	.2
Subtotal.....	9.3
2. National security:	
National defense.....	4.4
Space research and technology.....	.7
International affairs and finance.....	0
Subtotal.....	4.5
3. Economic development:	
Natural resources and environment.....	1.9
Commerce and transportation.....	.8
Community development and housing.....	.5
Agriculture and rural development.....	.2
Education and manpower.....	.1
Subtotal.....	3.5
4. General government:	
Allowances.....	1.5
Interest.....	.7
General government.....	.4
General revenue sharing.....	.2
Undistributed intragovernmental transactions.....	-.8
Subtotal.....	2.0
Total.....	19.3

In striking contrast, the programs which contribute to the Economic Development of the nation such as education and manpower, receive a much smaller

¹ Murray L. Weidenbaum and Dan Larkins, *The Federal Budget for 1973*, Washington, American Enterprise Institute for Public Policy Research, 1972, 86 pp.

share of the rising outlays. Upon closer inspection, it turns out that most of that modest increase is illusory; it merely represents a reduced level of receipts from offshore oil leases (which count as a negative expenditure in the category of "natural resources and environment").

A more technical, but also useful, way of looking at future trends in federal spending is to examine the carryover of unexpended balances—the funds available without further Congressional action. Table 2 presents the available data. Again, it is in the same two areas—the military and the trust funds (which mainly finance the social insurance programs)—in which the buildup takes place. While civilian programs financed through federal funds show a rise of only \$2.4 billion in the carryover of funds from 1972 to 1975, the military is projected to rise by \$8.3 billion and the trust funds by \$33.8 billion.

TABLE 2.—CARRYOVER BALANCES OF BUDGET AUTHORITY
[Amounts available at start of fiscal year; in billions of dollars]

Category	1972	1973	1974	1975
Defense-military.....	36.0	35.9	39.2	44.3
Trust funds.....	116.7	125.1	134.9	150.5
All other.....	108.5	108.6	124.4	110.9
Total.....	261.2	269.6	298.5	305.7

My quarrel is not with the actual presentation of these projections. Given the generous increases recently enacted for the major transfer payment programs, the figures shown are quite reasonable. In fact, the unprecedented detail on the year 1975 after the budget year is a welcome addition to our analytical toolkit.

Rather, as an individual citizen-taxpayer, I am concerned by two things: The first is that these transfer payments—by design or default—have become the dominant priority in the federal budget. Personally, I prefer less of an "income strategy" and more of an "investment strategy" in our human resource programs, thus contributing to increasing the productivity of our people. The second point of concern is that military programs do not seem to have undergone the same degree of belt-tightening that has occurred in the controllable civilian programs, although substantial savings have been made through base closings and manpower reductions.

But whether you hold a similar or different set of values and concerns, I need to emphasize how difficult it is under present arrangements for the Congress to make rational choices among alternative government spending programs. The crucial problem is not that the executive has imposed its priorities on the budget. Rather, it is that Congress lacks an effective mechanism for asserting its own priorities.

There is now a log jam in the process of determining government policy in the United States. On budget and many other domestic policies, the President and the Congress are close to an impasse. In the long run, this deadlock is likely to be broken. One possibility is that a plethora of congressional investigations of executive branch activities will weaken the President's position in relation to the Congress. Given the underlying situation, that might be attractive on political or other grounds, but it would do little to improve governmental decision making on economic and financial matters. A more positive approach—what I like to call the high road—would be to strengthen the internal operations of the Congress so that forceful stands can be taken and followed through.

When we examine the congressional budget process in its historical context, we find that the present procedures have not always been with us; change is possible and does occur. The Congress repeatedly has revised the manner in which it organizes and takes action on budgetary matters. In a sense, there has been an ebb and flow from centralization to fragmented decision making and back again. We may have reached a point where the tide of Congressional power is about to flow once again.

STRENGTHENING THE CONGRESS

I have no single or simple panacea to offer. However, I would like to present a package of ten changes which in total would help to modernize the congressional budget process and thus increase the possibility of more effective legislative action on financial and economic matters. Most of these proposals are taken

from the recent study, *Matching Needs and Resources*, published by the American Enterprise Institute for Public Policy Research.² Many contributed to the research, but I should like to cite Professor Philip N. Marcus as having made the major contribution to this portion of the study. As the senior author, I of course take full personal responsibility for the results.

These are the ten proposals to strengthen the way in which Congress makes its decisions on the budget:

1. Streamline the budget

It is unreasonable to expect the Congress to make rational choices among the many hundreds of programs, bureaus, agencies, and activities which it must review each year during the budget process. The basic nature of federal undertakings must be streamlined. Revenue sharing, both general and special, points the way to achieving national objectives with less federal overhead. The federal government is not suited for the role of "doer" or administrative manager of the entire vast array of undertakings that it finances in our society. Its great advantage is, rather, its ability to serve as a policy formulation, financier, and overseer over the public sector of the American economy. The federal government also can use the tax system to provide assistance to private, voluntary segments of our society whose activities promote the national interest without taking on the responsibility for running their activities.

Our shortcoming is overriding the lack of any mechanism for relating the numerous actions on specific pieces of legislation to the central issues of budget policy and national priorities. The use of a government-wide Planning Budget would help to shift the focus of attention from the bits and pieces to the major choices involved in enacting the budget. Such a reworking of the budget submissions would permit decision-makers to compare alternative programs of different agencies which contribute to achieving a given national goal. In the absence of an automatic market mechanism, such an approach would introduce a healthy degree of competition among government spending programs.

2. Reorganize the appropriations committees

It would be a great advantage if the subcommittee structure of the appropriations committees were reorganized to conform more closely to program lines. The possibility of an effective, coordinated review by Congress now is undermined by a subcommittee structure patterned after department and agency lines that have been, or are in the process of being, abandoned. But far more basic is the need to strengthen the role of the House Appropriations Committee vis-a-vis its individual subcommittees. At the present time, the parent committee often resembles a loose confederacy of autonomous components. If the overall power of the committee is strengthened, it will become even more important to make the subcommittees more responsive to the will and broader outlook of the full committee and thus of the Congress itself.

3. Revise the congressional calendar

The Congress cannot, and should not be expected to, complete work on the whole gamut of budget issues in the short period from February to June. It is not surprising that many appropriations bills are not passed until well after the new fiscal year begins. The basic solution, of course, is to require that either the budget be submitted earlier or the fiscal year started later.

In the absence of this change, the Congress should alter its own budget calendar. Hence, prior to the President's submission of the budget, the committees should turn their attention to the basic economic, fiscal, and program policies that underlie the item-by-item decisions that are to come. There is parallel in the executive branch: Office of Management and Budget examiners often use lulls in the budget preparation process for detailed examination and evaluation of specific programs that cannot be performed in the rush of the budget season.

4. Enhance the role of the Economic Report

The President's Economic Report is now submerged by the budget message and does not serve the central purposes for which it was intended. If the Report were submitted in early Fall instead of January, then Congress—prior to receiving the budget—would have a vehicle for exploring some of the basic

² Murray L. Weidenbaum, Dan Larkins, and Philip N. Marcus, *Matching Needs and Resources: Reforming the Federal Budget*, Washington, American Enterprise Institute for Public Policy Research, 1973, 114 pp.

issues it inevitably will have to address in the next session. Rather than being an after-the-fact rationalization of budget recommendations and decisions, the Economic Report would serve as a means of setting out some common intellectual ground for the program debates to follow. Quite clearly, the Joint Economic Committee would play a far more vital and direct role in the determination of budget priorities.

5. *Limit annual authorizations*

Many programs each year go through a doublebarrelled process requiring, first, an authorization stating an amount to be appropriated and, second, the actual appropriation of funds. The advantages of periodic authorizations—that is, better information and wider participation—recommend the practice despite the delays and duplication that are its side-effects. But modification of present practices is badly needed.

The use of these authorizations should be substantially limited. Authorizations should be enacted before hearings on the actual budget begin. The authorizations should set forth basic policy, and not prescribe dollar floors or ceilings for specific programs. Setting the precise financial magnitudes of government programs should be the province of the appropriations committees. Moreover, the authorizations should be enacted for a period of several years, so that they provide a broader framework than the annual appropriations hearings, rather than merely duplicating them in another arena.

6. *Control spending by a special bill for appropriation increases*

In addition to, or in place of, a single spending ceiling to correct the fragmentation of budget authority, the Congress should try a new approach: a special appropriations bill for annual changes in total budget authority.

Each of the appropriations subcommittees should be limited to the amounts appropriated in the previous year for the activities under its jurisdiction, adjusted by a standard inflation factor. All changes in total spending should be contained in a special appropriations bill sponsored by the chairmen of the appropriations committees.

Reallocations of funding among individual programs should be made freely by each subcommittee within the limits of the amounts established for it. But, increases in new budget authority from the previous year's level should be combined into one special bill. A new single bill thus would readily coordinate the use of numerous appropriations bills with an overall spending ceiling.

7. *Reduce backdoor financing*

At the present time, many federal programs escape the annual appropriations process entirely, a variety of transparent subterfuges is used, varying from trust funds to permanent appropriations.

One particular undesirable practice is providing financing for the program in the same bill that authorizes it. This frequently has been done in such areas as housing and agriculture via the "authorization to spend public debt receipts." These authorizations require the Treasury to make disbursements in the same fashion as appropriations. The key difference, of course, is that the authority is not contained in an appropriations bill. The purpose of backdoor financing is obvious: the programs involved do not have to be justified to the appropriations committees but only to what often are the more sympathetic subject matter committees.

Backdoor financing makes it difficult for Congress to determine spending priorities. Direct appropriations should be substituted for these special pipelines to the Treasury.

8. *Eliminate the legislated "fiscal sacred cows"*

Too many of the items that Congress does nominally include in appropriation bills cannot be effectively controlled because of the restrictive requirements of basic statutes—the highway program is a case in point. These "sacred cows" should be put to pasture by eliminating the legislated barriers to effective Congressional (and Presidential) control through the budget process. Otherwise, much of the annual budget review will continue to be a time-consuming but ineffective ritual, a futile game of "spin the budget."

9. *Use a "budget scorecard"*

The Congress should use a "budget scorecard" to show the cumulative effects of individual budget decisions on the overall budget aggregates. This mechanism would enable each congressional committee reviewing an item to treat it as the

marginal case. At the least, the scorecard would provide an up-to-date recording of the impact of congressional action on the overall fiscal picture—thus a congressman would be getting the kind of current information given to every football and baseball fan. In the case of the budget, neither the fans nor the players knows who is winning or literally who's on first.

Table 3 illustrates a hypothetical budget scorecard, drawn up on the assumption that revisions from the original presidential estimates are supplied by a congressional staff. In the hypothetical case shown here, the congressional committee acting on the proposed appropriation for aircraft procurement would see that (1) less revenue is available than was originally projected, (2) earlier congressional actions have enlarged the prospective deficit by increasing expenditures, (3) this item, if enacted at the recommended level, would raise the budget deficit for 1974 still further, and finally (4) the surplus predicted by the Administration for the following year probably will not occur.

TABLE 3.—ILLUSTRATIVE BUDGETARY SCORECARD

	1973 (current year)		1974 (budget year)		1975 (following year)	
	Presidential submission	Current estimate	Presidential submission	Current estimate	Presidential submission	Current estimate
Unified budget totals (billions of dollars):						
Receipts.....	225	228	256	254	290	282
Outlays.....	250	255	269	272	288	294
Surplus (+) or deficit (-).....	-25	-27	-13	-18	+2	-12
Item under consideration (millions of dollars):						
Appropriation for Air Force procurement of missiles (amount being considered):						
Expenditures.....	1,452	1,552	1,582	1,682	1,680	1,780
(Appropriations).....	(1,670)	(1,670)	(1,573)	(1,773)	(1,770)	(1,880)

Note: Increased deficit will require higher taxes or larger public debt.

The scorecard could be used to tally actions on a variety of expenditure authorizations, appropriations bills, and revenue measures. It would record the ebbs and flows in the status of the budget. If Congress was enacting higher levels of spending and thus larger deficits (or the reverse) than the President had proposed, this would be revealed during and not after the end of the budget process.

10. Set up an Office of Program Analysis and Evaluation

Established in the General Accounting Office (GAO) with a nonpartisan staff, such a unit could provide objective analytical studies of program costs, benefits, and alternatives, both for existing and proposed undertakings.

The essential ingredient in any proposal for controlling expenditures is critical evaluation of federal programs and agency expenditure requests. Evaluative research is now a virtual monopoly of the executive branch, to the extent that it is used at all. If Congress is ever to oversee executive administration effectively, then it needs professional assistance beyond that provided by existing committee staffs. As imperfect as evaluation techniques are, at the least they would be a useful supplement to existing rules-of-thumb and other subjective approaches. Critical analyses of agency budget justifications by the GAO should be made available to congressional committees prior to the budget hearings.

I do believe that these changes will strengthen the hand of the Congress, but they are not a sure cure. There is a more basic and overriding need. The fundamental requirement for enhancing the congressional power of the purse is for its members to demonstrate that they possess the ability to make choices among alternatives; each of which seems attractive in its own right.

Identifying areas of greater priority to which more spending should be devoted is a relatively simple or at least pleasant matter. It is the other side of the coin that is at the heart of reordering priorities—the relatively distasteful task of selecting those areas of lower priority to which lesser proportions of our resources should be devoted. But, after all, isn't making difficult decisions the basic function of any management, public or private?

TABLE 4.—FEDERAL OUTLAYS BY FUNCTION

[In billions of constant fiscal 1972 dollars]

Function	1972	1973	1974	1975	Change		
					1972-74	1974-75	1972-75
National defense.....	78.3	73.7	75.3	76.3	-3.0	+1.0	-2.0
International affairs and finance.....	3.7	3.2	3.5	3.4	-2	-1	-3
Space research and technology.....	3.4	3.0	2.9	2.9	-5	0	-5
Agriculture and rural development.....	7.1	5.9	5.2	5.2	-1.9	0	-1.9
Natural resources and environment.....	3.8	.9	3.4	5.0	-4	+1.6	+1.2
Commerce and transportation.....	11.2	12.1	10.8	11.1	-4	+3	-1
Community development and housing.....	4.3	3.9	4.5	4.8	+2	+3	+5
Education and manpower.....	9.8	10.1	9.4	9.1	-4	-3	-7
Health.....	17.1	17.4	20.1	22.5	+3.0	+2.4	+5.4
Income security.....	64.9	73.2	76.1	78.2	+11.2	+2.1	+13.3
Veterans benefits and services.....	10.7	11.4	10.9	10.6	+2	-3	-1
Interest.....	20.6	22.0	22.9	22.7	+2.3	-2	+2.1
General government.....	4.9	5.4	5.6	5.7	+7	+1	+8
General revenue sharing.....		6.6	5.6	5.5	+5.6	-1	+5.5
Allowances.....		.5	1.7	2.9	+1.7	+1.2	+2.9
Undistributed.....	-7.9	-8.1	-8.4	-8.8	-5	-4	-9
Total.....	231.9	241.1	249.5	257.0	+17.6	+7.5	+25.1

TABLE 5.—FEDERAL OUTLAYS BY FUNCTION

[In billions of constant 1972 dollars]

Function	1972	1973	1974	1975	Change as a percent of total outlay		
					1972-74	1974-75	1972-75
National defense.....	78.3	73.7	75.3	76.3	-3.8	+1.3	-2.6
International affairs and finance.....	3.7	3.2	3.5	3.4	-5.4	-2.9	-8.1
Space research and technology.....	3.4	3.0	2.9	2.9	-14.7	0	-14.7
Agriculture and rural development.....	7.1	5.9	5.2	5.2	-26.8	0	-26.8
Natural resources and environment.....	3.8	.9	3.4	5.0	-10.5	+47.1	+31.6
Commerce and transportation.....	11.2	12.1	10.8	11.1	-3.6	+2.8	.9
Community development and housing.....	4.3	3.9	4.5	4.8	+4.7	+6.7	11.6
Education and manpower.....	9.8	10.1	9.4	9.1	-4.1	-3.2	-7.2
Health.....	17.1	17.4	20.1	22.5	+17.5	+11.9	+31.6
Income security.....	64.9	73.2	76.1	78.2	+17.3	+2.8	+20.5
Veterans benefits and services.....	10.7	11.4	10.9	10.6	+1.9	-2.8	.9
Interest.....	20.6	22.0	22.9	2.7	+11.2	-.9	+10.2
General government.....	4.9	5.4	5.6	5.7	+14.3	+1.8	+16.3
General revenue sharing.....		6.6	5.6	5.5	∞	-17.9	∞
Allowances.....		.5	1.7	2.9	∞	+70.6	∞
Undistributed intragovernmental transactions.....	-7.9	-8.1	-8.4	-8.8	-6.3	-4.8	-11.4
Total.....	231.9	241.1	249.5	257.0	+7.6	+3.0	+10.8

TABLE 6.—CHANGES IN BUDGET AUTHORITY

[Fiscal years; in billions of constant dollars]

	1974	1975	Change
National defense.....	87.3	88.7	+1.4
International.....	4.5	3.9	-.6
Space.....	3.0	3.1	+.1
Agriculture.....	6.7	7.6	+.9
Natural resources environment.....	1.3	7.2	¹ +5.9
Commerce and transportation.....	12.7	12.0	-.7
Community development and housing.....	3.9	5.8	+1.9
Education and manpower.....	9.9	9.8	-.1
Health.....	26.4	27.9	+1.5
Income security.....	90.8	94.3	+3.5
Veterans.....	12.3	11.8	-.5
Interest.....	24.7	24.5	-.2
General government.....	5.8	6.2	+.4
General revenue sharing.....	6.1	6.0	-.1
Allowances.....	2.0	3.5	+1.5
Intragovernmental.....	-9.1	-9.6	-.5
Total.....	288.0	302.5	+14.5

¹ Increase of 0.1 from 1973.

Chairman PROXMIRE. I thank both of you gentlemen. These are excellent statements and a fine beginning for our hearings in which we are shattering precedent and beginning to take a little more look in the future than we have in the past so we can have some really effective congressional influence on the shape of the 1975 budget.

But let us take a look first at what we can do at the present time with respect to the upcoming budget.

Mr. Okun, in your statement you make the general statement that if the economy is particularly strong a substantial full employment surplus is in order while if it is weak a deficit in the full employment budget is desirable.

Now, a few days ago Chairman Stein, Chairman of the Council of Economic Advisers, stated that the problem now is to cool off the economy.

In a recent column in the Wall Street Journal Paul McCracken said "Fiscal policy remains to expansionist."

I would like to ask each of you gentlemen, in the first place, if you agree with those conclusions?

Mr. OKUN. Yes, the economy is going too rapidly at the present time, and one would like to see its growth moderated. I do not believe we are at a ceiling or even a desirable level of capacity utilization; but we are moving up in that direction at a speed that is excessive. That speed is in itself creating a little strain and, moreover, raising a danger that we may hit that ceiling too sharply rather than coasting up to it. So I would like to see some slowing down. Some restraining actions have already been taken such as the change in monetary policy in recent months, and the way the budget as programed becomes less expansionary. These will help the work in that direction.

I suspect that a little bit more restraint at the present time on the fiscal side would be desirable. I would not view this as a great urgency or clear cut requirement for changing the budget policy originally laid out in January. I would say that it does point to the verdict that a little less spending or a little more on the tax side would be a good idea in slowing the economy.

Chairman PROXMIRE. You said something intriguing at the end, you said a little more on the tax side, did you say?

Mr. OKUN. A little more—

Chairman PROXMIRE. Mr. Stein is quoted in the newspapers yesterday morning as saying that the administration is taking a look at a number of things, they are not necessarily giving priority to a tax increase but this is something they have not dismissed entirely and they are considering that possibility. No commitment and no statement that they were going to pursue that.

Mr. OKUN. That is about where I stand.

Chairman PROXMIRE. How would you feel about that?

Mr. OKUN. Yes, that is about where I stand. This is a situation where one has to begin to think of those options and not necessarily reach a conclusion on them. The options that he mentioned, including possible suspension of the investment tax credit, would be the options I have in mind.

Chairman PROXMIRE. You were a member of the Council of Economic Advisers at the time that President Johnson proposed a tax

increase, it took Congress a long time to put that into effect and many economists argue that is one of the reasons we have the serious inflation we have now because that tax increase was not put into effect with sufficient promptness by Congress. Now you are not saying that we should act. You are saying we should think about this and that means it might be 2 or 3 years before we get around to putting it into effect. Do you feel there is a time problem involved here?

Mr. OKUN. If there is a lag of that sort, then there really is no possibility of using tax policies as a counter cyclical device. Most of the fluctuations we deal with are not 2- or 3-year phenomena. The present booming trend of the economy would be likely to blow itself out over that horizon. It emphasizes that we must have a process that makes tax adjustment a lot more rapid if we are going to use the tax side at all. The Vietnam situation was different in that it created an overly expansionary fiscal policy for many years in a row. The kind of expansion we are now having would not be likely to be self perpetuating in that sense.

I might comment on the history of that earlier experience. First, President Johnson himself said publicly that he had recommendations from his economists to raise taxes in December 1965. However, it was his political judgment on his part that a tax increase could not be enacted in the environment of 1966.

Second, I find the attempt to explain inflation in 1973 by that episode a kind of "original sin" explanation. There have been lots of opportunities in the past to put us back on the right track and, indeed in 1972 we were back on the right track toward less inflation. While that delay in 1966-68 gave us an unhappy period of history, it is not something that accounts for the problem we have today.

Chairman PROXMIRE. Mr. Weidenbaum.

Mr. WEIDENBAUM. I am willing to smoke the peace pipe on that score, too, but I am concerned about the resurgence of inflationary pressures.

I think most economists underestimated the first quarter of 1973, both in terms of the increase in real gross national product and the increase in the rate of inflation. This underscores the need for prompt action, particularly on the expenditure side in what remains of fiscal 1973.

Chairman PROXMIRE. So you think we should cut, reduce, spending below the \$268.7 billion the President has set as a ceiling?

Mr. WEIDENBAUM. I am talking about fiscal 1973.

Chairman PROXMIRE. I beg your pardon, I misunderstood you.

Mr. WEIDENBAUM. \$250 billion.

Chairman PROXMIRE. We only have what, 2 months left in fiscal 1973?

Mr. WEIDENBAUM. Yes, but, of course, actions taken in the next 2 months.

Chairman PROXMIRE. Hold it to a \$250 billion level that the President has indicated?

Mr. WEIDENBAUM. Hopefully, yes, and those actions which will not be effective on expenditures in the next few months still can affect the economy.

Chairman PROXMIRE. Do you want to be specific where you think those cuts could be made in the next 2 months, take effect in the next 2 months?

Mr. WEIDENBAUM. Well, the Office of Management and Budget has prepared a long list of expenditure cuts which, I understand, the Committee is quite familiar with.

I would like to point out a bright spot on the horizon and that is, as far as I can determine, revenues for this fiscal year are running several billion dollars ahead of the budget estimate. Hence, instead of a deficit for fiscal 1973 of the \$24.8 billion estimated in the budget, I would currently anticipate a deficit in the neighborhood of \$20 billion.

Chairman PROXMIRE. How does that translate on the full employment basis?

Mr. WEIDENBAUM. Well, here it depends. If you use the full employment concept in the budget, which is a unified budget basis, the increase in revenues will not affect the full employment budget, we are just closer to full employment. The cuts in outlays may—I would say the direction of the movement would be closer to a full employment balance but still perhaps a deficit in the full employment budget. I would be happy if we had a surplus, a modest one, right now.

Chairman PROXMIRE. Let me ask you, Mr. Okun, you criticized the action of those who opposed a rollback in prices in the House, and you also indicated that phase 3 was too weak. What do you propose instead?

Mr. OKUN. There is a lot of distance, Mr. Chairman, between trying to go back to January 10 by pretending that nothing happened in between, and living with the phase 3 in its present form. I have no panacea. I do think that the evidence is very strong that perhaps partly because of public reaction as much as substance, phase 3 has proved to be a very inadequate program. My personal view is that the strength of the economy had little to do with the acceleration of inflation in the first quarter of this year. The economy did not run out of capacity on January 10.

Chairman PROXMIRE. What was the reason?

Mr. OKUN. The labor market did not change that drastically.

The major difference, I think, was the decision to drop the tougher controls of phase 2 and to create a phase 3 that was viewed as flashing the green light to business and to labor. Thus far we have had no acceleration of wage rates. We have had a major acceleration of prices, quite apart from food prices. In the last couple of months, the wholesale price index for industrials has moved up at a rate that has no parallel since the early months of the Korean war. The green light led many businessmen to feel that, since price increases were permissible, they would take full advantage of it. It may indicate that phase 2 was more effective than we realized.

Chairman PROXMIRE. Do you think we ought to go back to phase 2?

Mr. OKUN. I think something like that is the right medicine. As I testified before the Senate Banking Committee, with respect to the Economic Stabilization Act, I think prenotification of major price increases and major wage increases is of utmost importance. Also, an understanding that any excessive wage increase should not be passed

forward in the form of a price increase is terribly important. Basically we might be able to devise something which is a kind of performance test. A lot of areas in this economy have behaved very well since January and have not shown this acceleration of prices; maybe they can live under phase 3. I would take the prices which have been troublesome in the past 3 months and submit those to a set of mandatory controls at least as tough as phase 2 rules.

Chairman PROXMIRE. My time is about up. Let me just ask one question before I yield to Senator Schweiker, you said, Mr. Weidenbaum, in your statement, that the Economic Report, if it were submitted in the early fall instead of January then the Congress prior to receiving the budget would have a vehicle for exploring some of the basic issues it inevitably will have to address in the next session.

I would like to ask Mr. Okun, who was responsible for that report for several years, how hard it is to anticipate this, the economic situation even in January, would this proposed earlier forecast be practical, in your view? I like it very much. I think Mr. Weidenbaum may have an excellent series of recommendations. Do you think this one is doable?

Mr. OKUN. It would change the whole concept of the economic report. I looked at the Economic Report as a twin document of the budget and not as an appendix to the budget or a document submerged by the budget. It is meant to provide an economic underpinning to the kind of budget program and legislative program that the President was putting forward, and that is possible only in the context of knowing the President's decisions.

Quite apart from that we tend to think of the economic outlook on a calendar year basis; we could probably change that habit in the profession; I would like to think about this. It is an intriguing proposal. But it does create some headaches—at least in the mind of an ex-CEA man who is used to playing by the current rules.

Mr. WEIDENBAUM. I am intrigued by the fact that private forecasters inevitably do not wait until January to make and release their forecasts of the coming year, but the fall is the forecasting season in the private sector.

Chairman PROXMIRE. Senator Schweiker.

Senator SCHWEIKER. Thank you very much, Mr. Chairman.

I would like to ask Mr. Weidenbaum some questions about his suggestions, which I find very helpful and constructive regarding aspects of Congress that should be changed. You also mention changes in the structure of the Appropriations Committee and, as a member of that committee, I am very interested.

I notice, though, your first point deals with the House more than the Senate and I wonder if you have any suggestions for the Senate and particularly its subcommittee structure.

Mr. WEIDENBAUM. Very frankly, I think the problem is orders of magnitude greater in the House than it is in the Senate. As I understand the procedure in the House, the review of the subcommittee recommendations by the full committee is a very perfunctory affair. The decisions really are made at the subcommittee level and merely reported to the Congress by the full committee. I am frankly not as

familiar with the Senate procedure, and I obviously would be corrected willingly, but I understand that the membership of the full committee has more access to decisionmaking on each of the appropriations bills.

Senator SCHWEIKER. I think that is probably true.

Mr. WEIDENBAUM. So the problem does not really occur at the Senate level.

Senator SCHWEIKER. You also go on to recommend a changed budget calendar, and I am one of the cosponsors of Senator Magnuson's bill to do exactly that, and I concur with your recommendation.

I wonder if you had any suggestion as to whether we should move the fiscal year back six months and make it a calendar year or move it the other way. One of the proposals the Joint Committee for Congressional Operations was considering was to move it back to correspond to the calendar year. This would make the fiscal and budget year correspond to the calendar year, hence, giving Congress a full legislative year to work on the new budget. Now, was this what you had in mind or did you have some other suggestions in mind?

Mr. WEIDENBAUM. In a sense, I had a short-term and a long-term suggestion. In the shortterm before or while debate is occurring on changing the fiscal year, I would simply have the congressional discussions and deliberations on key program issues occur before the President sends up the budget. This is why I would like to see the Economic Report come months before to give the Congress a basis for its initial deliberations.

But ultimately, I think the answer is along the lines you indicate, to have a fiscal year that agrees with the calendar year. For one thing, I think this would make a vast improvement in the ability of the average voter-citizen to understand Government finance. He would not have to translate from fiscal to calendar back and forth. Certainly if the budget were sent up late January for the period that far in advance, that is the coming January, there would be ample time for congressional deliberation.

Senator SCHWEIKER. I have some question about your recommendations in the area of changing the authorizing-appropriation relationships. I am now in the position of serving on both the Labor-HEW subcommittee that authorizes the bill and also the Labor-HEW subcommittee that appropriates the money so I can see your point of view. I can see some problems, though, in some of your recommendations here. First of all, the authorizing committee performs an oversight function by an annual authorization message that the Appropriations Committee, at least on the Senate side, does not have time and/or number of Senators to do. By having an education committee of 18 or 20 members—as opposed to an education subcommittee on appropriations of maybe seven or eight—we have a manpower problem, and when you eliminate annual authorizations or make them biennial you lose an oversight function. In essence, then, instead of having some checks and balances within the structure you get a unicameral effect and do not have the play between the authorizing and appropriating committees which, I think, is helpful.

Mr. WEIDENBAUM. Senator, let me cite an example in the defense area which I am more familiar with.

There it strikes me that the Armed Services Committee each year, by and large, covers so much of the same ground or tries to cover the same ground that the Appropriations Subcommittee also tries to cover. What I would have in mind, for example, is, one year have the Armed Services Committee concentrate, say, on research and development and construction authorizations. The next year concentrate on procurement authorizations. Believe me, if they can spend the whole year just looking at procurement of weapons systems, that is a full time job. Looking at the whole gamut of military budget issues, I am afraid, even though the resources of the substantive committees are great, they are still spread too thin. They still have that time pressure of, "Well, we had better report it out otherwise the appropriations cannot start its work." You are the bottleneck.

If you cycle it so that every second or every third year the authorization comes due, there is in a sense a more leisurely, a more orderly and, I hope, more thorough evaluation of the big picture, the underlying broader issues involved in the military budget, labor and public welfare, and agriculture.

Senator SCHWEIKER. But here again, I had a chance to serve on both the House and Senate Armed Services Committees and so I can speak with some authority here. One of the criticisms I think, is we do too much in full committee. To the extent that we do everything in full committee in the House, and Senate Armed Services Committees we do not have an opportunity to go into detail. I do not know that we could meet your objections by doing more in subcommittee. Now, the Senate committee does have a very effective research and development subcommittee which goes more particularly into R. & D. It does not have what I would like to see, a procurement subcommittee and does not have more functional breakdowns that could carry the load and eliminate some of the duplication which you are criticizing. I am sure we cannot do a lot of things in the Defense Appropriations Committee that ought to be done somewhere and are not being done and I would agree with your criticism in that respect.

You feel the oversight role is not important in the authorization committee, then. I still did not understand that.

Mr. WEIDENBAUM. I do think it is important because, very frankly, in the first draft of this statement I was going to make a simple-minded recommendation to eliminate the authorization, annual or periodic authorization, and just say in a sense, rely on the Constitution and have annual appropriations, period. It struck me on reflection that was too naive. That that would so eliminate the effectiveness of the Armed Services Committee's activities, power base or whatever the appropriate term is, as to be an unacceptable recommendation. Hence, in a sense, this is a compromise whereby what the Armed Services Committee does is different from what the Appropriations Committee does. Right now it strikes me so much of it is different people going through essentially the same function. Hence, under my suggestion the Armed Services Committee would focus not on the

year ahead but on, say, the next several, on the threat and meeting the threat for the next several years, and the whole gamut of weapons systems necessary over that period of time. The Appropriations Committee, in contrast, would focus on the dollar annual increments, a division of labor, if you will.

Senator SCHWEIKER. One very good suggestion is your concept of having our Appropriations Committee give a set target from preceding year spending and then any increases are treated in a composite aggregate way. I think that suggestion is very good because it goes to the heart of the problem and I see a very strong indication that we are going to do something like that. It may not be exactly your specific procedure, but there will be some way of earmarking this. But I think your very practical suggestion of marking the difference in an increase and putting the increase in the total aggregate approach is extremely helpful, and I appreciate it.

Mr. WEIDENBAUM. Thank you.

Senator SCHWEIKER. That is all I have, Mr. Chairman.

Thank you.

Chairman PROXMIRE. Congressman Blackburn.

Representative BLACKBURN. Thank you, Mr. Chairman. I want to welcome both of you gentlemen before this committee. It is really a refreshing experience to find this committee doing something that it was assigned to do even if we do it during vacation periods.

I also find refreshing that you gentlemen are so much in accord on things. It is encouraging that there are some areas in Government in which everything is not broken down on partisan lines. This gives me another uplift on an otherwise very rainy, dreary day.

Let me ask this general question. All business concerns distinguish between current operating expenses and capital expenditures.

Now, in Government we just lump them all together whether we are building a bridge for the Interstate Highway System that may last, we hope, 50 or 75 years, or whether we are paying the salary of a social worker for HEW or buying school lunch programs.

I am just wondering, have either of you gentlemen given any thought to possibly distinguishing between the operating expenses of Government and capital investments?

Mr. WEIDENBAUM. I have. Table 1 in my prepared statement actually is an attempt to deal with some, although frankly not all, of the problems. Category 3 takes the investment type of civilian programs and categories 1 and 4 take the current operating type of Government programs. Hence, I find it instructive to see what portion, frankly a very minor portion of the budget, really goes for capital improvements, broadly defined to include both investments in human resources as well as investment in physical resources.

One of the points I made in my oral statement is that a very modest, maybe too modest, portion of the increase in the budget in 1975 is in the developmental, the capital category.

Representative BLACKBURN. What I was thinking is that if we did distinguish between them we could justify debt very easily where we are financing something to be used over a long period of time, and

perhaps we could take a more jaundiced view of debt on going expenses that are going to be consumed very quickly or during the current year.

Mr. Okun.

Mr. OKUN. Yes. I think people are ready to draw that inference and it is not clearly a correct inference on the appropriateness of fiscal policy.

The real question of Government surpluses and deficits is whether they are helping to balance overall savings and investment in the economy; the fact that Uncle Sam is spending money to create long, lasting investment-type goods might still mean that the expenditures are just as inflationary as, maybe even more inflationary than, outlays paid for income security or interest on the public debt or such. I recognize that you did not draw the conclusion that it would be safe to have a deficit equal to the size of investment outlays; but I want to emphasize that would be an erroneous conclusion.

Representative BLACKBURN. I just said we should treat it more realistically.

Mr. OKUN. I am just cautioning against anybody drawing that inference. It may be perfectly sensible for General Motors to view itself as safely financing capital expenditure by debt. It is not safe from the point of view of the stability of the entire economy for Uncle Sam to feel that he can run deficits equal to the size of his investment outlays.

I would emphasize one other point in this connection. What is an investment from a public point of view may be very different from the private point of view. Public programs can make valuable investments in the future of this country which are not made of steel or bricks or mortar. Mr. Weidenbaum's categories clearly reflect that; he specifically identified education as an investment in the people of this country. If we do do more, as I think we should, to identify the assets being developed in the public sector, we ought to be sure to recognize the contribution of education, of manpower training, and other ways of investing in people, even though they are not tangible physical goods in the same sense as a building or a piece of machinery.

Representative BLACKBURN. Let me digress just a moment. I spoke earlier about the subcommittees addressing themselves to the purpose of their assistance. The Subcommittee on Consumer Economics of the Joint Economic Committee, has just recently done a study on the administration's spending reform proposals which, I guess, are about as close to consumer economics as anything else they do over there. Are either of you gentlemen familiar with that study?

Mr. WEIDENBAUM. I am, sir. The staff gave me a copy yesterday.

Representative BLACKBURN. Now, this study is highly critical of some of the changes in spending proposals of the administration of this year as compared to the previous year. I am just wondering, have you had time to address yourself to some of those criticisms in that subcommittee study?

Mr. WEIDENBAUM. In the past, less than 24 hours, yes, I have. For whatever it is worth, I would be pleased to give you my comments on

it. I presume you mean this April 16 release analysis of the administration's spending reform proposals.

Representative BLACKBURN. That is right.

Mr. WEIDENBAUM. Very frankly, Congressman Blackburn, I found it a very disappointing study. It is unlike the typical staff product of the Joint Economic Committee. It lacks balance, I would even say professionalism. It is a very partisan document.

Do not get me wrong, there are very serious shortcomings frankly in the OMB tabulation. In fact, in the American Enterprise Institute's study that I cited, that I just finished. I went through a similar analysis and I identified numerous shortcomings in the OMB tabulation but, and I think it is a major point, there are many good changes proposed. These are either ignored or, worse yet, even joked about in the staff study. Given this inflation that we are all concerned about, I think these budget cuts should be supported as the heart of any sensible anti-inflation program.

Representative BLACKBURN. I got the impression from reading the news stories concerning that study that it was more of a partisan-oriented attack than an economic analysis of what the OMB had done.

Your discussion with Senator Schweiker earlier interests me because I noticed on my own committee, the House Banking Committee, the committee will give birth to a housing program, but then the committee, in my opinion, fails to exercise the proper oversight. It sort of becomes its own child and the committee is going to generally protect its programs from criticisms.

The authorizing process is almost a joke in the House of Representatives because in the subcommittee we will be looking at an authorization for the previous year of, say, one and a half billion dollars. Then, when we get to a figure for the current year someone will suggest well, let's make it \$5 billion. Somebody else will say let us make it \$8 billion, and we will say why do we not consider the previous year's spending, the current year's spending levels before we authorize. Then the argument will be developed that the appropriations committee is going to cut us down on it anyway so the more we ask for the more we are likely to get.

Well now, do you have any suggestions, either of you, as to how we could somehow avoid the problem that is created when we have the fox guarding the chickens, which is what we have when the parent committee is doing its own oversight?

Mr. WEIDENBAUM. I testified before your committee and I understand your analogy of foxes and chickens, I believe. I do call attention to recommendation 7 to reduce backdoor financing, in my statement. That deals with part of the problem, that is, that a lot of the housing programs under the committee's jurisdiction are financed through these authorizations to spend debt receipts and never do get to be reviewed by the Appropriations Committee.

So one simple way of doing that is to separate the two functions and have the Banking Committee's authorization only authorize programs but have the money provided through direct appropriations. Otherwise I must say I do not have an obvious answer to deal with the

situation where the Banking Committee reports out unrealistically high authorization figures.

That just points up, frankly, the need to strengthen the hands of the Appropriations Committee.

Representative BLACKBURN. Frankly, one of the things we run into constantly, those of us in the political arm of Government, is that people who are promoting certain programs will throw it in your face before the conversation even starts, "Why, Congress has never even given us what they authorized in this program," and then we have to go to the defensive and say "We never do."

Mr. OKUN, do you want to make some comment on this?

Mr. OKUN. Yes. In the nature of the case, committees attract people who become enthusiastic about the programs they are operating. In a sense, I prefer the father-child analogy rather than the fox and chicken analogy. Perhaps you really cannot build in enough internal constraint within any particular committee to turn off the enthusiasm, and maybe you should not wish to do so. I am glad somebody around thinks that housing, for example, is terribly important and is always thinking about how we could have some bright new program or strengthen an old one.

Representative BLACKBURN. What about defense?

Mr. OKUN. OK, even there. Some advocates of that area are called for and I would trust that they would want to not only spend more but do it more effectively. In general, if you are going to have that sort of relationship all through the committee structure, you need tougher and tighter coordinating bodies. That is better than trying to put a devil's advocate into each and every forum of the Congress.

Mr. WEIDENBAUM. Can I put in a plug for my recommendation 4, limit annual authorizations? I urge eliminating the dollar sign part of the authorization so that the Appropriations Committee would not get the pressure of "Well, the Banking Committee authorized a \$10 billion program and you cheap skates are only appropriating \$3½ billion."

Representative BLACKBURN. I appreciate your response.

Mr. Chairman, I appreciate the time. I must catch a plane and go take care of politics back in Georgia.

Thank you, gentlemen, I enjoyed your testimony.

Chairman PROXMIRE. Gentlemen, I will be brief, I do have more questions. I recognize, of course, Mr. Linowitz is waiting and he has three other distinguished gentlemen with him who are going to testify, so I will be as brief as I can. I am just flabbergasted, Mr. Weidenbaum, by the table in your prepared statement showing that at the beginning of fiscal year 1975 there will be a total of \$305.7 billion in budget authority that will have been carried over from previous years. These are unexpended balances, as you point out—funds available without further congressional action. This puts a tremendous amount of discretionary spending authority in the executive branch, it seems to me, and I would like to ask some questions about it.

Beginning in fiscal year 1971 defense appropriations have severely restrained the use of military carryover balances. That is now, this

will be the 3d year and yet your table shows military carryover funds increasing at a much greater rate than nontrust fund civilian balances. How do you explain the increase in military balances?

Mr. WEIDENBAUM. There are two types of balances and, frankly, I merged them for simplicity in this table. The unobligated and the obligated balances. I do not have the breakdown here, but I would presume it is the unobligated balances that would be the graver concern in terms of giving discretion to the policymakers. I must say, I have heard explanations over the years but I have never really been satisfied with the extent to which the Department of Defense is allowed to carry over the large amount of unobligated balances from year to year.

It would strike me that perhaps a tighter leash on the part of the Appropriations Committee there would be in order, because these unobligated balances, in practice, can be shifted from program to program, not with the concurrence of the Congress but merely, as I understand it, with the informal concurrence of the committees involved.

Chairman PROXMIRE. Well, usually with the concurrence of a chairman of a committee plus a ranking minority member.

Mr. WEIDENBAUM. Yes, sir.

Chairman PROXMIRE. And, as has just been pointed out, the father-child relationship, the advocates are the ones who are going to be enthusiastically in favor of extending the spending of the program there is not much discipline involved there. I notice in defense the carryover balances are \$34.4 billion obligated and \$9.8, almost \$10 billion unobligated at the end of 1974.

Aside from the trust fund portion how much discretion does the President have over carryover balances? Can he spend this money in a relatively short time? For instance, could he spend as much of this in bombing in Southeast Asia, as much as he wants to?

Mr. WEIDENBAUM. My understanding of the great bulk of the unobligated carryover is that the short answer is no. But to be specific, the great bulk of the unobligated carryover of military balances is in the procurement, the hardware, long leadtime areas, not in the operating and maintenance and personal areas. Hence, given the fact that there is a long lag, a long delay involved between the ordering and the delivery—

Chairman PROXMIRE. I understand the unobligated balances are in procurement, only \$19 billion out of \$34 billion.

Mr. WEIDENBAUM. But of the unobligated balances, I would assume the great majority. There is not an appropriation account breakdown in the summary budget, I must say.

Chairman PROXMIRE. You have given us all you can here in your prepared statement?

Mr. WEIDENBAUM. No.

Chairman PROXMIRE. Whatever else you can give to us not in your prepared statement give it to us.

[The following information was subsequently supplied for the record:]

BALANCES OF BUDGET AUTHORITY (IN MILLIONS OF DOLLARS)

Department or other unit	Start 1972		End 1972		End 1973		End 1974	
	Obligated	Unobligated	Obligated	Unobligated	Obligated	Unobligated	Obligated	Unobligated
Legislative branch.....	37	19	57	158	80	177	81	150
The Judiciary.....	15	7	16	8	17	8	17	9
Executive Office of the President.....	7	1	10	2	23	2	57	(1)
Funds appropriated to the President:								
International security assistance.....	2,519	2,354	5,890	916	7,217	901	8,105	798
International development assistance.....	3,872	7,908	3,788	9,159	4,307	8,931	4,825	9,176
Other ²	2,011	109	1,818	27	2,076	-79	1,109	163
Agriculture.....	5,741	1,455	6,956	1,583	6,063	3,478	5,841	4,203
Commerce.....	1,194	262	1,333	283	1,653	336	1,567	233
Defense—Military ³	23,018	12,961	24,005	11,872	29,790	9,447	34,366	9,870
Defense—Civil.....	324	228	419	230	480	298	657	12
Health, Education, and Welfare.....	12,574	41,443	13,672	44,277	17,131	45,425	18,313	52,705
Housing and Urban Development.....	8,513	13,914	8,666	13,214	11,110	12,143	8,513	13,701
Interior.....	822	845	1,017	979	1,184	943	1,208	518
Justice.....	491	144	819	205	1,245	58	1,373	26
Labor.....	1,161	11,707	1,580	10,204	1,500	9,973	1,075	11,216
State.....	68	67	73	75	110	100	109	96
Transportation.....	9,038	10,383	10,018	10,485	10,659	13,100	11,087	13,557
Treasury.....	151	40	189	64	1,684	64	1,738	44
Atomic Energy Commission.....	1,008	458	1,117	250	1,591	216	1,862	-----
Environmental Protection Agency.....	1,631	241	2,028	1,534	5,237	4,548	7,029	1,143
General Services Administration.....	318	249	504	255	481	331	363	123
National Aeronautics and Space Administration.....	1,464	199	1,271	253	1,729	127	1,701	33
Veterans' Administration.....	1,357	8,641	1,498	8,895	1,510	9,332	1,583	9,664
Civil Service Commission.....	1,312	24,894	1,506	27,842	1,843	30,864	2,290	34,320
Export-Import Bank.....	3,848	1,458	-----	-----	-----	-----	-----	-----
Federal Deposit Insurance Corporation.....	322	7,351	387	7,718	430	8,194	454	8,706
Federal Home Loan Bank Board.....	92	7,382	42	7,545	14	7,751	-1	8,086
Postal Service.....	917	10,831	1,355	10,216	2,171	9,100	-----	-----
Railroad Retirement Board.....	157	4,694	172	4,583	211	4,382	209	4,958
Other independent agencies.....	1,985	4,843	2,149	4,354	2,739	3,861	3,102	3,075
Allowances.....	-----	-----	-----	-----	250	-----	500	-----
Total.....	85,965	175,158	92,354	177,185	114,534	184,009	119,134	186,585
MEMORANDUM								
Federal funds.....	72,163	72,282	73,369	71,103	91,749	71,883	94,878	60,376
Trust funds.....	13,802	102,876	18,985	106,082	22,785	112,126	24,256	126,209
Total.....	85,965	175,158	92,354	177,185	114,534	184,009	119,134	186,585

¹ Less than \$500,000.

² Unobligated balances shown are net of deficiencies in the Revolving fund. Defense Production Act: Start 1972, \$194,000,000; end 1972, \$275,000,000; end 1973, \$319,000,000; end 1974, \$72,000,000 (assuming enactment of proposed legislation).

³ Includes balances of allowances for all-Volunteer force, retirement systems reform, and civilian and military pay raises for the Department of Defense.

Source: "The Budget of the United States Government, Fiscal Year 1974," p. 335.

Chairman PROXMIRE. One other point, what in general, is the justification for such large carryover balances? There was a lot of talk—I am a member of the Budget Review Committee and we talked about the possibility of recession and of getting better congressional control by stepping in on these unobligated balances or unspent balances at least, and exercising some greater congressional discretion than we have in the past.

