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Industrial College
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CONGRESS AND THE FORMULATION OF ECONOMIC POLICY

I. This topic is exceptionally broad. It means:

-- Budget and spending;

-- Taxes, tax reform;

-- International economics, such as trade and tariff;

-- Economic stabilization; and

-- National debt management.

II. Some general statements concerning power and activity of Congress in each of these fields:

1. Congress has less power over national debt controls. Increases in the debt are almost automatic nowadays.
2. Congress has less control over international economics, especially monetary agreements, devaluation, international trade negotiations. It supplies general authority, but exercises little immediate supervision.
3. Congress has a moderate amount of power over economic stabilization. It passes programs to curtail unemployment and for stimulus and provides general authority for wage and price controls.

4. Congress has more power over budgeting and spending, and it could increase that power if only it organizes itself to do so.
5. Congress has a great deal of power over taxes.

Let's examine these statements.

III. National Debt.

A. The debt ceiling was once viewed by Members of Congress and the Executive as a means to control expenditures.

   1. The first overall debt ceiling was passed on September 25, 1917, and it fixed a limit of $11.5 billion. By 1945, Congress had amended it 16 times, and the debt was $300 billion.

   2. To day the total debt is estimated to be $490 billion by early fiscal year 1974.

B. It has lost whatever expenditures control purpose it once had. Purpose today is more political.

-- It provides those members who want to do so a chance to speak against deficit spending.

-- And it provides a vehicle for the Congress to enact provisions that the President is likely to veto -- such as the Impoundment Information Amendment which I attached to the debt ceiling last year.

IV. International Economics: Old Pressures and New Opportunities.

Old Pressures:

A. Balance and Payments

-- Balance of payments deficits, around $10 billion today has led in 1971 to the first devaluation of the dollar since 1934. Just last week there was a second devaluation of the dollar.

-- Congress' role in devaluation is essentially a ratification, and any further overhaul of the international currency system is likely to be ratified by Congress.

B. Trade legislation:

1. The President has asked for broad authority to negotiate trade agreements; it seems he wants to strike a balance between free trade and the position of the unions who are interested in more protectionist legislation -- such as hard and fast quotas and taxation of foreign profits and multinational corporations.

2. Congress will ultimately have to grant some kind of negotiation legislation -- as it did in 1962 with the Foreign Trade Act~~s~~ that started the Kennedy Round.

What the exact form will be is difficult to say -- but it is not likely to be as broad as the Nixon Administration may want and not

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as narrow as favored in the Burke-Hartke quota legislation.

New Opportunities:

A. Expanding trade with the Common Market. In 1970, Americans exported more than $9 billion and imported $6 billion from the Common Market. 1972 - Exported $11 1/2 Bill. Imported 13 Billion

[illegible] Billion Deficit

-- Much of what happens now will depend on the shape of the trade legislation enacted by Congress; and the lowering of non-tariff barriers to trade, such as the American Selling Price Concept, and the Common Market Preferential Trade Agreements.

B. Trade opportunities also exist with the Communist countries.

-- Soviets want technology trade; they are also interested in agriculture commodities -- grain, wheat, corn, oats, barley, and soybeans.

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-- Historically Congress was more active in blocking trade with Communist countries than expanding trade:

-- Export Control Act of 1949

-- Trading with Enemy Act of the early 1900's.

-- Mutual Defense Assistance Control Act of 1951.

But there are mitigating pressures:

-- The new relationships with Communist China, which might offer a trade potential between $50 million and $400 million by the end of the decade.

Problems still exist though:

1. The problem of credits for the Soviet Union; the Soviet Union's desiring the Most Favored Nation Clause; the Jackson Amendment on Soviet Jews.

B. Also, the United States' national security interest -- how far to become dependent on Soviet natural gas, for example.

V. Economic Stabilization

A. From the beginning of the Nixon term, Congress put pressure on for wage and price controls:

-- 1969: Congress passed authorizing legislation for controls on credit

-- 1970: Congress passed legislation for wage/price controls

-- 1971: Extended Wage and price controls

But the President said he would never use them.

B. August 15, 1971 -- Nixon began wage and price controls

-- establishment of Price Commission, Pay Board, Cost of Living Council.

-- America became concerned with profit margins, base wages, productivity, Phase I and Phase II;

-- Labor left the Pay Board, and controls generally.

Recognized as heavy on wages and deficiency as to profits. Fairness was questioned.

