

S E E I N G R E D

For
The Athenaeum

By
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December 6, 1984

SEEING RED

My paper tonight is entitled "Seeing Red". A more specific topic may be "The Elusive Federal Budget- A Superficial Treatise".

In the tradition of the Athenaeum I have chosen this topic on the same basis that many of you have chosen yours, that is I chose a topic which I am or at least was totally unqualified to discuss.

In the past several months, I have looked with considerable effort to find a news story in the paper, a news magazine or on national television news coverage, which did not discuss, at least in part, the Federal Budget. As you can expect they are scarce. In various styles of pen, these writers editorialize pro and con on various elements of the budget. It is infact quite difficult to find an objective writer.

During the height of the national election campaign, it was quite common to hear conversations on the street, at the lunch counter or even here at the Athenaeum. All offering the solution.

I became somewhat agitated at the misinformation and ambiguity expressed in these discussions. Frequently in generalities, often with bias and never with facts, each presenter would express with the most convincing metaphors possible, his or her slant to the picture. It was my exposure to these uncertain views which lead me to the research required to enable me to join this list of advisors, but of course, I am armed with the facts. So I can now tell you all you wanted to know but knew better than to ask , about the Federal Budget.

Prior to beginning my discussion, it is important that you prepare yourselves for this study. Just as you would for a course in abstract Algebra or Non-Euclidean Geometry, you must set aside all the general rules you have learned and used in economics or for you own business or finance accounting. I have attempted to overcome this for you by using real numbers, but in the tons of information available budgets and expenditures are expressed in many different forms; constant dollars, 1972 dollars, non-offset dollars , future year dollars and many more.

A look at how the budget is prepared may help us proceed. Federal law prescribes that the executive branch present its plan to the Congress. This process begins as early as 18 months prior to the beginning of the specific fiscal year. Initially general policy issues are identified and constructed in the form of program efforts for various departments. The specific budget of course focuses on the fiscal year in question, but the overall plan must deal with a four year period beyond the current year.

Different governmental departments and agencies begin preparing their own plans for submission to the Office of Management and Budget, reverently referred to as OMB. The OMB reviews each plan and subsequently submits them to the President. After the executive review, a set of planning ceilings are prescribed for each department as it develops its actual budget within the philosophical spending policies and economic assumptions set forth by the Executive. There are two things I would hope you note, (1) who the real architects of the budget are and (2) the phrase economic assumptions.

The law also prescribes that the President must update the budget on or before April 10 and again by July 15 in the light of newly enacted legislation and the administrations latest economic assumptions, new recommendations or revised estimates.

Before a budget is enacted by the congress, allowing agencies to spend money. The Congress enacts legislation which authorizes the programs (frequently called enabling legislation) and provides funding level guidance. Some spending is authorized indefinitely while others require annual review. Actual budget authority is usually provided separately in the apporpriation bills. As in the cases earlier mentioned, programs such as Social Security and interest on the national debt, the Congress has voted permanent budget authority, that is the funds become available without further Congressional authority. NOTE! This single power of Congress has been the most far reaching of all, the ability to obligate future dollars without an accurate estimate of their volume or source of support.

Based on a 1974 Budget act, the Congress is required to consider budget totals before they work on individual appropriation bills. There are two resolutions which outweigh all other specific acts. The first resolution sets the overall targets for receipts, outlays and budget authority. The second, usually passed in early Fall, sets a binding ceiling on total budget authority and outlays and a floor for receipts.

Changes in appropriations or revenue law find their beginnings in the Appropriations and Ways and Means committees of the House respectively. Subsequently, the House Acts move through the Senate and ultimately to the President for approval or veto.

So much for how. What are the results?

The most most significant result for the last several years or at least the one generating the most rhetoric recently is the sea of red ink or the Federal deficit. It is difficult to find much written on the subject until the last 10 years but we really shouldn't be so suprised. There have been only eight years or budgets since 1946 that there was not a deficit. The net deficit accumulated in this period amounts to 1.1437×10^{12} dollars, Or 1.1437 trillion.

It is not difficult to see why 195.4 billion or 21 percent of the current years budget is directed toward paying the interest of previous years debts. On top of that, the government will borrow 100 % of the money needed to pay the interest. Another interesting fact is the deficit for the current year and 8 of the last 12 years would not exist theoretically were it not for the debt of previous years. Of course they do exist.