Mr. WEIDENBAUM. I really think it is critical to distinguish between obligated and unobligated balances. Just because the bomber, ICBM,

the nuclear submarine you ordered this year will not be constructed until next year or the year after you are bound to have large amounts of unobligated balances in your programs.

Chairman PROXMIRE. Yes; but if you look at your total 1974 budget here, the obligated balances, obligated are only \$119 billion, and the unobligated are \$186 billion. In other words, the unobligated balances are far greater and represent 60 to 65 percent of the total.

Mr. WEIDENBAUM. Subject to further study, I would assume here is an opportunity for Congress putting the Pentagon on a tighter leash.

Chairman PROXMIRE. Good.

I would like to ask both you and Mr. Okun this. As you know, the President greatly influences the setting of priorities by deciding when, how, and whether to spend large amounts of the funds that are appropriated. The increased use of impoundments is a dramatic example. Other examples of Executive discretion include the use of lump-sum appropriations and reprogramming, contingency funds, emergency funds, statutory transfer authority, authority to de-obligate and re-obligate funds, convert financing such as in the area of intelligence and military assistance, Government contracts, and the making of Executive commitments such as in the area of foreign policy. Do either of you know the annual dollar amount of Presidential discretionary authority, and you just mentioned one way and one area in which you thought it ought to be brought under greater control, Mr. Weidenbaum. But do you have any other ideas of what we can do to bring this under greater control?

Mr. WEIDENBAUM. I have a suggestion, and I am very serious about this. It is a suggestion that has been made in my testimony on priorities last year, and that, I think the Congress, perhaps the public, is too preoccupied with expenditure ceilings. To me one of the basic problems of expenditure ceilings is to permit the Congress to appropriate extravagantly and put the onus on the Executive to cut. The real answer, gentlemen, is for you to appropriate less in the first place.

Chairman PROXMIRE. I recognize that. I would agree wholeheartedly, but you still have this colossal amount of discretion that you pointed to in obligated and unobligated balances which are only one part of it and impoundment of funds is one other part of it.

Mr. WEIDENBAUM. But, Mr. Chairman, if Congress is going to appropriate funds resulting in \$260 billion of expenditures and, set a ceiling of \$250 billion on expenditures, the only way the President will be able to keep the spending under the ceiling is through impoundment. You are really forcing him to use his discretion.

Chairman PROXMIRE. But that is not the situation, Mr. Weidenbaum. The fact is that every single year, appropriations, not contract authority, appropriations the Congress has appropriated less than the President asked. As I recall, some 11 out of 16 appropriations bills last year, the Congress reduced below the President's request. We cut the overall Presidential request in appropriations, and you are talking about appropriations, by \$5 billion.

Mr. WEIDENBAUM. Senator, I call your attention to the study "Matching Needs and Resources," which has been made available to

your committee. Appendix A starting on page 109 lists dozens and dozens of programs added to the budget by the Congress in the fiscal year 1973.

Chairman PROXMIRE. Yes, I would agree with that and there is no question Congress has been extraordinarily extravagant in setting up these programs, but you were talking about appropriations a minute ago. In the appropriations area I do not think that is the case.

Mr. WEIDENBAUM. \$30 billion is the 5-year cost of congressional additions according to the Mahon Committee study.

Mr. OKUN. In some of those years we should welcome the fact that that was done, Mr. Chairman. Over the long run I see very little evidence that Congress has had a systematic tendency either to spend too much or to spend too little. In retrospect the fiscal 1970 and fiscal 1971 budget programs of the administration were thoroughly inadequate in meeting a recession need. Every cent the Congress added on to expenditures helped the whole country get out of that recession sooner and helped it get on the path to recovery. The problem of control is to get the budget where it ought to be. That is not always getting it lower and not always getting it higher.

Chairman PROXMIRE. I think in general I would agree with what both of you gentlemen are saying. What we are talking about is trying to get congressional control of priorities, the spending within the ceiling.

Mr. OKUN. Yes.

Chairman PROXMIRE. And apropos of that, Mr. Weidenbaum, would you elaborate on your statement that you are disappointed in the priorities implied in the official projections of Federal spending for fiscal year 1975? Specifically, which spending decisions do you object to and how would you change them?

Mr. WEIDENBAUM. First of all, in chapter 2 of the study mentioned, "Matching Needs and Resources," I have gone through the outlay savings claimed by the administration and indicated those which I think are highly desirable and those which I think are, to use the very word I have, exaggerations. But I must say I was very dismayed to see in this period where cutting expenditures, slowing down the growth rate technically of expenditures is so badly needed, a very negative and frankly unprofessional report coming from this committee.

The real thing that concerns me is the lack of support which I would have expected in your staff study.

Chairman PROXMIRE. Well, there undoubtedly are a lot of weaknesses in all of us, we are all human beings. The staff may have erred on that one. I think they have got a pretty good batting average altogether but I wish you would direct a little criticism at the incredibly poor data given to us by Mr. Ash when we asked Mr. Ash to justify the cuts that have been made, appalling. I do not know how you could read that with your fine objective, dispassionate approach to problems, Mr. Weidenbaum, without being pretty shocked yourself. I would agree that there was, perhaps, some partiality in our criticism but we were outraged by what we got.

Mr. WEIDENBAUM. I do not come here to defend the Office of Management and Budget. But seriously, you take a look at the HUD section where the staff report disparages a quotation from former Sec-

retary Romney and here is what the staff said: "Let us base the decisions on some careful studies and not old speeches."

That, first of all, does not sound like a professional economist talking.

Chairman PROXMIRE. Oh, but, what they were—all right.

Mr. OKUN. I am very sincere on this. I believe that Secretary Romney had a very firm basis for making those studies, that basis being very careful studies that the Secretary commissioned and received on the major cities of this Nation and of the shortcomings of urban programs. I headed the study for St. Louis.

Chairman PROXMIRE. Well, you may have made a good study for St. Louis but I invited Secretary Romney to come in here, I invited him repeatedly, he would not come before the committee, he refused to send a deputy, he could have perhaps asked for you, although you were not working for the Government at the time, and could have appeared, we would have been delighted. I would have taken a liaison man. He would not justify his position, he would not come up and tell us what basis he had, what data, what analysis to justify some of the dramatic cuts in the budget.

When we asked him what he had, he did not give us the Romney or Weidenbaum study from St. Louis, we would have welcomed that, all they gave us was an excerpt from a Romney speech. Romney is a fine speaker but we would like to have some data, some analysis. What is wrong with asking for that?

Mr. WEIDENBAUM. So much of the data that the staff is concerned about is already in the public domain. Take the manpower area, it is hard for me to conceive how this committee's report did not endorse a cutback in the emergency employment service program during a period where the economy is overheating and State and local governments are reporting major surpluses and we are giving them revenue sharing. If this is not the time when—

Senator SCHWEIKER. And our Vietnam veterans have one of the highest unemployment rates in history. There is that figure in there, too, now.

Mr. WEIDENBAUM. But the State and local governments have adequate resources, have adequate money.

Senator SCHWEIKER. For what? Have you been to Philadelphia lately? We had to shut the schools down for a month. I just came back. They do not have the resources to do anything.

Mr. WEIDENBAUM. If the State of Pennsylvania does not want to share its surplus, which in good measure it is receiving from revenue sharing—

Chairman PROXMIRE. Then, the veterans have to suffer.

Mr. WEIDENBAUM. Then, it is their problem.

Chairman PROXMIRE. It is not just their problem. It is the problem of the people who are not getting the training they need in order to have the skill to get a job at a time when this kind of program is anti-inflationary, the best, the most constructive kind of sensible economic policy you can find.

Senator SCHWEIKER. One of the main priorities that our authorizing committee set for the public service employment program was to replot Vietnam veterans, so if you are going to look at priorities and

authorizations why that was completely the intent and it did not necessarily relate to the economy because one of the objectives was to use it as a vehicle to cut the horrendously high unemployment rate of the returned veterans and they were given priority.

Mr. WEIDENBAUM. Here is the kind of thing——

Senator SCHWEIKER. So put it all in balance.

Mr. WEIDENBAUM. Here is the kind of thing that really took me by surprise.

Chairman PROXMIRE. Before you say that we will invite you to give us for the record, and we will be happy to put them in the record and make them available for the press, your own evaluation of the OMB reductions. If you look at those, what they provided us, the data they provided us when we asked for studies and justifications, I think you would have to agree the data were pitifully inadequate, so if you have more adequate data we would welcome it, we would like to have it. Can we have it? Would you provide it for us, Mr. Weidenbaum?

Mr. WEIDENBAUM. Yes.

[The following information was subsequently supplied for the record:]

TRANSMITTAL LETTER

Hon. WILLIAM PROXMIRE,

Chairman, Subcommittee on Priorities and Economy in Government, Joint Economic Committee, U.S. Congress, Washington, D.C.

DEAR SENATOR PROXMIRE: In response to your request at the April 25 hearing of the Joint Economic Committee, I performed the attached analysis of the Administration's estimated reductions and terminations of federal government spending programs.

In preparing this analysis, I drew upon the Committee's staff study of April 16, "An Analysis of the Administration's Spending Reform Proposals" and the material supplied to the Committee on March 19 by the staff of the Office of Management and Budget. I tried to evaluate the material as objectively as I could. To be sure, the necessary value judgments are my own.

As you will recall, at the hearing I was critical of the JEC staff study. You asked me to review the OMB materials in the same light. However, I do not find the OMB staff materials comparable. They are not a self-contained study. Rather, the OMB materials are 109 separate statements on each of the estimated budget reductions. Under the circumstances, I focused my attention on the substance of the Administration's recommendations and proposed actions, only commenting on the two sets of materials when appropriate.

Sincerely,

MURRAY L. WEIDENBAUM,
*Mallinckrodt Distinguished University Professor,
Washington University, St. Louis, Mo.*

Enclosure.

THE PROSPECTS FOR EXPENDITURE RESTRAINT: ANALYSIS OF "OUTLAY SAVINGS FROM PROGRAM REDUCTIONS AND TERMINATIONS, 1973-75"

(By Murray L. Weidenbaum, Mallinckrodt Distinguished University Professor, Washington University, St. Louis, Mo.)

This analysis was performed at the request of Senator William Proxmire, chairman of the Subcommittee on Priorities and Economy in Government of the Joint Economic Committee of the Congress. The 109 items of projected savings in Federal Government outlays examined are listed in the Federal Budget for the Fiscal Year 1974.¹ Two staff analyses were also drawn upon, one by the Office of

¹ The overall undertaking to restrain the growth of Federal Government spending during the current inflation is necessary and desirable. A balanced JEC staff report would have given proper attention to this overriding concern.

Management and Budget² and one by the Joint Economic Committee.³ The OMB submission, unlike the JEC report, is not a formal study or report but rather a compilation of statements on each of the 109 items.

SUMMARY AND CONCLUSIONS

On the basis of my personal review of the 109 items—drawing on the OMB materials, the JEC staff study, and other pertinent information—I have come to the following conclusions. By the nature of the undertaking, many of the judgments are both personal and subjective.

As pointed out at the April 25 hearing of the Joint Economic Committee, the report on the fiscal 1974 budget recently published by the American Enterprise Institute for Public Policy Research did attempt to provide a balanced appraisal. The following are pertinent excerpts:

"Moreover, there is a trace of excessive enthusiasm in the numerous expenditure 'savings' listed in the budget. Much of the projected cutback in farm subsidies, for example, should result merely from exogenous factors such as rising aggregate demand . . . Also, to include on the list of executive reductions the savings to result from the congressionally enacted ceiling on social service grants seems to be stretching the point."

"Yet possible exaggeration about reductions should not obscure the basic features of the new budget . . . it does seem clear that the administration's efforts will result in a lower level of spending and a smaller deficit in the actual budget than would have been the case without those efforts. All in all, the 1974 budget proposes a fiscal policy that seems well designed to meet the needs of the economy in the year ahead."⁴

Summarized below are my personal evaluations of the substance and justification of the 109 items:

Categories and items	Number of items	Fiscal 1974 outlay savings (in millions)
Solid cuts, adequately justified: 1, 2, 3, 4, 5, 6, 11, 12, 13, 14, 15, 16, 18, 21, 23, 30, 33, 34, 35, 39, 42, 47, 48, 49, 50, 51, 52, 53, 55, 56, 57, 59, 60, 61, 63, 66, 68, 71, 72, 74, 75, 81, 82, 83, 84, 86, 87, 88, 91, 92, 93, 94, 95, 100, 104, 105, 107, 108	59	\$7,028
Attractive cuts, inadequately justified: 9, 31, 32, 43A, 58, 62, 64, 65, 69, 89, 90, 97, 98	13	2,460
Doubtful cuts and items inadequately justified: 7, 10, 17, 19, 20, 24, 25, 26, 27, 28, 36, 37, 38, 40, 41, 43, 46, 54, 77, 79, 80, 96, 99, 101, 102, 103	26	4,351
Items which probably should have been excluded: 8, 22, 29, 45, 67, 70, 73, 76, 78, 85, 106	11	3,054
Total	109	16,893

DETAILED ANALYSIS

The following is a brief analysis of each of the projected budget savings, with emphasis on the impact in the fiscal year 1974.

1. *Eliminate certain optional payment procedures under OASI.*—This change was recommended by the non-partisan Social Security Advisory Council, which I believe was established pursuant to a specific Congressional mandate. I find it desirable and adequately justified.

2. *Eliminate Federal financing for low-priority medicaid services to adults.*—I find this desirable and adequately justified. Personally, I would have gone on to cite the University of Pennsylvania study showing how these funds have been used to provide contact lenses, elective surgery, and essentially unlimited dental care to strikers who temporary become eligible for welfare benefits.

3. *Reform medicare cost-sharing and implement effective utilization review.*—I like the priorities implied in the reform—to increase the government's share

² Most of the individual outlays savings are desirable and reasonably well supported. A balanced staff report would have made this point. Instead of limiting itself to the weak parts of the OMB listing.

³ Some of the outlay savings are desirable but the support presented is inadequate. This is the kind of distinction that I would have expected in a professional report.

⁴ Some of the outlay savings appear to be exaggerated or too vaguely described to be examined properly. Only a partisan study would have limited itself to these shortcomings.

of the longer hospitalizations which truly drain a family's resources and to reduce the government's share of the cost of the shorter stays. That seems to make good sense. I would have preferred some detail as to how the more intensive utilization review will be accomplished.

4. *Improve the structure of public assistance programs.*

5. *Eliminate duplicate burial benefits.*

6. *Bring pensions into closer alignment with needs.*—These proposed reforms seem clear, straightforward, and adequately justified.

7. *Reduce programs of the Agency for international development below levels previously budgeted.*—No substantive justification is offered. Under the circumstances, this item probably should have been left off the list.

8. *Returns from the European fund.*—This item, which is limited to the fiscal year 1973, seems to be a case of unjustified padding of the list. The action taken appears to be normal procedure rather than any special cutback.

9. *Office of Economic Opportunity.*—The action taken appears to be clear and straightforward. The justification, in contrast, is unclear.

10. *Farm price supports.*—Many of the specific actions taken seem to be sensible and desirable, such as raising some of the farm subsidy interest rates from 3.5 percent to 5.5 percent. However, some substantial portion of the "saving" would seem to be occurring automatically as a result of the brisk world wide demand for food. To that extent, some portion of the saving is overestimated.

11. *Rural water and sewer systems.*

12. *Farm emergency loans.*—These items seem clear and adequately justified.

13. *REA loans.*—Given the outstanding staff study on subsidies by the Joint Economic Committee, I would have expected a strong endorsement of the termination of the 2 percent REA loans. This subsidy program has outlived its usefulness. As the OMB points out, over half of the power furnished by the REA financed activities goes to non-farm residents. The 5% guaranteed loans are an adequate substitute.

14. *Agricultural conservation payments.*—This is a desirable savings which is fully justified in the OMB materials. It is a classic case where the benefits go to private interests who can afford to pay for them but the costs are borne by the taxpayer. It is the kind of change that I would have expected the JEC to endorse with enthusiasm.

15. *Special milk program.*—Despite the attractiveness of the label, the justification for eliminating this program is compelling. The present practice appears to be paying double benefits to some groups. Only the duplication is to be eliminated.

16. *Forestry programs.*—In general, this item appears to be adequate justified. However, if timber purchasers will not be willing to pay as much for timber rights if they must build roads, some of the savings may not be achieved.

17. *Agricultural research and extension programs.*—The justification submitted by OMB for this item is a good example of a bureaucratic response. It is not clear to me how improving the effectiveness of an activity will necessary lead to reducing its cost.

18. *Economic development programs.*—The elimination of EDA appears to be a straightforward saving. The return to the taxpayers on the massive investments in this area just do not appear to be significant.

19. *National Oceanic and Atmospheric Administration.*—It is difficult to evaluate the projected savings, because much of the justification supplied is in terms of what the agency will be expanding rather than cutting back. As in some other cases, I wonder how seriously the agency took the JEC request for information.

20. *Commerce technology development and utilization.*—It is hard to avoid reaching the conclusion that whoever prepared the "answer" to the JEC request forgot what the question was. The material offered appears to be the standard justification for a budget increase.

21. *Minority business development.*—The modest action, which is limited to 1973, appears to be justified.

22. *Shipping subsidies for Russian grain.*—This item, limited to 1973, appears to be a genuine reduction. But, it does not seem to have required any special or deliberate action. Fewer shippers needed to be subsidized than anticipated.

23. *Regional action planning commissions.*—This appears to be a straightforward termination. The current strong fiscal position of state governments makes the present the proper time for turning this responsibility over to them.

24. *Military and civilian personnel.*

25. *Procurement.*

26. *R.D.T. & E. reductions.*

27. *Construction.*

28. *All volunteer force.*—The explanations given for these reductions are not adequate. The reader simply cannot tell whether the cuts are real or the usual reductions by OMB of the requests by the spending agency.

29. *Tighten operations of revolving and management funds.*—Apparently, the military will reduce some operating inventories because of lessened requirements in Southeast Asia. This certainly is desirable. It is not clear why such a standard procedure qualifies as a special saving.

30. *Corps of Engineers—Civil functions.*—Here too, it is difficult to tell from the justification how much of the cuts are more than the usual reductions of the agency request. The JEC staff estimates that \$351 million of the \$650 million are "cosmetic" cuts, but it is not apparent how that figure was obtained. Certainly, the curtailment of the Corps of Engineers civilian construction program should be welcomed by the Joint Economic Committee, whose publications have done so much to educate the public on the shortcomings of so many of these projects. Indeed, some substantial curtailment appears to be quite real; the new budget authority requested for the Civil functions of the Corps of Engineers for 1974 is \$370 million below the amount for fiscal 1973.

31. *Strengthen medicare cost controls and eliminate unnecessary advance payments for hospitals.*—The \$300 million savings in fiscal 1973 from the termination of working capital advances appears to be quite straightforward. The \$277 million saving in fiscal 1974 results from strengthening cost controls which may very well be necessary, but whose nature is not adequately specified. The reference to the Economic Stabilization Program and the Cost of Living Council does not suffice.

32. *Strengthen medicare management.*—The reforms seem to be needed and desirable, although the actions contemplated could be more precisely described.

33. *Terminate Hill-Burton Act and regional medical program.*—These reforms seem straightforward and adequately justified. With reference to the JEC staff study complaint about the lack of data, there seems to be no shortage of such information in the public domain. The recent hearings before Congressman Rogers committee in the House provide a good case in point.

34. *Phase out Federal financing for local mental health programs.*—The action to be taken is quite clear. The eight-year cut-off would appear to provide an ample opportunity for the federal "seed" money to germinate.

35. *Eliminate duplicate health program grants.*—The justification appears to be adequate.

36. *Phase out training grant and control new research grants.*—Through apparently a clerical error, the OMB submission repeated the justification for item 37. Hence, there is no available justification to review.

37. *Focus health manpower training support on areas of special need.*—It is difficult to evaluate the technical arguments for reducing support to these areas. Some of the reasons offered do not appear relevant (e.g., that federal institutional support to public health schools average less than one-fifth of their expenditures). Similarly, shifting more of the cost of nursing schools to patient care does not sound compelling under present circumstances.

38. *Foreign language and area programs.*

39. *Land grant college aid.*

40. *University community services program.*

41. *State departments of education.*

42. *Impact aid.*

43. *Public libraries and school library resources.*

43A. *Certain narrowly focused categorical programs.*—The proposal to substitute education revenue sharing for these six activities is quite straightforward and in the nature of a needed long-run reform. Many of these programs are excessively narrow. The "impact aid" is a program that clearly deserves curtailment, as a disproportionately large part of the benefits goes to wealthy school districts whose citizens—although they are the employees of government agencies or contractors—pay their full share of taxes. There is a host of negative evaluations of "impact aid" available in the professional literature.

Inadequate attention, however, has been given to the timing and transition problems in some of the programs, such as the language and areas studies. It is not clear how these activities are to continue their current level of operations

during the relatively length transition between ending categorical grants and getting education revenue sharing underway.

44. *Direct student loans.*—The outlay saving reflects shifting much of the program from direct loans, which are included in the budget, to loan guarantees (which are an extrabudgetary item).

45. *Statutory ceiling on social service grants.*—As stated in the OMB submission, the ceiling already has been enacted by the Congress. Under the circumstances, it is not clear why this item is included on the list.

46. *Adjust growth rate for vocational rehabilitation program.*—It is not clear from the OMB justification to what extent the "adjustment" of the growth rate is more than the usual cutting of an agency's budget submission, or the shifting of cost to another program (e.g., the Disability Insurance Trust Fund).

47. *Limit Federal funding responsibility for Cuban refugees.*—The five-year limitation on federal aid to an individual refugee seems quite reasonable.

48. *Institute quality control for social services research and training.*—OMB states that some of the research and training centers are duplicative and others are of poor quality.

49. *Eliminate overpayments of public assistance.*—OMB reports a March 1972 survey showing that 7 out of every 100 welfare recipients were ineligible to receive any benefits and 14 were being overpaid. The elimination of these overpayments and payments to ineligible persons would appear to be eminently desirable.

50. *Suspend new housing subsidies.*

51. *Terminate model cities in favor of special revenue sharing.*

52. *Terminate urban renewal in favor of special revenue sharing.*

53. *All other categorical community development programs.*—The JEC staff study shows great concern over the justification offered by OMB. " * * * let's base the decisions on some careful studies * * *" they state. As it turns out, there is no shortage of careful, professional studies documenting the perverse effects of these programs. Professor Richard Muth of Stanford University has written a critical analysis of public housing in which he stated, "The quarrel with the public housing program is that it has achieved far less in benefits to the lower income population than the same expenditure of resources, otherwise managed, could have provided. Indeed, most of public housing's faults are direct consequences of the very nature of the program." In a current study of urban renewal, Professor John Weicher of Ohio State University concluded. "The typical urban renewal project harms the poor and helps the rich by raising housing prices for the former and lowering them for the latter."

54. *Reduce Department of Interior construction activity.*—Apparently some construction projects are being deferred for a variety of special reasons, such as delays in completing reviews of environmental impact statements and changes in state and local decisions. These delays differ from the normal conception of the effects of an "economy drive."

55. *Water resources construction.*—Like the Corps of Engineers item (number 30), it is difficult to tell precisely how much of the cuts are more than the usual reductions of the agency request. The JEC staff estimates that \$70 million of the \$113 million are "cosmetic" cuts, but again it is not apparent how that figure was arrived at. As in the Corps of Engineers case, the curtailment of these projects should be supported by economists concerned with eliminating low-yield federal investments. Certainly, the general cutback of these projects appears to be very real. The new budget authority requested for water and power resources for fiscal 1974 is \$148 million lower than in 1973.

56. *Saline water research.*—The OMB submission points out that over \$200 million of federal investment in desalting work has not succeeded in producing water at an economical cost. The proposed cutback in this program seems to be warranted.

57. *Constrain Interior land purchases.*—The restraint appears to be adequately justified.

58. *Accelerate Outer Continental Shelf leasing.*—It is not clear from the OMB submissions how much of the increased receipts (which count as a negative expenditure) will result merely from increased private demand and how much from deliberate change in government policies and practices.

59. *Reduce other Interior Department costs.*—The modest reductions are estimated to be achieved by a curtailment of travel and other minor costs. The savings appear to be reasonable and achievable.

60. *Defer prison construction.*—The effort to acquire surplus State facilities and explore other alternatives to new construction seems reasonable.

61. *Curtail community relations service.*—The technical assistance program being discontinued has served its purpose, according to the OMB submission.

62. *Reform manpower training programs.*—Apparently, existing manpower training programs are to be converted to manpower special revenue sharing. In the absence of detail concerning which specific activities are to be curtailed in the process, it is difficult to offer an evaluation.

63. *Phase down emergency employment assistance.*—This appears to be a desirable move. With an economy characterized by strong demand-pull inflation and with so many states reporting record surpluses, this is an excellent time to cut back the emergency public employment programs. The states and localities can use their revenue sharing money, if they need to continue the program.

64. *Increase efficiency of employment and unemployment insurance offices.*—The OMB submission makes a case for increasing the efficiency of these activities, but it does not indicate how or where these efficiencies will occur. This may be a case of plain budget cutting, which of course is a legitimate form of "savings."

65. *Tighten operations and management of Labor Department.*—The OMB justification states that the "tightening" is occurring, but provides little detail to analyze.

66. *Allocate proper unemployment benefit costs to Post Office.*—It seems quite proper that the supposedly self-supporting Postal Service pay the employer cost of the fringe benefits for its employees.

67. *Federal-aid highway program.*—The OMB submission indicates that because the Congress did not pass the Highway Act of 1972, the program is proceeding more slowly than expected. It is not clear why this is included in the OMB list of savings.

68. *Defer Coast Guard construction.*—A minor amount of Coast Guard construction is being deferred, which appears to be quite reasonable.

69. *Reschedule FAA purchases and research.*—The OMB submission provides examples rather than a complete listing of the items being deferred, and these sound quite reasonable. Some undesignated portion of the saving results, however, from unanticipated procurement delays.

70. *Delay Airport Grants.*—Apparently, the delay is occurring because of outside factors such as environmental considerations and lack of applications. It is hard to justify labeling the result a "saving."

71. *Defer high speed ground research and development.*—Very long-term research is being slowed down, such as the tracked levitated vehicles whose potential application is in the 1980's. This appears to be quite reasonable.

72. *Reduce Amtrak subsidies.*—Contrary to the general impression, the reduction is not in the main lines of Amtrak but in new and experimental routes. This would seem to be justified in a period of fiscal stringency.

73. *Reduce urban mass transportation R. & D.*—It appears that, according to the OMB submission, the research is behind schedule and the outlay estimates merely have been reduced accordingly.

74. *Rephase intermodal R. & D.*—The situation is similar to item number 71.

75. *Increase efficiency in Coast Guard operations.*—A detailed listing is given of the items being cut and the justifications. The changes seem well-justified.

76. *Stretch out SST termination payments.*—The settlement of claims is proceeding more slowly than originally anticipated. Quite properly, the budget estimates were reduced accordingly. Yet, it is hard to identify any discretionary action that was taken to achieve any "savings."

77. *Increase efficiency of FAA operations.*—It is not clear from the OMB submission how the efficiency of FAA operations is to be achieved. The contemplated actions, described in general terms only, sound more like "belt-tightening," which of course is a legitimate way of achieving savings in outlays.

78. *Delay law enforcement center construction.*—The building is being delayed because of unresolved sewage treatment problems. It is hard to describe the result as a deliberate "saving."

79. *Reduction of Treasury personnel and other costs.*—The bulk of the curtailment occurs in the Bureau of Alcohol, Tobacco and Firearms and reflects a variety of factors, such as declining production of illegal liquor.

80. *Plowshare program reductions.*—"Environmental economic considerations" are listed as a major reason for slowing down the program.

81. *AEC space program reductions.*—The space electric power reactor and nuclear rocket projects are being cancelled because future missions requiring them are in the very distant future. This appears to be a sensible move.

82. *Miscellaneous AEC program reductions.*—The justification for these reductions is relatively detailed and reasonable.

83. *Reduce AEC working Capital and inventories.*—Apparently appropriate action to accomplish this already has been taken.

84. *Water pollution control.*—The OMB submission does not provide much detail on the reductions. However, the contemplated rate of program expansion is so generous (estimated outlays for construction grants in fiscal 1974 are more than double the 1973 figure) that it would appear the savings mainly result from a necessary effort to convert excessive appropriation optimism to expenditure realism.

85. *Provide more efficient guard service in public buildings.*—The OMB submission shows reduced levels of militant activity at federal buildings and points out that security workloads are being adjusted according. This seems reasonable, but is not adequately described as providing "more efficient guard service."

86. *Require more effective supply practices.*—The actions contemplated, such as reducing inventory/sales ratios, seem reasonable.

87. *Reduce new computer procurement.*—The GSA budget for buying computers has been reduced. This should provide a direct incentive to improve the utilization of existing equipment.

88. *Delay the Space Shuttle.*—The manpower and spending buildup on the Space Shuttle is being delayed with the result that its first planned manned orbital flight will not occur until late in 1978. No indication is given as to the effect on the total cost of the system, but a more "orderly" buildup in manpower and spending levels is forecast.

89. *Other manned space flight programs.*—Much of the claimed reduction in support costs appears to be the natural result of completing Project Apollo. Other long-term research is being deferred.

90. *Deferring high energy astronomy observatory.*—The project is being suspended for one year pending further study of lower cost alternatives. As pointed out in the AEI study, presumably NASA was supposed to have considered such alternatives prior to going ahead with the observatory in the first place.

91. *Cancel applications technology satellite-G.*—The project was cancelled because the Administration believes that further research can be accomplished by industry without government stimulation. This appears to be a very reasonable approach.

92. *Reduce nuclear power and propulsion research.*—Research relating to very remote applications (e.g., sending men to Mars) is being terminated. This would seem to be another sensible move.

93. *Cancel the Short Take-Off and Landing Aircraft project.*—The project has been cancelled because commercial market prospects for a STOL aircraft have not developed. DOD is continuing to work on a military prototype. This appears to be a very reasonable response by NASA.

94. *Reduce other NASA expenses.*

95. *Reduce NASA personnel costs.*—OMB contends that the modest reductions are consistent with the overall slowdown in the pace of NASA activities. There appears to be no reason to quarrel with that conclusion.

96. *Align veterans benefits and needs.*—The reform contemplated would be the first substantial revision of the disability Rating Schedule since 1945. The general notion of a review every 28 years is hard to fault. However, it is not apparent why an objective review would necessarily result in reduced outlays, and particularly by a given amount.

97. *Slow VA hospital construction.*—The OMB submission merely states that the slowdown in construction will take place. No details are offered for evaluation.

98. *Restructure VA research.*—Undesignated cuts will be made in VA research funds. No details are available for evaluation.

99. *Cut intergovernmental Personnel Assistance Grants.*—This new program is being reevaluated.

100. *Allocate retirement costs to the postal service.*—This is similar to item number 66, and quite proper.

101. *Maintain current support of corporation for public broadcasting.*—The saving shown—\$10 million for 1973—is an odd item. For much of the year, the "saving" resulted from the fact that the Congress did not pass the 1973 appropriation for the Corporation. Thus, the temporary "continuing" resolution limited the support to last year's level which was \$10 million below the request. The 1974 Budget now proposes to amend the 1973 budget request by the \$10 million.

102. *Curtail lower priority NSF programs.*

103. *Other selective NSF reductions.*—Some of the minor reductions appear to be quite straightforward, such as deferring the construction of a new oceanographic ship and laying-up an antarctic research vessel. The reduction of graduate student and institutional support is a more controversial matter. Coupled with other reductions in federal financial support to colleges and universities, the result is to exacerbate the serious financial squeeze now facing most colleges and universities. The OMB submission does not show any awareness of this effect of the contemplated actions.

104. *Shift SBA emphasis to loan guarantees.*—This is part of a continuing effort to encourage reliance on private financing, with federal encouragement. It reinforces the need for Congress enacting the Federal Financing Bank requested by the Administration.

105. *Terminate the Subversive Activities Control Board.*—The lack of functions of the Board is adequate justification for eliminating it. More vocal support for this action might have been expected from the long-term opponents of the Board.

106. *Slow down TVA construction projects.*—The "savings" shown result entirely from delays due to environmental problems, rather than any deliberate cutback.

107. *Federal contribution to Metro.*—The federal contribution to the Washington, D.C. subway system is being reduced as greater reliance is placed on bond financing.

108. *Absorb pay raises for civilian agencies.*—A portion of the federal employee pay raise in January 1973 is expected to be financed by offsetting savings made by the various agencies. This fairly standard procedure appears to be a desirable move.

Mr. WEIDENBAUM. Can I make or add one more point?

Chairman PROXMIRE. Yes, sure.

Mr. WEIDENBAUM. I think this committee has made a notable contribution in pointing out projects of this sort, notably the water resource investment projects. The budget cuts back those projects substantially, not one word of support in your study for that move.

The Space Shuttle which you have attacked as a low priority item, the Space Shuttle is downgraded in priority, not one word of support. That is what bothers me, the lack of balance in this statement.

Chairman PROXMIRE. Let me say, Mr. Weidenbaum, we simply commented on their justifications in the so-called staff study. We commented on the inadequacy of what they gave us. They did not send us data on their water resources hold down. We commented on what they gave us, that is what we felt was appropriate.

Senator SCHWEIKER. Even the administration has proposed that the public service employment money if unused should be used for the summer jobs program, so even they are saying that there is a need in the cities for this money. They are not impounding it if it will be used for summer jobs to solve some of our urban problems, so even they did not recommend that.

Mr. WEIDENBAUM. Senator, I suggest you examine this April 16 staff study in the context of the fine, excellent staff studies done by this committee over a long period of time. In fact, the same day I got this staff study, the staff gave me another staff study on food prices which is an outstanding piece of work. I may not agree with all of it, but it certainly shows that this staff of the Joint Economic Committee is capable of doing professional, balanced analysis. This, I think, is one of the most partisan documents that has ever come out of this committee.

Chairman PROXMIRE. I think we ought to get off this part of the record because we are repeating ourselves, but I do want to say this

was not the usual kind of a staff study. It was a reaction on our part to what we thought was inadequate data provided us by the administration to justify the cuts that they were making in the various programs. We thought we were going to get some substantial analysis because, as you may recall, Mr. Weinberger wrote an article in the New York Times, in which he said this was the most comprehensive and detailed kind of analysis that had ever been made by the Government of spending programs, and we said we would like to get hold of that. What we got was just no analysis at all. We asked him for the details. After all, excerpts from a Romney speech are hardly a substitute for the hard data and analysis on which Secretary Romney may have made his decision. We had to base our judgment, our response, on what they gave us.

Do you want to comment, Mr. Okun?

Mr. OKUN. I just regret deeply I did not read that staff study so that I could contribute another unbiased professional view to this dialog. If my silence is incriminating, it is neither agreement nor disagreement with either side.

Mr. WEIDENBAUM. May I emphasize the fact that the study of the budget which I submitted to the committee does examine that same OMB tabulation and does not give it a clean bill of health. It is not a whitewash. I do point out exaggerations, shortcomings in the OMB tabulation, but I suggest it is also a balanced appraisal, because there are good parts to it which I do identify, and that is what is lacking in the JEC staff study.

Chairman PROXMIRE. We did not comment on the tabulation, we commented on the backup data which we just thought was not adequate; and I think if you look at it as a professional, you would agree it was not inadequate, at best.

Mr. WEIDENBAUM. I venture—

Chairman PROXMIRE. I hope you will take me up now on our invitation to supply to the committee whatever you have, whatever thoughts you have, whatever studies you have to justify the cutbacks.

Mr. WEIDENBAUM. Fine. I have not seen the OMB—

Chairman PROXMIRE. I do not want you to go to a lot of extra work, but whatever you have available that you can give us, we would appreciate.

Mr. WEIDENBAUM. If your staff will give me a copy of Ash's statement I will be glad to respond.¹

Chairman PROXMIRE. I want to thank both of you very, very much. As I say, you contributed greatly to a good beginning for our subcommittee, and we are mighty grateful to you.

Mr. WEIDENBAUM. Thank you.

Mr. OKUN. Thank you.

[The following article was subsequently supplied for the record by Mr. Weidenbaum:]

[From Washington University magazine, St. Louis, Mo., summer 1972]

URBAN DECAY IN ST. LOUIS

A team of six authors and analysts recently prepared an extensive report, printed in part below, which traces the factors that led to urban decay in St. Louis. The situation in St. Louis parallels the experience

¹ See Mr. Weidenbaum's response, beginning on p. 32.

of other major cities, the report brings out with one difference, that of scale: "No major American city approached the proportion of St. Louis's total population loss in the decade just ended." Directed by Murray L. Weidenbaum, Mallinckrodt Distinguished University Professor, and Charles L. Leven, Director of the University's Institute for Urban and Regional Studies, the study emphasizes that there is no single cause for urban decay. But the report also stresses some potent economic facts of life, which, if not faced by the public and private sectors, will inevitably lead to further decay. The study was made possible through a grant from the U.S. Department of Housing and Urban Development. Collaborating on the report with Weidenbaum and Leven were R. B. Read, a private consultant; Professor Hugh O. Nourse of the University of Missouri at St. Louis; Professor Leroy Grossman of St. Louis University, and Professors James T. Little and Judson T. Shaplin of Washington University.

It was in 1876 that St. Louis took steps which have had profound and permanent impact on its internal development. With a population of roughly a third of a million people, the city had then comprised an area of 17.98 square miles, bounded on the west by Grand Boulevard, beyond which were open farmland and the estates of the wealthy. Taking advantage of provisions of the new State Constitution of 1875, St. Louis simultaneously extended its limits for the fifth time and, by adopting the nation's first home-rule city charter, separated itself from St. Louis County.

The long-range political effect of this action was to fix the city's boundaries permanently at the 1876 limits, a fact which has placed severe fiscal and jurisdictional constraints on natural change and the city's ability to cope with it. In the two decades of rapid regional expansion following World War II, the city has been "ghettoized"—that is, rigidly contained within arbitrary and irrational boundaries.

Exactly fifty years after separation from the county and the final fixing of the city limits, St. Louis missed an opportunity to have and eat its cake—that is, to retain jurisdiction and extend its limits in the direction of growth by incorporating the entire county within city boundaries. By the time of the annexation vote of 1926, defeated by the electorate, the course of development was clear, for in the decade 1929–1930 the county grew by 111,000 people while the city added only 49,000. In 1930 another opportunity at federation, under a state constitutional amendment, was also defeated. More recently, in the 1950's, another unsuccessful effort was made to establish metropolitan-wide government.

Since 1950, flight to the outlying areas became so precipitous that while St. Louis itself experienced a gross population loss of 234,560, all six of the counties in the Standard Metropolitan Statistical Area gained and St. Louis County more than doubled its population. By 1970 the city had only 26 percent of the people in the SMSA and St. Louis County had 40 percent, with the remaining third spread among the other five counties, but predominantly in Illinois.

It is clear that out-migration from St. Louis between 1950 and 1970, far from being a mere "escape to the County," has contributed to the wide dispersal throughout the metropolitan region which has been the common postwar experience of American cities. But there is a difference, and it is one of scale: no major American city approached the proportion of St. Louis's total population loss in the decade just ended. But gross loss is only one aspect of population changes in St. Louis.

While the age differential between population lost and population gained has been slight, there has been a very wide disparity in economic and social levels. The out-migrating whites have comprised largely middle- and upper-income families of high educational attainment able to purchase new housing in outlying areas, while in-migrating blacks have been concentrated in low levels of income and education.

We find that, relative to other major American cities, the black population of St. Louis is particularly disadvantaged economically. In this regard, although St. Louis is geographically a border state, we find that in fact it ranks among southern cities. Among nineteen major cities in 1960 the median income of black males in St. Louis was \$3,029—ranking the city fourteenth. Considering the disparity between black and white male income, we find that in St. Louis the median black income was only 61 percent of median income for all males; and in this regard St. Louis ranks sixteenth among the nineteen cities, with a greater disparity shown only by Houston, Louisville and Atlanta.

To understand the developing St. Louis economy, it is necessary to focus on the growth of primary or manufacturing employment. A single industry—aircraft and parts—accounted for over 40 percent of total growth in manufacturing jobs in the St. Louis region in the decade 1958–1968. The remainder of the growth was scattered over a wide variety of industries—notably motor vehicles, fabricated metals and electrical equipment.

The nature of the dependence on the regional economy for new jobs becomes even clearer when the aircraft and parts industry is examined. Unlike the area's other industries, one firm accounts for the great bulk of employment generated by the total industry: for the years in which data are available (1962–1968), McDonnell Douglas accounted for an average of 96 percent of total employment in aircraft and parts. To compound the matter, generally one product has accounted for most of the local employment of that firm—during the 1960s the F-4 Fighter Aircraft and more recently the F-15 Fighter Aircraft.

The dependence of a large metropolitan area on one product produced in one firm in one industry is a unique phenomenon in the American economy. The Detroit area, with its heavy dependence on the motor vehicle industry, is usually thought of in this regard; but four large companies there produce a diversified array of automobiles, trucks, appliances, electronic systems, etc. The strictures of the St. Louis dependence are particularly interesting when seen in the light of the historic role successively dominant modes of transportation have played in St. Louis's growth—the rapid development centered on the port facilities, the subsequent westward shift of the central business district to the area of Union Station (now almost deserted as twelve trains a day arrive and depart), the permanent demotion of St. Louis to a secondary, slow-growth position in the Midwest trade area as Chicago extended its hegemony as the transcontinental rail hub. The automobile, together with a highly articulated net of arterial and feeder access routes, has made possible the areawide dispersal of both population and industries, and it now provides, after aircraft and parts, the second largest component of manufacturing jobs (and of recent manufacturing growth).

Clearly, had it been possible to locate the aircraft industry within the city, the municipal economy would have been very significantly bolstered. However, aircraft manufacturing must be located adjacent to a major airport, and the fixed city boundaries determined that Lambert-St. Louis International Airport be in the county. McDonnell Douglas recruits its labor force from the entire Standard Metropolitan Statistical Area, with more than 20,000 living in St. Louis County, almost 5,000 in Illinois, and slightly over 3,300 in the city.

In summary, we see that the St. Louis Standard Metropolitan Statistical Area growth, in any case anticipated to be relatively slow, is rather precariously based. The implications of this are many, but they have peculiar relevance to the continuing rivalry between St. Louis County and the city, in which advocates of county growth appear to consider that development can proceed independently of the city's economic vitality and even at its expense.

Between 1950 and 1970 all categories of employment experienced absolute decline in St. Louis, but most rapidly between 1954 and 1958 when the city lost 11,800 manufacturing jobs in a basic shift of the productive structure from labor-intensive industries to more technologically advanced, skilled-labor industries. In the four years there occurred a mass exodus of textile, apparel, shoe, wholesaling and meat packing firms, most of which had been located in the city. This structural change, involving a significant drop in the percentage of unskilled jobs in the region and a very large numerical drop in such jobs in the city, has obvious bearing on the recently observed net out-migration of blacks. The City of St. Louis is no longer in any sense a locus of opportunity for immigrants from rural areas.

The role of the central business district in the present-day metropolis is in part a symbolic one. It must have, if not the sweet smell, at least the look of success. In these terms St. Louis, in 1950, was particularly disadvantaged. It was old, and it looked old. There had not been a new office building in twenty-five years; it was interspersed with deteriorating warehouses and surrounded by decaying slums, both white and black, with no space for expansion.

Beginning in 1950, with selection of the Plaza Renewal Area, a remarkably successful transformation of the Central Business District and waterfront area has been achieved. This involved the investment of more than \$700 million in private and public funds, and was assisted by federal slum clearance programs and tax abatements under the Missouri Redevelopment Law. The period has seen the appearance of new high-rise apartments, five major office buildings, a new

stadium, Jefferson Memorial Arch and Park, two major industrial areas with new buildings, and handsome new structures of St. Louis University as the campus was extended eastward onto cleared, one-time slum acreage. Since 1965 alone 200 firms have either moved into or changed their location within the Central Business District.

These changes have been accompanied by a shift from blue-collar to white-collar workers in the Central Business District area. But St. Louis's assumption of the financial center role typical of the present-day metropolitan core has been impeded by two factors: one is the relatively slow economic growth which has been noted, so that the pressure on land values in the downtown area observable in Manhattan, the Chicago Loop and San Francisco's financial district has failed to be maintained. Another factor is the Missouri law prohibiting the establishment of branch banks, which has had a two-fold effect. First, it has prevented older banks in the core from strengthening their position via branches in the rapidly expanding suburbs and thus from developing large headquarters in the Central Business District. Second, it has fostered the establishment of new banks in the larger suburbs and thus contributed significantly to development of what is in effect a secondary Central Business District in Clayton, the St. Louis County seat, seven miles distant from the metropolitan core.

The shifts in population and industry which we have noted for the past twenty-year period have left St. Louis with a disproportionately small share of the metropolitan area's high-income families, a disproportionately large share of the low-income groups, and a dwindling share of all sectors of industry. These shifts have meant that the city has an ever-smaller share of the tax base as well, at the same time as the costs of municipal services have greatly increased. The scale of services has risen almost as sharply, since the poor—who comprise a growing component of the population—require expanded city services. Thus, the city's ability to cope with the problems of blight and its efforts at renewal are burdened with mounting financial difficulties.

Much of the city's fiscal difficulties can be attributed to the paucity of aid from the State of Missouri. A study by the Advisory Commission on Intergovernmental Relations of 69 cities showed that only thirteen received a smaller percentage contribution from their respective states than did St. Louis. And another recent ACIR study ranks Missouri 43rd, both in intergovernmental financial assistance and in intergovernmental expenditures as a percentage of state personal income.

These data not only indicate the stringent need for increased aid from the State of Missouri but also underscore the central role played by federal funds and programs in the city's effort to cope with its problems of blight, residential housing and urban renewal. However, many of these programs call for matching city funds; in 1971, for example, the city spent \$302,430 in general revenue funds for demolition of 1,124 buildings—for which the federal grants totaled \$746,000. Hence, the adoption of a program of sharing a portion of federal revenues with state and local governments would particularly benefit central cities such as St. Louis which carry a high tax burden.

White exodus and the spread of blight are reciprocally reinforcing. In the years following World War II a combination of factors made large-scale exodus of middle-class families from St. Louis almost inevitable. This would probably have taken place without pressure for housing from low-income groups, white or black. From the mid-1950s onward, when white exodus accelerated, the out-migration was involved in the circular process, but at its beginning it was a separate phenomenon, and as such the wholesale movement of middle class whites from the central city may be said to have initiated the blight cycle.

This movement was accelerated by a variety of reinforcing mechanisms as well as by its own momentum. The basic underlying motivation was a matter of simple household economics. Individual households are always faced with the question of choice of residential location, in principle, although at any given time relatively few families will be changing from one to another housing arrangement. This was not the case, however, in the period following World War II when property owners in large numbers had important decisions to make as between reinvestment or moving. One side of this decision—the decision to say—had suddenly become an expensive option due to two decades of deferred maintenance. At the same time, the costs of opting for moving out of the old neighborhoods had become drastically cheaper.

