

*Proceedings  
From The Fourth*

# *Financial Management Conference*

*January 20, 1975  
Washington, D.C.*

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PROCEEDINGS

FROM

THE FOURTH FINANCIAL  
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EDITOR'S NOTES

This publication is primarily a compilation of the major addresses presented at the Financial Management Conference on January 20, 1975. Opinions and beliefs expressed herein are those of the authors and do not necessarily reflect the views or policies of the Federal Government or agencies of the Federal Government.

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## FOREWORD

In 1948 the Secretary of the Treasury, the Director of the Bureau of the Budget, and the Comptroller General initiated the Joint Financial Management Improvement Program (JFMIP) as a cooperative venture to improve accounting in the Federal Government. The Budget and Accounting Procedures Act of 1950 gave the Program official status, recognizing all three agencies' statutory responsibilities in this area. The Chairman of the Civil Service Commission was added to the Program by agreement in 1966, and the Administrator of General Services joined the Program in 1973.

The overall goal of the JFMIP is to improve financial management practices throughout the Government. As one step in promoting improved financial management, the Joint Program sponsored the Fourth Annual Financial Management Conference in Washington, D.C., on January 20, 1975. The principal presentations at the conference and an overview of the workshops are being published in the hope they will be helpful to the 400 conference participants and the others who are interested in the improvement of financial management in the Federal Government.



Executive Director  
Joint Financial Management  
Improvement Program

July 1975



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THE HONORABLE ARTHUR F. SAMPSON  
ADMINISTRATOR  
GENERAL SERVICES ADMINISTRATION

This is the Fourth Financial Management Conference held by the Joint Financial Management Improvement Program. I spoke last year at the conference, and this year I am privileged to be the Chairman of the Joint Program.

Like the other conferences, this one comes at an ideal moment, between the State of the Union Message and the submission of the budget. Rightly, that is the time we should be discussing the concepts of financial responsibility and spending restraints, before those concepts are translated into dollars and cents, into the push and shove of the democratic process. This year, more than ever, the understanding of their process is very vital.

The theme of this conference, the Changing Federal Budget Process, is a timely one, particularly in view of the Congressional Budget and Impoundment Control Act of 1974, which was recently enacted. That Act provides a mechanism for more effective cooperation between the Executive and Legislative Branches. More importantly, the Act provides a way in which the most fundamental questions of resource allocation can be articulated, studied and resolved; a way in which competing claims on our resources can be more clearly seen; a way in which to measure our spending directly against our goals of economy and responsibility. Such a mechanism is vital in times like these, times when our resources are really strained and government costs are high and increasing.

The Joint Financial Management Improvement Program itself is a means of improving the productivity of government. I am sure you have all contributed to the advances of financial management that have been made in individual agencies. In addition, the Joint Program has a number of important projects underway.

For example, in the budgeting area, one project concerns the use of operating budgets for internal agency management purposes. I consider this to be a most important project and really the cornerstone of a budget execution system, a system which develops timely and meaningful data on costs in relation to performance. When this project is completed, we expect to disseminate information to the agencies which will be useful in improving their individual budget practices.

Within the next few days, the President will submit to Congress a historic budget. As he indicated in his State of the Union Message last week, the budget will call for sacrifices from all Americans. It contains

some very harsh choices among competing and worthy claims on the Nation's resources. The President said that the years ahead will be a challenge and an opportunity, and he added that Americans accept challenges and respond to opportunities.

I share his optimism concerning the American character. I believe we in the public service can do the difficult job of managing the affairs of government under stringent budget constraints. I believe we can rise to the challenge of accepting opportunities. But we have to face it, those concepts will remain abstract until they are translated into dollars and cents, until we have to make those tough decisions that are a regular part of public service.

The improved budget process will help us to make those decisions wisely, to direct our resources for the real needs. Of course, improving financial management practices is a complement to an improved budget process. Over time, the efforts of the Joint Program and the efforts of individual managers will insure that we expend our resources faithfully, that we operate efficiently, and that we spend successfully, and that, after all, is the definition of good government.

On behalf of the other principals of the Joint Program, the heads of Treasury, OMB, the Civil Service and GAO, let me welcome you all to a very well-timed and very important conference. Good luck, and thank you.



WALTER KRAVITZ, STAFF DIRECTOR  
HOUSE BUDGET COMMITTEE

I think it should be my function this morning to recall to your memory some of the salient features of the new Congressional Budget and Impoundment Control Act, and to comment a little bit about the surge that led to it, the underlying problems it attempts to deal with, and then tell you a few things about the Budget Committees, in particular the House Budget Committee, and what you might be expecting over the next year or two.

Let me begin with a capsule view of the new budget process. It sets up new organizations. Two of them are Budget Committees, one in the House and one in the Senate, and the third is a new legislative agency that we call the Congressional Budget Office.

The two committees are generally responsible for producing and recommending to the Congress overall budgets for the Federal Government, comprehensive budgets, comprehensive in the sense of all-encompassing.

The Congressional Budget Office's functions, as I understand them, are to provide the informational and analytical support necessary for carrying out these responsibilities. I have heard CBO compared occasionally to the OMB and, to a degree, there is a parallel, but the parallel breaks down after a while.

As I understand it, the Congressional Budget Office is, as I said, an informational resource, both for the Budget Committees and for the Congress as a whole. I have heard rumors from time to time that OMB goes far beyond that on occasion.

What is the process about? The heart of the process is one in which, at an early stage in any session of Congress, the two Budget Committees will recommend, in the form of a concurrent resolution--which, I may remind you, is not a law-making vehicle but, rather, an internal congressional device--to their respective houses overall figures for the budget in the upcoming fiscal year--overall figures for budget authority, outlays, and expenditures, a suitable figure for the deficit or surplus--if we see one in our lifetime--an estimate of the revenue, and an estimate of growth in the public debt, if any.

In addition, these concurrent resolutions are supposed to contain budget authority and outlay figures for each of the budget's major functional categories, of which there are now some 16.

This first concurrent resolution early in the session of the Congress is supposed to be a target-setting budget, not an absolute ceiling.

Having debated and passed these first recommendations, the Congress then goes into what is now normally considered to be its authorization-appropriations process, with some modification, but basically the same process.

Having completed that process at the end of the congressional session, the two Budget Committees are to report a second budget resolution. This second budget resolution is supposed to be based on a review of what Congress had done in the way of appropriations and authorizations, and so forth, a review of what has occurred in the economic situation since the first resolution was passed, and a ceiling. To enforce that ceiling, the Act provides for what is called reconciliation process, whereby this resolution will contain instructions to the appropriate committees of both houses to change existing law to the degree that is necessary to bring programs and areas of the budget within the ceiling as established in that second budget resolution. And once that second budget resolution and reconciliation process is completed, the Act says no bill may come to the floor that will break any of the ceilings. This may be very oversimplified. I hope to simply sum it up in the heart of the mechanical process which is involved.

Let me talk now about some of the problems to which this process is addressed—what is it Congress is attempting to do in passing this Act? Many of these problems I know must be familiar to you, most particularly, that shortcoming to which Congress has become habitually addicted, namely, the late enactment of appropriation bills. There was a time, long before the memory of any living man or woman here, I think, when Congress did in fact pass appropriation bills before the fiscal year began. You won't believe this, I know, but it actually happened. In our lifetime it has become a rarity—that Congress should complete most if not all of its appropriation bills before the fiscal year does begin.

Obviously, this has created great difficulties for agencies, for the managers of programs, and considering the way in which the Federal budget in recent decades has come to have an impact upon states and local activities, upon them as well.

We have to attempt to deal with this chronic lateness, essentially with two remedies. In the first, the Congress has instructed the President to present his recommendations for authorization of existing programs approximately a year and four months before the fiscal year to which they are to apply. In other words, if we were acting under the process right now, which we are not, then for the fiscal year beginning in this calendar year, the President would have been required to submit his authorization recommendations last May 15.

The intent here is to take the pressure off the Appropriations Committee and off the appropriations bills. The hope is that Congress,



given this much advance time, will be able to enact, or at least come to some basic decisions on what it is going to do with reauthorizations, and that consequently the Appropriations Committee will have most of the six months immediately preceding a fiscal year in which to pass the appropriations bills, confident that the authorizations bills have already been acted upon or will be acted upon very shortly.

A second remedy is that of shifting the fiscal year from July 1 to October 1. When I first saw the language of the statute--and, by the way, I didn't have anything to do with the writing of this bill, so if you want to blame somebody, don't blame me for it, there are other people involved--when I first saw the October 1 date, the first thought that occurred to me was, if you are going to change the fiscal year, why don't you just change it to January 1, to make it the same as the calendar year.

I am told by the technicians who worked on the Act that what actually happened was they worked out the whole budget process and saw how long it would take and then just moved the fiscal year to the place where they thought it was necessary to move it in order to take into account the length of time they figured the process would take, and it just happened to come out October 1.

Nevertheless, in so doing, what the framers of the Act tried to do was to structure a situation in which it would be easier for Congress to complete its work on the budget before the fiscal year begins, hence an October 1 fiscal year as of next year--not as of this year, but as of next year.

A second problem to which the Act addresses itself is that of impoundment. I need hardly explain to you what impoundments are. Suffice it to say that the remedy in the statute is one which gives Congress processes for reviewing and for stopping impoundments, classified either as rescissions or as deferrals.

I must tell you, I am not particularly happy about that part of the statute. It is still an open question as to whether those processes are suitable ones, and whether, in fact, the Congress will be able to control unreasonable impoundments even though this process is a rather complex one.

Nevertheless, in all justice, the remedy was forced on Congress. I don't think it was one which Congress undertook lightly, and it was forced on Congress in almost pure self-defense, where the President seemed to be determined to go beyond the bounds of propriety in this area.

The third item to which the Budget Act addresses itself is probably the heart of the matter, and that is the fragmented way in which Congress now deals with the budget and has been dealing with the budget for well



over a hundred years. This is a process in which a budget arrives from the President and immediately gets broken down into little pieces, never again to be reassembled. A part goes here, a part goes there, and each of the parts is considered virtually in isolation.

