

Science and the News

The Next Budget: The President Is Saying a Few Things He Cannot Really Believe

The Administration has begun to pay a good deal of attention to domestic politics. For the next few weeks half the cabinet will be out of Washington traveling around the country to build up interest in the Administration's domestic programs. But if the Administration were really serious about some of the statements the President and his associates have been making about their fiscal policies, there would not be much of a domestic program in the next session of Congress, and not much point in sending the cabinet on the road to build up support for it. Welfare Secretary Ribicoff has been traveling all fall, devoting half his speeches to the need for more investment in education, but last week he cut \$20 million out of the money Congress had appropriated for the National Defense Education Act. This does not make sense in any obvious way, but the peculiar logic of politics makes some peculiar demands of the politician. There is a good deal of deliberate obfuscation going on, which reflects an inclination to blur the contrast between the Administration's view of fiscal responsibility and the public's view. The great majority of economists support the Administration's view, but the public, after all, has more votes. The result is that the Administration will talk about its devotion to balancing the budget until it becomes obvious the budget is not going to be balanced. This is pretty much the same reason that Rockefeller and Goldwater will insist that they are not candidates for the Republican nomination in 1964 until it becomes unavoidable to concede that they are: Why give your opponents a target to shoot at any sooner than necessary?

The budget situation at the moment is this: For fiscal 1961, ending next June, the government expects to take in \$82.1 billion and spend \$89 billion,

leaving a deficit of \$6.9 billion. It will probably turn out to be larger. For fiscal 1962, beginning next July, the Administration predicts an income of \$92 billion, and the President has announced his firm intention, "barring urgent and unforeseen defense needs," to submit a balanced budget to Congress, while his Secretary of the Treasury has been saying the time is not right for tax increases. The \$10 billion increase in receipts over fiscal '62 assumes no increase in tax rates, but a substantial increase in receipts as the economy recovers from the recession. This would allow the federal budget to rise \$3 billion in fiscal '63 and still be in balance without a tax rise. But Administration officials have been saying that the defense budget will be at least \$50 billion next year, which is \$3 billion more than last year. By ordinary logic this would mean that there could be absolutely nothing in the next budget for increased investment in education or science or anything else.

"Economy"

The Administration has been saying very little about what it will ask for in the next budget, but it will certainly ask for some things beyond the increase in defense spending. Under Eisenhower, who took a genuinely dim view of increases in federal spending, the budget, after a drop-off reflecting the end of the Korean War, rose by \$2 to \$3 billion a year, with most of the increases coming in domestic programs. Despite Eisenhower's current attacks on the "immorality" of budget deficits, his Administration produced deficits in five of its eight years. On this experience alone, there is no great expectation that the budget will be balanced next year without a tax increase. What suggests that there can be no expectation at all of a balanced budget next year is that it is most unlikely that the Administration would want a balanced budget even if it could be obtained.

The President's elaborately publicized

warning to his cabinet to keep down spending and Ribicoff's cuts in his own budget in response to the President's request may be good politics, but in the view of the majority of the country's economists, and of all the economists to whom the Administration looks for advice, it is bad economics. If put into effect, it would probably even be bad politics. The public apparently likes to hear its leaders *talk* of their devotion to a balanced budget, but there is very little indication that it cares much one way or the other what an Administration *does* about balancing the budget. Eisenhower's second term produced three unbalanced budgets, and one barely in balance, for a net addition to the federal debt of \$17 billion in 4 years. It does not seem to have hurt his popularity in any noticeable way or to have dimmed his reputation as a man devoted to fiscal integrity. What would hurt politically much more than an unbalanced budget would be another recession following on the heels of the one we are just coming out of, and another recession is what, if the Administration's economic views are correct, is likely to be the most obvious by-product of a balanced budget next year.

The view of the Administration, repeatedly stated, is that the main reason the 1960 recession followed so quickly on the heels of the 1958 recession was that the government had turned too rapidly from a large deficit in fiscal 1959 to a small surplus in fiscal 1960. The change from the stimulating effect of a deficit, pumping extra money into the economy, to a surplus, taking money out of the economy, came, in this view, before the economy had really recovered from the '58 recession. After that recession, the unemployment rate, a key figure in these calculations, never dropped below 5 percent. It had been 3 percent when Eisenhower took office, a reflection of the busy state of the economy under the stimulation of the deficits produced by the Korean War; after the 1954 recession, it never dropped below 4 percent; after the '58 recession it did not drop below 5 percent. The new Administration suspected that, without greater efforts to stimulate the economy than Eisenhower was willing to accept, this chronic and creeping unemployment would edge even higher. It regarded this trend as an intolerable one which would at worst develop into a real depression, and which at best would cause a great deal of hardship

among the increasing force of jobless workers and at the same time rob the economy of the many billions of dollars in goods that it could be producing if the idle resources could be put to work. The situation was particularly disturbing to an Administration that believed there would have to be substantial increases in federal spending for defense, foreign aid, and education and science, and in fact for government generally, and which, therefore, was especially anxious to see the economy grow and provide an increasingly large tax base out of which to finance these projects.

