[COMMITTEE PRINT]

COMMITTEE ON THE BUDGET
U.S. HOUSE OF REPRESENTATIVES

SECOND CONCURRENT RESOLUTION
ON THE
BUDGET FOR FISCAL YEAR 1982

NOVEMBER 18, 1981

[CP-11]

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[H. Con. Res. —, 97th Congress, 1st Session]

CONCURRENT RESOLUTION reaffirming the congressional budget for the United States Government as set forth in the First Concurrent Resolution on the Budget for the fiscal year 1982 (H. Con. Res. 115, 97th Congress)

Resolved by the House of Representatives (the Senate concurring), That, pursuant to section 310 (a) of the Congressional Budget Act of 1974, the concurrent resolution on the budget most recently agreed to with respect to the fiscal year 1982 (H. Con. Res. 115, Ninety-seventh Congress) is hereby reaffirmed.

I. INTRODUCTION

The Committee on the Budget adopts and reports a Second Concurrent Resolution on the Budget for Fiscal Year 1982 reaffirming the First Concurrent Resolution (H. Con. Res. 115).

Thus, the revenue and spending targets adopted in the First Resolution on May 20, 1981, would become the spending ceiling and revenue floor for fiscal year 1982.

The Committee is fully aware that, after the beginning of the next session, it may be necessary to alter the spending and revenue limits set forth in this Resolution as well as the economic assumptions on which they are based.

The Committee believes the most prudent policy at this time is to reaffirm the earlier Resolution in anticipation of recommendations now being prepared by the Administration. These recommendations will be presented to the Congress with the January submission of the 1983 budget. At the time of that submission, the Congress will have had an opportunity to assess the impact of policies proposed by the President and already adopted by the Congress as well as his additional recommendations.

The following are the aggregates and the functional categories contained in the First Budget Resolution:

BUDGET AGGREGATES AND FUNCTIONAL CATEGORIES

[In billions of dollars]

	Fiscal year—		
	1982	1983	1984
Budget authority	770.90	813.75	866.45
Outlays	695.45	732.25	773.75
Revenues	657.80	713.20	774.80
Deficit	−37.65	−19.05	+1.05
050—National defense:			
Budget authority	226.30	257.00	292.10
Outlays	188.80	223.10	250.60
150—International affairs:			
Budget authority	17.40	16.90	16.75
Outlays	11.15	11.65	12.10
250—General science, space, and technology:			
Budget authority	7.20	7.70	7.20
Outlays	7.00	7.30	7.20
270—Energy:			
Budget authority	4.50	4.40	4.00
Outlays	6.00	5.40	4.80
300—Natural resources and environment:			
Budget authority	8.20	10.70	10.60
Outlays	12.40	114.0	10.60
350—Agriculture:			
Budget authority	5.50	6.40	5.40
Outlays	4.50	4.70	4.90
370—Commerce and housing credit:			
Budget authority	7.70	5.30	5.80
Outlays	4.00	3.90	3.50
400—Transportation:			
Budget authority	21.20	21.10	21.30
Outlays	20.40	20.10	20.40
450-Community and regional development:			
Budget authority	7.10	7.50	7.60
Outlays	8.70	7.70	7.50

BUDGET AGGREGATES AND FUNCTIONAL CATEGORIES—Continued

[In billions of dollars]

	Fiscal year— 1982	1983	1984
500—Education, training, employment, and social services:			
Budget authority	26.20	26.20	25.70
Outlays	26.85	26.00	25.30
550—Health:			
Budget authority	83.50	90.90	99.30
Outlays	73.35	81.30	89.60
600—Income security:			
Budget authority	262.70	285.60	305.50
Outlays	239.70	256.55	273.70
700—Veterans' benefits and services:			
Budget authority	24.80	26.25	28.50
Outlays	24.05	25.45	27.15
750—Administration of justice:			
Budget authority	4.30	4.30	4.40
Outlays	4.45	4.30	4.40
800—General government:			
Budget authority	5.00	5.20	5.10
Outlays	4.90	5.00	5.00
850—General purpose fiscal assistance:			
Budget authority	6.50	6.60	6.90
Outlays	6.40	6.60	6.70
900—Interest:			
Budget authority	85.70	90.20	91.50
Outlays	85.70	90.20	91.50
920—Allowances:			
Budget authority		−20.40	−27.80
Outlays		−20.40	−27.80
950—Undistributed offsetting receipts:			
Budget authority	−32.90	−38.00	−43.40
Outlays	−32.90	−38.00	−43.40

ECONOMIC ASSUMPTIONS

[Calendar years; dollar amounts in billions]

	1981	1982	1983	1984
Gross national product:				
Current dollars	$2,941	$3,323	$3,734	$4,135
Constant (1972) dollars	$1,511	$1,572	$1,651	$1,725
Percent change	2.0	4.2	5.0	4.5
GNP deflator (percent change, year over year)	9.7	8.3	7.0	6.0
Consumer Price Index (percent change, year over year)	11.1	8.3	6.2	5.5
Unemployment rate (annual average, percent)	7.5	7.2	6.6	6.4
Taxable incomes:				
Wages and salaries	$1,498	$1,682	$1,863	$2,051
Nonwage income	$541	$612	$683	$745
Corporate profits	$242	$280	$321	$360
Interest rate, 3-mo Treasury bills (percent, yearly average)	13.5	10.5	9.4	8.2

II. BACKGROUND AND NATURE OF THE RESOLUTION

The Congressional Budget Act provides for the consideration of at least two concurrent resolutions on the budget for each fiscal year. The first budget resolution, which is scheduled for adoption by mid-May, sets preliminary targets for overall spending (budget authority and outlays), revenues, and the public debt as well as budget authority and outlay targets for each of the nineteen functional categories of the budget. The second budget resolution, scheduled for consideration by the Congress in September, sets binding ceilings on total spending (budget authority and outlays) and a floor for revenues.

Section 310(a) of the Congressional Budget Act provides that the Committee shall report a concurrent resolution which "reaffirms or revises" the first concurrent resolution on the budget. Pursuant to that section the Committee has reported a second concurrent resolution reaffirming the First Budget Resolution for Fiscal Year 1982, H. Con. Res. 115.

H. Con. Res. 115, the First Concurrent Resolution on the Budget for Fiscal Year 1982, contained reconciliation instructions and a provision whereby certain spending bills would be subject to delayed enrollment until after adoption of the second budget resolution.

As the committees have complied with the reconciliation instructions, (The Omnibus Budget Reconciliation Act of 1981, Public Law 97-35) and the delayed enrollment provision applies only until adoption of a second budget resolution, neither of these two provisions are relevant to this budget resolution.

The Second Budget Resolution will permit bills which may be subject to delayed enrollment, under the terms of the first resolution, to be enrolled by the Clerk and sent to the President for signature.

Congress may not adjourn sine die until it has completed action on the second budget resolution including reconciliation legislation, if proposed.

