United States of America

Congressional Record

PROCEEDINGS AND DEBATES OF THE 97th CONGRESS, SECOND SESSION

Vol. 128 WASHINGTON, TUESDAY, AUGUST 3, 1982 No. 104

Senate

The PRESIDING OFFICER. The amendment will be stated.

The assistant legislative clerk read as follows:

The Senator from Massachusetts (Mr. TSONGAS) proposes an amendment numbered 1985.

Mr. TSONGAS. Madam President, I ask unanimous consent that further reading of the amendment be disposed with.

The PRESIDING OFFICER. Without objection, it is so ordered.

The amendment is as follows:

On page 2, beginning with line 1, strike out all through the matter following line 14 on page 4 and insert the following:

"*Resolved by the Senate and House of Representatives of the United States of America in Congress assembled,* That (a) section 202 of the Budget and Accounting Act, 1921, is amended to read as follows:

" 'SEC. 202. (a) Estimated expenditures for the ensuing fiscal year contained in the Budget submitted by the President pursuant to subsection (a) of section 201 may not exceed the sum of—

" '(1) the estimated receipts for such ensuing fiscal year contained in such Budget, and

" '(2) the estimated amounts in the Treasury at the close of the fiscal year in progress which will be available for expenditure during such ensuing fiscal year.

" '(b) If, on the basis of laws existing at the time the Budget for the ensuing fiscal year is transmitted pursuant to subsection (a) of section 201, the sum of—

" '(1) the estimated receipts for such ensuing fiscal year, and

" '(2) the estimated amounts in the Treasury at the close of the fiscal year in progress which are available for expenditure in such ensuing fiscal year,

will be less than the estimated expenditures for such ensuing fiscal year, the President shall include with such Budget recommendations for changes in such laws to ensure that the estimated expenditures for such ensuing fiscal year will not exceed the sum of the estimated receipts for such ensuing fiscal year and estimated amounts in the Treasury at the close of the fiscal year in progress which will be available for expenditure during such ensuing fiscal year.

" '(c) For purposes of this section—

" '(1) The term "estimated receipts" means all receipts of the Government during a fiscal year, other than receipts from the sale of Government obligations.

" '(2) The term "estimated expenditures" means all outlays of the Government during a fiscal year, other than capital expenditures and expenditures for payment of the national debt (exclusive of interest).

" '(3) The term "capital expenditure" means an expenditure which—

" '(A) is made in a fiscal year,

" '(B) adds a fixed asset or adds to an existing fixed asset during such fiscal year, and

" '(C) provides benefits in a future fiscal year by means of such addition.

" '(4) The term "fixed asset" means a physical asset (as determined by the Comptroller General of the United States).'.

"(b) The amendment made by this Act shall apply with respect to fiscal years beginning after September 30, 1983.".

Amend the title so as to read: "Joint resolution requiring the President to submit a balanced budget for fiscal year 1984 and succeeding fiscal years.".

Mr. TSONGAS. Madam President, I am offering an amendment that would substitute two statutory changes for the constitutional language of Senate Joint Resolution 58. My proposal revises the Budget and Accounting Act of 1921 in two ways:

It calls upon the President to submit a balanced budget beginning in fiscal year 1984.

My amendment excludes expenditures for capital assets from the balanced budget requirement. A capital asset is a physical asset like a building, or equipment with a useful life of at least a year.

I believe these two simple changes offer several advantages over the proposed constitutional amendment:

My amendment will move toward a balanced budget now, not at some indeterminate point in the future.

The constitutional amendment was offered ostensibly to show how strongly some people felt about reducing Federal deficits. Some have argued that a constitutional amendment is the strongest action that can be taken; that Senate Joint Resolution 58 is the best that can be done. I think we can do better. Why do we have to wait 2 fiscal years after all the States ratify this provision to achieve a balanced budget? I am not willing to wait. The cost to the economy is too great. Our economy needs strong medicine and needs it fast. The unemployment rate stands at 9.5 percent. More than 10 million Americans are out of work in an economy that lies dead in the water. Interest rates remain stubbornly high, producing a rising toll of corporate and personal bankruptcies. Business bankruptcies are averaging one every 5 minutes of every business day. My amendment calls upon the President to submit a balanced budget in January for fiscal year 1984. That is 5 months away; we need wait no longer. I favor a 5-month wait to an indefinite delay. With this amendment, we can create a budget process that bears fruit quickly.

My amendment protects the integrity of the Constitution.

My basic objection to Senate Joint Resolution 58, as it now stands, was aptly summed up in a Washington Post editorial:

> It is grotesque for Senators and a President who cannot get their deficits under a $100 billion to support, piously, Constitutional language putting it at zero.

My colleague and friend, Senator MATHIAS, stated the point candidly:

> I do not think we should use the Constitution as a fig leaf to cover our embarassment over that deficit.