In view of this, the Administration took office with the intention of not merely producing a deficit in the current fiscal year, which was widely regarded as inevitable no matter what Administration was in power, but of continuing with an expansionist fiscal policy, which means mainly running a deficit, beyond fiscal '62 and the expected upturn in the economy, in order to push the economy to a point reasonably near full employment. The Administration talked of a 4-percent unemployment rate as a target. As a longer range goal, it talked of a 3-percent rate. In any case the test of whether the Kennedy Administration's economic policy was really to be substantially different from the Eisenhower Administration's was not whether it would incur a deficit in a year when it was almost unavoidable, but whether it would continue to push the economy higher after the popular view had come to be that the recession was over and the time had come for tightening up on government spending to avoid inflation.

For a few months after the new Administration took office, it looked as if it might conceivably be possible to avoid making this touchy policy decision, to which the Administration was intellectually committed, but which would be difficult to explain to the public. If the economy rose very quickly out of the recession, it might be in a sufficiently booming condition by the end of fiscal '62 to allow a balanced budget in fiscal '63, even under the Administration's economic views. Administration officials talked a great deal last spring about balancing the next budget.

Now, despite the elaborate publicity given to Kennedy's request to his cabinet members to hold down spending, and to Ribicoff's token cuts in the Health, Education, and Welfare budget,

the Administration is no longer talking of a balanced budget, but a budget that will be in balance on paper when submitted. There is a great difference. For fiscal '59, for example, Eisenhower's budget, when submitted to Congress, showed a \$500 million surplus which, by year's end, turned out to be a \$12.7 billion deficit.

Kennedy's talk of an intention, barring unforeseen defense increases, to submit a balanced budget must be interpreted in the same way as his talk immediately after taking office of not asking for any increases over Eisenhower's budget recommendation that would "of and by themselves" unbalance the budget. Probably no more this year than last do the President's remarks reflect anything more than a conventional response to the popular feeling that the President must always be in favor of balancing the budget, no matter how profoundly unwise he might believe it to be under the circumstances.

Budget Talk

The President's words must be interpreted very literally. Last year he meant just what he said about not unbalancing Eisenhower's budget, and not a bit more. The *Wall Street Journal* had called the final Eisenhower budget a "political joke on the incoming Administration," and it was easy enough for the new Administration to point out a number of peculiarities of the budget that suggested that the surplus Eisenhower had predicted was based on a combination of wishful thinking and rather carefree accounting. A minor example was that, although the President's message accompanying the budget included a recommendation for building the Stanford linear accelerator, the money to begin work on the \$114 million project appeared nowhere in the budget itself. As a result the Administration could argue that Kennedy had lived up to his promise, since his recommendations for extra spending could not "of and by themselves" unbalance a budget that was really never in balance to begin with.

This year the President says that he intends to submit a balanced budget, but this is not to be interpreted to mean anything more than the minimum that it says; specifically, it does not mean that the President necessarily has any intention of having a balanced budget at the end of the year, only that he intends to submit a budget at the beginning of the year that, on paper at least, will be in balance.

The hard fact that lies in the way of a genuine effort to balance the budget is the familiar unemployment rate. In terms of output the economy is coming along nicely. Eisenhower's last budget predicted a gross national product for the current year of \$515 billion, a figure that was widely regarded at the time as overly optimistic. But the actual output for the year, it is now estimated, will be higher, about \$520 billion. So the Administration can claim that its fiscal policies have had a good effect on the economy, particularly since there has been very little inflation this year. Where the picture is not so rosy is on the unemployment side. In defending his stimulatory policies, Kennedy suggested last year that without extra federal spending to push up the economy, unemployment would "hover between 6 and 7 percent throughout the year." This would mean a million or two more unemployed workers above what there should be under reasonably full employment. What has happened, though, is that although the economy has been recovering well from the recession, the unemployment rate has shown no recovery at all. It has not hovered between 6 and 7 percent, but between 6.8 and 6.9 percent. We are producing more than ever before, but the unemployment rate is only now, 9 months after the upturn in the economy, beginning to show even modest signs of improving. There is a large body of workers whose jobs have been taken by machines, and the economy must grow faster if they are to be provided with jobs. In the face of this need for faster economic growth, there is no likelihood that the Administration would want to pass up the opportunity to stimulate growth by pumping more money into the economy through another deficit, particularly when it sees the extra spending as not only stimulating the economy, but as paying for programs that are thoroughly worthwhile in themselves. It will be interesting to see if the President does succeed in submitting a budget balanced on paper. If he does, it will surely be a nice display of ingenuity, but it is not to be taken very seriously. The real question, to which the Administration has as yet no answer, is not whether the Administration will now in the name of economy forget about the education programs it failed to get through Congress last year, but how, after last year's debacle, it expects to get the Congress to pass the programs this year.—H. M.