A combination of widespread automobile ownership, the building of highspeed expressways, and the much more favorable terms for financing new suburban property under FHA and VA simply made suburbia a better buy, especially con-

sidering the rapidly rising incomes and income expectations of the early 1950s. The outward movement was accelerated by a number of additional elements, but it is important to recognize that the basic triggering cause itself was a coincidence of forces in the ordinary mechanism of the private housing market. It is significant, too, that the more massive exodus occurred in the 1950s, before the sharp rise in inner-city crime rates and before blight had reached its peak of severity.

It was older, deteriorating middle class housing which became massively available in St. Louis during 1950-70. What caused severe dislocation within the housing market was that the only significant demand was for very low-cost housing. And there was a gross disparity in scale between supply and demand, evident in the basic data of net migration. In the twenty years during which over 400,000 whites left the city there was a net in-migration of fewer than 16,000 blacks. It is not surprising that at the end of the period—despite the loss of 24,596 city dwelling units, mainly through demolition—city vacancies had risen from 4,426 to 22,962. In the interim, a constantly renewed stock of devalued housing had been successively and systematically depleted in a cumulative process of economic exploitation. This cycle of depletion—a solely economic process—is the fundamental dynamic of blight. It is this process whose end-product is large-scale residential demolition not associated with expressway construction. Its operation is traced in the following.

Given the gap between supply and demand, both quantitative and qualitative, the housing stock made available to the market by the departing whites was immediately in a distress position. Once it was sold rationalization ineluctably took the form of lower-level, intensified use—the effort to extract profit from low rents through crowding, doubling, conversion to multiple units, merger of small units to accommodate large families. With taxes fixed, as well as rates on insurance (if it was available), the only cost which owners could reduce to adjust to the reduction in rental income was maintenance. With minimal emergency maintenance, or none whatever, at the same time as intensified use of old housing would normally call for greater maintenance outlay, severe deterioration and eventual abandonment ensued.

The deterioration practices ensuing from devaluation and lower-level use led to a loss of confidence on the part of insurance companies and lenders, who fear that the value of housing will decline faster than the value of mortgages (as indeed is often the case), and this produces a cumulative effect. First on a selective basis—particular houses, certain blocks on certain streets—then area-wide by blanket “red-lining,” insurance is refused and conventional financing is withdrawn. All of North St. Louis was thus red-lined in the 1960s, and the practice was extended to the suburbs in Wellston and in University City north of Olive. A normal real estate market then ceases to exist for the affected area. Speculators move in, acquiring houses at greatly distressed value for resale to the poor—usually at a price three to four times what was paid in cash—on a land contract basis, with third and fourth mortgages held privately (and, in common practice, anonymously).

This stage of the process, extremely deteriorative to neighborhood quality, has also been abetted by public policy. Although the incentive to maintenance is vastly greater with owner occupancy, a low income owner's ability to support upkeep is no greater than if he were renting—perhaps less, since he may have strained his resources to the limit in order to achieve ownership. Section 235 of the Housing Act—which was designed, like the public housing effort, to help the poor find housing of standard quality—fails in this regard for it makes no allowance for maintenance costs. The subsidy given families under Section 235 covers only the difference between mortgage payments and some fraction of their income. (In recognition of this deficiency, special subsidies in the form of grants have recently become available to eligible purchasers of of 235 housing for essential repairs reported before December 31, 1971. We have not been able to ascertain the extent or success of this program.) But there is no increment of the purchaser's income left for maintenance. Hence, when a major emergency arises—affecting the furnace, plumbing, the roof or, worse, structural decay—the family is often without recourse, and must relinquish its ownership and move out. Payments then stop, foreclosure ensues, the house is abandoned to vandalism, and arson remains the speculator's final opportunity to realize a further return.

A sequel of foreclosure would, in fact, seem to have been preordained by local administration of the Section 235 program, as documented by a June, 1971 report of the U.S. Commission on Civil Rights. Selection of housing, advertisement to

prospective buyers, and all dealings with purchasers were in the hands of real estate brokers, most of whom were reluctant to pursue the program since sellers had to pay all closing costs. No government office was responsible for counseling families in how to buy a home because the U.S. Department of Housing and Urban Development (which had authority to set up such a service) assumed that voluntary groups would provide this function.

Yet when the Urban League attempted to provide counseling in St. Louis, the local FHA office refused to provide the list of builders in the County who had been authorized for new 235 housing. The sale of older housing under the program was made by speculators. Of the existing houses sampled in the St. Louis survey, 29 percent had been sold by a single speculator. He had solicited purchasers among Aid to Dependent Families resident in Pruitt-Igoe. This group was no longer acceptable as rental tenants in local public housing. That black purchasers of 235 housing in St. Louis were universally directed to segregated areas is documented by the report, but more to the point of the present study is the fact that they were sold unsound housing. A mortgage company employee indicated to the Commission investigators that no house selling for less than \$15,000 in the St. Louis area could be up to FHA standards, yet the average selling price of Section 235 housing sampled was \$12,890, and the average age of the housing was over 40 years.

Whether for rental or ownership, the central problem of the conversion of older middle class housing to occupancy by the poor is maintenance. The inability of either private or public policy to find a solution to this problem can be pinpointed as the immediate source of blight. Two devices that seemed to offer a possible solution and that sought to arrest the blight process through upgrading of the housing stock itself—a direct, frontal attack through code enforcement, and selective amelioration through a rehabilitation program—have both proved ineffectual.

Code enforcement—even if the city had the resources to apply it—does not provide a solution, since its successful operation has the effect of excluding the poor. Today's standards of housing adequacy as expressed in the building code are higher than in earlier periods. The cost of improvements to meet the code is similarly at an all-time high and the improvements necessary to meet code requirements is greatest for the old structures available to the poor, either for rental or purchase. This combination of factors precludes the possibility of code enforcement in housing for the poor and restricts its use to the preservation of residential quality in selected areas of middle- and upper-income occupancy.

The history of the city's attempt at code enforcement in the 1950s is revealing. In 1953, an official housing survey cited 57,000 specific family units in need of inspection for rehabilitation or reconstruction. By 1960, less than 39 percent of the units had been inspected. The record of limited follow-through on violations found and cited is documented in the report of the Code Enforcement Task Force of the Aldermanic Housing and Urban Development Committee.

The rehabilitation program has had considerable success in St. Louis, and offers promise of more. However, it does not offer a solution to the problem of converting aging housing to use by the poor. The terms of eligibility are such that, whether rehabilitation is carried through by owner-occupants or by landlords for rental units, it provides lower-middle to middle class housing.

The rehabilitation performance of the West End Urban Renewal represents, the largest single program in the nation at this time, with 1,390 dwelling units in 570 residential buildings completed and another 110 units in process. It has been most successful when the restorations have been clustered along a single street, since the general upgrading of the neighborhood has proved also infectious, inspiring privately undertaken rehabilitation and even new construction.

None of the devices that have emerged to date for arresting the blight process—code enforcement, rehabilitation, occupancy permit—provides a solution to the problem of housing the *poor*. They may slow down the process of blight, but not contain it. In fact, as we have seen, these devices can operate successfully only by excluding the poor.

1. One implication of the facts for the city of St. Louis presented in this report is that other parts of the central city, as well as elsewhere in the metropolitan area, could go through a similar transition as the northwest corridor unless adequate preventative or corrective actions are taken. One example is the extensive white out-migration has taken place in the South Side of the city of

St. Louis. Some of the nearby neighborhoods in the South Side have experienced out-migration of over one-fourth of their white population during the past twenty years.

In general the housing of the South Side was built before 1930. Also, we can see the extent of black movement into the area by the time the 1970 census was taken, and from our school study we know that it has been accelerating in the past two years.

2. In its work, the research group did not encounter specific factors that could arrest the spread of blight on the North Side of St. Louis.

We have already noted the hopeful aspect of federally sponsored rehabilitation programs, with dwelling units clustered on a neighborhood basis so that what is eventually achieved is restoration of an entire neighborhood. We would suggest that areas selected for this kind of rehabilitation be located at the boundaries of still-stable neighborhoods (the private streets, for example, or the areas of professional black occupancy) and extend either inward upon a blighted area or, ideally, toward another stable neighborhood. It would appear to be folly, for example, to locate even a large rehabilitation project in the middle of a blighted section so that it is surrounded by social decay.

3. The role of federal policy at this point seems ambivalent at best. If indeed it wishes to halt the attrition of central cities it would appear logical at least to terminate the policies that brought it about. More logical still, it could bestow upon central city development those subsidies which would then be withheld from the suburbs. At times, the Federal Home Loan Bank—because of its concern with the safety of the assets of its member institutions—has taken action (such as increasing required reserves in connection with mortgages in certain areas) which have seemed to exacerbate the spread of blight in large areas of the central city.

That federal housing policy could reverse itself and apply its resources to reinvesting in the central cities is not a capricious suggestion. Here, ready at hand, are areas with utilities and accessibility on a large scale. Why not, in fact, mount a New Towns program within the central city?

The dilemma suggests the desirability of an alternative-costs study—or rather, not one but a series. What are the alternative risks in giving new developments viable size? And what represents viable size minimal or maximal? Should not HUD review the totality of its piecemeal programs for revitalization of central cities against the cost of such an all-out program?

First, it obviates the problem of containment of the poor. In new public housing specifically for the poor, however widely it may be scattered throughout the city or the metropolitan area, there is inevitably a degree of concentration, an element of containment. By means of subsidized maintenance of rehabilitation units, however, the poor may be truly scattered in selected individual buildings dispersed throughout moderate-income areas. The onus of manipulation would also be avoided, since tenants would be able to choose the units, subject only to criteria of maximum income and family size.

What is proposed is minimal rehabilitation: that the structure be sound and that its heating and plumbing be maintained in working order. For the truly poor, these rudimentary amenities would represent an improvement in their housing condition, particularly if they existed in a non-slum environment, a moderate-income neighborhood. Throughout the city at the present time are structurally sound, vacant buildings which may be purchased for \$1,000 to \$2,000 or less. In areas not slated for Mill Creek-type renewal, it is proposed that these buildings be acquired and restored to two levels of occupancy: the major portion thoroughly rehabilitated for moderate-income use; the smaller portion brought to the minimal standard suggested above for use by the poor.

The problems of the 235 housing program would indicate that any such rehabilitation program should require someone to be accountable for the quality standard of any housing for the poor, or it simply will not be done. Someone needs to be responsible other than the poor household that cannot correct deficiencies if they appear. Furthermore, the value of such housing should not be based on what the poor family can pay after taxes and insurance. Rather, it should be based on what they can afford after allowance for taxes, insurance, and realistic estimates of maintenance and repair expenditures on older housing.

It is suggested that such a program, in contrast to new construction, could meet the poor's housing needs more quickly, at considerably less capital investment and only slightly higher ongoing maintenance cost, and with considerably

higher social benefit. It should also be borne in mind that demolition costs for these buildings are only slightly less than their purchase price.

The St. Louis Community Renewal Program's constructive 1970-1980 program calls for construction of 45,000 new units in the ten-year period. In the twenty years between 1950 and 1970, only 6,964 units of public housing were constructed in St. Louis. We feel that a major program of housing rehabilitation is called for.

Chairman PROXMIRE. Our next witness is the distinguished chairman of the National Urban Coalition, Mr. Sol Linowitz, accompanied by the president of the National Urban Coalition, Carl Holman; the former Assistant Secretary of HEW, and professor of public policy at Cornell University, Lisle Carter; and consultant with the National Urban Coalition, Mr. Vick French.

Gentlemen, we are very happy to have you. Mr. Linowitz, may I say if you abbreviate your statement in any way we will be delighted to put your statement in full in the record. We would hope you will be able to complete your oral statement in about 10 minutes if you could and then we will proceed to questions.

STATEMENT OF SOL M. LINOWITZ, CHAIRMAN, NATIONAL URBAN COALITION, ACCOMPANIED BY CARL HOLMAN, PRESIDENT, NATIONAL URBAN COALITION; LISLE CARTER, FORMER ASSISTANT SECRETARY OF HEW, AND PROFESSOR OF PUBLIC POLICY, GRADUATE SCHOOL OF BUSINESS AND PUBLIC ADMINISTRATION, CORNELL UNIVERSITY; AND VICK FRENCH, CONSULTANT, NATIONAL URBAN COALITION

Mr. LINOWITZ. Thank you, Mr. Chairman and Senator Schweiker. First, I want to tell you how much I appreciate this opportunity to be back here on behalf of the National Urban Coalition. As you know, Mr. Chairman, since its founding in 1967, the coalition has been deeply concerned with the setting of national priorities—a matter which concerns the Joint Economic Committee—and particularly with the Federal budget—as the single most important instrument by which priorities are determined.

In 1971, after a year of study and evaluation the coalition published a document entitled "Counterbudget: A Blueprint for Changing National Priorities." That document projected an alternative set of national spending priorities for the 5-year period, 1971 to 1976. It has been described as the most intensive and thorough proposal for redirecting national resources toward urgent social and economic needs ever produced by a private organization.

Early this year, the coalition staff undertook a more modest task—an evaluation of the Federal budget for fiscal year 1974. When I appeared before this committee on February 14, you, Senator Proxmire, urged the coalition to complete its current analysis as soon as possible. The coalition staff was able to expedite its work, and on March 27 issued "An Alternative Budget for Fiscal Year 1974"—the document I believe you have before you.

Let me start by setting forth the major finding of the coalition's analysis. It is simply this: With a few welcome exceptions, the administration budget in effect declares that the crisis of the cities is over, that many of the needs of our most vulnerable citizens have

been met, and, therefore, that spending on social and economic assistance programs can be sharply reduced or even ended. We at the coalition do not share those views. We do not believe that these judgments accurately reflect the true state of the Nation, the desperate condition of many of our cities, or the urgent needs of many of our people.

Our strongest disagreement is with the level of spending the administration budget proposes for domestic programs. The coalition staff has calculated that if spending for defense, foreign assistance, space, farm subsidies and automatic income support programs, such as social security, are left out of account, and if no allowance is made for impoundments this year, Federal spending that directly benefits States, cities, and human needs will actually decline by about \$1.6 billion between fiscal years 1973 and 1974, dropping from \$50.1 billion to an estimated \$48.5 billion.¹ The administration's own projection of a 3-percent inflation factor would require an increase in these fiscal year 1973 domestic outlays of \$1.5 billion. If a more realistic inflation factor of 5 percent was assumed, fiscal year 1973 domestic outlays should rise by \$2.5 billion in fiscal year 1974. Thus, a consideration of inflation alone suggests that the real domestic spending reduction, as proposed in the President's budget, between this fiscal year and the next would be between \$3 and \$4 billion.

Aside from the problem of dollars, there is less disagreement in the alternative budget with a number of policy recommendations put forward by the administration in order to reform and consolidate a number of Federal aid programs. Let me just interpolate, Mr. Chairman, we are calling this current piece the alternative budget to distinguish it from the counterbudget. We played around with calling it "son of counterbudget," but we didn't think that was dignified. So we are referring to it here as the alternative budget. In several important areas, it seems to us, the administration is clearly moving in the right direction—for example, to consolidate manpower training programs, to find direct grants for college students, and to open up the highway trust fund for mass transit needs.

I should emphasize, however, that the alternative budget differs with various administration proposals for program consolidation on the question of how clearly and precisely Federal purposes and goals should be specified. Where consolidation seems advisable, the coalition budget recommends moving to a block-grant system under which Federal aims and guidelines are spelled out but implementation is left to State and local authorities.

Let me point out several guidelines which were followed in putting together the alternative budget.

The decision was made to reorder priorities within the overall spending ceiling recommended by the President for next year—\$268.7 billion. The alternative budget assumes the same level of revenues and the same level of deficit spending indicated by the administration budget. It takes no account of additional revenues that could be produced by tax reform or increased taxes. It does not deal systematically with impoundments in fiscal year 1973; many of these remain unresolved. It does not address every Federal program or even every func-

¹ These figures do not include general revenue sharing, which will decline from \$6.8 to \$6 billion between this fiscal year and the next, owing to the inclusion of part-year payments for fiscal year 1972 in fiscal year 1973 outlays.

tion in the administration budget, but only those programs and functions regarded as most crucial.

The alternative budget is in a very real sense a minimum budget. Further reflection and further evaluation would certainly suggest other areas in which reductions and increases could be recommended.

The major spending and policy recommendations of the alternative budget can be briefly summarized as follows:

The alternative budget would cut \$5.1 billion from defense outlays by accelerating military manpower reductions already underway, by reducing the excessive proportion of higher-ranking military officers and enlisted men, and by phasing out nine low-priority weapon systems. It would gain an additional \$1 billion by cutting 1974 general revenue sharing outlays from \$6 billion to \$5 billion in recognition of the large budget surpluses in State government treasuries which has been alluded to earlier this afternoon.

We would take these savings of \$6.1 billion and shift them to eight domestic program areas: community development, the Office of Economic Opportunity, housing, education, manpower and employment, health, income, security, and veterans benefits. The apportionment of this \$6.1 billion among these areas is shown in the table attached to my statement.

[The attached table referred to follows:]

Program :	<i>Dollars (in billions)</i>
Community Development.....	0.5
Office of Economic Opportunity5
Housing3
Education	1.2
Manpower and Employment.....	1.2
Health	1.1
Income Security.....	1.1
Veterans Benefits.....	.2

Mr. LINOWITZ. Briefly, here are the major alternative budget recommendations: We would reverse the administration's decision to terminate six community physical development programs (including urban renewal and water and sewer grants, for example), and the four low- and moderate-income housing subsidy programs, on the grounds that the terminations threaten to strangle major construction activity across the Nation. But the alternative budget also recommends combining the present community development programs in a new community development bloc grant program to be initiated in fiscal year 1975, which would require spending a major share of development funds in disadvantaged neighborhoods and give local officials and citizens greater discretion to implement physical development. The alternative budget specifies needed reforms of the housing subsidy programs and would fund more extensive experiments with direct housing grants. OEO and Model Cities would remain intact.

As you know, the administration's urban community development special revenue sharing bill was sent to Congress last week. It seems clear this proposal is deficient in several respects, by comparison with the block-grant program recommended by the alternative budget. The administration's measure neither spells our Federal purposes, goals and guidelines in detail, nor proposes a mechanism to insure that local government agencies would spend funds in areas of greatest need.

Moreover, the distribution formula in the new measure would in effect automatically grant money to many local governments which have little need for community development funds, and thereby sharply reduce funds for many cities whose community development needs remain great. Perhaps you saw in the paper the other day a story of how the bill would work locally, by cutting funds for the District of Columbia and making very large resources available to Montgomery County.

Second, the alternative budget would retain title I of the Elementary and Secondary Education Act on the grounds that it already constitutes a well-designed system for channeling Federal funds to disadvantaged schools, substantially increase outlays for the program, and require better administration to ensure that funds are, in fact, spent for the benefit of disadvantaged children.

The alternative budget endorses—with some reservations which we spell out—the administration plan to shift control of manpower training programs to local officials, but, unlike the administration, it would substantially increase funds for public service employment and establish a formal link between manpower training and public service employment to ensure that a large proportion of trainees actually secure jobs.

The alternative budget would reverse the regressive administration proposal to cut health training and facility funds and to increase the costs of participation in medicare and medicaid. More important, it recommends that a national health insurance program be initiated in fiscal year 1975.

The alternative budget would resurrect welfare reform by providing, in fiscal year 1974, a Federal income floor calculated at \$2,600 for an eligible family of four, raising the floor to \$3,000 and supplementing the income of the working poor in fiscal year 1975, and moving progressively to a fully adequate Federal income maintenance system over several succeeding years.

Now, let me just say a further word, Mr. Chairman, if I may, about the proposal that we cut a billion dollars in general revenue sharing, since some question has been raised by mayors and others regarding that suggestion. One of the strongest arguments used over the years to justify the concept of general revenue sharing was the disparity between the ability of the States and the ability of the Federal Government to raise revenues. Recently published information indicates that most States enjoy a revenue surplus totaling at least several billion dollars, mainly as a result of the institution of new State taxes or increases in the rates of existing taxes. That suggests, at least, that the Federal Government ought to take a new look at the fiscal imbalance rationale for general revenue sharing.

The matter would be less troublesome if there were evidence that the States intended to channel a significant share of their surpluses to these urgent human needs inside or outside of our cities, but reports that have come to our attention suggest that that is not happening. In California, for example, where the budget surplus is reportedly close to \$1 billion, the Governor has publicly stated he intends to use the excess for State tax rebates.

Decisions of that sort seem to us to be particularly unjustified at this time, when the pertinent fiscal difficulties of cities have been

exacerbated by the very budget cuts to which the alternative budget objects.

It is for these reasons, then, that the alternative budget recommends a 1-year reduction of \$1 billion in the States share of general revenue sharing, and redirection of those funds to the urgent human needs specified throughout the document. The \$1 billion in question, I want to emphasize, would not be lost to States, cities and needy citizens, but simply channeled to them via routes other than general revenue sharing. This point can be made clearer, perhaps, by listing just how the alternative budget would allocate this \$1 billion: \$82 million would go to community development; another \$82 million to OEO; \$49 million to housing; \$197 million to education and the same amount to manpower; \$180 million to health and a like amount to income security programs; and \$33 million to veterans benefits and services.

Finally, on this issue, let me say, Mr. Chairman, that the alternative budget regards the cut as temporary. Evaluation over the next year and new evidence about the revenue position of State governments may well suggest that not only should the cut be restored in fiscal 1975, but that the \$6.2 billion in general revenue sharing funds scheduled for distribution in that year might well be substantially increased.

I have undertaken at the end of this statement, Mr. Chairman, to talk briefly about policies that go beyond what is actually contained in the alternative budget—to address some of the implications of the alternative budget for fiscal year 1975.

The alternative budget recommends three programs that would demand relatively small outlays, or no outlays at all, during the next fiscal year—welfare reform, national health insurance, and experiments with direct housing grants. By fiscal year 1975, however, all three programs could require substantial additional spending.

If, as the alternative budget recommends, welfare reform was upgraded in fiscal year 1975 to provide a Federal floor of \$3,000 for a family of four, and if wage supplements for the working poor were initiated, it is estimated that Federal outlays for income security would increase by \$5 to \$7 billion.

A limited program of national health insurance that provided coverage for lower income households and general coverage for catastrophic illness in fiscal year 1975 could well cost at least \$5 billion more than the present cost of the medicare and medicaid programs.

Direct housing grants for low-income families whose housing needs are not now being met are estimated to cost some \$3 to \$4 billion annually above the cost of present programs—though in the case of housing, extensive further experimentation ought to be carried on with direct housing grants, while the present subsidy programs are continued, before a policy decision is made to institute direct housing assistance.

Additional outlays in fiscal year 1975 for education, particularly title I of the Elementary and Secondary Education Act; for public service employment programs funded under the Emergency Employment Act; for social services programs administered by HEW; for the community development bloc grant program we recommended be instituted in fiscal year 1975, and for model cities and OEO, could well require new outlays of at least \$5 billion in fiscal year 1975.

In sum, then, an extension of the alternative budget's policy recommendations to fiscal year 1975 could reasonably cost some \$20 billion more than the cost of present programs.

How are we going to find the revenues to pay the bill?

First, by at least holding the line on the defense budget. If defense outlays were continued in fiscal year 1975 at the level of \$76 billion proposed by the alternative budget for fiscal year 1974, instead of rising to \$85.5 billion, as projected by the administration, that decision alone would free up about \$10 billion for alternative spending. Moreover, although the Coalition staff has not proposed detailed further defense cuts for fiscal year 1975, several defense experts we have consulted have indicated that defense spending might well be reduced by an additional \$5 billion in fiscal year 1975 through selective further program reductions, and by deciding now not to procure several major weapon systems presently in early stages of research or design.

Tax reform is, of course, another potential source of revenue. The committee is well aware of many suggestions for moderate tax reform that would involve increasing taxes on capital gains and reducing mineral depletion allowances and other preferences. As Alice Rivlin of the Brookings Institution has pointed out, a modest program of tax reform could well bring in an extra \$8 to \$12 billion annually. The alternative budget did not deal with possible tax reform in fiscal year 1974. I would hope, however, that sufficient interest and concern might be generated over the next year to result in reform that will produce new revenues the following year.

In the longer run, a third source of additional funds is obviously going to be the natural growth in Federal revenues which will result from continuing economic expansion. Mrs. Rivlin has estimated that, assuming the Federal revenue system performs as we expect, "by 1978, even without tax reform and defense reductions, the Federal revenue system will be bringing in about \$30 to \$35 billion more than will be necessary to finance the built-in cost increases in current programs."

It is with some diffidence, Mr. Chairman, that I recall, when I was here in February my suggestion for a tax increase, and my proposal that some thought be given to the possibility that a tax increase might be necessary and, if so, that we ought to face it squarely. It is interesting that Mr. Stein the other day thought he felt the notion was worth some consideration. The idea seems to be to have come a long way.

Now, just a word about Congress and the budget process before I conclude. As we have pointed out in the past, the executive branch has held and still holds the best hand in the budget game, because it can prepare and defend a single, unified, national budget. By contrast, with the power to spend and tax divided among its multiple centers of power, Congress has found it impossible to reach similar unanimity on any budget, much less an alternative budget. The recent proposal by the Joint Committee on Budget Control by which Congress would establish both spending ceilings and revenue goals each year represents, in my view, a potentially significant forward step. One element of this is crucial. Whatever budget mechanism the Congress establishes should, to the extent possible, provide for an explicit process of comparing the benefits and costs of all Federal programs, so

that the value of weapons systems proposed by the Defense Department, for example, is considered in light of competing demands for funds for health, or education or manpower programs. If Congress can establish a coherent system for setting its own budget priorities, I do not think it is too much to hope that that reform would help to focus far greater attention on urgent domestic needs, and how the Federal Government can better meet them.

The National Urban Coalition would be the first to concede that its alternative budget represents only one set of judgments about how to reorder our national priorities and Federal spending. It is offered not as the final word—obviously it is not—on how to amend the national budget, but as one contribution to a complex, fluid and ongoing process of debate and decision. We believe, however, that it clearly and firmly establishes the directions we should move as a nation to achieve the kind of change we need.

Thank you, Mr. Chairman.

Now my colleagues and I would be pleased to direct ourselves to any questions that you may have.

Chairman PROXMIRE. The budget that you offered for 1974, I was delighted to send to the Members of Congress, and I want to tell you, Mr. Linowitz, I have received many favorable comments.

Mr. LINOWITZ. Thank you, Mr. Chairman.

Chairman PROXMIRE. Of course, undoubtedly with 435 members of Congress there are many who would disagree I am sure, but they all said they thought it was the most constructive and positive kind of contribution.

Mr. LINOWITZ. I am grateful.

Chairman PROXMIRE. So often we get people who are advocates of one program or another or who are against one program or another but rarely do you get people who come forward, in fact I think you are unique, as a non-Federal institution, in providing a comprehensive Federal spending alternative, and it is very helpful.

Mr. LINOWITZ. I am glad to say, Mr. Chairman, your encouragement has been very helpful. Counterbudget was a very useful exercise to present to you and, as I say—

Chairman PROXMIRE. These comments came not only from Democrats, but conservatives, Republicans, liberals, all across the board, they thought it was good at long last for somebody to give us specifics and not just generalize about how to accomplish a certain program and not saying how you can accomplish it. The difficulty in dealing with only one fiscal year is that the size and shape of your Federal initiatives will have profound implications, and spending at later years tend to be obscured.

In our final report the Joint Study Committee on Budget Control, I happen to be a member of that committee, recommends that the proposed committees on the budget develop procedures to present tabulations to Congress on a recurring basis as to the impact of existing and proposed legislation in the current year and 3 to 5 years ahead. This would also apply to revenue projections for new tax and revenue legislation reported out by the tax committees. Do you agree that this would contribute substantially to our control and understanding of the budget?

Mr. LINOWITZ. I have no question about it, sir. As a matter of fact, during the preparation of "counterbudget," when we were dealing with 5-year projections, we certainly saw how much more clearly you can plan more intelligently and with greater judgment about the future if you go beyond a 12-month period. I've found this in business, too; if you try to talk about the future of business enterprise in a 12-month period, and do not consider where you are going in 5 years, you are apt to be working with blinders on.

Chairman PROXMIRE. You are apt to be dealing with what, sir?

Mr. LINOWITZ. Blinders—you won't know exactly where you are aiming to go and how you propose to get there and what you ought to be doing this year to reach the point you want to be in 5 years.

Chairman PROXMIRE. Well, your experience in business, of course, was tremendously successful, and you understand that business does have long-term planning and that is what is probably one of the most distinguishing factors of successful business from a business that is not successful.

Mr. LINOWITZ. Let me just say on that point, Mr. Chairman, that in a business enterprise—particularly one involved in experimental ventures, just as the Government is experimenting in a number of areas—if you do not take into account the fact that at the end of a year or two you may appear to be failing, but recognize that you have, say, a 5-year goal, you can discontinue some very valuable courses of action because you are looking for short-range results without the long-range vision. I think some of these programs that have been cut out entirely, without substitutes to take their place, reflect a short-term vision without an awareness of what we ought to be doing.

Chairman PROXMIRE. That is especially true because we are all subject to election, Congress every 2 years, the President every 4 years, the Senate every 6 years, and all of us naturally want to get reelected and we are all looking for what will sound good at the next election and I think this is another reason why this longer term perspective should be most helpful.

One of the parts of your presentation that does trouble me is your proposed welfare reform where you say that we should start at \$2,600 for an eligible family of four, fiscal 1974, that is, beginning next July and \$3,000 next year. Now that, as you know, ran into some very, very tough weather in the Congress. Something did pass the House. It came over to the Senate, it died in the Finance Committee. There was a very strong feeling in the Congress that if we moved ahead this was going to be immensely expensive, it would escalate very rapidly. If we went to \$4,000, which many people argued for, the cost would be something like \$30 billion. If we went to \$6,500 which a White House conference recommended, it would be \$70 billion and as big as the defense budget. Furthermore there was a very tough problem, it was even more than the great cost of this program, in what it would do to work incentives, and how it could be dovetailed into the work incentives, giving incentives to the working poor is a vital and important part of it, but also an expensive part of it. There was a feeling, in general, that this ought to be tried on a pilot basis before we make an overall national commitment of tens of billions of dollars or begin along that path. Do you

not think we ought to make as much effort as we can to get this moving on a pilot basis before we make this kind of commitment? You are calling for a 1974 program.

Mr. LINOWITZ. We would start at the end of fiscal 1974, but it would really go into effect only in fiscal 1975. Let me just say one further word and then I am going to ask my colleagues, Mr. Holman and Mr. Carter, to comment on this, because they both have worked very extensively on this issue.

Chairman PROXMIRE. Good.

Mr. LINOWITZ. What I want to say first is that our proposal is the so-called Ribicoff administration proposal which failed to get through. That measure did undertake, we thought, to deal with this problem quite intelligently and reasonably. There never has been any issue as you know, on which everyone so readily agrees that a solution is essential for our Nation. When the President originally submitted his welfare reform proposal, he called it the most important piece of domestic legislation that was ever going to be introduced. There has never been any disagreement that we have to face up to the problem as a Nation and do something about it. The only question is how you design a manageable proposal which, on the one hand, will take care of those who really need to be helped, but which, on the other hand, avoids offering disincentives to work to others.

This proposal which we put forward here, I think, does have adequate safeguards. I would be very pleased to have Mr. Holman and Professor Carter comment further on it.

Mr. CARTER. You may recall, Mr. Chairman, when I testified here before you in the fall and talked about this issue, I dealt with it in the same way as the alternative budget does. The alternative budget takes into account a proposal for \$2.5 billion for public service employment, which would create some 350,000 jobs. It seems to me very important to read any welfare reform proposals in conjunction with a jobs program, and the coalition's proposal actually suggests that we move ahead promptly in that area—not cut jobs programs back but expand them to create a more adequate employment program. It seems to me if you link a public employment program with welfare reform, many of the projections made with respect to welfare reform may not be as large in overall dollars as they appear when considered separately. I happen to think moving ahead with public employment is extremely important. I do agree with you, of course, that there are a number of questions which should be raised with respect to welfare reform if it is considered apart from other kinds of income or income support programs, and that some of those are questions to which we do not now have answers.

Chairman PROXMIRE. Let me add one more dimension to it. We are talking now at a time when the latest indications are for inflation, and very serious inflation.

Mr. CARTER. Yes.

Chairman PROXMIRE. Prices moving ahead on almost every front, not only food prices but all prices, textiles, paper, manufacturing equipment, almost every sector, the wholesale price index breaking one record after another.

It was just called to my attention the annual rate of increase in the last 4 months has been greater than in the previous 20 years, alto-

gether, all 20 years, if you add all the increases for 20 years up it is less on an annual basis than it has been since December. Looking at it this way and recognizing the economy is moving fast, Mr. Okun, an economist who has very strong credentials, said we probably ought to be slowing down the economy. Is this the time to move into a public employment program to provide additional jobs and then to supplement that with additional spending for welfare reform? I wonder how we can accomplish that now and do it in a way that would be accepted realistically.

Mr. CARTER. Well, I do not, and I would assume that Mr. Linowitz and Mr. Holman do not, underestimate the political problems, but I think we have to look at the sector that is being benefited by the growth we are experiencing now and the sector that is being penalized by inflationary pressures, while not benefiting significantly. In the hearings you held regarding the need to achieve genuine full employment, when we talked about a 2-percent unemployment rate, most of the testimony pointed to the very distinctive nature of the labor market, to the fact that people at the bottom of the labor market were just not benefiting from the overall growth in the economy, as others were.

Chairman PROXMIRE. Right.

Mr. CARTER. It is true that we may want to take some of the steam out of inflation. Nevertheless, if people with lots of disposable income are going to feed the fire of inflation, while people at the bottom cannot even meet their basic necessities, it seems to me that what we need to do is direct some of that excess toward the bottom sector of the labor market. I think these proposals which combine public employment, aimed at that particular sector, with welfare reform also aimed at that sector, speak to that need.

Mr. HOLMAN. If I may add to that, Mr. Chairman, I think Mr. Okun pointed out that if the Congress is to play a responsible role in the budget process, that role involves making management decisions, making tough decisions in terms of priorities. I am sorry that the gentleman who spoke earlier is no longer here since I was taught never to make comments behind people's backs.

I grew up in the city in which the gentleman, who was highly critical of a report which I also have not seen, now teaches, and I think that what Mr. Carter is referring to here is a very, very serious concern. Somebody does have to be responsible, and I think the Congress ought perhaps to accept the challenge and start being responsible. It should consider, for example, the fact that it is not the most responsible position in the world to take that the Federal Government collects Federal taxes from all over the country, including the cities, and then hands those taxes over to States to use as they see fit, and that the answer one receives if veterans are out of work or if the people of the north side of St. Louis are suffering the problems of inflation without the benefits of the income which some people are deriving from it, is that that is "their problem," if the States do not share their revenue surplus.

I heard a highly placed official in this Government say in a closed briefing when asked what we do about our housing programs which failed—and to the degree they failed it was because the Federal Government failed, because HUD, in Washington and in the local and regional offices, failed—when he was asked whether the Government was going to get rid of the housing programs totally without replacing

them, he answered, "We will be giving some general revenue sharing funds to the cities and if they do not use this money properly to take care of the housing needs of these people you ought to throw the rascals out." In that particular city that response would mean the people would have to wait 3 years until the next election. Since this organization was started, we have been in favor of public service employment. It is illusionary to suggest that the private sector is ever going to pick up some of the people who are now on the streets in this highly inflated economy you are talking about. The private sector is not going to pick up these people and employ them. And if the executive branch does not take responsibility for these people too seriously it seems to me that the Congress should.

Chairman PROXMIRE. Thank you very, very much. This is most helpful.

I am confused by your delineation of revenue sharing, and how you differ from the administration. I voted against revenue sharing, general revenue sharing, I thought it was a mistake and I am sorry you do not propose abolishing the whole thing, taking all of the money involved, about \$6 billion a year, and providing for direct programs. I think it lacks discipline, it lacks direction and it never made much sense to me. But I would like to know this. Where programs can be consolidated, the Urban Coalition has proposed moving to a block-grant system where Federal guidelines are spelled out but implementation is left to State and local authorities. How does this differ from the administration's proposed special revenue sharing?

Mr. LYNOWITZ. That is a key question and I am delighted to have a chance to clarify it, because it involves a central difference between what we are talking about and what the administration is doing.

The administration, in effect, is saying: "Here is a general area within which funds are going to be made available." They call it community development special revenue sharing or they call it education special revenue sharing or something else. They would apportion a designated sum of money to be used by the States and the localities as they think best, under one or another such general heading. We think these proposals are going to result in a system which does not get at basic needs, that it represents a cop-out on the part of the Federal Government to say we will leave it to the States and the cities to use that money as they think best, that the Federal Government bears a great responsibility to set forth criteria and guidelines which say, "We will give you this money but you must be sure it is used to help those most in need, that it will go to the cities which are in the worst condition, and that these funds are apportioned so that the needs we are most concerned about as a nation are met." I referred before to the example of increased funds for Montgomery County and reduced funds for the District of Columbia. That is an instance of the basic difference between the two approaches, and I think it is a fundamental one.

Chairman PROXMIRE. That is very helpful.

The Urban Coalition recommends that a number of social programs be converted to special revenue sharing or block grants. However, I question whether we will run into the same problems with these programs that we did with general revenue sharing; namely, that States and localities will have excessive discretion in determining how funds

are used. As you suggest in your statement, general revenue sharing is now being used to reduce taxes in some States rather than to provide for vitally needed public services. Do you refer to the Montgomery County example as taking funds from the District or are you referring to the special revenue sharing?

Mr. LINOWITZ. That was an example of a problem with special revenue sharing. The word "special" as against general sometimes gets confused with "several revenue sharing," but both programs create precisely the same problems.

Chairman PROXMIRE. So what you would do there is simply to provide that the States be able to justify the distribution of the special revenue sharing funds?

Mr. LINOWITZ. Exactly.

Chairman PROXMIRE. Based on need and based on a program to meet the national goals.

Mr. LINOWITZ. Yes. It seems to us, Mr. Chairman, that it is so easy to say, "Look, we made all this money available"—let us say for community development—"and it's not up to us to impose our own views about how it is to be used in a particular locality." A few days ago the Washington Post reported that:

Montgomery and Fairfax Counties, the two wealthiest counties in America in terms of median family income, would gain large sums in Federal money for community development if Congress passes the Better Nix Communities bill President Nixon proposed last week.

That is what we are talking about. It is possible for that to occur under this bill, which illustrates that, as a rule, we will find ourselves under an aggravated rather than an ameliorated situation.

Chairman PROXMIRE. I would like to ask you a question similar to the one I asked of the previous witnesses. Do you propose that Congress establish a mechanism to provide for an explicit response or an explicit process of comparing the benefits and costs of all Federal programs? This committee has been emphasizing this need for a long time, and we are convinced that greater use of economic analysis will improve our policy decisionmaking. The toughest place to employ it is at the point where you have to decide how much to allocate between broad functional categories, especially between military and civilian programs. As a matter of fact, Mr. McNamara, Secretary McNamara, when he was Secretary used this technique to choose between weapons systems to see which would accomplish a particular military objective at the lowest cost or with the greatest impact at the same cost. When you compare the military objective on the one hand with an educational objective and with a welfare objective or with a health objective it is very, very hard to determine between these broad categories. The dilemma we are in each year the Pentagon and the White House sends up a defense request which is described as bare bones, this year they say there is no way, no way, you can cut that military budget without cutting into the muscle and weakening our capacity to respond to a threat from a hostile foreign power. Do you have any suggestions as to how the choice between military and other spending can be made in a rational empirical way or is it really a matter of emotional commitment and subjective values?

Mr. LINOWITZ. Well, I will comment and perhaps my colleagues can chip in. Let me, if I may, tell you my impression. In the first place, I

think Congress must indicate a willingness to bite the bullet. There is no magic, no formula, no equation which is going to allow anybody to put in so many parts of this item and so many parts of that item, and then jiggle everything and hope it will come out right. You have to ask who has the wisdom to say so much should go for defense and so much for the real needs of the people. Obviously, there is not yet a mechanism established even in the executive branch of the Government which undertakes precisely to make those determinations and then submit them as gospel to the Congress. I would respectfully suggest, however, that the Congress ought to have at least as much capacity as the executive branch to make budget decisions, and as much confidence in its own judgment as the executive agencies have in theirs. I wonder whether the Congress ought not to secure a highly professional staff—it need not be a large one, just five or six men or women of competence and recognized independence and judgment—who would undertake perhaps to do what we undertook to do when we prepared counterbudget—that is, to sit down and say, “This is the amount of money we ought to plan to spend, this is the way we ought to try to spend it, and this is our judgment and as to how it ought to be apportioned.” I know of no reason why such a staff couldn’t produce a budget that would be entitled to as much respect and careful analysis as the document that you get from the executive branch. Until we come up with that kind of improved mechanism, however, I think we will just have to rely on competent people to make informed judgments.

What happens now is that the budget you receive reflects priorities and evaluations heavily influenced by individual points of view and individual claims of the particular sovereignties involved. The Defense Department presses as hard as it can for its particular priorities, just as other agencies do for theirs, and then all of them jockey in the OMB and elsewhere, and the result is the proposal they send you.

Chairman PROXMIRE. You build on history, you build on what you have done before, you build on what you have to work with, and the military argues there is inflation involved, there are pay raises they have to pay, there are commitments around the world, so they come in with a specific program which has been elaborate and expensive in the past, and you have made some general but some very perceptive and persuasive suggestions here about cutting unnecessary procurement systems.

How did you arrive at your figure, because this is the biggest cut. You have proposed a \$10-billion cut below what the President proposes, holding the line on the 1973, I guess, budget, at \$75 billion, is that right, not going up to the \$85 billion that they propose?

Mr. LINOWITZ. Yes.

Chairman PROXMIRE. How were you able to determine that would be wise and would be enough to provide us with the military forces we need?

Mr. LINOWITZ. First, we went to the most competent people we could find, people who had served in the Government or in some cases who are still in Government and who spoke to us in confidence—people whose judgments were worth taking into account. They helped us look at some of these requests for upholding the defense budget, the sacred cow which frightens everybody. Some time back, I had a rather tough exchange of correspondence with Secretary Packard, who did

not like our defense proposals, and we went back and forth about the basis on which we came to our decisions, and the basis on which he came to his. Admittedly, I did not convince him of our position but I felt strengthened after that exchange, because I think it showed that it's possible to reach out for people of real competence who know the military budget, who will give you the benefit of their judgment, and who can intelligently evaluate the proposals put forward by the administration.

Chairman PROXMIRE. Let me ask what were Secretary Packard's objections to your—

Mr. LINOWITZ. One of Secretary Packard's main objections was that we were not taking into account some automatic pay increases—the kind of thing you had reference to earlier. He went on to say that we were at a time of great crisis for this Nation and that to suggest we hold back on any new instruments of defense that might be critical in future years just couldn't be justified, because if we passed up opportunities now, we couldn't retrieve them later on. In short, he felt that the Defense Department possesses an expertise beyond anything else available in the Nation, and we would have to defer to them. This never seemed to me to be a fully persuasive argument.

My feeling has always been that the Defense Department should be subject to the same scrutiny as every other branch of our Government. There are competent people who are willing to evaluate the defense budget. General Gavin, for example, whom we consulted on the alternative budget, and who would have been here today if he hadn't had a conflicting date, is a man of considerable experience. He thought our defense cuts were very modest. I would put his judgment against those who have held his position in the past.

Charles Shultze also helped us, especially in thinking through how the budget is formulated in the executive branch. His views would be useful to Congress, too, I think, and a man of his caliber could help the Congress prepare our alternative budget even before the President puts his forward.

Chairman PROXMIRE. Perhaps Mr. Carter can help answer this question. As I said, we have been pushing for greater use of cost-benefit and other types of economic analysis for years. The administration says they are doing it, but the evidence is to the contrary. A study we published earlier this year, in a compendium of papers on cost-benefit analysis, shows that most of the executive agencies do not subject programs to this kind of scrutiny and evaluation. At least, they do not do it across the board. They may have one or two programs where they use it but they do not do it comprehensively. We looked into the official justifications for the budget cuts in this year's budget, and from the materials provided to us by OMB, it is clear that practically no real economic analysis was used in deciding which programs to cut and by how much. You heard the exchange with former Secretary Weidenbaum on that.

Now, I think a lot of cuts are probably warranted, but the administration cannot seem to justify them on the basis of objective, economic analyses. How do you account for the resistance to what Mr. Linowitz calls "an explicit process of comparing the benefits and cost of all Federal programs"?

Mr. CARTER. Well, I think there are two problems, one of which you referred to in your present question, Mr. Chairman. First, it is extremely hard to do it, in fact most people who seem knowledgeable in this field have come to the conclusion, at least for the time being, that we do not know just how to compare some of these things one with the other. Moreover, there has been considerable resistance on the part of people both involved in the political and in the bureaucratic side of Government, and out in the States. There are several States that took a hard look at this process. Governor Aglevie, for example, hired a deputy budget director explicitly to try to introduce this system across the board in the State of Illinois, and backed away from it after a short period of time on the ground that the cost of trying to make that total effort of organizing the government that way in the State of Illinois would not pay off in terms of added knowledge. So I think one has to look with a little care at what you can do with this process, although I think that it is fair to say when you are going to make either a substantial increase or a substantial decrease in a program, that that kind of change should be evaluated with respect to costs and benefits. It seems to me this is one way in which this process can be extremely helpful.

The way it seems to me it can be helpful in regard to defense as against education, for example, is to force the various people who are developing budgets to let you know what their assumptions are on which they build their budget. Most of the work I have seen done in the military area, for example, that would justify substantial cuts, is based on a serious questioning of the assumptions that underlie the building of the military budget. It seems to me that much the same kind of thing can be done in other fields. So that you are not really explicitly comparing a dollar in defense with a dollar in education but saying, "Unless you can make a better case, when we take into account the priorities over there and the case made over here, our position is that we are inclined to shift the resources from this area to areas that we think have higher priority." So it seems to me the process is a combination of analytic work and value judgment or priorities, if you will.

Chairman PROXMIRE. How do you account for the resistance on the part of the administration to using this kind of rational analysis? Is it because they feel that they would lose the power they now have just to use their instinctive value judgments and put the money where they want to put it rather than expend it on the basis of a more objective criteria that Congress might use or others might use to dispute their decisions?

Mr. CARTER. Stating the case most favorably to the administration, I would think they really say "We should not be in this business of making these decisions at all. We ought to put out sums of money, then let these kinds of judgments be made at the State and local level."

Chairman PROXMIRE. As far as the defense budget, Mr. Linowitz indicated somebody has to make the decision for the administration.

Mr. CARTER. That is correct.

Chairman PROXMIRE. They submit a wish list, Secretary McNamara at the time he was in office, the wish list was they asked something like \$125 billion. It has to be pared down by the Secretary of Defense who is a civilian and may not be a man of military experience.

Secretary Richardson is a fine man. I think all of us admire his honesty and ability, yet he has to make a military decision if it is to be run properly so it has to be made by the people who are not fundamentally military experts and, of course, also made by the President of the United States.