I concur with that sentiment wholeheartedly. Voting for the balanced budget amendment answers none of the difficult questions that so perplexed this body a few weeks ago when it voted for a budget resolution with deficits now estimated to exceed $140 billion. Such constitutional language will constrain none of the budgetary leeway in this Chamber until long past 1984, a couple of elections away. From a politician's perspective, an election away is as good as forever. Two elections away is a point in the stratosphere. A constitutional amendment would advertise our commitment to fiscal restraint without forcing us to face the tough choices. The Constitution is the wrong place for such advertising. I believe we need substantive change instead.

My amendment is enforceable. Serious questions have been raised over the ability of the courts to adjudicate the provisions of this constitutional amendment. Proponents argue that previous statutory efforts to achieve a balanced budget have proved unenforceable, however, and all that is left to try is a constitutional amendment. I believe a statutory approach can be enforceable—we ostensibly pass enforceable laws every day. I believe previous statutory efforts failed for a particular reason. The statutory language of the Byrd-Grassley amendment, which became Public Law 95-435 requiring a balanced budget for fiscal year 1981, failed to specify who was responsible for producing a balanced budget. It mandated an outcome rather than a specific action by a specific party. This amendment makes it very clear what action is to be taken—the President is to submit a balanced budget in January. If he fails to do so, he is in violation of the law.

With responsibility so clearly specified, this statutory language is actually more enforceable than the constitutional amendment being offered. It is not clear what action the courts could take to enforce the constitutional amendment. The courts clearly could be used to force the President to abide by this statutory language.

Developing a capital budget and a balanced operating budget is good economics. The balanced budget constitutional amendment is bad business practice. Offered in the name of fiscal responsibility, it contains a budgetary rule that no family, corporation, or government can profitably live by. Simply put, the balanced budget amendment says to the Federal Government, "You should not invest."

It does this by prohibiting borrowing through its restriction on deficits. Such a prohibition is anti-investment. What if families had no chance to borrow? If they could not borrow to buy a car or home, or to pay college tuition, they would give up most hope of improving their standard of living. If businesses did not borrow, there would be almost no new plant and equipment purchased, and no hope for business expansion.

If government cannot borrow, its ability to provide the public investments necessary for economic development is sharply impaired. Government cannot build and maintain the roads, the water and sewer systems, or other utilities that make up the so-called public infrastructure. This infrastructure supports all economic activity. It is governmental investment in public infrastructure that makes private enterprise feasible.

The balanced budget amendment simply ignores the demands for public investment. Criticism of Government debt has swirled around issues like the validity of Keynesian macroeconomic analysis and the appropriateness of deficit spending in providing economic stability. Right or wrong, this discussion ignores the fact that borrowing is an important part in creating and maintaining our public systems. Prof. Richard Musgrave of Harvard, perhaps the country's foremost expert in public finance, indicates the shortcomings of the balanced budget view contained in the proposed constitutional amendment:

. . . taxes should equal outlays, i.e., the budget should be balanced. Such at least is the case regarding the financing of current public services. Capital expenditures (like those for public infrastructure) on the other hand, are appropriately loan-financed, with the debt thus incurred amortized over the life of the asset.

In other words, prohibiting borrowing for public investment makes no economic sense. A prudent investment generates future income sufficient to meet the expense of repaying the debt. Prohibiting such investment simply restricts that future economic prosperity.

Capital budgeting is good budget management.

It has been argued that the balanced budget amendment calls upon the Federal Government to do no more than State governments already do. Thirty-nine States are cited as having constitutional provisions limiting their ability to incur budget deficits. An additional eight States have similar statutory restraints. Fortunately for the residents of these States, virtually all of these State governments have provided themselves the authority to borrow to cover expenditures on some capital assets like roads, schools, and utilities. A description of the varying frameworks that permit States to finance capital assets without violating their constitutional and statutory covenants is contained in a report of the Congressional Reference Service that I shall submit for the RECORD, along with other materials as an attachment to my statement. Additional materials from the Congressional Reference Service and from the Census Bureau show the magnitude of financing these alternate structures allowed the States. The average State debt burden as a percentage of general expenditures is over 9 percent. This means that States fortunately continue to be active borrowers in the credit markets, and active investors in public infrastucture.

Capital budgeting will highlight the alarming condition of our public infrastructure.

The balanced budget constitutional amendment creates an obstacle to investing in our public infrastructure at a time when the need is greatest. The cover of Newsweek, and the front page of the New York Times have focused national attention on the alarming deterioration of our roads, bridges, sewers, and rails. Dr. Pat Choate, in a report for the Council of State Planning Agencies, has estimated the capital needs of rebuilding our public systems to be a mind-boggling $3 trillion—an amount approximately equal to our entire GNP. One-quarter of our Interstate Highway System is worn out and needs resurfacing. One-half of Conrail's rail and roadbed is deficient. Half of our local communities have water systems with strained or insufficient capacity. Twenty percent of this country's bridges are so dangerously deficient they are either restricted or closed.