PROVISIONS OF LAW RELATING TO THE SECOND BUDGET RESOLUTION

Unlike the First Budget Resolution (H. Con. Res. 115), which established targets to guide subsequent congressional action on revenue, spending, and debt measures, this resolution establishes a floor on revenues and a ceiling on spending which shall be applicable to all subsequent revenue and spending legislation affecting fiscal year 1982. Once this resolution is adopted, neither House may take any action which would cause spending to exceed the budget level for budget authority and outlays, or reduce revenues below the level specified in the resolution. Determinations of the House and Senate Budget Committees are the basis for concluding whether legislation would cause the appropriate levels of spending or revenues to be breached.

Committee Action on Second Concurrent Resolution

The Committee was delayed in its consideration of the second budget resolution by the Administration's revisions to its economic program in mid-September. Witnesses from the Administration canceled hearing appearances and did not reschedule until after the September revisions to their economic plan.

Due to these delays it was impossible for the Committee to complete action on the resolution by September 15.

The Committee considered the resolution in open executive session on November 4, 5, and 12. The resolution was approved and ordered reported on———————————.

Floor Procedures for the Second Budget Resolution

The Budget Act provides for special procedures for considering budget resolutions in the House of Representatives and the Senate. The House procedures include the following important elements:

(1) A budget resolution may be considered only after a 10-day layover period, which begins the day the report is available to Members.

(2) A budget resolution is highly privileged and may be brought to the floor without a rule providing for floor consideration.

(3) Ten hours are provided for general debate on a budget resolution, with amendments to be read under the 5-minute rule. Five hours are provided for debate on a conference report.

(4) It is not in order to recommit or reconsider a budget resolution or a conference report on a resolution. Motions to postpone or to proceed to other business and appeals from rulings of the Chair are to be decided without debate.

(5) After the Committee of the Whole has reported, the House may consider such technical amendments as are necessary to make a budget resolution mathematically consistent.

ADDITIONAL VIEWS OF HON. JAMES R. JONES

It had been my hope that the House Budget Committee could report a realistic Second Budget Resolution, detailing the actual revenue and spending levels and the resulting deficit likely in Fiscal Year 1982.

For that reason the Committee began its markup using the current status of legislation as measured under realistic forecasts of the economy in the months ahead. Those levels are:

	Billions
Outlays	$734.9
Revenues	647.7
Deficit	87.2

Those are not pleasant numbers. In fact, those numbers raise serious questions about the Reagan Administration's economic program, which has been put in place during this session of Congress.

The President seemed to recognize that the program had serious problems when he announced $16 billion in changes on September 24. On October 1, OMB Director David Stockman testified before the Budget Committee and told the Committee that the details of the President's proposals would be sent to the Congress by October 20.

At that point, it appeared that the Committee would be able to evaluate the President's program and report a realistic resolution.

However, on November 10, President Reagan announced that his proposals on taxes and entitlements would not be sent to Congress before January. It is therefore impossible to develop a Second Budget Resolution at this time which accurately reflects the legislative actions which will take place in the remainder of Fiscal Year 1982.

That is an extremely unfortunate development for the integrity of the legislative process. It would be my hope that we will not in the future have an administration delaying changes in its programs for a fiscal year until more than a quarter of that year has passed.

Given the situation which has developed, I have consulted at length with the leadership of both parties.

It was the stated desire of the Republican leadership that the Budget Committee report a resolution which would involve no further policy decisions this year. In the absence of clear positions on the part of the Reagan Administration, that desire was understandable.

The committee action accommodates the desire of the Republican leadership.

It must be noted that the Committee's action in no way solves the immense problems which face the Nation and the Congress. What the Committee has done is to admit that those problems cannot be effectively addressed in the remaining days of November and December.

The President and his party have asked for additional time to allow their program a chance to work. While evidence is mounting that the Reagan economic program is not working, it is still too early to reach a definitive conclusion.

It is not the time now to attempt major changes in the Reagan program. The proper course is to watch and measure the program against the standards the administration has set for itself.

If early next year, the Reagan program is not producing the results promised by its backers, it will be the duty of the Congress to fully address the economic condition of the Nation and to make the very difficult decisions required to restore the Nation to health.

The First Budget Resolution for 1983 and a likely revised Second Budget Resolution for 1982 will be important vehicles for such changes next year.

Unfortunately, the *pro forma* Resolution adopted by the Committee does not provide a realistic assessment of the economic situation which confronts us. The economic assumptions of the Resolution were based on the administration's inconsistent projections which were never realistic and which have subsequently been discredited by events.

In order to present to the House of Representatives the best analysis available to the Committee, I have included in my views an assessment of our economic situation. That material follows:

SUMMARY OF PROJECTIONS

[In billions of dollars]

	1982 outlays	Revenues	Deficit
I. CURRENT STATUS OF THE 1982 BUDGET IN THE HOUSE COMPARED TO THE PRESIDENT'S SEPTEMBER BUDGET			
President's Sept. 30 request as amended (includes $13,000,000,000 in additional cuts and $3,000,000,000 in revenue increases)	709.20	666.2	−43.0
Add—outlays and revenues resulting from HBC staff economic assumptions	4.95	−14.9	
Add—outlays and revenues resulting from CBO technical estimates of spending and revenues	10.95	+.7	
President's budget reestimated	725.10	652.0	−73.1
Add—policy differences between President's budget and action taken by the House to date	+9.8	−4.3	
Current status of the 1982 budget (in the House)—not including the President's Setptember proposals	734.9	647.7	−87.2
II. OUTYEAR PROJECTIONS	1982	1983	1984
A. President's September budget as amended:			
Outlays	709.2	748.7	794.0
Revenues	666.2	714.1	771.0
Potential deficit	−43.0	−34.6	−23.0
Unspecified outlay reductions or tax increases		+11.7	+23.0
Deficit	−43.0	−22.9	
If September proposals and unspecified cuts are not assumed:			
Potential deficit	−59.0	−62.9	−58.8
Cumulative 3-yr deficit			−180.7

See footnote at end of table.

SUMMARY OF PROJECTIONS—Continued

[In billions of dollars]

	1982 outlays	Revenues	Deficit
II. OUTYEAR PROJECTIONS—Continued			
B. President's budget reestimated (based on HBC staff economic assumptions and CBO estimates of spending):			
Outlays	725.1	787.7	851.8
Revenues	652.0	697.3	757.7
Potential deficit	−73.1	−90.4	−94.1
Unspecified outlay reductions or tax increases		+11.7	+23.0
Deficit	−73.1	−78.7	−71.1
Cumulative 3-yr deficit			−222.9
If September program and unspecified cuts are not assumed:			
Potential deficit	−89.1	−118.7	−129.9
Cumulative 3-yr deficit			−337.7
C. Current status of the 1982 budget in the House based on HBC staff economic assumptions and CBO estimates of spending—does not assume President's September proposals or unspecified cuts in the outyears:			
Outlays	734.9	806.6	877.1
Revenues	647.7	687.6	744.7
Deficit	−87.2	−119.0	−132.4
Cumulative 3-yr deficit			−338.6

Note: The corresponding budget authority totals for Current House Status are: $775,8000,000,000 in fiscal year 1982, $865,200,000,000 in fiscal year 1983, and $948,400,000,000 in fiscal year 1984.