Of the 8 years since 1946 where surpluses occured the last was in 1969 and that was for only 3.2 billion dollars amounting to a 4% payment toward the debt, then amounting to 75 billion dollars. The cry seems to be about recent years, but we must remember the phenomena of compounding interest, the result is always exponential.

Where has all of this red ink come from? Allow me to suggest a reason and explain why.

Earlier I mentioned briefly the power of Congress to obligate future dollars without specific planning regarding the volume or source. It is my opinion that this is the single problem and it has recurred over and over again.

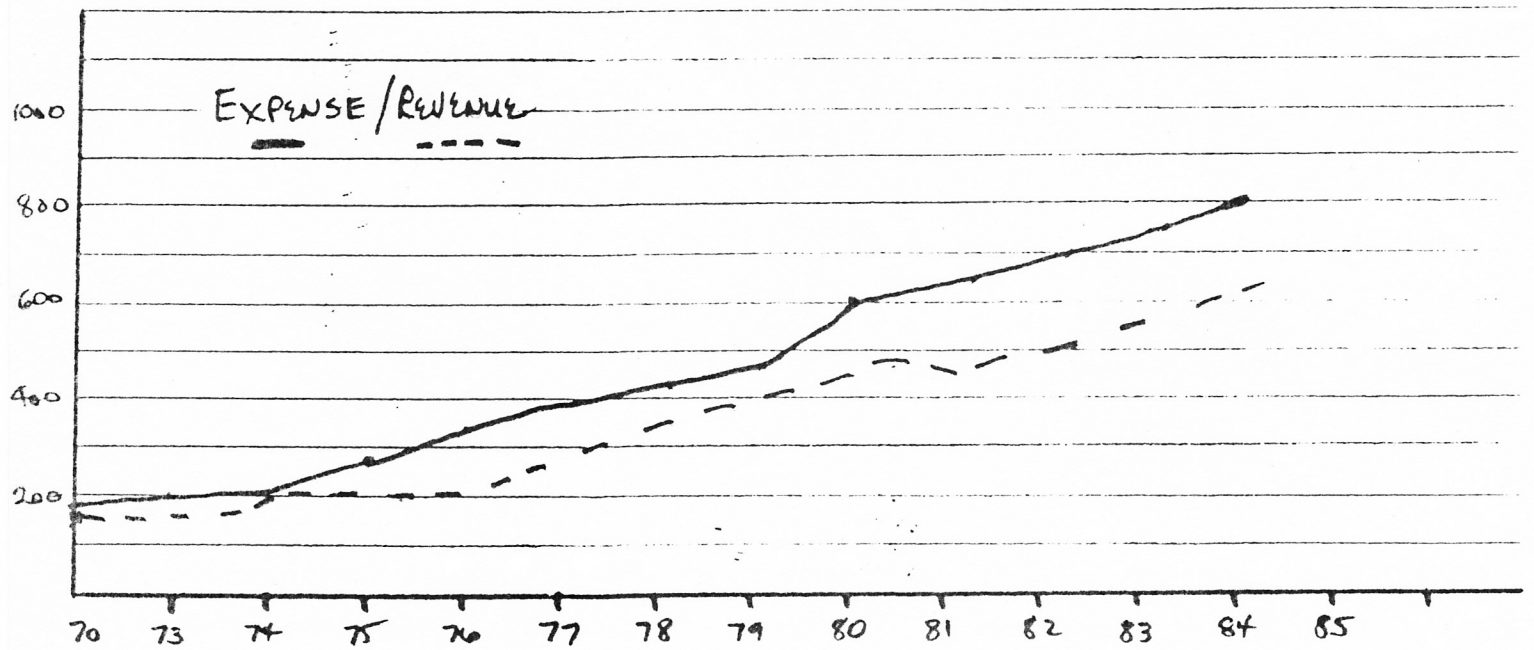
Lets look more carefully. To do this I have prepared a few graphics.

Our first graph presents in simplified form of actual dollars the Federal revenue and expense for the past 15 years. This graph of course illustrates the growth in both spending and revenue but more specifically illustrates the exponential growth of the difference. A very personal example will help clarify. In 1970 the government spent nearly 800 dollars for every American citizen. In 1984 the has approached \$4000.00 for each citizen. A growth of 450 percent in 14 years. Statistically zero Americans have experienced that kind of growth in their spending power.