There is no process in Congress, or there was none before the passage of this Act, for considering total expenditures, total budget authority, not even in the Appropriations Committees. In recent years, only about fifty percent of the annual outlays passes through the Appropriations Committees, and even in the Appropriations Committees it is pretty well understood that each of the appropriations subcommittees is virtually autonomous and there is rarely any coordination among them.

Furthermore, this fragmented budget process has been faced with the situation, a growing situation, of uncontrollable items in the budget. There are, as you know, only about 25 percent of total outlays that are controllable under current law. This, too, contributed to the fragmented way in which Congress has been considering the budget.

There has been, in short, no process by which Congress could in one place compare what it has done in the way of authorizing outlays or budget authority with what estimates of revenues are and with what deficits or surpluses might follow from the combination of the two.

The remedy had been to establish these two new Budget Committees, with jurisdiction to consider the budget as a whole, to consider expenditures in relationship to revenues, and to do so by means of a budget resolution which I mentioned earlier.

Furthermore, there are provisions in the statute which are intended to bring at least a part of the so-called backdoor spending process back into the appropriations process.

A fourth area in which Congress has been criticized for many years in the way in which it deals with the budget is its inattention to consideration of national priorities. Once more this fragmented system is at fault in a system in which education priorities are considered by the education committees, without taking into account the relationships of such policies and such budget areas to all the rest of the budget. I don't pick out the education committee to fight them; other committees obviously fit the same kind of rules.

Here again, the Budget Committees are presented with an opportunity through these budget resolutions to exert an influence on national priorities and to give their recommendations concerning national priorities in the form of suggestions as to the sums that should be allotted to various functional categories.

Another shortcoming of the congressional budget process in recent decades has been that no place in Congress is there any authoritative consideration given to the impact of the budget on the economy, either short-range or long-range. Here, too, the Budget Committees under this Act are given a special and specific responsibility to review the macro-economic impact of the budget. Macro-economic--I love to use that word. I am not an economist, you must understand. I am a political scientist, and most of my adult life I have been totally confused by the jargon that economists throw around, and so I have lately picked up this phrase, macro-economics, which I throw around at every possible opportunity, not really understanding what I am talking about.

The other day we had a staff meeting in which the economists were sitting on my right side, the budget staff were sitting on my left side, and the computer people were sitting behind me. I was surrounded by three competing jargons and came out with a fascinating variety of terms, which I won't bore you with, and to this day I don't understand. Eventually, I assume I will. My great forte is not understanding what they are saying but seeing to it that there are a lot of people who do.

Nevertheless, the impact of the budget on the economy is obviously a critical matter which Congress has not been giving consideration to in recent years in any systematic fashion, and here again the Budget Committees are given the responsibility for doing so and, moreover, for doing so not merely on the basis of what the impact will be on an upcoming fiscal year but, in addition, to use the resources of the Congressional Budget Office and any other office it can get to think about five-year or more projections of the budget. And this is a recognition of something which those of you who are far more familiar with budget activities than I am long ago recognized that the state in which the Federal budget now rests is one in which decisions taken five years ago largely limit the options that one can take in the immediate upcoming year. It is this attempt to take a look at the budget over a long term through which the Budget Committees hope to deal with some of the basic fundamental problems of our budgetary process.

Finally, and underlying all of these expectations, has been the rather sad situation Congress has been in with respect to the availability of budget information and the ability to process and analyze and understand that information.

It is true that Congress does have its own specialized sources of information, some of them in such institutions as the Library of Congress, where I spent a good many years, and the General Accounting Office, some of them not quite so overt. It is always fascinating to me the way in which the Appropriations Committees and some other committees are nevertheless able to learn about some of the more intimate details about the way in which policy is made in the Executive Branch, although these bits of information are supposed to be sacrosanct and secret. But the thrust



here is to attempt, more particularly through the new Congressional Budget Office, to present Congress, and most especially the two Budget Committees, with the most expert resources and the most expert techniques of gathering and analyzing systematically the kinds of information the committees in Congress need in order to understand and to make informed decisions about the budget.

These, it seems to me, are some of the major things that the Budget Act attempts to deal with. But the central thrust here, and one that I hope Congress and you will not overlook, is to provide a process by which Congress can deal responsibly with the budget and with the budget as a whole.

I have been a servant of Congress in one fashion or another now for about twenty-four years, and I am the first to defend it. But in this one respect there is very little that one can say in defense of the Congress over the past four or five decades or more. In its dealings with the budget, Congress has evaded its responsibilities. It has evaded it by its fractionalization within its own internal processes, which lead to some interesting pay-offs. It is very comfortable for members of Congress, or it has been very comfortable for members of Congress being able to vote one day for enormous expenditures and then six months later for a ceiling on spending for the upcoming fiscal year, which is totally unrealistic in view of the earlier vote. In this fashion a member can go home to his constituents and say, "I am both a spender and a saver." If this new budget process works, that will no longer be possible. If this accomplishes anything, this process will put Congress into a position in which it will have to face up to the fiscal consequences of its individual acts. It will be painful, but I believe it is absolutely necessary, if Congress is in fact to exercise the kind of responsibility that it should be exercising under its power of the purse.

Let me remind you that legislatures all over the world in our day are declining institutions. The Congress of the United States is probably the last of the great strong authoritative legislatures and this, of course, in comparison to other legislatures, but within our own governmental system I think it has been fairly clear that Congress has been declining in authority, in prestige and effectiveness vis-a-vis the Executive Branch for the last thirty or forty years at least.

If that degeneration is to be reversed, this budget process must be made to work. This is a central, crucial, the most crucial, area for congressional control. If Congress cannot make this process or something like it work for itself, then in my view Congress is dooming itself in our lifetime at the very least to becoming a tangential factor in public policy decision-making.

As a staff member of the House Budget Committee, I am quite concerned with the mechanics of the process as well as with its overall output.

One area of the mechanics which we think is crucial is that of our relationships with the other committee of the House, and of course with the Senate committee and the other committees of the Senate. Let me make two points about that relationship.

In the first place, as I understand the statute, it is not the intent to create in the Budget Committee a super committee of Congress. It is not the intent to create in the Budget Committee an overwhelming, over-powerful, centralized point of authority for the whole Congress. This is not the intent. It is not the intent to have the Budget Committees invade in any fashion the jurisdictions of other committees.

As I understand it, it is the function of the Budget Committee to take on the responsibility which did not exist and does not exist in the Congress heretofore, that of trying to deal with the budget as a whole and its impact on the economy and the question of national priorities, of the relationship of the jurisdiction of the various committees to each other.

I do not see the Budget Committee attempting to invade the jurisdictions of other committees by going down into the fine details of program. The Budget Committees are responsible for the overall budget recommendations, for functional categories, in the sense of trying to deal with national priorities within the budget. But, as I understand the situation, it is the responsibility of the Budget Committee to recommend the overall approach and to leave the details of carrying out the decisions of Congress on the budget resolution to the legislative committees and to the appropriations committees.

Secondly, I see the relationships between the Budget Committees and the other committees of the respective houses as being one of crucial importance to the success of the process. I believe that cooperation and communication between the Budget Committee and all other committees are absolutely essential or the process won't work. The act provides for a flow of information from other committees into the Budget Committees. I think this is merely a surface indication of the depth of relationship that must be established if the process is to work in a reasonable fashion.

Let me finish up by saying that any act, especially the Budget Act, lays out a process, not a guarantee. Let me remind you of prohibition, that laid out a process, too, there was no guarantee. The same thing with the Budget Act. This gives Congress the opportunity, if it will take it, to grasp an area of decision-making in which it has been deficient. But no process can force people to do what they don't want to do. The real test will be whether Congress wants to do it, whether Congress believes enough in its own institutional integrity to put this process into effect.



It is encouraging to note that the Act passed at all, and we seem to believe that there is such a will in Congress and, as I say, in my view, it must be made to work if Congress is going to survive as any sort of reasonably important institution in our government.

My wife recently called to my attention a prayer by Reinholdt Niebuhr, which he gave some forty-eight years ago or so in Massachusetts, and in this he said, "O God, give us serenity to accept what cannot be changed, courage to change what should be changed, and wisdom to know the difference." At the very least, Congress has shown some courage by passing this Budget Act. Whether they have shown any wisdom, you and I will both find out over the next several years.

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QUESTION: Do you think the Congress has the necessary discipline to fulfill its obligations and meet the deadlines set forth in the Act?

RESPONSE: We will find out. The deadlines are ferocious, absolutely ferocious. And I think it is fair to say that if Congress continues to move at the rate it has been moving, it will not be able to meet those deadlines. The problem is going to be to find some way to see to it that they do. I don't know the answer. I don't know whether they have the necessary discipline. I hope so. As I said, we will all soon find out.

QUESTION: Please comment on the staffing of the Congressional Budget Committee and the Congressional Budget Office, and the adequacy of those staffs to carry out organizational functions.

RESPONSE: I can speak to you very happily about the state of staffing on the House Budget Committee. I am rather elated and astonished at the superbly capable people we have been able to recruit under very difficult circumstances. We are a little over 60 percent staffed at the moment. I hope we will be somewhere in the neighborhood of about 80 percent staffed by about the second week in February. And, as I said, these people we have been recruiting I think very, very highly of. And my impression is that the Senate Budget Committee is staffing at about the same rate.

With respect to the Congressional Budget Office, we have reached something of an impasse. The law states that the Congressional Budget Office becomes a reality only when a director is appointed. Unfortunately, the two Budget Committees, which are responsible for making recommendations to the appointing officers, who are the Speaker of the House and the President Pro Tempore of the Senate, have not to this date been able to agree upon a single candidate.

I must tell you, I am very disappointed at this. I was very anxious to have a Congressional Budget Office director appointed at least

as early as last December, when Congress adjourned. It was not to be. I hope that a decision will be arrived at sometime by the end of this month or the beginning of next.

I may very well point out that one of the difficulties of the new Act is that I am not at all sure that Congress is the kind of agency that should be a selecting and appointing body. I suspect that this is a much more amenable task for an Executive agency or an Executive Officer than it is for a pluralistic organization like the Congress.

QUESTION: Would it really be possible to avoid serious jurisdictional disputes among the various committees?