Economic Assessment

The U.S. economy, long troubled by inflation and economic stagnation, was pushed into recession this summer. This recession is a direct result of the administration's reliance on high interest rates as its only weapon against inflation. The shortest economic recovery since 1919 was thus aborted.

Meanwhile the administration has put in place a highly expansionary multi-year budget which implies huge deficits in the years to come. Thus, while today's monetary restraint pushes us into recession, tomorrow's fiscal stimulus threatens inflation and high interest rates. This stimulative fiscal policy is likely to collide with the continued monetary restraint recommended by the administration. The result of this conflict will be intermittent high interest rates and stagnation, what has been called a "sputter and spurt" economy. Alternatively, if monetary policy is relaxed to accommodate these large deficits, the result will be more double-digit inflation.

Administration economic policy

The fiscal policy of this administration was created in two steps. The first significantly altered spending priorities, while the second produced radical and costly changes in tax law.

The administration has made fundamental reductions in virtually all civilian programs and proposes to make further large cuts in the future. It promises to offset a large portion of these cuts by increases in military spending programs. While a stronger defense is clearly required, we should recognize that these new spending priorities will reduce our public investments in human and physical capital required for a vigorous economy.

The President's tax program reduces Federal taxes by $750 billion over the next five years, and irresponsibly freezes the tax system in 1985 by indexing it to the CPI. The rising military spending and tax reductions greatly exceed projected expenditure reductions during this period, and this excess of spending over revenues implies large and increasing budget deficits.

This budget threat is the paramount reason why business and financial leaders, whatever their personal or political preferences, are dismayed by the administration's policies. They know that a rising tide of deficits, concurrent with a strengthening economy, will reduce national savings, crowd out new business investment, and bring higher inflation, continued high interest rates or both. Current estimates show budget deficits rising from nearly $90 billion in Fiscal Year 1982 to approximately $120 billion in 1983 and $130 billion in 1984.

Administration and committee staff economic projections

The administration assumed that its policies would produce a precipitous drop in inflation and interest rates and a complementary rise in production, incomes and jobs. We have experienced the reverse. Production and incomes are falling, unemployment is rising, inflation and long-term interest rates remain stubbornly high; short-term interest rates are finally easing only because of the weakened economy. The administration forecast was, in fact, inconsistent with commonly understood relationships between monetary policy and economic growth. The restrictive monetary policy, pursued to reduce inflation, also reduces production, jobs and incomes. This reduces government revenues, increases deficits, and strangles business investment and housing. These defects in the administration's economic projections have made them unreliable as a basis for budgetary planning.

Some indication of the unwarranted optimism of those projections is provided by the table below, which compares the administration and Committee staff projections with those of other forecasts. When the administration revised its budget in September it continued to base its estimates on this outdated and inconsistent set of economic projections.

The Committee staff forecast, completed early in October, reflects the effects of money supply control and the persistence of inflation. It portrays economic weakness, brought about by the cumulative effects of high interest rates, spreading out beyond the housing and auto sectors to cause rising unemployment and falling interest rates in late 1981 and early 1982. Inflation continues to fall, but only slowly, to slightly less than 8 percent during 1982, as continuing upward cost pressures are partly mitigated by weak product and labor markets.

COMPARISON OF ECONOMIC PROJECTIONS

[Calendar years]

	1980 actual	1981	1982	1983	1984
Nominal GNP (percent change)	8.8				
Administration, July/September		12.4	11.7	12.3	10.8
HBC staff, Oct. 6, 1981		11.4	10.0	11.7	11.6
CBO, September		11.6	11.0	11.3	10.9
DRI, Oct. 27, 1981		11.2	8.4	12.2	11.0
Chase, Oct. 26, 1981		11.1	10.0	12.7	11.0
Wharton, Oct. 31, 1981		11.3	9.1	12.3	NA
Real GNP (percent change)	-.2				
Administration		2.6	3.4	5.0	4.5
HBC staff		2.0	1.7	3.5	4.0
CBO		2.3	3.1	4.1	4.0
DRI		1.8	.4	4.2	4.0
Chase		1.8	1.4	4.2	3.5
Wharton		1.9	.5	4.1	NA
GNP deflator (percent change)	9.0				
Administration		9.6	8.0	7.0	6.0
HBC staff		9.1	8.2	7.8	7.2
CBO		9.1	7.7	7.0	6.6
DRI		9.2	8.0	7.7	7.0
Chase		9.1	8.4	8.1	7.3
Wharton		9.2	8.6	7.8	NA
CPI (percent change)	13.5				
Administration		9.9	7.0	5.7	5.2
HBC staff		10.3	8.5	7.4	7.1
CBO		10.1	7.2	7.0	6.2
DRI		10.5	8.4	7.6	7.2
Chase		10.4	8.9	8.0	7.4
Wharton		10.4	8.2	7.6	NA
Unemployment rate (percent)	7.1				
Administration		7.5	7.3	6.6	6.2
HBC staff		7.4	7.6	7.2	6.8
CBO		7.4	7.3	6.9	6.5
DRI		7.5	8.2	7.5	7.1
Chase		7.5	8.1	7.0	6.3
Wharton		7.5	8.7	8.8	NA
3-mo Treasury bill interest rates (percent)	11.6				
Administration		14.5	12.5	7.5	6.8
HBC staff		14.6	13.6	12.5	11.0
CBO		14.5	12.4	11.4	10.1
DRI		14.3	13.5	12.5	10.8
Chase		14.3	12.3	11.9	9.9
Wharton		14.4	11.8	13.9	NA

The current policy-induced recession may, in fact, be deeper and last longer than assumed in the staff forecast. The latest "Blue Chip" consensus of 43 forecasts reflects a sharp shift in views toward a deeper recession, and the three major econometric forecasting firms shown in the table are even more pessimistic. The budget effect of these more pessimistic forecasts is significant. Thus, the 1982 deficit of $87 billion based upon the staff forecast could exceed $100 billion if these recent pessimistic views turn out to be correct.

The long-term projections makes the conventional assumption of smooth, steady improvement in economic conditions. The administration projection of strong growth in conjunction with rapidly falling inflation and interest rates is far more optimistic than the alternative projections. In an environment of monetary restraint, these assumptions are quite implausible. While the staff projection is constructed to give plausible averages over several years, actual year-to-year experience is sure to be more volatile. Credit crunches, recessions, and periods of relatively rapid growth are likely to alternate in the future as they have in the past. This will be particularly true if the present policy of tight money targeting and large tax cuts is followed. In this sense, the staff projection is an optimistic view of the likely results of administration policy.

The current situation

The record interest rates produced by administration policy have resulted in bleak depression within the housing and auto industry and now a widening and deepening recession in the country as a whole.

The hardest hit sectors so far are:

—housing, where mortgage interest rates have been exerting increasing pressure ever since last winter. Housing starts fell to an annual rate of 918,000 in September and new housing purchases to the 312,000 level—a fall in both categories of more than 40 percent since January.

—autos, where a number of factors—high gas prices, high sticker prices, modest real income growth and reduced real wealth, as well as high interest rates—have cut 1981's October sales to levels not seen in nearly a quarter century;

—state and local government, where Federal budget cutbacks have been reflected in a job decline of 300,000 since May and a 6 percent real drop in construction activity;

—exports, where high interest rates caused the dollar to rise, decreasing the competitiveness of American goods, just as weak overseas economies reduced demand.

