



Address by the Comptroller General of the United States,
 Elmer B. Staats, to the Commonwealth Club of California,
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[FEDERAL SPENDING--IS IT OUT OF CONTROL?]

I appreciate the invitation to speak before this distinguished group. The Commonwealth Club of California is well known for the contributions it has made over many years.

Your secretary has asked me to speak on the subject "Federal Spending--Is It Out of Control?" I hasten to say that I cannot give you a definitive answer. And even if I attempted to do so, I doubt that many of you would agree with my answer. The reason is basic and simple: The answer depends on your philosophy of government--whether taxes are too high, whether inflation is the paramount issue, whether the Vietnam war could be brought to a close more rapidly than the President's plans contemplate, or whether you think the needs of our inner cities--symbol of our immense social problems--have been neglected by the Federal Government.

Perhaps I should state both my disqualification and qualification to speak on the subject. Your fellow Californian, *27* Casper Weinberger, Deputy Director of the Office of Management and Budget and a former speaker before this forum, and George Shultz, the Director of that Office, are the key personalities presently involved in advising the President on current and future budget policies. Both are able, entrusted with this highly important and complex role.

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After serving more than 20 years in the Bureau of the Budget, I have been concerned, for the past 5 years as Comptroller General, with advising the Congress on how well the executive branch agencies have spent the money appropriated to them. Some call the General Accounting Office, which I head, the "Watchdog for the Congress." Having this responsibility and having played a personal part--as Deputy Director of the Budget--in assisting four Presidents in the preparation of 14 budgets for the Federal Government, I have--quite naturally--retained an active interest in and concern with the subject of Federal spending.

A decade ago, when John Kennedy became President, the Federal budget was approximately \$98 billion. Ten years later, in 1970, the budget had almost doubled at \$197 billion. The 1972 budget, now before the Congress, calls for expenditures of \$232 billion. In this 10-year period, 1961 through 1970, we have had a budget surplus in only 1 year and have had cumulative deficits totaling more than \$60 billion.

Perhaps I should update these figures for fiscal year 1971 and the current estimates for 1972. The actual deficit for 1971 was \$23.2 billion--sharply upward from earlier estimates, largely because of the downturn in the economy. The President's budget for fiscal year '72, submitted last January, estimates a deficit of \$11.6 billion. Currently the expectation is that the deficit will climb to a much higher figure--some estimate as high as \$25 to \$28 billion--primarily due to two considerations: the proposed tax reduction that is a part of the President's New Economy

Program and increases in the President's budget to approximately \$3 billion due to added expenditures by the Congress to appropriation bills acted upon to date. Thus there is a possibility that in 2 fiscal years we will add deficits totaling almost as much as those accumulated during the previous 10 years.

The President's current budget requests new spending authority totaling nearly \$250 billion which, added to the \$260 billion authority of previous years, provides the executive branch with spending authority of over \$500 billion--to be spent in the years ahead.

THE BUDGET IN THE FUTURE

The Federal budget for future years is further complicated by the fact that many of our commitments have become "fixed," "built in," or, as some would call it, "uncontrollable"--the very word in the topic selected for today's discussion. To be sure, much of our budget has increased as the result of population growth, inflation, an increasing number of veterans, and an increasing number of beneficiaries entitled to social security and other pensions.

President Nixon, in transmitting his 1972 budget, pointed out that, during the next 4 years, economic growth should increase Federal receipts by \$86 billion.

But, he hastened to add, the built-in or uncontrollable costs in the budget will limit severely the ability of any President to alter this figure over the next 5-year period. He stated that:

Less than ten percent of the receipts that our current tax system is expected to produce in 1976 will be available for all the new programs to be introduced between now and then.

This is a direct quote from the budget statement in which he further estimated that about 1 percent of calendar year 1975's economic resources would be available for new programs.

Perhaps some of you will conclude that I already have answered the question posed in today's subject, namely, that Federal spending is out of control and that I could stop right here and not belabor the subject further. But the issue is not that simple. Whether Federal spending is too high or too low must be judged on many counts. It must also be related to the growth of the economy and the needs which Government will be called upon to supply if we are to have a stable society and if our economy is to continue to prosper and grow.