Mr. CARTER. We know that in the Defense Department the benefit-cost system was seriously damaged and this is not a partisan issue, it seems to me—the credibility of that system was seriously damaged because of the pressures of the Vietnam war and events related to it. One can certainly say that it has been relatively easy to discredit that process, and that many of the objections that have been raised against it derive from some of those experiences. But it seems to me, in all candor, Mr. Chairman, that the White House really is not interested in how the defense budget is put together. It is interested in the defense budget as a bargaining counter in respect to foreign policy. Now that may be a perfectly appropriate position to take, but it obviously diminishes the pressure to make hard decisions about what one does with resources if the basic idea is to avoid cutting the defense budget on the grounds that it is a bargaining tool in foreign policy. That, it seems to me, is the posture of the administration in rationalizing its present defense budget.

Chairman PROXMIRE. You put your finger on a very, very interesting point and I think that is with foreign aid, that is most of our foreign aid, especially military aid, is a bargaining tool with the heads of state.

Did you want to comment on it?

Mr. LINOWITZ. I did want to comment on this whole series of questions, Mr. Chairman, if I might. I am constantly surprised at the timidity of Congress, if I may say so, in facing up to some of these issues. I think we should recognize that Congress has at its disposal some of the best people in the country, and that it enjoys the good will of citizens who are concerned about what is going to happen to the future of this country. In dealing with how we apportion our resources, it seems to me that for Congress to be intimidated because the Office of Management and Budget, or Mr. Ash or anybody else, in his wisdom, decides that the administration budget properly reflects what our priorities should be as a Nation, is demeaning to the role of the Congress.

I should think the Congress better knows what our priorities are, and that it ought to be willing to take the responsibility for setting up some mechanism whereby its own views could be reflected.

Now I recognized that when I say the Congress I am talking about an organization that reflects all kinds of views and all parts of the country and so forth. But it should be possible for Congress to agree, for example, on getting a group of independent citizens who would even volunteer to undertake a study of the kind that we took a crack at or go to a Brookings Institution and say, "Would you, on behalf of the Congress, make a study of how we ought to put together a budget for the next year?" Congress, it seems to me, should be confident that that sort of study will be as good as what you get from the administration, and it should be able to compare it with the admin-

istration's budget—at least to view it as an alternative against which the administration's budget can be measured. All we did in preparing counterbudget was to employ and consult people whose judgment we thought was sound. We emerged with something that I think is a respectable Federal budget, and I would think Congress could do far better.

Chairman PROXMIRE. I just have two more brief questions. One question relates to how flexible this is. One of the difficulties with projecting, as I have asked you to and which you have done very helpfully in the 1975 budget, is the economic situation may be different. We may at that time have a very inflationary situation or we may have a recession. If we have a recession the argument would be we would want to go ahead with programs which could stimulate the economy, increase employment, but if you have a highly inflationary situation the argument would be you have to cut back. How would you adapt this proposed budget to that kind of thing? Do you feel there is a way of determining the area of flexible spending or would you do it with tax policy?

Mr. LINOWITZ. I would think that you have to leave yourself flexible enough to vary your policies in response to whatever develops. You mentioned tax policy, and again I remember that last February you used the words, sir, "Well, let us not talk about a tax increase, it is going to be impossible to talk about getting a tax increase these days, getting a law like that through." And yet Mr. Herbert Stein in his wisdom, indicated recently that the administration was considering it.

Chairman PROXMIRE. It does not mean he is going to get it through or even ask for it.

Mr. LINOWITZ. But now they are willing to think about a tax increase. In short, I think there has to be flexibility as we approach these problems.

Chairman PROXMIRE. Anything to get the public mind off Watergate. [Laughter.]

Well, I just have one other question. The urban coalition recommends restoring of funds for public employment which have been cut out of the 1974 budget by the administration. You also recommend tying public employment more closely to manpower training, which is in my view, an excellent suggestion. Too often in the past, we have provided training for nonexistent jobs and have greatly disillusioned workers who participated in these programs and when you think of the sacrifice and discipline a worker has to go through for training often, for the first time in his life he is required to make this kind of sacrifice, and then he finds it does not do him any good in that case, you may have lost a man's motivation and self-confidence forever, if you have a manpower training program and no job at the end.

Would you recommend that public employment be made a permanent program to aid those who cannot find jobs in the private market, or should public employment be a cyclical program to be put into effect when unemployment is above a certain level, say 4 percent?

Mr. HOLMAN. Mr. Carter will probably have more to say on this. I think it makes more sense to have it as a permanent program which you can build up and take down as you need.

Chairman PROXMIRE. You say a permanent program?

Mr. HOLMAN. A program which is flexible enough to allow you to reduce it as the private sector absorbs more workers and to increase it as private employment falls off. I would like to indicate how in one city this kind of program would make sense. It happens to be, again, the city of St. Louis, which has a large number of hospitals, training institutions, and a number of public and private health institutions.

In the health area you have about 126 professions, subprofessions and paraprofessions. We are talking about public service employment and training linked to a career ladder system. There is no way some people are going to find a career in health services if they start their employment in the private sector. However, it would be quite possible to link public and private programs in such a way that a person might begin in the public sector under a public service employment and job training program, and acquire sufficient training and experience to allow him to move into private employment in the medical and health field. There are other examples of this kind in other fields. It does seem to me that it would be possible to develop something other than the swinging door approach that we now have, under which some people go into training programs in order, at least for a short time, to secure an income which they are not likely to find in a system which depends totally on the private sector to provide employment.

Chairman PROXMIRE. Well, gentlemen, thank you very, very much. This has been most helpful. I am delighted you came up, and once again congratulations on offering this alternative budget, it is extremely helpful.

The subcommittee will reconvene at 10 o'clock tomorrow morning to hear John W. Byrnes, the former ranking member of the Ways and Means Committee and Henry Fowler, former Secretary of the Treasury, who will testify. Melvin Laird, the former Secretary of Defense, as I announced earlier, had a serious illness in the family and consequently will not be able to be here.

[Whereupon, at 4:35 p.m., the subcommittee recessed, to reconvene at 10 a.m., Thursday, April 26, 1973.]

NATIONAL PRIORITIES AND THE BUDGETARY PROCESS

THURSDAY, APRIL 26, 1973

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON PRIORITIES AND
ECONOMY IN GOVERNMENT OF THE
JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to recess, at 10:10 a.m., in room 4221, Dirksen Senate Office Building, Hon. William Proxmire (chairman of the subcommittee) presiding.

Present: Senator Proxmire.

Also present: Loughlin F. McHugh, senior economist; Richard F. Kaufman and L. Douglas Lee, professional staff members; and Michael J. Runde, administrative assistant.

OPENING STATEMENT OF CHAIRMAN PROXMIRE

Chairman PROXMIRE. The subcommittee will come to order.

We are honored this morning to have as our two witnesses officers of Citizens for Control of Federal Spending. The formation of this organization is very welcome indeed. We need it and need it badly.

Pressures on the President and the Congress are overwhelmingly one sided. The pressures are to spend for welfare, to spend for defense, to spend for education, to spend for highways. The list goes on and on. The pressure to hold down spending in any of these areas has been erratic, disorganized and often invisible.

Recently I asked a top staff member of the Senate Appropriations Committee what proportion of the witnesses who have appeared before the committee in the more than 25 years he has worked on the staff—what proportion of those witnesses oppose spending, his answer: About 1 in 1,000. The overwhelming majority of witnesses from the Congress, the executive branch, industry, labor appear to appeal for more spending for their particular project.

So, it is very helpful indeed to have some of the most prominent citizens in our country organize as they have to press for holding down—for controlling—limiting, reducing Federal spending.

The time could hardly be more propitious for holding down spending. Prices—especially wholesale prices are breaking records with each passing month—not only in the food area but throughout the previously stable industrial price index and in almost every phase of nonfood wholesale prices, as well, of course, as the food price items.

In the last quarter the economy grew at an unsustainable, inflationary pace.

But the issue as always is not simple. It is not just a matter of slashing proposed spending by 2 or 3 or 5 or 10 percent across the board. It is a matter of exercising sometimes painful discrimination in deciding between spending priorities. I personally think that Congress and the President can agree, and I hope will agree this year, on the spending ceiling, but agreement on priorities will come much, much harder. Where to cut—and how much—in order to build a stronger and better country—that's the issue.

Here to help us wrestle with this problem are two eminent Americans and former public servants. John W. Byrnes served in Congress for 28 years and was for years the ranking minority member of the House Ways and Means Committee. He won a great reputation on that committee for his wisdom, his integrity, and his toughness. Henry H. Fowler was a superlative Secretary of the Treasury from 1965 through 1968, and prior to that was Under Secretary of the Treasury, and he has been not only an eminent Secretary of the Treasury but a fine witness many times before Congress in the past.

Former Secretary Fowler just told me that this is his first appearance, I think, since he left office—

Mr. FOWLER. That is right.

Chairman PROXMIRE [continuing]. Before a committee of the Senate or Senate and House, so we are very honored to have both you gentlemen.

Mr. Byrnes, go right ahead.

STATEMENT OF JOHN W. BYRNES, ATTORNEY-PARTNER, FOLEY & LARDNER LAW FIRM, WASHINGTON, D.C.

Mr. BYRNES. Mr. Chairman, for identification, I am John Byrnes, attorney, partner in the law firm of Foley & Lardner with offices at 815 Connecticut Avenue, N.W., Washington, D.C.

I would like to begin by commending the chairman and members of this committee for your decision to devote your annual hearings on national priorities to the problem confronting Congress in developing methods for timely budget decisions. You are performing a most critically needed function, and I hope that your committee will be able to make a helpful contribution.

This panel has been assembled, at the chairman's kind invitation, by David Packard, who is chairman of the Citizens for Control of Federal Spending, who asked me, as a cochairman of the committee, to express, Mr. Chairman, his deep regret that he cannot be here today, and to explain briefly the purposes and function of our committee.

The Citizens for Control of Federal Spending is a recently formed public committee with approximately 150 members at the present time, including business, labor, professional, educational, and civic leaders throughout the United States. I think our goal can be simply stated: it is to help bring Federal spending firmly under systematic executive and legislative control at levels which avoid constantly rising prices and taxes and which encourage a sound job-producing economy. We recognize, of course, that the goal is easier stated than reached, and

that most complex and difficult problems must be successfully resolved in any attempt to achieve it.

We do know that spending control can only be reached by actions taken in both the executive and legislative branches of Government, which have the support of the American people. For this reason, one of the prime functions of Citizens for Control of Federal Spending will be to generate public understanding and support for both budget reform and spending restraint. As a committee, it is our desire to work closely and to cooperate with both the executive and the Congress, and to be of any assistance we can in what we know will be a most difficult governmental task.

A word about this panel this morning.

As you mentioned, with me is Secretary Henry Fowler, formerly Secretary of the Treasury. It was planned, Mr. Chairman, that former Secretary of Defense Laird would also be here. Unfortunately, earlier this week he had to attend his mother who was ill and, therefore, it was only late yesterday that we determined he would not be here.

Chairman PROXMIRE. Yes. I appreciate that former Secretary Laird had told us that an illness in his family necessitated his return to Wisconsin, and, of course, we sympathize with him.

Mr. BYRNES. We are all members of Citizens for Control of Federal Spending, but we will be speaking for ourselves as individuals.

Chairman PROXMIRE. Incidentally, I have Mr. Laird's prepared statement, and following your statement and Mr. Fowler's statement, his prepared statement will be put in the record, too.

Mr. BYRNES. I would appreciate that very much, Mr. Chairman. We made no effort to coordinate the details of our prepared statements, and there may well be some repetition and there may be conflict, although I don't think it is of any great proportion.

I should also make clear that, while we all strongly support the committee's goal to bring Federal spending under control, like the other members of our committee, we all have our own ideas, probably, about priorities, and we all reserve the right to differ with each other as to the most effective use of the Federal resources.

As my own contribution to the discussion, I would like to touch briefly on several points which, I think, are germane to the objectives of your hearings.

First, I want to commend the Joint Study Committee on Budget Control for the report it recently issued. At long last, the Congress, it seems to me, in addressing itself to the need to establish appropriate procedures for an overall review of Government spending and a congressional judgment of relative priorities not only between programs but also between overall spending, debt, and taxes.

In the past, Congress has addressed itself to these problems only in a most cursory fashion, and the results are obvious—the determination of priorities and fiscal policy has been pretty much left to the executive branch. There has never been any question all down the line about Congress' authority to control spending and taxes. But the fact remains that Congress abandoned its authority and, as a result, abdicated its responsibility to the executive branch.

The new concerns evidenced by the Congress, coupled with new procedures, can give it, I think, the opportunity to fulfill its rightful role in the budgetary process.

The procedural recommendations of the Joint Study Committee are an essential first step toward this objective. I would hope that the Congress will implement these recommendations at an early date. The establishment of procedures is already long overdue.

One word of caution, and I probably in issuing this caution, echo the words of the chairman as he opened this hearing today. It will take more than just appropriate procedures to do the job. Congress must also have the determination, yes, and the guts, to make the difficult choices that must be made.

Establishing priorities and imposing restraints is not an easy job. Above all, it involves saying "No" to some groups seeking funding for what to them, from their narrower point of view, is not only desirable but essential. Yet, if you are going to establish priorities, some proposals must be reduced, some deferred—yes, and some rejected. Politically, this can be most difficult for individual Congressmen and the Congress as a whole. How successful you will be, it seems to me, will depend upon the willingness of Congress to "bite the bullet," as it were, and the willingness of the American people generally to accept restraints, and we hope, as a committee that we might be helpful in assisting in that regard.

But to get back to procedures, Mr. Chairman, I think it is most essential that Congress begin working on the budgetary problems long before the budget document is submitted by the President in January. A real problem results from the fact that Congress now works on a calendar year basis on a budget that is based on a fiscal year beginning in July. The result is that, at least it is intended that, the entire budgetary process in Congress pretty much is jammed into a 6-month period. Well, events have shown that this is not even sufficient time to pass the required appropriation bills; we are having appropriations bills today for a given fiscal year passed when the fiscal year is over half over. That is not very good procedure that results in that kind of a situation. And, of course, very little attention is given to a rational look at expenditure limits and expenditure controls under such a situation.

In my view, if we are ever to rationalize the congressional budget process, we must recognize that the size and scope of present-day budget demand that you give yourselves reasonable time to do the job. While I think that the timing of the budget message of the President should probably be moved up at least to early December, certainly Congress should begin its work in advance of that message. While I would assume that the Budget Committees that would be established under the recommendation of the Joint Study Committee, would be continuously addressing themselves to budget problems, intensive work looking toward the establishment of the preliminary spending ceiling and priorities should begin at least 8 or 9 months before the beginning of the fiscal year. In recognition of the relationship of the budget resolutions that are called for under that procedure to the appropriations process, I frankly think that the target date of May 1 recommended by the Study Committee for such a resolution, is much too late even though it is recognized that this is to be the preliminary decision or preliminary budget ceiling.

The key element also, Mr. Chairman, in any budget is the state of the national economy. Economic conditions determine not only how

much the Government will have to spend; they affect the level of spending in numerous programs. Moreover, forecasts on the future state of the economy affects a basic budget decision—the size of the deficit or surplus which should be sought. For these reasons, it is crucial that the Congress lay the economic base for budget decisions before those decisions are made.

The problem here, of course, is the conflict of desirables. It is desirable to have economic forecasts be made as early as possible to assist in budget decision but it is also desirable, of course, that they be made as late as possible for greater accuracy and—obviously, some compromise and flexibility is necessary.

I do believe, however, that Congress must begin its review of the economy at a much earlier date than at present if that review is to be of material assistance in the budget process. That review now coincides with, and is blurred by, action on the budget itself. Congressional economic review should, at least on a preliminary basis, precede the first-stage budget resolution.

The Weidenbaum report "Matching Needs and Resources," American Institute for Public Policy Research, recently published, strongly recommends that the Employment Act of 1946 be amended to direct the President to submit his economic report 6 months earlier than at present, in other words, in July rather than in January. This early submission, combined with early hearings by the Joint Economic Committees, would give, I think, an opportunity for Congress to focus on economic policy and fiscal objectives before making budget decisions. Whether or not the movement forward to July of that report is the appropriate time for submission or not, it is crucial, it seems to me, that Congress complete its basic economic review—

Chairman PROXMIRE. Let me just interrupt at this point to say that yesterday I understood Mr. Weidenbaum, who testified here, to say that he felt the report probably should be made in September. I asked Mr. Okun, who was the former chairman, as you know, of the Council of Economic Advisers, and he said that would give them a lot of problems but he could see great advantages in having the Economic Report then, and Mr. Weidenbaum pointed out that most of the forecasts are made by the private forecasters, outside of Government, in the fall and, of course, the Council of Economic Advisers comes along later.

Mr. BYRNES. Well, it did occur to me—

Chairman PROXMIRE. I am concerned about that early an attempt to forecast for the year beginning a year from the time of forecast would have to be made.

Mr. BYRNES. I had that same problem and that is why I point out, Mr. Chairman, that while July may not be the appropriate date, it certainly should be moved up from what it is today. In his earlier report he does suggest moving it up into July, as I understand it. He has modified it now and I think I would agree the modification is a more practical suggestion—

Chairman PROXMIRE. Good.

Mr. BYRNES [continuing]. Than moving into July.

Fundamentally, I guess what I am saying, Mr. Chairman, is that the whole process of congressional review and consideration of the

budget must be substantially moved up if you are to do a responsible job, and this is a factor that I don't believe the Joint Study Committee really focused on. They kind of focused on considering things on the present timetable, a budget message in January, a resolution in the House in March, and then a conclusion in May. What I am saying is that I think we should put a little more focus on giving the Congress and those responsible in this process the adequate time to do the job because we are dealing with a tremendously large budget, and it is just unreasonable, it seems to me, to expect to do that kind of a job under the present timetable that exists and, therefore, the timetable should also be changed. Finally, it seems to me, that in any system of budget control there must be a greater coordination between the legislative committees and the appropriation committees than the Joint Study Committee contemplates and, in addition, to the coordination between the legislative committees and the appropriations committees there must be a coordination with the budget committees that the report would establish.

The recommendation of the Joint Study Committee that, except in unusual circumstances, appropriations provide only for authorizations enacted during the preceding fiscal year is, I think, a step in the right direction, but it is even more essential that some method be developed to emphasize the relationship between authorizations and their subsequent budget effect. It is well recognized that the first year cost of a newly authorized program represents a very small part of what the ultimate annual costs are going to be. They are normally just the startup costs.

The real budgetary burden is in later years, and the question we must face is, when Congress determines on a new or enlarged program, the cost of which will arrive and face us down the road a year or two, will the money be there, and that is not done, I am afraid, today.

The integrity and the credibility of the Congress is also at stake when authorizations are in excess of what can reasonably be expected by way of actual financing and we find daily examples of people who say, "Well, Congress authorized \$3 billion but Congress is only giving us \$1 billion," and I think that we have got, if possible, to try to avoid that kind of a situation in order to maintain the credibility of the Congress itself.

When Congress votes on an authorization, it should be conscious of the relative budget consequences in the future because this is really where relative priorities come to a focus.

While the proposal of the joint staff of the Budget Committees tabulate, on a continuing basis, the effect on expenditures and revenues of existing and proposed legislation as long as 5 years ahead is a good one, it is not going to be helpful, though, Mr. Chairman, to the budgetary process if it is just another periodic report that is printed and then collects dust. It is vitally important that, when an authorization is considered, its impact on expenditures and revenues down the road be given special emphasis.

Mr. Chairman, the new concern of the Congress in the field of budgetary control is most heartening. We, as a group, as a committee,

want to be helpful. We want to do anything we can to assure success in this endeavor to establish sound fiscal policy.

Thank you, Mr. Chairman.

Chairman PROXMIER. Thank you very much, Mr. Byrnes, and because you have devoted so much of your excellent testimony to an analysis, and a constructive analysis, with a series of recommendations, on the Budget Review Committee, I serve on that committee and, as you know, we have made a report, we haven't drafted the legislation, that is going to come now, and then that will be introduced and it will be subject to amendment in both the Senate and the House, because your suggestions are constructive and far reaching, I am going to take the liberty of sending them to the chairmen, Cochairmen Ullman, Whitten, Long and McClellan, the House and Senate cochairmen, with the recommendation that they give them every consideration and I am sure some of them would be adopted, I certainly favor virtually all of them, I think they would make for a far more effective operation. I was, of course, there at the time we accepted the report, and the only sustained criticism of the report was that there wasn't time, there wasn't time to operate. Nobody came up with the kind of suggestion that you have this morning, though, that we can win some of the time by moving back the process and starting earlier, and I think this is very, very helpful.

Mr. Fowler, please proceed.

**STATEMENT OF HENRY H. FOWLER, PARTNER, GOLDMAN,
SACHS & CO., NEW YORK CITY**

Mr. FOWLER. Thank you, Mr. Chairman. It is an honor to be invited to appear before you at the start of these important hearings on "National Priorities and the Budgetary Process."

I regard my frequent associations with the Joint Economic Committee from 1965-68, while I was Secretary of the Treasury, as a major opportunity for constructive dialog on economic policy, and I enjoyed my opportunities to meet with you personally and we, I think you will recall, had many fruitful exchanges. We didn't always agree on the outcome but I always felt it was helpful, certainly to me, to have the benefit of those exchanges.

It is, therefore, a real personal pleasure to be back before this subcommittee and discuss a subject close to my heart then as now.

For identification, I am currently a partner in the investment banking firm of Goldman, Sachs & Co., 55 Broad Street, New York City.

I want to add my own commendation to that of Mr. Byrnes to you and your colleagues in establishing this Subcommittee on Priorities and Economy in Government and focusing at this particular time on the budgetary process.

Like Mr. Byrnes, I appear here today personally as a members of the Citizens for Control of Federal Spending which he had described. I defer to Mr. Byrnes and Mr. Laird in their comments on the questions of timing and the methods of operations in the Congress because I, unlike them, did not have the privilege of seeing this process from the Capitol Hill point of view. I have to speak to it, more as

an outside observer but one who, as a member of the executive branch, had responsibilities for fiscal policy which I felt handicapped during that period in being able to adequately discharge, and one of the major reasons was the lack of adequate congressional procedures to deal with the budgetary process.

So the main purpose of my statement today is to express support for the current effort which you and your colleagues have been engaged, to improve congressional control over budgetary outlays and receipt totals, and to commend the general thrust of the recent report you referred to on the subject of the Joint Study Committee on Budget Control and the bill which has been introduced to implement the recommendations of the report.

Only by taking decisive action of the general character contemplated by the report of the Joint Study Committee on Budget Control can the Congress deal adequately with what has become a glaring defect in our system of government as it relates to economic policy and economic affairs.

The announcement of these hearings by the chairman, and the letter to me focused on what could be done now by the Congress to deal with the budgetary problems that would be presented in the fiscal 1975 budget, which would be submitted next January. By far the most important actions that Congress could take now in that regard is the prompt enactment of a bill which adequately reflects the recommendations of the Joint Study Committee on Budget Control, and the prompt establishment of the administrative procedures and staff called for in that report.

It is my conviction that this step is the first and overriding priority, and I shall confine my statement to it. This rather single minded and, perhaps, simplistic point of view, is not one which I have recently acquired. It is borne out of a long held conviction that an effective and responsible fiscal policy for the Federal Government is not likely to be achieved until and unless procedures for improving congressional control over budgetary outlays and receipt totals become the acknowledged law of the land in a positive and public fashion.

This conviction, in turn, is an outgrowth of my 4 years of experience as Secretary of the Treasury (1965-68) following 3 years as Under Secretary (1961-64). It was this conviction and experience that has led me on various occasions, since leaving the Treasury, to urge publicly the kind of action now recommended by the Joint Study Committee on Budget Control. For example, in the fall of 1969, as a participant in the Moskowitz Lectures, sponsored by New York University, I had assigned to me the topic of "Fiscal Policy and Inflation," and I took the occasion therein to advocate measures that would:

1. Minimize the fragmentation of authority in the Congress, the seat of final authority over fiscal policies and procedures;
2. Fix congressional procedures that will relate and coordinate the exercise of the legislative authority to authorize and appropriate expenditure with the exercise of the authority to tax and borrow in such a way as to reflect concrete and specific fiscal policy decisions.

I have included and brought along as an attachment to my prepared statement a long excerpt from this 1969 paper dealing primarily with

the question of congressional control over budgetary outlays and receipt totals.¹

Again, in the fall of 1972, when the question of a spending ceiling for the fiscal year ending June 30, 1973, and the development of adequate congressional procedures for controlling spending became a part of the debate on legislation extending the public debt limitation, I joined with all seven living ex-Secretaries of the Treasury in a letter to Chairman Mills of the House Ways and Means Committee, pertaining to the issues confronting that committee. I should like to include this letter in full as part of this statement because it reflects, Mr. Chairman, not only my point of view but that of all of my friends and colleagues who have served as Secretaries of the Treasury. The letter reads as follows:

DEAR MR. CHAIRMAN: The prospects of growing deficits at a time when the economy in expanding rapidly have caused widespread concern in the financial and business community. Such deficits, if not controlled well below projected levels, can only lead to new and additional inflationary pressures. A tax increase, or, in all probability, both. Moreover, new fiscal restraint is vitally needed in view of the present state of the U.S. balance of payments and trade.

As former Secretaries of the Treasury, we applaud your action in asking for a spending ceiling without exceptions. It is not the best long-run solution, which we are sure you and other members of Congress recognize. Should Congress have imposed last spring a firm spending ceiling for the fiscal year that began July 1st to reflect the appropriate fiscal policy of reducing the federal deficit in a rapidly expanding economy and coordinated its separate spending actions to stay within this total, there would have been no need for this proposed emergency action. However, under the present circumstances—one quarter into the new fiscal year—there does not appear to be a practical alternative.

We also commend you for the excellent idea of creating a high level congressional commission to review the situation and make recommendations to Congress on ways to improve overall control of spending. There has long been a need for Congress to review its procedures for acting on the Annual Budget to devise ways that would improve the coordination of its decisions among federal programs and federal revenues in relation to expenditures. Since Section 130 of the Employment Act of 1946 has proved ineffective as a legislative coordinating device, federal spending has consistently exceeded limits dictated by sound fiscal policy.

It is our sincere hope that Congress will approve the Bill reported by the Ways and Means Committee. It would be one of the most dramatic ways for Congress to show the American people that inflation has not become a way of life. It would also provide a telling signal for other nations that the dollar will again become the world's strongest currency in the very near future.

Naturally then, Mr. Chairman, we are gratified that the congressional action on the debt limit did include a provision for creating a high level congressional commission to review the situation and make recommendations to Congress on ways to improve congressional overall control of spending and as I have indicated I am most gratified that the Joint Study Committee on Budget Control, so created, has produced such a thoughtful and thorough approach to this vital problem. This emphasis on the need for improving congressional control over budgetary outlays and receipts was not peculiar to Secretaries of the Treasury under both Republican and Democratic administrations. It was a view strongly held by President Lyndon Johnson in his final economic message to the country submitted on January 16, 1969. He dealt explicitly with the situation now confronting

¹ See attachment A, beginning on p. 82.

Congress, noting that in his many years in Washington he had worked intensively on the budget on both the legislative and executive sides. He expressly noted the difficulty of—

Coordinating a host of appropriation requests into a total program that accurately reflects national priorities,

Making the dollar sum of the parts equal a whole that remains within prudent bounds, and

Insuring that decisions on tax revenues go hand in hand with those on expenditures.

He then concluded with a positive recommendation to the Congress:

The Executive Branches coordinates its budgetary decisions through the Bureau of the Budget, with extensive cooperation from the Department of the Treasury and the Council of Economic Advisers. The Congress has no parallel process. I urge the Congress to review its procedures for acting on the annual budget and to consider ways that may improve the coordination of decisions among Federal programs and on Federal revenues in relation to expenditures.

In the few minutes remaining, Mr. Chairman, I shall attempt to point up some of the underlying problems in the budgetary field which have prevented our fiscal processes from keeping pace with our advances in fiscal policy.

I know that, as you do, in view of your service on the Joint Economic Committee, we have been constantly confronted by the expressions of rather consensus points of view on what should be done as a matter of sound fiscal policy in dealing with the situation looked at in terms of the total economy, but yet feeling somewhat despairing, knowing that the tools and instruments for effecting that sound fiscal policy simply weren't available and could not be used.

So under the present system under which we have been operating with in adequate congressional controls of budgetary outlays, we have witnessed an almost constant continuation of deficits plus a tendency to increase in size.

Not only have these added hundreds of billions of dollars added immeasurably to the Federal debt, causing the annual cost of carrying that debt to rise to ever more burdensome proportions. But, perhaps, more significantly, these deficits and disproportionate swells in Federal spending have coincided at various times in recent years with strong advances in private demand, thereby giving rise to bursts of damaging inflation which have undermined our competitive strength and been followed by stagnation or recession.

There is a poor postwar record of living within expenditure estimates provided on an annual basis. A table of Federal expenditures for given fiscal years, as estimated in the January budget, preceding the opening of the fiscal year on July 1, then revised in the mid-year review, further revised the next January, and finally reported at the conclusion of the fiscal year, will show an unmistakable tendency for Federal expenditure to exceed spending estimates. Despite the acceptability of the reasons for some of the past surges of expenditures, an analysis of the record makes a strong case for more precise and positive legislative control over actual spending outlays in a given fiscal year, totals of authorizations and appropriations by the Congress for current and future expenditure, and intensification of long term budget planning in both the executive and Congress.

Without the improved procedures and instruments of control, one side of the fiscal equation will run away from the other, sometimes

neutralizing the role of fiscal policy as a tool to deal with inflation and sometimes operating in a manner contrary to the desired objective.

The general recommendations contained in the report of the Joint Study Committee on Budget Control are addressed to this problem of avoiding deficits when they are economically undesirable and correcting the present arrangements which appear to make it increasingly impossible to decide between competing priorities, with the result that spending is made available for many programs where the preference might have been to make choices rather than providing for all.

That, of course, is the major focus, I think, of the concern of the Congress and the public at this time.

But there is a second problem area, over and above and somewhat distinct from the need to hold down spending, which would be of particular concern to the Joint Economic Committee, of which this subcommittee is a part and, indeed, of concern to all those who have responsibility for fiscal policy and inflation. It is the need for assurance of greater flexibility for fiscal policy as an anti-inflationary tool in securing speedily and surely an increase in totals on the receipt side. This is particularly important because the limited flexibility to reduce expenditures in any short span of time may be inadequate to adjust fiscal policy to the threat or reality of inflationary movements caused by the emergence of aggregate excess demand. The shortrun instability of the consumption-income relationship and the scale of private investment suggests the need for more flexibility in the application of fiscal policy to inflation.

Therefore, I was particularly pleased to note in the final report of the Joint Study Committee on page 3 the following statement:

A tax surcharge on individuals and corporations, reported out by the tax committees, would be required if the budget outlay and revenue figures set forth in the final concurrent resolution would lead to a larger deficit (or smaller surplus) than the figure set forth in the concurrent resolution indicates the Congress believes is appropriate.

Had that sentence and the overall procedure of which it is a part, been the law of the land, we would not have had the long and damaging delay in bringing fiscal policy to bear on the threat of inflation that marked the period from August 1967 through June 1968, when the Revenue and Expenditure Control Act finally and belatedly brought fiscal restraint to bear on a mounting inflation.

There is also a third area in which the new recommended procedures can prove very useful. It is the need for assurance of both the control of expenditures and some flexibility in tax rates in order to achieve full coordination of fiscal policy with other methods of restraint. There are many choices, Mr. Chairman, in determining the appropriate mix of fiscal and monetary restraint that would emerge if the monetary authorities could have more assurance than is available with present fiscal procedures that fiscal policy would hold up its part of the bargain. If the Federal Reserve System is expected to be independent in the Government rather than outside it, as many congressional sources frequently insist, these same sources should strive to enable fiscal policy to play a more timely and precise role in this partnership and coordination process.

In other words, in addition to providing tools to arrest the tendency toward constant and increasing deficits in the Federal budget, par-

ticularly at times when they are very unhealthy and conducive to inflation, the new procedures and controls over budgetary outlays and receipt totals in the Congress should make fiscal policy a much more serviceable economic tool.

Like any former manager or operator in this difficult area, where authority is divided, and much depends on the performance of others, an ex-Secretary of the Treasury has an instinctive feeling that the major problem of improving fiscal policies and procedures, particularly to deal with inflation, is to match responsibility with authority. No such decisive matching of responsibility with authority, which is the ideal of private organizations and the objective of the British system, is now possible under our form of Government.

Under our Constitution, fiscal responsibility is divided between the executive and the legislative branches. But, the final and ultimate authority over "the purse"—the authorization and appropriation of funds to be spent, the raising of revenue, and the borrowing of money to pay for any differences—rests in the Congress. The executive branch can only submit recommendations and urge their adoption, expending funds actually appropriated by the Congress or collecting taxes levied by that body.

Given these constitutional facts of life, and I am sure we wouldn't have it any differently, we must minimize the existing fragmentation of authority in the Congress in matters of fiscal responsibility and policy. We must fix the congressional procedures so as to relate and coordinate the exercise of legislative authority to tax and borrow in such a way as to reflect concrete and specific fiscal policy decisions, that represent both the popular will and informed judgment of the Congress.

Mr. Chairman, I will omit the reading of several pages in my prepared statement in the interest of time, asking that the full text be included in the record, and conclude by saying that the price for attaining a longer run fiscal policy that calls for an orderly rate of increase in expenditures in line with the natural growth of the economy or the willingness of the people to bear a given level of taxation is more attention to and better tools for this aspect of legislative fiscal policy.

Any sustained effort to attain sufficient control to give rise to a consistent legislative fiscal policy on the expenditure side, which began with section 138 of the Legislative Reorganization Act of 1946, has been suspended for nearly 20 years. We have compromised with a vacuum of ordered congressional responsibility that has been created in recent years, which has been to our national detriment and, certainly, to the lack of any expression of national priorities in the budgetary process from the Congress. Hence, it is now timely to put an end to this fragmentation of authority that we have witnessed and fix positive congressional procedures that will relate legislative authority to authorize and appropriate expenditure with the exercise of responsible authority to tax and borrow in such a way as to reflect specific responsible fiscal policy decisions.

The well-known natural and traditional proclivity to vote for every appropriation and against any increase in taxes or borrowing authority must be ended.

In summary, Congress needs new machinery to insure that the actions taken on authorizations, appropriations, or expenditures for par-

ticular programs will add up to a total that achieves an appropriate legislative fiscal policy. One end result should be an allocation of resources between Federal programs and the private sector so as not to give rise to an inflationary drift resulting from increasing expenditures. On occasions where the forecast of requirements to achieve that appropriate allocation indicates that the fiscal dividend or revenues from reasonably anticipated growth in private activity will be inadequate, this machinery should also determine the levels of taxes required to give an appropriate fiscal policy or reduce the expenditures accordingly. If the economic outlook is such that the revenue raising capacity of the existing tax system will produce a surplus, a decision should be made as to the allocation of that surplus between increased expenditures, tax reduction, or debt retirement.

Thank you, Mr. Chairman.

[The prepared statement and attachment A of Mr. Fowler follow:]

PREPARED STATEMENT OF HENRY H. FOWLER

Mr. Chairman and members of the committee, it is an honor to be invited to appear before you at the start of these important Hearings on "National Priorities and the Budgetary Process".

I regard my frequent associations with the Joint Economic Committee from 1965-1968, while I was Secretary of the Treasury, as a major opportunity for constructive dialogue on economic policy. It is a real personal pleasure to be back before this Sub-Committee to discuss a subject close to my heart then as now.

For identification, I am currently a Partner in the investment banking firm of Goldman, Sachs & Co., 55 Broad Street, New York City.

I appear here today as a member of "Citizens for Control of Federal Spending", a Committee formed to develop public support for restraint and responsibility in federal spending.

The main purpose of my statement today is to express support for the current effort to improve Congressional control over budgetary outlays and receipt totals and commend the general thrust of the recent Report on this subject of the Joint Study Committee on Budget Control, which has introduced a Bill to implement the recommendations of its Report.

Only by taking decisive action of the general character contemplated by the Report of the Joint Study Committee on Budget Control can the Congress deal adequately with what has become a glaring defect in our system of government as it relates to economic policy and economic affairs.

The announcement of these Hearings by Chairman Proxmire, and the letter to me focussed on what could be done now by the Congress to deal with the budgetary problems that would be presented in the fiscal 1975 budget, which would be submitted next January. By far the most important actions that Congress could take now in that regard is the prompt enactment of a Bill which adequately reflects the recommendations of the Joint Study Committee on Budget Control, and the prompt establishment of the administrative procedures and staff called for in that Report.

It is my conviction that this step is the first and overriding priority, and I shall confine my statement to it. This rather single minded and, perhaps, simplistic point of view, is not one which I have recently acquired. It is born out of a long held conviction that an effective and responsible fiscal policy for the federal government is not likely to be achieved until and unless procedures for improving congressional control over budgetary outlays and receipt totals become the acknowledged law of the land in a positive and public fashion.

This conviction, in turn, is an outgrowth of my four years of experience as Secretary of the Treasury (1965-1968), following three years as Under Secretary (1961-1964). It was this conviction and experience that has led me on various occasions, since leaving the Treasury, to urge publicly the kind of action now recommended by the Joint Study Committee on Budget Control. For example, in the fall of 1969, as a participant in the Moskowitz Lectures, sponsored

by New York University, on the topic of "Fiscal Policy and Inflation", I took the occasion to advocate measures that would:

1. Minimize the fragmentation of authority in the Congress, the seat of final authority over fiscal policies and procedures;
2. Fix Congressional procedures that will relate and coordinate the exercise of the legislative authority to authorize and appropriate expenditure with the exercise of the authority to tax and borrow in such a way as to reflect concrete and specific fiscal policy decisions.

I have included as an attachment to my statement a long excerpt from this 1969 paper, dealing primarily with the question on congressional control over budgetary outlays and receipt totals. (See attachment A, p. 82.)

Again, in the fall of 1972, when the question of a spending ceiling for the fiscal year ending June 30th, 1973, and the development of adequate congressional procedures for controlling spending became a part of the debate on legislation extending the public debt limitation, I joined with all seven living ex-Secretaries of the Treasury in a letter to Chairman Mills of the House Ways and Means Committee, pertaining to the issues confronting that Committee. I should like to include this letter in full as part of this statement. It reads:

Dear Mr. Chairman,

The prospects of growing deficits at a time when the economy is expanding rapidly have caused widespread concern in the financial and business community. Such deficits, if not controlled well below projected levels, can only lead to new and additional inflationary pressures. A tax increase, or, in all probability, both. Moreover, new fiscal restraint is vitally needed in view of the present state of the U.S. balance of payments and trade.

As former Secretaries of the Treasury, we applaud your action in asking for a spending ceiling without exceptions. It is not the best long-run solution, which we are sure you and other members of Congress recognize. Should Congress have imposed last spring a firm spending ceiling for the fiscal year that began July 1st to reflect the appropriate fiscal policy of reducing the federal deficit in a rapidly expanding economy and coordinated its separate spending actions to stay within this total, there would have been no need for this proposed emergency action. However, under the present circumstances—one quarter into the new fiscal year—there does not appear to be a practical alternative.

We also commend you for the excellent idea of creating a high level congressional commission to review the situation and make recommendations to Congress on ways to improve overall control of spending. There has long been a need for Congress to review its procedures for acting on the Annual Budget to devise ways that would improve the coordination of its decisions among federal programs and federal revenues in relation to expenditures. Since Section 138 of the Employment Act of 1946 has proved ineffective as a legislative coordinating device, federal spending has consistently exceeded limits dictated by sound fiscal policy.

It is our sincere hope that Congress will approve the Bill reported by the Ways and Means Committee. It would be one of the most dramatic ways for Congress to show the American people that inflation has not become a way of life. It would also provide a telling signal for other nations that the dollar will again become the world's strongest currency in the very near future.

Naturally, I am gratified that the congressional action on the debt limit did include a provision for creating a high level congressional commission to review the situation and make recommendations to Congress on ways to improve overall control of spending. And, as I have indicated, I am most gratified that the Joint Study Committee on Budget Control, so created has produced such a thoughtful and thorough approach to this vital problem. This emphasis on the need for improving congressional control over budgetary outlays and receipts was not peculiar to Secretaries of the Treasury under both Republican and Democrat Administrations. It was a view strongly held by President Lyndon Johnson in his final Economic Report submitted on January 16th, 1969. He dealt explicitly with the situation now confronting Congress, noting that in his many years in Washington he had worked intensively on the Budget on both the legislative and executive sides. He expressly noted the difficulty of: "Coordinating a host of appropriation requests into a total program that accurately reflects national priorities, making the dollar sum of the parts equal a whole that remains within prudent bounds, and ensuring that decisions on tax revenues go hand in hand with those on expenditures."

He then concluded with a positive recommendation to the Congress:

"The Executive Branch coordinates its budgetary decisions through the Bureau of the Budget, with extensive cooperation from the Department of the Treasury and the Council of Economic Advisers. The Congress has no parallel process. I urge the Congress to review its procedures for acting on the annual budget and to consider ways that may improve the coordination of decisions among Federal programs and on Federal revenues in relation to expenditures."

In the few minutes remaining I shall attempt to point up some of the underlying problems in the budgetary field which have prevented our fiscal processes from keeping pace with our advances in fiscal policy.

Under the present system, under which we have been operating, with inadequate Congressional controls of budgetary outlays, we have witnessed an almost constant continuation of deficits plus a tendency to increase in size.

Not only have these added hundreds of billions of dollars to the federal debt, causing the annual cost of carrying that debt to rise to ever more burdensome proportions. But these deficits and disproportionate swells in federal spending have coincided at various times in recent years with strong advances in private demand, thereby giving rise to bursts of damaging inflation which have undermined our competitive strength and been followed by stagnation or recession.

There is a poor post-war record of living within expenditure estimates projected on an annual basis. A table of federal expenditures for given fiscal years, as estimated in the January budget, preceding the opening of the fiscal year on July 1st, revised in the mid year review, further revised the next January, and finally reported at the conclusion of the fiscal year, will show an unmistakable tendency for federal expenditure to exceed spending estimates. Despite the acceptability of the reasons for some of the past surges of expenditures, an analysis of the record makes a strong case for more precise and positive legislative control over actual spending outlays in a given fiscal year, totals of authorizations and appropriations by the Congress for current and future expenditure, and intensification of long term budget planning in both the Executive and Congress.

Without the improved procedures and instruments of control, one side of the fiscal equation will run away from the other, sometimes neutralizing the role of fiscal policy as a tool to deal with inflation and sometimes operating in a manner contrary to the desired objective.

The general recommendations contained in the Report of the Joint Study Committee on Budget Control are addressed to this problem of avoiding deficits when they are economically undesirable and correcting the present arrangements which appear to make it increasingly impossible to decide between competing priorities, with the result that spending is made available for many programs where the preference might have been to make choices rather than providing for all.

There is a second problem area, somewhat distinct from the need to hold down spending, which would be of particular concern to the Joint Economic Committee and, indeed, all those who have any concern with fiscal policy and inflation. It is the need for assurance of greater flexibility for fiscal policy as an anti-inflationary tool in securing speedily and surely an increase in totals on the receipt side. This is particularly important because the limited flexibility to reduce expenditures in any short span of time may be inadequate to adjust fiscal policy to the threat or reality of inflationary movements caused by the emergence of aggregate excess demand. The short-run instability of the consumption-income relationship and the scale of private investment suggests the need for more flexibility in the application of fiscal policy to inflation.

Therefore, I was particularly pleased to note in the final Report of the Joint Study Committee on page 3 the following statement:

"A tax surcharge on individuals and corporations, reported out by the tax committees, would be required if the budget outlay and revenue figures set forth in the final concurrent resolution would lead to a larger deficit (or smaller surplus) than the figure set forth in the concurrent resolution indicates the Congress believes is appropriate."

Had that sentence and the overall procedure of which it is a part, been the law of the land, we would not have had the long and damaging delay in bringing fiscal policy to bear on the threat of inflation that marked the period from August 1967 through June 1968, when the Revenue and Expenditure Control Act finally and belatedly brought fiscal restraint to bear on a mounting inflation.

There is a third area in which the new recommended procedures can prove very useful. It is the need for assurance of both the control of expenditures and some flexibility in tax rates in order to achieve full coordination of fiscal policy with other areas of restraint. There are many choices in determining the appropriate mix of fiscal and monetary restraint that would emerge if the monetary authorities could have more assurance than is available with present fiscal procedures that fiscal policy would hold up its part of the bargain. If the Federal Reserve System is expected to be independent in the Government rather than outside it, as many congressional sources frequently insist, these same sources should strive to enable fiscal policy to play a more timely and precise role in this partnership and coordination process.

In other words, in addition to providing tools to arrest the tendency toward constant and increasing deficits in the Federal Budget, particularly at times when they are very unhealthy and conducive to inflation, the new procedures and controls over budgetary outlays and receipt totals in the Congress should make fiscal policy a much more serviceable economic tool.

Like any former manager or operator in a difficult area, where authority is divided and much depends on the performance of others, an ex-Secretary of the Treasury has an instinctive feeling that the major problem of improving fiscal policies and procedures, particularly to deal with inflation, is to match responsibility with authority. No such decisive matching of responsibility with authority, which is the ideal of private organizations and the objective of the British system, is possible under our form of government.

Under our Constitution, fiscal responsibility is divided between the executive and the legislative branches. But, the final and ultimate authority over "the purse"—the authorization and appropriation of funds to be spent, the raising of revenue, and the borrowing of money to pay for any differences—rests in the Congress. The executive branch can only submit recommendations and urge their adoption, expending funds actually appropriated by the Congress or collecting taxes levied by that body.

Given these facts of constitutional life, we must minimize the existing fragmentation of authority in the Congress in matters of fiscal responsibility and policy. We must fix the congressional procedures so as to relate and coordinate the exercise of legislative authority to tax and borrow in such a way as to reflect concrete and specific fiscal policy decisions, that represent both the popular will and informed judgment of the Congress.

The fragmentation of legislative control over federal expenditures is on its face a serious problem. In actual practice it has proved to be even more serious and the very opposite of a procedure that would produce and effectuate a precise fiscal policy in accordance with the objective and the procedure prescribed by the Congress in Section 138 of the Legislative Reorganization Act of 1946.¹

The splintering of legislative budgetary authority between spending and taxing and borrowing, between the various appropriation subcommittees, between the function of authorization of expenditures and actual appropriations, by the development of "back door" or mandatory spending actions and the rapid emergence of what is called "uncontrollable expenditures", by the continued validation of unexpended balances of budget authority provided in earlier years—all these centrifugal tendencies have accumulated to make relatively impossible the responsible exercise of fiscal authority in the Congress. They have completely obsoleted the rather simplistic approach in Section 138 of the Legislative Reorganization Act of 1946. Indeed, after two or three trials, Congress abandoned this procedure and it has not been used since, although Section 138 remains on the books and is the law of the land today.

¹ Section 138—"The Committee on Ways and Means and the Committee on Appropriations of the House of Representatives and the Committee on Finance and Committee on Appropriations of the Senate, or duly authorized subcommittees thereof, are authorized and directed to meet jointly at the beginning of each regular session of Congress and after study and consultation, giving due consideration to the budget recommendations of the President, report to their respective Houses a legislative budget for the ensuing fiscal year, including the estimated overall Federal receipts and expenditures for such year.

