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The Control of Government Expenditures

By Arthur F. Burns

This year the Congress has devoted a great deal of attention to tax legislation. Besides aiding the fight against inflation by extending the income tax surcharge temporarily, the Congress has been heavily engaged in writing a tax reform bill that is of major significance to the American public. If the bill survives in something like its present form, some troublesome inequities under existing law will finally be corrected. However, the relative tax burden borne by individuals and corporations will also be changed, with corporate income tax liabilities gradually going up about 5 billion dollars by 1975, and individual income taxes coming down 12 billion dollars.

This projected shift in the tax structure will favor consumption at the expense of capital formation. Such a development will be useful in the short run by helping to cool off the business investment boom that is still under way, but it may damage prospects for the long-term growth of our economy. We surely cannot afford to take capital formation or economic progress for granted. If our economy is to grow and prosper in the future, as it both can and should, business enterprise may well need the stimulation of an improving tax climate.

In recent times, our nation has moved rapidly towards the welfare state, such as various European countries previously developed. Unlike these countries, however, we also devote an enormous part of our resources to meeting the needs of an intricate and far-flung defense system. Thus far, the prodigious productivity of American industry has made it possible to finance liberally both our defense needs

and the social services of government. But in order to continue to support the growing scale of our public consumption without doing injury to private consumption, the productivity of our factories, mines, farms, construction enterprises, and service trades may have to improve more rapidly than in the past. This will not be accomplished without substantial and increasing investment in new and better tools of production. The projected shift in the structure of taxation therefore seems undesirable to me, and I trust that the President's Task Force on Business Taxation will soon point the way to better balance in our tax system.

I do not know at precisely what point the burdens of taxation will materially serve to check our nation's economic progress, but I also do not think it

This Issue in Brief

With the \$200 billion Federal government spending mark likely to be crossed in the next fiscal year, says Dr. Burns in this **Review**, the need for expenditure reform "may be even greater than the need for tax reform."

Pointing to recent expenditure reforms and proposing others, Dr. Burns discussed revenue sharing with the states; bloc grants; a ceiling on expenditures, and zero-based budgeting.

In this connection he suggested reappraisal of earmarking funds, institution of new programs on a "pilot" basis, and strict enforcement of five-year projections for new programs.

wise to test this issue too closely. The trend of governmental spending and taxes in the past forty years has been sharply and inexorably upward. In 1929, government expenditures at the Federal, state, and local levels amounted to about 10 percent of the dollar value of the nation's production. This fraction rose to about 20 percent in 1940, to about 30 percent in 1960, and to about 35 percent this year. The broad trend of taxation has been very similar. With over a third of our nation's output already moving into the hands of the tax collector, it seems hardly prudent to contemplate any further increase in the level of taxation. And yet, unless we bring government expenditures under better control than we yet have, the modest over-all reduction of tax rates that the tax reform bill projects will prove abortive and further increases in the level of taxation may become unavoidable.

As our nation's economy has grown and as our political democracy has widened, the responsibilities assumed by government have kept increasing. In fiscal year 1962, the rising curve of Federal expenditures first crossed the 100 billion dollar mark. It now appears likely that the 200 billion dollar mark will be crossed the next fiscal year; so that we will be adding as much to the Federal spending rate in a mere nine years as it took nearly two centuries to achieve previously.

The explosive increase of Federal spending during this decade is commonly attributed to the defense establishment, or more simply to the war in Vietnam. The fact is, however, that civilian programs are the preponderant cause of the growth of the Federal budget. When we compare the budget of 1964 with the estimates for this fiscal year, we find that total Federal spending shows a rise of 74

billion dollars, while defense outlays are larger by only 23 billion. If we go back to 1953, when the Korean war ended, and take into account state and local expenditures as well as Federal, we find that defense outlays have been responsible for only about one-sixth of the vast increase in the cost of government that has occurred since then.

Thus, the basic fiscal fact is that spending for social programs now dominates our public budgets. Although the Federal government's direct involvement in problems of social welfare is a recent development, it is already huge and is growing at a fast rate. This fiscal year, programs for education, manpower, health, income security, housing, community development, and crime prevention will cost over 80 billion dollars—a sum that exceeds all the spending done by the Federal government in the peak year of the Korean war. Federal aid to the poor will alone cost 27 billion dollars this year, in contrast to 12 billion in 1964. Grants in aid to states and localities will cost about 25 billion dollars, in contrast to 15 billion in 1967, 10 billion in 1964, and 5 billion in 1958.