THE BUDGET AND THE ECONOMY

It is a truism that the budget is affected by, and has a sizable impact on, economic conditions. The 1971 budget deficit, for example, was increased by nearly \$6 billion because the economy did not perform as anticipated. At the same time a sluggish economy has placed more people on welfare rolls, illustrated by the fact that in February of this year 14.2 percent of the population here in San Francisco were receiving public assistance. A sluggish economy also has resulted in higher payments for unemployment compensation, lower agriculture prices requiring more money for price supports, and higher interest rates which boosted the Government's cost for borrowing money.

A major step was taken by President Nixon this year to relate his economic forecast or goals to the level of the budget and the budget surplus or deficit forecast. He used the term "full employment surplus."

This means that, although the budget, in absolute terms, shows a deficit of \$11.6 billion, it would show a small surplus if the economy were to perform at a level required to reduce employment to about 4 percent. In the language of the economist, the budget was calculated to have a stimulating effect on the economy and to serve the objective of bringing economic growth back to an acceptable level. In more specific terms, the downturn in the economy has contributed to spending programs for emergency employment as well as expanding welfare costs, to which I have already referred.

Viewed in the perspective of the gross national product (GNP), the Federal budget picture is quite different. During the 10-year period 1961-70, which I have taken as my point of reference, the Federal budget, as a percent of GNP, increased only slightly--from 19.3 percent to 20.6 percent--while the Federal debt held by the public actually declined from 47 percent of the GNP to 30 percent.

Of course I am talking only about the Federal Government. State and local government debts, as well as expenditures, have increased much more rapidly. Indeed, one of the reasons for the increase in Federal expenditures, overall, was the need to provide increased assistance to State and local governments. Federal grants now represent approximately 20 percent of the total State and local revenues. This year grants-in-aid represent nearly 15 percent of the total Federal budget, or about \$30 billion.

One writer has recently remarked, facetiously, that the mayors of the cities facing financial crisis are besieging their Governors for funds. In turn, these Governors, whose States also are facing financial crisis, are spending their time besieging the Federal Government for funds. The Federal Government, in turn, is facing a \$25 billion deficit.

FINANCIAL ASSISTANCE TO STATE AND LOCAL GOVERNMENTS

The national debate now taking place on grants-in-aid and revenue sharing is of special concern, particularly because of the question of accountability of these--your--tax dollars.

The 1972 budget states that "this year promises to be a turning point in the history of our Federal system" and notes that the President's proposals for financial assistance to State and local governments, including revenue sharing for fiscal year 1972, total \$38.3 billion, an \$8 billion increase in 1 year.

The basic question focuses on the primary purpose of such assistance. Is the primary purpose to support programs for specific national needs, financed, in substantial part, with national revenues and accounted for to the National Government? Or is their primary purpose equalization of the tax burden under a system of federally collected, locally administered revenues?

The President, in his February 4 message to the Congress on general revenue sharing, pointed out that many people believe that the best way to hold Government accountable to the people is "to be certain that the taxing authority and

Will special interests--those concerned, for example, with child care, aid to the mentally retarded, or water pollution control--be satisfied to allow the need for these programs to be determined by the State and local governments?

Whichever way the issue turns, our attention has been focused sharply on the capability of State and local governments to audit programs and to evaluate their effectiveness.

One of the arguments made for revenue sharing is that it would place greater responsibility on local governments to determine how governmental programs should be carried out. It is difficult to argue with the principle of decentralization. I believe that this issue should be looked at from the standpoint of whether general revenue sharing may not actually weaken one of the incentives to consolidate or modernize local government structure.