Economic recovery and long-term prosperity will require public investment. All will agree, I think, that the failure of the balanced budget amendment to distinguish between Government investment and current operations will seriously hamper capital expenditures at a time of critical need within our national infrastructure. What do we get in return for the sacrifice of our roads and utilities? We get a fig leaf to cover our embarrassment over the high deficits that are a part of our current budgets. I, for one, am not willing to make that trade.

My amendment will produce lower deficits. My amendment excludes capital expenditures because it makes good economic sense to exclude them. It is not a loophole simply to avoid real spending control. It will not diminish the need to reduce the Federal deficits. The definition of capital expenditures used in this amendment is restricted to physical assets with a life of greater than 1 year—a standard accounting practice followed by businesses and many State governments. A preliminary estimate of the fiscal year 1983 budget submitted by the President suggests that $105 billion in expenditures would have been classified as capital expenditures under this definition. That original budget carried an implicit deficit of over $180 billion. A great deal of pressure remains to control Federal spending—about $75 billion of pressure.

CONCLUSION

For those who believe my amendment still leaves too much budgetary leeway, I say tighten it. But I urge my colleagues to adopt a standard we can live by beginning today. The public is demanding more than fig leaves to cover embarrassment over high deficits and magic elixirs that promise cure-alls for our economic woes. We must respond quickly, wisely, and in good faith.

Madam President, the amendment I have filed is similar to that filed by the Senator from Colorado in that it goes into the issue of how you calculate the budgets and whether, indeed, you have a separate category for capital expenditures. Let me explain what the differences are between the two. They are not that great, but they are significant enough that I wanted to have a separate vote on this one.

In terms of how you define capital expenditures, the Hart amendment would include items like research and development and education. I chose to use a different definition than that which is the standard operating procedure in accounting that would basically go into those categories that one is likely to find in the business world, State government, that kind of thing. It would be a more standard approach as to what would be included under capital expenditures.

The second difference is the question of the role of the President. Under Senator HART's amendment, the President should submit a balanced budget by 1986, with the accounting procedures going into effect immediately, and the President being given a waiver provision by making a statement as to current economic conditions.

Under my amendment, the balanced budget would have to be submitted by the President in fiscal year 1984, without any of the 2-year time period delay. So I start off by suggesting what the differences are.

The thrust is very much the same. it seems to me that the arguments on this issue have been made ad nauseam, and I do not want to go into it in any great detail. What I am trying to establish is the fact that if the President of the United States is going to make such a to-do about supporting a balanced budget, we shall give him the chance to do it next year. I find it somewhat hypocritical for any public official to get up and say, "We want this to be done as soon as I am out of office." It does not ring with credibility.

I am sure that if this thing is going to be taken seriously, there is a requirement that what we say have a ring of truth to it, not a ring of expediency. So the amendment would call upon the President to submit a balanced budget beginning in fiscal year 1984. I think it is fair to say that we all will look forward with anticipation to what exactly that will look like.

The second part of the amendment is that which has been referred to by the Senator from Colorado. It really is rather ironic that an issue like this should be in dispute, since, if we go into the various States and municipalities and businesses in this country, the difference between operating expenditure and capital expenditure is given. It is not a great, radical idea. Yet, for some reason, it is treated like that here.

One of the problems with the balanced budget amendment process stems from just exactly how people are reacting to that situation. When I was a member of the Lowell City Council, we tried to establish a flat rate on taxation so the tax rate would not be increased. What we did was accomplish that by taking the money out of capital expenditures. It was a rather successful, short-term political accomplishment, but over the long term, it did very little good for the city; in fact, I think it did the city a disservice. What I am trying to do is keep us from doing the same thing at the Federal level. If we get into a crunch, if we fail to achieve a balanced budget, the first thing that is likely to go is the capital expenditure category. That may be fine for any given year, but dooms the viability of the Nation's economy over the long term.

A capital asset is a physical asset like a building or equipment, whose useful life extends over more than a year, and the accounting procedures should recognize that reality. The argument can be made that the amendment is statutory but is not an amendment to the Constitution. I think that is to the good. I do not think our Constitution was meant to be marred by these accounting practices, especially by a Congress which is going to pass the highest deficit in history. That is hardly the kind of statesmanship our Founding Fathers would have approved of.

So, in essence, the argument of making a distinction between a capital budget and operating budget is that it is standard, it is good economics, it happens just about every place else. We should take the same attitude.

Madam President, I ask unanimous consent to have printed the report from the Congressional Research Service I referred to earlier, along with other materials from the Congressional Research Service and the Census Bureau. In addition to that, Madam President, there are two op-ed articles, both of them from the New York Times, which I ask unanimous consent to have printed in the RECORD.

There being no objection, the materials were ordered to be printed in the RECORD, as follows:

[Attachment 1]

THE LIBRARY OF CONGRESS,
CONGRESSIONAL RESEARCH SERVICE,
Washington, D.C., October 10, 1978.