RESPONSE: Anything is possible. The question is, is it probable? There will be disputes. It is in the nature of the system. There will be conflicts. That is what the congressional system is about, conflicts. That is what politics is about, conflicts. The question is how do we minimize this to the degree necessary to achieve the kinds of results we are looking for in the budget act. We will do the best we can. I don't know how else to answer that. Obviously, many committees are suspicious of the Budget Committee, suspicious of what it might be doing to their programs, what it might attempt to do to their programs, what is their authority.

The best I can tell you at this moment is we are making assiduous efforts to establish relationships and contact with the staffs and members of all the committees of the House of Representatives to allay their fears on the subject and to establish the kind of rapport that we think will be necessary for the success of the process.

QUESTION: When will the first concurrent resolution be considered in both houses?

RESPONSE: Under the statute, the process does not become mandatory until next year; that is, with respect to the budget for fiscal year 1977. Essentially, that means that things get started before that year—about November of this year. But there is a provision in the Act which permits the two Budget Committees, if they agree, to institute all or part of the process this year; that is, with respect to the budget for fiscal year 1976. This provision says that the two Budget Committees, by their agreement, may change virtually any part of the process, change dates, may leave out parts, whatever seems most appropriate to them under the given circumstances.

Late last year, before Congress adjourned, the then existing Budget Committee, on the basis of very extensive analyses of what the budget practice is about and what conditions will be like this year, tentatively—I emphasize the word "tentatively"—agreed that they would attempt to do this year as much of the process as is possible. Some things are not possible.



The fiscal year will not begin on October 1, which was to be the normal expectation, but on July 1, and obviously this raises difficulty, since the underlying assumption of the new process is that the fiscal year would begin on October 1. There are other problems.

The President obviously has not had time, has not had that year's grace in which to make his recommendations on reauthorization. This too must be taken into account. The Congressional Budget Office is not yet established. This is obviously a critical factor.

Nevertheless, as of the end of the last Congress, both committees have agreed that, to the degree it was possible, we would try to implement part of the process, including the reporting of a first budget resolution, with a deadline date of April 15 of this year.

Now, the House Budget Committee is being reconstituted, to a large degree, and a new Chairman is being chosen, I hope before the month is out. It is in a kind of limbo at the moment. Obviously, the new committee will have to reassess that tentative decision, in the light of some new developments and make its own decision on what it wants to do.

I suspect that they will again want to do as much as they can, and if that is the decision, then you can expect the first budget resolution, keep our fingers crossed, by April 15.

QUESTION: If this budget reform is to restore congressional prestige, how soon should its effects be seen, and how will it appear?

RESPONSE: I have dealt in part with that by telling you that we hope to put into effect part of the process this year. Next year, it is a mandatory affair. Next year, all of it goes into effect, including the shift of the fiscal year to October 1st. By the end of next year, you will know whether we are dead or alive. If I am still breathing by the end of next year, it will have at least partially worked. If I am some place else, you will know we can all forget about it, and we will start looking for another process.

PHILLIP S. HUGHES  
ASSISTANT COMPTROLLER GENERAL  
OF THE UNITED STATES

You have a rather heavy day on the congressional budget process, the new one, and related institutions and events, and let me try to put before you some thoughts on the same subject and perhaps substantially in agreement with those that Walter Kravitz has already expressed, but in a little different context, and thereby perhaps stimulate your own thought processes and your questions. I would like to leave as much time as you want to take for questions and answers about what I have to say and about what the General Accounting Office thinks it is going to be doing.

One of the rather interesting things, in talking about the Congressional Budget Office and the process at this time, is that we are all speculating because there is not yet an office, as Walter pointed out, and the process itself hasn't yet been tested. I certainly agree fully with him in the conviction that the Congress somehow has to make this process or a similar one work, and if they don't do it this time, they need to take a run at it another time, in another era, by another means, and somehow do the job.

I think the events and the circumstances that require it are essentially those that Walter talked about. I would put particular emphasis on the fragmentation of congressional consideration of the budget. That has rather profound implications, as I see it, in terms of the balance of power and the balance of policy determination as between the Executive and the Legislative Branches of the Government. And let me just dwell briefly on that aspect of what I regard as a very compelling need for something like this process.

Woodrow Wilson, who was a political scientist before he became a politician, wrote a book about the turn of the century, which essentially said that the Executive, the President, that is, will be completely overpowered by the Congress and that they might just as well give up, the present one and all future ones.

And about a decade or twelve years later, not long before he entered politics, he wrote another book which essentially reversed his position and said, in effect, the Congress is dead and the Executive now and henceforth will overpower the Congress in terms of its grip on policy matters that confront the Nation.

Well, in between the two books were a whole series of events, the first Roosevelt, some of the things that he did, and obviously Mr. Wilson had an opportunity in that period to reconsider his position in these matters. But for most of this century, as I see it, and I



think as most people have seen it, the Congress has been declining in terms of its influence on the national priorities and on the creation of programs to do the tasks that the country needs to do. Again, in my own personal perception, I think the first Roosevelt perhaps started the process and, if that is the case, the second one, aided and abetted by successors, really wound the thing up.

Somewhere along the end of the thirties, there was a reorganization program that went forward to the Congress and which the Congress allowed to become law under new procedures, and that reorganization plan created the Executive Office of the President with, among other institutions, something called the Bureau of the Budget, which was moved out of the Treasury Department and placed in the President's Executive Office and at his direct disposal.

By doing this, by accomplishing this reorganization change, the President acquired a new tool with which to manage the Executive Branch of the Government and to try and make it do his will. It seems to me that many of the more recent developments, the developments during the years of World War II and subsequently, have reflected the importance of this new tool in the President's kit to his management of the Executive Branch and, incidentally, but very importantly, in enabling him to struggle against and with the Congress and win perhaps more often than not.

Well, in this sort of context, one can look at the recent enactment of the Congressional Budget Act as an instance where the Congress has taken a leaf out of the President's book and is trying to copy in some sense a tool that the President has used very effectively and trying to modify it and mold it to congressional use.

So modified, the tool is really not one for managing in the sense that OMB is frequently--some say too often--engaged in managing, but, rather, a tool for analytical purposes and for priority setting and for fact gathering and information producing. These are also functions of the Bureau of the Budget, now the Office of Management and Budget, and the Congress, for one reason or another, has not had such a tool.

I think, again, Walter pointed out the fragmentation of congressional consideration of the budget, the fact that appropriations subcommittees, by custom if for no other reason, are very autonomous, that they do their thing and when the Congress is through it tends to add up the totals with the only top-down consideration of the whole budget perhaps being some sort of a congressional enactment which requires the President at his discretion, or maybe within general guidelines, to affect the overall totals, to reduce them, normally.

The Congress, historically (again, my perception), has been somewhere between an anarchy and a feudalism. It is designed really, as I



see it, or has historically been so designed, not to speak with one voice. Somebody—I don't know whether it was de Tocqueville or not—referred to the Congress as a standing revolution, and I think that is a rather perceptive observation. It is there to dispute and to debate and in a sense not to speak with one voice but with as many, on occasion, as 535.

For the first time, with the budget process, the Congress has been trying to design a tool and a process which will enable it to speak with one voice and thereby to counter, if you will, or to initiate on its own, program proposals to counter presidential proposals or to initiate its own proposals. Who will speak for the Congress? It is going to be both difficult and interesting to watch this legislation and the process that it establishes work out, because, at a minimum, we have two houses of the Congress that have to come into agreement; we have two parties in each house; clearly the committee structure in each house, and the range of views in each house is far wider than that, and the process is designed somehow to meld out of this revolution some sort of policy and priorities with which the Congress can respond to the initiatives that the President takes.

The Budget Committees are keyed to the process. I think it was wise and perceptive that the Budget Committees are to deal in functional terms basically, rather than program or agency terms. Obviously, sooner or later, they have got to look at programs or agencies; but I think their success, the success of the Congressional Budget Office, and of the agencies that are trying to support the process, will depend very largely on the extent to which the budget process and the Budget Committees can conduct their negotiations with Appropriations Committees and with authorizing committees in functional terms, rather than in terms which put them in direct confrontation with existing power centers and with existing sets of experts and specialists, but we will have to wait and see.

The schedule itself is obviously of crucial importance and it is indeed a horrendous one in congressional terms. It is going to be extremely difficult, will require a great deal of discipline and determination to work out. I think we can take heart from the evidence of support and interest that has already been expressed, but that is going to have to be sustained over the next year and a half, roughly, if the process is going to work. But the goal of the process and the perception that I would try and communicate to you in very over-simplified terms is of a new look at government, a new look from the congressional perspective, top-down, at the whole panorama of government programs and agencies with the objective being to make choices, not just to arrive at piecemeal mark-ups in the budget or in appropriations, but to arrive at a program which is balanced and which reflects somehow the priorities and the choices of this large and disparate body that is the Congress.

The Budget Office and the Budget Committees are in the middle in a whole range of ways, and I think inevitably so. First of all, they are in the middle, the Budget Office in particular is in the middle, between

the two houses. It must maintain an even-handed relationship, stay in communication with both, and somehow do analytical work within the constraints, financial or otherwise, that reflect the needs of both houses.

It is in the middle between two parties. While the majority party obviously is going to control in a direct sense, somehow if the process is to be effective, the wishes, the needs, the choices, the alternatives of the minority must be posed for consideration.

It is in the middle, I think, in a very real sense between the Congress and the Executive. If the process is going to work, there will need to be built up both formal and informal relationships with the Office of Management and Budget, in which the Executive agencies will enable the Congressional Budget Office and the Budget Committees to have the information that they need on a schedule and with the background knowledge that is necessary to develop the choices, the priorities that Congress is going to have to have if it is to take this top-down look at the budget.

It is going to be an interesting life for the committee and the Budget Office for a few years, as they work out the complex relationships with the Appropriations Committees, the authorizing committees, the OMB, between the two parties and between the two houses, a very complex Federal relationship.

Now, let me talk just a few minutes about the GAO's responsibilities in this, as best we can judge them, again, recognizing that the process is not yet in effect and that a very important part of it, the Congressional Budget Office, is not yet in being.

We have some very specific statutory responsibilities in two areas. One, Title VII of the Act talks about program evaluation at length, and charges the General Accounting Office with doing more and better in this area. The Legislative Reorganization Act of 1970 also gave the General Accounting Office program evaluation responsibility, but this Act gives those responsibilities new emphasis and requires, among other things, that the GAO develop standards and criteria for program evaluation and various attempts be made to further the state of the art.

