

PHIL STANFORD

Singing the balanced-budget blues

CONSIDERING THE OVER-whelming public sentiment in favor of a balance-the-budget amendment, why hasn't Congress rushed to support it? According to the polls, about three-quarters of the people in this country want a constitutional amendment that would require a balanced federal budget. A poll sponsored jointly by the Associated Press and NBC shows 70 percent in favor. The *New York Times*-CBS poll has it at 73 percent, and Gallup's two polls show 78 and 81 percent.

About the only other time in recent memory when there has been such a clear consensus on any political issue was a few years ago when the Senate Committee on Government Operations commissioned a poll to test the public's confidence in its elected officials. Seventy percent of those surveyed declared they had little or no confidence in the U.S. Senate, 71 percent had a similarly low opinion of the House of Representatives, and garbage men got a higher approval rating than any group of public officials. The upshot of that one, you may recall, was that several public officials held press conferences and warned the citizenry that they'd better shape up.

The spectacle of Congress attempting to cope with anything more consequential than the Easter recess is never very edifying. Congressmen did not become congressmen by taking courageous stands. They all know that if they want to be reelected they can't afford to offend too many voters. If an issue is particularly controversial, a successful politician will stall as long as

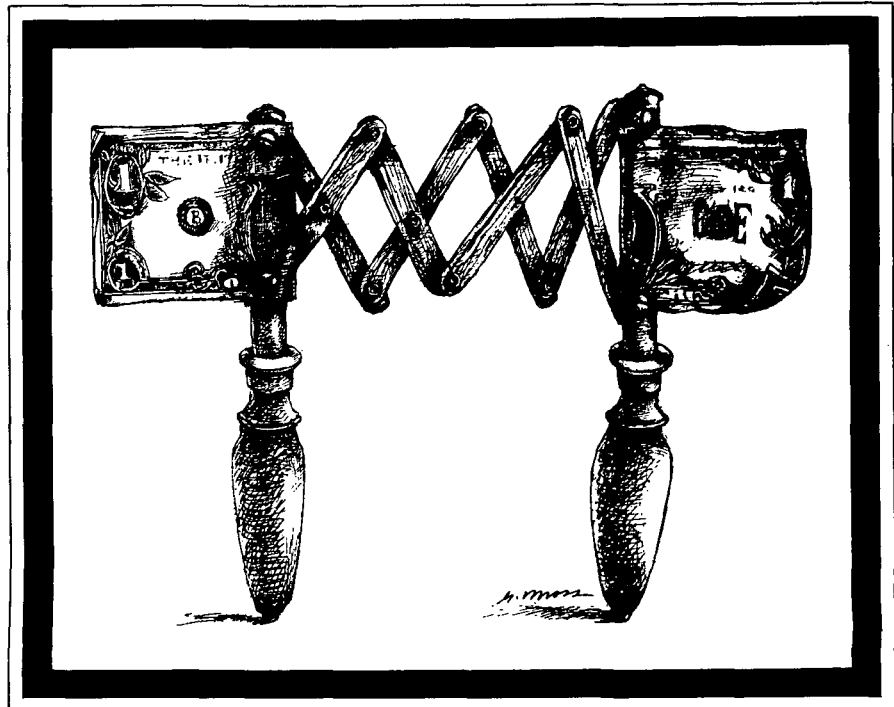
possible, in hopes that it will go away. If the issue absolutely refuses to disappear, the next step is to stake out as much territory as possible on both sides of it. This often helps to confuse matters and makes the prospect of actually voting for or against a controversial measure a bit less terrifying.

You would think, however, that the balance-the-budget amendment wouldn't fit this pattern. The mandate is unmistakable: People want the government to stop spending so damn much money. They have even made it easy for Congress by initiating the action at the state level. By the time this edition goes to the printer, it is likely that thirty state legislatures will have voted for a constitutional convention. Once thirty-four states, the two-thirds required by the Constitution, have done so, all Congress has to do is call the convention. It all seems easy and painless. But true to form, Congress, or at least a significant part of it, is currently engaged in trying to delay, divert, and, one way or another, defeat the amendment.

Senator Alan Cranston, the majority whip, has raised the possibility that Congress may be picky about which petitions it accepts from the states.

This is a possibility because the Constitution does not spell out exactly what the petitions should say or how the legislatures should approve them. Senator Gary Hart has proposed a new system of bookkeeping. Under Hart's proposal, the federal budget would be divided into operating expenses and capital investments, and capital investments wouldn't count as part of the budget. According to Hart, \$115 billion, about one-fifth of the current budget, would fall into the latter category. His list of these "long-term capital investments" is enlightening: It includes \$44 billion for new weapons; \$24 billion for highways, mass transit, pollution control facilities, hospitals, and "other physical assets"; \$15 billion for research and development; \$21 billion for education and training; and \$4 billion for loans. Whatever you may think about the merits of Hart's proposal, you must admit that the concept—of eliminating the annual budget deficit without spending less or taxing more—has a certain strange beauty.

