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THE POLITICS OF FISCAL POLICY

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I.

The formulation and execution of fiscal policy means the realization of economic objectives within a political context. This involves the consideration of what is economically sound in relation to what is politically feasible. In analyzing the political factors in such a situation three aspects call for examination: first, the underlying interest groups; second, the current slogans, creeds and symbols used in the defense or promotion of these interests; and third, the framework of existing governmental institutions through which social forces and ideas must operate. We must distinguish between (a) argumentation as a way of securing support through conversion and (b) argumentation as a logical analysis of relationships. Both are based upon value judgments, but in the first instance argument is used to promote these values; in the second instance the values are assumed in the premises from which the argument proceeds. Thus, economic theory can be used objectively within, for example, the framework of assumed principles called "capitalism."

In all policy formation there is a plane of discussion distinguishable from the actual individuals and groups in conflict. Hence both the language of debate and the debaters themselves can be examined. The latter speak for their followers—as a group what do they stand for, who are their leaders, how are they organized? How is the status of a group affected by a given policy? What is the reaction of the group to the policy? Both the objective effect and the subjective reaction must be considered. What does the farmer want, or the investment trust, the taxpayer, or the banker? The diversity of any society may be due to conflicting economic interests or the result of differing dogmas that separate men whose welfare is otherwise closely entwined. The political task of compromise is none the less difficult though these differences be psychic rather than material. Not only the diversity of political demands but also their intensity must be considered.

The question of what fiscal policy should be, although posed on the discussion plane in terms of the general welfare, is usually answered as a political issue on the level of what particular groups demand. The politician is, of course, not limited merely to such demands in the formulation of policy; but reckon with them he must. They form the substance from which new policy is chiefly wrought.

Political demands must also be related to the general pattern of values accepted by the community. Harmony with well-established traditions

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and attitudes vastly strengthens a new proposal. Yet it is difficult to see how in any analysis of fiscal policy formulated for the general welfare we can get away from the interest of some group or groups as the basic criterion. Decision depends upon the segment of the population to be preferred. Can the consumer's interest be taken as the basic criterion? Even if this were entirely defensible from an economic viewpoint, it would be unrealistic for political analysis. Neither is the welfare of the community wrapped up in that of the taxpayer. Moreover, both taxpayer and consumer interest are notoriously weak in the political realm. Hence the political process results in the identification of the interests of the more powerful elements with the general welfare. This identification, however, is seldom simple and direct. It is colored by the prevailing climate of opinion; it is affected by the existing institutions and by the skills of rival politicians.

Our society seems to require discussion in terms of a broad interest even when narrow ends are being served. Thus much economic and political theory is used for the defense or rationalization of a group interest in the terms of the general welfare. Even though some particular group interests may quite convincingly, from an economic point of view, be identified with a broad public interest, the prevalent political ideology and habits of thought dictate a more circuitous approach.

The reasoning used in approaching such a problem is illustrated in the report of the British Committee on Expenditures. This committee, composed of distinguished public men, studied the fiscal problems facing the British government and attempted to make recommendations. The group split into two irreconcilable parts. The majority criticised the post-war tendency of electing to parliament candidates pledged to expenditure schemes.

"The electoral programme of each successive party in power," the Committee stated, "particularly where it was formerly in opposition, has usually been prepared with more regard to attracting electoral support than a careful balancing of national interests. When the time comes to put that programme into force, matters which had formerly appeared easy and attractive are found to involve such grave questions as whether the proposals are administratively possible, whether they will have the desired results, whether the country can bear the cost; whether, in short, they are really in the national interest."2

By what standards should a government attempt this "careful balancing of national interests?" The substantive meaning of these words is more clearly revealed in the concrete recommendations of the report.