From: Economics Division.
Subject: State Instrumentalities Issuing "Non-Guaranteed Debt."

Legislative authority to contract long-term debt without requiring an amendment to the State constitution is granted in Seventeen states. In eleven of these—Connecticut, Delaware, Illinois, Louisiana, Maryland, Massachusetts, Minnesota, Montana, New Hampshire, Tennessee, and Vermont—there is no restriction on the amount to be borrowed but extraordinary legislative majorities are required for passage; while in six—Georgia, Hawaii, Mississippi, Pennsylvania, South Carolina, and Wisconsin—limitations exist on the amount to be borrowed.[1] This memorandum brings together selected references which describe the legal devices used by the States to issue indebtedness which the courts have held does not contravene the constitutional prohibition on the use of the State's "full faith and credit" pledge for repayment.

All of the 50 States have issued some form of non-guaranteed debt as of June 30, 1980, either through State dependent agencies or separately organized activities (e.g. highway toll facilities and auxiliary enterprises at State institutions) or by State created special district-governmental entities. A tabulation in 1976 listed 677 such agencies in all the 50 States excepting Wyoming (see table 1). For the most part, the non-guaranteed debt has been issued for such traditional State functions as transportation facilities, educational facilities, and hospitals. The compilation in Table 2 illustrates the type of State activity for other than these traditional functions.

The following materials are appended following the above-mentioned tables:

1. An explanation of the Census method of classifying State debt using New York as an example. (From the First Boston Special Report on State Debt Burden, May 1977, pp. 11-14.)

2. "The Future of Moral Obligation Bonds as a Method of Government Finance in Texas" by Richard M. Jones in Texas Law Review, v. 54 (January 1976) pp. 314-335. See in particular the section on "Methods of Avoiding the Debt Limits" beginning on page 320.

3. "Public Authority Bond Issues: The Need for Legislative Reform" by S. Hochberg and K. Taylor in the New York Law Forum, volume 21 (Fall 1975) pp. 133-207.

4. See in particular the State authorities and agencies involved in State financial assistance for industry and in the issuance of industrial revenue bonds, and in financing pollution control programs. The 12th Annual Report in Industrial Development, January-February 1978, pp. 2-8.

TABLE 1.—SEPARATELY CONSTITUTED FUNCTIONS OF STATE GOVERNMENTS

	Dependent agencies	Dependent activites	Special district governments
Total, 50 States	446	105	[1] 126
Alabama	30	4	2
Alaska	9	4	0
Arizona	2	5	1
Arkansas	7	2	0
California	8	0	4
Colorado	0	1	4
Connecticut	11	3	1
Delaware	6	0	1
Florida	13	1	2
Georgia	15	6	6
Hawaii	5	0	0
Idaho	3	1	0
Illinois	13	3	17
Indiana	7	1	1
Iowa	0	4	3
Kansas	3	1	2
Kentucky	18	2	2
Louisiana	51	8	12
Maine	12	1	2
Maryland	6	4	3
Massachusetts	21	0	2
Michigan	12	1	0
Minnesota	3	2	2
Mississippi	8	3	2
Missouri	4	0	7
Montana	3	0	0
Nebraska	2	0	0
Nevada	1	1	0
New Hampshire	5	1	1
New Jersey	15	3	6
New Mexico	4	0	2
New York	28	9	6
North Carolina	7	3	0
North Dakota	3	0	1
Ohio	13	6	2
Oklahoma	11	3	0
Oregon	2	2	0
Pennsylvania	12	3	5
Rhode Island	10	3	0
South Carolina	18	4	0
South Dakota	5	2	0
Tennessee	5	1	3
Texas	3	1	18
Utah	2	1	1
Vermont	7	3	1
Virginia	9	1	11
Washington	5	0	0
West Virginia	8	1	2
Wisconsin	7	0	0
Wyoming	0	0	0

[1] Multistate agencies have been counted only once in the total but appear in each State that is a party to the compact.

Source: Compiled by the Congressional Research Service from unpublished sources of the U.S. Bureau of the Census.

TABLE 2—STATE NON-GUARANTEED DEBT ISSUED FOR PURPOSES OTHER THAN HIGHWAYS, EDUCATION, HOSPITALS, AND WATER TRANSPORT, AS OF DECEMBER 1975

Alabama—State building authority lease purchase arrangements ($12.2 million); Industrial Development Authority ($13.2 million); and Pollution Control Finance Authority ($4.9 million).

Alaska—State housing agencies ($86.5 million); international airports ($31.2 million); and the State Development Corporation ($18.0 million).

Arizona—Coliseum and Exposition Center Board ($5.9 million).

Arkansas—State building authority lease purchase arrangements ($8.5 million); park system revenue bonds ($6.5 million); and Department of Pollution Control and Ecology ($1.4 million).

