

The President's Request for Standby Tax Cutting Authority: Some Alternate Suggestions

House of Representatives, Washington, D.C., January 22, 1962

**Reprinted from the Congressional Record, Proceedings and Debates of the 87th
Congress, Second Session. Monday, January 22, 1962.**

SPEECH
OF
HON. MORRIS K. UDALL
OF ARIZONA
IN THE HOUSE OF REPRESENTATIVES
Monday, January 22, 1962

Mr. UDALL. Mr. Speaker, in his state of the Union message, the President has requested standby authority, subject to congressional veto, to reduce income tax rates in order to shorten or forestall a threatened business recession.

While this proposal deserves the study of Congress, I think such a measure might well aggravate our long-range fiscal and budgetary problems. We should not create the machinery for instant deficit without some accompanying program which will insure a compensating surplus in later fiscal years.

In the hope of stimulating discussion and consideration of the broad field of revenue and appropriation procedures, I have introduced today four alternatives to the President's proposal. These are H.R. 9813, H.R. 9814, H.R. 9815, and H.R. 9816.

In the last 31 years the U.S. Government has raised the taxes to pay for its expenditures only five times. This is a sorry record which weakens our country in many important ways.

Worse, the existence of this huge and growing public debt, and burdensome interest payment, poses a threat to the social and economic measures we have passed during the last 30 years. These measures have been generally good. They have been designed to help the individual overcome catastrophic misfortunes, to help provide a minimum of comfort and security to those who are not blessed with wealth or skills in demand. These measures have strengthened the free enterprise system by ironing out the violent swings of the business cycle.

SAFE AND DECENT LIFE

While discussing the extent of present public spending, Walter Lippmann recently said:

It is evidenced that creeping socialism has not crept very far. The so-called socialism which is supposed to be creeping upon us is in fact nothing more than the work of making life safe and decent for a mass society collected in great cities.

None of the programs directed at better health, housing, education, highways, and so forth, were repudiated or repealed by the Eisenhower Republicans even when they controlled the Executive and the Congress.

We will probably continue to have this general level of civilian expenditure and in all likelihood we will continue to have a national security burden of more than \$50 billion each year. I believe President Kennedy's administration is making strides toward giving taxpayers the best return for their dollar and is showing vigor in attempts to find more equitable ways to distribute the tax burden. But I also believe that the American people can be told the truth, and that they are willing and ready to ante up the price of national defense and essential non-defense programs on a pay-as-you-go basis.

In the entire history of the world there has never been a nation with our wealth and resources. There is no logical reason why we cannot establish a regular and permanent machinery to guarantee that the Federal budget is always in balance. We can and we should gradually reduce the national debt. Unless we devise an orderly means to these ends the American people may vote for a return to Calvin Coolidge.

Since 1954 we have had budgets varying from \$64 billion to \$90 billion. We have had years of prosperity and years of recession. We have had years of international crisis and military buildup and years of the "spirit of Geneva." Yet the tax rate for every one of these years has been the same. There has been no essential change since 1954. No self-respecting school district would think of having an identical tax rate for years of radically differing needs and costs.

PRESENT MACHINERY FAILS

The American people are almost unanimous in wanting a regularly balanced budget. This desire is not affected by the fact that many economists assure us that today's national debt, because of our climbing gross national product, has become less important. Even if we accept the thesis of these economists -- which I do not -- that this debt is more of a menace psychologically than financially, we ought to find ways to eliminate it on psychological grounds alone.

Under our present budget machinery we can be almost certain that the national debt will never be reduced and that budget surpluses will only rarely and accidentally occur. My proposals would correct this situation without crippling any proper function of Government. I believe they are simple, workable, and necessary.

No single issue contributes more to public distrust of our Government and the Congress than its failure to adopt new fiscal machinery for the complicated affairs of a \$90 billion Federal Government. Continued deficits will further lessen confidence of our people in our Government, decrease the purchasing power of the dollar, aggravate our balance-of-payments problems, and force us to raise some \$9 billion each year merely to pay interest on the debt.

Why is it that our Federal machinery only works 1 time in 5? Let us contrast State procedures, for I think there is a lesson to learn. Few of our States ever have budget deficits. My State of Arizona, for example, has almost never had a deficit and in each of those rare instances it was repaid the following year. Why? The answer is simple. In Arizona the legislature meets and appropriates funds for all State purposes and then goes home. Then, and only then, the tax officials meet and fix a specific rate for that year which will produce the amount of revenue necessary to pay for the appropriations. State and local taxpayers expect their tax rates to vary with expenditures. My school property tax rate may be \$8 this year and \$9.25 or \$7.50 the next.