Costly Governmental 'Maze' Defies Understanding, Evaluation

This upsurge of Federal spending is a response to the economic and social difficulties that afflict many of our communities—witness the slums, ghettos, racial strife, poor public schools, teenage unemployment, drug addiction, poor health, student disorders, inadequate transportation, traffic congestion, air and water pollution, and unsafe streets and parks. The Federal government has tried to solve these complex problems by spending large sums of money on projects that have often been hastily devised. Hundreds of grant-in-aid programs dealing with health, education, welfare, and other local needs were established in quick succession. Several regional commissions were established to seek better balance in economic development and social improvement. An Economic Development Administration was established to aid local communities, both urban and rural, that suffer from excessive unemployment or inadequate incomes. More recently, a Model Cities Program was established, aspiring to achieve what our best city planners can contrive. By proceeding in all these directions, we have created a costly governmental maze that involves much duplication and waste, that often hampers the constructive efforts of local officials, and—per-



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the National Bureau of Economic Research. The address given by Dr. Burns, a Foundation trustee, at the 32nd annual dinner December 2, 1969, is the basis for this **Review**. At that dinner Dr. Burns received the Foundation's annual Award for Distinguished Public Service.

haps worst of all—that practically defies full understanding or evaluation.

Nowadays, many local government officials, instead of grappling with the most urgent needs of their communities, devote their finest energy to maximizing and husbanding the Federal grants that happen to be available. With over 600 categorical programs of Federal aid to choose from, there is plenty to keep them busy. Many of the programs involve tedious procedural steps extending over a number of months before a community can learn whether Federal funds are to be granted for its proposed project. Each program is equipped with its own set of administrative requirements involving endless forms and reports. If a local official attempts to draw upon several funding sources to help finance a neighborhood project, he may be confronted with a mass of complex application forms weighing several pounds, with Federal processing steps that may take well over a year to elicit a "yes" or "no" response, and with stringent requirements for hundreds of detailed reports. Further, this official will usually have to work with Federal representatives scattered in a number of different cities in order to arrange the project.

\$1,000 Grant May Require Over 30 Federal Agency Steps

I am informed by the Bureau of the Budget that one Federal program requires over a hundred different kinds of forms and reports; that a grant involving \$1,000 may require over 30 major Federal agency steps, including review by a 15-man advisory committee and headquarters approval; that a department of one state has counted 120 different reports that it is required to submit to a particular Federal agency, many of them on a monthly or quarterly basis; and that there are numerous instances in which Federal, state, and local governments make independent studies of the same community without one agency knowing what the other is doing, or having an opportunity to share in the results of the other studies. The mere listing of all Federal requirements imposed on states and communities would be so voluminous that it has never been done.

As a result of this administrative morass, various Federal programs are half smothered in paper. Employees at all levels of government are required to devote time to detailed paper work which would be better devoted to rethinking program objectives or

assessing the extent to which present objectives are being met. More important, help may not reach the people who need it until months—sometimes years—after it should, with much of the money meanwhile siphoned off by the bureaucracy. To give only a few outstanding examples, neither the achievements of the compensatory education program, nor of the urban renewal and slum clearance programs, nor of the public assistance programs have come very close to the expectations of our lawmakers.

Need For Expenditure Reform May Be Greater Than For Tax Reform

In view of the explosive growth of Federal spending and the ineffectiveness or inefficiency of much of it, I am inclined to think that the need for expenditure reform may be even greater than the need for tax reform. One of the advantages of a new Administration is that it can move with energy to change the direction of governmental policy. President Nixon responded to this opportunity by taking major steps to win control over Federal spending. Needless to say, the rapid rise of the consumer price level has been the most troublesome economic problem facing the nation this year. In view of the inflationary pressures in our markets for goods and services, it was clearly important that the Federal government curb its spending beyond the earnest move to frugality that the previous Administration made in its closing days. In all, reductions of 7½ billion dollars from the January budget were therefore ordered by the President for this fiscal year. These reductions were widely distributed among government agencies, with 4.1 billion allocated to the Defense Department and 3.4 billion to the rest of the government. Moreover, when Congress later passed or considered legislation that foreshadowed an expenditure total well above the revised budget of \$192.9 billion that the President had submitted, he firmly announced that he would try his utmost to see to it that Federal finances continue to be subject to the ceiling that he had imposed. Later in the year, in order to deal with the special problem of runaway construction costs, the President ordered a cutback of 75 percent in Federal construction contracts.