By fall there was conclusive evidence that the weakness in these sectors was affecting business spending for capital goods and inventories as well. Contracts and orders for plant and equipment in September were 9 percent below last March in real terms, and output of business equipment dropped 1.7 percent below the July level. Industrial production, which fell 1.2 percent in September, dropped even more sharply by 1.5 percent in October. The economic downturn is now reflected in retail sales, which dropped 1.5 percent in October. Unemployment has now reached 8 percent, a level not seen since the 1974–75 recession, and the consensus judgment is that this increase is only the beginning.

The administration's restrictive monetary policy may have begun the process of unwinding inflation, but even here the results are not clear. In the past three months consumer price inflation has accelerated to a 13.5 percent rate, after moderating earlier in the year. Certainly any decline in inflation is not likely to be as rapid as the administration believes. The administration forecasts a sharp decline in consumer price inflation to 6.2 percent during the four quarters of 1982. Attaining this ambitious goal will depend importantly on how rapidly the rate of growth of unit production costs can be slowed.

The latest unit cost data suggest how difficult this may be. In the third quarter of 1980, nonfarm labor compensation per hour, about two-thirds of total costs, was 10.1 percent above a year earlier while output per hour (labor productivity) was up only 0.8 percent, resulting in a 9.3 percent rise in unit labor costs. Historically, labor compensation has been relatively insensitive to weak labor markets, and productivity gains have been hard to achieve in periods of recession or sluggish growth. All these considerations indicate that the very large reduction in inflation forecast by the administration will not be achieved unless the recession is much deeper and longer than generally expected.

Fiscal policy

A realistic assessment of the grave fiscal policy risks embodied in the administration's program can be made by examining projections of the budget-deficit estimated by "high-employment" levels of economic activity. This removes that part of the deficit which is due to weakness in the economy and shows the "structural" budget deficit that would exist even in a relatively strong economy with the unemployment rate at 6 percent. Changes in this high-employment deficit indicate whether fiscal policy is becoming more stimulative or more restrained.

The table below projects total and high-employment budget deficits under two different sets of estimating assumptions and policies. The first series shows the administration's September budget, including all unspecified spending cuts and tax increases, using the administration's own optimistic estimating assumptions. The alternative projection of the budget excludes the new spending cuts and tax increases, and the unspecified spending cuts, recommended by the administration. It also uses the more realistic Committee staff economic assumptions and CBO technical estimating methods.

TOTAL AND HIGH EMPLOYMENT BUDGET DEFICITS

[Fiscal years, billions of dollars]

	Actual			Projected		
	1979	1980	1981	1982	1983	1984
Total budget deficit:						
Administration September budget	−27.7	−59.5	−57.9	−43.1	−22.9	0
Percent of GNP	−1.2	−2.3	−2.0	−1.4	−.6	0
Alternative projection	−27.7	−59.5	−57.9	−89.1	−118.7	−129.9
Percent of GNP	−1.2	−2.3	−2.0	−2.8	−3.4	−3.3
High-employment deficit:						
Administration September budget	−31.1	−48.6	−37.2	−21.1	−15.4	−4.9
Percent of GNP	−1.3	−1.9	−1.3	−.6	−.4	−.1
Alternative projection	−31.1	−48.6	−37.2	−53.9	−82.2	−99.6
Percent of GNP	−1.3	−1.9	−1.32	−1.7	−2.4	−2.5

As the table shows, the administration's budget presents a grave fiscal policy risk which is obscured in the administration's estimates. On the administration's optimistic assumptions about future spending cuts, deficits and interest rates, the budget appears restrained; the high employment deficit steadily declines from $37 billion in 1981 to about $5 billion in 1984. However, if more cautious and realistic assumptions are made, the high employment deficit *rises* sharply in each year to $100 billion by 1984, with the total deficit rising to about $130 billion.

While both projections indicate that a significant part of the 1982 deficit stems from a weak economy, in 1983 and 1984 the rising deficits occur in a strengthening economy, when the deficit should be falling. These large deficits in 1983 and 1984 are not the result of economic weakness. Indeed, the pattern assumed is one of steady economic growth and a declining inflation rate. However, the deficits themselves indicate that it is not likely that the assumed economic pattern will be achieved in this economic environment. The highly stimulative fiscal policy will tend to raise interest rates, and the deficits will crowd out housing and business investments and do further structural damage to the economy. Productivity growth will be reduced, and progress against inflation made more difficult. The economy will be pushed towards high inflation, an erratic path of stagflation, or some combination of these, depending on how the Fed responds to the demands for more rapid money growth thrust upon it by the administration's fiscal policy of deficit finance.

As future administration tax cuts and the continued rise in defense outlays cause production and spending to rise, money demand will also rise. As this money demand collides with Federal Reserve money growth targets, interest rates will once again have to rise to keep money growth within the restrictive target range. The current period of economic distress is therefore probably not the last one of its kind. Certainly if the administration's commitment to an irresponsible fiscal policy in conjunction with restrictive monetary policy is sustained, the "scenario" of rising real economic growth, falling unemployment, declining interest rates and inflation will be judged a fairy tale. The reality will have been a socially and economically destructive experiment with the economy.

ADDITIONAL VIEWS OF HON. TIMOTHY E. WIRTH

I oppose this Second Budget Resolution because it is based on faulty economic assumptions. Unless fundamental changes are made in the economic program, the real deficit will be twice the size of that projected in this resolution.

This resolution sets federal spending and revenues based on economic forecasts which even the Administration agrees are unrealistic. The result will be a federal deficit of at least $75 billion in 1982, compared to the $37.65 billion projected by this resolution. If additional budget cuts and real tax reforms are not achieved, the deficit according to the House Budget Committee estimate will reach at least $90 billion.

It is irresponsible for Congress to endorse a budget which will only achieve its stated goals through the use of blue smoke and mirrors.

For example, this budget projects fiscal year 1982 interest rates on 91-day Treasury bills of 10.5 percent, compared to the recent House Budget Committee economic assumptions of 13.6 percent. This difference alone could add several billion dollars to the size of the federal deficit. The fiscal year 1982 unemployment rate projections of 7.2 percent in this resolution at a time when the most recent figure is 8 percent and the number of Americans out of work may increase is also significant. A one-percentage point change in unemployment will add $25 billion to the size of the federal deficit, through a combination of decreased revenues and increased spending.

Projections for real GNP growth and inflation contained in this resolution are similarly out-of-step with reality. Combined, the faulty economic assumptions endorsed in this resolution are a cynical way of passing the buck, placing the burden of huge federal deficits on the backs of those trying to buy a home, finance a business, get an education, or find a job.

Last spring when the first version of this resolution was passed, many of us argued that the economic assumptions contained were far too rosey. Our alternative House Budget Committee proposal at that time contained more realistic economic projections and yet made $2 billion more in cuts and would have produced a smaller deficit.

Last spring, when the Administration program was first announced, we argued that, despite severe cuts in most federal programs, a balanced budget could not be achieved through a simultaneous huge tax cut and massive increases in defense spending. To date, our expressions of concern have proven accurate.