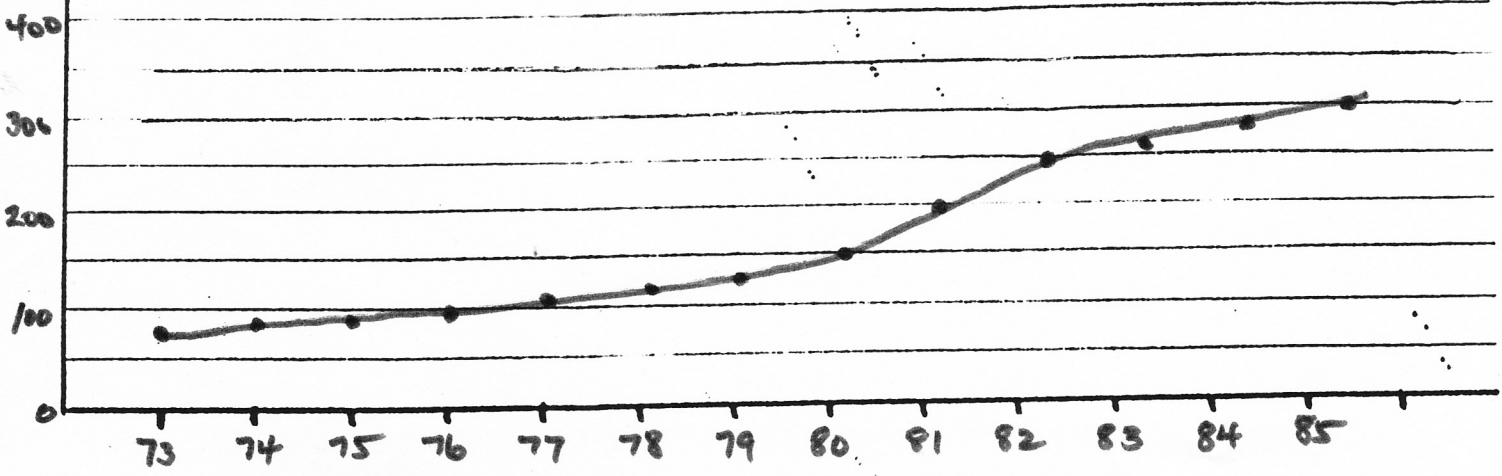
Where does it all go? Lets look at some general programmatic catagories. In the current years budget alone; Defense 237 billion, International Affairs-13.5 , Science and Space-8.3, Energy-3.5, Natural Resources-12.3, Agriculture 22.2, Commerce and Housing-3.8, Transportation-26.1, Community Development-7.6, Education, Employment and Social Service-28.7, Health-30.7, Social security and Medicare- 240.2, Income security-112.5, Veterans Benefits-25.8, Justice-6.0, Government-6.7, Financial Assistance- 5.7 and last but not least by any means, Interest-109.2

I will not attempt to describe the content of all these catagorical budgets but will clarify them hopefully by grouping them into 4 areas; Defense, Payments to Individuals, All other programs and Interest. Since I have discussinterst already I will focus on the other three in my second graph.