From our perspective, the term "program evaluation" should be looked at with a small "p" and a small "e" rather than in capital terms. I survived the PPB era in the Bureau of the Budget and I am accordingly suspect of disciplines or techniques or processes which require a union card for carrying them out.

As I see it, program evaluation is something that a good many of us do a good deal of the time; certainly, we are doing a lot of it within the General Accounting Office, and have done it for a number of years,



and the proportion of our work that falls into that category is growing rather constantly and rather rapidly. The Comptroller General has referred to it as program results auditing also; and, again, I think it is important to avoid the notion of rigid techniques, a set of skills only acquired at certain schools or in certain courses, and rather look at a rather broad range of work done by operations research people or systems analysts or budget analysts or management auditors, as program evaluation.

The other rather specific area of responsibility for the GAO is with respect to congressional information. For many years, the Congress has felt it was deprived, lacking, inadequately equipped in the area of information about Federal programs. I think there are legitimate questions as to how much of this deficiency was a matter of the lack of basic data as contrasted with the unavailability or lack of knowledge of the availability of that information when it was timely and appropriate.

In any event, Title VIII of the Budget and Impoundment Act charges the General Accounting Office with some direct responsibility of its own in the area of congressional information and also requires the Comptroller General, as did the Legislative Reorganization Act, to cooperate with the Director of OMB and the Director of the Congressional Budget Office, when it is established, to carry on classification and definitional functions that are essential so that we know what we talk about when we use particular terms.

One of the real problems in congressional information gathering is access, and access includes knowing what questions to ask as well as what answers to give. I think it is a fair statement that a lot of the congressional problems are in the access area. This reflects the lack of expertise in the Congress about asking questions and about knowing where information is available.

But, in any event, we can look at the whole panorama of problems. Sometimes basic data just simply isn't available, and GAO is to identify congressional needs not being met and try and provide that information.

Sometimes the information is available but only selectively. Just what we do about this, I don't know. Authorizing committees and appropriating committees alike have information which they are not anxious to share unless they know it goes to their friends, and somehow we need to come to grips with this problem.

Other times, the problem is with respect to not knowing the questions or simply not knowing where to go, even though the information is readily available, and the General Accounting Office is in the process of developing indexes of information sources of one kind or another.

This is detailed work, time-consuming work. Computers are a help, but people are the first step, as well as the last step, in the process,



in my judgment. Maybe in a decade or so we will have solved some of these problems. We can get into the reasons for slow progress here more in the question period, if you would like.

Finally, the General Accounting Office has a rather general charge to back up the Congressional Budget Office and to give it support and provide information for its use when asked. Also, as a part of that, it is generally charged with being capable of analyzing the data and dealing with it in priority terms and choice terms and producing that information in a form usable to the Budget Office and to the Budget Committees.

We are underway with all of this. There are specific segments in the General Accounting Office dealing with each of these tasks. I think it is not so important what their names are or where they are as it is that the work is going on.

Finally, I think I should close with a reminder from Mr. Shakespeare about the difficulty of some of this kind of work. In the Merchant of Venice, Portia, without any knowledge of public administration or of congressional budgeting, made this statement: "If to do were as easy as to know what were good to do, then chapels had been churches and poor men's cottages princes' palaces." I would rather teach twenty what is good to do than be one of the twenty to follow my own teachings.

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QUESTION: What impact will the new budget process have upon financial managers in the Executive agencies?

RESPONSE: I think that is a fairly easy question to answer. It will mean more work. There is no alternative to that. I have talked with some of my former colleagues in OMB and they are deeply concerned--and they don't think it is funny, for a perfectly understandable reason--they are deeply concerned about the added burden of a whole new set of institutions, two Budget Committees, the Budget Office, new parts of the General Accounting Office, increased activity in other institutions. What that means for OMB is fairly obvious. It means more work. The Act itself requires the submission of a current services budget by November 10. That is a whole new step which antedates any steps that have heretofore been required in the budget process and, of course, the Executive budget process will continue as in the past.

If the new process in the Congress works right, financial managers and program managers in the Executive Branch should get some new and tougher questions to answer about the reasoning and the justification for positions expressed in the Executive budget. But more work in general.

I think personally that it is a worthwhile kind of work. I think what it means is that final congressional actions will be better considered,

better thought out, dealt with in a broader policy framework, with more informed actors in the drama, and I think that is a good thing.

QUESTION: Since the Budget Committees are not supposed to take over responsibility of other committees, how will priorities be determined in Congress?

RESPONSE: I think I indicated rather briefly that the new budget process starts at least on a functional basis—overall determinations of targets of income and expenditures, then division of the expenditures on a functional and subfunctional basis in accordance with a scheme to be worked out by the Budget Office and the Budget Committees, with advice and counsel from the General Accounting Office, among others. Then, via the process that Walter described, the first concurrent resolution and then the second concurrent resolution and reconciliation, the Budget Committees will suggest what the Congress itself will ultimately arrive at as the decisions here. It is going to be a tough, tough thing to do, because even though the Budget Committees start out on a functional basis, they are going to need to have program-by-program, agency-by-agency backup support rationale for their actions, and sooner or later they are apt to be in some sort of controversy with the appropriations subcommittees, for example, or with specific authorizing committees. I think the degree of controversy can be reduced if the Budget Committees and the Budget Office deal in terms of alternatives and ranges, rather than in terms of hard and fast marks, so to speak, on particular appropriations or agencies.

But generally, it seems to me, the Congress itself will decide the priorities, working within this functional framework, with an awful lot of difficult and delicate support from the Budget Committees and debate between them and sponsors of particular programs.

QUESTION: Budget submission deadlines for many agencies will be in the September before the end of the current fiscal year; therefore, submissions will no longer be able to show prior year actual figures. What problems will this cause?

RESPONSE: It will require some more estimating. In a lot of circumstances, it has been very difficult to show reliable actual figures anyway for some years. The continuing resolution business has loused that up for quite a while. This is a one-time problem if the budget process works. It is a problem this year, and it may not be a problem in future years, as I see it, if the schedule is maintained.

QUESTION: What are the prospects for a meaningful standardization of budgetary clarification? Will all the different groups be asking for information on different bases?

RESPONSE: Over time, I think that prospects for a meaningful standardization are very good. I think the Budget Act provides new teeth for



the process. We in the General Accounting Office have charge, in a sense, of the classification system and the definition for congressional information. OMB has charge of that process under the Budget and Accounting Act, within the President's budget and for the Executive Branch. We need to work closely and cooperatively so that we don't develop two systems, or at least so that we minimize the development of two different systems. But over time it seems to me that we should be able to do a pretty good job of defining and classifying data.

QUESTION: Will all of the different groups be asking for information on different bases?

RESPONSE: They do now. The problem right now is they do it without really knowing it. Accountants are dealing in one set of terms, agency people who are dealing in agency structural terms are really looking at a different set of figures. Those who are working from budget functions have still a third set of numbers; and, for the first time, the Congressional Budget Act makes clear we are starting out at least on a functional budget basis; and I have assumed that that would be a functional basis more or less as it is set forth in the functional classifications in the budget now. It is a starting point. It isn't perfect, and we ought to try and get our financial data, our organizational data and our program data all on the basis of the same definitions and the same classifications.

QUESTION: Summarize the GAO role in Title X.

RESPONSE: I didn't talk about Title X. Briefly, Title X deals with impoundments, and it deals with them in new terms. As Walter pointed out, the Congress was extremely unhappy with the actions of the Nixon administration with respect to withholding from expenditure funds that the Congress felt should be spent. This was in the process of working itself out via the courts when this legislation was going through the mill, but the Congress obviously felt it necessary to deal specifically with the impoundment of funds in this particular act.

I think I share some of Walter's reservations about the wisdom of the process established, and there already has been some controversy about the interpretation of the Act. GAO has been in the middle of that. But by and large, I think the process has been working thus far.

There is rather a dilemma here. On the one hand, the legislation seems to say that the Congress wants to be habitually informed by the President whenever anybody in the Executive Branch withholds any money for expenditure for any purpose. As some of you know, there are literally hundreds of thousands of actions taken by anybody from the President to the Director of OMB to the agency heads, the program or bureau chief in the agency, and out to the contracting officer or the grant making officer, withholding actions which are wise, generally noncontroversial, that everybody would support.

We don't want to get covered up, we in the General Accounting Office don't want to get covered up, and we don't think the Congress wants to be covered up with all that paper. It really is trying to—we think it was trying to define and identify policy deferrals. Our task, under the Act, is to review the messages that the President sent to the Congress, under the terms of the Act, notifying of deferrals and rescissions, and informing the Congress essentially whether the President has told them the truth and whether he has reported all such rescissions and deferrals.

QUESTION: How deeply do you see the Congressional Budget Office involved in monitoring execution against the budget? Will the GAO role expand to assist the Congressional Budget Office in monitoring execution against the budget?

RESPONSE: I don't see either the Congressional Budget Office or the GAO as directly involved under the terms of the Act in monitoring execution. The Congressional Budget Office, it seems to me, under the terms of the Act, is essentially an analytical and planning institution; and it is not intended to be a management tool for the Congress or an oversight tool in any direct sense. Therefore, I just don't see it right now or under the terms of the Act as a monitor of execution. In time, who knows, but right now not. They will be pretty busy for a few years trying to get on top of the choice questions that have perplexed the Congress for a long time.

The GAO would not have a direct role in monitoring execution against the budget. I don't see anything in the Act which would require this. The GAO, however, has a general monitoring role and, as a part of that, and under the Budget and Accounting Act of 1921, as amended, the GAO is certainly in the business of program evaluation and program results auditing, as I have mentioned, and from that perspective it certainly will be concerned with the execution of the budget. But this is not, as I see it, the kind of budget execution role that the questioner was addressing in raising the question. Maybe I ought to stop and see if I have responded to his question.

QUESTION: How does the new Act propose to control outlays when the appropriations process enacts obligational authority? What limit does the Act establish?