"Such report shall contain a recommendation for the maximum amount to be appropriated for expenditure in such year and shall include such an amount to be reserved for deficiencies as may be deemed necessary by such committee.

"If the estimated receipts exceed the estimated expenditures, such report shall contain a recommendation for the reduction of public debt."

In several recent years, Congress has sought to compensate for its failure to follow this procedure or to adapt and adopt a better one by placing an overall spending ceiling on appropriated funds that the President may actually expend in a given fiscal year. These measures, designed to curb Executive use of funds already authorized and appropriated by Congress for expenditure, served a useful psychological purpose in registering for the nation and the world the concern of the Congress to exercise fiscal policy to curb inflation through putting limits on actual outlays.

But apart from the deficiencies of haphazard timing they were far from adequate to deal with the entire range of problems presented. For example, under the first ceiling experiment in the Revenue and Expenditure Control Act of 1968, Congress exempted roughly 50 per cent of the budget from the ceiling imposed and expressly permitted overruns to the extent necessary in the exempted programs. These overruns were re-estimated nine months later at \$6.1 billion, wiping out the \$6 billion cutback in the nonexempt areas intended by the ceiling.

I might add that both timeliness and precision are essential to fiscal policy. The key factor is that the nation is in the tenth month of the current fiscal year and there has been no firm determination by the Congress of ceilings, limits, or targets for current fiscal year expenditures, or of appropriations or budget obligational authority which may affect the level of increased expenditures in particular programs in the years to follow. The importance of the latter for a longer term fiscal policy is reflected by the comment in a House Committee Report in 1969 that "the size of the unexpended carry-over pipeline, of course, depends on what is put in and what is taken out. Addition of more new budget authority than is expended in a year increases the pipeline."

To a considerable extent the future of fiscal policy depends on the expenditure side of the budget and upon the level of new budget authority voted each year, the very considerable expenditure which flows from so-called permanent appropriations that do not pass through the annual appropriations bill (e.g., payments of interest on debt and trust funds), and several programs involving mandatory expenditures fixed in basic law (e.g., veterans' payments and public assistance matching grants) that do not pass through the annual bill process.

Present fiscal procedures on the legislative side do not permit adequate influence for fiscal policy or precise and timely determination with some coordinated approach that pulls these various aspects together.

The price for attaining a longer run fiscal policy that calls for an orderly rate of increase in expenditures in line with the natural growth of the economy or the willingness of the people to bear a given level of taxation is more attention to and better tools for this aspect of legislative fiscal policy. As a former manager and operator on fiscal affairs I share fully the conclusion of the Committee report that "in the long-range sense, as distinguished from any particular fiscal year, too much emphasis is attached to controlling growth of Government spending by applying the control at the end of the spending process. It is more logically and effectively applicable at the authorization and appropriation stages * * *. The most consistently accurate barometer to future spending levels is the dimension of budget authority by Congress to enter into obligations on behalf of the Government."

Any sustained effort to attain sufficient control to give rise to a consistent legislative fiscal policy on the expenditure side, which began with Section 138 of the Legislative Reorganization Act of 1946, has been suspended for nearly 20 years. We have compromised with a vacuum of ordered congressional responsibility that has been created in recent years, which has been to our national detriment and, certainly, to the lack of any expression of national priorities in the budgetary process from the Congress. Hence, it is now timely to put an end to this fragmentation of authority that we have witnessed and fix positive congressional procedures that will relate legislative authority to authorize and appropriate expenditure with the exercise of responsible authority to tax and borrow in such a way as to reflect specific responsible fiscal policy decisions.

The well-known natural and traditional proclivity to vote for every appropriation and against any increase in taxes or borrowing authority must be ended.

In summary, Congress needs new machinery to ensure that the actions taken on authorizations, appropriations, or expenditures for particular programs will add up to a total that achieves an appropriate legislative fiscal policy. One end result should be an allocation of resources between Federal programs and the private sector so as not to give rise to an inflationary drift resulting from in-

creasing expenditures. On occasions where the forecast of requirements to achieve that appropriate allocation indicates that the fiscal dividend or revenues from reasonably anticipated growth in private activity will be inadequate, this machinery should also determine the levels of taxes required to give an appropriate fiscal policy or reduce the expenditures accordingly. If the economic outlook is such that the revenue raising capacity of the existing tax system will produce a surplus, a decision should be made as to the allocation of that surplus between increased expenditures, tax reduction, or debt retirement.

ATTACHMENT A

EXCERPT FROM 1969 PAPER DELIVERED BY HENRY H. FOWLER AT MOSKOWITZ LECTURES, SPONSORED BY NEW YORK UNIVERSITY, ENTITLED "FISCAL POLICY AND INFLATION"

Because in closing I wish to emphasize these particular methods of improving fiscal procedures and the formulation and execution of fiscal policy to deal with inflation, I shall merely stand on the discussion of the role of economic forecasting and the methodology of preparing the annual budget which is contained in the 1969 Report of the Council of Economic Advisers and proceed directly to the discussion of the three goals.

(1) Minimizing the fragmentation of authority for fiscal policy in the Congress, seat of final authority.

As President Johnson pointed out in his last Economic Message: "The executive branch coordinates its budget decisions through the Bureau of the Budget, with extensive cooperation from the Department of the Treasury and the Council of Economic Advisers. The Congress has no parallel process. I urge the Congress to review its procedures for acting on the Annual Budget and to consider ways that may improve the coordination of decisions among Federal programs and on Federal revenues in relation to expenditures."

The fragmentation of legislative authority over Federal expenditures is on its face a serious problem. In actual practice it has proved to be even more serious and the very opposite of a procedure that would produce and effectuate a precise fiscal policy in accordance with the objective and the procedure prescribed by the Congress in Section 138 of the Legislative Reorganization Act of 1946. This significant milestone in the legislative reform process was an attempt to coordinate fiscal processes in the Congress to complement those which had been prescribed for the Executive in the Employment Act of 1946. Section 138 provides:

"The Committee on Ways and Means and the Committee on Appropriations of the House of Representatives and the Committee on Finance and Committee on Appropriations of the Senate, or duly authorized subcommittees thereof, are authorized and directed to meet jointly at the beginning of each regular session of Congress and after study and consultation, giving due consideration to the budget recommendations of the President, report to their respective Houses a legislative budget for the ensuing fiscal year, including the estimated over-all Federal receipts and expenditures for such year.

"Such report shall contain a recommendation of the maximum amount to be appropriated for expenditure in such year and shall include such an amount to be reserved for deficiencies as may be deemed necessary by such committee.

"If the estimated receipts exceed the estimated expenditures, such report shall contain a recommendation for the reduction of public debt." After two or three trials the Congress abandoned this procedure and it has not been used since, although Section 138 remains on the books and is the law of the land today. In the last two fiscal years, Congress has sought to compensate for its failure to follow this procedure or to adapt and adopt a better one by placing legislative limits on the total amount of authorized and appropriated funds that the President may actually expend. These measures, designed to curb Executive use of funds already authorized and appropriated by Congress for expenditure, served a useful psychological purpose in registering for the nation and the world the concern of the Congress to exercise fiscal policy to curb inflation through putting limits on actual outlays.

However, these ceilings do not meet adequately the problem of minimizing the fragmentation of authority for fiscal policy in the Congress in the field of ex-

penditures. The first and perhaps the most serious fragmentation arises from the fact that, in both the House and Senate, authority over expenditures is essentially controlled by thirteen separate appropriation subcommittees which determine appropriations for individual agencies and programs. Other committees and subcommittees do the spade work legislating the establishment and conduct of a given program within authorized fund limits but, subject to that authorization, the actual funds are provided by appropriations which may lapse at the end of the fiscal year or become carry-over spending authority that extends beyond the end of the fiscal year. In addition there are permanent authorizations of expenditures such as those grounding the payment of interest and payments from the various trust funds.

The individual decisions incorporated in these thirteen various appropriation acts can result in obligating the Treasury to make actual outlays that are neither controlled nor determined in a coordinated way since there is no precise and timely fiscal decision by the Congress in advance or during the early portion of the fiscal year on the ultimate levels of expenditures in the year.

Under the first ceiling experiment in the Revenue and Expenditure Control Act of 1968, Congress exempted roughly 50 per cent of the budget from the ceiling imposed and expressly permitted overruns to the extent necessary in the exempted programs. These overruns were re-estimated nine months later at \$6.1 billion, wiping out the \$6 billion cutback in the nonexempt areas intended by the ceiling.

The approach to the ceiling in fiscal 1970 represented in some ways a considerable improvement. Congressman George Mahon, Chairman of the House Appropriations Committee, and his colleague, Congressman Frank Bow, the ranking Minority member, deserve high praise and credit for their persistent efforts to effect some coordination of the fiscal processes involved on the expenditure side. All those interested in this problem and the efficacy of contemporary efforts to deal with it should study carefully the Report of the House Appropriations Committee approving, in May of this year, a fiscal 1969 supplemental appropriations bill that contained language designed to hold Government spending to \$192.9 billion, President Nixon's April 12 estimate. That report reveals the complexities and difficulties involved.

The mechanics of the ceiling adopted were designed to operate in such a way that many substantial adjustments could come about through the individual appropriation acts which would affect the over-all expenditure total upwards or downwards for reasons and considerations remote from fiscal policy. The report states that what Congress does in the thirteen appropriation bills dealing with various budgetary authority proposals, plus a handful of other proposals involving outlays, "basically determines what happens to the \$192.9 billion ceiling in the accompanying bill." Moreover, as the report noted: "as to the mechanics for adjusting the ceiling, timeliness in accommodating Government programs to Congressional changes is essential to orderly administration."

I might add that both timeliness and precision are essential to fiscal policy. The key factor is that the nation is in the fifth month of the current fiscal year expenditures, or of appropriations or budget obligational authority which may affect the level of increased expenditures in particular programs in the years to follow. The importance of the latter for a longer term fiscal policy is reflected by the comment in the House Committee Report that "the size of the unexpended carry-over pipeline, of course, depends on what is put in and what is taken out. Addition of more new budget authority than is expended in a year increases the pipeline."

To a considerable extent the future of fiscal policy depends on the expenditure side of the budget and upon the level of new budget authority voted each year, the very considerable expenditure which flows from so-called permanent appropriations that do not pass through the annual appropriations bill (e.g., payments of interest on debt and trust funds), and several programs involving mandatory expenditures fixed in basic law (e.g., veterans' payments and public assistance matching grants) that do not pass through the annual bill process.

Present fiscal procedures on the legislative side do not permit adequate influence for fiscal policy or precise and timely determination without some coordinated approach that pulls these various aspects together. As the recent Report of the House Appropriations Committee notes, the outlays ceiling proposed by the Committee for 1970, while rigid and all encompassing, does not,

and cannot, of course, come to grips with these fundamentals of basic laws. The Report adds that "there is room for great doubt that such a ceiling can realistically be regarded as an effective long-run procedure."

The price for attaining a longer run fiscal policy that calls for an orderly rate of increase in expenditures in line with the natural growth of the economy or the willingness of the people to bear a given level of taxation is more attention to and better tools for this aspect of legislative fiscal policy.

As a manager and operator on fiscal affairs I share fully the conclusion of the Committee report that "in the long-range sense, as distinguished from any particular fiscal year, too much emphasis is attached to controlling growth of Government spending by applying the control at the end of the spending process. It is more logically and effectively applicable at the authorization and appropriation stages The most consistently accurate barometer to future spending levels is the dimension of budget authority by Congress to enter into obligations on behalf of the Government."

The evolutionary process of attaining sufficient fiscal control to give rise to a consistent legislative fiscal policy on the expenditure side which began with Section 138 of the Legislative Reorganization Act, lapsed for nearly twenty years. It was revived under the leadership of Chairman Mahon and his colleague, Congressman Bow, and Chairman Wilbur Mills of the House Ways and Means Committee and his colleague, Congressman Byrnes. They should receive increasing support from the leadership and rank and file of the Congress and all those in the private sector who are interested in viable fiscal policy to deal with inflation.

(2) Fixing of Congressional procedures that will relate and coordinate the exercise of the legislative authority to authorize and appropriate expenditure with the exercise of the authority to tax and borrow in such a way as to reflect concrete and specific fiscal policy decisions.

The well known natural and traditional proclivity of many legislators to vote for every appropriation and against every increase in taxes or borrowing authority is the cross in life of the fiscal manager or operator.

As Secretary of the Treasury, life was a round of countless occasions of pleading with members of Congress, publicly and privately, individually and collectively, to hold down spending appropriation totals—or to increase taxes—or to extend borrowing authority. Every extension of the debt limit to borrow the money to pay the bills that Congress had authorized the Executive to incur was a bloodletting for the Secretary of the Treasury and his colleagues. We fondly referred to these rites as "the flagellation of the Treasury". Every recommendation to increase taxes—to minimize a deficit resulting from the bills the Congress had authorized—and thereby to impose restraint or preserve fiscal equilibrium or avoid excessive stimulation, was a similar ordeal. Some of these ordeals are now quite well known.

The details of such efforts to secure coordination of legislative decisions on spending, taxing, and borrowing have no place to this lecture series. Needless to say, they indelibly fixed on my mind the need for internal congressional procedures to effect that coordination. The very helpful, often entertaining, and always laborious reviews of the fiscal situation by the Secretary of the Treasury and the Director of the Budget before the Joint Economic Committee, the House Ways and Means Committee, the House Appropriations Committee, the Senate Finance Committee, and the Senate Appropriations Committee served a useful purpose. But they did not achieve coordination.

We had plenty of hearing, but there was no single point or stage in the proceedings at which the responsibility for combining spending, taxing and borrowing decisions into a composite legislative fiscal policy was fixed. These decisions are largely determined in the committees of Congress. The spending decisions are made in the Appropriations Committees. The taxing and borrowing decisions are made in the House Ways and Means Committee and the Senate Finance Committee. In turn the fiscal policy on expenditures was and is further fragmented by the subcommittee structure in the thirteen individual appropriation acts.

A major contributing factor to the ten-month delay in enacting the 10 percent surtax increase in 1967-68 was the insistence by the House Ways and Means Committee that "expenditure control" be assured as a corollary of a tax increase.

I for one, agreed heartily with that attitude, but there was no readily available fiscal procedure to assure the result. It has always been my position that the delay was due more to a lack of adequate fiscal procedures than to substan-

tive differences among various elements in the Congress and between Congress and the Executive. Trying to be an honest broker in that ten-month period, among the varying points of view on prerogatives, jurisdiction, and substance, left me with a great sympathy for the men involved and a deep concern with the inadequacy of the procedures they have available with which to formulate or confirm a viable legislative fiscal policy.

The ultimate emergence of the Revenue and Expenditure Control Act of 1968 as a solution for the extraordinarily serious fiscal problem then at hand was made possible only by the unusual capacity, statesmanship, tenacity, and give-and-take of a few men to whom the country is greatly indebted. It does not stand as an example of a legislative procedure for determining fiscal policy that the country should long tolerate. This is the reason I focused then and focus hard now on Section 138 of the Legislative Reorganization Act. It has proved to be a failure for over twenty years. Yet it was addressed to a real problem and a more workable alternative must be developed and followed if fiscal policy is to play its proper role in dealing with inflation.

In summary, Congress needs new machinery to ensure that the actions taken on authorizations, appropriations, or expenditures for particular programs will add up to a total that achieves an appropriate legislative fiscal policy. One end result should be an allocation of resources between Federal programs and the private sector so as not to give rise to an inflationary drift resulting from increasing expenditures. On occasions where the forecast of requirements to achieve that appropriate allocation indicates that the fiscal dividend or revenues from reasonably anticipated growth in private activity will be inadequate, this machinery should also determine the levels of taxes required to give an appropriate fiscal policy or reduce the expenditures accordingly. If the economic outlook is such that the revenue raising capacity of the existing tax system will produce a surplus, a decision should be made as to the allocation of that surplus between increased expenditures, tax reduction, or debt retirement.

Naturally, the starting point for these legislative considerations should be the President's budget or any substantial and significant change in the outlook that is triggered by a Presidential Message, requesting review and redetermination. This initial determination of a legislative fiscal policy should follow as soon after the submission of the President's budget as possible while permitting adequate hearings and legislative consideration with deliberate speed. When it is complete, affirming or modifying the President's budget recommendations, the Congress, the executive branch, and the private sector will have concrete and specific fiscal policy for the ensuing year as background for the many private and interstitial public decisions which must be made.

Chairman PROXMIRE. Thank you very much, Mr. Fowler. Without objection, I will place Mr. Laird's prepared statement in the record at this point.

[The prepared statement of Mr. Laird follows:]

PREPARED STATEMENT OF MELVIN R. LAIRD, FORMER SECRETARY OF DEFENSE

I am very pleased to be able to accept your invitation to take part in this panel discussion. I have had some experience with the budget process—both in Congress and the Executive Branch—and I hope I will be able to make a useful contribution to the extremely important work this committee is doing to bring about effective congressional budget control.

There are, I suppose, two general attitudes towards the prospect of success in achieving such control. One is that it cannot be achieved; there are too many problems, too many ingrained traditions and legislative habits which can't be overcome and the sheer scope and complexity of federal spending and taxing defies rational control. The longer one is intimately involved with the whole budget process, the more one inclines toward this attitude. I hold a second view, however, which is that effective congressional budget control is so vitally important for the economic, political and social well-being of our nation that it simply must be achieved in spite of the numerous difficult problems we all know exist. Moreover, it is a job which I believe can be done—given widespread understanding among the American people and in Congress as to its urgency.

I would like to focus my remarks this morning on one aspect of the budget process which has given me great concern. It is pertinent to the objectives of this hearing, I believe, because it not only involves the question of priorities

but also the problem of making budget decisions in a timely manner. I refer to the relationship between authorizations and appropriations.

Under our system of requiring authorizations before appropriations can be made, two major problems have emerged:

(1) Although authorizations explicitly commit the Congress to expenditure of funds to implement the program authorized, there is little or no effort made to determine if funds are available, either in current or future budgets, for implementation of the program. Those responsible for appropriating funds, and for keeping expenditures within budget limits, are constantly confronted with the fiscal demands of new programs or the expansion of old programs which have been authorized without regard to their overall spending totals or their relation to other budget requirements. One result is that Congress has been forced to exercise its own "impoundment" authority, if I may use the term. As the Joint Study Committee on Budget Control points out, the gap between funds authorized and funds appropriated, in programs with fixed authorizations only, grew from \$2.6 billion in 1966 to \$8.4 billion in 1970, from 19% to 35%. Another result, of course, is that, as new or expanded authorizations are enacted annually, Congress provides modest funds to get the programs organized and under way, with a comparatively minor effect on current budget outlays, but committing itself to a large outlay in future years as the program gathers momentum and generates public pressure for its continuance.

(2) A second problem is the delay in appropriating funds caused by the authorization requirement, particularly in the case of annual appropriations. The Joint Study Committee points out that nine of the thirteen annual appropriations bills are affected, at least in part, by annual authorizations and that this requirement has held up appropriations often until after the start of the fiscal year involved and sometimes until after the end of the session of Congress. One effect of these delays, while not germane to these hearings, is to create havoc and inefficiency in the departments and agencies concerned. I speak from personal experience in the Department of Defense. More pertinent, however, is the fact that such delays make extremely difficult, if not impossible, the kind of advance planning on budget decisions in which this committee is interested. For example, if annual authorizations for the 1975 budget are not to be made until Fiscal 1975 is half over, the problem of making over-all budget estimates in advance is greatly magnified.

I do not have the complete answer to these two problems created by the authorization process, but certainly, it seems to me, we must move, as the thrust of these hearings suggests, to an accelerated timetable for budget decisions, including authorizations. The Joint Study Committee recommends that, except in emergencies, authorizations be enacted in the fiscal year preceding the fiscal year to which current appropriations relate. This would mean for example, that authorizations enacted as late as June 30, 1974, could be covered by appropriations in Fiscal 1975 budget beginning July 1, 1974. This would be an improvement over the existing situation but it would be preferable, I believe, if authorizations to be funded in any fiscal year were enacted prior to December 31 in the prior fiscal year. For example, authorizations to be funded in Fiscal 1975 ought to be enacted by December 31, 1973.

This would not only enable the President to submit a more realistic budget, but it would be of real help to the appropriations committees and the proposed budget committees in making their important budget decisions.

Finally, in dealing with the problem of relating the amounts of new or expanded authorizations to what is available for expenditure in current or future years, I am hopeful that the new congressional budget control procedures recommended by the Joint Study Committee will increasingly focus the attention of Congress upon the final impact of its authorizations and the necessity for choice between programs if spending control is to be achieved. Those procedures will force choices, I believe, during the appropriations process. Until we find some method for attacking the problem of the proliferation of programs during the authorization process—by developing overall program priorities—the pressures for increased spending and the difficulties involved in establishing budget controls will remain with us.

Chairman PROXMIRE. I would like to ask you gentlemen a whole series of questions here. I think you have made a fine beginning. In a recent column in the Wall Street Journal, Paul McCracken said, and I quote, "fiscal policy remains too expansionist." And just this week,

Chairman Stein of the Council of Economic Advisers stated that the problem now is to cool off the economy and perhaps through higher selective taxes. That was what caught the headline—the taxes. He didn't say they were going to impose taxes but they were looking at it along with a lot of other things.

In the first place, do you gentlemen agree that the economy is expanding too fast, that it is an inflationary increase? First, Mr. Byrnes.

Mr. BYRNES. Well, I think particularly, as you relate it to the deficit that we are creating here, as of today, plus what is anticipated for fiscal 1974, I don't think there can be any question but what with that kind of a deficit certainly is overly expansionary for the kind of an economic situation we have.

Mr. FOWLER. Mr. Chairman, I would answer your question by saying, in my judgment, that the current rate of expansion which we witnessed in the first quarter is definitely inflationary and, I think, represents an excess of demand, excessive growth of demand that is not likely to be sustaining over the longer term future, and I would be more comfortable if our rate of real growth was in the neighborhood of $5\frac{1}{2}$ or 6 percent rather than running, as it currently is, at the rate of 7 or 8 percent, because somewhere down the line that rate is simply not sustainable in the long term future.

Chairman PROXMIRE. Now, what courses of action would you recommend under these circumstances. Should we have a surplus rather than an approximate balance in the full employment budget?

At the present time, as you know, the President is aiming at and the Congress seems to be aiming at a balance, and it seems that that probably is neither restraining nor expanding the economy. But on the basis of what you just told me I would say that you would argue for a surplus, and that we either reduce spending or increase taxes or maybe do a little of both.

Would you care to give us your recommendation?

Mr. FOWLER. That would certainly be the classic and conventional wisdom on the subject. I don't know whether it is practical, as a practical matter, whether you could do better than to try to achieve the target that the President has set; namely, of holding spending in the current fiscal year to the \$250 billion level and in the oncoming fiscal year \$268 billion.

Chairman PROXMIRE. For the oncoming fiscal year, as you know, the Senate passed a resolution which has died, but it was indicative of the sentiment of the Senate, it was passed by an 84-to-6 vote or something like that, there were only 6 votes in opposition, for a ceiling below the President's suggested level—a ceiling of \$268 billion. He proposed \$268.7 billion, about the same level, but a little bit below, but you feel that something like that, in that area, is the most practical as far as spending is concerned.

Well then, what can we do? Are we pretty helpless as far as modifying fiscal policy? Do we have to rely on monetary policy, on controls here or do you think that a tax increase would be feasible.

Mr. FOWLER. Well—

Chairman PROXMIRE. I will tell you there is a lot of sentiment, a whale of a lot of sentiment, in the country against a tax increase.

Mr. FOWLER. Well, I have got scars all over me, as you well know, from having been the leading advocate of a tax surcharge in 1967,

and I know, I expect better than most, how extremely difficult and distasteful it is to men in public office to advocate a tax increase. Therefore, having done it once and not being responsible now I am not going to give advise anymore. But I do think that we have—

Chairman PROXMIRE. Of course, you gentlemen are in a better position, you have—I presume you are not going to be running for office soon, Henry?

Mr. FOWLER. No, indeed.

Chairman PROXMIRE. And, John, I don't think you plan to run for office soon, at least I hope not.

Mr. FOWLER. No, sir.

Chairman PROXMIRE. Don't run against me [laughter] at any rate. You are much freer to advocate a tax increase, if you think it is right, than some Members of Congress who are about to run this year. I am not running this year, but some are. How do you feel about it, Mr. Byrnes?

Mr. BYRNES. Let me say this, Mr. Chairman, I am not too sure that advocacy is really the important factor. It is really where are we really going to go, what is within the realm of practicality.

Chairman PROXMIRE. Yes; all right.

Mr. BYRNES. That is what you have to deal with when you look to the present situation and to the future.

I think what is particularly important is not always what you do at the moment, it is what the general direction is that you are taking and, I think, if the Congress moved expeditiously to set up these new procedures, it would be the signal that would give considerable psychological advantage to the economy and to the dollar, as to a determination of the Congress to get a basic control over an appropriate fiscal policy.

Chairman PROXMIRE. I think that is a good point and I can't see this action is going to have any effect except restraining which, I think, is desirable. First of all, it is going to be much harder to justify spending increases. You are going to have to pay the price of having to cut spending another place or have a tax increase along with it which is a good discipline, so that is going to be the effect.

But it is down the pike a little ways, and we have this inflation that is beginning to boil up much more painfully with every month's statistics, and I am very concerned about that.

If we do need a tax increase, what form should it take, I am not asking you to advocate one necessarily, but higher taxes on business, or higher taxes on consumers through an income tax surcharge, or do you have some other feeling about it?

One of the problems here is that the great—there has been a substantial change in our tax structure in which corporation taxes have been reduced somewhat, at least in proportion, and payroll taxes, social security taxes have enormously increased. Payroll taxes, most people feel, are more regressive and there has been a tendency to shift the tax burden to low-income and moderate-income people.

Mr. FOWLER. Well, I would be myself a strong advocate of a tax surcharge of the type we used in 1968, because it seems to me that the expansion of demand is not focused in any one particular sector of the economy. It isn't peculiar to the capital goods expenditure side. The rate at which the consumer is spending makes that sector one of the

primary aspects of the current situation and, therefore, a general levy to restrain private demand would seem to me to be more logical than to isolate the impact on capital goods expenditures or to put specific excise taxes on particular products—

Chairman PROXMIRE. It certainly will act a lot faster too because by the time you get through all the debate and differences of opinion on it, you have an investment tax, a consumer tax—

Mr. FOWLER. That is right.

Chairman PROXMIRE. Cut the investment credit, increase it, it takes a lot of time. A surtax is much crisper and cleaner although you know from your own experience it is not easy to get that surtax through.

Mr. FOWLER. It certainly isn't. That is why I think the provision in the joint study report dealing with the final action in the second concurrent resolution that where the totals of spending authorized are going to exceed—going to create a deficit in excess of the amount that the Congress thinks wise as a matter of economic policy, that a tax surcharge will be initiated, I think that is a very salutary section. If you don't have that, Mr. Chairman, you ultimately are going to have to come back to some kind of a distasteful procedure whereby the Congress delegates discretion to the Executive to impose for a limited period of time, a year, perhaps, a special surcharge. Certainly the provision that would put that responsibility on the Congress rather than on the Executive is one that we would all prefer if it can be acted upon.

Chairman PROXMIRE. Would you concur, Mr. Byrnes, that a surtax makes more sense?

Mr. BYRNES. Yes, I would, Mr. Chairman. I think any law, to the degree that you are using taxes for temporary fiscal policy balances, I think it has to be a simple tax situation, otherwise you will never get it enacted. Also, I think, your basic tax law should have a reasonable degree of certainty in it, and this would not disturb that. I think the surcharge is the appropriate way, up and down, in terms of this ingredient of fiscal policy that you are talking about.

Chairman PROXMIRE. Now, in recent months the rate of increase in the money supply has been slowed considerably and it is about time. Last year we had an increase in money supply of over 8 percent. It was a \$19-billion increase, by far the biggest increase in the money supply we have ever had in the history of this country, by far and, of course, there is a lag involved here so the effect of that is likely to come throughout this year and it is one of the reasons, I think, for the inflation we are suffering.

Now in testimony before this committee in February, Henry Kaufman, a very eminent economist with whom I am sure you are familiar, suggested that the current rate of economic growth will force the Fed to adopt a tight money policy to curb inflation. He held out the possibility of another credit-crunch recession toward the end of this year or at the beginning of next year.

Do you believe that the continuing high level of inflation will prompt the Fed to sharply curtail money growth? If so, what are the prospects for a recession within a year?

Mr. FOWLER. Well, I think that the reports of recent weeks have been quite disturbing. I was one of those who last fall felt fairly con-

fidant that we were going to see a very solid year of progress without an unsustainable rate of growth or rate of inflation, but my premise in that regard had to do with the cutback in money supply that you have advocated and which has, I think, to some considerable extent, come about. It also was premised on the notion of a retention of a fairly vigorous and effective cost-push inflationary setup. But I think that the very rapid expansion in the first quarter does call for us all to review the bidding in terms of the forecasts we had last fall.

I think it has some bearing on the subject we are discussing here because I think one of the virtues of the procedures that have been proposed, particularly in the light of Mr. Byrnes' amendment thereto, if you have a look in September at what you think the economy is going to be like in the oncoming calendar year, and then you walk away from it and forget it and operate purely on that premise, you very often find yourselves by springtime with an entirely different set of conditions that calls for a review and appraisal.

Now, given the system we have today there is very little you can do when the spring comes to make those adjustments. Under the new procedures that are proposed, you would have not only the review and redetermination of policy objectives, but also some instruments whereby those policy objectives could be achieved, begin to be achieved, in the fiscal year as it begins on July, on the following July 1, and then again you would have a final corrective in August or September when the final concurrent resolution was adopted, which, once again, would permit some adjustment of policy to take into account the changes that had occurred in the preceding 4 to 5 months.

This is a situation where flexibility is at a very, very high premium, and this proposed procedure does, in a sense, put the Congress, through its constituted budget committees, right up against the necessity and the responsibility of reviewing and making new judgments about every 6 months if we followed Mr. Byrnes' suggestion of an initial look in September, then the President's recommendations coming in, a concurrent resolution in May—and then a final resolution in September.

Chairman PROXMIER. Mr. Fowler, you gave me an answer, a brilliant answer, an eloquent answer, an answer to a question I probably should have asked, but it wasn't an answer to the question I did ask. The question I did ask related to the fact we have had an enormous increase in the money supply and that it would seem under present circumstances that the Fed would be bound to reduce the increase in the money supply and thereby—the way they do that, of course, is to reduce the availability of credit so people can't borrow as much, and what that does is drive up interest rates and what that does, of course, is to have a considerably adverse effect on housing and State and local borrowings, and so forth, and slow down the economy in those sectors, in that way it could lead to a recession.

Do you think that this is a danger, and do you think there is anything we can do about it? Do you think it is perhaps necessary now?

Mr. FOWLER. Well, this calls for—the reason I did duck the question a little bit—it calls for a mind-reading act on what is going through the mind of Chairman Burns and his colleagues on the Federal Reserve Board.

Chairman PROXMIRE. I think that is right, I think my question was framed awkwardly. What I am trying to get at is looking at it as an economic expert, which you are, and one who has had great experience in the Treasury working with monetary policy, do you feel that a reduction in the supply of money is now called for, and do you think that has the consequences that we may set off a recession?

Mr. FOWLER. I do not think that a further reduction in the money supply of a very serious and consequential nature is called for.

Chairman PROXMIRE. I shouldn't say reduction, a reduction in the increase in the money supply.

Mr. FOWLER. A reduction in the increase in the money supply. I think monetary policy is on a very reasonable fix now and direction, and I don't think that the Federal Reserve Board and monetary policy ought to take on and, as I read Chairman Burns, he is saying they are not going to take on the total responsibility for pressing down so hard on the brakes as to cause a crunch and a recession. They are going to try to keep monetary policy, as I understand it, on a fairly even, restrained keel at something like its present restrained tone, to prevent the increases in money supply from adding further to the fuel of inflation, but they are not going to produce a credit crunch or a crisis.

Now, a separate question, in my judgment, of whether you will have a recession, depends therefore not so much on what the Fed does but on whether the economy itself arrests its movement at this excessive rate of speed. This is where I think Congressman Byrnes has made a very good contribution here. If the Congress took prompt action to set up these budgetary procedures, to pass the bill that you and your colleagues on the joint committee advocate, take that action promptly, I think it would do something to arrest the growth of inflationary expectations, and it is the growth of inflationary expectations that is the major problem, I think, here in the first quarter and will continue to be a problem until they are arrested.

The single most important, most dramatic thing that could be done at this time, in my judgment, would be to puncture these psychological expectations by passing this bill and demonstrating that for once and for all Congress was taking charge and putting itself in a position of responsibility to deal with the budgetary and fiscal policy questions that have been one of our major difficulties in past years.

Chairman PROXMIRE. Well now, you gentlemen drive me to a conclusion that in the short run, the next 2 or 3 months, there is very little we can do about this. This bill isn't going to come up for action on the floor for awhile, and it is going to be debated. It has to be drafted first and hearings held on it first, and so forth, but it has to have a fine psychological effect and so forth, but as compared to other action it is going to have a rather modest effect on the current inflation.

Now since we are in a position where you argue that fiscal policy can't be used very effectively, monetary policy, we can slow down the increase in the rate but that is unlikely to have a very prompt effect, that drives us, of course, to the controls, the wage-price controls, and the evidence continues to pour in that phase 3 was a premature and ill-conceived change in price-wage policy. All the major price indicators, the consumer price index, the wholesale price index, the implicit price deflators, they are all rising dangerously fast and, as you

know, the wholesale price index in December broke records for 22 years; it was just about as bad in January and February, and March it just went right through the roof entirely, it was the worst that we have had almost on record, and those are the consumer prices of the future and it was all across the board.

In the light of this, would you recommend a return to stricter controls? Either a freeze such as we had in phase 1, which was quite effective, or phase 2 which was less effective than that freeze but—we had inflation under somewhat better control than we have now—would you, Mr. Byrnes, first and then, Mr. Fowler, favor some kind of change that would be at least dramatic enough to pierce the inflationary expectations that are obviously causing us a lot of trouble now?

Mr. BYRNES. Well, I don't think price control, as such, would get rid of the inflationary pressures. They cloak over the results of inflation.

Chairman PROXMIRE. That is right.

Mr. BYRNES. Frankly, I agree, Mr. Chairman, with your observation that I think phase 3 was premature. Certainly at some time you were going to have to start phasing out, but I think they started phasing out too abruptly and too fast.

I don't think that answer is going to phase 1 at this time, but I do think that more of a return to phase 2 is desirable.

Mr. FOWLER. Mr. Chairman, I would answer the question affirmatively. I would prefer not to offer a comment as to the choice of means that should be made, whether it should be a freeze or what combination of measures should be selected, but I would advocate taking some positive, fairly dramatic action to indicate that we were going on to a phase 4 which would be more like phase 2 than like phase 3, putting it in simple terms.

Chairman PROXMIRE. Understanding what you said and what Mr. Byrnes said controls are not the answer, you don't get rid of pressures by controls; they are also inefficient; they paralyze the mobility of resources in the economy; they frustrate the kind of drive we have to increase productivity by maximizing the profits because there are all kinds of other ways to maneuver when you have controls that are artificial and wrong, at the same time it would seem to me that the one dramatic, clear-cut action the President of the United States could take, and we expect to enact that authority for him for another year on April 30, would be to provide some kind of an across-the-board freeze, this is something everybody understands, it is clear, it is simple, you know when a price goes up, you know when a wage goes up, there are no guidelines, and with exceptions and all that kind of thing, as I say it worked before, maybe it can't work twice, in this limited, in this close a period, but it is hard for me to see what else we can do and, as you know, the country is calling for it, business is calling for something, labor is calling for it.

We have the very, very bad situation of 41½ million members of organized labor, belonging to unions, who will negotiate contracts over a 3-year period in the next few months and this comes at a time when prices are just getting out of sight. I can't imagine a union leader being able to stand still for a 51½-percent wage increase. From the national standpoint he should perhaps. You and I can argue he ought

to do it, it is going to help him and his people in the long run, but it is hard to convince those workers when they see the price of everything going up at a more rapid rate than their wage increase, and a wage increase of 5½ percent means nothing if prices rise even faster; therefore, they are going to get less real money, than before. So, under these circumstances, there does seem to be a logical, argument in favor of some kind of wage-price controls, stronger than simply slapping a ceiling on beef and pork and lamb, 3 percent of your budget.

Mr. FOWLER. I think some resumption of an across-the-board action directed at the problem is indicated. Whether it takes the form of phase 2 I am not close enough to the situation to make that kind of a judgment. I do know there are administrative problems involved, and the question of having the adequate administrative setup to deal with whatever the choices are, those are bound to be very real questions, so I would say I am for doing something but I think the choice as to what is done is probably one best left to those who are closer to the problem.

Chairman PROXMIRE. Now, as you gentlemen know, the basic thrust of this hearing is to try to look ahead to the fiscal year 1975 budget. The 1974 budget is going to be discussed the rest of this year, that was our habit in the past and a bad habit. We didn't look ahead far enough.

I would like to know what can be said today about next year's budget.

The current budget document breaks down the outlays for 1975 and shows an increase of about \$20 billion from 1974 to 1975. This is based on a balance in the full employment budget.

I feel very strongly that this is a disappointing kind of recommendation. If you look at the way the expenditures are framed, there is an increase in defense of over \$4 billion, about \$4.2 billion. There is a very large increase in welfare, at least in income security, an increase in health. Those are pretty much mandated by the Social Security Act and by legislation we passed in the past.

There is no increase at all in education, there is very little increase in various areas of investments like commerce and transportation, and so forth. There is a decline, a reduction, in some programs which might be constructive.

What I am getting at is there seem to be increases in the 1975 budget in defense and in welfare, and very few increases in the kinds of investment, such as education and such as resource investment, that make our country strong and build it up, and I am concerned about that, that trend.

Would you like to comment on what we can do about that? One of the reasons for that, of course, is we have frozen ourselves into these welfare programs or income security programs by legislation that is very hard to change.

Mr. FOWLER. Mr. Chairman—

Chairman PROXMIRE. Mr. Byrnes.

Mr. FOWLER. Mr. Chairman, I don't have anything to offer on the question of allocation or which sector of the budget is behind. One is somewhat a creature of habit and habit in the Treasury was to look totals overall and not become very much a part of the allocation process.

Chairman PROXMIRE. Well, there, of course, is, I think, what is really the guts of this thing, the heart of it, the priorities. I think your testimony has been most helpful on the overall ceiling, the importance of prudent fiscal policy and getting congressional spending in order so we know what we are doing in advance and so we can have control over it. But I am concerned with what is inside of this fiscal package, where we spend the money. For one thing some programs are more inflationary than others. Certainly a program where you build houses is going to have an effect eventually on holding down rents and housing costs. A program where you train unskilled people is going to have an effect in moderating otherwise excessive increases in shortage labor situations; whereas if you have to spend money on defense, we all know we have to, we have to have a strong country but that does not tend to give you more goods that you can buy, economic goods.

Mr. FOWLER. Well, my previous position, for whatever it is worth, is a very simple one, and has always been to prefer those as against the welfare outlays, those job training and manpower training and retraining measures, measures that look more towards improving the skills and level of productivity of the labor force rather than the so-called welfare outlays, but admitting always that there are some situations, some categories of people, in which welfare must be provided.

But I would hope that as far as between those two sectors of the budget that an increasing priority could be given to what I would call the job-creating and productivity-creating aspects.

Chairman PROXMIRE. Those are the areas that suffer in the 1975 budget, based on the projections.

Mr. FOWLER. Yes.

Chairman PROXMIRE. Now they can modify those projections, of course. There is no commitment but it does seem that to stay within a ceiling, resorts to distortion of priorities because you are pushed up in these uncontrollable areas, interest goes up sharply, social security goes up sharply, medicare goes up sharply, and there is not much left. Defense goes up, of course. So do you see anything we can do about that, Mr. Fowler?

Mr. FOWLER. No, I don't. I will defer to John.

Mr. BYRNES. Well, first let me say, Mr. Chairman, that so far as the group that we are representing, although we speak for ourselves, from the beginning we determined that we would not, as a committee, try to be that brilliant that we could have all the facts and the ability to determine priorities from one moment to the next.

Chairman PROXMIRE. Let me tell you, you fellows are at least as brilliant as Members of the Congress, as you know, and we have to make the decisions.

Mr. BYRNES. But the point is, and that is the point we have been stressing, that the mechanics to make that decision has not been in existence and Congress has not been doing it. This is one of the thrusts of the report of the study committee. Congress can maintain a continuing look at the budget through the budget committees, and I would suggest that I think the proposal for a joint staff patterned, I gather, somewhat after that of the Joint Committee on Internal Revenue Taxation is a momentous step in the right direction in analyzing; also the matter of priorities, this is not just the matter of the ceiling itself,

also the matter of having them coordinate with the authorization committees, the appropriations committees, that is all part of the process of determining priorities.

I think our problem here is that today the only point at which these things are all put together and studied on that basis is in the Office of Management and Budget or in the executive branch today and, therefore, you are frustrated because the Executive has the tools or has the machinery and is doing the job and you say "We in the Congress ought to be doing the job," but you have not reached the point where as yet you have the machinery.

Chairman PROXMIRE. Let's get on that. Mr. Byrnes, you served with distinction in the Wisconsin Legislature. One of the great advantages they had, I thought in the Wisconsin Legislature, was that the Governor would hold open public hearings on his budget in advance and there was an opportunity for witnesses to testify for and against the Governor's proposals. There was an opportunity for the legislature to become aware of it. And this is true in many States, it is true in Oregon and true in many others.

On the other hand, our executive budget on the national basis is done entirely in secret. There is no opportunity for the public or the Congress to know about it. All of a sudden in January it comes down and there it is. It is a fait accompli, and the Congress makes some minor changes year by year, sometimes.

Mr. BYRNES. And you are supposed to do it in 6 months.

Chairman PROXMIRE. What is that?

Mr. BYRNES. And you are supposed to do it in 6 months.

Chairman PROXMIRE. That is right. That is right.

Well, I think you have already testified how we can improve that so far as Congress is concerned. What I am getting at is what we can do with respect to executive procedures.

No. 1, should we do what we can to try to open up the budget process so that you can have the public aware of it and the Congress aware of it and have some idea of what the arguments are in putting it together.

Mr. BYRNES. Well, I wonder whether the matter of public hearings on the budget isn't more a requirement of the Congress rather than of the executive branch.

Chairman PROXMIRE. Let me just give you an example. I am chairman of a subcommittee of the Appropriations Committee that handles housing, urban development, veterans and space, and other programs, and the director of the space agency came in to testify. They were reduced from a \$3½ billion request down to about \$3 billion by the administration. Now this was over a period of some months. NASA hasn't been able to give us the basis for the reduction, the priority considerations that went into it.

We would be in a much better informed position, know much more about what we could cut further, if we had access to that, if we knew about it when it was going on, if we knew some of the pressures being brought to bear both in favor and against reductions.

Mr. BYRNES. I would be hopeful that the new committees on the budget and their joint staff would have a relationship, particularly the staff, comparable to the relationship that the Joint Committee on

Internal Revenue has with the Treasury in a give and take, an exchange of information in terms of tax policies and arrival at decisions.

Chairman PROXMIRE. Why not make the executive budget public when they have consideration of it, hearings on it? They don't have to make their final determinations public, of course. But when the NASA people come up and appear before OMB, when the Defense comes up, when HEW comes up, why not have an opportunity to see what they are asking for or where they are cut, why not?

Mr. BYRNES. But can't that process be served by having the Congress do that when it is submitted, to have a full review. I would assume that Congress certainly wants to have it.

Chairman PROXMIRE. But the Congress there is——

Mr. BYRNES. But Congress wants to have it for their own decisions.

Chairman PROXMIRE. No. 1, it is late.

Mr. BYRNES. We can correct that.

Chairman PROXMIRE. No. 2, when Congress gets it the President has already made his decision. I think Presidents would be influenced by the public debate and discussion, and would be more likely to have some input in that budget that would be helpful too.

Mr. BYRNES. Well, we have had some experiences in the legislative branch of requiring that in certain instances the executive branch hold public hearings before rendering decisions, we have had it in connection with trade legislation. I have always had a very questionable attitude of what good they did other than maybe satisfy the desires of people that at least they were able to get something off their chests.

Chairman PROXMIRE. Let's take a look at Wisconsin. Don't you think that works pretty well, the Governor having their budget hearings in public, well publicized, at a time when nothing is going on anyway? If we had those budget hearings when Congress adjourned in November or in October, after Congress adjourned and nothing else going on in Washington, I think you would have a lot of good attention and debate.

Mr. BYRNES. As a practical matter, Senator, the difference between the size of the Wisconsin budget and the size of the Federal budget requires that we crank in a little factor of practicality there.

Chairman PROXMIRE. Well, you would have to do it by categories, you would have to do it over maybe a somewhat longer period. You always have that problem.

Mr. BYRNES. And the question then is whether you get the overall view that could be obtained, where the President submits his budget message and then the Congress can have overall hearings on the budget as a whole and you will also have had studies leading up to that under the new procedures. I guess my answer just has to be that I have serious questions of what the value is in the suggestion that the executive branch hold hearings before it submits its final budget.

There is a factor though, as you look to the procedures that we used in Wisconsin, Senator, that again I am not too sure how practical it would be. When you recognize the magnitude of the issues that are dealt with in the Congress compared with that in the State legislature, but you will recall that we also required that any bill that involved the expenditure of money, at some time during the legislative process, had to be submitted to the Joint Committee on Finance for their ap-

proval and report back to the Legislature this which gave you some degree of coordination of individual authorizations with the general budgetary structure which we don't have and which, as I say—

Chairman PROXMIRE. I think that would be an improvement too.
Mr. BYRNES. It could very well be.

Chairman PROXMIRE. We could learn a lot from Wisconsin.

Mr. BYRNES. It would be an improvement but I am not sure it is a structure that would lend itself satisfactorily when you realize the magnitude of the problems that Congress must deal with.

Chairman PROXMIRE. I think you make a good point. I think maybe the nitty-gritty, the small breakdown in the budget might be impractical. But, it would seem to me, that something that former Assistant Secretary of the Treasury Weidenbaum, who was in the Nixon administration, suggested and makes sense is that we might have hearings by broad functional categories so that you have some beginning debate and understanding as early as possible about what is at issue. Maybe that would be a compromise at least to begin with.

Mr. BYRNES. It might well be.

I think, Mr. Chairman, that we have to recognize that we are dealing with such huge sums and so many, many programs that go into making up the budget and the overall fiscal posture of the Government, that developing the appropriate procedure is going to be a trial and error. You are going to find from experience that there are some additions that have to be made, maybe hearings, additional types of hearings, which you now don't contemplate, different timings that we don't now contemplate.

I think the Joint Study Committee is to be commended on the job that it has done, but I don't think it or any other committee ever feels that it has found the final answer and the final solution, and we are not going to find it at one piece in time or one proposal.

Chairman PROXMIRE. Yes.