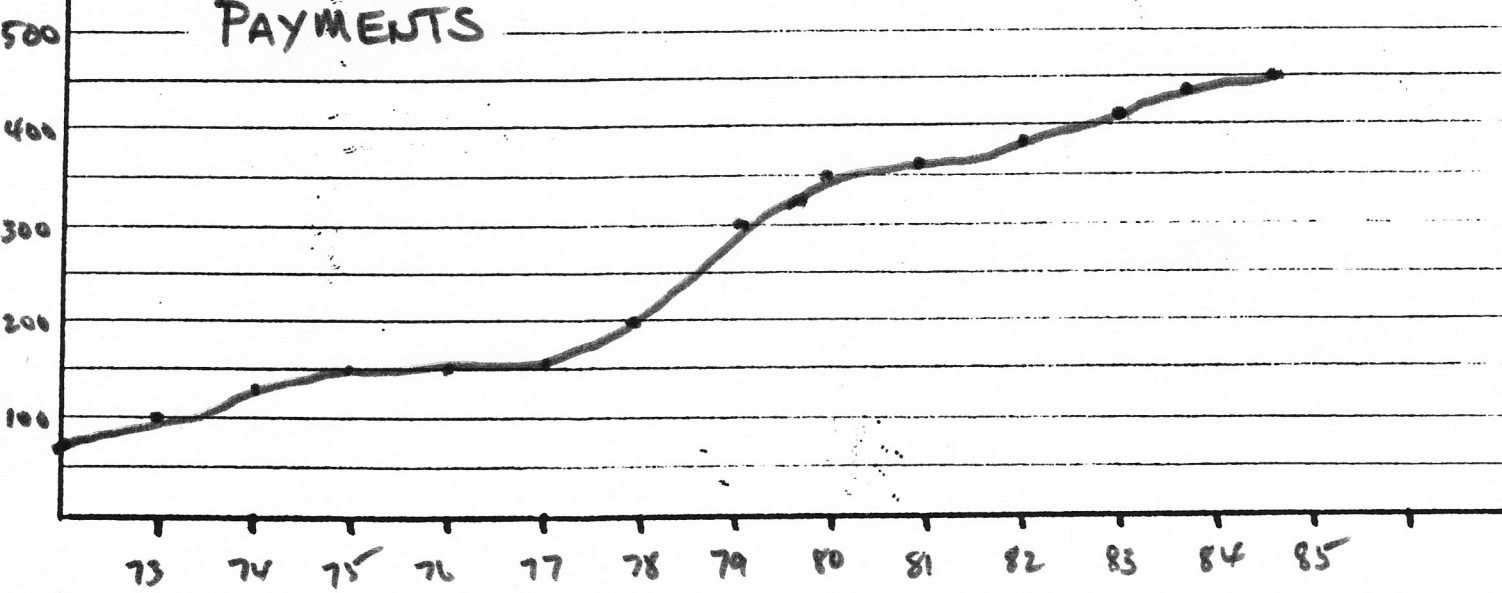
BUDGET 1



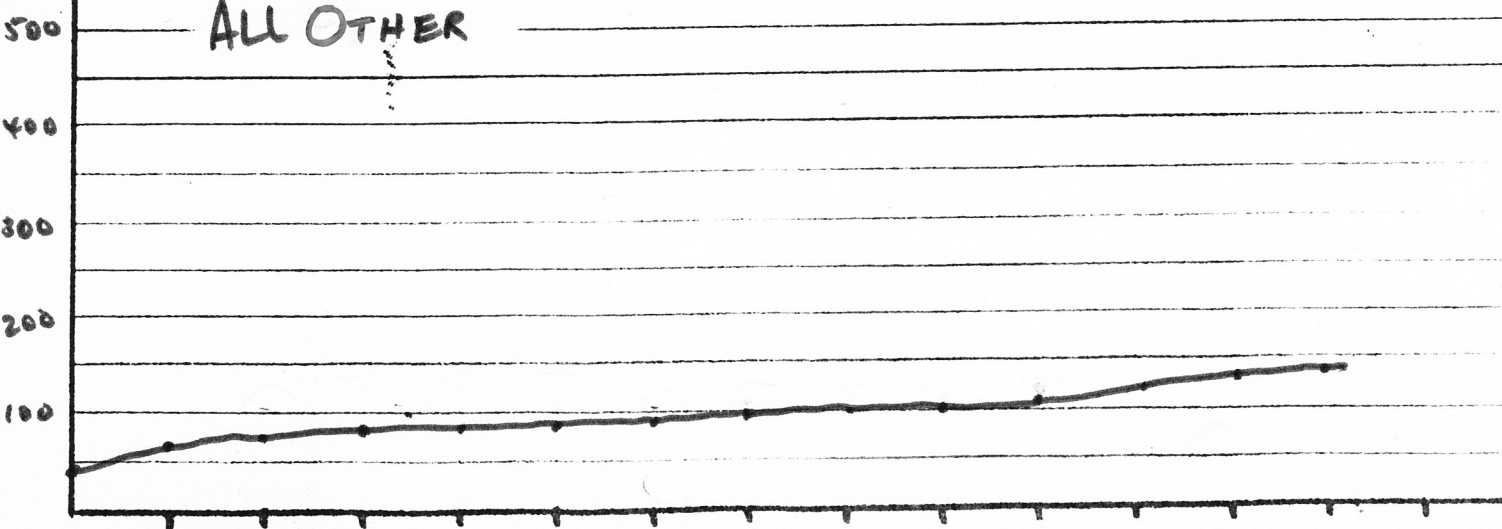
DEFENSE



PAYMENTS

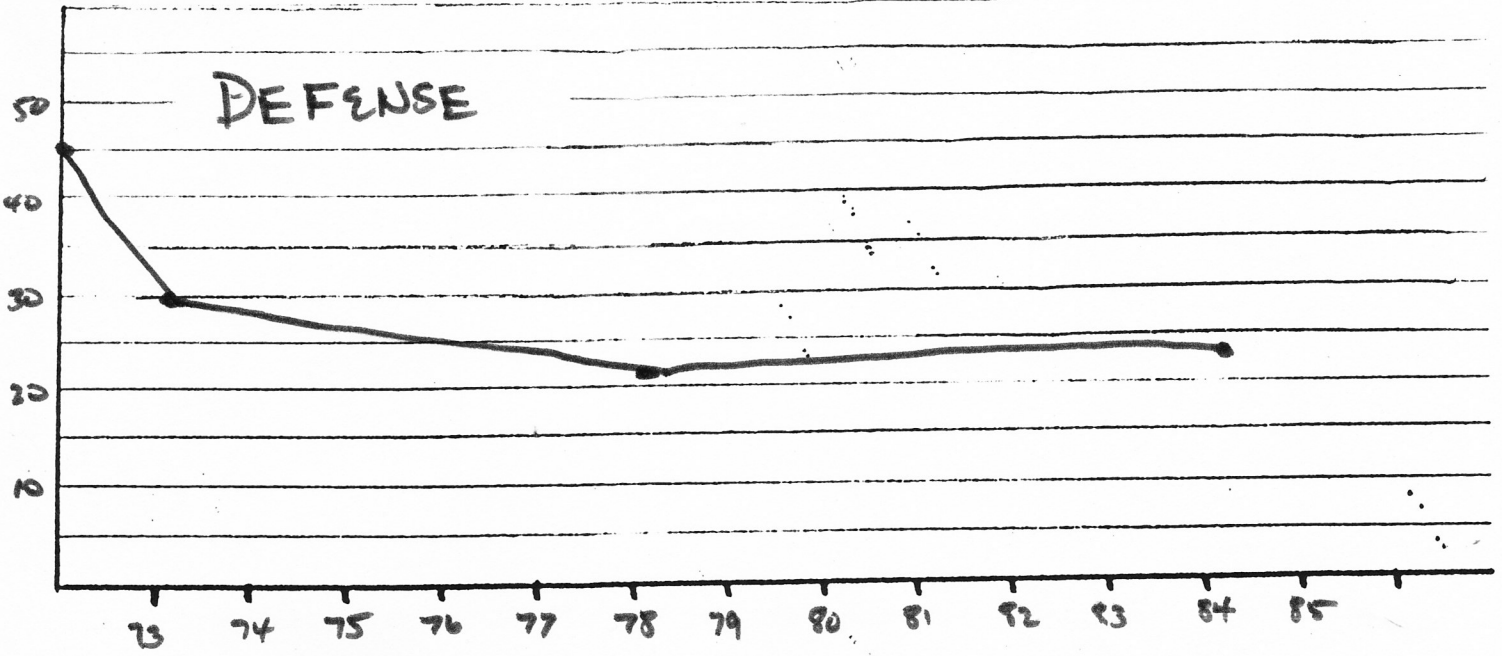


ALL OTHER