According to the House Budget Committee's latest projections, the Administration will go to the capital marketplace to borrow up to $90 billion in fiscal year 1982, $119 billion in fiscal year 1983 and more than $130 billion in fiscal year 1984.

That deficit must be reduced, and continuing to operate in the land of make-believe numbers will not make the problem disappear.

Wasteful spending and wasteful tax subsidies to special interests must be eliminated.

We should also recognize that this resolution endorses a number of budget cuts which threaten our nation's future, and ignore the strain of generosity our nation must continue to show toward the elderly and disadvantaged in our society.

I opposed this same resolution when it was proposed last spring, because it ignored many carefully defined national priorities. For example:

(1) It severely cuts our investments in our economy's future. Cuts in federal student loan programs will mean that thousands of students may not be able to raise the funds to attend college. This short-sighted step makes no sense at a time when we should be educating the highly skilled workforce our economy requires now and will need even more in the later years of this decade. Investments in education are key to the future health of our economy.

Massive cuts in Science Education programs—a reduction of more than 60 percent—were enacted in this budget last spring. Among other programs, this will cut support for engineering education at a time when, according to the Labor Department, our engineering schools annually are producing 17,000 fewer engineers than are now reaching retirement age. The "brainpower deficit" will grow larger and more dangerous to our economy as we increasingly rely, both in domestic and international markets, on staying ahead in high technology products.

(2) Investments in developing our nation's energy resources have suffered massive cutbacks in this budget, which through the rest of the decade and beyond will undermine our effort to win independence from OPEC imports and the massive inflationary oil price increases we can expect. For example:

—Funding for the development of oil, gas and coal technologies have been slashed by more than 60 percent.

—Research and development efforts, and support for energy conservation measures so Americans can make their homes and businesses more energy efficient have been cut by 69 percent.

—Research and development efforts for solar energy and other renewables have been slashed by 66 percent.

These cuts, contained in this resolution will have serious effects on our nation not just next year, but for years to come.

(3) It puts a disproportionate share of the burden of cutting federal spending on the backs of the senior citizens and disadvantaged in our society. This budget will cut education grants for students from needy families, and cut work study assistance, supplemental opportunity grants and other educational benefits to 265,000 students. It will end major job-training programs when instead they should be redirected to meet the changing needs of our nation's economy. It will create real hardship for American families struggling to stay in the workplace and off the welfare rolls. It may well send many working poor onto the welfare rolls, which will certainly not lessen the federal deficit.

While making these dangerous and short-sighted cuts, this budget resolution does not address real waste, particularly in the Defense Department. I believe we must strengthen our Nation's defense, and that means increasing our defense investment, most importantly in skilled personnel, spare parts and training, and for effective weapon systems. But we should not waste our scarce funds on unnecessary programs big or small:

The B-1 Bomber, at a price tag of $39.6 billion. This plane, due to come off the assembly line in 1986, will be useful only until 1990, according to Secretary Weinberger. A $40 billion investment in a bomber which will be useful for only four years is the height of economic folly.

Pentagon Dining Rooms, at a cost of $85 million. It is unfair to ask taxpayers to contribute $26.98 to the average $31 cost of a lunch in these private dining rooms.

Additionally, this budget resolution, in conjunction with the huge and untargeted tax cut, ignore tax loopholes which our Nation must close if we are to treat our Nation's citizens with equity. For example:

—The home mortgage interest deduction for third and fourth homes benefits only the wealthy few, but costs all Americans through lost revenues to the federal treasury.

—Taxes owed to our government by U.S. corporations operating overseas are not collected as long as the taxable profits are reinvested in foreign countries.

This $500 million per year tax break to U.S. corporations who invest their capital overseas, rather than in our own capital-starved economy is not a just way of treating the competing interests in our society.

These are just a few examples of the places real tax reform is needed. To ignore these issues is to pursue a budgetary course which is unfair to the vast majority of Americans. The alternative budget passed by the House Budget Committee in the spring was more equitable, more realistic, and more carefully directed at the investments the national government must make in keeping our economy healthy for the long-term. We lost that battle, and now is not the time for a repeat of the spring's struggles. But to endorse today a budget this far out of step with reality is not responsible or fair to the American people.

SUPPLEMENTAL VIEWS OF HON. DAVID R. OBEY AND HON. RICHARD A. GEPHARDT

We are now in mid-November. We were supposed to have a Second Budget Resolution in place by the end of the fiscal year on October 1. We still do not have it.

Given the disarray of the Administration on the economy, that is understandable. We have substantive doubts about passing the Second Budget Resolution in its present form. Even greater is our concern that the budget process is unravelling.

Once again, the government will not be functioning under intelligent budget decisions. Rather it will be functioning under a continuing resolution. That is a stopgap appropriations measure for the entire year for the entire government which by definition avoids conscious decision making on virtually all policy questions within the budget.

Mr. Stockman's recent dilemma is but another illustration of the weakness of the present budget process. To fit his political program into the guidelines of the Budget Act, Mr. Stockman and others in the Administration threw together sets of numbers in a time frame that almost guaranteed major mistakes. The First Budget Resolution has always been viewed as a set of guidelines rather than specific budget instructions. That has made it easier for the Administration to be led into an almost casual disregard of its responsibility to be accurate and sound in its recommendations. And it has made it easier for the Congress to be led into ignoring its responsibility to do it right the first time around. Political pressures, more than any other factor, probably led to that occurrence earlier this year, but process has undoubtedly helped contribute to the shape of the product now before the Congress.

We do not believe we will be able to approach our budget problems with a sufficient sense of reality until the process by which budget decisions are made is changed. We are therefore reinserting for review of the members the Supplemental Views we offered in April when the budget resolution was originally considered. Some of the references are now dated but our basic thrust remains clear.

We deeply believe we must take action soon to radically change the Budget Act, or we will continue to wallow in the time-consuming unrealities which have led to the situation in which we find ourselves.

MAKING THE BUDGET PROCESS WORK

There are many issues surrounding this budget resolution which we will address during floor debate on it. It contains a number of regional and social inequities which should distress any thoughtful person. That is inevitable given the shape of the President's budget. But we want to address ourselves in these remarks to problems presented by the budget process itself. We do so because we believe that fundamental weaknesses in the existing budget process are encouraging ad hoc procedural adjustments which do no real good in terms of advancing budget control and budget fairness and in the process do fundamental harm to the orderly and thoughtful consideration of the most important social and economic document government produces each year—the national budget.

On the surface, the congressional budget process seems to be working. One way or another, Congress manages to pass two or more budget resolutions each year. One way or another, enough House Democrats are persuaded (or pressured) to damage their election prospects by voting for the resolutions and a majority is secured for passage. One way or another, House Democrats are persuaded (or pressured) to vote against their program priorities and for a budget resolution that does not represent their best judgment of America's needs.

In this manner, the process can continue limping through Congress year after year until the time comes that a majority rear up in protest against this sham. When that happens—and it will, though maybe not for a number of years—the budget process will be condemned to the graveyard of good ideas gone awry, and Congress will be able to return to the good old days when nobody was in charge and no one was responsible for what happened.

