

"The Balanced Budget -- Everyone Talks About It, but No One Does Anything"

House of Representatives, Washington, D.C., June 26, 1961

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SPEECH
OF
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OF ARIZONA
IN THE HOUSE OF REPRESENTATIVES
Monday, June 26, 1961

The House in Committee of the Whole House on the State of the Union had under consideration the bill (H.R. 7677) to increase for a 1-year period the public debt limit set forth in section 21 of the Second Liberty Bond Act.

Mr. UDALL. Mr. Chairman, by ancient tradition freshmen Congressmen are counseled to be seen and not heard. My strong inclination to heed this advice is overcome by a stronger concern about present financial procedures of our Federal Government. Perhaps some impressions of one just in from the countryside might be of interest to those whose knowledge and experience far outdistance mine.

The House is confronted this week with H.R. 7677 which would increase the public debt limit on a temporary basis to \$298 billion. Since World War II, the debt limit has been raised on five other occasions. It has been correctly noted that the debt limit is a misnomer, because the debts of the Government are already incurred and existing. I will support the resolution since I believe that responsible Congressmen cannot put the Treasury Department in the impossible position of being unable to sell enough securities to pay bills Congress has authorized.

At the same time I think we ought to start positive action now to insure that we will never again -- barring war or national catastrophe -- be faced with the necessity of another increase in the debt limit. Let us not just talk about balanced budgets; let us do something.

At the outset let me make this clear: I am proud to be a Democrat in the Wilson, Roosevelt, Truman, Kennedy tradition. Democratic legislation of the recent decades has not led us down the road to socialism. On the contrary it has strengthened the free

enterprise system of this country so that we are the world's great bulwark against socialism and communism.

Free enterprise works best when the Government actively plays its role of referee by effective laws such as those against monopoly, stock market manipulations, and food and drug frauds. Such measures, together with social security, unemployment compensation, old-age assistance, insurance of bank deposits and mortgages, measures to encourage housing, and so forth, have enabled us to cushion the violent economic swings which had earlier discredited free enterprise capitalism.

But new political winds are blowing, and these social gains are in danger. As one fresh from the political hustings I address these remarks as an open letter to my fellow Democrats and to every man who believes that the destiny of our country is progress not stagnation or retreat to "good old days." Responsible statesmen of both parties had a deep concern for people and their problems and we must never lose it. But those of us who support these programs put them in serious danger if we fail to be the leaders who insist on fiscal responsibility and elimination of inefficient and outmoded Government procedures. The answer to budget deficits is not "nitpicking" about the "booze" allowance, nor any shotgun harassment of "bureaucrats." Nor partisan bickering about which administration caused the present national debt. The recurrent problem of the unbalanced budget will be solved, in my judgment, only by responsible, detailed (and sometimes painful) overhaul of the system.

More than \$241 billion of the present national debt is due to our involvement in World War I, World War II, and the Korean war.

Those of us who support programs which stimulate free enterprise and encourage social progress ought to be the leaders in insisting on a solution to the recurrent problem of the unbalanced budget. We ought to face the fact that pay-as-you-go Federal financing is important to our long-range security and prosperity and is the single best weapon against inflation.

The failure of our elected representatives to devise and put in effect a businesslike budget system in my judgment does more than any other one thing to discredit our National Government and the kind of programs which our people need and want.

I believe the people of this great and wealthy country are willing to pay on a current basis the price of our national security plus reasonable programs for the development of our natural resources, and the improvement of our Nation's health, housing, education, schools and highways.

Recent political successes of the right-wing Republicans, and my congressional mail, suggest that there is an increasing resistance to social welfare programs, a feeling that the Federal Government has "gone too far." These people are fortified every time a new deficit is announced. I am asked again and again by intelligent, sincere people why it is that Congress is so anxious to expand old spending programs and institute new ones when tax revenues do not pay for our present activities. An Arizonan writes:

I believe in social security, the Federal highway program, unemployment compensation, old-age assistance and the like, but you Democrats had better do some worrying about a balanced budget before I'll support any aid-to-education measure.

First things should be put first, and it seems to me that Democrats and Republicans in this Congress who favor continued or increased expenditures in the housing, highway, labor, welfare, education fields ought to take a hard look at some basic problems. As Judge Finch of New York once told a man who sought to make gifts before paying his creditors, "We must be just before we are generous."

Let us be reminded of this fact: In the 29 fiscal years prior to 1960 the Federal budget showed a surplus in only 5. Excluding the justifiable deficits of the early thirties and World War II years, this is still a poor performance. A large deficit is on the horizon for fiscal 1962 and a \$3 billion shortage is the latest prediction for the current fiscal year.

SAVINGS FROM MORE EFFICIENT SPENDING PROCEDURES

These anticipated deficits can be avoided either by increasing revenues or decreasing expenditures, or a combination of both.