Some of the opponents of the amendment simply resort to threats and dire predictions. Senator Edmund Muskie, chairman of the Senate Budget Committee, has threatened states with the loss of revenue sharing funds if the balance-the-budget amendment goes through. Senator Edward Kennedy has warned that a constitutional convention called to vote on the budget amendment might get out of hand and end up "dismantling" the Constitu-



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tion. (This certainly does not mean, however, that Kennedy is supporting a constitutional convention that would tend strictly to business.)

Nor are liberals the only ones opposing the balanced-budget amendment. An alternative amendment drawn up by the economist Milton Friedman and supported by a number of conservatives in Congress would permit increases in the current level of federal spending whenever the GNP rises. It is safe to say that this is not exactly what the tax revolt is all about. Another proposal for a constitutional amendment, introduced by Representative (and Presidential candidate) Philip R. Crane, makes this even clearer. Crane's amendment, as he describes it, is written with "the purpose of stabilizing and maintaining federal spending at its current level relative to national income." Specifically, the government each year would be allowed to spend one-third of the total national income. Crane calls his plan for keeping things the way they are "a realistic approach to tax control."

HOWEVER, THE FAVORITE argument of those who oppose an amendment to balance the budget—from Representative John Brademas to Senator John Stennis—is that such an amendment would prevent Congress from doing its usual good job of managing the economy. Senator Muskie says that a balance-the-budget amendment would place "fiscal handcuffs" on Congress. In a recent speech, he put it this way: "Economists of every respected school agree that increased federal spending or tax cuts producing a deficit may well be the only way to boost employment, generate investment, stimulate demand, accumulate capital, and prevent a downturn from deepening into a depression. A mandated balance would blunt our sharpest fiscal tool."

The argument has a nice ring to it. It seems to raise the debate above the level of mere politics into the realm of economic science. As Muskie speaks we can almost see the little men in laboratory smocks, with benevolent smiles on their faces, fine-tuning the economy. A little off here, a little more there—and all for our own good. However, the argument loses some of its appeal once you realize that Congress has voted budget deficits for seventeen of the past eighteen years, rain or shine, boom or bust. In other words, we get

deficits whether the economy needs stimulating or not.

What Muskie really meant to say—and undoubtedly would have said if only he had been able to find the right words—is that he doesn't want anyone interfering with his senatorial privilege to spend virtually unlimited amounts of money on whatever he pleases. Of course, he represents it as a public service, but there's no reason to take him seriously.

This, then, is the key to understanding why Congress has been so strangely reluctant to respond to the demand for a balanced budget. Most of the congressmen are in a bind. On one hand there is the undeniable sentiment in favor of cutting federal spending and balancing the budget. On the other hand is the irreducible fact that they can't accede to this demand without giving up one of their most treasured prerogatives.

The phrase used to be "tax-tax-spend-spend-elect-elect," and to a great extent it still applies. Contracts and jobs for local businesses and unions, subsidies for special interests—they all mean votes. Traditionally, conservatives in Congress have had a great time blaming Congress's free-spending practices on liberals. But the truth is that just about everyone in Congress likes to tax-tax-spend-spend-elect-elect. Depending on the politics of the public servant in question, the pay-off for votes may be cloaked in the rhetoric of compassion or in the jargon of national security, but in the end it all comes out of the same pocket.

The only difference today is that politicians have discovered that they can get away with spend-spending without tax-taxing. As Jim Davidson of the National Taxpayers Union explains it, this extension of the old formula is a "matter of pure logic." Deficit spending improves their chances for reelection. "It enables them to make the benefits of increased spending immediately evident to special constituencies while disguising the costs in the form of borrowing and inflation, which are diffused over large numbers of the rest of society."

Senator Muskie asks us not to handcuff Congress. In view of the fact that the felony rate for the last session of Congress was higher than among Detroit's hardcore unemployed, his figure of speech is rather poignant. Handcuff Congress? Dearie me, no. But at least don't release them on their own recognition. □



NICHOLAS BURNETT

How the small saver gets screwed

INFLATION IS FINALLY alerting politicians to what every holder of a passbook savings account has known for years: Federal ceilings on interest rates screw the small saver. In the White House and on Capitol Hill, moves are afoot to hasten the demise of banking regulations that limit the interest paid on various types of savings accounts. But powerful forces, including the savings and loan associations that benefit most from these regulations, have already begun to mount a counteroffensive, and a major battle is shaping up in Washington over the small saver's right to get the full market return on his savings.

At issue in the battle is Regulation Q, the Federal Reserve's ordinance for setting interest ceilings for savings accounts. Not only does Regulation Q give the Fed and other financial regulatory agencies the power to set ceilings, it also obliges them to favor the savings and loan institutions in the administration of those ceilings. That is why the interest rate on a passbook savings account is 5¼ percent at a savings and loan but only 5 percent at a commercial bank.

As suppliers of most of the nation's housing finance, the associations maintain that this interest differential is essential if they are to attract adequate funds to extend long-term mortgages. Thus they command powerful support from the housing industry, particularly the construction unions. This alliance lobbied against and blocked congressional moves to eliminate Regulation

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