RESPONSE: The latter question is relatively easy. The Act establishes whatever limit the Congress sees fit to place on expenditures and on the relationship between income and expenditures via the first and second concurrent resolutions and the reconciliation process. That will presumably vary from year to year, depending on economic and other circumstances.



PHILIP RUTLEDGE, DIRECTOR  
OFFICE OF POLICY ANALYSIS  
NATIONAL LEAGUE OF CITIES

Most of you are here today, I am sure, to listen to other experts in financial management and analysis talk about those kinds of problems that you are concerned with every day. A general administrator such as I has some of those interests but certain others, and I rather suspect that there may be only one or two who really have been looking forward to anything that a person like I might have to say on this subject.

This reminds me of a story about a minister who was called to his first pulpit and was going to give his first major sermon on the subject, and he had done a lot of research and study about what he felt he should discuss. Then, when he got up that morning in his pulpit, he looked out in the huge sanctuary and there was only one parishoner present, just one single worshiper in that huge sanctuary. He didn't rightly know what he should do with this sermon which he had prepared, which was much longer than my forty-page speech, and he thought maybe he ought to go down in the pews and ask him. So, he walked down into the pews and shook hands with the one parishoner who happened to be a farmer, and he said, "Well, the congregation looks a little light this morning, but I have got this forty-page sermon that I have been working on, what do you recommend I do with it?" So the young farmer said, "Well, I don't know much about preaching myself, I am just a farmer. But I do know that if I have a load of hay and I went out to feed the herd and only one showed up, I would feed him." So, the young minister took that as a good omen. He went back up in the pulpit and took out his forty-page sermon and showed that farmer the error of his ways in fire and brimstone for about two and a half hours. And when he finished he walked down to the pews and said, "Well, how did you like the sermon?" The young farmer said, "Well, like I say, I don't know much about preaching, but I do know that if I had this hay and I went out to feed the herd and only one showed up, I would feed him but I certainly would not give him the whole load."

So, today, on such a stormy occasion, I may take advantage of that message and spare some of the whole load. But I am pleased to have an opportunity to participate this morning with such a distinguished array of speakers and an equally prominent group of delegates in this, your fourth, Financial Management Conference.

As Don said, one of the hats I wear is that of President of the American Society for Public Administration, and I do appreciate the management talents represented in this room. But sometimes, as a former public official, strongly oriented toward the program side of administration, I can't say that I have always appreciated the decisions of those oriented toward the financial side, particularly

when they have the last word. But without intending to disparage either my profession or my colleagues, I must acknowledge that financial management is probably a weak spot for most public administrators, and that is one problem which I hope to work on and make some small contribution towards correcting, at least for the future graduates of the public administration program at Howard University, where I now will be spending much of my time.

I am afraid that some of us in public administration spend so much time lost in the heavy business of public affairs, of policy formulations, of program design and evaluations, the stuff that delights us and the stuff that is of great importance, but we are sometimes all too frequently willing to let the practical matters, like financial management, fall to others, and this is unfortunate. I can tell from my experience, and all of you know from your experience, that there is certainly not much administering of any kind to be done without the money and the effective control of it.

Therefore, those of you who plan, who plot and track and reconcile the many billions in our Federal and other governmental budgets are indispensable to those of us who spend and then wonder--is that all there is and whatever happened to it.

This morning, however, I am here not only, as Don indicated, as an academic and a sometimes practicing public administrator, but also as a representative of the Nation's cities, and my organization being some 14,000 municipalities who are member cities of the National League of Cities. And one might ask, in this context, just what do cities have to do with the Federal budget. And of course, the answer to it is a whole lot--and most of you know that--a whole lot of dollars.

In FY 1975, for example, \$47 billion were allocated to Federal, State and local governments, and that was over 15 percent of the total Federal budget. And when you look at local budgets today, nearly 35 percent of the local budgets are made up of some form of intergovernmental transfers, most of which either originate at the Federal level or are stimulated by activities that the Federal level takes. That, then, encourages the states to contribute. And with the continuing effort of the Federal Government to return more and more responsibilities to State and local governments, we can expect that percentage to increase, and our interest in the Federal budget, therefore, is not only apparent but will continue to increase with the dollars that are made available and with the change in the way that we are managing our public service.

But, I think some may find reason to wonder, and maybe have some problems with the cities and their interests, because some of the things that we may hail with great enthusiasm, others may view with great trepidation. I am thinking, for example, about certain efforts of the Congressional Budget and Impoundment Act of 1974, and some of the particular interests that the cities have that they would wish to



seize upon. By passing this Act, Congress has charged itself with a formidable task. For the first time in three decades, the Federal budget will be evaluated as a whole, not as a piecemeal proposal, not as a hodge-podge, a billion dollar piece here, a billion dollar piece there, a few tax credits and incentives here.

Congress has imposed upon itself a rigorous schedule of budget review, culminating in an attempt to set a ceiling on budget expenditures and then holding to that ceiling while assuming the responsibility for greater national deficits.

The job before the Congress, as I am sure Walter Kravitz and Sam Hughes have been pointing out today, is maybe really more than formidable. Some say that this kind of budget reform has only a fifty-fifty chance of success. The Act requires that Congress build nearly from scratch, so that they are comparable in expertise to that of the Office of Management and Budget, and then build an even better reputation with an even larger constituency, a whole nation of politically interested constituencies, rather than just one Executive, the President.

For those of you who are charged with the barebones planning and implementing of the Federal budget under the new Act, these changes will mean, at the least, I think, a whole new fiscal rhythm. And during the months, perhaps, if starting this new activity is like many that I have been party to, perhaps fiscal frantiness is more descriptive than the new fiscal rhythm.

Implementing the provisions of the Act will require unique and perhaps unprecedented cooperation between the Congress and the administrative units of government. For all their talents, Budget Committee members in both houses, with a few exceptions, are relative novices when it comes to the Federal budget. And I think they would be the first to admit that.

The expertise certainly lies here with those of you in this room and the other members of your organizations.

But what about the cities? For them, the Act is long awaited for many reasons. The cities have long looked forward to and have waited for an opportunity to participate actively and responsibly in the preparation and control of the Federal budget. This participation will be possible through special hearings on the Executive budget as well as through the regular channels of Congress. The state and local officials now will be able to voice their own opinions, express their needs, and be heard, we think and we hope, in a much more conscious and effective manner than in the past. Certain provisions of the Act can only benefit the cities.

For example, with the new Act, all appropriations bills will be enacted prior to the beginning of the new fiscal year, hopefully. Under the current budgetary procedures, many appropriations bills are not completed until several months after the start of the fiscal year, at which time many city budgets have already had to be acted upon and, with increasing difficulty, the budgets balanced. The new procedures should enable cities to plan their own budgets and programs based on actual appropriations, rather than on budget recommendations which frequently go awry.

Secondly, at the urging of state and local government officials, the Act was amended to provide a special exemption for revenue sharing, thereby insuring that revenue sharing monies will not be hung up in the long appropriations process.

Third, the Act stipulates that reports accompanying the first concurrent resolution must reflect prior debate and public hearings on national priorities and discuss significant changes in the proposed levels of Federal assistance to state and local governments.

Fourth, all appropriations bills must detail the financial impact on State and local governments.

Fifth, the Director of OMB, in cooperation with the Director of the Congressional Budget Office, will provide fiscal, budgetary and program related data to local governments so that they can determine the impact of Federal assistance on their budgets.

Sixth, strict procedures in the Act place impoundment controls squarely in the hands of Congress, so Congress must honor the priorities set in the concurrent resolution. The cities, in this manner, it is hoped would not be hampered as they have many times in the past by extensive impoundments.

Now, these points, if effectively implemented, and if carried out in a sensible manner, highlight some of the provisions in the Budget Control Act which will be significant for cities and which cities look forward to participating in very actively.

But I saved one of the things that we consider to be the best for last and would like to dwell on it for a moment. In addition to those provisions outlined above, the Congressional Budget and Impoundment Control Act of 1974 also provides that the concurrent resolution will include estimated levels of tax expenditures under current national law. The issue of tax expenditures and their consequences for local government has been an important one in the policy deliberations for the National League of Cities during this past year.



Early this year, the Board of Directors adopted the theme of urban conservation, a theme that represents a beginning to attempt to express a philosophy of urban development that stresses the better use of what we have now before we approve and promote new and competing investments in different and in other urban infrastructures.

These should be policies which encourage the concentration of development, the rehabilitation of existing urban systems, and the reuse of existing resources, to be favored over policies which motivate the dispersal of growth, the abandonment of built-up areas and the consumption and spoilage of the natural resources. These are the items against which national policies, national urban policies will be judged.

The theme is not just a convenient phrase for speechifying by the officials of the League or for designing convention posters. In fact, it is to become, if we are able to put into effect and we can get the kind of support and develop the kinds of tools necessary, not just a mental or an intellectual goal but an objective measure on which we can then begin to evaluate both our own policy positions within the League of Cities, as well as those of the Federal Government.

Now, in attempting to size up national policies against the urban conservation criteria, one fact became obvious very early in our analysis, and that was, contrary to some belief, the country is not without a national urban policy. Although it may not be the best, we do have one; or rather we have several.

What we have is an inadvertent de facto national policy, this policy being largely a set of unintended effects of supposedly unrelated programs which create conditions that severely limit the ability of local governments to set their own priorities or to implement policies of urban conservation.

One fundamental characteristic of this national urban policy is that it regularly provides incentives to private individuals and to corporations, both public and private, to make investment decisions which result in a cycle of decay, a cycle of overconsumption, and abandonment of our existing urban infrastructures.

In other words, as a nation, at a time when we should be conserving all of our resources, we help to subsidize the dissipation of scarce resources in dollars and in energy and in urban systems by paying people to do the wrong things. And one of the major ways that we pay people is through what Stan Ferry, a former Assistant Secretary of the Treasury for Tax Policy, called the tax expenditure budget. This tax expenditure budget, or tax expenditure system, which really constitutes, in Ferry's estimation, a second tax structure, frequently serves ends that are contrary to the goals of urban conservation.

For example, many studies have indicated that depreciation for office and apartment buildings is excessive. One study concludes that the tax depreciation rules lead to extra investment in office and apartment buildings and to reduction in the useful lives of such buildings. And from an urban conservation perspective, a policy which leads to less use of existing investment is destructive.