California—Department of Water Resources ($380.0 million); State Exposition and Fair ($13.0 million); and Mount San Jancinto Water Park Authority ($8.2 million).

Colorado—Department of Social Services-states nursing home ($1.4 million).

Connecticut—Housing Finance Authority ($150.8 million); and Department of Commerce-development authority ($15.0 million).

Delaware—Community Affairs and Economic Development ($19.7 million).

Florida—Lease purchase agreements ($21.5 million); Recreational Council ($18.3 million); and Key Aqueduct Authority ($11.3 million).

Georgia—State building authorities lease purchase agreements ($24.5 million); and State parks ($26.5 million).

Hawaii—Airports Division, Department of Transportation ($227.5 million).

Idaho—(None except by universities).

Illinois—Building Authority ($429.3 million) for university, hospitals, and other State facilities; Housing Development Authority ($182.0 million); Health Facilities Authority ($9.7 million); and Armory Board ($.7 million).

Indiana—State Law Enforcement Academy Building Commission ($3.2 million); Indiana State Fair Board and other lease purchase arrangements ($5.8 million).

Iowa—(None except by universities).

Kansas—Armory Board ($.4 million); and State Board of Health ($1.3 million).

Kentucky—State Property and Buildings Commission ($99.1 million); and Pollution Abatement Authority ($23.8 million).

Louisiana—Statebuilding authorities lease purchase arrangements ($53.4 million); and the Louisiana Stadium and Exposition District ($128.7 million).

Maine—State Housing Authority ($48.7 million); Municipal Bond Bank ($10.4 million); and Evergreen Valley Development Corporation ($4.5 million). (The totals reported by Moody's is $33.7 million higher than the amount shown by the Census Bureau).

Maryland—(None except as specified in the table).

Massachusetts—Housing Finance Agency ($104.5 million); Health and Educational Facilities Authority ($189.3 million); and Wood Hole, Martha's Vineyard and Nantucket Steamship Authority ($14.4. million).

Michigan—Hospital Finance Authority ($22.5 million); Housing Development Authority ($308.4); and State Natural Resources Commission ($11.7 million).

Minnesota—Housing Finance Agency ($30 million).

Mississippi—(Data not available on portion of bonds issued for port facilities which are not backed by the full faith and credit of the State).

Missouri—Board of Public Buildings ($18.7 million); and Park Board ($1.4 million).

Montana—(Data not available on obligations other than those issued by the colleges and university).

Nebraska—(None except as specified in table).

Nevada—(None except specified in table).

New Hampshire—Higher Education and Health Facility Authority ($16.6 million); and Water Resources Board ($2.6 million).

New Jersey—Health Care Facilities Financing Authority ($33.9 million); Housing Finance Agency ($155.3 million); Mortgage Finance Agency ($384.1 million); and New Jersey Sports and Exposition Authority ($302.0 million). (The last two agencies appear not to be included in the Census Bureau tabulation).

New Mexico—(Data not available on obligations other than those issued by the educational institutions).

New York—New York State Power Authority ($1,215.3 million); Urban Development Corporation ($761.5 million); State Mortgage Agency ($156.3 million); Atomic and Space Development Authority ($9.8 million); Job Development Authority ($68.8 million); Battery Park City Authority ($247.4 million); New York City Housing Development Corporation ($51.2 million); and New York City Educational Construction Fund ($63.6 million).

North Carolina—(None except as specified in table).

North Dakota—(None except as specified in table).

Ohio—Water Development Authority ($151.5 million); Department of Natural Resources ($8.9 million); and Public Facilities Commission ($408.9 million).

Oklahoma—Capitol Improvement Authority—lease purchase—($31.0 million); Industries Authority ($89.4 million); and Railroad Maintenance Authority ($6.0 million).

Oregon—(Has no non-guaranteed debt).

Pennsylvania—General State Authority ($767.5 million); State Public School Building ($667.2 million); and Higher Educational Facilities Corporation ($141.3 million). (As of June 30, 1974, no debt has been contracted by three newly created State agencies-Industrial Development Authority, Housing Finance Agency and Nursing Home Loan Agency).

Rhode Island—Health and Educational Building Corporation ($33.8 million); Industrial Building Authority ($33.6 million); and Housing and Mortgage Finance Agency ($67.1 million).

South Carolina—Public Service Authority ($383.9 million).

South Dakota—Building Authority ($6.9 million); Health and Educational Facilities Authority ($3.1 million); and Housing Development Authority ($27.0 million).

Tennessee—Housing Development Agency ($32.9 million).

Texas—The Census Bureau does not classify the following agencies as State agencies: Canadian River Municipal Water Authority ($84.8 million); Lower Colorado River Authority ($103.1 million); Trinity River Authority ($78.8 million); and Coastal Industrial Water Development ($170.0 million). The Armory Board indebtedness ($2.5 million) is included.

