

Budgeting 101

The following is an edited version of a speech given by Senator Moynihan (D-NY) to the New York Publishers Association on August 29, 1993.

by the Honorable Daniel Patrick Moynihan

Five years ago during a speech to the Publisher's Association in Albany I cited a passage from *The Deficit and the Public Interest* by Joseph White and Aaron Wildavsky in which they state:

Whatever one thinks of the Reagan era, one thing is clear: the debate and politics of the deficit have been among the most stultifying and frustrating experiences in our political history.

A new administration, Democratic or Republican, would soon take office. I argued that if it stepped right up to the issue and put in place a balanced operating budget, we would find ourselves the beneficiaries of a \$3 trillion surplus in the Social Security trust funds that would accumulate between then and the year 2015. This could be used to pay off the national debt, which in turn would double the national savings rate.

Nothing of the kind happened. The stultifying debate groaned on. Now another administration has come along. In 1992 promises were made which this new administration is trying to keep. And in the Budget Reconciliation bill signed by President Clinton on August 11, these promises were generally kept. As much as promises in politics ever are. The debate was as stultifying as ever, but still had its moments. On the final day, August 6, when the Senate voted, at mid-morning I took the floor with no greater purpose than to run the clock on the prescribed ten hours of debate, equally divided. Every vote save one was settled. Nothing said on the floor would make the slightest difference in the outcome.

So, I waxed a bit academic and a bit historical. When I finished, a page brought me a Senate *Calendar* on which my Republican friend, Senator Phil Gramm of Texas, had written:

Your grade
A
good content
somewhat wordy

Senator Gramm is, of course, a sometime professor of economics. He had listened to what I had to say, corrected me on occa-

The Honorable Daniel Patrick Moynihan is a senior member of the US Senate and chair of the Senate Committee on Finance.

sion, but thought the performance credible. Allow me then to expand on it.

My central theme was that the debate had been so barren because we are caught up with the language and the concepts of another era, one in which we no longer live, and have not developed the language and concepts to deal with the era in which we do live.

The era which is past is one in which it was thought—correctly—that the great task of fiscal policy was to maintain a level of demand in the private sector of the economy such that the economy as a whole tended towards full employment and full utilization of industrial capacity. These goals are set forth, for example, in the Employment Act of 1946, which gave us the Council of Economic Advisors, the *Economic Report of the President* and the Joint Economic Committee. From the mid-19th to the mid-20th century, the great issue of the industrial world was whether and how this could be done. Many thought that it could not, that the "contradictions of capitalism," to use but one formulation, were such that the system was radically unstable. So much that the confiscation of private property, as in communist doctrine, or state regimentation, as in fascist assertion, was necessary and inevitable. Either way, the state grew immensely powerful and the citizen all but disappeared.

The great depression of the 1930s, the world war that followed, and the communist expansion that followed in turn put western civilization itself in jeopardy.

In the nick of time, Keynes figured out that the problem was not western civilization but fiscal policy. Governments had typically responded to a downturn in the business cycle by cutting expenditures such that the downturn deepened. (The third statute enacted in the administration of Franklin D. Roosevelt cut Federal salaries by 10 percent.) Now it was argued that government should follow counter cyclical policies, spending more when demand fell off. (And less when it peaked.) This was counterintuitive for the time. Read the editorials of the 1930s, once the New Deal began to absorb the first inklings of what we would come to know as Keynesian economics. The idea of government deliberately spending more than it took in seemed to defy common sense.

And yet the idea was a correct one, or such was the judgment of economists, now pretty much confirmed by experience. The learning curve was pretty steep here. The *General Theory of Employment, Interest and Money* was published in 1936. Our Employment Act came but ten years later. In 1947, Herbert Stein, working at the blue-chip Committee for Economic Development in Washington came up with the idea of a "full employment budget." This is a budget with a built-in deficit equal to the difference between anticipated revenues and revenues at full employment. The extra government spending would tend to stimulate the economy toward full employment. Those who think of this as a Democratic, or even liberal Democratic policy simply don't know what they are talking about. Stein, a Republican, elaborated his theory in his fine work *The Fiscal Revolution in America* which appeared in 1969, with an introduction by George P. Shultz, also a Republican, written when he was dean of the University of Chicago School of Business. Stein, later, became a member, and then chairman of the Council of Economic Advisors under President Nixon; Shultz became Secretary of Labor, and then

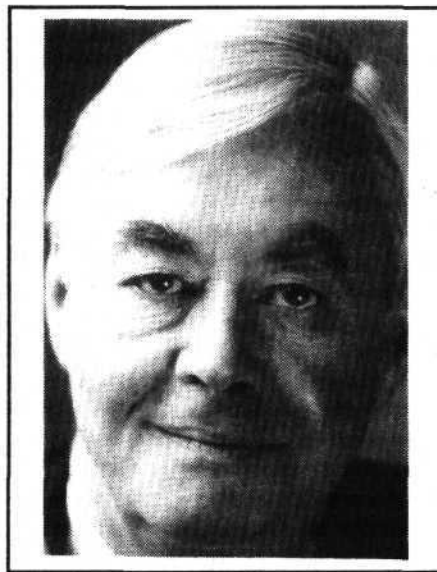
Director of the Office of Management and Budget in 1970. I was then Counselor to President Nixon, and listened with great interest and advantage as these two wonderful teachers explained the theory of the "full employment budget" which Shultz put together and the President sent to Congress.