THE COMMITTEE FOR ECONOMIC DEVELOPMENT STUDY

In its recent report the Committee for Economic Development pointed out that nearly two thirds of our entire population today are concentrated in 233 metropolitan areas, compared with only 55 percent in those areas in 1940. Yet in 1967 the metropolitan areas contained nearly 21,000 units of local government, or an average 91 local governments for each metropolitan area. The extremes are represented by the Chicago metropolitan area with 1,113 local governments, Philadelphia with 871, Pittsburgh with 704, and New York with 551, contrasted with 20 other metropolitan areas with less than 10 local governments each.

Perhaps this audience is aware of the large number of Government entities in the San Francisco Bay area. The nine counties in the bay area include 92 cities, 100 school districts, 300 water and sewer districts, 12 special regional districts, and some 800 special districts, for a total of more than 1,300 entities. Of particular interest is the fact that this figure does not include 2,200 additional special districts which have legal status but which currently are inactive.

The report of the Committee for Economic Development concluded that "the existing system of overlapping local governments results in a poor match between needs and resources and perpetuates waste, inefficiency, and confusion." The report noted that the States had been very slow in adjusting boundaries of local governments to meet the needs of metropolitan areas and recommended that both State- and Federal-aid systems be used as incentives to reduce the number of local governments and stimulate local government reorganization.

WHAT ABOUT THE VIETNAM "DIVIDEND"?

You may ask whether my analysis overlooks the savings that will be achieved as the planned withdrawal from Vietnam takes place. It is true that the phasedown will result in lower costs than would otherwise be the case, but provision has to be made for increased costs of defense as we move toward a volunteer army, as inflation takes its toll on weapons systems costs, and as we provide for needs of the Defense Department that have been deferred because of Vietnam war expenditures.

But the principal answer to the disappearance of the so-called fiscal dividend is to be found in the growth of programs designed to deal with increased social and environmental concerns--education, manpower training, health, welfare, crime control, pollution control, and so on. The list is almost endless. The Federal budget this year for human resources programs will be greater than that for defense. Almost 50 percent of the 1972 budget will be devoted to social and environmental programs, and the end is not in sight. This is indicated by the titles of some of the bills pending before the current session of the Congress.

National Water Quality Standards Act
Universal Child Care and Child Development Act
Urban Education Improvement Act
Comprehensive Community College Act
Clean Waters Commitment Act
Economic Opportunity Act Extension
State and Local Government Modernization Act
Health Security Act

Amendments to the Social Security Act (including family assistance)

Emergency Employment Act

School Children Assistance Act

This is perhaps why one of the White House assistants remarked, not too long ago, that the Vietnam dividend is as "evanescent as the fog at San Clemente."

CONTROL OF FEDERAL SPENDING--WHAT DO WE MEAN?

So we return to the basic question of priorities in our society: How much should Government do? and, more particularly, How much should the Federal Government do? Again, we cannot answer this question in absolute terms. We must ask: In relation to what? Compared with what? What are we doing that can be dispensed with? Can the private sector do more?

I can hear someone answer the question: "Compared with taxes that I can afford to pay; I am taxed to death already." That is certainly one test and a practical one. But we must also look at our needs as a society in relation to our personal and family needs; our needs for new housing, new business plants and equipment, better transportation, better law enforcement; and, of course, the noisy concern about pollution and environmental controls that is evident on all sides. Unless we meet the basic needs in these areas, business cannot prosper and our tax burden will increase.

I hope that up to now none of you listening to my discussion of Federal spending feel like the man who went to see a lawyer about getting a divorce.

"Why do you want a divorce?" the lawyer asked.

"Because my wife talks all the time."

"What does she talk about?" the lawyer then asked. "That's the trouble; she never says."

And that's the trouble--or difficulty--with our elastic subject today. One can talk a lot about it, but can things be said that are encouraging or helpful? In summary of what I have tried to say thus far, we would be incorrect to conclude, given the broad perspective of the Nation's demands and needs, that Federal spending is out of control; nor are there substantive reasons for anticipating that the volume of Federal spending will be reduced; indeed, nearly all the pressure curves are upward. That does not mean, however, that the money the President requests, and the Congress appropriates, is spent as efficiently as it ought to be; much is being done to improve Federal management and administration; much more can be done and must be done. So let us now turn from the overview of Federal spending to specifics.