Mr. BYRNES. But this is going to be a matter of growth and a matter of learning to live with, and I think the biggest difficulty that Congress is going to have is that the procedure will require the surrender of jurisdiction that some committees now have if the process is actually going to work. There has to be a focus at some point on some group that can speak with some kind of authority for the Congress in terms of what are the appropriate priorities—and that is contemplated, of course, by the idea of the allocation by the budget committees of certain funds for certain functions. That is going to mean that some of the functions of the appropriations committees are going to have to coincide with that limitation.

It just seems to me that we have to be a little cautious that we don't try to bite off in the process of getting started on this process more than we can digest. But as we digest it, I am sure there are going to be things that will be desirable to add or change in the procedure.

Chairman PROXMIRE. What I am getting at is in the 1975 budget, the Weidenbaum analysis shows the implied priorities. In public welfare you have got an increase of over \$9 billion, \$9.3 billion; national security an increase of \$4.5 billion, half, but a very big increase; economic development you only have \$3.5 billion, almost all of it, well most of it, \$2 billion, is because of the sale of offshore oil

leases, so it is not really an input of general revenue; and the general Government increase is around \$2 billion, so the public welfare takes a lion's share, takes almost a half of the overall increase, and defense takes a quarter, half of what is left. And I think that this kind of—that hearings in these four categories might be very enlightening. I doubt if many members of Congress realize this year or realize that in 1975, and I think it would make a good contribution to their votes on appropriations, and on amendments to appropriation proposals, if they had some idea of what was happening to the funds made available and, as Mr. Fowler said, what is happening to the investment in the stronger country by building up your skills and your ability to meet your problems.

Mr. FOWLER. I have not thought about this before but I am rather attracted to, by what Mr. Byrnes has alluded to, and your own suggestion, that if in the budget committees as contemplated by this report, the budget committees of the Congress, at the stage where they are setting the broad allocations between various sectors of the budget, those are being fixed and determined in that initial phase which presumably could be in the fall of the year preceding, that would be an appropriate juncture at which you could bring in expert testimony from scientists, technology, people experienced in technology, and many other sectors of public officials at the welfare level, at the local level, and you could focus on this question, the one that we have more or less singled out, on whether there is an adequate balance between welfare and job creating and job productivity in the budget. That would be a subject which could be selected out as being vital to the determination of the allocation for the ensuing year, 2 years, 3 years. It might be that long term in nature, because these shifts in priorities, you can't really accomplish all at one time. A shift has to be in stages. And it might be that combining the device of public hearings on the broad allocations within the budget, before the budget committees of the Congress might be a very useful vehicle through which to inform the public and the Members of Congress as to the kind of considerations that ought to enter into their decisions.

Chairman PROXMIRE. Now, Mr. Fowler, I think you would be very helpful in answering this question: Would you favor a tax expenditure budget as part of the annual budget? I asked the staff of the Joint Economic Committee more than a year ago to make a study of subsidies, Federal subsidies, and the astonishing thing was they found there wasn't any literature on this at all. Specific subsidies, yes, but nobody had made any study on subsidies as a whole in the English language. Germany has a rich literature on it and they do a sensible job on subsidies, but the expert staff that investigates OMB found very little work had been done and they found the amount of Federal subsidies estimated to be \$63 billion. Of this, I think \$38 billion was tax expenditures, subsidies which some people say really are not subsidies, other people say they are, but privileges and advantages that taxpayers get for taking certain action or investing in certain areas, that kind of thing, and in order to achieve a particular end, and the end might be very good, the end might be to try to develop more oil reserves, for example, or it might be to persuade people to make an investment in automated equipment that would enable them to do a more efficient job.

However, unless we look at this, as time goes on we can't see how it is working. We can't determine whether we ought to continue it, extend it, expand it, contract it, or eliminate it, and we never look at it. We put it on the books and that is the end of it. Meanwhile the economy changes and the tax subsidy no longer serves a purpose, and yet it continues.

An example is the direct HUD budget is \$3 to \$4 billion in housing but another \$6 to \$7 billion goes to housing indirectly in tax subsidies.

The question is should this be shown in the budget so we can see the totality of Government effect on housing, and we would be in a better position to answer the question.

Mr. FOWLER. I think fundamentally, yes. Assistant Secretary Surrey, who served with me and was a good, esteemed colleague, has, of course, been preoccupied in much of his thinking and writing in this because in dealing with tax policy he was constantly confronted by the specter that you have noted, and I have always had great sympathy and encouraged him to focus attention on that and, in turn, hopefully, that more public attention could be given. This is not to condemn these particular elements in the tax law.

Chairman PROXMIRE. No, no.

Mr. FOWLER. But simply to keep constantly in front of us what is going out, because the only way you ever can effect priorities is to constantly review.

Chairman PROXMIRE. Then you would favor a budget, a tax expenditure budget, so we are reminded of this constantly and it is in front of us.

Mr. FOWLER. Exactly, every year, every year. It ought to be a basic part of the whole process because at some time some situations will change where something that was quite appropriate, quite necessary, and quite desirable no longer becomes necessary or something else that comes into the picture ought to have a much greater priority.

Chairman PROXMIRE. In terms of cost-benefits, would you gentlemen agree that each expenditure for a major program and each major tax proposal should indicate who gets the benefits, perhaps by income classes. So we can see if a program designed to help poor farmers or low-income housing actually helps them or helps somebody else.

Mr. FOWLER. I don't feel that I am qualified on the cost-benefit analysis area to give you an answer. I have always deferred to those who were directly involved in the budgetary process on that and I just will have to pass that one up.

Chairman PROXMIRE. Do you have any ideas on that, Mr. Byrnes?

Mr. BYRNES. Well, I think it is an awful difficult problem to make an assessment. I think that it probably is an area that certainly is deserving of study. The direct benefit in some cases may look like it is to the taxpayer, but of greater concern is the indirect benefit. I would take, for instance, the charitable contributions. Who is the beneficiary of the deduction of charitable contributions? Is it the taxpayer or is it the educational system or is it the Red Cross?

We had an interesting sidelight on that, Mr. Chairman, a few years ago, in the 1969 act. We tightened up on the capacity of certain people to make gifts, had a limitation on them, and we did it, for instance, in the drug field where they were giving away drugs and taking the gen-

eral market price as a deduction for that as a contribution. We tightened it up and said, "No, you can only take the cost."

Well, I heard from missions abroad, my mail was flooded, that what we had done was stopped the giving of aid, medical aid, to some of the deprived people in various parts of the world, because we dried up this source of free, as far as they were concerned, medical supplies.

I mention that only as an example of the difficulty of trying to determine in some cases exactly who is the beneficiary of a tax subsidy or a tax expenditure.

Chairman PROXMIRE. Let me just say that appropos of that, the tax expenditures budget would be very helpful in appraising another proposal that we have before the Congress; we almost acted on it just before the recess, and we are going to have to act on it within the next few days. I seem to be alone in opposing this enormous increase in spending. The President is for it, the Congress, both sides of the aisle are for it, it is for arts and humanities, they want to push it from \$80 million in 1973 to \$160 million, double it then the next year, go to \$280 million and the following year to \$400 million, a fivefold increase in 3 years.

Now, we should recognize that this field is not neglected. Art enthusiasts always say "Look how much they spend in Italy and Russia and so forth for art." Well, the fact is that we spend an enormous amount through tax expenditures here. The estimate we got from Internal Revenue Service was over \$1 billion and I think if we put those together we can see for one thing any program that explodes that fast can't be good. You are going to waste a lot of money, you are going to throw a lot of money away, and you do have a lot of support because, of course, this is one program, one big subsidy program, that well-to-do people benefit from, and they are articulate, they are organized, they are people we all like and admire and like to associate with. We hate to disappoint them. But it is just too much, and I think a tax expenditure budget along with this would give us a much better perspective of what we are actually doing. We are not neglecting this field.

Let me ask you about an assertion that Mel Laird made in his prepared statement. In his prepared statement, Mel Laird emphasizes the "necessity for choice between programs if spending control is to be achieved." He emphasizes that necessity for choice. I think that is right, but it is awfully difficult to make any rational, factual choice between programs and between products financial category. For example, how do we choose when the categories that I mentioned before, defined as public welfare and economic development or between national security and the other two categories. Based on your experience in Government, is there a mechanism in the executive branch to weigh the relative merits of different programs and make the broad policy choices, and what should Congress be doing to establish such a mechanism for itself? It is going to be very hard to know. You just have to base it on your instinct and your gut feeling or is there some way we can make this more rational?

Mr. FOWLER. Well, I think the creation of a staff here, which will develop, over time, an expertise, is vitally important. Given the fact that there are 24 hours in the day, there is only so much one human mind can encompass, I think you have to work toward some specializa-

tion of functions in this budgetary process and that means developing your own corps of experts. That does not mean being bound necessarily by their points of view because I think these judgments always have to be subjective, that ultimately the Members of Congress will have to appraise and modify—

Chairman PROXMIRE. Let me just interrupt to ask, Mr. Fowler, how was this done when you were in the executive branch? How do they do that? How does the President decide to increase defense or not increase it? Will he ask for increases in various welfare programs or not, how does he do that?

Mr. FOWLER. Well, Mr. Chairman, that is why I have been reluctant to answer about the allocation process, because it was the responsibility of the Treasury Department to prepare for the budget the estimates on receipts and the various measures, tax and otherwise, that might be initiated in order to supply the receipts side. We only participated in the allocation of expenditures, the breakdown of the total expenditures into the various categories, departmental budgets and program estimates, we only participated in that in terms of our own department, what the expenditures, what the budget of the Treasury Department was. It was not always thus. Prior to, I think, 1936 the Bureau of the Budget in effect was in the Treasury Department and the Treasury took a very major role in the allocation of expenditures.

Chairman PROXMIRE. But even within your department you have to make trade offs, you have to make choices.

Mr. FOWLER. Oh, very much.

Chairman PROXMIRE. You have to spend more on Internal Revenue Service agents and you had the Coast Guard, I think, when you were in the Department, didn't you?

Mr. FOWLER. That is right.

Chairman PROXMIRE. How did you determine that kind of trade offs?

Mr. FOWLER. We had our own internal budget and administration office. Long prior to, let's say, the January submission of the President's budget, beginning, I should guess, in April or May of the preceding year, our internal budget office would ask for submissions by the constituent divisions and bureaus in the department, as to what their need would be likely to be for presentation to the Director of the Budget, come September or October.

Chairman PROXMIRE. Who would exercise the critical judgment, the Secretary?

Mr. FOWLER. The Secretary would because once these presentations had been organized and presented to the budget office in the Treasury Department, I would look to that staff there to make some analyses and critique of each bureau presentation, and then ultimately I would have to get into the act and pass on the judgments, make judgments, sometimes rejecting and cutting back, exercising a sense of priorities. I would have felt completely ill-equipped to do it had I not had a regular, ongoing budget office which was engaged as a year-round exercise in examining and reexamining the expenditures and the programs of the individual bureaus.

It was only after that internal process within the department that I then would sign and send forward to the Director of the Budget the requests of the Treasury Department for the fiscal year beginning the

following July 1. But that internal mechanism in each department is, and I think this is equally true of most of the other departments and agencies, that is where the main body of the work of internal assessment is done.

Chairman PROXMIRE. Now, I recently made a written request of the Director of the Office of Management and Budget, Mr. Ash, for the estimate of the so-called budget margin in the budget document in order to enable us to help make an informed decision on these matters, and I would like to quickly run over what we asked for and see if you gentlemen can suggest other things we should ask for or whether you think what we have asked is reasonable.

First we asked for projections of total revenues, outlays and resultant budget margins for fiscal years 1972-78, year by year. We asked for the underlying economic assumptions for full employment receipts for each year; for example, GNP, annual rates of productivity growth, implicit GNP deflator, corporate profits, unemployment rates, and so forth.

We asked for budget authority and outlays for all major appropriation accounts of \$25 million or larger as shown in the Budget Accounts Listing in the 1974 budget for fiscal years 1972-78, year by year.

We asked for global pay and price adjustments, broken down in sufficient detail to permit separate adjustments for pay and for price by department or agency, together with the associated assumptions.

And then we asked for detailed assumptions for caseload and payment level growth for each of the projected years for open-ended programs, such as maintenance payments under public assistance.

Can you suggest any other information we should ask, either from Office of Management and Budget or information we might ask from the Treasury Department or the Council of Economic Advisers that might be wise for Congress to have in enacting—

Mr. FOWLER. Certainly not off hand, Mr. Chairman. I could not. I think it is a very compelling and broad—

Chairman PROXMIRE. I think it is—

Mr. FOWLER. I suppose if I would look at it and study it for some time I might come up with some suggestions.

Chairman PROXMIRE. Well, fine, would you look this over and if you can think of other information we might—

Mr. FOWLER. Yes.

Chairman PROXMIRE [continuing]. Request, we would be very grateful for that.

Do you think we ought to have this information. Do you think the executive department ought to give it to us.

Mr. FOWLER. Well, I think, yes, I think you are entitled to it and you ought to have it. I think you have to take it with a grain of salt, knowing that—

Chairman PROXMIRE. They are projections.

Mr. FOWLER [continuing]. They are estimates, the projections you get are likely to be far away from the ultimate reality that emerges but they do, nonetheless set forth some general patterns and guidelines in which the budgetary process and the related economic policies can be determined. I think 5 years is the normal corporate pattern for projecting individual corporate activities, and I see no reason why

the Federal establishment shouldn't in terms of long range planning adopt something of a similiar nature.

Chairman PROXMIRE. Do you agree with that, Mr. Byrnes?

Mr. BYRNES. Yes, I think so, Mr. Chairman. I couldn't give you any off hand idea of what you haven't asked for that you might ask for. I think I always have—

Mr. FOWLER. You used to be pretty good on that.

Mr. BYRNES. I always have the temptation to wonder sometimes whether we don't ask for things that maybe we may not use or that we aren't equipped to use and, therefore, we are asking an additional charge on government expenditures to collect figures that just end up in a file someplace.

I think we have got to be a little cautious there. But as far as the right, certainly Congress does have the right to receive this information.

Chairman PROXMIRE. Because we have the kind of staff that you feel we ought to have if we are going to do an adequate job maybe we can begin to mine that effectively.

Mr. BYRNES. That is the essential.

Mr. FOWLER. I was going to say, I think receiving it, if I were on the other hand receiving it, under the present setup in the Congress I would feel a little restive and think "Well now, what in the world am I going to be able to do with all this," in terms of the way they are set up, because except for the Joint Economic Committee you don't really have anybody who is taking this overview of the entire situation and, as we all know, the Joint Economic Committee is limited in what it can do in making reports and in informing the Congress, but not taking the positive action that is necessary.

Chairman PROXMIRE. Well, as you know, the budget—

Mr. FOWLER. I believe if you had this set up as contemplated by this report what you are asking for is fundamental to the whole process for which the Congress would be responsible.

Chairman PROXMIRE. Now let me ask a question which I don't mean to be partisan, it may give that impression but I don't see how I can frame the question any other way, and if you, either of you, feel that it is partisan or implies a partisan attitude, say so.

The ad which the Citizens for Control of Federal Spending took out in the Washington Post April 3, says that the President has proposed a budget which, among other things, "requires no new taxes." Technically, the budget avoids new taxes but only because of the enormous increase in social security taxes which took effect January 1, 1973, and will provide \$3.5 billion in additional revenue in fiscal year 1973 and \$11 billion in fiscal year 1974. Are increases in regressive Social Security taxes acceptable to you as opposed to tax reforms which would increase revenues from the higher income categories?

Mr. FOWLER. Personally, I would say we have gone as far as we should go on the social security tax levels. It is a rather broad statement but I do think they are regressive and I think that they have served—I, for just as a citizen, would want to dig my heels in on any further expansion of them.

Chairman PROXMIRE. Mr. Byrnes.

Mr. BYRNES. Well, I think the statement was accurate in terms of what they were really saying was no new taxes that are not already on

the books should be imposed. If you are talking about levying, then, of course, you have to look down the road that there are levies that are coming up even further down the road as far as the social security taxes because they have always attempted to keep the system actuarially sound as far as the income and outgo, and sometimes they know that a tax increase may be required 6 or 7 years hence, but to impose it at the moment would require just too big a drain at that time on the then existing economy plus too big a surplus in that particular fund. So from that standpoint, I don't think that the statement was inaccurate.

I do think that we make a mistake when we keep saying that taxes haven't increased when we just look at the income tax side of the picture, because the payroll taxes have been increasing, and substantially. They now take more than the corporate tax as a revenue source.

I agree with Mr. Fowler that I think we have hit what I would think would be very close to a limit, if we have not exceeded it, in the payroll tax system. Yet I must say that personally I worry about the attitude of some that we should, in our social security system, move away from the payroll tax and get into financing it through general revenues. I think that would be very bad. I think a real justification can be made for the payroll tax where the benefit is wage-related. As you may know, Senator, I had very serious misgivings about imposing a payroll tax to finance health care primarily because that benefit was not wage-related, and I thought that you should restrict your payroll taxes to those kinds of government services where the benefit then to be paid had a wage relationship, and health did not. It didn't make any difference how much your payroll was, what your medical bill was, it had no relationship to it.

So that I think we have to be careful about the use of the payroll tax but I also think we have to be careful about changing the whole concept of the old age and survivors insurance system if we move away from financing it through a payroll tax. I guess what I would have to say is that certainly a payroll tax is regressive as soon as you move away from a system where the benefits are wage related.

Now, even under the Old Age and Survivors Insurance system the benefit is weighted more in favor of the lower income group so that you do offset in the benefit what otherwise might be a regressive nature of the tax, because the benefits move in the opposite direction. I think there is a leveling influence but I think also the fact that here you are providing a service and a benefit, and you are saying "We are always going to raise the money to pay for it" has had a salutary effect on the soundness of the system. Once you get away from that I personally worry as to what happens to the solvency of the system, and I worry that you would get into a system that was in the kind of financial shape that the Railroad Retirement Act is in or the Civil Service Retirement Act. I don't think they are models of fiscal responsibility.

Chairman PROXMIER. Now, let me ask you another question, and again I am asking this because I am very curious about it and I don't mean in any way, in any way, to demean the fine organization you represent, I welcome it, I think it is a great contribution, it is a wonderful thing for our country and for the Congress and for all of us, all taxpayers.

Nevertheless, I do want to ask this because it was an interesting coincidence.

The Washington Post of April 3, 1973, carried an advertisement placed by the Citizens for Control of Federal Spending. In discussing the 1974 budget, the ad stated and I quote:

Compared to four years ago, it would spend 71 percent more to assist older Americans, 67 percent more to help the sick, 66 percent more for the poor, and more than twice as much to feed the hungry and undernourished.

In the first place, can you give me the source of those figures, either one of you gentlemen?

Mr. FOWLER. I was not involved in the preparation of that estimate. I was a signatory to it but was not involved in the preparation so I can't supply that answer to it.

Mr. BYRNES. That was prepared by the staff—where they got the exact source, Mr. Chairman, I am not sure but I will certainly be glad to get it and supply it for the record.

[The following information was subsequently supplied for the record:]

The statistics for the Committee advertisement published in the April 3rd edition of the Washington Post were obtained from publications of the Office of Management and Budget, and verified by the Tax Foundation, an independent organization. The Committee is satisfied that the statistics are correct.

Chairman PROXMIRE. Well, the reason I ask it is this, I don't mean to trap you by it, but in a public relations kit prepared in the White House called "The Battle of the Budget, 1973," the suggested questions and answers on compassion for the poor and elderly answers a question with the following information:

We are budgeting 66 percent more to help the poor than was the case four years ago; 67 percent more to help the sick; 71 percent more to help older Americans; and 156 percent more to help the hungry and malnourished.

Now I wonder if the Citizens for Control of Federal Spending received assistance from the White House document in preparing the ad?

Mr. BYRNES. I would not question at all, Mr. Chairman, that they called the Office of Budget and Management and asked for what figures they could give them.

Chairman PROXMIRE. Also I wonder if you feel that these figures aren't possibly misleading inasmuch as most assistance to the aged and much of the aid to the sick is provided through the self-financing social security and medicare trust funds, as you described very well. These expenditures have grown rapidly because: (1) the number of aged has increased; (2) payments have been adjusted to reflect inflation; and (3) Congress has voted to raise the real level of benefits. The President has approved these social security increases only with great reluctance despite the fact that benefit increases have been accompanied by self-financing payroll tax increases.

So I wonder if on that basis the ad could be criticized as partial and misleading.

Mr. FOWLER. I wouldn't think so.

Mr. BYRNES. I would have to take and get your question and go over it in more detail and I would be glad to try to respond, if I could do that, Mr. Chairman.

Chairman PROXMIRE. Yes, I think that the figures, as I say, I don't challenge those at all. I am sure they are accurate, and I feel that there have been those increases, and initially, I indicated that I shared the notion that we were mistaken in providing too much perhaps in the area of welfare and not enough in the area of helping people help themselves through manpower training and through other skill opportunities they might have. But I do think that putting just the figures by themselves without any explanation may be a little partial.

Mr. BYRNES. Of course, Mr. Chairman, I think, we mentioned a couple of times here this matter of welfare, and I think you could get general agreement that the system we have today is just crying for attention.

Chairman PROXMIRE. Well, that is right, and the amazing thing to me is you can get the same view from the welfare recipients themselves.

Mr. BYRNES. Yes, but my point is, the point I would like to make is that there are some things that you are not going to correct just through budgetary control. You are going to have to correct them by going to the basic law that is deficient. I happen to have been part of the process of passing through the House twice what I thought was a welfare reform bill that moved us away from a deadend street with growing expenditures to something that was really going to face up and meet the problems that we had. Here we have a system that I think everybody in the Congress will admit is bad, is wrong, that it is a mess, to put it very crudely, and yet the only way that is really going to be corrected, it seems to me, is facing up to a reform of the system of welfare. Some of the fundamental philosophies that are in the present system I think have to be abandoned because it isn't a system to help people to help themselves and encourage those who do. It almost, in my judgment, encourages people to stay on welfare because once you, if you ever get off, then it is hard to get back on again, and you can probably have more for your family by being on welfare than you can trying to do the best you can for yourselves, than trying to stay off.

In some of these programs it isn't just the dollar amounts that are the problem, but it goes also to the system that is being used, and I happen to have a feeling that maybe that is part of the problem that the President saw when he got into this OEO operation in transferring functions that maybe it isn't just the dollars that are involved, but it is the inherent nature of the system that needs revision.

CHAIRMAN PROXMIRE. Well, gentlemen, I want to thank both of you. This has been a useful morning. Your testimony has been excellent.

Mr. BYRNES. Thank you, sir.

Mr. FOWLER. Thank you, Mr. Chairman.

Chairman PROXMIRE. The subcommittee will stand in recess until 10 o'clock tomorrow morning when we will hear from four distinguished economists in this room, including four people who have worked at some length in the Office of Management and Budget, who will give us some answers from that angle.

Mr. FOWLER. They can give you much better answers than an ex-Secretary of the Treasury on a lot of this.

Chairman PROXMIRE. You did a fine job.

[Whereupon, at 12:10 p.m., the subcommittee recessed, to reconvene at 10 a.m., Friday, April 27, 1973.]

NATIONAL PRIORITIES AND THE BUDGETARY PROCESS

FRIDAY, APRIL 27, 1973

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON PRIORITIES AND
ECONOMY IN GOVERNMENT OF THE
JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to recess, at 10:15 a.m., in room 4221, Dirksen Senate Office Building, Hon. William Proxmire (chairman of the subcommittee) presiding.

Present: Senator Proxmire.

Also present: Loughlin F. McHugh, senior economist; Richard F. Kaufman, professional staff member; and Michael J. Runde, administrative assistant.

OPENING STATEMENT OF CHAIRMAN PROXMIRE

Chairman PROXMIRE. The subcommittee will come to order.

I am delighted that you are here. There is a growing consensus that Congress ought to exercise greater control over the budget and that it should construct within the legislative branch a mechanism for determining levels of overall spending and for the allocation of funds among competing programs. In saying that, however, we slide over some difficult questions.

In the first place, where should such considerable powers be located within Congress? Can the exercise of those powers be made responsive to the wishes of the entire Congress and the public?

The Joint Study Committee on Budget Control has recommended that standing budget committees be established to carry out these functions. I happen to be a member of that committee and I thought the report was an excellent report but it leaves a number of serious and difficult problems.

The House Budget Committee would be composed of 21 members, the Senate counterpart would have 15 members. In each body one-third of the committee members would come from the Appropriations Committee, one-third from Ways and Means or Finance, and one-third from legislative committees generally. The chairmanships would rotate annually among the members of the Appropriations and Tax Committees. The Budget Committee members from the legislative committees would not be eligible for chairmanship. It is not clear from the report why the legislative committee members are given a somewhat lower status than the other members.

The budget committees would be responsible for reporting out concurrent resolutions for consideration by the House and Senate. The resolutions would provide ceilings on budget outlays and on new budget authority, appropriate levels of revenue collections, and allocations of the outlays and new authority among the various subcommittees of the Appropriations Committee.

Obviously, such an arrangement lodges an enormous amount of influence over the actions that Congress takes in a handful of Congressmen. I generally support the excellent work and the basic thrust of the constructive recommendations of the Joint Study Committee. I raise these questions now because they are bound to be brought up in the debate over the bills to implement the recommendations and the sooner they are faced and resolved the better.

Another set of issues concerns the procedures that will be employed by whatever committees are established to set budget ceilings and decide what goes into the budget within the ceilings. In these hearings we have been told again and again that Congress needs to provide itself with the capability or mechanism to make the necessary budgetary trade offs. We have to be able to decide on a rational basis which programs are to be maintained, increased or cut back. We cannot simply increase all the programs and fund all the new requests without running into the huge deficits that have been piling up in the past several years.

There is a strong implication in what we are told that such a mechanism exists in the executive branch and that Congress has been derelict for not creating one of its own. But I wonder. So far we have been unable to locate the executive trade-off mechanism. Perhaps our witnesses today can help us identify it and understand how it works.

Yesterday we had former Congressman Byrnes and former Secretary of the Treasury Henry Fowler, both of whom have had great experience in Government, and Mr. Fowler, of course, was Secretary of the Treasury and Under Secretary of the Treasury before that. They were not able to give us enlightenment in that area. They suggested maybe people who had experience in the Bureau of the Budget, former Bureau of the Budget, now the Office of Management and Budget, might be able to help us.

This morning's panel is especially well qualified to address these and related questions. Three of our witnesses, William Capron, Richard Nathan, and Arnold Packer, all worked in high-level positions in the Office of Management and Budget. Our fourth witness, Wilfred Lewis, was formerly on the staff of the Council of Economic Advisers. Mr. Capron is now associate dean at the John F. Kennedy School of Government at Harvard University. Richard Nathan is a senior fellow at the Brookings Institution. Arnold Packer is a staff economist for the Committee for Economic Development, and Wilfred Lewis is the Director of the National Planning Association.

Gentlemen, we are pleased and honored to have you with us today. With four of you here, I would hope that you could confine your oral statements to about 10 minutes each and anything that you cannot cover we will print in full in the record, and then we will have some time for questions.

Mr. Capron, please lead off.

STATEMENT OF WILLIAM M. CAPRON, ASSOCIATE DEAN, JOHN
 . FITZGERALD KENNEDY SCHOOL OF GOVERNMENT, HARVARD
 UNIVERSITY

Mr. CAPRON. It is always a pleasure to appear before you, Senator Proxmire. You may recall that I was here fairly recently, just before the new year, to once again address the SST, and some people might think that it is odd that someone who talks about the SST is now going to talk about the budget. I do not think it is odd at all because the budget process requires us to face hard choices such as the decision whether or not to put public funds into an SST. Therefore, I do not feel at all odd in being here under these two very different rubrics.

I would like to request that my prepared statement be printed in the record. It is much too long for me to read.

Chairman PROXMIRE. It will be printed in full in the record.

Mr. CAPRON. What I propose to do is just highlight my prepared statement by reading a few paragraphs along the way, leaving as much time as possible for discussion because I think that will be more valuable for all of us.

Both the Congress and the executive branch have two very different kinds of concern with the budget. On the one hand, the overall fiscal impact of the budget needs to be determined in view of the condition of the national economy. From this standpoint, major attention is focused on total outlays and total revenues and the appropriate balance—or lack of balance—between these two totals.

On the other hand, the Executive and the Congress are vitally concerned with the details of the programmatic aspects of the budget.

Congress should put itself in a position to examine existing programs in depth in order to determine whether those programs are accomplishing those purposes intended by the Congress in order to decide what level of funding is appropriate to each program. Congress must also be in a position to review proposals for new programs, whether those proposals originate in the executive branch or in the Congress itself.

Unfortunately, the appropriate timetable for congressional decision and action to meet these two very different budgetary concerns is, in my view, not the same. On the one hand, budgetary actions vis-a-vis overall fiscal impact should be as timely as possible and, indeed, subject to month-by-month, if not day-by-day, "fine tuning." From a practical standpoint the fiscal year of 12 months is probably the shortest period for which Congress can take budgetary action from a fiscal policy standpoint—barring emergency situations created by sudden and dramatic shifts in the economic climate. But given both the complexity of Federal activities in the 1970's and the nature of almost all programs for which Federal outlays are made, the year is too short a period to serve as the framework in which congressional review and decisions are taken.

If I am correct in asserting a fundamental conflict regarding the desirable length of time for which congressional actions on the budget are to be operative, we must seek some compromise. On the one hand, we want to find a set of procedures so that congressional action will be as timely as possible with regard to the overall fiscal impact of the budget.

On the other hand, we want to create procedures and a timetable which permits the Congress to review periodically in depth each major Federal program area's activities and to set in place the necessary authority for expenditures to be made over a significant time period—a time period which, in almost all cases, should be significantly longer than 12 months. For most Federal programs today, we continue to follow the historic practice of annual appropriations. Some programs are authorized for several years, but still require annual appropriations.

A few programs under which expenditures are made from the Federal Treasury operate with an indefinite authorization and appropriation. This is true for most trust fund outlays and also for payment of interest on the public debt.

I urge that the Congress now consider moving to a multiyear authorization and appropriation basis for virtually all Federal expenditures. Authorizing legislation should ordinarily be for 3 to 5 years, except where a function is so routinized and accepted that permanent authorization is acceptable. Another exception may arise in the case of new programs, in which case Congress may wish to review authorizing legislation after 1 or 2 years to satisfy itself that the program is well conceived. In any case, there is no reason to require uniformity regarding the period for which programs are authorized. It should be emphasized that the now-common practice of annual authorization seriously impedes the whole appropriation process.

Regarding appropriations, I suggest a multiyear cycle under which the Congress would each year appropriate funds to cover outlays for each of the 2 succeeding years, each year dealing with only a portion of the total Federal budget. Under such a system, the Congress would gain two important advantages: first, it would greatly ease the burden which the present system imposes on the Congress, its committees and subcommittees, and individual members, of attempting to act responsibly each year on nearly \$300 billion for Federal outlays, and the programs those outlays are designed to support. It is not surprising that many Members of Congress are sharply critical of the typically slipshod and superficial review which is directed at the great bulk of the programs for which they appropriate funds each year. Even if Congress accepted the proposal put forward here, the task is monumental.

I have suggested that any given appropriation act provide for expenditures for each of 2 years. Many of the advantages of moving to a multiyear cycle would be more fully realized if a longer time period were covered—say 3, or even 4, years. However, it is my tentative judgment that arguments for stretching the cycle beyond 2 years are overwhelmed by the exigencies of the election calendar. Members of the House are elected every 2 years, and each Member should have the opportunity to vote at least once on every appropriation. Furthermore, an even number of years seems necessary to fit with the calendar of Presidential elections.

The second advantage of moving to a multiyear appropriation cycle is that most programs can be much more efficiently and effectively managed if their funding is not subject to year-to-year gyrations. "Stop-and-go" program support creates undesirable uncertainty, imposes serious burdens on presumed beneficiaries of programs so

funded, and forces management at all levels to devote excessive energy and attention to adjusting to changed levels of support rather than to trying to improve and strengthen underlying program administration. In addition, many federally funded activities cannot be sensibly evaluated if they are only able to operate at a given outlay level for a period as short as 1 year.

In calling for these hearings, the chairman of this subcommittee expressed concern over the very short time the Congress has between receipt of the President's budget and the date on which it must act on that budget. Under the present system of annual appropriations this concern is well taken. Under the proposal I am tentatively suggesting today, this time pressure problem would be significantly alleviated.

Obviously, the Congress would retain the right in any year to modify its decisions regarding both program structure and modus operandi, as well as funding level.

Now, a question to be put to me on the basis of this proposal that I have sketched very hurriedly would go something like this:

Your proposal may make sense from the point of view of Congressional oversight and control of each Federal program. But under this scheme how can the Congress possibly discharge its responsibilities to adjust the budget totals to meet the fiscal policy needs of the moment?

How do I meet this objection? There are two ways to deal with the demands of pursuing a timely fiscal policy under this proposal. First, I would argue that primary reliance for producing the desired deficit or surplus—or, in rare cases, balance—should be placed on the tax side. More specifically, it seems to me that the Congress should be willing, with the Executive, to move the whole level of income tax rates up or down by one or two points each year to produce an overall relation between revenues and outlays appropriate to the fiscal situation. Such across-the-board action would be taken quite apart from any more basic structural revenue reform measures being considered and acted upon in any given year.

Early in each session the Congress set an expenditure and revenue total under which it would commit itself to act during that session. Senator Proxmire has played a leading role in urging the Congress to move in this direction, recognizing that, until the Congress imposes fiscal disciplines on itself, it cannot hope to win the "battle of the budget" with the President.

A second, and in my view less desirable, way of meeting the fiscal policy requirements of budgetary policy within the framework of my proposed 2-year authorization and appropriation cycle, is for the Congress to designate a small number of programs which would be reviewed each year as to their appropriate amount, with an explicit understanding and commitment that appropriations for this small set of flexible programs would be adjusted upward or downward each year in order to create the relationship between overall outlays and revenues dictated by the situation in the national economy.

I do not like this second scheme as much as I do the previous suggestion of relying upon simple across-the-board tax rate adjustments and the reason for this is that there are few programs that will operate equitably and efficiently if outlays are moved up and down on a year-by-year basis simply in response to the general state of the economy.

Before closing, I would like to indicate that the proposal suggested in the above remarks is intended to address the basic concern underlying Senator Proxmire's statement announcing this set of hearings. The Senator suggested that the Congress should begin now on the fiscal year 1975 budget. Under the scheme of things sketched in my proposal, the Congress would be focusing on a part of the fiscal year 1975 budget at this point. As suggested above, I think that it is unlikely that the Congress can significantly improve its impact on budgetary decisions as long as it attempts to review the totality of Federal activity every year. While there would be some gain in beginning its focus on a given year's budget earlier in the cycle, I suspect that gain would be marginal.

As I have indicated, I strongly support attempts by the Congress to modify its structure and procedure so as to permit it to have an expanded impact on the allocation of funds among major program areas, as well as on the nature and direction of Federal programs. But I confess some concern at the apparent desire held by some Members of the Congress to put it in the business of either replicating the kind of detailed and extended process properly and necessarily employed by the executive branch in developing the President's budget; or, alternatively directly involving Congress and its committees in the budget formulation process of the Executive. The first of these alternatives will immerse the Congress in minutiae and conflict with its proper role of providing oversight of the Executive and of making, in a careful way, the hard trade-off decisions among competing programs.

Attempts to move in the second direction—involvement of the Congress in the Executive's budget preparation process—will either be futile or potentially dangerous to the whole system. Specifically, I would like to comment on the question, "What information and assistance can Congress obtain from OMB and other executive agencies?" asked by Senator Proxmire in announcing these hearings.

It is my view that the Congress will not help itself or improve the budget process if it attempts to intrude on the internal process of budget formulation within the executive branch. Thus, in requesting additional information from OMB and operating departments and agencies, a careful line should be drawn between general background information and information on actions already taken on the one hand, and, on the other, information regarding recommendations being formulated as part of the development of the President's own program and budgetary recommendations. The latter should be considered out of bounds. The underlying notion of the executive budget is to make the President responsible for his recommendations put before the Congress. He cannot successfully be held to this responsibility if the Congress attempts to intrude on the process by which he reaches those recommendations.

Outrage at alleged abuse of the President's power to impound should not, in my view, lead the Congress to a basic restructuring of the role of the two branches. Instead, Congress must strengthen and further develop its own mechanisms for program analysis and evaluation. In particular, I urge that the Congress make much more extensive and effective use of GAO, an agency responsible to the Con-

gress, not to the President. While some expansion of certain key congressional staffs may be necessary and desirable, I do not feel that the Congress and its committees can hope to manage successfully and efficiently a large bureaucracy.

Let me reiterate my view that the Congress, and particularly the committee of Congress, should resist the temptation of immersing themselves in program and budgetary detail on an across-the-board basis. On a sampling basis the Congress should examine in detail particular programs drawn from all program areas, but its main function is making the broad priority judgments across program areas and not, in effect, to take over—or attempt to take over—the proper role of the executive branch. In short, it is much too easy to get so lost in the trees that one is unable to view the forest, and to make judgments as to which parts of the forest should be viewed.

I realize it is easy to suggest a prudent balance between examination of detail and focusing on the broader view which highlights the major tough allocation decisions, but attaining this balance is very hard. There is always the temptation to probe a given program in exhaustive detail. While this may give Congress the illusion that it is really on top of a program, it is apt to remain an illusion and, in any case, must mean that the Congress is largely ignoring large areas of Federal activity, since it cannot hope to cope with the picayune details of all Federal programs.

During the question period I will be glad to comment on other questions raised by Senator Proxmire in his announcement of these hearings and also on the excellent report of the Joint Committee to Study the Budget.

Senator, I believe my prepared statement would have been better and more useful had I gotten that report in the mail before I prepared this statement.

Chairman PROXMIRE. It was an excellent prepared statement.

Mr. CAPRON. I have been able to read it on the way down here and I would be very glad, with my associates here, to comment on the recommendations of the study committee.

Thank you very much.

[The prepared statement of Mr. Capron follows:]

PREPARED STATEMENT OF WILLIAM M. CAPRON¹

Both the Congress and the Executive Branch have two very different kinds of concern with the Budget. On the one hand, the overall fiscal impact of the Budget needs to be determined in view of the condition of the national economy. From this standpoint, major attention is focused on total outlays and total revenues and the appropriate balance—or lack of balance—between these two totals.

On the other hand, the Executive and the Congress are vitally concerned with the details of the programmatic aspects of the Budget. (While the policy implications of the structure of the federal tax system are terribly important and should, and usually do, receive careful and detailed scrutiny by the Congress—indeed, so much scrutiny that action often seems frustratingly slow—in this statement I am focusing on the expenditure side.) Congress should put itself in a position to examine existing programs in depth (and, at least on occasion in considerable detail) in order to determine whether those programs are accomplishing those purposes intended by the Congress and in order to decide what level of funding is appropriate to each program. Congress must also be in a posi-

¹ Associate dean, John Fitzgerald Kennedy School of Government, Harvard University.

tion to review proposals for new programs, whether those proposals originate in the Executive Branch or in the Congress itself.

Unfortunately, the appropriate timetable for Congressional decision and action to meet these two very different budgetary concerns is, in my view, not the same. On the one hand, budgetary actions *vis a vis* overall fiscal impact should be as timely as possible and, indeed, subject to month-by-month, if not day-by-day, "fine tuning." From a practical standpoint, the fiscal year of twelve months is probably the shortest period for which Congress can take budgetary action from a fiscal policy standpoint—barring emergency situations created by sudden and dramatic shifts in the economic climate. But given both the complexity of federal activities in the 1970's and the nature of almost all programs for which federal outlays are made, the year is too short a period to serve as the framework in which Congressional review and decisions are taken.

If I am correct in asserting a fundamental conflict regarding the desirable length of time for which Congressional actions on the Budget are to be operative, we must seek some compromise. On the one hand, we want to find a set of procedures so that Congressional action will be as timely as possible with regard to the overall fiscal impact of the Budget. On the other hand, we want to create procedures and a timetable which permits the Congress to review periodically in depth each major federal program area's activities and to set in place the necessary authority for expenditures to be made over a significant time period—a time period which, in almost all cases, should be significantly longer than twelve months.

For most federal programs today, we continue to follow the historic practice of annual appropriations. Some programs are authorized for several years, but still require annual appropriations. (Until recently, at least in the period since World War II, the Congress was willing to vote multiyear authorizations for a fair number of programs; in recent years it has been less willing to do so, and most programs today require annual authorization and appropriation.) A few programs under which expenditures are made from the federal treasury operate with an indefinite authorization *and* appropriation. This is true for most trust fund outlays and also for payment of interest on the public debt.

I urge that the Congress now consider moving to a multiyear authorization and appropriation basis for virtually all federal expenditures. Authorizing legislation should ordinarily be for three to five years, except where a function is so routinized and accepted that permanent authorization is approved. Another exception may arise in the case of new programs, in which case Congress may wish to review authorizing legislation after one or two years to satisfy itself that the program is well conceived. In any case, there is no reason to require uniformity regarding the period for which programs are authorized. It should be emphasized that the now-common practice of annual authorization seriously impedes the whole appropriation process.

Regarding appropriations, I suggest a multiyear cycle under which the Congress would each year appropriate funds to cover outlays for each of the two succeeding years, each year dealing with only a portion of the total federal Budget. Under such a system, the Congress would gain two important advantages: first, it would greatly ease the burden which the present system imposes on the Congress, its committees and subcommittees, and individual members, of attempting to act responsibly each year on nearly three hundred billion dollars for federal outlays, and the programs those outlays are designed to support. It is not surprising that many members of Congress are sharply critical of the typically slipshod and superficial review which is directed at the great bulk of the programs for which they appropriate funds each year. Even if Congress accepted the proposal put forward here, the task is monumental and no conscientious member of the Congress will be fully satisfied that the Congress is adequately discharging its basic constitutional functions.

I have suggested that any given appropriation act provide for expenditures for each of two years. Many of the advantages of moving to a multiyear cycle would be more fully realized if a longer time period were covered—say three, or even four, years. However, it is my tentative judgment that arguments for stretching the cycle beyond two years are overwhelmed by the exigencies of the election calendar. Members of the House are elected every two years, and each member should have the opportunity to vote at least once on every appropriation. Furthermore, an even number of years seems necessary to fit with the calendar of presidential elections. Thus, it is probably impractical to "stretch" the cycle to more than two years.

The second advantage of moving to a multiyear appropriation cycle is that most programs can be much more efficiently and effectively managed if their funding is not subject to year-to-year gyrations. "Stop-and-go" program support creates undesirable uncertainty, imposes serious burdens on presumed beneficiaries of programs so funded, and forces management at all levels to devote excessive energy and attention to adjusting to changed levels of support rather than to trying to improve and strengthen underlying program administration. In addition, many federally funded activities cannot be sensibly evaluated if they are only able to operate at a given outlay level for a period as short as a year.

In calling for these hearings, the Chairman of this Subcommittee expressed concern over the very short time the Congress has between receipt of the President's Budget and the date on which it might act on that Budget. Under the present system of annual appropriations this concern is well taken. Under the proposal I am suggesting today, this time pressure problem would be significantly alleviated. For any given program the authorizing committee could begin in-depth studies and hearings well in advance of the program's activity under a multiyear authorization action. During the first year of a program's "life," the President and his staff (including particularly OMB), together with the department or agency responsible for the program in question, should be required to bring forward, at least in tentative form, any changes in the basic legislation which the Executive Branch expects to formally submit and support during the given program's "year of decision." In the second year of any program, the relevant appropriations subcommittees on each side of the Congress should undertake their own examinations to determine appropriate funding levels and the particular purposes for which funds would be appropriated. Under this extended cycle the Congress would have the opportunity not only to engage in extended hearings, but to commission probing, in-depth studies by GAO, the Library of Congress, or outside, non-governmental individuals and institutions.

Obviously the Congress would retain the right in any year to modify its decisions regarding both program structure and *modus operandi*, as well as funding level. A few programs which seem to be going extremely well might be expanded more rapidly than envisaged in the original two-year appropriation action. Programs which are going very badly might either be cancelled or drastically reduced. However, such cases of "out-of-cycle" revision should be rare exceptions since if they become the normal pattern of action, we would rapidly be back with all the difficulties of the present one year cycle.

The proper question to be put to me on the basis of what I've said thus far goes something like this: "Your proposal may make sense from the point of view of Congressional oversight and control of each federal program. But under this scheme how can the Congress possibly discharge its responsibilities to adjust the Budget totals to meet the fiscal policy needs of the moment? You are certainly not going to suggest that the art of economic forecasting has reached the point where reliable forecasts for a period as long as two years are possible, are you?"

I would answer the second question with an emphatic "No." As one who served on the Senior Staff of the Council of Economic Advisers in 1962 and 1963, I have been particularly shaken by the forecasters' track record in the last decade. You will recall that we did go through a period of some euphoria under the Heller Council. I think it fair to say that we have all come to realize that, in our very complex economic system, we just don't yet understand all the interactions which go to determine the level of employment, output, and prices well enough to make good mid-term forecasts. Indeed, even our short-run forecasts can be upset by sudden, unexpected changes in the economic climate. (In particular, economic expectations, which have such an important impact on today's actions, are hard to predict and difficult to understand.)

How, then, do I meet the basic objection of a proposed multiyear decision cycle on the expenditure side? There are two ways to deal with the demands of pursuing a timely fiscal policy under this proposal. First, I would argue that primary reliance for producing the desired deficit or surplus—or, in rare cases, balance—should be placed on the tax side. More specifically, it seems to me that the Congress should be willing, with the Executive, to move the whole level of income tax rates up or down by one or two points each year to produce an overall relation between revenues and outlays appropriate to the fiscal situation. Such across-the-board action would be taken quite apart from any more basic structural revenue reform measures being considered and acted upon in any given

year. (Were the state of relations between the Executive Branch and the Congress different from what it seems to be presently, I would even go so far as to suggest that the President be given authority to make this kind of simple change in tax rates on his own initiative, giving the Congress 60 or 90 days to veto such proposed action.)

As part of this suggestion, I would also urge that early in each session the Congress set an expenditure and revenue total under which it would commit itself to act during that session. Senator Proxmire has played a leading role in urging the Congress to move in this direction, recognizing that, until the Congress imposes fiscal discipline on itself, it cannot hope to win the "battle of the Budget" with the President.

A second, and in my view less desirable, way of meeting the fiscal policy requirements of budgetary policy within the framework of my proposed two-year authorization and appropriation cycle, is for the Congress to designate a small number of programs which would be reviewed each year as to their appropriation amount, with an explicit understanding and commitment that appropriations for this small set of "flexible" programs would be adjusted upwards or downwards each year in order to create the relationship between overall outlays and revenues dictated by the situation in the national economy.

The federal Budget does already include certain programs whose very nature causes them to operate in an appropriate—rather than perverse—fiscal manner. We once called these programs "built-in stabilizers," although that phrase seems less in fashion today. Unemployment compensation is the most obvious example of such a program, since outlays under this program increase as the level of economic activity decreases. What I am suggesting here is that the Congress identify other programs whose levels of funding could be adjusted upwards or downwards, not automatically, but by Congressional action.