Even with the present rate of expenditures the budget could be balanced if the Congress and the executive departments would take the lead in providing the government service our people need and want for less dollars than we now spend. We need to ponder these important facts:

First. The defense and space programs which take almost 60 percent of our national expenditures can be reorganized and managed with several billions less each year if we will have the will to insist on new procedures and the will to resist local pressures and interest groups. Nearly 85 percent of the dollar volume of defense contracts is negotiated individually rather than awarded on competitive bid. This is wrong. Bases and functions can be consolidated if selfish local pressures are faced with courage. The wage scandals at Cape Canaveral suggest that other similar situations exist. Senator PAUL DOUGLAS of Illinois has done a commendable service in criticizing and reporting wasteful practices in this and other departments of government.

Second. In these difficult times we must scrutinize more carefully programs for public works to assure that only the essential ones are authorized. This is no time for "pork barrel as usual." We ought to be willing to practice Federal economy in our own community, not just in other States.

Third. Many recommendations of the Hoover Commissions are not yet put into effect. Too often a reorganization plan which could make savings through efficiency is blocked by the special-interest groups affected.

Fourth. Every executive department ought to have a top-level assistant with authority to recommend termination of outdated programs, consolidation of overlapping functions, and to look for savings in routine operations.

Fifth. Congress must have the courage to place the Post Office Department on a solvent basis. We have properly provided better pay scales for Post Office workers, but we should be equally diligent in seeing that postal revenues pay in full for the operation of the Department.

STATES HAVE FEW DEFICITS

These suggestions are not new, but they need to be mentioned loudly and often until they are achieved. But let us look now at the revenue side of the budget.

Why is it that the Federal budget almost never balances? Perhaps we could find an answer by contrasting the Federal fiscal structure with that of the States, for the States rarely have deficit problems. In my home State of Arizona, the legislature meets and appropriates the money it deems sufficient for all State agencies and functions. Then, and only then the taxing authorities meet, and by mandate of law, set tax rates sufficient to raise the amount appropriated. Tax rates are flexible and depend entirely on the amount appropriated. An unbalanced budget almost never occurs.

One vital reason for the success of the States, and the failure of the United States, becomes obvious: in the States the rates of taxation are flexible. The Federal rates are rigid and inflexible.

Present Federal income tax rates were fixed by 1954 legislation. Subsequent Congresses have gone about the job of authorizing new programs and appropriating moneys for national needs. The amount required changes from year to year, but the tax rates, which determine the amount of revenue produced, never change, or rarely change. This is the root of the trouble, and a point where revision is needed. Even Mr. Eisenhower, who was dedicated to a balanced budget as an aim of highest priority,

could not surmount the obstacles of our present system. The eight budgets he administered resulted in a net deficit of \$18.2 billion.

FLEXIBLE TAX RATES PROPOSED

Accordingly, I intend to draft and present legislation which would change our revenue system along these lines:

First. The present rates of normal and surtax on individual incomes, and the present rates of tax on corporation incomes, would be set by Congress as "basic" income tax rates, to continue in effect until otherwise fixed by Congress or by Executive authority.

Second. The President would be charged with the duty of assuring that sufficient income is raised in each fiscal year to meet the amounts appropriated and required for expenditure under the laws of Congress, plus an annual increment of at least \$1 billion to reduce the Federal debt. To carry out this duty the President would be given power on or before December 1 of each year to revise by Executive order the "basic" income tax rates for that calendar year.

Third. No revision by the President could increase or decrease "basic rates more than 6 percent. Any such revision could be disapproved by the Congress within 60 days.

Fourth. Withholding of taxes and payment of estimated tax during the year would be based on the "basic" rates.

Fifth. Where a deficit results in any specific year, for any reason (including a lower tax rate ordered by the President pursuant to this new authority) he would be obliged within the next following 4 fiscal years to fix rates, within the allowable limits, so as to create sufficient surplus to offset such deficit.

SOME OBJECTIVES CONSIDERED

This seems simple and workable on its face, but let us meet some of the logical objections. First, it is said that taxpayers want to know in advance the amount of their tax bill. No one, even under the present system knows exactly what he will pay. The expectation is always approximate and the proposal would merely enlarge by 6 percent the area of uncertainty. Property owners are already accustomed to having city, county, and school district tax bills fluctuate from year to year and they understand the reasons.

Secondly, will Congress or should Congress, give up its constitutional power to fix tax rates? Nothing is more sensitive to political considerations than revision of tax

rates, and there are many in Congress who would like to keep complete control. But it seems to me that the processes of legislation are so slow that this branch is not equipped to act as swiftly as modern conditions require. The total Federal tax "take" is seriously affected by the rate of economic activity, and a tax rate which appears adequate in June may be too high or too low with the knowledge available in November.