Administrative steps were also taken by the President to achieve greater efficiency in government spending. In March a carefully planned effort to cut red tape got under way. As a first step, the several agencies most closely concerned

with human resources were directed to adopt common regional boundaries and to locate their regional offices in the same cities. Further, a review was started of the several hundred Federal assistance programs, with the objective of simplifying procedure, cutting down on the paper work, and shifting responsibilities to the field so that decisions could be made both more expeditiously and by officials who are in closer touch with the local problems.

The Administration has also sought legislation to correct the deficiencies of the grant-in-aid programs. In order to give local officials greater flexibility to meet their priority needs, the President has requested authority to consolidate existing grant-in-aid categories, subject to a Congressional veto within 60 days. Moreover, as legislation has moved through the Congress, the Administration has been alert to the opportunity of converting narrow categorical grants into block grants for broad functional areas. In line with this policy, proposals for grant consolidation were advanced in connection with legislation on hospital construction, on elementary and secondary school education, and on manpower training services, as well as through the appropriation route.

Revenue Sharing Proposal Seen Milestone In Federal-State Relations

But by far the most important as well as the most dramatic step that the President has taken to reform expenditure policy is his proposal to the Congress to inaugurate a system of revenue sharing. This proposal marks a milestone in Federal-State relations. It seeks to decentralize governmental power. It seeks to restore the balance that existed in earlier decades between the state capitals and the national capital. Or to be more precise, while it seeks to extend additional Federal assistance to state and local government, it insists that this be done in a manner that will enable local officials to attend to urgent problems within their own jurisdictions as they deem best, without being subjected to rigid Federal controls or requirements.

The leading features of the Administration's revenue sharing proposals are as follows: First, in view of budgetary constraints, the revenue sharing fund will be limited in fiscal 1971 to a half billion dollars, but will subsequently grow fairly rapidly and reach 5 billion dollars by the mid-seventies.

Second, the distribution of the fund among the states will be based on a simple formula that assigns primary weight to population, but also gives some weight to tax effort. Third, the distribution within each state between the state government and the localities will be likewise based on a formula, so that each unit of government within a state will be assured a share that is proportionate to its own tax revenues. Fourth, no restriction will be placed on the use of the funds made available by the Federal government; in other words, each state, county, city, or town will rely on its own judgment and use the money for education, health services, parks, law enforcement, or some other way, as it deems best.

The precise details of this revenue sharing plan grew out of detailed discussions among members of the Administration, Congressmen, Governors, Mayors, and county officials. In the course of these discussions the argument was sometimes encountered that revenue sharing may lead to fiscal irresponsibility, since local officials may be careless in using funds that they did not have to raise from their own constituents. This argument cannot be dismissed. It might in fact be decisive if the practical choice were between levying local taxes or Federal taxes. By all indications, however, Federal financial assistance to the states and localities will continue to grow, and the only real question is whether Federal grants will lead to more or to less centralized control. In taking a definite stand for decentralization, the Administration has enunciated a policy whose wisdom is now widely recognized by liberals as well as conservatives within our two major political parties.

\$193 Billion Expenditure Ceiling Not Now 'Entirely Secure'

As a result of the careful preparation of the Administration's revenue sharing plan, it has already won the general approval of the Governors Conference and also of the leading national organizations of mayors and county officials. The Administration's own thinking on the subject is not rigid, and it will entertain any reasonable proposal for change that would facilitate Congressional approval. In particular, the Administration would welcome an enlargement of the projected revenue sharing fund, provided categorical grants were correspondingly curtailed. If that happened, revenue sharing would grow more rapidly than presently contemplated, and

the decentralization of government — which has become so vital to order and efficiency in the public economy—would be speeded.

This sketch of recent progress toward Federal expenditure reform should be reassuring to responsible citizens, but it certainly leaves no room for complacency. Much of the needed legislation has yet to be passed. Many of the administrative improvements are still in an early stage and remain to be tested. The ceiling of \$192.9 billion on this year's expenditure is not entirely secure. True, the curve of Federal spending is now rising at a much slower pace than in recent years, but the improvement would be less impressive if the various government-sponsored financial agencies were all included in the budget. And, as far as I can judge, the growth of population, the need to improve our social and physical environment, and the widening concept of governmental responsibility will almost inevitably lead to large additions to Federal as well as state and local expenditures in the future. There will therefore be a continuing need to control governmental spending, first, in order to avoid strain on our physical resources of labor and capital, second, in order to assure the continuance of a vigorous private sector, and, third, in order to maintain pressure for discriminating judgment on priorities as well as for economy of execution in the public sector. These are difficult requirements and they will not be met without further significant expenditure reform.