One reason I do not like this scheme as much as I do my previous suggestion of relying upon simple across-the-board tax rate adjustments, is that there are few programs that will operate equitably and efficiently if outlays are moved up and down on a year-by-year basis simply in response to the general state of the economy. However, I have not given sufficient thought to this possibility to reject it out of hand.

Before closing, I would like to indicate that the proposal suggested in the above remarks is intended to address the basic concern underlying Senator Proxmire's statement announcing this set of hearings. The Senator suggested that the Congress should begin now on the FY 1975 Budget. Under the scheme of things sketched in my proposal, the Congress would be focusing on a part of the FY 1975 Budget at this point. As suggested above, I think that it is unlikely that the Congress can significantly improve its impact on budgetary decisions as long as it attempts to review the totality of federal activity every year. While there would be some gain in beginning its focus on a given year's Budget earlier in the cycle, I suspect that gain would be marginal.

As I have indicated, I strongly support attempts by the Congress to modify its structure and procedure so as to permit it to have an expanded impact on the allocation of funds among major program areas, as well as on the nature and direction of federal programs. But I confess some concern at the apparent desire held by some members of the Congress to put it in the business of either replicating the kind of detailed and extended process properly and necessarily employed by the Executive Branch in developing the President's Budget; or, directly involving Congress and its committees in the budget formulation process of the Executive. The first of these alternatives will immerse the Congress in minutiae and conflict with its proper role of providing oversight of the Executive and of making, in a careful way, the hard tradeoff decisions among competing programs.

Attempts to move in the second direction—involvement of the Congress in the Executive's budget preparation process—will either be futile or potentially dangerous to the whole system. Specifically, I would like to comment on the question, "What information and assistance can Congress obtain from OMB and other executive agencies?" asked by Senator Proxmire in announcing these hearings. It is my view that the Congress will not help itself or improve the budget process if it attempts to intrude on the internal process of budget formulation within the Executive Branch. Thus, in requesting additional information from OMB and operating departments and agencies, a careful line should be drawn between general background information and information on actions already

taken on the one hand, and, on the other, information regarding recommendations being formulated as part of the development of the President's own program and budgetary recommendations. The latter should be considered out of bounds. The underlying notion of the Executive budget is to make the President responsible for his recommendations put before the Congress. He cannot successfully be held to this responsibility if the Congress attempts to intrude on the process by which he reaches those recommendations.

Outrage at alleged abuse of the President's power to impound should not, in my view, lead the Congress to a basic restructuring of the role of the two branches. Instead, Congress must strengthen and further develop its own mechanisms for program analysis and evaluation. In particular, I urge that the Congress make much more extensive and effective use of GAO, an agency responsible to the Congress, not to the President. While some expansion of certain key Congressional staffs may be necessary and desirable, I do not feel that the Congress and its committees can hope to manage successfully and efficiently a large bureaucracy.

Let me reiterate my view that the Congress, and particularly the committees of Congress, should resist the temptation of immersing themselves in program and budgetary detail on an across-the-board basis. On a sampling basis the Congress should examine in detail particular programs drawn from all program areas, but its main function is making the broad priority judgments across program areas and not, in effect, to take over—or attempt to take over—the proper role of the Executive Branch. In short, it is much too easy to get so lost in the trees that one is unable to view the forest.

I realize it is easy to suggest a prudent balance between examination of detail and focusing on the broader view which highlights the major tough allocation decisions, but attaining this balance is very hard. There is always the temptation to probe a given program in exhaustive detail. While this may give Congress the illusion that it is really on top of a program, it is apt to remain an illusion and, in any case, must mean that the Congress is largely ignoring large areas of federal activity, since it can't hope to cope with the picayune details of all federal programs.

During the question period I will be glad to comment on other questions raised by Senator Proxmire in his announcement of these hearings, as well as to answer questions about my own statement.

Chairman PROXMIRE. Thank you very much, Mr. Capron.

Mr. Lewis, we did not get a prepared statement from you but I presume that you have some notes and, if you can wrap it up in about 10 minutes, it would be appreciated.

STATEMENT OF WILFRED LEWIS, DIRECTOR, NATIONAL PLANNING ASSOCIATION

Mr. LEWIS. Yes.

Thank you very much for the opportunity to testify on congressional procedures looking toward the 1975 budget. Incidentally, you should make that 4 out of 4 of us who are former Budget Bureau hands.

Chairman PROXMIRE. All four, wonderful.

Mr. LEWIS. I spent 5 years there myself.

Because of the time lags between authorizations and appropriations, on the one hand, and expenditures on the other, and because of the large amount of built-in, relatively uncontrollable, expenditures, steps taken by Congress this year aimed at influencing national priorities can have a much more significant impact in 1975 than they can hope to do in 1974. While the Congress can, if it acts in a determined fashion, have a conscious influence on national priorities, it is by no means clear to me that the machinery and the procedures yet exist at the legislative end to permit this in a major way, even with

a long leadtime. Therefore, I believe the question of how to approach the 1975 budget requires some look at congressional budget-making machinery in general.

The growing concern in Congress over the Federal budget and the budget process is wholesome and, I believe, long overdue. The Federal budget is the focal point of many of the most vital issues of public policy: the overall size of the public sector and, consequently, the determination of what fraction of the Nation's income and resources are to be devoted to public needs and, by deduction, what fraction to leave in private hands for private use, and within the public sector the relative priority to be attached to defense, education, old-age pensions, transportation and so on.

Moreover, the budget process involves determining not simply how much to be spent on each area, but also the identification of the specific beneficiaries by area of the country, by income class, and whether it should be a direct Federal program or a grant-supported State and local program, and so forth. So the budget process is really pretty central to the whole running of the Federal Government.

I believe the Constitution intended the legislative branch rather than the executive to determine national policies and priorities, at least in broad outline, and it is true that such taxes and expenditures as we have at any point in time have all been authorized by the Congress. Nevertheless, the form of authorization leaves so much scope for executive branch discretion that it is not inaccurate to feel that the executive rather than the Congress is determining our national priorities.

With a few conspicuous exceptions, such as the attempt to close down the community action program completely in the face of congressional authorization, I do not think the present situation is accurately described as one in which the basic problem is one of the President's flagrantly overriding congressional intent. Rather the procedures and forms used by Congress fall far short of determining the actual budget for a particular year. As things are presently structured any President would simply have to take a number of steps that may look inconsistent, really are inconsistent, at the level of individual programs, with the intent of the Congress. Since the Congress has authorized far more spending in the aggregate than can be financed by revenues from the taxes that Congress has also authorized, the President simply has to hold back on some spending or the economy would be subjected to rather grave inflationary pressures.

The problem is admittedly aggravated by having a President whose social philosophy differs sharply from that of the majority party of the Congress. But I believe the are basic defects in the present system that would be present no matter who was in the White House and, if the present crisis precipitates a long-needed reexamination of legislative budget procedures, it may be a blessing in disguise.

I think it is highly desirable to establish and maintain machinery at the legislative and that insures at least rough consistency of the separate pieces of the budget and the budget totals. I would like to give you an example of the kind of perverse effect that comes about in the present system when Congress has authorized programs in an amount larger than can be expended within the necessary fiscal

policy. In the grant-in-aid category, for example, you find State and local governments holding back on spending in areas that they were previously funding from their own budgets since, as long as there is some chance of a Federal grant that would give them, in effect, 50-cent-dollars, they cannot afford to go ahead with their own funds. This has happened in a number of programs. Congress has authorized a large program of sewer and water construction grants and the actual level of activity in that area has been cut back because the States are queued up for grants that are not coming.

So I think Congress needs to develop a process whereby the pieces and the totals can fit together, that is, bring an end to the process of authorizing an appropriating far more than taxes will support.

The present system, I believe, leads to irresponsibility on the part of some legislators and some committees. In effect, a committee can have its cake and eat it. It can authorize and appropriate in greater amount than can be safely expended and leave it to somebody else to worry about the fiscal policy consequences. Presently that somebody else is the President and, if Congress wants to gain control of the budget, as I believe it should, it needs to develop its own machinery for reconciling the pieces and totals.

Note I did not say "regain" control of the budget. In my view, Congress has never really controlled the budget in the sense that I mean it. From one point of view, in terms of budget procedures, the Congress has never caught up with the Keynesian revolution, by which I mean the modern understanding of the relation between fiscal policy and economic stability. With the greatly expanded size of the Federal sector, Congress has essentially the same budget-making machinery it had in the last century when Federal spending was an infinitesimal fraction of the economy. That machinery will not suffice when the Federal Government is 25 percent of GNP. Nothing on the legislative side has happened comparable to the reorganization in the executive branch in 1938, when the Budget Bureau was pulled out of Treasury and put in the Executive Office of the President.

Now, turning to how to do this, I think there are essentially four ingredients. First, there need to be revenue estimates of the yield of existing taxes.

Second, some fiscal policy decisionmaking machinery, that is to say, decisions with respect to tax rates and the appropriate size of the Federal deficit.

Third, one needs expenditure estimates in some detail, and going out for some years in the future for both existing and proposed new programs and policies.

And, fourth, some machinery for determining and enforcing priorities within the totals.

Now, taking these one at a time, the first one, the revenue estimates, I think are under relatively satisfactory control in the Congress. Between the staffs of this committee—that is, the Joint Economic Committee—and the Joint Committee on Internal Revenue Taxation, I think I would be hard pressed to suggest anything that would lead to better revenue estimates than the Congress already has.

So far as fiscal policy machinery is concerned, we do not really have this. I think the Joint Economic Committee has a good record

in terms of fiscal analysis and fiscal policy recommendations but I do not need to tell you you do not really have enforcement powers vis-a-vis the other congressional committees.

In practice, this is perhaps not as bad as it might appear to a theoretician. I think, for all practical purposes, tax rates during peacetime are more or less fixed, revenue estimates are more or less given by existing taxes. There are opportunities both to close tax loopholes, on the one side, and perhaps to reduce tax rates over time and, of course, there is the question of payroll tax rates associated with social security. But, by and large, while there is no real fiscal policy machinery, I do not think that that shortage is as critical as some other problems.

So far as getting expenditure estimates from existing and proposed new programs, the Appropriations Committee staffs have a great deal of expertise on the details of Federal programs. Traditionally, they have not thought very much in expenditure terms; they think in appropriation and authorization terms. However, they have been thinking in recent years more and more in expenditure terms.

I think it is appropriate at this point to point out that the Congress can get a great deal of assistance, as it does now, from OMB. OMB, I think, has perhaps one of the most able and dedicated staffs in Washington, and I think they have generally been very cooperative with the Congress in giving the Congress the kind of detailed estimates that Congress needs. Now, they do get understandably annoyed at requests for enormous quantities of detail that are far in excess of anything the Congress has the machinery to process in any decisionmaking way.

I personally would like to see a budget process involving both the executive and legislative side that makes the budget, let us say, a moving 5-year plan rather than 1 fiscal year at a time. But I think that until Congress has the machinery on its end, to simply keep asking the executive branch for more and more detail 5 years out is not by itself very helpful.

Now, the fourth item I mentioned is where the big problem is, and that is the lack of any effective machinery for deciding or enforcing priorities within the Federal budget.

I would say at this point that I think it would be a mistake for the Congress to try to emulate the executive branch in creating something like the Bureau of the Budget, that is, in terms of numbers of staff or in terms of detail which they could undertake to examine individual programs. I do think Congress can get what it needs with the appropriation process if there is simply better machinery for constant regular communication back and forth between the people whose concern it is to worry about fiscal policy in the budget totals, on the one hand, and the staffs of the Appropriations Committees who are working on the pieces.

Chairman PROXMIRE. Mr. Lewis, you have taken 15 minutes of your 10 minutes so far. Will you summarize, if you could, in a minute or so and maybe we can go back to questions?

Mr. LEWIS. I need just a minute or two more.

Turning to 1975, trying to apply these principles I have been talking about to 1975, I think the first step would be to reexamine the President's revenue estimates. Given the fact is that inflation is a little

higher than was assumed when those estimates were put together, you can properly inch those up some.

In terms of fiscal policy I suspect the economy will be a bit softer than was assumed and so large a reduction in the full employment deficit would probably not be the right fiscal policy. This would be worth a few more bucks.

Finally, I doubt if tax rates are changeable by a large amount, but there are several billion dollars worth of tax loopholes that could be closed if the Congress wanted to increase the pot it had to work with. Beyond that, it is simply a matter of needing to balance proposed increases with proposed reductions. Here I would point out that the sequence is of some importance. I think that Congress would greatly increase its power of control over both the 1974 and 1975 budgets if it would first drag out some of the appropriation bills that it thinks it wants to cut, perhaps defense and foreign aid. I am not myself recommending what should be increased or decreased here, but reading the newspapers suggests that the Congress seems to want to redirect priorities away from defense and foreign aid and toward the domestic side. If they do want to do that, I think Congress has to bring the defense and foreign aid bills out first and cut them, and establish its record in terms of fiscal prudence and then go about increasing the things it wants to increase. Otherwise Congress is setting itself up for a string of vetoes and it will wind up not having very much influence on priorities even in 1975.

Thank you very much. I apologize for running over my time.

Chairman PROXMIRE. Thank you very much.

Mr. Nathan, please proceed.

STATEMENT OF RICHARD P. NATHAN, SENIOR FELLOW, THE BROOKINGS INSTITUTION

Mr. NATHAN. Senator, I appreciate the chance to testify before this subcommittee. I think it is an excellent idea to hold these hearings.

I have a prepared statement which I would like to have printed in full in the record and I will summarize it.

Chairman PROXMIRE. Fine, that will be printed in full in the record.

Mr. NATHAN. And then make some other point that you touched on in your opening statement.

The first part of my prepared statement discusses the transition from the fiscal drag conditions of 10 years ago to the fiscal squeeze conditions that we face today. While the political controversies of fiscal squeeze and particularly the confrontation on so many issues between the President and the Congress have not been an easy process, it is my view that one of the good effects of this experience is that basic changes are now being developed in a way in which the Congress is involved in the budget process.

My comments on this subject include one quite fundamental reform which I want to discuss and some additional general observations.

First of all, on the fundamental reform, I suggest that the fiscal squeeze conditions of the 1970's, and these conditions are not likely to abate quickly, should be an occasion for considering again the desirability of giving the President the item veto power. I can cer-

tainly understand that there would be resistance in the Congress to the idea that the President should be empowered to veto items in appropriation bills unless his action is specifically disapproved by a two-thirds vote of the Congress. This, in fact, has been the historical congressional response to the item veto on the ground that it adds to the already formidable powers of the Presidency.

However, I suggest that in the current setting in which the President has significantly expanded his budget powers—particularly through impoundment actions—the adoption of the item veto could actually end up increasing the powers of the Congress vis-a-vis the Executive. Under present conditions, when the President impounds funds, the Congress appears to have little recourse to respond. However, with an item veto, the Congress would have set procedures under which it could disapprove Presidential decisions to withhold appropriated funds. In effect, the item veto power could be seen today as a limitation on the Presidency, although I personally would argue that the President should sign such a measure as a means out of the current budget impasse and as a way to institutionalize at least in part the legally uncertain new budget powers currently being asserted.

I offer these comments because it appears that legislation now being considered, and this particularly applies to the House, with regard to impoundment, could easily be converted into a legislative item veto. Specifically, the measure under review which would permit the Congress by a majority to disapprove impoundment actions by the President would closely resemble the traditional item veto if the present majority vote by the Congress to overrule the President was changed to two-thirds. I also think the reference in the law should be, as in the item veto, changed to relate to appropriations actions, with the legislative history written in a way that returns to a more conventional definition of the impoundment power as one to be used where Government plans for capital projects change after the appropriations process has been completed. This happens for example, when technical design factors suggest that a particular capital project previously approved is not feasible or for various reasons has to be held up pending revisions or the completion of prior design work which has been delayed. This still would permit the President to change plans on projects for which funds has already been appropriated; but on the whole, I believe it would damp down the impoundment controversy which is part of the budget issue which needs to be looked at at this point in time, and that this power in the present period, the item veto, would be an improvement over conditions where, when the President impounds funds the Congress has no means of reviewing this decision.

I would point out that over 40 States have the item veto, and many local governments do.

I would like to turn now to some comments of my own on the budget process which parallel some of those of my colleagues and, particularly, I think, rather than read my statement, I can respond to two of the questions, Senator, which you asked at the beginning of this hearing. First of all, you asked how does the trade-off process operate within the executive branch as between various major items in major budget areas.

My experience in the budget process is that this activity of making major trade-offs at present typically takes place in the summer be-

fore the budget is put together. I can recall from experiences in OMB, the President, with a small group of his aides, and on one or two occasions I attended those meetings, discussing the prospects of the future budget in a series of day-long sessions usually held outside of Washington at which time there would be a full review of the various different items at the margin which the President could cut to set a certain target for the major spending areas that he may decide upon. This review process, usually outside of Washington, results in targets that are sent in the late summer to the executive agencies as to how much they can plan in the forthcoming budget.

I would point out that this process has some implications for the report of the Joint Committee on Budget Control. On the whole, I think the Joint Committee report is an excellent one and the recommendations are good. In keeping with Mr. Lewis and Mr. Capron's notion that the Congress should build on the executive budget process, and not seek to try to replicate the executive budget process, it seems to me an important question when this legislation is before the Congress is whether this committee is too small or too large.

From one point of view the committee is quite large compared to the small group that looks at trade-offs with the President within the executive branch at the time when critical decisions are made.

From another point of view, however, looking at the representativeness of this committee I can see where some people would feel that the committee is too small. It takes senior members of the affected committees of each house but does not include enough members who are outside of the seniority structure of these committees and would represent another point of view. So I think this question on the size of the committee and how it is going to operate is particularly an important one.

Second of all, Senator, I would suggest, just as Mr. Lewis has, that OMB can and should provide data, perhaps in the fall, to the new Joint Committee for purposes of setting its ceilings, and I particularly would recommend that there be a formal and public document from the Office of Management and Budget, say, in September of each year, which would estimate in September of each year what is projected for outlays as of that time for the coming fiscal year even before the budget is sent up.

In other words, this document would be at that time a current rack up of outlays expected against previously made commitments.

And, finally, Senator, I would make one other suggestion, that is if there is consideration given to changing the timing of the fiscal year, I would think the fiscal year ought to be, put on a calendar year basis rather than on a present fiscal year basis. The budget under such an arrangement would be presented in January but it would apply to the calendar year starting the following January. That may be the simplest way to get the kind of lead time that we need in the budget process.

Along with my printed comments, I thought that these observations in response to your initial questions might be useful and would keep me within your 10-minute limit, which I see I have done, so I will stop there.

Thank you.

[The prepared statement of Mr. Nathan follows:]

PREPARED STATEMENT OF RICHARD P. NATHAN¹

LET'S RESURRECT THE ITEM VETO

The decade 1963-73 has seen a dramatic shift in the fiscal policy conditions facing the Federal Government. Ten years ago a \$11.4 billion tax cut was enacted to offset what for policy makers was the happy dilemma of Federal revenues rising faster than expenditures creating "fiscal drag." The 1964 tax cut in effect declared a fiscal dividend designed to stimulate the private sector of the economy in order to achieve a satisfactory level of non-inflationary economic growth. Further tax cuts in 1969 and 1971 have in the aggregate produced total Federal tax cuts on a current annual basis of \$44.5 billion.

But fiscal drag of the mid-60s is now a thing of the past—replaced by what the authors of the 1972 Brookings budget study call "fiscal squeeze." Today, instead of revenue growth outpacing expenditure growth, the rate of increase in expenditures exceeds that for revenues producing conditions that have resulted in political struggles of near epic proportions on the expenditure side of the fiscal year 1974 Federal budget.

The reasons for the shift from fiscal drag in the mid-60s to fiscal squeeze in the mid-70s are several:

The three tax cuts just mentioned.

Vietnam War expenditures of \$7 billion to \$8 billion every year through this period.

Even more important than these war expenditures, Great Society programs rose from \$1.7 billion in 1963 to \$37.5 billion in fiscal year 1973.

And on top of these Great Society programs, which actually have grown faster under President Nixon than under President Johnson, the Nixon Administration in important cases has added its own initiatives to the Federal budget. General Revenue Sharing of \$6 billion per year is perhaps the most prominent example, along with other increases for such purposes as drug control and prevention, food stamps, law enforcement, and, of course, defense.

The result of these four conditions is that the basic fiscal equation has changed in 1973 and would have changed no matter which candidate had won the 1972 election.

While the political controversies of fiscal squeeze and particularly the confrontation on so many issues between the President and the Congress have not been easy, one of the good side effects of this experience is the basic changes now being developed in the way in which the Congress is involved in the overall budget process. My comments on this subject include one quite fundamental reform which I believe should be reexamined in this period and several additional observations on what it is practical for the Congress to do in the budget process.

First on the fundamental reform.

I suggest that fiscal squeeze in the 1970s (and these conditions are not likely to abate quickly) should be an occasion for considering again the desirability of giving the President the item veto power.

I can well understand that there would be resistance in the Congress to the idea that the President should be empowered to veto items in appropriations bills unless his action is specifically disapproved by a two-thirds vote of the Congress. This, in fact, has been the historical congressional response to the item veto on the grounds that it adds to the already formidable powers of the presidency.

However, I suggest that in the current setting in which the President has significantly expanded his budget powers (particularly through impoundment actions) the adoption of the item veto could actually end up increasing the powers of the Congress vis-a-vis the Executive. Under present conditions, when the President impounds funds, the Congress appears to have little recourse to respond. However, with an item veto, the Congress would have set procedures under which it could disapprove presidential decisions to withhold appropriated funds. In effect, the item veto power could be seen today as a limitation on the presidency, although I personally would argue that the President should sign such a measure as a means out of the current budget impasse and as a way to institutionalize at least in part the legally uncertain new budget powers currently being asserted.

¹ The views expressed here are those of the author and do not represent the views of the trustees, officers, or other staff members of the Brookings Institution.

I offer these comments because it appears that legislation now being considered, particularly in the House with regard to impoundment, could easily be converted into a legislative item veto.² Specifically, the measure under review which would permit the Congress by a majority to disapprove impoundment actions by the President would closely resemble the traditional item veto if the present majority vote by the Congress to overrule the President was changed to two-thirds. I also think the reference in the law should be, as in the item veto, changed to relate to appropriations actions, with the legislative history written in a way that returns to a more conventional definition of the impoundment power as one to be used where government plans for capital projects change after the appropriations process has been completed. This happens for example when technical design factors suggest that a particular capital project previously approved is not feasible or for various reasons has to be held up pending revisions or the completion of prior design work which has been delayed. This still would permit the President to change plans on projects for which funds had already been appropriated; but on the whole it would damp down the impoundment controversy of the present period in which this power has been given an additional dimension as a means of refusing to expend appropriated program funds on a basis where the Congress has no means of reviewing this decision.

To shift gears and provide some quick history of the item veto, there apparently was no consideration of it at the Constitutional Convention in 1787, perhaps because of omnibus appropriation bill with riders was not then envisioned. In 1861, the Confederate Constitution contained an item veto and since that period almost without exception Presidents beginning with Ulysses S. Grant have formally proposed that such a power be provided. Over 40 states have this authority for their governors under state law and its most diligent student, Frank W. Prescott, after studying the use of this power by the states urged in 1957 that similar authority to be granted to the President.³

In sum, the item veto has a proven history in the states and is under current conditions an orderly and reasonably balanced way out of the current impasse between the President and the Congress over budget powers; it should be seriously reexamined in this context.

Turning now to some observations of a more limited scope on the congressional budget process, there are several points I would offer based on experiences as Assistant Director of the Office of Management and Budget from January 1969 to September 1971 and as a staff member of the Congress in 1959-62 as Legislative Assistant to then Senator Kenneth Keating of New York.

I would be concerned, first of all, if the Congress became too ambitious in its budget role and attempted to replicate the Executive Budget process. Any committee and especially one with 535 politicians is bound to have a much harder time coming to specifics on as many items as there are in the Federal budget as compared to one man, the President. The Congress in my view should have a large, highly professional budget staff, but not 700 persons like OMB—more like 100. Their role should not be to write a budget *per se* so much as to analyze the President's budget. Furthermore, my expectation is that the Congress would be more successful if instead of establishing an elaborate budget process, it aims at least at the beginning of this experiment for a more limited but very specific set of results in the form of budget guidelines based on the President's budget submission. I can, for example, conceive of the Congress shortly after the budget is sent up by the President (and with pre-budget basic data fully provided to it) setting a framework of budget targets—one for overall spending (with tax changes accompanying it if necessary) and one for each appropriation and major area of authorization-type spending. I would prefer to see this set of ceilings or guidelines operate on *outlays*, not authority, and have along with it a system of procedures whereby major discrepancies from these ceilings would trigger a full Appropriations Committee procedure to adjust for this action, either by changing the bill in question or another bill or taking action to initiate consid-

² Since the 1860's there has been an argument as to whether the item veto requires a constitutional amendment or can be adopted legislatively.

³ See the 1957 House Judiciary Committee hearings on a bill introduced by Representative Kenneth B. Keating of New York and others to give the President the item veto power. Senator Paul Douglas and most other congressional witnesses opposed this legislation; although in 1883 the House voted 101-58 for the item veto (the vote failed requiring two-thirds). The League of Women Voters supported the item veto as did the Bureau of the Budget.

eration of the appropriate revenue measures to keep the budget in full employment balance.

These brief comments by way of prepared testimony do not I hope suggest pessimism about the state of the art of fiscal policy. To the contrary I believe that in the last decade the Nation has made significant progress in reducing the severity and duration of periods of economic hardship. The dilemma of the Phillips curve remains, but recessions are becoming increasingly less hair-curling and we are now beginning to develop new fiscal tools to deal with price level pressures that persist in times of less than full employment. Moreover, as noted earlier, the Congress appears to be responding in a good way to current budget squeeze conditions which indicates that its capacity to deal with the budget *as a whole* will be strengthened—a much needed change.

I could comment also on the therapeutic effects of budget stringency as a way of eliminating entrenched programs that have outlived their usefulness or never had very much usefulness. I will refrain however from substantive comment as this is a hearing on the budget process. While no one can be expected to applaud every item in a decision document as vast as the Federal Budget, I would only note in closing that there is much in the 1974 budget which reflects a healthy process of reassessment and redirection, a process brought on in large measure by the shift in the past decade from fiscal drag to fiscal squeeze described at the opening of this testimony.

Chairman PROXMIRE. Thank you very much, Mr. Nathan.
Mr. Packer, please proceed.

STATEMENT OF ARNOLD H. PACKER, SENIOR ECONOMIST, COMMITTEE FOR ECONOMIC DEVELOPMENT

Mr. PACKER. Senator Proxmire—

Chairman PROXMIRE. You are the cleanup man.

Mr. PACKER. Pardon me.

Chairman PROXMIRE. You are the cleanup man, batting in fourth position.

Mr. PACKER. There is hardly anything left for me so I will be able to stay within your 10-minute time period.

I think Congress might want to think of different ways of approaching the budget, and I have described three ways in my prepared statement. One I call the merit approach in which Congress just approves everything that they think is meritorious. It is hardly likely that such an approach will lead to a budget total that is proper from a fiscal point of view. And I think there is general agreement that that approach is going to be abandoned.

The second approach is the fixed-budget approach in which a rigid outlay ceiling is established on the basis of revenue projections and the fiscal outlook, and everyone tries to make trade-offs within that fixed total.

And the third approach is the functional approach in which taxes are allowed to change if the Congress decides they want to spend more money for particular programs, and I point out that the extension of medicare coverage to the disabled was done in that way. The coverage was extended, the social security taxes were increased and no one searched for an aircraft carrier to cut so that they could extend that coverage.

I think, as I say, the merit approach is going to be abandoned. Federal nondefense spending went from 5.2 percent of GNP in 1945 to 7.4 percent in 1955, 10.7 percent in 1965, and is likely to be close to 15 percent in 1975; thus, the merit approach is no longer appropriate.

The tail has begun to wag the dog in some functions such as health, where in 1955 Federal spending was only 6½ percent of the total and now is close to 25 percent. Moreover, I do not think the budget-makers can ignore what is happening to the other 75 percent of health spending.

I point out that we do not have a situation in which cuts always have to be made in order to accommodate new programs. Instead, taxes normally increase, in fact normally increase faster than GNP, and if things are left to their own the Federal Government will continue to grow compared to GNP. In fact, the Federal Government has cut income taxes, periodically so that these taxes remain close to their long-term average of 8½ percent of GNP.

The fixed budget approach, I think, is the most common. It is the one used by the Executive Office. The hallmark of that approach is you cut outlays to fit revenues, and there are a number of ways at arriving at those trade-offs. One is to make proportional across-the-board cuts and thereby force the appropriated pieces to fit the fiscally desired total. This process, if it is used, will lead to budget puffing in which each claimant comes in with inflated requests so he will be comfortable with the result after the final cuts are made.

A second trade-off procedure is to make general nonspecific reductions in one area to accommodate either general or specific increases in another. For example, in examining the 1975 budget Congress might decide to transfer some billions from defense to domestic programs and leave the precise determination to the appropriate subcommittee.

Another alternative is to package trade-offs, to trade off part of the operating budget of the Navy with the operating budget of Transportation. It costs about \$65 million a year to deploy a nonnuclear tactical aircraft carrier. It costs the Washington Metro system over \$30,000 annually to run an average bus. Thus, Congress could decide between deploying the carrier or running 2,000 free buses. Or, it might compare the Metro system with a nuclear carrier or decide whether our foreign policy objectives are best served by research and development directed towards defense purposes or towards solving our energy problems.

As my colleagues here have said, the idea of duplicating the Executive Office procedure in Congress does not seem to be the best way to fix the procedure. I think a joint budget committee supported by a strong and competent staff is necessary but that the legislature might want to approach the budget something differently. The problem with the fixed budget procedure is trying to reconcile what I call the simple decision, how much we should spend, with the complicated decision, how should we spend it. If a decision is made to increase overall Government spending by 8 percent and one subcommittee wants to increase their appropriation by 12 percent, which subcommittee is going to make room? That question is very hard to answer for both technical and institutional reasons. The technical problem arises because we really have no analytical tools to make trade-offs between, say, weapons and mass transit systems or between education and health. At best, tools such as PPB or cost-benefit analysis can help within a function. It can analyze the trade-off between buses and mass transit or carriers and submarines—but not between, say, buses and submarines. There is going to be an institutional problem no matter what new committee is organized because no single person in Congress

can arbitrate among the different claims the way the President can in the executive branch.

Even more importantly, there are few incentives for subcommittees—or their representatives on a new priorities committee—to reduce their spending so as to accommodate the bigger programs that other subcommittees wish to approve.

The functional approach, which I will turn to next, creates an incentive for a subcommittee to hold its expenditure increase to less than 8 percent and get credit for the resulting tax reduction. Or another subcommittee could ask for more than 8 percent and propose a tax increase. This approach presupposes that there are a number of semi-independent functions—health, transportation, defense, and so on—and a number of semi-independent decisions—the amount of public spending for each function. Of course, the fundamental problem of making choices cannot be avoided no matter what approach is taken. In the final analysis, there is a limit to the number of aircraft carriers and mass transit systems the country can produce at one time. Thus, the need remains for a priorities committee, supported by an analytical staff, to establish fiscal policy, point out workable trade-offs within the public sector, and monitor the overall size of the Government. The recommendations of the Joint Study Committee on budget control accommodate this functional approach quite well by allowing for tax increases, and I would like to say I thought the analysis in that document was very good.

The offsetting tax increases and decreases of the functional approach could be instituted in a simple one-tax world by providing an itemized account to each taxpayer. This new attachment to the 1040 form would show which functions of government were increasing and which were decreasing his taxes. In the real world, which has a number of revenue sources, the functional approach might work even better. For example, if Ways and Means decides to change social security benefits they can do so under the functional approach by changing social security taxes. As long as the social security system is on a pay as you go basis—as it is now—these changes need not disturb the rest of the budget.

Other earmarked taxes used for broad functional purposes would make revenue and expenditure trade-offs more explicit. In fact, the ideal system for developing national priorities might be a tax and legislative system organized around broad functions such as health, education, income security, and so on. The transportation subcommittee would then weigh mass transit against autos—not against nuclear aircraft carriers. Perhaps their taxes would be gasoline and auto excise taxes.

Earmarked taxes have long been a subject in the public finance literature and are generally disliked by OMB. The Highway Trust Fund is frequently pointed to as the worst example of the rigidities caused by earmarking funds for a special purpose. I have only two comments. First, the existence of the fund does not really limit the administration as much as may be thought because of the fungible nature of revenues. For example, the 1974 budget calls for Highway Trust Fund outlays of only \$4.7 billion compared to receipts of \$6 billion. Cutting impacted aid to school districts may be just as difficult as cutting highway expenditures even though there is no trust fund

behind that program. But more importantly, the rigidities that do arise come about because Highway Trust Fund revenues are used to provide a narrowly defined input—that is, highways—and not a functionally defined output—that is, transportation.

Each of these three approaches to budgeting can be described by some simple arithmetic. In the merit approach the deficit equals outlays minus revenues and changing outlays changes the deficit. In the fixed-budget approach trade-offs must be made so that outlays are set equal to whatever revenues are generated by existing taxes. In the functional approach revenues and outlays for specific functions are considered simultaneously so that revenues are made to equal outlays. Of course, all the arithmetic is equivalent and inescapable. The important question is which approach to the budget will best serve the policymakers and the Nation.

Thank you.

[The prepared statement of Mr. Packer follows:]

PREPARED STATEMENT OF ARNOLD H. PACKER

Mr. Chairman and Members of the Subcommittee: My name is Arnold Packer. I am a Senior Economist with the Committee for Economic Development; however, I am not here in that capacity but as a private citizen. I very much appreciate the opportunity of speaking before you today.

What I will attempt to do is describe three ways of approaching federal budgetmaking. The first may be called the Merit Approach. Under this approach, the Congress considers each proposed appropriation, approves those that are meritorious, and rejects the remainder. The second may be called the Fixed-Budget Approach. Using this method, a rigid outlay ceiling would be established on the basis of revenue projections and fiscal requirements; after that, trade-offs would have to be made among competing public programs.

The third approach will be referred to as the Functional Approach. With this procedure fiscal considerations would determine the size of the budget deficit or surplus but not necessarily the amount of expenditures. That is, it would be easier to vary expenditures as long as taxes were also changed. One example of the Functional Approach was the decision of the 92nd Congress to extend Medicare coverage to the disabled. The Congress increased both coverage and taxes and, significantly, they did not have to seek compensating reductions in defense or other spending to stay within a fixed budget.

Most of my remarks will deal with the latter two methods of priority setting since it seems to be generally agreed that the Merit Approach should be abandoned. It is obviously going to be a happy accident if that procedure produces a level of outlays that is correct for fiscal purposes. Moreover, the inadequacies of the Merit Approach are less tolerable now than they were in the past. Federal nondefense spending was 5.2 percent of GNP in 1945, 7.4 percent in 1955, 10.7 percent in 1965, and is likely to be close to 15 percent in 1975. The economy has become much more complicated and the federal role much more important in one generation. When the federal government was financing 6½ percent of health expenditures, as it was in 1955, a moderate change in the federal health budget had only a limited effect. Now, when the federal share of health financing is 25 percent, the federal role begins to determine the allocation of resources and of benefits and the rate of inflation throughout the industry. The tail has begun to wag the dog. Budgetmaking has also grown more complicated because the public, very properly, now demands a better record of fiscal performance than it did a generation ago.

I will now turn to the alternative approaches; but, first, let me define the situation by describing a simplified budgetmaking model. Assume we have only one tax—the federal income tax—and a number of appropriation subcommittees, each dealing with its part of the budget—health and education, defense, and so on. Let me also assume that we start with a balanced budget and that revenues increase by eight percent annually. If each subcommittee also increased its appropriation by eight percent annually we would maintain the budget balance. Moreover, the allocation of the budget among the functions served by the respective subcommittees would remain constant.

If the income tax was progressive revenues and expenditures would grow faster than national income and government would expand relative to GNP. But this outcome is not inevitable nor even likely. Periodically, the government could decide to reduce tax rates so that government spending grew at, say, the same rate as GNP. In effect, this is what has occurred with our personal income taxes over the last twenty years. The proportion moves up and down but tends to maintain an average level of $8\frac{1}{2}$ percent of GNP.

Thus, in the simple model and in the real economy tax cuts are possible if expenditure growth can be kept below, say, eight percent. Unfortunately, taxes have been cut while expenditures have been growing at a faster rate. Thus, the current problem is budget control and the Fixed-Budget Approach has been adopted by the Administration.

THE FIXED-BUDGET APPROACH

The hallmark of the Fixed-Budget Approach is that outlays are cut to fit revenues. The priority problem is then one of making trade-offs among competing claims on fixed revenues. There are a number of ways of arriving at those trade-offs. One is to make proportional across-the-board cuts and force the appropriated pieces to fit the fiscally desired total. This process often leads to budget puffing in which each claimant comes in with an inflated request so that he will be comfortable with the results after the final cuts are made.

A second trade-off procedure is to make general nonspecific reductions in one area to accommodate either general or specific increases in another. For example, in examining the 1975 budget Congress might decide to transfer some billions from defense to domestic programs and leave the precise determination to the appropriate subcommittee.

Congress could also package specific trade-offs to remain within a pre-set budget total. In this case, Congress might decide to trade off part of the operating budget of, say the Navy with that of, say, urban bus lines. It costs about \$65 million a year to deploy a non-nuclear tactical aircraft carrier in a forward position (without considering its planes or support ships). It costs the Washington Metro system over \$30,000 annually to run an average bus. Thus, Congress could decide between deploying the carrier or running 2,000 free buses. Or it might examine capital expenditure trade-offs and compare the one billion dollar cost of a new nuclear aircraft carrier with the \$3 billion cost of a high-speed mass-transit system such as the Washington Metro. In addition, Congress might wish to place military and health manpower in the balance; or consider whether our foreign policy objectives are best served by research and development directed towards defense purposes or towards solving our energy problems.

It appears that Congress now employs the Merit Approach while the Executive operates with some form of the Fixed-Budget technique. Many observers think this is the reason for the relative inability of Congress to confront national priorities or control the budget. And some observers recommend the creation of an Executive Department analogy within Congress. They recommend, for example, that some new Joint Committee on Priorities be the Congressional counterpart of the President, evaluating the overall totals and making the hard choices among conflicting claims. Similarly, some new analytical agency is suggested as the Congressional counterpart to the Office of Management and Budget.

A Joint Budget Committee supported by a strong and competent analytical staff is a necessary addition to the nation's priority-setting machinery. However, there are some reasons why I would suggest that they assume responsibilities that differ from those of their Executive Office counterparts. First, my experience at the Office of Management and Budget suggests to me that Congress could improve on the way in which priorities are set in the Executive Office. Second, I think that compromises by Committee are even less likely than the Presidential decision process to confront the hard questions. Third, there are some advantages in having the Congress play a role that is somewhat different from that of the President. And, this role should offset the weaknesses that are inherent in the Fixed-Budget Approach.

Under the Fixed-Budget Approach there is one simple and one complicated decision. The "simple" decision determines the total size of the government sector and the "complicated" decision divides this total among the various government programs.

The difficult part is trying to reconcile the simple and the complicated decisions. If the decision is made to increase overall government spending by eight percent

and one subcommittee wants to increase theirs by 12 percent which subcommittee is going to make room? The question is hard to answer for both technical and institutional reasons. The technical problem arises because we really have no analytical tools to make trade-offs between, say, weapons and mass transit systems or between education and health. At best, tools such as PPB or cost-benefit analysis can help within a function. It can analyze the trade-off between buses and mass transit or carriers and submarines—but not between, say, buses and submarines.

The institutional problem arises because there is no single authority in Congress that can arbitrate among the different claims in the way the President can for the Executive Branch. Even more importantly, there are few incentives for subcommittees—or their representatives on a new Priorities Committee—to reduce their spending so as to accommodate the bigger programs that other subcommittees wish to approve.

Controllable budget outlays in fiscal 1974 are estimated at \$75 billion, or less than six percent of GNP for that year. Under the Fixed-Budget Approach the funds for a national health insurance system or welfare reform must be found within the \$75 billion. Under the Functional Approach, which I will describe next, it would be easier for Congress to change taxes; up if they wish to accommodate new programs or down if some expenditures could be cut.

THE FUNCTIONAL APPROACH

In the simple model that I discussed earlier, revenues increased by eight percent annually. The Functional Approach creates an incentive for a subcommittee to hold its expenditure increase to less than eight percent and get credit for the resulting tax reduction. Or another subcommittee could ask for more than eight percent and propose a tax increase. Let me emphasize that the changes would have to be in tax rates and not the debt ceiling so that the fiscal position is not compromised by the spending decision.

Thus, the Functional Approach presupposes that there are a number of semi-independent functions—health, transportation, defense, and so on—and a number of semi-independent decisions—the amount of public spending for each function. Of course, the fundamental problem of making choices cannot be avoided no matter what approach is taken. In the final analysis, there is a limit to the number of aircraft carriers and mass transit systems the country can produce at one time. Thus, the need remains for a Priorities Committee, supported by an analytical staff, to establish fiscal policy, point out workable trade-offs within the public sector, and monitor the overall size of the government. The recommendations of the Joint Study Committee on Budget Control¹ appear, at first reading, to accommodate the Functional Approach quite well. And I would like to say in passing that I think the analysis presented in that document is really very good. The question at hand is how to make the approach best serve Congress so that the nation's economic output better reflects its priorities.

The offsetting tax increases and decreases of the Functional Approach could be instituted in the simple model by providing an itemized account to each taxpayer. This new attachment to the 1040 Form would show which functions of government were increasing and which were decreasing his taxes. The Functional Approach might work even better in the real world with its number of different revenue sources. For example, if Ways and Means decides to change social security benefits they can do so under the Functional Approach by changing social security taxes. As long as the social security system is on a pay as you go basis—as it is now—these changes need not disturb the rest of the budget.

Other earmarked taxes used for broad functional purposes would make revenue and expenditure trade-offs more explicit. In fact, the ideal system for developing national priorities might be a tax and legislative system organized around broad functions such as health, education, income security, and so on. The Transportation Subcommittee would then weigh mass transit against autos—not against nuclear aircraft carriers. Perhaps their taxes would be gasoline and auto excise taxes.

Earmarked taxes have long been a subject in the public finance literature and are generally anathema to budgetmakers. The Highway Trust Fund is frequently pointed to as the worst example of the rigidities caused by earmarking funds

¹ Joint Study Committee on Budget Control, Recommendations for Improving Congressional Control Over Budget Outlays, U.S. Government Printing Office, Apr. 18, 1973.

for a special purpose I have only two comments. First, the existence of the Fund doesn't really limit the Administration as much as may be thought because of the fungible nature of revenues. For example, the 1974 budget calls for Highway Fund outlays of only \$4.7 billion compared to receipts of \$6.0 billion. Cutting impacted aid to school districts may be just as difficult as cutting highway expenditures even though there is no trust fund behind that program. Second, the rigidities that do arise come about because Highway Trust Fund revenues are used to provide a narrowly-defined input—i.e. highways—and not a functionally defined output—i.e. transportation.

Each of these three approaches to budgeting can be described by some simple arithmetic. In the Merit Approach the deficit equals outlays minus revenues and changing outlays changes the deficit. In the Fixed-Budget Approach trade-offs must be made so that outlays are set equal to whatever revenues are generated by existing taxes. In the Functional Approach revenues and outlays for specific functions are considered simultaneously so that revenues are made to equal outlays.² Of course, all the arithmetic is equivalent and inescapable. The important question is which approach to the budget will best serve the policymakers and the nation.

Chairman PROXMIRE. I want to thank all of you gentlemen for an enlightening presentation. I think you have answered my first question to some extent, but I would like to be a little more precise and see if I can find out just how much mythology and how much reality there is in the trade-off process in the executive branch.

Almost everyone agrees that Congress ought to have a mechanism for weighing the merits of relative claims and programs and deciding which ones to approve, which ones to reject. Do we build an additional aircraft carrier or instead of building an additional aircraft carrier do we increase the fund for manpower training or for health or for housing?

Now, Mr. Nathan and Mr. Packer particularly have told us, something about the method of arriving at where the budget will be increased and where it will be decreased but I do not get from you any flavor, any particular rationality involved here.

Mr. Nathan, you said you spent a day with the President, and the President spent, I presume, maybe a day on an important department. That is not very much when you think about it, and I am not sure that I got from you a flavor of how much thoughtful, careful, rationality went into determining whether defense spending ought to be increased, on the one hand, or whether domestic spending for some other programs which have a rival claim on limited resources should be increased.

Can you give me a little more enlightenment on that? To what extent is this really a rational process and to what extent is it a matter of power?

Mr. NATHAN. Senator, I think it is both, and I was impressed by the fact that this process is quite rational and is quite systematic although, of necessity, it is limited only to a few players. The sessions that I know about—

Chairman PROXMIRE. May I interrupt to say, the one advantage, clear and distinct and irrefutable, is that the executive branch has one authority, the President of the United States, who makes the decision. Congress has 535 masters of more or less equal authority, and they try

² Throughout this paper, references to balance between outlays and revenues should be taken to mean the fiscally appropriate balance between full-employment outlays and revenues.

to make their decision collectively and they disagree on almost everything.

But I, having known our past Presidents, some of them better than others, I do not think that their judgement is necessarily better than the individual, let alone, the collective judgment of Congress. But go ahead.

Mr. NATHAN. Well, I think probably the most helpful thing I can do is say a little more about the process and how it operates.

Chairman PROXMIRE. All right.

Mr. NATHAN. The sessions that were sort of the starting point in the new budget, which come in the summer, take maybe a total of 3 days with 1 day, let us say, on the overall, 1 day on the defense and international side, and 1 day on the domestic.

Chairman PROXMIRE. Now, overall means that you decide on the ceiling, you decide on the wisdom of whether or not you have a surplus or a deficit and, therefore, how high it can be?

Mr. NATHAN. Right. And, therefore, how large it should be and defining and refining the concept of full employment and how it—

Chairman PROXMIRE. In the last budget they did not take more than 2 minutes to arrive at the ceilings. They took the full employment balance and that is projected and calculated on the basis of work that the Council of Economic Advisers, I presume, has done for some time, they come in with that and that is where the ceiling was in 1973 and the 1974 budget and I think the 1972 budget, too.

Mr. NATHAN. It was in 1972 that the administration first defined and worked out the full employment—

Chairman PROXMIRE. Right.

Mr. NATHAN [continuing]. Budget concept and so the overall part of the budget review in that particular year took longer.

Chairman PROXMIRE. I see.

Mr. NATHAN. I think you are probably right in subsequent years it was not necessary to spend as much time once this concept had been identified and was used as a guide.

Chairman PROXMIRE. But I certainly question the wisdom of that notion that it should always be more or less at a balance. In fact, they project in the next 3 years, as I understand it, as I read the budget, that they would have, they expect the economy to grow at about 7 percent so they expect, that is, inflation and real growth both, so they expect the budget to grow at about 7 percent. That seemed to be the rationale behind their projections.

Mr. NATHAN. Well, that is another question. I am not prepared to respond on the extent to which I think we should hold to a full employment budget concept. I think it was in 1972 a very useful device, and that it remains basically a good guide with the reservation that I want to make that it terms of precise definition, if that was a subject we were wanting to go into, I would want to think about it further.