Utah—(None except by universities).

Vermont—Educational and Health Buildings Financing Agency ($20.3 million); Housing Finance agency ($13.8 million); and Vermont Municipal Bond Bank ($115.5 million).

Virginia—Public School Authority ($106.8 million); and Housing Development Corporation ($52.5 million).

Washington—Columbia Storage Power Exchange ($265.9 million); and Public Power System ($319.3 million).

West Virginia—State Building Commission-lease purchase ($33.6 million); State Parks Commission ($2.2 million); Armory Board ($5.8 million); and Housing Development Fund ($29.2 million).

Wisconsin—State Agencies Building Corporation ($130.0 million educational, $170.0 million all other purposes); State Public Building ($13.1 million); and Housing Finance Agency ($37.6 million).

Wyoming—Capitol Building Commission ($4.2 million).

(Source: Moddy's Municipal and Government Manual, 1975 (2 volumes).)

TABLE 6.—STATE EXPENDITURE FOR DEBT SERVICE (I.E. DEBT REDEMPTION AND INTEREST) IN MILLIONS OF DOLLARS AND AS A PERCENT OF GENERAL REVENUES FROM THE STATE'S OWN SOURCES, FISCAL YEAR 1977

	General revenues	Total debt service	Debt redemption	Interest	Total debt service as a percent of State general revenues
Totals	121,190.6	12,011 1	6,874 8	5,136.3	9 91
Alabama	1,752.6	105.5	55.1	50.4	6.02
Alaska	946.2	106.9	57.7	49.2	11.30
Arizona	1,364.1	6.7	2.3	4.4	0.49
Arkansas	929.5	13.0	6.1	6.9	1.40
California	14,343.2	603.4	316.6	286.8	4.21
Colorado	1,388.8	16.9	9.2	7.7	1.22
Connecticut	1,782.8	441.7	280.8	160.9	24.78
Delaware	500.2	98.0	64.6	33.4	19.59

TABLE 6.—STATE EXPENDITURE FOR DEBT SERVICE (I.E. DEBT REDEMPTION AND INTEREST) IN MILLIONS OF DOLLARS AND AS A PERCENT OF GENERAL REVENUES FROM THE STATE'S OWN SOURCES, FISCAL YEAR 1977—Continued

	General revenues	Total debt service	Debt redemption	Interest	Total debt service as a percent of State general revenues
Florida	3,697.6	156.9	57.4	99.5	4.24
Georgia	2,192.8	133.6	69.2	64.4	6.09
Hawaii	877.7	132.9	56.8	76.1	15.14
Idaho	433.1	3.8	1.3	2.5	0.88
Illinois	6,034.3	377.6	178.8	198.8	6.26
Indiana	2,666.9	55.2	27.1	28.1	2.07
Iowa	1,558.7	10.6	4.8	5.8	0.68
Kansas	1,168.4	35.6	22.8	12.8	3.05
Kentucky	1,877.2	215.9	120.5	95.4	11.50
Louisiana	2,235.6	143.4	69.6	73.8	6.41
Maine	580.8	61.2	33.4	27.8	10.54
Maryland	2,662.4	290.9	148.1	142.8	10.92
Massachusetts	3,477.3	666.7	364.9	301.8	19.17
Michigan	5,763.5	255.3	150.2	105.1	4.43
Minnesota	2,916.0	162.1	107.3	54.8	5.56
Mississippi	1,168.7	74.0	33.7	40.3	6.33
Missouri	1,840.2	83.3	62.7	20.6	4.53
Montana	399.0	8.6	5.1	3.5	2.16
Nebraska	748.5	7.6	4.8	2.8	1.02
Nevada	378.6	5.2	2.7	2.5	1.37
New Hampshire	292.7	53.1	36.7	16.4	18.14
New Jersey	3,865.0	542.0	306.2	235.8	14.02
New Mexico	877.6	18.5	12.0	6.5	2.11
New York	12,927.7	4,787.4	3,183.7	[1] 1,603.7	37.03
North Carolina	2,794.8	112.8	51.8	61.0	4.04
North Dakota	451.7	6.3	2.8	3.5	1.39
Ohio	4,359.4	310.6	137.2	173.4	7.12
Oklahoma	1,503.8	71.2	25.6	45.6	4.73
Oregon	1,340.3	156.1	49.4	106.7	11.65
Pennsylvania	6,276.4	584.6	193.0	391.6	9.31
Rhode Island	588.0	69.7	45.0	24.7	11.85
South Carolina	1,501.5	110.8	61.8	49.0	7.38
South Dakota	302.2	12.5	2.0	10.5	4.14
Tennessee	1,792.2	102.2	48.4	53.8	5.70
Texas	6,007.6	198.7	85.4	113.3	3.31
Utah	688.2	13.9	6.8	7.1	2.02
Vermont	302.3	49.2	26.8	22.4	16.28
Virginia	2,611.8	88.9	43.8	45.1	3.40
Washington	2,492.7	123.2	57.3	65.9	4.94
West Virginia	1,048.4	144.7	81.2	63.5	13.80
Wisconsin	3,178.5	176.2	102.2	74.0	5.54
Wyoming	303.2	6.0	2.1	3.9	1.98

[1] Includes $285.8 million of interest payment for Municipal Assistance Corporation Debt and $267.3 million interest payments on State Housing Finance Agency Debt.