It need not happen that way. While the budget process is still alive we can remake it into a responsible and effective vehicle for legislative choice. This memorandum spells out the defects of the current process and sets forth an alternative that can work.

What Is Wrong With the Budget Process?

The problems of congressional budgeting are political, not technical. They relate to the manner in which budget decisions are made, not to the techniques of budgeting.

The current process requires Congress to vote on budget resolutions that do not have the force of law, that do not decide anything but seems to decide everything. No taxes can be levied or obligations incurred pursuant to a budget resolution. This means that the real decisions are not made in voting on the budget resolutions. They are made when Congress votes on appropriations, revenue measures, and other legislation.

Although budget resolutions are not real decisions, they are symbolic. The budgeted deficit is important, not because it will be the actual deficit but because Members are compelled to vote on it. The combination of substantively unreal but politically important resolutions leads to irresponsible voting patterns and complicates the legislative process. The main byproducts of this combination are escapist budgeting, cheap-shotting, escalating conflict in Congress, repetitive budgeting, protracted delays in the legislative process, and legislating by exhaustion.

Escapist budgeting.—Because budget resolutions do not really decide anything but do confront Members with difficult choices, the easy way out is to make believe that the numbers in the resolution can be achieved by voting for them. If the political climate calls for a balanced budget, vote for one regardless of whether economic conditions permit such an outcome or legislative process are prepared to produce one. This is exactly what happened last year when Congress adopted a first resolution for fiscal 1981 with a surplus. Of course, that resolution was not real, didn't decide anything, and so instead of a surplus that resolution predicted, we now are facing a $60 billion deficit. So much worse for the economy if it fails to deliver on congressional pipe dreams.

Escapist budgeting is practiced by both parties and by both the legislative and executive branches. Witness the new administration's promise of a 1984 surplus equal to less than two tenths of one percent of federal spending, built on economic forecasts beyond the range of recent experience. If the promised land of a surplus is not reached, the Administration will be able to use the same "no-fault" excuse that

Congress has used during six years of its budget process: "Don't blame us, the economy failed to cooperate."

Cheap shots.—If the budget doesn't mean what it says, neither do Members have to vote the way they really believe. To do so would jeopardize their standing back home. Instead, they take cheap shots at the budget. They vote more money for favorite programs but against higher total outlays or a bigger deficit. When a budget resolution is on the floor, they can support amendments allocating more funds for defense, veterans benefits, or anything else, and then vote against final passage because the deficit is too high. This is a game anyone can play, but the Republicans seem to have excelled at it each year. The big losers are mainstream Democrats who don't like the priorities in the budget, but are pressured by the leadership to vote for the resolution. They then get blamed for the deficit, even though their programs haven't caused it.

Warped budget review.—The exception of entitlement programs from the annual budget review process in anything but a cursory sense allows the second fastest rising part of the budget to escape rigorous examination and by default focuses the lion's share of budget cutting attention on the 25 percent of the budget which represents investment decisions.

The Budget Committee under the present process tends to focus on appropriation leaks from the budget but not tax expenditure leaks. This again means that there is much hand wringing and gnashing of teeth over direct appropriated subsidies but almost no consideration of the value (or lack of it) in various subsidies provided through the tax code—though they may be far more costly and far less defensible in a battle over intelligent direction of scarce financial resources. These subsidies are the fastest growing item of all in the national budget but they are not even listed in the budget document voted on by the House.

Budget conflict.—The budget process has generated an enormous amount of senseless conflict within Congress. One of the reasons is that symbolic issues evoke more passion than do real ones. In the appropriations process, committees and Members can agree quite readily on the amounts for particular programs. In the budget, they are fighting over symbols and slogans, "guns versus butter, deficit spending, big government." Moreover, the budget doesn't settle anything. Some issues come before the House three or more times a session; in the budget resoultion, in authorizing legislation, and in the appropriations bill. Does this add to the effectiveness of budget control? No, just the opposite. It invites buck-passing and escapism.

Vagueness.—The Budget Committee also faces another problem. When it marks up the budget resolution it never really knows whether it is dealing with reality or cotton candy. While you can make an increase or decrease in a functional category the Committee can never really know whether it is doing what it thinks it is doing. That is because there is no guarantee that its actions will ever show up in the actions of other committees—actions which are necessary to carry out the the actual intent of the Budget Committee.

Repetitive budgeting.—The congressional agenda is consumed by budget issues, not because they get settled but because they don't. Repetition is of two sorts: First, as noted, because the budget doesn't decide anything, the issue is raised again in the processes by which the real choices are made; Second, repetition is endemic in the budget process. There is a first resolution, and a second resolution, and usually a third resolution. More floor time now is taken by these resolutions than on critical legislation coming out of the authorizations and appropriations committee. In addition to those repetitions, the budget numbers appear and disappear. Because Congress is playing with symobols, it does not nail down a concrete decision. Each batch of re-estimates shifts the numbers by billions of dollars. The net effect has been to erode the credibility of the budget numbers and the enforceability of budget resolutions.

Delays in the legislative process.—The budget has become the pied piper of Congress. Its schedule dictates when Congress convenes and when it recesses, what happens on the floor and what is stalled on the calendar. It would be bad enough if the budget stuck by its calandar, but it doesn't. The budget slips but still insists that everything else abide by its timetable. Last year, the first budget resolution was a month late, so appropriation bills had to wait. By the time it was okay to proceed on these, Congress was diverted by the national conventions and other business. Appropriations bills could not be enacted by the start of the fiscal year, causing enormous pressures and problems. When repetitive budgeting is added to the picture, the problem is even more serious.

Legislation by exhaustion.—Anyone who has endured the last two Congresses from beginning to end knows how exhausting the process has become. Oppenents have multiple opportunities to block legislation or load it with damaging riders. If you lose in the budget process, so what? You can resume the battle when the authorization or appropriation bill is on the floor. No victory assures victory and no defeat ends opposition. In this environment, those who are more adept (or gutsy) at holding up legislation until they get their way are the winners in the legislative process.

Toward a Workable Budget Process

One prerequisite for establishing an effective and durable budget process is to recognize that a budget is a plan, not a contract. This is the way the President's budget is conceived, and if the Congressional process is to survive, it would be appropriate for it to move in this direction.

The basic concept of a plan is that it guides policy by enabling policy makers to see particular issues in a broad framework. When a plan is produced, public officials still can decide the particulars one by one, but they are able to determine how the parts relate to one another and how a particular decision would affect the whole plan. A budget plan would have much the same purpose; indeed, one can argue that this was the arrangement originally conceived by the Congressional Budget Act.

A second prerequisite for establishing an effective and durable budget process is to make the process move logically from the theoretical to the concrete so it eventually becomes more real—to make budget votes be the ones that count in determining what is actually spent by the Federal government. The way to do that is to eventually turn the budget plan into a real budget, rather than remaining a generalized description of what we hope the budget will be when the committees of Congress finally work their will on it. That could be accomplished by adopting the following process.

Step 1. *Committee views and estimates.*—This stage could continue in its present form (though many committees have had problems with the March 15 deadline), or it can be amplified by requiring committees to provide alternative spending levels, more specific information, data on expiring legislation, etc. We doubt that additional information of this sort would have much utility in the budget process.