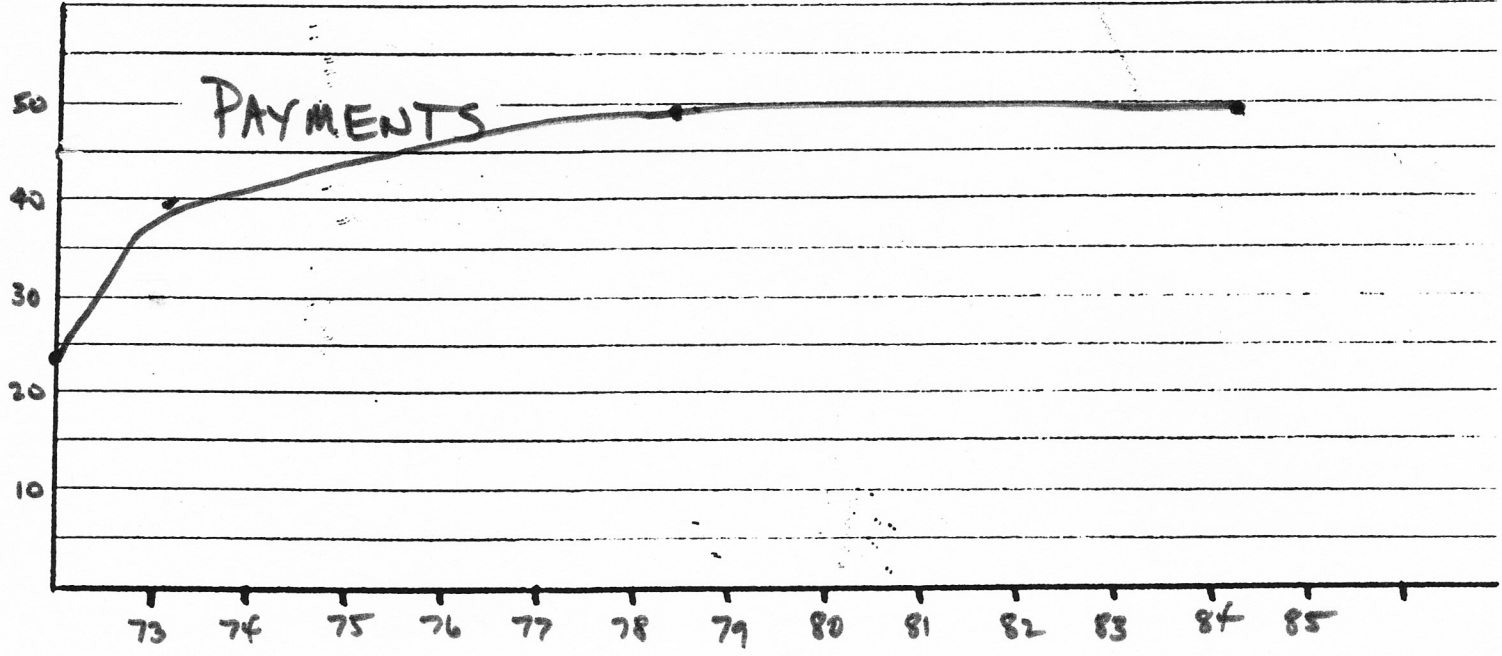


TOTAL EXPENSE - 2

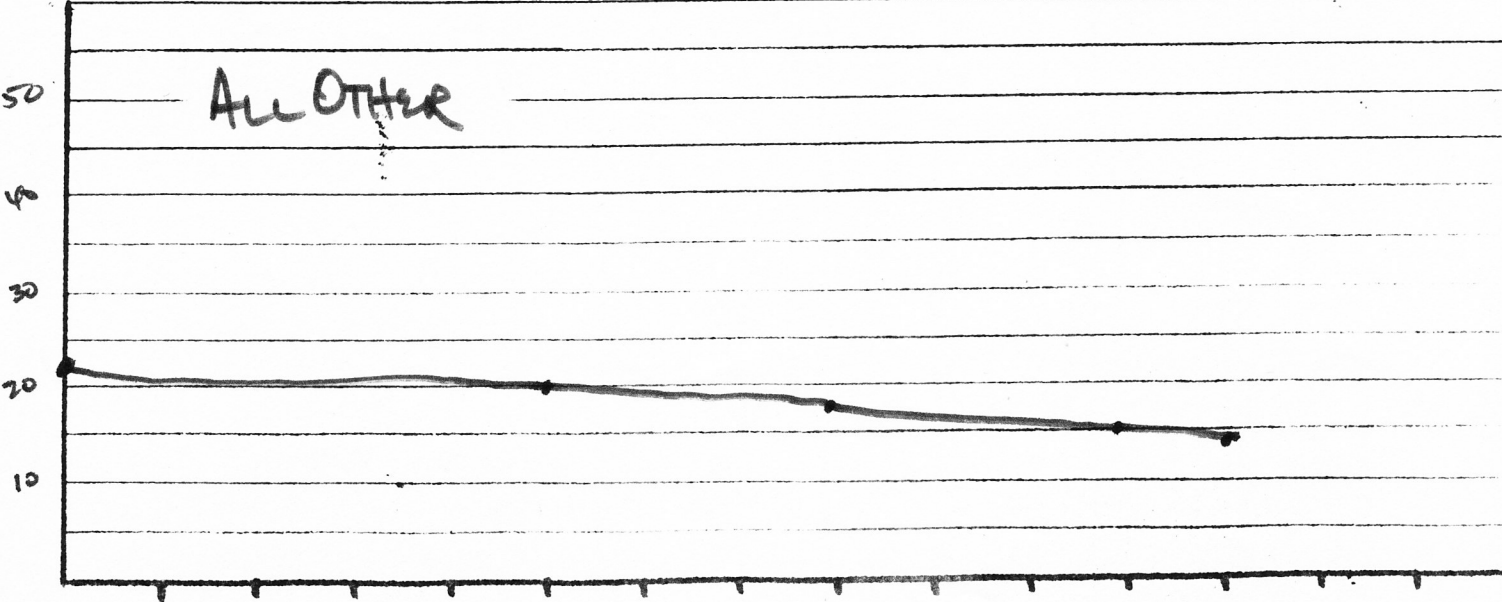
DEFENSE



PAYMENTS



ALL OTHER



% OF TOTAL EXPENSE - 3

As we look at these graphs, please remember a graphing technique you learned in the past, the rate of change determination. The slope of any line represents the rate of change of the two variables. Now look at your graph.