There has been much said about the capital gains tax, both pro and con. Among the things that we have noticed in it is that it is an important incentive to the development of previously underdeveloped land in that favorable capital gains treatment encourages speculation which, in combination with other growth inducing actions, attracts capital seeking tax shelters which make it very difficult for both the central city or the new suburban communities to manage their growth in a manner in which they would prefer.

Joseph Pechman and Ben Oakman estimate that the total capital gains subsidies to individuals was \$73 billion in 1972, with over one-half of the subsidy going to persons with incomes over \$100,000 and almost 90 percent going to those with incomes over \$25,000.

The Ralph Nader Tax Reform Research Group indicated that if one's income was between \$10,000 and \$15,000 in 1971, \$16.31 in tax on capital was saved. If one's income was over \$100,000, the savings was an average of \$38,126. And since nearly 60 percent of the nation's poor reside in metropolitan areas, this incentive may be said to work against urban conservation and to subsidize the further deterioration of our urban structures.

There are other incentives and credits that in our estimation probably encourage also over-consumption of housing by those who need it least, encourage and subsidize the middle class to throw away our existing cities and to abandon the infrastructures that have been built up over long periods of time and which must be there to serve the persons who still live there but who are least able to subsidize and pay for their rehabilitation. And as I mentioned earlier, it frequently distorts the priorities of national growth that are established by local governments, both central and suburban.

Now, all of this is not to say that the tax expenditure system is necessarily evil. One thinks immediately of municipal bond exemptions that are a part of it, and not many citizens would want to have that provision eliminated. There has been much discussion recently of using tax incentives and tax credits to stimulate jobs and encourage the development of training systems for the disadvantaged, as a better means of providing a floor under income, a better income security for citizens than we now have.



So there are a number of good alternatives being discussed as part of what Ferry has referred to as his tax expenditures budget system. But what is evil about the system is the relative obscurity of the system. When the Federal budget is discussed each year, it commands three-inch headlines in all of the major newspapers. It is widely debated in the Congress, almost to absurdity, in some instances, with consideration of line item activities.

But, on the other hand, the budget that is often achieving some of the same purposes and directed toward some of the same ends, which in the last budget constituted something on the order of about \$80 billion, has gone, in the past, virtually undiscussed and undebated by either the national Congress or by any representatives of State and local government.

Last year, the headlines reported that the Federal budget was in just over \$300 billion. What would have been the nature of the debate and discussion if the New York Times or the Washington Post had reported that the actual figures were \$300 billion in direct appropriations and about \$80 billion more in tax expenditures, frequently working, in our judgment, at cross purposes to some of the intentions of the direct appropriations. So we hear a lot about the direct appropriations budget, but virtually nothing about the tax expenditure budget.

Yet, thanks to the yeoman work done during the past few years by the Joint Economic Committee and the House Ways and Means Committee, this issue has not only surfaced in the Congress but has become part of major legislation. The fact that the Congress has established a budget review process for tax expenditures is an important element, not only in tax reform, but in the capacity of our entire Nation, and particularly our urban communities, to manage their own resources and particularly to have a better understanding of all of the elements that go into the financial management of our communities.

As Stan Ferry has remarked, the fact that a tax expenditure program can be recast as a direct expenditure program really takes us to the heart of this matter, for it opens up a new way to consider the entire budget. We can regard a major aspect of this tax reform as involving the reexamination of all of the tax provisions now contained in our budget. And we can start by examining the list of tax expenditures and seeking to decide which of those should go and which should remain.

So those of us who are concerned with the resources for cities are looking forward particularly to how this part of the Budget Control Act is implemented, and looking forward to the opportunity to participate in the debate around what items that go to affect our national goals

and our national purpose might be best carried out through a means of direct appropriations, and which are debated nationally by the Congress, perhaps carried out, if it is of a programmatic nature, by a State or local government, and which kinds of things might best be done through a system of credit incentives. I am pleased that we now have the opportunity to bring this kind of debate into the open and begin to look at the complex subsidies which cover everything from exclusions from income, from exemptions, to deductions, credits against tax, preferential rates of tax and deferrals of tax, all nearly indecipherable to the average local elected officials and I suspect to many of the congressional and budget committees as well.

But many of you in this room, I would suggest most of you in this room, are experts in this field; and you are the ones who will be responsible for the kind of detail and exact breakdown and analysis of the entire Federal budget that must be made available for debate and discussions by the Nation's cities. And I would suggest that, only with your assistance, can State and local officials begin to evaluate the system in any kind of meaningful way. And only with this kind of an evaluation can we begin to assess in real terms the actual impact of tax expenditures on urban conservation.

Providing the details of this system to the financial managers who participate will be providing a great service to local administrators. And I would hope that this service would precipitate the development of a different relationship between the financial managers and city administrators.

In the opinion of too many persons, many within our own profession, the financial managers are just accountants with a fancy title and a fat salary. Some have the image that financial managers spend whole days just moving figures from one column to another, depending on what you are trying to prove on that occasion. And most of us know that that is not true, and we all want to see this image changed, even within our own profession, between those who are managing the public business, who are most concerned with programs, and those who are managing the public business who are most concerned with financial accountability.

Many of us see the financial managers as very important cogs and people who should be fully involved in the policy and program planning in management as well. I think that we can only start with some of the areas that we have suggested today.

Just a year ago, my good friend and colleague, Bruce Cardwell, addressed this group making a similar point, and he said that financial managers have not fulfilled their potential for devising, either in concept or in form, the indicators and measures by program managers and



policymakers to help them identify the status of their work and, most importantly, indicators that will tell the managers whether they are succeeding or whether they have failed. Financial managers need to arm program managers and policy managers with indices and measures of their performance. Financial managers possess the ingredients needed to help answer the basic questions about performance and even alternatives for the future.

Now, Cardwell was speaking chiefly about Federal programs and Federal politics, but I can assure you that, with an increasing percentage of Federal money being spent by local governments, his words signify the importance of financial managers for cities as well. If you have the indices and the indicators, the statistics, the measures, the information for use by the Federal Government, you have those same indicators, statistics, measures that can be used by cities as well. I would submit that financial managers have the tools to assist the cities in making and developing the kinds of social indicators needed to evaluate the quality of urban life.

And I would fervently hope that financial managers and local officials will use their tools together to convince Congress that the foremost priorities for the Federal budget of 1977 should be the conservation of our national urban resources.

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QUESTION: How much has revenue sharing helped the major cities, and should it be expanded?

RESPONSE: In many cases, general revenue sharing has been the difference between the financial collapse of many of our major cities and their abilities to hold their own with shrinking local resources. In other instances, general revenue sharing has been able to help cities to adjust their tax rate, so that cities could maintain their viability.

Thirdly, the mayors and the local officials would like to see general revenue sharing expanded but also would like to see further expansion, I would suggest, of what sometime ago we were referring to as special revenue sharing, but, after the passage of a couple of bills that kind of resembled special revenue sharing (but some persons didn't want to admit that it was and those who were against bloc grants didn't want to say it was that), we would call them bloc grant type or special revenue sharing type programs, such as the Housing and Urban Development Act of 1974, the Housing and Community Development Act of 1974, and the Comprehensive Employment and Training Act of 1974, programs which do much to underpin those special needs that revenue sharing was not initially intended to do.

I think, as we see more of these kinds of special revenue sharing legislation pass, some of the concerns that many persons have raised

about some of the special uses of general revenue sharing will be put in a better perspective.

QUESTION: Should there be more consolidation of local government units, for example, metropolitan governments embracing both city and county? Would this save money?

RESPONSE: Well, there has been a considerable amount of controversy in those communities where such consolidations have taken place. Some of the cities where that has been done have tended to prove whatever point one wishes to prove, that either there are certain economies of scale, that one has been able to employ a higher caliber manager, or, in some instances, one has tended to lose control of what has been happening within his community.

I would think that, generally speaking, the trend towards the elimination of many smaller units of government, particularly the elimination of a whole host of smaller school districts, has on the whole been beneficial. But we are now beginning to see another very touchy political idea being injected into the debate.

Maynard Jackson has discussed some of the concerns in Atlanta about the proposed consolidation with Fulton County and the concern there was that a number of the central cities either tend to become predominantly black or minority or begin to elect black or non-white officials.

Whether we, as public managers, agree that the consolidation is a good thing, it still becomes, in the eyes of many persons, a political issue in which a certain kind of domination control is trying to be maintained. We are going to have to move to another level of political maturity and consciousness if the idea is to work with some of our emerging and more vigorous minority leaders.

QUESTION: Does the Congressional Budget Act provide for analysis and evaluation of tax expenditures outside of the appropriations process?

RESPONSE: I was talking with an official of OMB about just how this process would be administered. The law requires that they be listed and that they be sent along with the direct appropriations budget. There is still some question about the degree of analysis that will be done. There are also some persons who felt that there has been a certain amount of analysis of the impact of these expenditures in the past, but they simply were never put forward.

The fact that they will now be a matter of public record and will be subject to debate, I think, is one way of assuring that some analysis be done. And I would certainly hope that since the Congress has really taken the lead, through its Joint Economic Committee and other committees,



in providing some of the early analyses of the impact of the tax expenditure budget, that even if on the Executive side there is some reluctance to move in that direction, that the new Congressional Budget Office, wanting to make its mark in the sun, will seize upon this as one of its high priorities.

QUESTION: How will the change in the fiscal year impact state and local government budgets?

RESPONSE: I think there will be the usual period of dislocation, as the budget moves back to October 1. But I think much more importantly for cities will be the hope that this change will permit the Congress to complete its appropriations process so that when it does act, a deficit budget will be known.

In some of the Federal agencies in which I worked, we didn't know our budget for a whole year and frequently didn't know it until December, and we kept a number of state and local agencies, as well as a number of community based agencies going on very short notice, on very short renewals, which gave them really little opportunity to plan, and really I think added to the inefficiency and ineffectiveness of many of the programs they were carrying out. And certainly, as one who has worked at the local level, administering programs which depended upon final congressional appropriations, particularly in those areas where there were controversies about either the level of expenditure or even the continuation of the program, we found this to be catastrophic.