Source: State Government Finances in 1977.

TABLE 7.—DEBT SERVICE PAYMENTS AS A PERCENT OF GENERAL REVENUES FROM STATE SOURCES, FISCAL YEAR 1977

[In Descending Order]

Percent and number of States		States [1]
15 to 37	(7)	New York (37.0), Connecticut (24.8), Delaware (19.6), Massachusetts (19.2), New Hampshire (18.1), Vermont (16.3), and Hawaii (15.1).
10 to 14.9	(8)	New Jersey (14.0), West Virginia (13.8), Rhode Island (11.9), Oregon (11.7), Kentucky (11.5), Alaska (11.3), Maryland (10.9), and Maine (10.5).
5 to 9.9 [2]	11	Pennsylvania (9.3), South Carolina (7.4), Ohio (7.2), Louisiana (6.4), Mississippi (6.3), Illinois (6.3), Georgia (6.1), Alabama (6.0), Tennessee (5.7), Minnesota (5.6), and Wisconsin (5.5).
2.5 to 4.9	11	Washington (4.9), Oklahoma (4.7), Missouri (4.5), Michigan (4.4), Florida (4.2), California (4.2), South Dakota (4.1), North Carolina (4.0), Virginia (3.4), Texas (3.3), and Kansas (3.1).
0.5 to 2.4	13	Montana (2.2), New Mexico (2.1), Indiana (2.1), Utah (2.0), Wyoming (2.0), Arkansas (1.4), North Dakota (1.4), Nevada (1.4), Colorado (1.2), Nebraska (1.0), Idaho (0.9), Iowa (0.7), and Arizona (0.5).
9.91	50	National Average. [2]

[1] Rankings are based on four digit decimals.
[2] National average.

Source: Computations by CRS from data in State Government Finances in 1977 issued by the U.S. Bureau of the Census.

Deficits and Deficits

(By Robert L. Heilbroner)

Alarmed at the size of the mounting deficit, President Reagan has come out for a constitutional amendment to enforce a balanced Federal budget. After the amendment is ratified, the Government will be allowed to spend only what it takes in as taxes. No more borrowing, with its horrendous consequences. Financial virtue will have been restored.

I have a suggestion to make. Why not strengthen the fight against profligacy by widening the amendment to include deficits of all kinds? Specifically, why not make it unconstitutional for businesses to spend more money than *they* take in as their normal revenues?

There is, of course, a very good reason, small matters of constitutionality aside. It is that a prohibition on business "deficits" would bring an end to much economic expansion. When A.T.&T. wants to build a satellite, it doesn't normally pay for it from the revenues generated by your telephone calls. It goes out and borrows the money for its new capital investment, or issues new stock. So does Exxon and I.B.M. and the rest of the Fortune 500.

Of course, corporate borrowing and spending isn't called a "deficit." It's called business investment. Nor are the corporate bonds or new stocks looked on as evidence of profligacy. They simply indicate that the process of capital formation has been going on, giving us productive assets that we can kick with our feet, and securities that we can put into safe-deposit boxes. As a result, when we discover that A.T.&T.'s long-term debt has gone up from $32 billion in 1975 to over $50 billion today, we don't talk about profligacy, we talk about growth.

But why isn't this also true of Government? If it is productive for A.T.&T. to borrow money to loft a satellite, why isn't it all right for the Government to do the same thing? If it is growth-producing for Ford or General Motors to borrow money or issue shares to modernize their plant and equipment, why isn't it growth-producing for the Government to modernize the road system so that we can drive the new models without breaking their axles? If it is praiseworthy for I.B.M. to go to the public for money to finance a new research facility, why isn't it equally praiseworthy for the Bureau of Standards or the National Institute of Mental Health to do the same thing? If it is good to build airplanes and apartment houses and steel plants on borrowed money, why is it bad to borrow money to build public transportation or public housing or public waste-reclamation plants?

But, it will be said, the capital expansion of private firms generates additional sales for them, out of which they will be able to pay the interest on their additional debt. True. And isn't it also true that the capital investment of the public sector generates additional gross national product out of which more tax revenues will arise to finance the added interest on the public debt?