A budget with a deliberately built-in deficit. The problem was that successive Congresses didn't much like this idea. A few years earlier Walter Heller, chairman of the Council under President Kennedy, saw this as the source of the problem of "fiscal drag." As the economy approached full employment, Federal revenues rose, but Congress wouldn't spend them. Thus, the economy never attained to full employment. Dr. Heller's solution was revenue sharing. The governors would spend the money even if Congress wouldn't. Revenue sharing was begun under President Nixon.

All this seems a long way off, and it is. In the 1970s we crossed over from one era of public finance to another. The decade began with government trying to create deficits; it ended with deficits almost out of control, and not just at the Federal level, but at all levels of government. Where a half century ago we were seen to have a permanent crisis of the private sector of the economy, this has now been supplanted by a permanent crisis of the public sector.

What happened? I offer the proposition that during the Johnson-Nixon presidencies, overlapping in New York with the Governorship of Nelson A. Rockefeller and in New York City with the administrations of Robert F. Wagner and John V. Lindsay, government began to take on commitments in areas where relative costs were beginning to explode. This is to say they were infected with the "cost disease of personal services." This is a term from *Performing Arts: The Economic Dilemma* by William J. Baumol and William B. Bowen, published in 1965. Why, they asked, was the Metropolitan Opera always broke and the orchestra always on strike? Because, they answered, there is simply no increase in productivity in open production, unlike other sectors of the economy. *Così Fan Tutti*, which was performed at the Glimmerglass Opera in Cooperstown this summer required the same number singers, took the same amount of time, and played to about the same size audi-

ence as in Vienna two centuries ago. A spring issue of *The New Yorker* noted that in the year that magazine "hit the stands" in 1923, some 228 shows appeared on Broadway. Today there are nineteen (Although somewhat more in the course of the year.) By a nice serendipity, 1965 was the year Congress enacted "The National Foundation on the Arts and the Humanities Act." It was also in the year of Medicaid, the legislation, as Meg Greenfield has written, "that



Courtesy of the office of Senator Moynihan.

ate New York". (Medicaid outlays doubled in the eight years of the Reagan administration, then doubled again in the four years of the Bush administration).

Few understood this at the time. I surely did not. From the debate in Washington of the past six months, it is not clear that it is understood even now. And yet I do believe that in the concept of "cost disease," Baumol's Disease in the usage of his fellow economists, we have the key to advancing the debate.

Let us try a thought experiment. Suppose we reached a point in America where the only two things anybody had to buy were food and education. And suppose further that government provided free food, that being the more fundamental need. Citizens were left to pay for their own education.

Under that arrangement the government could provide a tax cut every year, because every year the relative price of food declines (In 1960, the cost of food made up one-third of the average family budget. It is now one-sixth).

On the other hand, most house-

holds would find themselves at wit's end trying to pay off the school bills, grade school, high school, college possibly. Current costs and old debts. Because the relative cost of education continuously goes up. In New York today increasingly one farmer milks one hundred cows, but teachers still teach classes of twenty-four kids or so. Not for lack of energy, but because you can't teach a class of one hundred teenagers anything worth learning. Baumol speaks of The Stagnant Services, be they teaching, lawyering, doctoring, policing, or, for that matter, reporting.

I have proposed a corollary to Baumol's text. Activities with cost disease migrate to the public sector. Let us go back to our thought experiment for one moment. On or about the date that the median indebtedness of the median household with children and parents with college degrees reaches \$234,321.13, I suggest that some member of the State Assembly will propose that government promote free public schools in addition to free lunch.

Baumol makes the point that because the overall productivity of the economy is going up, we can afford The Stagnant Services and still have plenty of everything else (*The Economist* recently observed: "For \$7,000 anyone can buy a personal computer today that is twice as powerful as a \$4 million mainframe was ten years ago"). Baumol expects that by 2040 we will be spending 35 percent of the gross national product on health care and 29 percent on education; almost two-thirds of our income will go to the public sector, paid for by taxes, handed out by government, government will have become too big and politics too important.

Even so, if these concepts, assuming them to be valid, can win general acceptance, we have a way out of the "stultifying and frustrating" debate on and politics of the deficit. I was very much heartened when an extensive commentary on this set of propositions appeared in *The Washington Post* in August, written by James K. Glassman. It was the first of its kind. Conservatives, he noted, "have long argued that we have two economies: the private sector which is highly productive, and the public sector, which is highly unproductive." Not so, of course, if we are correct. The public sector is not inherently unproductive, it is just that it collects economic losers. There is plenty of waste and no market discipline. But that's not the real

problem when Medicaid costs double every 5.9 years. Conservatives need to accept this or else we will go through the 1980s again when the debt quadrupled.