Chairman PROXMIRE. There is one simple approach that the economic profession, I would think, would suggest and that is when you have an economy that is expanding too rapidly and you have a very tight inflationary situation that you would be more inclined to work toward a full employment surplus. When you have an economy in

recession with heavy unemployment, and much vacant capacity you would be working toward a full employment deficit.

Mr. NATHAN. The question of how you define those two concepts though, is one that seems to me you could examine closely and spend a lot of time thinking about. But I do feel that this basic approach for putting forward the Keynesian revolution into a more systematic budget terms that hopefully, eventually can be understood by the public was a very good development. And I would say, too, that it was probably a little bit harder and quite significant that it was done in this way under a Republican administration.

In any event, to give you some additional guidance on the process, the period before the review with the President was spent by OMB officials preparing a very careful and systematic series of chart presentations which showed each major program area, what commitments existed in those areas, and then defined a group of programs which, according to the President's various statements and positions on legislative issues, could be considered to be at the margin so the President and several big pasteboard charts.

Chairman PROXMIRE. It is very, very useful. I see that. But the fundamental assumption is that the President's statements, as interpreted, on going ahead with defense, going ahead with space, holding up maybe in housing or whatever, this is what the Budget Bureau organizes their presentations around. It is like the arguments that computers do not make mistakes, programers sure do. The computer is no better than what the programer puts into the computer. In the same way the presentations of the Budget Bureau may be graphic and accurate in reflecting what they think is the President's view but it is the President's view that is human and may be wrong and may be right and that Congress has every bit as much confidence in their judgment as in the President's. In other words, we are not getting something handed down from Olympus, we have been told to be very careful about touching the budget because if we change it, it is going to throw the budget out of good balance and out of a wholesome relationship between these ingredients.

But this is wrong. Congress has as much right and as much reason to have confidence in its judgment as in the executive branch. Right or wrong?

Mr. NATHAN. Senator, I completely agree with that. I was only introducing information about how the executive branch operates for purposes of answering your question. You raised this question by saying you were looking but not getting information as to whether there was a systematic attempt at the early part of the budget process to look at overall trade-offs in a careful and probing way and to involve the President in that process.

I agree fully these are judgmental decisions; the budget process is very much a political process, and that is how it should be.

I also agree with the others on the panel who have said that the budget process is and should be the central decision process in Government and that we should focus our attention on it, understanding again that it is a political process. All I was trying to do was to suggest that this kind of budget rationality which the Congress seeks

and which I certainly endorse, and I think the joint committee recommends are good recommendations, that this kind of a process does go on and is an objective process. In a sense the Executive, because it is one man, is more able to do this in a small group and there is therefore less known about it than people are going to know about what the Congress does in the joint committee.

But I would certainly want, from my experience, to indicate on the record that I think, taking into account the very political nature of the budget process, that it is rationally developed and carefully focused within the executive branch. It is a very important activity developing the budget. It involves the President and his chief advisers for a considerable amount of time at a very early part of the budget planning cycle.

Chairman PROXMIRE. Let me ask, before asking Mr. Capron, No. 1, you do not start from a zero-based budget and work up; No. 2, there is no rational basis to judge between defense and other items; and No. 3, the examination appears to be open at the margin, that is another way of saying it is not a base budget. Are all those observations correct?

Mr. NATHAN. The first observation I am not sure I would agree with. When you refer to zero-based budgeting, I would say it is not an accurate characterization to say budgeting is only done at the margin. The 1974 budget is certainly proof of this point; namely, that the administration, in answering the questions, has not only made changes in the margin, but has also made changes in what were previously thought of as the uncontrollable base of many programs. So I think to a significant extent, although not as full an extent as some experts might advocate, that the budget is looked at in terms of total program activities.

Chairman PROXMIRE. Well, I would agree, and I am sorry, I want to take one more moment here, Mr. Capron, I agree there was some cancellation of programs but there was not any zero-based budget analysis, at least, we have not been able to get any. We asked them why did they cancel a program. Well, they give us an excerpt from a Romney speech or they give us some other kind of propaganda. They do not give us an analysis that indicates that on the basis of the cost-benefit study on the basis of considering alternatives for achieving objectives, on the basis of considering the objective itself and dismissing it as not worthy of the resources necessary to accomplish it, there is none of that that we get on the 1974 budget.

I wish we could show you, maybe you have seen some reports in the paper, but show you what we got from Caspar Weinberger when we asked him to justify the cuts. He did not have any justification.

Mr. NATHAN. The only point I was making was to a considerable extent this probably ought to be regarded as zero-based budgeting. It seems to me that what you are saying is that the analysis which goes into decisions about program determinations is not adequate and, in some cases, I would have to agree with you that statements made in the budget are really summary statements. I have not seen the justification materials from the agencies so I am not in position to pass judgment on them.

Chairman PROXMIRE. Zero analysis instead of zero-based budget.
[Laughter.]

Mr. Capron.

Mr. CAPRON. I am embarrassed that you should apologize to us, Senator. We are here to help you.

Chairman PROXMIRE. No, you wanted to come in earlier.

Mr. CAPRON. But forgive my impatience to come in because I have several comments to make on your dialog with Mr. Nathan.

First, I think you are quite right that the overall expenditure total is a 2-minute decision but only if the President has already or simultaneously decided that there is going to be no change in taxes or in tax laws. They have a revenue projection with existing tax laws. They use their fiscal policy analysis and then the expenditure total is a 2-minute decision. Under these ground rules it is not a very difficult decision.

Chairman PROXMIRE. Is the 2-minute decision based on the fact that you do not need a surplus or deficit? On a full employment budget you come in with an analysis, it is somewhat similar to the Friedman approach on monetary policy, you cannot foresee the future well enough, you cannot forecast it. All you can do if you try to forecast it is make mistakes and his analysis of the Federal Reserve monetary policy has established that at least to my satisfaction except possibly in very recent years.

Mr. CAPRON. My point is more general. If you are going to make an assumption you are not going to make any tax changes then you have a forecast—the President himself obviously does not do any forecasting, he is presented with a forecast and a set of recommendations from his economic advisers as to what the right fiscal policy is. The expenditure total falls out of that. Now it may be, in their judgment, that it should not be a balance, they may go for a deficit or a surplus in the full employment budget depending upon their reading of the situation. But if you fix one of the three variables, revenues, and then make your judgment about the second, that is, the desired deficit or surplus then total expenditures fall out of that calculation.

Just a couple of other quick points on this. In my experience which, as you know, was in an earlier administration—but things do not change very much from what I have heard Mr. Nathan and others say—the process at the Presidential level is an interactive process though there are a few crucial decision points; reexamination takes place through the whole budget year.

Senator Proxmire, you put your finger on the main difference between the Congress and the President and it makes all the difference. The trade-offs are not made by analysis—the big trade-offs—defense, nondefense or health service versus education. Those are “gut” value judgments. It is very easy for one man to make his decisions because he knows what his value set is, he does not have to debate his priorities with anyone when he is making these decisions.

Now, later he obviously will have serious debates about priorities and trade-offs with the Congress, but not at the time he is making his decisions, and that as I say, is the biggest single difference between Presidential and congressional basic decisions on the budget.

I would like to say just a word about the role of analysis. One, I am not quite as sanguine as Mr. Nathan is. I think we have a very long way to go to do decent analysis and to develop a real hard look at alternatives within a program area where I think analysis does have a role to play.

Analysis does not make the big trade-off decisions, but if it is well done it informs those decisions. You can make a better judgment about whether you want to put more in health this year or more in education if what is going to happen with the more that you might put in either has really been carefully looked at in a rational, hardheaded, analytic way.

We have a long way to go, especially in the social program area, because these are very mushy programs from an analytic point of view. The outputs are so hard to measure, to put it very briefly.

I have one concern in this regard more specifically, and that is—

Chairman PROXMIRE. Is that not a pretty broad generalization to provide for the domestic programs? There are not a number of them—

Mr. CAPRON. Oh, yes, sir.

Chairman PROXMIRE. There are really precise measurements precise enough so you can get some feeling. For instance, I have seen benefit-cost analysis of education programs that indicate that some of them are good, some of them are bad in terms of benefits, and alternative programs that would indicate which would have the best payoff, the same with health programs and, of course, space programs and so forth.

Mr. CAPRON. Yes, I do not want to denigrate analysis, I am strong for it. My business now is helping to train young people, some of whom are going to become policy analysis. But I think that we should not oversell ourselves on what analysis can do for us at this point in time. Judgment by the Congress is always going to be necessary no matter how many of the analyses prepared in the executive branch come or are made available.

Chairman PROXMIRE. Yes. All I am trying to bring out is there is no magic in the Executive judgment which makes it superior.

Mr. CAPRON. No, of course not.

Chairman PROXMIRE. And, therefore, unchallengeable by the Congress.

Mr. CAPRON. I would just like to make one particular point on this setting priorities, and that is that I personally have been disturbed at what seems to have been a pattern at least in the last decade when I was on the inside, and since then, and that is, that there is—I do not think it is overt—a view that we must make sure that we are giving everything that defense could possibly want before we concern ourselves with how much we can put into domestic programs.

Now, national security is obviously terribly important and does have a very high priority. That is different from saying though, that we are going to look at the defense budget in a very generous posture—which I think has been the pattern, not just in this administration but in previous administrations—and then to what is left over, we can use domestically. I repeat, I don't think this attitude is ordinarily overt. I cannot quote anyone as ever having said that. But the pattern at the

Presidential level has, I think, too much tended in that direction and, indeed, some of the sharp divisions on the Hill occur because some Members of Congress hold this view while others do not.

There are some very important members of both houses who, I think, really make their judgments in this mode, that is, let us give defense everything it can use and then we will worry about domestic programs, and I think that the trade-offs ought to be made on a much more even basis than they seem to be by many people.

Chairman PROXMIRE. How about that, I would like to ask Mr. Packer to follow up on that. In your statement you make some very interesting comparisons between military and civilian systems but I wonder if this is not like comparing apples and oranges. Aside from personal taste or individual bias, is there a rational, factual way to measure the relative costs, benefits, and advantages to the Nation as a whole of such different things as military and civilian programs or activities or is that, as Mr. Capron said, a gut judgment rather than a matter of analysis.

Mr. PACKER. I think, except in very special situations it is a gut judgment and it will always be a gut judgment. We really have no way to compare, as I say, an aircraft carrier and a mass transit system.

Chairman PROXMIRE. So the President would decide that the budget, the defense budget, takes the wish list that has been submitted to Secretary of Defense and, I presume, at some time he and the Secretary of Defense confer to where and how they might be able to work that into a lower level because I am sure it always comes in higher than we can possibly provide, and then they decide what can be deferred, perhaps, to the future, but they do not say if, for example, in 1974, the budget is increased by \$4 billion for defense, although the Vietnam war is over, and many other programs are cut back below the increases that they had anticipated, that is not done on any trade-off basis. It is just done on what Mr. Capron has referred to as a more generous attitude toward defense perhaps, is that right?

Mr. PACKER. No, I think it is more complicated than that, and I would say that the 3-day meetings in San Clemente or elsewhere are just the tip of an iceberg. When I worked at OMB I worked in the Troika so I saw the process from the revenue numbers right on through to the end.

Generally, the problem was that, though we had a wish list, there never was any room for any wishes; instead cuts had to be made. What was done went as follows: Early in the spring revenues were estimated; in the last few years these were full employment revenue estimates, as you have suggested. At the same time OMB developed what they thought were built-in expenses. Those were the programs that were there, such as social security, and Presidential initiatives like revenue sharing before it was passed. There was even a category for Congressional threats and at one point probabilities were assigned to those threats. These were Congressional programs that the administration might not care for but looked like they were coming anyway. When we added up the outlay numbers that were presumably unavoidable we generally found that they exceeded the revenue numbers. So instead of a wish list it was cut.

The President—

Chairman PROXMIRE. When I say wish list I am talking about the list submitted by the Army, Navy and Air Force to the Secretary of Defense as to what they would like to have.

Mr. PACKER. We once did have a list called the wish list, it was a domestic wish list.

Chairman PROXMIRE. I see. But there also is that process of the military, various military, branches saying what they want.

Mr. PACKER. That is correct.

Now, also the President had previously made decisions on, for example, the volunteer Army in Defense and this was considered inviolable. That was there.

Then the President was usually given the two numbers, the defense number and the nondefense number, and he would allocate the cuts between those two areas. At one point it seemed that the defense budget was under as much strain as the nondefense number. I do not know if that is still the case and I somehow doubt that it has been the case in the last year or two. But when the 1971 budget was prepared and when the 1972 budget was prepared there was considerable pressure on both the defense and domestic sides. The President knew what was left to be cut on the margin. But the final cut was not the basic decision on the budget; the volunteer Army decision, the welfare reform decision, the revenue sharing decision, which were the big decisions, had been made during the year. So that maybe 80 to 90 percent of the decisions were already made before the President came into those San Clemente meetings.

Chairman PROXMIRE. In his testimony 2 days ago, Murray Weidenbaum suggested that a planning budget consisting of broad functional categories, rather than the program-by-program breakdown now employed, would help shift the focus of attention from the bits and pieces, the small details, to the major choices involved in the budget. For example, Weidenbaum points out that the implied priorities in the 1975 budget, using a functional breakdown, show that the increase in outlays is going mostly for public welfare and national security, with only a relatively small increase for economic development. In addition, the increase for the public welfare category is mostly for medicare and social security and, of course, the increase is because they are both uncontrollable.

I have two questions in that respect. First, do you agree with Weidenbaum's recommendation that functional categories be used in the budget planning process before looking at the "bits and pieces" of program requests and I ask Mr. Lewis to lead off on that.

Mr. LEWIS. I am not too sure that attempting to budget by functional categories would be helpful. The functional breakdown of budget expenditures, of course, has always been available. The President's budget has included a functional classification of expenditures from time immemorial, although sometimes the functional classification changes. But I do not believe the budget can be made or executed in terms of functions. I think it is interesting and useful to look at that.

Chairman PROXMIRE. I do not know if you were the one but we were advised by some members of the panel to get away from too detailed and precise an analysis of the budget and getting bogged down on debating the \$500,000 and \$200,000 items and not devoting our ener-

gies to the functional categories. If it is functional categories we can analyze them and apply them.

If Murray Weidenbaum's analysis is right we are devoting more to public welfare than we are devoting to programs that can enable people to establish skills to be able to get on their feet and get a dignified job. Maybe this is where we ought to put our money and we can persuade our colleagues to take it easy on some of these uncontrollable expenditures in 1976, somewhere down the pike somewhere and move more vigorously into manpower training or other areas.

Mr. LEWIS. Perhaps. I think a case can be made for the proposition that there are too many appropriation accounts, too many individual appropriation accounts, and some consolidation of accounts into slightly broader accounts could be done.

But there is no way that the Appropriations Committees can act on a budget that is really too broad a level. There is no way—

Chairman PROXMIRE. I am not asking that we have something where we can have an immediate action, put in a change directly but, as I say, if we understand, and there was a dramatic analysis by Weidenbaum, showing that, I think, what was it, 50 percent of the increase was in public welfare, another 25 percent was in security and that left 25 percent—25 percent for everything else, and very little that really strengthens the Nation's economy or society.

Mr. LEWIS. I think it is very useful to make this functional rackup. A functional rackup is made in the executive branch several times during the year as the budget is being put together. What has been decided up to that point is classified functionally to see what is happening by functions. I think it is very worthwhile having a look like that. It may say, for example, that all the increases is in defense and welfare. And that can raise a question about whether you want to have that mix of spending.

Chairman PROXMIRE. Are you saying it is a conscious decision to ignore economic development and put three-quarters of our increase, of our resources into welfare and into national security, is that a conscious, deliberate decision or is it something they blunder into because of the nature of uncontrollable expenditures?

Mr. LEWIS. I would submit that the President is very much aware of that functional breakdown of the budget and the functional breakdown of the changes in the budget. I think he was very much aware of that when he did it. But if you do not like that allocation, in order to translate that into budgetary actions, it does not suffice to say that we should have, say, less welfare and more education. It has to be brought down to the level of specific programs and appropriations.

Chairman PROXMIRE. It is hard to know what the President is aware of, we are all conscious of that with respect to Watergate, and even if he is aware of it we are not sure that that makes it right.

Did you want to say a word about that, Mr. Packer?

Mr. PACKER. Yes; I do. I would think that the Congress could serve a very important role by establishing a strategy for each one of these major functions. I would go beyond Professor Weidenbaum and say that it should look at a strategy for health, for example, whether it is budget dollars or tax subsidy dollars or interest subsidy dollars.

Back in the 1972 budget we did try to do something in budgeting in which we looked forward to 1975, said how much of the economy might be devoted to health, how much of the economy—

Chairman PROXMIRE. I am glad to hear that, that is very encouraging, your recommendation there, and to do this we need a tax expenditure budget more front and center from the Congress, do we not, so we realize how much, as you say, of the economy we are directing into these areas not only through appropriations but also through tax concessions of various kinds.

Mr. PACKER. Yes, it should be encouraging except in the latest budget—

Chairman PROXMIRE. It is encouraging that you are looking at it, not encouraging as to what is happening.

Mr. PACKER. Well, what is discouraging is that people are no longer looking at it. The 1972 sectional analysis received so little attention that the 1974 budget no longer contains that sort of analysis. But that analysis tried to project how much of health expenditures for example, would be State money, how much would be private money and how much would be Federal money.

Chairman PROXMIRE. Will you, for the record, we would like to have it, find out where that 1972 analysis was?

Mr. PACKER. In the fiscal 1972 budget it was pages 58 to 68.

Chairman PROXMIRE. Very good.

Let me get on something else quickly, the time is slipping by and I have many questions here. Yesterday's Washington Post has a story about the new reorganization at the Office of Management and Budget. The major changes is that OMB is being restructured for a single-minded purposes of achieving the President's priorities. Now, in the process of bringing new men into the Bureau, veteran professionals like Sam Cohen and Dwight Ink being pushed out.

What most concerns me is it appears OMB will not be used to push whatever the President thinks is important without taking into account the priorities of Congress as implied in legislative enactments. Who would like to comment on that?

Mr. Nathan.

Mr. NATHAN. I would like to comment on a couple of the points you have made, Senator. First of all, I think particularly in the case of Sam Cohen, who is one of the real geniuses and great assets of the budget process and has been over a very long time, that there are other reasons that he is not going to be continuing at OMB. I am quite certain from what I know about the feeling of people in the Agency that that is very much regretted.

Second of all, what is being done in this reorganization—

Chairman PROXMIRE. Very much regretted by whom?

Mr. NATHAN. By, I feel quite certain, Senator, that it is regretted by, all of the top officials in OMB today.

Chairman PROXMIRE. Including Mr. Ash?

Mr. NATHAN. I believe that is true, Senator, yes.

Chairman PROXMIRE. The same for Dwight Ink?

Mr. NATHAN. I am not as clear on what has been happening on other personnel changes but I know that Mr. Cohen's contribution particu-

larly is a tremendously important one and that he has been an extremely valuable person to that Agency. I think it is widely felt in the Agency today. I wanted to indicate this in response to your comment about him.

Beyond that, Senator, it seems to me that in describing the reorganization of the Agency what is most important is the continuation toward a pattern that was really initiated by George Shultz when he was Director of OMB, which was to set the assistant directors of OMB, and Mr. Capron was an assistant director before this pattern was established, and I was there as an assistant director in the transition, but to have the assistant directors be in charge of functional areas, where you have an assistant director for human resources, one for natural resources, one for defense, one, I think, now for economic affairs. I think that this is an extremely good way to organize the Agency, that it makes the Agency more efficient and facilitates good process in terms of connecting up the budget staff with the White House policy staff on major domestic issues, and on major issues across the board.

I think that is very important. I would add two things; one, that the functional breakout of the assistant directors is the important thing to look for and I think that is desirable from my own experience and, second, I would reiterate that I think Mr. Cohen is not being pushed out from what I have been told.

Chairman PROXMIRE. Let me ask Mr. Capron this question from the viewpoint of one who sits here in the Congress rather than one who sits in the executive branch. The President in a letter to the Department—I am reading from the article now to the department—agency head signalling the start of the new drive, what he called a sharper focus on results of Federal programs, directed each unit to give particular attention to objectives which you consider to be of Presidential level importance.

Now, as I said in my previous question, I am concerned that it will be the President's priorities here rather than the determinations by the Congress, what we have enacted into law as indicating where we think the resources should be spent. We have the constitutional authority and power, we have control of the purse. The President is supposed to faithfully execute the laws which we pass, we are supposed to have that authority. If the President is going to move in this way and substitute his own or is there some other interpretation you would give that letter of President Nixon.

Mr. CAPRON. I should say that I have not seen the particular announcement you are referring to in that story.

I would like to make a couple of observations. I would certainly be appalled if the interpretation that you suggested as to the meaning of this thrust means—

Chairman PROXMIRE. Give the interpretation that you would like to—particular attention to objectives which you consider to be of Presidential level importance. This is from President Nixon's letter.

Mr. CAPRON. Yes; if that is translated into meaning that the President is not going to discharge his constitutional function of faithfully executing the laws which are made by the Congress then I think it raises very serious questions of the relations between the two branches.

But let me put this in context. Inevitably OMB, in its work, is going to be responding to Presidential priorities. It is an agent—I think quite appropriately—of the President, and he is the boss.

The concern that you are expressing is that President Nixon can be interpreted as saying that he is going to pay less attention to the will of Congress as expressed in the laws that are passed, and specifically in the budgetary actions that the Congress takes. This reinforces my warm feeling about what I understand to be a principal recommendation of the Joint Committee to Study the Budget, namely, that the Congress must—since OMB belongs to the President, and it is going to continue to do so, and, as I suggest in my statement, I think it would be a great mistake to change that relationship—the Congress has got to arm itself so that it can carefully review and change, where it feels change is appropriate, the recommendations coming to the Congress from the President.

Chairman PROXMIRE. You see, the power and authority of OMB has evolved and increased over the years. You gentlemen, I am sure, are far more aware of that than I am because you all served in the Office of Management and Budget and you understand its limitations and also its powers. But the spending power, the authority to determine where the appropriations are to go, or the authority over outlays, if we want to exercise it, is a congressional authority, as I understand it, from the Constitution.

Let me just quote what Mr. Ash said, he said, this is Mr. Ash now, not President Nixon, Mr. Ash, the Director of the OMB, he said:

We have to set specific targets. Every agency has hundreds of goals and objectives. Some of them are of importance to the President, most are not. The President may have 100 things he wants to accomplish in a year. We are going to help the President do it by focusing the agency's attention on his priority goals.

Now, I do not want to pick a fight or try to see an adverse situation that is not there, but this seems very explicit and clear, and if it is the President who is going to decide the spending priorities, and that is what Mr. Ash is talking about, it would seem that there is a clear additional erosion of congressional authority.

Mr. CAPRON. Senator, you yourself, I think, have most clearly recognized in what you have urged on your colleagues, that the "guts" problem here—and the whole impounding issue is a reflection of this—will persist as long as the Congress refuses to impose fiscal discipline on itself. This is not what I consider really a constitutional but political issue: the President, putting it bluntly and crudely, has you by the "short hairs."

Chairman PROXMIRE. You are absolutely right. What I say is we have to have a ceiling. Now the Senate did pass a ceiling by an 84 to 6 vote, \$268 billion for outlays in 1974, in other words, \$700 million below the President. That has not become law, it is part of a bill that might be dropped off in conference but I think that sentiment will be reflected with the same degree of stringency in the House.

Mr. CAPRON. But to be effective that must be reflected in the actions of the Appropriations Committee.

Chairman PROXMIRE. Not just the Appropriations Committees. Last year the Appropriations Committees cut the President's recommendations by \$5 billion, they cut it for the last 25 years, every President. We have gone ahead, and moved ahead, of the President in other areas, contract authority, some of the other areas where the committees have not been under the appropriation process but, at any rate, I think this year Congress is determined to do that.

Now, I may be wrong, it may be that the Congress is going to ignore its ceiling and get out of bounds and then I will be with the President. I have been for impoundment right along. I probably have been the only northern Democrat in favor of impoundment. I was when President Kennedy was for impounding funds for an additional wing of B-52's, and I am now.

Until the Congress asserts its responsibilities for a ceiling limiting spending, but we have this directive from Mr. Ash of the Budget Bureau to give priority to the President's—I mean, to give action to the President's determination of priorities. He directs his budget bureau, "We are going to help the President do it by focusing the agency's attention on his priority goals as far as spending is concerned," I realize that the Budget Bureau is the President's agency, and up until now the Director has not even been required to have Senate confirmation. He is the President's man. But I do feel if this is applied this way, in view of the whole record we have, impoundment and so forth, it means we have another distinct, clear erosion of congressional authority over the purse.

Mr. Lewis, you wanted to comment.

Mr. LEWIS. Yes; I wanted to say that, on the one hand, I think this President has shown a willingness to push to the very limit of his constitutional powers, and maybe even a bit beyond, and I guess the courts agree with that in this with respect to the community action program. Nevertheless, there are no taxes collected and no expenditures made except as authorized by Congress. People would go to jail if that were not the case. So somebody has to set the priorities.

I think the problem is, as Mr. Capron has said, that the Congress has given the President too rich a diet of appropriations and other authorizations to choose from.

Chairman PROXMIRE. Good. We might have some recisions of some of those appropriations that we have had in the past that are available to him to spend if Congress is going to get effective control. Be much more strict on transfers which we now permit the chairman of the various appropriations subcommittees to approve if he wants to go along with what the agency wants. When you have that request for transfer you usually have a subcommittee chairman who is, if not a patsy, at least a warm friend of the agencies involved in most cases, and you have a situation where the transfers are more likely to occur. So maybe we should require a full supplemental appropriation instead of simply permitting that transfer authority and move in that way, is that what you are suggesting?

Mr. LEWIS. That is one possible step: yes.

Chairman PROXMIRE. I understand that a number of these programs are being done without OMB approval, too, these transfers, and I would think that OMB approval should be required.

I agree with most of what you gentlemen have given me this morning, I do not mean to be hostile. But I think we must beef up our ability to examine the executive budget.

We should use the GAO to a greater degree, I think that is right. But I have doubt about multiyear appropriations and authorizations. One of the things about annual appropriations, that way we have oversight every year, the agency heads have to come in and testify and justify.

So let me ask you about some specific items. Mr. Capron, you say in your prepared statement that Congress should set an expenditure and revenue total under which it would commit itself to act during a congressional session.

Now, I agree that we must set both an appropriation ceiling and an outlay ceiling on Presidential spending.

But our problem is that we really do not control outlays now. The President controls them. All but about \$120 billion of the \$268 billion next year will be from previous appropriations, trust funds, interest payments, et cetera. So to that degree that there is control, the President controls spending. He controls outlays. Any limitation is a limitation on him, not a limitation on us. Thus, if we are to impose fiscal discipline on ourselves as you call for—then we must get back control over spending.

Is that not correct?

Mr. CAPRON. I agree.

Chairman PROXMIRE. Would not your multiyear authorization and appropriation weaken that ability?

Mr. CAPRON. No, sir; I do not honestly think that it would. Obviously, let me just clarify a couple of points. I would assume that the Congress would still continue to approve all major projects. For example, in the public works area, and in the weapons procurement area, I am persuaded that Congress should continue to specifically authorize those so that I do not think that my proposal should be understood to say that the Congress was going to start writing even "blanker" blank checks than it does now.

Also, as I point out, the Congress should and would retain the right at any time to rescind or cut back action that it had already taken, if it thought something was out of hand.

Chairman PROXMIRE. There is something about that requirement that requires you to hold the hearings, to get into these things, to think about them, to require the agency to justify them, that is pretty wholesome. We have so much to do and there are so many distractions in the House and Senate, that we just are not likely to get around to it unless they are scheduled each year, although we can act, I agree.

Mr. CAPRON. Exactly my point, sir. The demand on the Congress and its committees are so large now that many of these annual actions are perfunctory and superficial, and the Congress is actually dissipating its power to really assert control over outlays.

I do think that it is very important that the Congress reexamine, as you suggested a moment ago, how it gets control of balances that are carried over from 1 year to the next. This has grown to be a more and more serious problem as far as congressional control over outlays, and I think that this can be done by revising the appropriation lan-

guage that is used so that appropriations explicitly take account of unobligated balances which ordinarily today they do not.

Chairman PROXMIRE. All right. Now, Mr. Capron, I just came back from my State and I can tell you that the people out there are very, very concerned about the casual remark apparently that Mr. Stein made the other day about the possibility of a tax increase. To have a tax increase on top of the present inflationary drain that they are suffering on their income is just too much. How can you justify tax increases even in times of inflation when the tax burden overall is extremely high, especially by historic standards? Mr. Burns testified to that before the Budget Review Committee about a month ago and pointed out what it was around 1929, I think, he said it was around 10 percent, 1940 it was 40 percent, now it is up to 50 percent, he is talking about State and local taxes, and State and local taxes have gone up more sharply than Federal taxes; there is such a waste of funds spent by the Federal Government, at least every budget I have examined; and such a heavy proportion of spending, subsidies, and tax expenditures goes to upper- or upper middle-income groups.

What I am saying is this. Why not decrease spending instead? Increasing taxes hurt the poor and weak and middle classes.

Yesterday, I asked former Secretary of the Treasury Fowler and John Byrnes, both of whom are eminent tax authorities. Byrnes, as you know, was the ranking Ways and Means minority member for years and a very able member, and Fowler was Secretary of the Treasury, the key tax man in our Government, and they both suggested the kind of taxes they would put on would be a surtax. The surtax, of course, does not do anything at all about people who can avoid taxes. They can take advantage of the various loopholes we have. It hits people with moderate incomes hard and directly. So that I would hope that we would find a way of cutting back spending and I would think we can, rather than increasing taxes as the best way to cope with the inflation situation for some years to come, what is your reaction to that?

Mr. CAPRON. Well, there is no question there is a lot of fat in the budget, and quite apart from the fiscal situation of the moment, the Congress ought to be working hard on that. I have been on the record in a number of forums as being strongly in favor of very prompt action to overhaul important parts of the tax system because it is inequitable for all the reasons you have suggested.

I think, however, that the efficiency that you want to achieve by cutting fat out of the budget is not going to come easily. I think further that consideration, at least, of a surtax if that seems to be called for in fiscal terms realistically may be necessary. However, as I have said, I feel that the Congress ought to really get on with tax reform so that when, for fiscal reasons, we need a temporary increase in taxes it will not have the inequitable and unfortunate results which you alluded to.

Chairman PROXMIRE. You are not calling for a tax increase as of now then, are you, or are you?

Mr. CAPRON. I no longer follow the numbers closely, and I do not have a view that I am willing to state even privately.

Chairman PROXMIRE. You know, we are politicians, we run for election, we have to be very sensitive on this. We have had Arthur Okun, eminent economist; Murray Weidenbaum, another eminent economist; we had these two men I described yesterday, we have four outstanding, able men before us today, and maybe the three of you, Mr. Capron has given his position, but they all so far have taken the same position Mr. Capron has taken, well, they do not want to say yes, they do not want to say no. They want to kind of leave that to Congress. We cannot get any advice on this.

Mr. CAPRON. The forecasters, I think, are in a state of some disarray right now. We are in a very puzzling situation. We have got counter pressures working in the system, as I see it, just by reading the newspapers, and I am at least not ready to write a prescription. But this is not my field, I do not claim any expertise so I would defer to others as to appropriate fiscal action at this time.

Senator PROXMIRE. Do any of you gentlemen favor a tax increase? Mr. Lewis. Mr. Nathan, Mr. Packer. Fine. That speaks eloquently.

Mr. Nathan, why should not the executive budget procedures be opened up? If Congress is bad, they are worse. At least we have many of our hearings in public but the entire budget procedure in the executive branch is in secret. Unlike the situation in many States, Wisconsin has a wide open hearing system, Oregon has, many other States have. Only Ex parte testimony is heard in the Federal executive budget process. The fight is by the people who want the money. Little independent, systematic analysis or criticism is heard.

Why not have budget hearings before the President makes his decision, to make them public? When he sends us the budget that is pretty much it. The priority, that is the priority document. We nibble around the edges, why not open it up and also make whatever abundance of data on which the decisions are made available to us in Congress at an early stage?

What reminded me of this particularly was when we had hearings before the Appropriations Subcommittee of which I am chairman, and just a few days ago, and the Space Agency testified, they testified that OMB had cut their budget from \$3½ billion to \$3 billion but they would not tell us why, they would not tell us what priorities were established. They would not tell us what considerations went into that cut. That would be very helpful to us in determining what level we thought the budget was at. Why should this not be public?

Mr. NATHAN. Senator, even though I do not think I said it, you have read my mind correctly on this issue. I do not think the executive budget process should be opened up. As one reason I would say that just the fact that the Congress has its appropriation hearings, both in the Senate and in the House with full justification materials presented at that time, and with printed appropriation hearing record produced by the House of Representatives, I feel generally that there is adequate public information available about the budget process and enough opportunities along the way for different groups to become involved.

Chairman PROXMIRE. You say there is enough?

Mr. NATHAN. Yes, there is enough, I said that.

Chairman PROXMIRE. They certainly do not become involved. You certainly do not get adverse testimony, the Appropriations Committee never gets it. We never get people coming in and saying you ought to cut this budget or even cut items out of it, never. You have to get people to come in. The executive branch comes in and the industries or labor unions come in and say they want more in this area, but we do not get the critics.

Mr. NATHAN. That is the nature of the political process, the people who are against increases stand alone and the people who want more in specific areas are always going to be larger numbers and, it seems to me, that is a very good reason, just the dynamics—

Chairman PROXMIRE. That is not the natural process. Let us change it.

Mr. NATHAN. You will not find it, Senator. Every time a budget item is discussed, proponents of the program in question rush forward to give strong and well-reasoned arguments why—

Chairman PROXMIRE. In Wisconsin the Taxpayers Alliance comes in and makes a good case in many items. They oppose all the large, important independent spending increases and give good reasons for it. They may be wrong often. I have opposed them often, but at least you get a debate, some two-sided discussion in our Federal budget process you just do not get two-sided arguments for more funds.

Mr. NATHAN. My position would be that there is opportunity for hearings and for such witnesses to be brought in, which strikes me as a good idea for both the Senate and the House.

Chairman PROXMIRE. I would like to see Ralph Nader come in and testify on some of these programs. He has been very strongly opposed to them; let Common Cause come in and testify on the defense budget. The other day we had Sol Linowitz, an extraordinarily able man, very successful businessman, who came in and suggested we cut \$10 billion out of the defense budget. He did that on the basis of careful consultation over several months with top defense people, so I think there are people there, if you gave them a chance, if you opened it up, if you solicited, if you gave them public attention that kind of disagreement might merit.

Mr. NATHAN. My reaction, Senator, is that this is what should be done in the appropriation process and congressional hearings. It is not being done, and strikes me as a good suggestion. But on the other side of the coin as to why the executive budget process should not be an open process, I think that there are times at which people in the executive branch need to be able to think about different options without having to have public scrutiny focused on them as to how they react initially to every option or what kind of questions they ask.

Chairman PROXMIRE. Well, you and I know that is going to take place no matter what you set up, that kind of private discussion and meeting and so forth is going to take place before or after the public hearings, but I am just saying at one time there ought to be a chance for the public to be in on the determination of the primary priority document that this Nation has, the Federal budget is the one opportunity that we have, in a planned way to direct our society, to direct our economy, and it is done secretly, it is done with the public shut out,

with no newspaper reports, until you get to the congressional level where the changes are at the margin and are rather slight literally over the years.

Mr. Lewis.

Mr. LEWIS. Are you talking about the President's budget in the executive branch or are you talking about the legislative process?

Chairman PROXMIRE. I am talking about the President's budget in the executive branch.

Mr. LEWIS. I think the President does not view his budget as the budget of the land, he views it as his budget proposals subject to review of the Congress.

Chairman PROXMIRE. Maybe there was a time when the Congress was more self-confident and the President less self-confident. But almost since Woodrow Wilson's time the President has been the number 1 legislator and he certainly has by far the greatest say in what kind of budget we ultimately have and where the priorities are.

No. 1, he proposes the budget with all the enormous power and influence and expertise that the executive branch has. No. 2, he has the veto power. He has now the impoundment power which he exercises. He has all of these various capacities to make his will effective, and yet the fundamental determination is private, secret with the public shut out, and with those who want to give it a balanced view eliminated.

Mr. LEWIS. I have a feeling that might give away even more power to the executive branch than now. The budget document is just the President's proposals. It remains the case that the Congress can raise and lower tax rates; it can refuse to appropriate for his requests; or it can authorize and appropriate for other things. And if it does that within a set of totals that makes sense from a fiscal policy point of view, I would think the President would have to go along with that.

Chairman PROXMIRE. They can but in the 15 years, 16 years, I have been here it has been the President who, by and large, I would say about 90 percent of the time, maybe 95, has prevailed.

Let me ask you gentlemen this, in order to permit Congress to make reasoned judgment on the size of the budget for the years ahead we requested certain information from the Office of Management and Budget recently. This information consists basically of the detailed backup material which is used for the estimate of the so-called budget margin in the budget. For example, we asked for projections of total revenues, outlays, and budget margins for fiscal years 1972-78, year by year; the underlying economic assumptions for full employment receipts for each year; budget authority and outlays for all major appropriation accounts of \$25 million or larger for fiscal year 1972-78, year by year; and global pay and price adjustments broken down into sufficient detail to permit separate adjustments for pay and for price by department and agency, together with the associated assumptions. We also asked for the detailed assumptions for caseload and payment level growth for open-ended programs, such as public assistance.

Now again we are asking, as I say, for the assumptions, not the details, the assumptions behind these things. Would each of you briefly comment on the reasonableness of our request for this data, whether

this committee ought to have this information and whether we need to have it to exercise our responsibilities?

Mr. Capron.

Mr. CAPRON. On the assumption, and I think it is a good assumption, that all the information you have asked for, as I understood the points you indicated, is available, it certainly should be made available. What you are asking for is part of the tools of OMB in advising and counseling the President. Since you are not asking them for their recommendations to the President about changes but merely what certain projections are given present law, taxes, and so forth, I think that this falls squarely—as I said in my statement—within the permissible areas for the Congress to get information. I see nothing that interferes with the confidential relationship between the President and OMB by acceding to this request.

The only caveat I would put on this is that it may be that you are asking for some things at a level of detail that they do not have and that to get them would impose a serious workload problem. I doubt if that is true; given your requests as I heard them and, therefore, it seems to me that this is quite appropriate.

Chairman PROXMIRE. Anybody disagree with that?

Mr. Nathan.

Mr. NATHAN. The last part of Mr. Capron's statement suggests to me or makes me think, I do not think I would agree. I think the kind of request that you referred to involves so much detail and such a special array of budget data that it would involve a very significant workload for the Office of Management and Budget.

Chairman PROXMIRE. Well, they have all that information available.

Mr. NATHAN. It falls within the nature—

Chairman PROXMIRE. They use that everyday themselves, it is there. All they have to do is take the information they have and send it over, the work of one page carrying it. One guy picking it out and bringing it over.

Mr. NATHAN. I would have to look at the rackup but it sounds to me as if it is a very complex and detailed set of tables that would take a very considerable amount of work and would involve not only a considerable amount of work but some definitional questions that would be difficult to deal with.

Chairman PROXMIRE. What do you mean considerable amount of work, two, or three men taking 3 or 4 days or much more than that?

Mr. NATHAN. Much more than that because it sounds to me like what you are asking for in the way of assumptions are not racked up in that form in the Office of Management and Budget and, therefore, they would have to go through all of their various accounts and tables to apply your definitions, and that is a very large job. I do not disagree with Mr. Capron—

Chairman PROXMIRE. What you are saying is some of this data is not available and would have to be developed before presented? But all I am asking is we get the data that is available that they already have at hand. Would that be acceptable to you?

Mr. NATHAN. Well, it is a question, very much a question, of how the request reads and what it requires and how that requirement would relate to the way records are kept.

I think there is information that is background and factual data that surely should be supplied but the question is not one that you can give a simple yes or no answer to without studying the request and the way in which you have defined all of the items that you talked about and listed which sound to me like quite specific items defined in a way different from what is customarily done.

Chairman PROXMIRE. Yes, sir.

Mr. PACKER. I think a lot of the data you asked for are available; on the other hand, others are not. I think that perhaps you should not ask for more detail than they have. For example, pay and price increases are done pretty much governmentwide and not agency by agency. But certainly, since the full employment revenue estimates and built-in expenditure estimates were provided for 1978, in the 1974 budget document, they must have the data for the intervening years. I think it would be very worthwhile to have those data for the years intervening between 1975 and 1978.

Chairman PROXMIRE. That is what we want. As I say, there may be some of this that is not available and it would take too much effort, but what we want really is the information they have at hand. We are not trying to put additional work loads on them. I know it is an enormously busy group and they have what, 500 or 600 people up there, it is not like the Department of Agriculture where you have tens of thousands.

Mr. CAPRON. Senator, just for clarification, the apparent difference between Mr. Nathan and myself may be a difference in our understanding of your request. I thought that you were specifically asking for what they had and what their assumptions were. You were not imposing your own assumptions.

Chairman PROXMIRE. That is exactly right, that is correct.

Mr. CAPRON. And I think that that may help a little bit in meeting Mr. Nathan's problem. You are not asking for a whole new analysis they have not done.

Chairman PROXMIRE. No, no. We want to know what they are basing their recommendations on.

Mr. CAPRON. What their projections are?

Chairman PROXMIRE. Not their recommendations but what they are basing their recommendations on.

Mr. Lewis.

Mr. LEWIS. I had the impression some of the things on your list were not readily available, but then you read it rather hastily and I am not sure. But the comment I wanted to make was I think the record should reflect that this latest budget document has got a great deal more information for years beyond the budget year than ever before.

Chairman PROXMIRE. We have been pressing very, very hard for that, and that is correct. We want the underlying assumptions on which those projections are based, that is all. All right, one final question, I would like to ask each of you gentlemen, I mentioned the recommendations of the Joint Study Committee in my opening remarks. I wonder if any of you have had a chance to look at this report and can give me your reactions to it. Specifically, I am interested in the composition of the Budget Committee which would be established with 21 Members of the House and 15 Members of the Senate, with

very large membership, predominant membership, from the Appropriation and tax writing committees; the authority each of the committees would have, and the way it would proceed to exercise its authority. Any reaction on that?

Mr. Nathan.

Mr. NATHAN. I would say the report is a good one. As for the process they suggest, I generally was impressed with it. I agree with you that it is an excellent report, but it seems to me that there is a problem of that committee not being balanced. I would not myself want to see it enlarged from what I know about how complicated these budget decisions are from previously having worked on the Hill but maybe more than five, I think it is five in the House is it, and I cannot remember the Senate number who will be elected.

Chairman PROXMIRE. From the legislative committees, I think appointed by the leadership.

Mr. NATHAN. The number, it seems to me the balance is—

Chairman PROXMIRE. One-third of each committee.

Mr. NATHAN. It seems to me it very likely ought to be a larger number of people from the legislative committees.

Chairman PROXMIRE. Do you see any reason why the legislative committees should be shut out of the chairmanships? The chairmanships are to be the exclusive right of the Appropriations Committee and the finance, and the tax writing committees in alternate years. The idea being, I suppose, to balance it so we get both inputs of revenues and expenditures. But I am inclined to feel if you want to give equality maybe on the floor we can achieve that. I happen to be a member of the Appropriations Committee but a member of the Budget Committee as an at-large member.

Mr. NATHAN. How is the chairman selected? I did not get it.

Chairman PROXMIRE. The chairman has to be selected either from the Senate Finance Committee in the Senate or Appropriations Committee or the Ways and Means or Appropriations Committee in the House.

Mr. NATHAN. By votes or how is he selected?

Chairman PROXMIRE. It does not state but I presume it would be by vote, that is the way we selected the present chairman of the Budget Study Committee.

Mr. NATHAN. Offhand my reaction would be if it is going to be a process where the chairman is selected by votes and the committee's task is very specifically set to develop budget ceilings in May and again in September, that while I am sure there are political reasons for this limitation, but from the point of view of someone interested in administration, which I am—I do not see why the committee chairmanship should be defined as not available to every person who is selected for the committee. Your reasoning appeals to me.

Chairman PROXMIRE. Mr. Capron.

Mr. CAPRON. I am probably the least expert on the operations of the Congress of those here. I share Mr. Nathan's concern that this committee may have a mix that the Congress itself is going to find not reflecting the views that it wants on that committee. What this may do if the recommendations as written in the Study Committee report were adopted just as they are, is that—particularly on this side

of the Congress—that the real decisions are going to be made on the floor. That is a cumbersome way to make complicated decisions like this, but I would not be surprised if the basic priorities reflected in the minds of the members of that committee, as I understand its composition is going to be somewhat different from a majority of the Senate, as I sense the majority's present views.

Let me be more specific. I imagine that that committee, as I think about the list of names who would play key roles on it on the Senate side, would probably be more generous to defense spending than a majority of the Senate taken as a whole, and the Senate, of course, operates under rules so that individual Senators can be heard, and the body is much more apt to amend and modify what comes out of any committee than is true of the House side.

Chairman PROXMIRE. I think you are right about that.

Mr. CAPRON. I think the concern on the House side may be much more serious. This committee has two big jobs, as I understand it. One is setting the overall totals and the second is setting the kind of basic division of the "pie" on the expenditure side and that is where the guts priority issues are going to be faced.

Chairman PROXMIRE. Well, you know there is a tendency to appoint the senior members of the Appropriations Committee and senior members of the Finance and Ways and Means Committees.

Mr. CAPRON. Yes, sir.

Chairman PROXMIRE. These are, by and large, not always by the conservative members and these committees tend to be more conservative because you have to be a senior member of each body to be on these committees so I think there will be a tendency to be conservative in the ceiling on spending and a little more generous in the area of defense and perhaps space and public works and a little less in some of the programs that we call human programs. There will be that tendency, but it is the price you have to pay for getting some discipline, I think, in the Congress and personally I think it is worth the risk.

Mr. CAPRON. I do, too.

Chairman PROXMIRE. Well, gentlemen, this has been a most helpful panel and I think it is a happy coincidence that all of you gentlemen are experts in the operation of the Office of Management and Budget and that is one reason for the high quality of your testimony this morning.

Thank you very much.

The subcommittee will stand adjourned until the call of the Chair.

[Whereupon, at 12:25 p.m., the subcommittee adjourned, subject to the call of the Chair.]

in the future - that the real decisions are going to be made on the floor. That is a cumbersome way to make complicated decisions like that. I would not be surprised if the basic priorities reflected in the title of the committee, and I understand its composition is going to be somewhat different from a majority of the Senate as I sense the majority's present view.

It seems to me specifically I imagine that that committee, as I think about the list of names, would play a role on the Senate floor, would probably be more generous to debate spending than the majority of the Senate, and the Senate of course operates under rules so that individual Senators can be heard, and the body is much more apt to amend and modify what comes out of any committee than is the case in the House.

Mr. Chairman, I think the concern on the House side may be much more serious. This committee has two purposes, as I understand it, the first being to do what I call "soft" work, and the second is to do what I call "hard" work. The "soft" work is to do what I call "soft" work, and the "hard" work is to do what I call "hard" work.

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