Thus, the balanced-budget amendment may save us from profligacy, but it may also force us into poverty, exactly as if the amendment applied to the private sector. For the Government sector, like the private sector, builds for the future, as well as using up wealth in the present. When we spend our public income for arms or postal services, we are consuming our wealth, as we do when we spend our private incomes for sporting rifles or telegrams. To give the budget-balancers their due, perhaps we should limit our public consumption expenditures to the normal flow of tax incomes that the public sector enjoys. But when we spend money for harbors or dams, or for aid to P.S. 162, we are increasing our future capacity to produce, just as surely as when we spend it on machine tools or an Ivy League education. There is absolutely nothing to be said for limiting investment spending, which is growth-producing, to our normal incomes, whether these incomes are derived from sales or taxes.

Looking at the functions of Government as investment or consumption does not tell us whether or not the Government is making wise political or social decisions. It does not even give us a guide as to whether the Government is making intelligent *economic* decisions. It is possible to make very bad investment choices and very wasteful consumption expenditures. Washington has plenty of examples of both to show for its money. So do Pittsburgh, Detroit, and Middletown, U.S.A.

Nevertheless, breaking down the Government budget into investment and consumption does not help remove what I consider to be the single most serious impediment to the effective use of our economic potential. This is the tendency to think of all Government spending as *essentially* consumption, and usually wasteful consumption at that. Before we fasten ourselves into a balanced-budget straitjacket, we should remember that American economic growth depends just as crucially on borrowing and spending for investment in the public sector as it does in the private.

[From the New York Times, Aug. 1, 1982]

CONSTITUTIONAL CON

The President, once a baseball broadcaster, now sounds like Leo Durocher, the former Dodger manager. Durocher watched with mounting anger one day as his third baseman let one, two, three ground balls through his legs. When it happened again, Durocher went out to play third himself. The very next ball bounced through his legs. He slammed the mitt down and shouted to the offending fielder, "You've got this position so knotted up that no can play it right."

Last week, it was the President who threw down his mitt. The subject was Federal deficits. They weren't of such concern in February when he proposed a $98.6 billion deficit for 1983. Better that, he said, than to touch his planned tax cuts. They "must not be tampered with in a vain attempt to cure deficits in the short-run."

But Mr. Reagan is plenty worried about the deficit now. So is Congress. The deficit will be closer to $160 billion than $98 billion. Who's to blame? Don't look at me, Mr. Reagan says with some heat. Blame the Democrats. Why, they gave the country 19 deficits in the last 20 years. They got the game so knotted up that no one can play it right.

Still, not to worry. The President has a magical solution: "The American people understand that we need fundamental reform . . . They want this Government to draw the line and to pass, without delay, a constitutional amendment making balanced budgets the law of the land."

What tempting simplicity! If Congress insists on behaving like an alcoholic, then ban cocktails. The trouble is the amendment stashes a bottle behind the sofa. It can't work.

The balanced budget amendment comes up for Senate action this week. Students of government—including conservatives—reject it as ignorant economics, destructive law, foolish administration and cynical politics. They are right.

The proposal would require Congress to adopt balanced budgets each year. Exceptions would be made for war or when 60 percent of both houses approved. Spending could increase not faster than the growth in "national income."

Why is it ignorant economics? Because the United Sttates should not want to balance the budget every year; it should want to balance the economy.

In a recession, spending for unemployment and other benefit programs goes up. That's a desirable counter-cyclical effect; it's sensible to run a deficit then. Otherwise, the economy would nose dive. If the amendment were in effect now, there would be five million more unemployed.

Why is the amendment destructive law? Because it would stuff the Constitution with baloney. As Professor Burke Marshall of Yale Law School wrote on the Op-Ed page recently, "It trivializes the Constitution to try, for the first time, to write into it what are essentially economic and social legislative policies." These are fluid policies, not of permanent constitutional weight. The sponsors know that. This would be the first amendment ever which Congress had the power to waive.

Why is the proposal foolish administration? Because there's no way to make it work. Congress wouldn't even know if it was obeying. Consider the immense variations between the forecasts used when a budget is enacted and the outcome 18 months later. As Rudolph Penner, the conservative economist, has observed, the 1981 budget was balanced on paper for much of 1980—but there was finally a deficit of $58 billion.

Why is the proposal politically cynical? Because it is meaningless in practical terms. The President says that the amendment "could have a very profound effect." But Republican leaders have a very different view. "Frankly, it doesn't do a thing," says Senator Baker, the majority leader. "I don't think it would have any practical impact," says Senator Dole, the Finance Committee chairman.

If there are so many arguments against the amendment, why is the President for it? The only reason we can think of is that Mr. Reagan regards the voters as ignorant, docile and gullible, ready to thrill to the illusion of "balanced budget" but never grasp the reality of this wretched proposal. In short, he thinks they will be fooled. So, evidently, do a lot of Congressmen.

That's all the more reason for thoughtful citizens to stand up and say, No, we will not try to fool and we will not be fooled; a fraud's a fraud. Free people do not govern themselves by pretending to strap on a permanent straitjacket. They do it by making hard choices as they arise. The balanced budget amendment is not a constitutional matter at all. It's just a con.