When we begin to examine into Federal spending in specific areas, such as Medicare or Medicaid, or by the big departments, such as Defense--where we have had some serious cost problems--we find situations where particular aspects of Federal spending have not been controlled properly.

CONGRESS AND SPENDING

It is proper to ask at this point about the role of the Congress. Doesn't the Congress have the final word as to how much money is to be spent?--and for what? The answer is in the affirmative--although there should be heavy underscoring of the fact that many, if not all, of the uncontrollable~~s~~es--such as the increasing costs that I have already mentioned for interest, welfare, price supports and so on--which face the President in the budget are also facts of life for the Congress.

Within the area which is subject to discretion from year to year--about one third of the total--the record of the Congress in maintaining tight reins on the budget is a good one. To be sure, the Congress has been in the forefront in pushing for increases in Federal spending for special purposes, such as elementary and secondary education, and for medical research. Overall, however, the congressional record in dealing with spending authority over the 10-year period has been one of holding the line; in fact, the trend is toward reducing, rather than increasing, the President's budget. The Administration's 1971 request was reduced by \$1.6 billion.

As evidence of growing congressional scrutiny, the Military Procurement Authorization Act for 1972 has been under debate for the past 2 weeks. Here is the schedule of debate of last Wednesday, as reported in the Congressional Record.

- A 2-hour debate on an amendment to reduce funds for the Navy's F-14 aircraft program.
- A 1-1/2-hour debate on an amendment barring funds for deployment of the ABM system.
- A 2-hour debate on an amendment limiting research and development funds for the Army's main battle tank and a proposal requiring the Department of Defense to provide the Congress with a 5-year projection on defense costs.

The decisions to accept or reject these amendments are less important for our discussion today than the fact that these amendments are debated at all. Only a few years ago, the entire defense budget would have been acted upon in a single afternoon with virtually no change or challenge.

There are a good many signs, currently, that the Congress is increasingly restive as to whether it has the capability to exercise these oversight responsibilities. There are those who would say that the Congress almost has an inferiority complex. Members of Congress feel that the knowledge, the information, and the data on the Government's operations are in the executive branch. They are not always certain that they have the capability to review, react to, and pass on the data and the recommendations coming from the executive branch. The fact that the executive branch is in the control of one party and the Congress is in the control of another plays a part in this, although I think it goes much deeper than that--to some of the concerns I already have mentioned.

The growing size of the budget, the increasing concern about taxes across the country, the doubling of the number of persons on welfare in 10 years, and the plight of the cities and the States in terms of being able to raise funds to carry out their responsibilities--all these have played a part. A recent congressional reorganization act--The Legislative Reorganization Act of 1970--was, in part, an effort to improve the machinery of the Congress, because there are those who feel that the Congress could do a great deal more and could do its job better if the members could improve the functioning of the legislative branch itself.

THE ROLE OF GAO

We at GAO are a part of this, in the sense that we have the largest professional staff available to the Congress: about 3,100 employees, most of whom are located in the field, where operations are being carried on. GAO has 15 regional offices, including one in San Francisco, and five offices overseas. The staff in the Washington area is decentralized and located at operating agency sites. We do this to have better access to information, to enable our staff to get better acquainted with the persons in the operating agencies, and to obtain a better understanding of the Government programs and activities that we audit. About 40 percent of our auditing staff work on Department of Defense programs; about 50 percent work with the civil agencies; and about 10 percent work on international programs. That's a rough breakdown.

Although GAO has an independent status and has its own charter and the right to review programs at its own discretion, nevertheless it also serves as an arm of the Congress. We are required, by law and by practice, to try to help not only the Congress as a whole but also its committees, subcommittees, and even individual members of Congress on matters involving Federal operations.