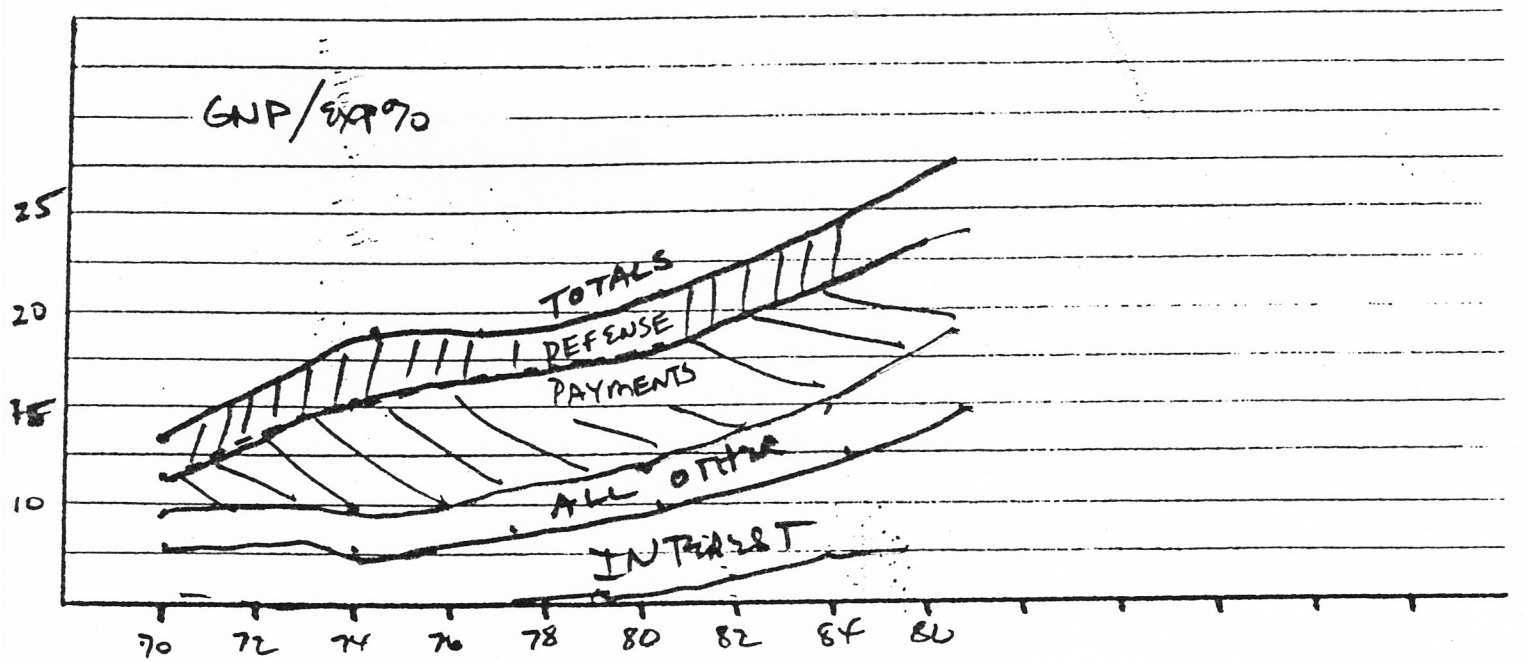
For Defense the early 70's found a 80 plus billion outlay to the current 270 billion figure. The change in the 1st decade was very low with a more pronounced growth in the last 5 years.

In the Payments to Individuals category a somewhat different picture growth in the early 70's, a static period in the mid 70' with an accelerated growth period in the late 70's and growth again in the early 80's.

The All Other Programs category reflects virtually no growth at all. In fact considering the dollar value these programs have actually decreased in size.