In theory the Federal system is supposed to work the same way. But in practice it does not. The Appropriations Committees of the House and Senate throughout each session of Congress consider and approve expenditures for defense, veterans, national resources, and all the other items making up our budget. The House Ways and Means Committee, an entirely separate group, is in theory required to recommend tax rates sufficient to produce a balanced budget every year. There is no statutory or congressional authority for a deficit. But tax rates rarely change. They are inflexible and rigid. The slightest change involves tremendous effort and debate.

Each of my proposals is bottomed on the theory that there should be either (a) for each year a tax rate adjusted to the expenditures and demands of that year; or (b) if, we are to accept the cyclical budget theory, a series of varying tax rates over the course of each 4 years to produce a balanced cyclical budget. Our present rigid tax rates will guarantee continued deficits; flexible rates will not.

Each of the four proposals would provide permanent administrative-congressional machinery to adjust Federal tax rates to Federal spending. All four bills limit the adjustment of rates to 10 percent up or down. All four provide for congressional veto of any rate adjustment. All four would achieve a regular reduction of the national

debt. This machinery would be mandatory except for war or other serious national emergency.

PROPOSALS OUTLINED

Here is a brief outline of the proposals:

H.R. 9813. This measure would direct the President to proclaim between September 30 and December 1 of each year the increase or decrease from present basic rates necessary to insure that receipts exceed expenditures by at least \$1 billion. New rates would apply in the calendar year following proclamation. This proposal would balance the budget every year. We can anticipate that this kind of machinery would meet serious objections from those who believe that economic growth and prosperity are hampered by insisting on a balanced budget in years of recession. While the validity of this economic theory is not subject to precise proof, it is widely held. But those who favor deficits as an anti-recession tool ought to be willing to provide for a compensating surplus in years of prosperity. The fiscal 1962 deficit will approach \$7 billion, yet many of my fellow Democrats seem satisfied with proposing only a \$500 million surplus for fiscal 1963, and a similar token surplus for fiscal 1964 -- both of which may well be years of economic boom. If we are to accept the cyclical theory let us be honest about it and provide for boom-time surpluses as large as the recession deficits. Thus I offer a sound cyclical approach in my next proposal.

H.R. 9814. Under this proposal Congress declares its policy to balance the budget and reduce the national debt by at least \$4 billion over the 4 years of each Presidential term. The authority and the responsibility for this achievement would be placed squarely on the President. He would be given the authority and the duty to take economic conditions into account and to proclaim rates for each year of the 4-year period so as to achieve an overall balance during his 4-year administration. Thus he could adjust the Federal budget, within these modest limits -- and subject to congressional veto -- so as to end his administration with an overall balance. No President could blame the Congress for a deficit administration, as has frequently occurred in the past. He alone would have the burden.

Many persons will object to giving the President the right to set rates -- even subject to veto -- claiming that, no matter how well intentioned, he would be unable to withstand political and election year pressures. If this contention is sound we need not abandon the search for permanent, effective machinery. My remaining two proposals offer a similar but non-political approach.

H.R. 9815. This would achieve a balanced budget -- and a \$1 billion surplus -- every year, through adjustment of rates 10 percent up or down and subject to congressional

veto. The adjustment, however, would be proclaimed not by the President but by a new U.S. Tax Commission. The Commission would have five members. Four would be appointed by the President -- two from each major political faith -- and confirmed by the Senate. The commissioners would have 8-year staggered terms and would be experts in economic and fiscal matters. The fifth member would either be the Secretary of the Treasury or the Budget Director, thus giving the administration an important voice in these vital matters.

H.R. 9816, the final proposal, would provide for the same U.S. Tax Commission, but would require the Commission to take the state of the economy and the business cycle into account, adjusting rates to balance the budget, not annually, but over the 4 years of each presidential term.

CONCLUSION

Many respected economists and statesmen believe our national debt is neither unwieldy nor a dangerous burden on the country. The trouble is that a vast majority of the American people think otherwise. I strongly doubt that many Americans will ever be convinced that a \$300 billion plus debt -- with an annual interest charge of more than \$9 billion -- is a good or necessary thing. It violates basic American ideas of thrift and money management. These strong public feelings cannot be ignored forever.

A built-in budget balancing program would have many beneficial long-range benefits. Since tax rates would fluctuate with Federal spending, Congress and the Executive would be more responsible on money matters. As things now stand a Senator or Representative can vote against tax measures and for vast expenditures. His constituents never feel in their tax rates the direct effect of this irresponsible approach.

If those of us in the Congress were required at each election to justify the then current rate we would be more careful with public funds. Likewise, we would have a powerful incentive for the necessary and difficult job of tax reform. The unjustified postal deficit is unlikely to continue if the alternative is additional general taxes reflected in increased rates.

I have offered these four varying approaches in a constructive spirit and as a basis for discussion. I make no claim that any one is perfect; I concede that better alternatives may exist. The present system, however, is disastrously wrong. I hope that we can have a great debate on this whole problem; that out of our discussions will come a new, sound program of fiscal responsibility.