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C. 1973 picture:

-- President lifted controls on almost everything. Congress, through the Joint Economic Committee has criticized this move:

-- Unemployment still high

-- Inflation still going

-- Rents increasing

-- Many wage contracts up for renewal

-- Profits jumping

-- Now Congress, before April 30, 1973, will have to make up its mind on what to do about controls

Questions we have to face:

1. What kind of inflation do we face -- administrative inflation because of concentration of economic power in few industries, and thus not controllable through normal channels of monetary and fiscal policy manipulation?

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2. Where should controls be focused -- if controls are indeed necessary: How large of an industry? What kind of reporting? What kind of profits will be tolerated?

3. What to do about rent increases? Health cost increases?

4. What to do about interest rates?

VI. Congress and Budget

A. President has submitted a budget of $268.7 billion. But to me, the budget is nothing but one of neglect, deception, and domestic disengagement. It is a retreat on our pressing social needs. It fails to fund adequately the people-programs while leaving military programs almost intact.

B. The President has asked for a spending ceiling. But, I might ask, why $268.7 billion. That is the President's figure. Congress might indeed set a spending fugure. But the point is we should do it. And, with our estimate of priorities.

C. To consider the budget adequately, Congress needs to get its own house in order. Our record -- as is that of the President's -- is mixed when it comes to fiscal responsibility:

1. Appropriation Process: Today less than 44% of the budget will require appropriations. And Congress has been good at cutting the appropriation request of the Executive -- every year for the last 26, Congress has cut. Including $20 billion for Nixon Budgets.

2. Yet, expenditures have increased. Why? Because of executive requests for more spending, Congressional authorization and a splintering of the appropriation process in Congress.

   There has been a growth of "back door" spending -- both asked for by the President and acceded to by the Congress:

   -- borrowing authority, such as for student loan guarantees

-- contract authority which the executive can enter into, such as rent subsidies and water pollution control authority

-- permanent appropriations, such as funds for general revenue sharing

-- mandatory spending, such as public assistance grants

D. What is needed in the Congressional machinery to integrate authorization, appropration, taxes, and spending powers.

I propose:

As part of the Joint Economic Committee, the establishment of a Budget Analysis and Program Evaluation Office.

This office will recommend total spending limits, and total revenue estimated.

Such estimates will reflect current economic conditions, budget assumptions, priorities of the Congress.

It would be requested to consider the operation of the general economy, the integration of economic condition analysis with budget choices, information on amounts appropriated, amounts authorized, spending projections, revenue projections.

And, it would be an evaluative office -- to provide Committees with reports and recommendations on programs, both ongoing and new programs; to act as liaison between the authorization and the appropriation committees; to scrutinize programs enacted by Congress so that budget justifications can be examined from a sound data base, independent of the Agency and the Executive.

VII. Taxing Policy

A. Congress has more power, more authority over actual fiscal policy. It is not just a rubber stamp for the President's proposals:

-- It takes the initiative, as in the 1969 Tax Reform Act

-- It forces the Executive to spell out plans and priorities, such as the 1968 Tax Surcharge Act

-- It changes the President's fiscal priorities, such as the 1971 Revenue Act, when it increased personal exemptions, passed a Presidential Campaign Financing Act, and put more emphasis on individual cuts than it did on tax breaks for business

B. What will be the tax issues in 1973?

1. Tax Reform:

-- Now, the richest 1% of the people own 25% of all personal property and financial assets of our nation

-- Loopholes allow 300 persons with incomes of over $50,000 to escape paying any federal income taxes in 1971.

-- Close some of these: Asset Depreciation Range, increase minimum tax, change corporate and gift taxes, changes in capital gains taxation

2. Social Security and Financing:

   a. A man earning $50,000 a year pays $468 in taxes or less than 1% of income while a man who makes $9,000 a year pays $468 or 5.2 percent of income

   b. About 20 million Americans too poor to pay income tax had to pay the 5.2 percent social security tax

   c. Reform proposals:

      -- General revenue contributions to social security trust fund -- to decrease the payroll tax and maintain benefits

      -- Progressive tax rates on social security, by enacting new tax schedules or taking the lid off contribution ceilings.

3. Property Tax Reform:

   a. Property taxes are most onerous: provide 53% of school financing on average

   b. Congress can and will likely move to:

      -- provide incentives for fair administration at local level such as assessment improvement, uniformity.

      -- elderly property tax relief or rebates.