Liberals, on the other hand need to learn great caution as to which, if any, new activities they seek to bring into the public sector. Speaking to the Governors in Tulsa on August 16, President Clinton stated his conviction that "what this nation really needs is ... fundamental and profound and relentless and continuing change." If he really thinks about government in those terms, I can only say that his is a different view from that of the chairman of the Senate Committee on Finance. On the other hand, the general thrust of his health care proposals seem to meet the criteria I have laid out.

In the meantime, especially here in New York, I dare to hope that we might try to recover the memory and the knack of doing things we used to do so well. It is now almost two years since President Bush signed the Intermodal Surface Transportation Efficiency Act, "ICE TEA" as it is known. That bill took me exactly 35 years to pass. I was in the Executive Chamber in Albany in 1956 when Congress created the National Chamber in Albany in 1956 when Congress created the National System of Interstate and Defense Highways. The administration of Thomas E. Dewey had designed and built the Thruway from a standing start in eight years- as a toll road. The Federal government would now build the same highway all across the nation — but as freeways which we would help pay for through an increased Federal gasoline tax. It seemed to me this would be devastating to New York; but I could find few who agreed (In the years since, we have lost a third of our Congressional delegation). But now I was able to commit the Federal government to repay us \$5.06 billion for the Thruway, along with a large allocation of the Highway Trust Fund and instructions to do pretty much anything we pleased with the money so long as it involves transportation. To say again, nearly two years have gone by. The money is disappearing in repaving contracts. This is not what I had in mind. We need to do something memorable to close out the century.

Can we not agree to divide the Thruway money into five portions of \$1 billion each for each of five regions in the state and do something memorable for everyone?

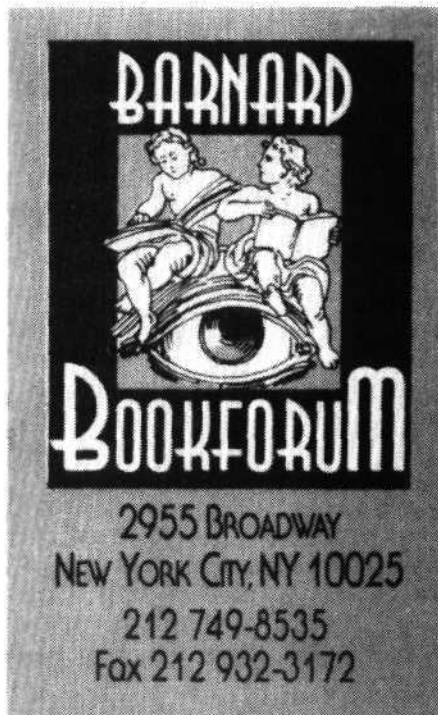
I know, for example, what I would do in New York City. I would recreate Pennsylvania Station in Charles McKim's great Post Office across 8th Avenue. On August 5, Mayor David N. Dinkins wrote me to say he wholeheartedly agrees.

As we have discussed, the demolition of McKim's Pennsylvania Station marked a low point in our City's architectural history. The opportunity is now at hand to rehabilitate the Farley Post Office Building and to restore Perm Station to its previous glory as a true gateway for New York City.

Thanks to the flexibility of ISTEIA, federal funds are available to build both an important intermodal transportation facility and to create a monument that will testify to our generation's interest in revitalized public spaces.

I would then build a magnetic levitation train system that would make the round trip to Kennedy over to LaGuardia and back, in say, 12 minutes. En route, travellers would get a glimpse of the Throg's Neck Bridge where maglev was thought up in 1961. They could then go back to their own countries having seen something new in the new world for a change.

Helvidius would like to thank the office of the Honorable Daniel Patrick Moynihan (D-NY) for providing us with the transcript of this speech.



Ginsburg

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of sexual harassment, especially in the recent Harris case, Ginsburg focuses on the inherent inequality of the rule that women must prove they have been psychologically damaged by an incident. She believes that women survivors should be commended and not condemned. Just because they refuse to be victims does not mean that they should have to put up with harassment.

One can only speculate about Ruth Bader Ginsburg's future role on the Supreme Court. It seems likely that in most decisions she will not greatly alter the Court's balance since she tends to be moderate on issues like criminal law. However, on gender issues, civil rights, and civil liberties, she can be expected to be a voice for continuing progress. The most likely change in voting patterns on the Court should be in decisions about religion in the schools, an issue on which the Court generally divides 5-4, and upon which Ginsburg's predecessor, Byron White, generally voted conservatively. On most other issues, it is difficult to predict exactly how Ginsburg will vote. In the end, will Ruth Bader Ginsburg become a feminist heroine or a modest jurist? We believe that the answer is both.

You know, I'm not sitting here [as] some little woman standing by my man like Tammy Wynette. I am sitting here because I love him, and I respect him, and I honor what he's been through, and what we've been through together. And, you know, if that's not enough for people, then, heck, don't vote for him.

-Hillary Clinton.