Step 2. *Preparation of a budget plan.*—The budget committee would prepare a budget containing targets for the aggregate allocations of budget authority. The plan would be presented to the House but not voted on in the House until later in the year. It would be a guidepost for the House. One possibility would be for the budget plan to be filed in reports by the budget committee; another would be for the committee to report a resolution, but rather than having the resolution considered by May 15, it would be deffered until shortly before the start of the fiscal year.

The structure of the report (or resolution) could be similar to that in the budget resolutions now in use with two changes. Right now the budget resolution designates expected outlays, expected revenues, the expected deficit, expected interest rates and expected inflation rates. These designations would be changed in two ways:

Number One: The expenditure item in the budget resolution would be divided into two categories: "Entitlement Levels" and "Appropriated Levels". The report would contain clear language stating the amount by which entitlement exceeded last year's budgeted amount.

Number Two: The revenue item would also be divided into two categories: "Overall Revenues" and "Tax Expenditures" (or tax code subsidies if you will).

This would correct two shortcomings is Congressional review of budget trends. Congress has been losing its ability to control large sections of the budget because they have been viewed as uncontrollable entitlements. These entitlements have gradually squeezed out the discretionary portion of the budget which makes little economic or social sense. This change would help reverse that trend.

Congress has also tended to carefully scrutinize direct spending items in appropriation bills. It has tended to overlook tax subsidies in the tax code. This change would help Congress to minimize special tax advantages and tax subsidies which can no longer be justified in a fierce competition for limited resources.

Step 3. *Preparation of the actual budget legislation.*—Today the Appropriations Committee considers its portion of the budget in any given fiscal year in thirteen separate packages from thirteen separate subcommittees. Those thirteen packages are considered separately on the floor. The Ways and Means Committee considers its tax legislation separately from any other legislation that impacts on the budget and committees producing entitlements do the same thing. Under the new process the following would occur.

1. The Appropriations Committee would receive the appropriation requests from its thirteen separate subcommittees and it would consider those thirteen separate appropriations in one package. This would force the Appropriations Committee to make specific choices between spending priorities before it reports its legislation to the floor. These thirteen separate subcommittee products considered as a bill by the Appropriations Committee would become the first thirteen titles of the actual Budget Bill for the fiscal year under consideration.

2. The Ways and Means Committee would produce its tax legislation for that year. That tax legislation would become the fourteenth title of the actual budget bill. Actions taken by committee on entitlement programs for consideration in that fiscal year would become additional titles in the overall budget bill. The Rules Committee would then provide for the structure of debate on the entire package.

3. The Budget Committee would be given the right of first recognition to offer a substitute to the legislation produced by Appropriations, Ways and Means and other entitlement writing committees if the overall spending, taxing and entitlement levels differ significantly with the budget plan prepared earlier for the House by the Budget Committee.

Under this system, the House would debate all legislation impacting directly on the budget at one time in one package. It would, in fact, be voting and acting on "The Budget". It would be doing so in specific terms rather than in the generalized descriptive terms with which it now deals with the budget resolution. It would be dealing with the issues inherent in the budget process *once* rather than two or three times. Members could no longer engage in budgetary escapism because their budget votes would actually count for something. They would determine spending levels for real programs in competition with one another. They would not provide an opportunity to have it both ways by voting one way on the budget resolution and another way on appropriations and tax legislation.

Step 4. *Adoption of budget plan.* After action had been completed on the Omnibus Budget Act, the Budget Committee plan which had been reported to the House but not voted on would then be presented to the House for final action. Adjustments would then have to be made in that budget plan to reflect actual actions taken by the House. If Members were unwilling to make those adjustments then the actual budget bill could not leave the House until the difference between the two were reconciled.

Such a system would be time-consuming but it would not be nearly so time-consuming as the present system. Such a system would be confusing but it would be much more simple than is the present hodge-podge which we call the budget process. We believe that such a system would in fact force a much greater degree of informal accommodation between committees than we see in the House today. It is our guess that the Appropriations Committee and the Budget Committee would work out compromises on spending levels and revenue items rather than running the risk of a belly-bumping, winner-take-all confrontation floor vote.

We think the same would be true of tax legislation vis-a-vis the Ways and Means Committee and the Budget Committee and of entitlement legislation as well. We believe this mechanism would provide an institutional imperative for the Leadership through the Steering Committee or other mechanism to force such accommodation. This process would bring political realities in a legislative body to bear on a *real* legislative vehicle rather than on what is now viewed by many Members as an ethereal resolution which provides a free vote with no real connection to programmatic or tax reality.

This may be a good idea. It may be a bad idea. We offer it in the interest of stimulating debate on ways which we might use to end the political cheap shotting which has surrounded the budget process since it first began, to establish a more orderly flow of budgetary business and to increase the likelihood that Members would understand the votes they are casting on an issue which should be the most important of the session. The system would require the submerging of egos to a greater extent than may be possible but it is about time that we do that in the interest of this institution and in the interest of the people we represent.

SUPPLEMENTAL VIEWS OF HON. LEON E. PANETTA

This Second Budget Resolution is essentially a restatement of the First Budget Resolution. Although the Budget Act did not intend that there be dramatic shifts between budget resolutions in a given year, neither did it intend that economic realities be ignored.

This Resolution, unfortunately, does not reflect existing economic realities or projections nor does it include any essential midcourse corrections to avoid the massive deficits that are now anticipated by both public and private economic forecasters.

This has not been, however, a normal year in the Congressional Budget Process. There are, I believe, important public policy if not economic policy justifications for what the Committee did if the Congress and the Nation are to avoid similar budget debacles in the future.

The Congress fully endorsed in the First Budget Resolution all of the elements, reductions, numbers, and assumptions of the Reagan Economic Program without a careful consideration of the facts and realities of good economic policy. As made clear by both the Democratic Alternative Budget and more recently, by the remarks of the Budget Director, Mr. David Stockman, the Administration's "Trojan Horse" Economic Program was replete with overpromises, poor numbers and assumptions and failed to keep its eye on the principle target of eliminating the deficit and balancing the budget.

The initial reactions of the economy reflect the accuracy of those concerns. The Nation is in a serious recession with the projection that unemployment may reach 9 percent in 1982. Housing starts are at their lowest point since World War II. Auto sales are down 40 percent since last summer and business failures are up by 42 percent since last year. While some gains have been made on inflation and interest rates, the projected deficit for the next three years is somewhere between $340 and $368 billion. The goal of a balanced budget by 1984 is, for all intents and purposes, gone. And the projections for economic growth, the heart and soul of supply side economics, is 2 percent instead of the projected 5.2 percent for 1982.

In the face of these harsh realities, the Administration persists in the hope that its program will work. Obviously, with the program in effect for less than 60 days, additional time may be required to fully assess the impact of supply side economics. In addition, although the President did recommend a $16 billion adjustment to his program in September, the Administration has failed to provide specifics in both the entitlement and revenue areas. Recently, the President has stated that such proposals will not be forthcoming until January. Thus, it is clear that the Administration is not prepared to offer any specific adjustments in fashioning the Second Resolution. In addition, no one on the Budget Committee, Republican or Democrat, offered a 12 percent or 5 percent, or any reduction of discretionary programs. It is obvious that neither the Committee or House are in the mood to support additional cuts without a comprehensive look at recommended changes in revenues, entitlements and other areas.