So I think, though there will tend to be some dislocation and some problem with respect to the shift in the budget year, if that shift in effect leads to a final decision at an earlier date and in a more orderly fashion, it will be to the good.

QUESTION: How does the National League of Cities plan to present the requirements of the cities to the House and Senate Budget Committees? Is NLC the appropriate spokesman?

RESPONSE: The National League of Cities maintains, though I am not a part of it, a regular Office of Congressional Relations that frequently and regularly arranges appearances before the various congressional committees for spokesmen of the cities. The President of the National League of Cities, the Vice President, their various committee chairmen and other members appear regularly on behalf of the League, and we will be using these opportunities to present these points of view.

In addition to that, we have, through the office which I have headed, the Office of Policy Analysis, been working on some kinds of specialized look at the long-range impact of certain national Federal policy. We are looking now at three levels, at three different areas which we think are critical to the future of our cities, the tax policy

area being one and what happens with the revenues that flow through the various, both public and private, channels; we have been looking at the impact of the Federal Government's income transfer and transfer payment policy and its impact on our cities, as well as those things which influence the rate, direction and degree of growth within our metropolitan areas within our Nation and, of course, our metropolitan areas, and how can these be more directly considered.

In addition, we have been very much involved with trying to work with not only congressional committees but with other agencies to begin to develop what has been long overdue in our country, and that is some form of indicators of whether we are making progress or regressing in terms of meeting certain nationally stated goals; in other words, working and moving ahead towards trying to define that illusive term "quality of life." Until we are able to deal with some of these kinds of measures that determine whether we are really making any progress at all at achieving certain goals, or whether we are just debating each other about the issues, we will continue, I think, to be at even worse loggerheads than many of the cities had been with our national representatives in the past.



DAVID PACKARD, CHAIRMAN  
HEWLETT-PACKARD COMPANY

I am greatly honored to be with you today at this fourth annual conference. This meeting revives memories of my days at the Pentagon where I spent a great deal of my time working on the problems that are the concern of all of you here—budgeting, financial control, management improvement. I do not expect that all of the problems we faced back in 1969 and 1970 have been solved, but I am sure the JFMIP is continuing to make a very important contribution to better government.

One strong impression that I took with me when I left Washington is that the majority of the men and women at the management level throughout our government are people of high professional competence with sincere dedication to better government. The average citizen does not have that impression, particularly these days, because the news media mostly talks about the alleged mischief that goes on here in Washington. The average citizen hardly ever hears about the important work that is done so well by you men and women who are here today—and by your associates in your respective organizations. I want to take this opportunity to express my appreciation for the fine job that is being done. I only wish there was some way for the people all across America to know how well served they are by you people.

I believe it is good that you are devoting this conference to a discussion of the Federal budget process, hopefully focusing on the all-important question—can the Congressional Budget and Impoundment Control Act of 1974 be implemented in a way that the Federal Government will have better control of its spending? I do not believe the answer to this question is a clear cut yes, by any means, and I welcome this opportunity to explore this issue with you.

I also will try to point out some other areas where I believe you can be helpful to the Congress and to the various departments and agencies in the executive branch in which you serve.

Even though I have serious reservations about how well these new budget procedures will work in practice, I was in favor of them, and spent some time and effort to encourage the Congress to pass this new Act. At least now there is a mechanism that can be made to work—if there are enough people in the Congress who want to make it work, and who are in agreement on what they really want this Federal budgeting procedure to do.

As I see it, there are at least three things which are expected to be improved by this legislation. The first is to make Federal spending more effective as a fiscal tool to influence the economy of

the country in a positive, constructive way. Fiscal policy is widely acknowledged as a way to accelerate or decelerate economic growth and to help control inflation. We have not had a way to implement Federal fiscal policy in a responsive and responsible way in the past, and it is hoped by many, including me, that the new budget procedures will enable the Congress to do better in this area in the future than it has done in the past.

The second expectation is to provide a better mechanism for the Congress to assess the issues and establish priorities of both the programs in the President's budget and those programs which may be initiated by the Congress. There is a real problem here, because the most accurate information and the most objective analysis will not always assure the same order of priorities, nor agreement on the issues, even in a non-political environment. I have the impression, and maybe I am wrong, that there are some people around this town who are quite able to use any fact and any analysis to support whatever they have already decided as the right thing to do.

But I would hasten to add, although it does not always appear to be so, there is a fairly high level of responsibility in the Congress on issues that are really important, and better information and analysis certainly should help to produce better legislation and better Federal budgets.

The third objective is to establish a more realistic time table so that, hopefully, the appropriations can all be approved, kept within the fiscal policy constraints that are established, and enacted before the beginning of the fiscal year. On this point we will have to just wait and see.

I want to go back, now, and discuss some of the fiscal policy issues which the Congress will be addressing under the new budget procedures.

On the first hand, there will be a very difficult problem with timing, as we can see from what has happened in this current economic crisis. In the Spring of 1974 the economy was going strong, although with an unacceptable high rate of inflation. Responsible fiscal policy under the situation that prevailed earlier in the year would certainly have called for a budget surplus for the 1975 fiscal year, beginning in July.

The President's economic conferences showed a broad consensus that the proposed \$305 billion spending level should be cut back at least to \$300 billion. Most of the economists and others who attended those meetings would have supported a cut to below \$300 billion, had it been considered politically feasible.



This view of what was needed in Federal fiscal policy for 1975, a budget in balance if not a surplus, still generally prevailed until about October 1974, when a considerable number of economists and others began to express doubts that inflation was the main problem in our economy.

Today, just three months later, I judge the consensus of the experts has turned about 179 degrees and most would now support a budget deficit. A \$20 - \$30 billion deficit for fiscal 1975 is now being proposed by some who would have thrown up their hands in horror at the thought of such a thing three to six months ago. This situation is a good example of why there is a real problem for the Congress in deciding what kind of fiscal medicine the economy is going to need six months or a year ahead, even if one assumes the Congress can decide on the right medicine for the current state of the economy.

But I have an even more fundamental concern about the utility of Federal fiscal policy as defined by a gross surplus or deficit as a useful tool to determine the well-being of the nation's economy. The double digit inflation of 1974 was clearly not brought on by Federal fiscal policy, as bad as it was, at least by the Federal fiscal policy of the last year or two--although the cumulative effect of a number of years of past Federal fiscal policy--or the lack of it--was without doubt a factor of some importance in setting the stage for the serious economic problems we have today.

There were, however, a number of specific and unusual events that together generated this troublesome combination of inflation and depression we are plagued with today. The first event was the devaluation of the dollar against the currencies of our major international trading partners, and decoupling the world monetary system from gold that occurred in the summer of 1971.

This action increased the cost of a great many products and raw materials imported into the U.S. and lowered the cost to many of our international customers of the products and materials the U.S. exports to them. This greatly increased the export demand on our domestic supply of many products. The dollar devaluation hit our farm products, soybeans and grain, for example, particularly hard because of another unusual event which followed--a serious shortfall in worldwide food production due to adverse weather worldwide. The demand for grain and other food products increased tremendously in the world market and drove food prices up to levels no one anticipated. There were Federal Government actions which could have helped in this situation, but these were in the area of export controls--not fiscal policy as implemented by a deficit or surplus in the Federal budget.

I believe a case can be made that the 1971 dollar devaluation was the result of a long period of bad Federal fiscal policy--many years of deficits, heavy spending overseas to help restore our allies and Japan after World War II, and the fact that the United States has carried too large a share of the cost of national security for Europe and Japan for too long.

Let's face it—even before 1971, the real value of the dollar had, in fact, deteriorated in respect to many other currencies and sooner or later a devaluation had to occur.

This inflationary effect of devaluation did not show up immediately. There were goods in transit at the old exchange rates--a first-in first-out inventory problem much like the one in oil last year, but not so severe. Many companies tried to soften the impact by adjusting the price of their products, but the inflationary effects of the devaluation became quite apparent in 1972. The impact of this 1971 devaluation was compounded by Federal fiscal policy in 1972 in a way that had very little to do with the congressional budget process. Federal spending was simply accelerated to improve the economy in the election year in ways I am sure I do not have to explain to this audience.

Then in the fall of 1973 came the Yom Kipper War, the oil embargo and a four-fold increase in the cost of international oil. This was a highly inflationary incident. It was completely independent of domestic fiscal or monetary policy and, as you all well know, caused a substantial increase in the cost of energy derived from oil, and materials and products made from oil.

Budget procedures, or the lack of them, had nothing to do with the doubling of the price of gasoline, and no budget action will bring the price of gasoline back to where it was in 1972.

These major events were all unusual and, to a large extent, out of the range of what might have been done with even good fiscal and monetary policy that might have been implemented through this period.

To compound the problem, the Federal Government undertook a number of actions over the last several years which were done for worthy purposes, supported by both the Congress and the administration, and yet only added to the inflation already triggered by the series of unusual events I have described.

Federal requirements placed on actions by business and industry in such areas as air and water quality, occupational safety, and automobile safety, are no doubt inspired by lofty ideals and are also needed in some form, and at least to some degree. At the same time,



these Federal regulations imposed on business and industry have added real and substantial costs to the production of goods and services, and have been the major factor in causing this concurrent inflation and recession.

There is no doubt in my mind that the serious depression of the automobile industry is the main reason that what was a modest downturn in the economy has turned into the worst recession since the 1930s. We have problems in housing, short term problems in the semi-conductor industry, and in other areas—but our entire economy is so dependent on the automobile industry that we can not have national prosperity without a healthy state of prosperity in automobiles.

Our Congress, in its great wisdom on environmental pollution and safety on the highway, has brought the economy of the United States to its knees by bringing the automobile industry to its knees. There is simply no other way to explain the economic dilemma of the United States today. There are other factors to be sure, but the Congress of the United States has the sole responsibility for legislating features which the public does not want, and legislating costs which the public will not pay on 1975 model cars. That, ladies and gentlemen, is the reason—and the only reason—we have depression and inflation at the same time.

Sure, the 1975 model automobiles cost more partly because of higher material and labor costs, brought about by the inflationary factors which I have already described—imported materials, more expensive oil and wage increases granted in response to general price increases. But a large share of the increase in the cost of the average 1975 automobile is because features costing at least \$600 have been added to meet Federal requirements on emission control and safety by Congressional legislation—specifically, about \$200 for emission control devices which do not increase fuel efficiency, and \$400 for safety devices that customers have to take whether they want them or not.