My proposal involves no surrender of legislative power. The final taxing authority resides in Congress, and the Executive discretion if abused could be repealed at any time.

Some will say that flexible income taxes would be an open invitation for increased Federal spending, since Members of Congress would know that revenue for any new program would be automatically forthcoming.

The range for maneuver under my plan could not exceed 6 percent of the basic rates. Notwithstanding this, it is my judgment that this plan would make Congressmen more, rather than less, responsible on spending proposals.

Under the present system a Congressman can follow the cynical advice the old Member is supposed to have given the neophyte: "Young man, if you want to get ahead in Congress do two things -- vote for every appropriation bill and against every tax bill."

A Congressman might be more cautious about appropriation measures if he knew that before the year was out he would have to defend his contribution to increased tax rates. Under the present system he knows rates will be unchanged regardless of appropriations.

Many persons who have studied this problem say that our tax base is so narrow that increased tax rates would not necessarily produce any more revenue. It is true that we have so narrowed our tax base by special exemptions, deductions and exceptions that increased rates may not always produce proportionate additional revenues. It is obvious that we need basic income tax reform to establish a more equitable tax base; the Congress should have the courage to act along these lines. But I believe that an across-the-board increase in first bracket rates, especially in prosperous times, would produce additional revenues.

SIMILAR RECENT PROPOSALS

The idea of flexibility in tax rates has recently been considered by responsible persons both in this country and in Great Britain. U.S. News & World Report of May 1, 1961,

indicates that the conservative government of Mr. Macmillan looks favorably on this approach and the Prime Minister will ask Parliament this summer for executive authority to raise or lower tax rates within fixed limits. The Committee for Economic Development, in a recent report of its Commission on Money and Credit, urges consideration of an automatic "formula flexibility" for tax rates to insure greater economic stability.

THE CYCLICAL BUDGET?

The flexible plan outlined above would empower the Executive to balance the budget in each and every year. When one explores this subject in depth he soon encounters the widely held modern economic theory advocating deficit spending in recession years and budget surplus in times of prosperity. Thus, it is argued, we need a balanced budget over the business cycle, but not in each specific fiscal year. Mr. Kennedy's budget message of March 24 presents this theory.

This may well be sound economics and for purposes of argument I will accept it. The flexible tax idea may be tailored to the business cycle if Congress so directs. But the present system will balance the budget neither on a yearly nor a cyclical basis.

If we are to give the Executive power to balance the budget over the business cycle we must be sure that his authority and his duty are clearly spelled out commensurate with the difficulties. No one can yet predict the business cycle nor determine precisely its beginning or end. No one can tell at a particular moment the phase the cycle is in.

There are always pressures for deficit spending in times of recession. Yet there are never pressures for compensating surpluses in good years. A cyclical budget plan must have effective safeguards against these pressures. We had a \$12.4 billion deficit in fiscal 1959. If a \$12.4 billion surplus were to develop in this fiscal year few legislators would advocate letting it stand. Indeed we have immediate evidence at hand of this unfortunate tendency. In the 3 fiscal years after 1959 we have this prospect:

	Billion
1960 budget surplus	\$1.3
1961 estimated deficit	3.0
1962 estimated deficit	4.0
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Total deficit	5.7

According to a recent issue of the U.S. News & World Report there is an anticipated budget surplus for 1963 of something like \$6 billion. No responsible voice urges that we let this surplus stand to offset the 1961-1962 deficit total of a similar amount, let alone repay some part of the 1959 deficit. These deficits are forgotten, and numerous plans are already being made for an election-year tax cut which will substantially eliminate this anticipated 1963 surplus. This sort of thinking seems irresponsible to me. It can lead only to a steady increase in the Federal debt.

CONCLUSION

Whether we balance the budget annually or over the business cycle the important thing is that we demonstrate to the country that we can and will do it. The 1961 budget could still be balanced if all income taxes were increased by something like 3 percent so that the business executive paying \$1,000 paid \$1,030, the worker paying \$300 paid \$309, and the corporation paying \$20,000 paid \$20,600.

The idea of financial solvency is very basic with Americans. I believe the people of our great and wealthy country want a balanced budget and are willing to pay the price of our national needs as we go along. Congress need only show them the way.

This problem is detailed and undramatic, but in the long run it is as important as the more dramatic needs for schools, housing, roads, and space exploration.

My comments are seriously advanced. The specific suggestions may have defects and surely need refinement. Nonetheless, our present procedures do not work and are demonstrably wrong. They are certain to give us a continued series of deficits, and contribute to inflation. This kind of financial procedure will further undermine the confidence of the American people in the fiscal responsibility of its legislative and executive leaders. We have nothing to lose and everything to gain. Let us give it a try.