Because the Congress itself has endorsed that program and because there is both insufficient data and political support to justify either dramatic new reductions or revenue increases, the Committee felt that it had little alternative but to continue with what Senator Baker has called this "riverboat gamble". Several hands in this "gamble" have already been played out and it does not look very good. The reality I believe, is that both the Administration and the Congress will have to consider major revisions in this economic policy in both the Third Supplemental Budget Resolution for 1982 and the First Budget Resolution for 1983. In addition, it is clear that reconciliation will have to be used if these major changes are to be implemented.

To better prepare for this effort, Congressman Ralph Regula (R-Ohio) and I, as leaders of the Reconciliation Task Force, offered report language encouraging committees to immediately begin studying spending programs and revenue laws under their jurisdiction with the purpose of recommending ways to reduce the Federal deficit. These recommendations should be presented as part of the March 15 reports submitted to the Budget Committee. If a committee cannot agree to any deficit reduction proposals then at least agruments should be presented against any proposal, from the Administration or Members of Congress, that fall under the jurisdiction of that particular committee.

It is my strong hope that by starting early we can approach the challenge of reducing the Federal deficit more rationally than we did last year. It is essential that we hear from the committees with the expertise on spending and revenue law and how they view the deficit reduction ideas that will be floating around Capitol Hill over the next few months. Their views will be even more crucial on the new proposals the Administration will submit this January.

It is hard to imagine budget battles any tougher than the ones fought last spring and summer, yet I foresee even more violent clashes this coming year. We owe it to ourselves and to our constituents to have every available piece of infromation we can gather on budget reductions and tax increases well before these battles begin.

In summary, this resolution is clearly not an immediate or dramatic response to the growing problems of our economy. It basically reaffirms the status quo giving the President the opportunity he needs to make his case and the Congress the breathing room it needs to develop meaningful and substantial alternatives.

SUPPLEMENTAL VIEWS OF HON. RALPH REGULA

I am a reluctant participant in this action. I would prefer to proceed with a budget resolution with numbers—real numbers—than the approach that has been taken. I would also prefer to initiate significant reconciliation requirements at this time, rather than waiting until 1982.

In this sense, I endorse the approach of the Chairman of the Senate Budget Committee, Mr. Domenici. I may not agree with the details or the magnitude of his proposals, but I believe the right thing to do is to come forth now with a budget resolution containing realistic economic assumptions, with numbers instead of language (as we have done), and with a resolution that contains reconciliation instructions that will lead to significant reductions in the ominous deficits looming ahead. Failure to move in this direction now may foreclose progress on the deficit problem before the 1982 elections.

Nevertheless, I join this bipartisan effort which may save the budget process but weaken the prospects for a meaningful assault on the deficit.

I do take satisfaction in the inclusion of an amendment (offered by the gentleman from California, Mr. Panetta, and myself) which directs all standing committees of the Congress to diligently examine programs and laws under their jurisdiction and to report to the Congress (as part of the required March 15th reports) those which would be appropriate candidates for major fiscal surgery.

The economic danger we face is the persistent deficits which will continue in the absence of further spending reductions.

This could well result in continued high interest rates because of the crowding out effect of heavy Federal borrowing, and prevent a strong economic recovery.

We should therefore direct our attention to out-year spending and outyear revenues. And, with respect to spending, the focus should be on entitlements because it has been those programs which have caused the federal budget to explode in recent years. We have some time to make these changes. However, the closer we get to November, 1982, the greater the odds against our taking meaningful action.

THE DISSENTING VIEWS OF HON. JIM MATTOX

The House Budget Committee has reported out a resolution that incorporates the same figures and is based on the same economic assumptions contained in the Gramm-Latta First Budget Resolution. Obviously, since none of these figures is valid, this action is intended as a stop-gap measure, in order to conform to the provisions of the Budget and Impoundment Control Act, which requires a spending ceiling and revenue floor be in place before adjournment. In essence, action has been deferred until next year. By then we will have a more realistic assessment of the policies that have been enacted in terms of their impact on our economy.

Of course, it goes without saying the Gramm-Latta proposal was nonsense in the first place. It never had any realistic assumptions and was nothing more than a careless, hastily contrived measure, which its principal salesman, David Stockman, didn't believe in.

Nevertheless, this action has been necessitated because of the failure of this Administration to develop and implement a consistent economic plan that conforms to economic realities. We receive proposals in September that are labeled as absolutely essential for the success of the economic recovery program, only to have them delayed or abandoned a few weeks later. It is going to be very difficult to know what to believe when this Administration gets its act together, if it ever does, and presents a budget to us next year. Budget Director Stockman's private assessments, which have now been made public, are that Reaganomics won't work, that the tax bill favors the rich at the expense of the poor and middle class, and that the Defense Department has at least $30 billion worth of waste and inefficiencies.

Stockman's various comments, as reported in The Atlantic Monthly, reflect his growing disenchantment with the Administration's program:

> None of us really understands what's going on with all these numbers. You've got so many different budgets out and so many different baselines and such complexity now . . . . And it didn't quite mesh. That's what happened. But, you see, for about a month and a half we got away with that because of the novelty of all these budget reductions . . . There was a certain dimension of our theory that was unrealistic . . . The supply-siders have gone too far. They created this nonpolitical view of the economy, where you are going to have big changes and abrupt turns, and their happy vision of this world is growth and no inflation with no pain.

Mr. Stockman also acknowledged that "the defense numbers got out of control . . ." He said:

> As soon as we get past this first phase in the process, I'm really going to go after the Pentagon. The whole question is

blatant inefficiency, poor deployment of manpower, contracting idiocy . . . I think there's a kind of swamp of $10 to $20 to $30 billion worth of waste that can be ferreted out if you push hard.

Regarding the tax cut, which is partial to the rich, Stockman said:

The hard part of the supply-side tax cut is dropping the top rate from 70 to 50 percent—the rest of it is a secondary matter . . . Kemp-Roth was always a Trojan horse to bring down the top rate.

He went on to admit:

It's kind of hard to sell "trickle-down" so the supply-side formula was the only way to get a tax policy that was really "trickle down." Supply-side is "trickle down" theory.

In any event, the Budget Committee is willing to take a wait-and-see attitude. I do object, however, to the fact that we have not updated the economic assumptions and applied them to this resolution. Let no one be mislead by this Republican-sponsored proposal to reaffirm the First Budget Resolution which states the deficit in 1982 will only be $37 billion or that we will have a balanced budget by 1984. The real deficits are $87.2 billion in fiscal year 1982, $119.0 billion in fiscal year 1983, and $132.4 billion in fiscal year 1984. This is a cumulative deficit of $338.6 billion in the next three years. Thus, every figure contained in this report will have to be changed next year. I can only hope that our delay will not contribute to the current recession. Unfortunately, I believe it will and, therefore, I cannot support this resolution.

O