Says Zero-Base Budgeting Is Clearly Necessary Reform

One major step toward reform was taken last year and again this year by Congressional enactment of a ceiling on expenditures. A legislative budget is a radical departure in budget-making, and its significance should not be minimized by the rubbery texture of the ceiling. In the first place, the vigorous discussion surrounding the legislative ceiling has of itself served to dampen enthusiasm for larger spending. In the second place, the rubbery ceiling of today can become a rigid ceiling tomorrow. If the Congress moves in this direction, its fragmented approach to appropriations, which will doubtless continue, need no longer run up Federal spending as it has commonly done in the past.

To be sure, the individual appropriation acts may imply a much larger expenditure total than had

previously been legislated. In that event, the Congress would in effect say to the President: "You are the manager of our national finances. We fixed a ceiling on expenditures earlier in the year, after considering your budgetary recommendations and making our own best judgment of what the national interest requires. But there are several hundred of us; each of us is subject to heavy pressure for appropriations that seem vital to our constituents, and we find it impossible in the time at our disposal to trim individual appropriations so that they be consistent with the expenditure ceiling. In view of our inability to agree on priorities, we assign this responsibility to you; but we naturally reserve the right to challenge your actions by new legislation." Such a mandate by the Congress would, of course, not make the President's job any easier; it could well lead at times to uneconomical cut-backs; and it might even mean that we will have only one-term Presidents in the future. However, by enabling the members of Congress to satisfy both their conscience and their constituents, such a mandate would help powerfully to assure that total expenditure is kept under decent control.

A second reform of vital significance would be adoption of the concept of zero-base budgeting. Customarily, the officials in charge of an established program have to justify only the increase which they seek above last year's appropriation. In other words, what they are already spending is usually accepted as necessary, without examination. Substantial savings could undoubtedly be realized if both the Budget Bureau examiners and the Congressional appropriation committees required every agency to make a case for its entire appropriation request each year, just as if its program or programs were entirely new. Such a budgeting procedure may be difficult to achieve, partly because it will add heavily to the burdens of budget-making, and partly also because it will be resisted by those who fear that their pet programs would be jeopardized by a system that subjects every Federal activity to annual scrutiny of its costs and results. However, this reform is so clearly necessary that I believe we will eventually come to it. I regard President Nixon's request of the Budget Bureau this year for a list of programs judged to be obsolete or substantially overfunded as a first step toward zero-base budgeting.

Several other reforms that I can only mention also deserve serious attention. First, earmarking of funds is often a dubious practice and should be

carefully reappraised by the Congress. Second, agency heads should be subject to a Presidential requirement that if they request additional funds—whether for new or old programs—after the budget has been transmitted to the Congress, they must as a rule give up an equal amount of money from their ongoing activities. Third, new programs should be typically undertaken on a pilot basis and not launched on a national scale until their promise has been reasonably tested. Fourth, the law requiring that the cost of new programs be projected five years ahead when they are first presented to the Congress should be strictly enforced. In addition, comprehensive five-year budgetary projections should be constantly maintained by the Budget Bureau for the President's guidance. Fifth, I think that it would be useful to rotate the personnel of the Budget Bureau among its major divisions, so that the key examiners can periodically shed their preconceptions or frustrations and approach with a fresh eye the financial concerns of the agencies that are newly assigned to their scrutiny.

In addition to institutional reforms such as these, effective control of public expenditures will require larger reliance on volunteer efforts for dealing with

our great social ills. It will also require thorough, realistic, and penetrating study of the promises, costs, and achievements of individual governmental programs. Although Federal agencies, particularly the Bureau of the Budget, need to augment their evaluative work, some doubt will always surround research that is carried out by agencies which originally advocated or subsequently supervised the programs under study. There is a great need, therefore for expenditure studies by organizations that are independent of government and have no direct stake in any of the programs. In view of its pre-eminence in fiscal research and public education, the Tax Foundation is especially well equipped to organize teams of economists, accountants, political scientists, and management experts for the concrete study and evaluation of some of the major branches of Federal expenditure.

I hope that the Trustees of the Tax Foundation will be able to find a way of making this additional contribution to good government. If you undertake to do so, I assure you that the evaluation teams you send to Washington will receive a very warm welcome.