We have a recession today primarily because the public is not willing to buy the 1975 model car that the Federal Government has designed and priced for us.

Furthermore, as I understand it, there is still legislation on the books to require by 1978 an air bag safety device that will require about \$100 million of R&D and tooling for each automobile company, and more stringent emission standards that will require each automobile manufacturer to spend on the order of \$300 million. You and I and everyone else who buys a car in the future, will have to pay these costs which will add hundreds of dollars more to the price of automobiles.

Frankly, I almost think the Congress is wasting its time devising a fiscal policy to control inflation through budgetary control legislation. No conceivable fiscal policy can bring automobile prices down as much as other Federal actions are driving costs and prices up.

It is not only that these federally dictated features are driving the prices up, they are driving the customer out of the market. These are far more powerful fiscal policies than you can apply with the new budget procedures.

I do not want a 1975 model automobile designed by the Congress, and would not buy one, even if the government gave me a tax rebate to cover the full price. I would rather use my 1972 model for a few more years, and I know I have a great deal of company around the country.

I am sure you people here today understand this situation as well as I. The point I want to make is that, at least in the environment of 1972, 1973, and 1974 better Federal fiscal policy--even if it could have been achieved through better congressional budget procedures--would not have enabled our country to avoid this terrible double dose of inflation and recession.

I hope the members of the Congress will learn the lesson that they should go slow in imposing detailed requirements on the products and procedures of business and industry. They did learn something about the acceptability of interlocking seat belts--but the problem goes much, much further--it is not just automobiles.

I sincerely believe you people in this organization can help in this matter. Cost effectiveness would be a very useful concept to apply to some of the things Congress has been asking business and industry to do--and this just might be a more useful place to apply the fine analytical procedures you people are capable of providing, than on the budget issues through this new legislation.

Another place where you can help is to reach agreement among yourselves, that where Federal requirements should be placed on the private sector--and I will admit there are some places they should be--they will, at least, be consistent among all the agencies. The only way we are going to stop inflation is to improve productivity, to produce more and better products and services for every dollar we spend on wages and salaries. The only way the government will get more for the taxpayers' dollars it spends, is to take those actions which will help the private sector become more productive. It is manifestly absurd to ask business to keep one set of books for the IRS, one set for the SEC and one for the GAO. I can assure you, whatever such requirements may accomplish, they will not help bring



inflation down, nor help get the economy moving again, nor get a better value for the taxpayer's dollar.

There are many matters to be dealt with by the Federal Government that are as important as fiscal policy, as exercised by the Congress through these new budget procedures. But fiscal policy is one of the tools that can be useful, and I would like to talk a little more about some other aspects of fiscal policy which should be kept in mind.

The make-up of the budget will be as important as the size of the surplus or deficit. A one-time deficit or surplus of 1 percent of the GNP, which would be about \$14 billion at the current rate, might or might not have too much effect on the economy. This would certainly depend on the spending and the revenue raising details, as well as the amount. A tax rebate that put \$14 billion of spendable cash in the hands of the consumers in a short time would have an entirely different effect than the same amount spread over the year in welfare--or different, even, from the same amount given as a tax reduction to business and industry or as an investment credit. The nature of the deficit or surplus, thus, may be just as important as the amount--and this issue needs careful attention as the new procedures are put into effect.

And the longer term effect of Federal fiscal policy must be kept in mind. A 1 percent deficit over a period of 10 to 20 years could be a considerably different problem than a one-time 1 percent deficit--or a 1 percent deficit when called for and a 1 percent surplus when called for, which would tend to average out over a reasonable period of time. I know it is too much to expect for the political process to come out with anything that rational, but it should be held out for consideration--at least, that one option is to have a surplus often enough to balance out the deficits over a period of several years.

And so, in summary, I would like to repeat that I believe this new legislation will at least provide a mechanism for the Congress to work with the President and implement a responsible fiscal policy. That has not been possible before--at least, it has not been done. We have talked about Federal fiscal and monetary policy as being the two most important tools to deal with the health of the economy. It would be a very constructive step if we could finally tailor a mutually supporting fiscal and monetary policy instead of having to rely so heavily on monetary policy alone--or monetary actions working against fiscal actions, as we have seen many times.

There are some practical problems with this legislation--timing will certainly be one, as well as what in addition to how much should be in the fiscal package. There will be severe political problems--but then, what else is new?

I hope, but I am not sure that what is new, is at last a comprehension that the Federal budget is an important fiscal tool which, if used properly can help keep our economy strong and keep inflation down--sound Federal fiscal policy can contribute to the welfare of this great country of ours. But, I want to emphasize there are many other actions taken by the Federal Government that affect the economy, as we have seen in our present plight. And so I hope, as you people work with your respective sponsors on the budget process, you will also work with your respective sponsors on some of these other matters I have mentioned today.

The future welfare of this country requires more responsible economic policy by the Congress and by the President than we have seen in recent years. I know you people here today can have a large role in helping to bring this about. I hope you will make this your first priority.

Thank you for asking me to be with you.



## CONGRESSIONAL BUDGET AND IMPOUNDMENT CONTROL ACT OF 1974

Chairman: Eugene Wilhelm, Staff Director, Joint Committee  
on Reduction of Federal Expenditures

Participants: Herbert Jasper - Special Assistant to the  
Comptroller General  
Samuel Cohn - Robert Nathan Associates, Inc.  
John McEvoy - Chief Counsel, Senate Budget Office

The consensus of the panelists was that the new Act will serve as a system for the Congress to control its review and analysis of the budget. The procedure is relatively simple and can be used to resolve the problem of coordinating revenues and outlays, thus controlling deficits. The new procedure should also allow the Congress to set targets on priorities in the budget process. The splintered action by the Congress and the dependence on the validity of the Executive budget have been a deterrent to responsible fiscal policy. The new system will introduce rigor into the system and aid in the construction of better fiscal policy. Other advantages of the new process include (1) better timing of authorizations and appropriations, (2) orderly information flow through the Congress, and (3) more consistent budgeting by the Congress.

## THE IMPACT OF INFLATION ON FINANCIAL MANAGEMENT

Chairman: Fred Layton, Deputy Director, Financial and General Management Studies Division, GAO

Participants: Dennis Dugan, Associate Director, Office of Program and Budget Analysis, GAO  
Harry Havens, Director, Office of Program and Budget Analysis, GAO  
Allen Searle, Consultant, Bureau of Economic Analysis, Department of Commerce  
George Eads, Assistant Director, Government Operations and Research Council on Wage and Price Stability

The impact of inflation on financial management was presented from various perspectives. Each of the participants was given an opportunity to discuss (1) the effects of inflation, (2) causes of inflation, (3) how inflation is measured, and (4) the impact of inflation on the Federal Budget. On this last point it was agreed that with few exceptions, the impact of inflation on the budget is up; budget receipts tend to increase and so do outlays.

On the revenue side, more money income is subject to tax. In a progressive tax system such as ours, people move into higher tax brackets as their wages rise; thus, Government revenue increases as inflation drives up wages. As individuals move into higher brackets, however, the incentives to shelter income are increased so that there are offsets to the escalator impact of our progressive tax structure.

On the outlay side, costs rise for the Federal Government during inflationary periods, as they do for individuals. Such increases are built into many programs because they are indexed to the cost of living. Social security, veterans' pensions and compensation, employee retirement programs and school lunch programs are examples of this. Some programs, such as Medicare and Medicaid are defacto indexed, because they are based on a requirement that the Government pays actual costs of services provided to beneficiaries. As costs of those services rise, so do Government outlays. Federal employees' salaries rise because they are tied to private sector salaries.

Thus, during inflationary periods, holding budget outlays to their present levels can only be done by reducing the effective program level.

Because inflation impacts on both sides of the budget, but not necessarily everhandedly, budget discipline may be more difficult to achieve because of the difficulty of predicting its impact. The result is that we must question objectives and methods more thoroughly to see if certain objectives really should be accomplished, and how they can be done at least cost.



## WORKFORCE PLANNING

Chairman: E.A. Schroer, Deputy Director, Bureau of  
Management Services, CCS

Participants: Richard Hayes, Planning Officer, Research and  
Operations Analysis Division, IRS  
Thomas Hasbrouck, Chief, Force and Management  
Planning Branch, USAF

The basic critical question in workforce planning is said to be, "Do we know what our mission will be in the period being planned for and how accurately is that expressed?" In discussing this question, the participants commented on such areas as (1) how to respond to OMB's concern that the agency is "too fat" people-wise, (2) how to improve productivity in an agency showing a flat curve, (3) how to plan for hiring in skill areas where shortages exist, such as scientists and clerical, (4) what to do about grade creep, and (5) how to respond to young people having an interest in career-planning.

Although work-force determination technology and people-planning techniques are available, these tools are not applied widely now on an integrated basis. The chief organizational obstacle to good workforce planning is better communication among the budget, personnel and planning people.

## USE OF OPERATING BUDGETS FOR PROGRAM MANAGEMENT

Chairman: David Dukes, Deputy Assistant Secretary for  
Finance, HEW

Participants: Richard Maycock, Deputy Director, Financial and  
General Management Studies Division, GAO  
Leslie Thorn, Jr., Director, Office of Financial  
Policy and Systems, Department of Labor  
Jerome Miles, Director, Office of Budget and  
Finance, Department of Agriculture

The discussion was based on a draft report entitled "Operating Budgets—A Practical Approach" prepared as a result of a study conducted under the auspices of JFMIP. The term "operating budgets" as used in the report refers to a short-term plan for managing the resources of an organization. The study team found that many program managers have been "turned-off" because they have not seen anything in the process of using operating budgets to benefit them, and they do see a complex dollar-oriented burden added to their already full agenda. Recognizing that many existing operating budget systems fall short of serving managers well, the study team drew up a set of guidelines for managers to use in determining when and how to use operating budgets. The guidelines cover such questions as: What is an operating budget? Why is it needed? Who needs it? What does it cover? How do I design it? How do I use it? What are some of the pitfalls to avoid? When can I get help?

The report of the study team will be published.