More and more we are giving help to the Armed Services Committees and the Appropriations Committees, as well as to other committees, so that today about 25 percent of our overall effort, in professional-staff terms, is in response to specific congressional requests. In the most recent fiscal year--1971--GAO sent to the Congress 187 reports, most of which described needs for improvements in the management of agency programs or activities. We also made 287 reports, made specifically at their request, to committees or members of Congress.

NEED FOR ACCOUNTABILITY

You might ask: How does GAO decide what areas it gets into? I am speaking here of matters that GAO undertakes on its own initiative. We try to anticipate where problems are developing. For example, soon after the Medicare program started in 1966, we sensed that the cost estimates were being exceeded very rapidly. We undertook at that point a number of studies, in both Medicare and Medicaid, designed to ascertain what ways we could suggest for reducing the cost of medical care. I am glad to say that we came up with what can be described as truly enormous savings in this area. We have attempted the same thing in the manpower-training field.

GAO is shifting more and more of its emphasis toward social programs, because they are becoming an increasing area of Government expenditure. By their very nature, these programs are difficult to examine, particularly when we try to assess the accomplishments or benefits and to ascertain whether established objectives really are being achieved. We feel that both GAO and the agencies are going to be handicapped, particularly in the social welfare fields, until we get better criteria for evaluating program effectiveness.

WEAPONS PROCUREMENT

To improve accountability in weapons procurement, about which you have heard so much in the past 2 years, GAO has begun to make special reports on major weapons procurement to help the Congress determine what is happening in this costly area. The first two reports will cover not only cost growth but also variations in performance from original specifications and any important slippages in time schedules.

Over the past year or so, the Office of the Secretary of Defense and the military services have been engaged in a substantial effort to identify and solve problems that have affected, adversely, the acquisition of major weapons systems in terms of performance, delays' and increased costs. Generally the newer weapons procurements are following a slower development pace. Procurement practices are more conservative than those of the earlier periods. The new areas of prototyping and of parallel development, including shifting the form of contracting, are desirable moves. Because many

of the current programs are in early stages of acquisition, evidence is not yet available to adequately assess the results of changed concepts. The Department is not yet out of the woods.

Closely associated with, and perhaps even implied by, the question of whether the Federal Government has control over its spending is, I believe, the disturbing fact that in the present period there appears to be growing distrust of government--at all levels--in the United States.

The twin problems of need for a strong economy and need for confidence in government go hand in hand. For the country to concentrate on meeting the needs of the reordered priorities, these two basic problems--too much inflation and too little confidence--will require mitigation as soon as possible and solution within some foreseeable period. I believe that a strong economy is not attainable without a renewal of confidence by the American people in their National Government. Such a challenge could not come at a more difficult time.

The new priorities are largely in areas where neither Government nor private enterprise as yet has had much experience. Someone has observed rightly that it is easier to get a man on the moon using a technical program largely dependent on machines than it is to devise a welfare program for millions of persons that can be managed adequately and administered effectively.

I find myself in agreement with the observations of a member of the Board of Editors of Fortune, Max Ways, that the overriding challenge of the seventies will be that of improving the quality of government. To agree that there has been a decline in the reputation of government is not to concede that there has been deterioration in government. The administration of government has become more difficult in recent years, because government is trying to provide a far wider variety of services than ever before, many of them more or less in full public view.

CONCLUSION

The focus of my remarks today has been directed almost exclusively to the responsibilities of the Government in improving its controls of, and accountability for, Federal spending and in achieving better management to that end. Due to the short time available, I have been obliged to refrain from any meaningful discussion of the increasing, but related, responsibilities of business management in the control of Federal spending. In the larger sense the control rests with the electorate and the leaders in business, financial, industrial, and professional endeavors, who have important contributions to make.

What is the future going to cost? We do not know. We need to do everything we can, in all sectors of our society, to be as fully prepared as possible to make the best judgments for the programs--private and public--we undertake, to meet changing needs and changing values designed to achieve the new goals which our changing values have thrust upon us. If we do so, we will retain control of Federal spending and will remain masters of our own house.

It was a pleasure for me to be here today and to talk
to and meet with you. Thank you all very much.