There is a second type of comparison which gives a more dramatic picture, that is compare each part to the whole on a percentage basis. It is this comparison (illustrated in Graph 3) which illustrates most accurately the financing of philosophical attitudes. Over the period from 1970 to 1984 defense has decreased from 43 percent of the total in 1970 to 23 percent in 1984. The All Other category has also decreased in the same period from 22 percent in 1970 to near 14 percent in 1984. The significant change has occurred in the Payment to Individuals category, shifting from 24 percent in 1970 to 48 percent in 1980.

GNP % - 4



Still another comparison relates expenditures in these categories with the respective share of the Gross National Product on a percentage basis. Graph number 4 shows this relationship. The upper boundary is the percent of the GNP attributed to the total Federal expenses. The shaded areas beneath the curve illustrates the part attributed to the 4 sub areas.

Please note an overall increase in the share of the GNP consumed by the Federal government from near 18 percent in 1970 to over 24 percent estimated for 1984. Also simply shown is the enormous growth of the percentage given to the Payments category. In fact the percent during the current year is greater than half of the total budgets share in the late 60's and early 70's.

Well, what should be done about it? Are deficits a real problem? What really caused the deficits? Take these questions one at a time.

Deficits are a problem, at least to me even though a recent U.S. News and World Report article cites opposing comments regarding the seriousness of deficits effects on interest rates. Martin Feldstein says yes there is a serious effect while Walter Wriston, Chairman of New York Citicorp says no.

If nothing financial is effected, the psychological burden is sufficient to cause us to act.

What has caused the deficits? Well simply too much out and too little in. But really why? This opinion is not well substantiated but it appears that a form of dependency akin to that created by opiate has beset the American people.

It appears that this dependency of the financial assistance of the Federal government began with the Great Depression and the New Deal programs designed to solve those problems. History would indicate however that generally these programs failed and only the subsequent war economy restored vigor to the industrialized America. Our lessons have not been learned well though for the deficit financing initiated in the New Deal era has never stopped. To the contrary it has grown geometrically. The American citizen's creativity and ingenuity has been reduced to writing another government grant.

What should be done about it? If government financing is the same as general business and personal finance, it is certainly reasonable that the short term acquisition of capital is a necessity for business expansion or development. In any business or personal venture however, a specific plan for amortizing the debt is defined when the loan is secured. Our government has not had to live by these rules.

It does appear today that the consensus among most government business and civic leaders is, YES, government spending of the type done now is harmful. No one has the solution yet.

One group says raise income another says reduce expenses and yet another says do both.

What would an increase of taxes accomplish. Thirty six percent of the Government's income is from personal income tax. If the current revenue from income tax were doubled (293 billion to 586 billion) with the surplus paying the current deficit and making a payment on the debt, it would require _____ years to pay the debt assuming no future deficits.

It would appear that there's not much prospect for that solution.

Cut defense spending-now there's an idea. Where? Nuclear weapons. Not likely for in this year's 300 billion defense budget only 2 % is devoted to the whole nuclear weapons development management and deployment. Over 65% of the defense budget is for so-called conventional forces. For example the maintenance of forces like those at Ft. Campbell. Are we ready to sacrifice by allowing the fort to close.

Cut social programs- yes, but where. Who is the real beneficiary of the 90 billion combined Medicaid-Medicare expense.

My suggestions might also be some of the too simple variety but I have 3.

(1) Government expenditures may not grow at a rate in excess of the growth of the national economy.

(2) That any budget with a deficit have a clear plan and schedule for repayment. With no schedule to exceed 30 years.

(3) All future budgets be required to make at least a 5% payment toward past debts.

My first suggestion would of course require a Constitutional amendment and would be included in a balanced budget amendment. The second likewise. Implementing them is a whole new subject.

To contain the size of government spending there must be cuts. My recommendation is to cut welfare. Now wait a minute before you nod in agreement. My definition of welfare is any "unearned" payment. The list of these is long from Social Security payments far in excess of contributions to Education grants to farm price supports.

Yes we can cut defense spending too. The American system

cannot afford the all volunteer army from two perspective strategic and economic . Strategically, the all volunteer is a misnomer it is professional and America should be represented by a cross-section of her populus not just professionals. The economic is the issue here however. The burden of a living wage for a combat ready military is not affordable. Not to mention the impact in the year 2000+ of the military retirement of these volunteers.

Can all of this really be done-- of course.

Is it likely-- I'm sad to say I expect not.

What do you think?

THOMAS W. WESTERFIELD

December 6, 1984