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2. Id., at 223.
"The first thing needful is to secure a return to general prosperity," argues the Committee.³ Government action has in effect added to the economic burdens of the nation. Hence, the national welfare will be best promoted by the curtailment of governmental activities. Those of most "rapid and recent growth" should be selected for reduction. The Committee offered three reasons:

"First, the older commitments of the state have stood the test of many attacks and in the main have proved that they are unavoidable even in years of depression. Secondly, the longer expenditure has been running, the more rights and vested interests have grown up around it. Thirdly, it is a powerful argument in regard to any service to say that the nation did without it a few years ago, therefore it cannot be essential."⁴

No qualitative distinctions of social utility are offered as a guide to retrenchment by this expert committee. Social services are described as "privileges or benefits for particular classes at the cost of the general taxpayer."⁵ It thus appears that the committee's "careful balancing of national interests" means relieving the taxpayer and reducing services even in the face of popular demand for such governmental functions. The economic argumentation of the majority report is a justification for limiting state action for the purpose of easing the taxpayer's burden and thereby restoring prosperity. But which is the determining consideration?

The arguments advanced by the committee minority are based on a different set of value judgments. This group believes that government should be highly responsive. They criticize the majority report as representing

"a condition of financial irresponsibilities which in fact do not exist . . . So far as their strictures concern the principle of ultimate financial responsibility, what they regard as 'undesirable', we view as consistent with the right and proper course of democratic government and progress. How otherwise shall the people obtain legislative redress of social and economic injustice except through those who seek their suffrage"⁶

"Moreover, we consider that many of the recommendations of our colleagues would in their operation impose an unfair measure of sacrifice upon certain large sections of the Community, many of whom are already feeling with considerable and growing severity the effects of what has graphically been described as the 'economic blizzard,' but would fail to lay under any comparable contribution others

3. Id., at 14.
4. Id., at 16.
5. Id., at 13.
6. Id., at 228.
more favourably situated, many of whom are enjoying, to the extent of their fixed income, effortless benefits from the increased value of money due to falling prices."\(^7\)

How are the interests of the taxpayers, the persons with fixed incomes, and those possessed of money claims protected by contract, to be balanced in any objective fashion with the welfare of those persons whose income is too small for the income tax, who work for wages and possess no money claims? There is little point in criticizing a fiscal policy because it "attracts votes" unless this argument in itself is likely to win political support for those advancing it. On the other hand, it is argued that "at election times those desiring increased expenditure on particular objects are usually far better organized, far more active and vocal than those who favor the vague and uninspiring course of strict economy; and as a result candidates not infrequently find themselves returned to parliament committed, on a one-sided presentation of a case, to a course which on fuller knowledge they see to be opposed to the national interests."\(^8\)

The concept of a fiscal policy designed to promote the economic welfare of the public as a whole is badly shaken when the incidence of a given policy is faced in terms of the groups actually affected. The general welfare concept is of little if any value as a tool of analysis; it is most effective as an instrument of exhortation. As a battle-cry for rallying sympathy and support to a given proposal it belongs in the same arsenal with "justice," "equity," and "fairness."

On the other hand, fiscal policy need not necessarily represent the partial, immediate, and selfish views of narrow groups. Granted the exercise of reason, restraint, and cooperation on the part of participants working through an appropriate governmental mechanism, a line of public policy might be established that would advance the wealth and happiness of a very large proportion of the population. Although the "general welfare" concept is often abused, it may still be worth while to seek policies benefiting a broader rather than a narrow alignment of interests. A given fiscal policy must relate to the economic welfare of, for example, bankers or brokers or investors or farmers. One policy may embrace several of these interests. But no policy can embrace all group interests unless we assume that there is latent somewhere in our society an inner unity capable of harmonizing all apparent differences. This paper assumes the degree of social unity which makes communal life possible to be of little aid in settling current policy problems.

"Equity" in taxation and expenditures for "the public interest" are thus concepts that must be analyzed in terms of the groups affected if

\(^7\) Id., at 270.

\(^8\) Id., at 13.
we are to discover what substantive content or meaning these phrases may have. It is not that these terms are devoid of meaning, but rather that they have many meanings. It is not that these terms are without use but rather that they may be put to contrary uses.

The formulation of fiscal policy lies at the dead center of democratic government. It is the very essence into which is distilled the conflict between the haves and have-nots. It represents the terms of compromise between powerful economic forces in the community. Utterly divergent economic forces are seeking to use the financial machinery of the government to promote their own ends.

The essence of the problems comes to this: that fiscal policy necessarily issues from a complex of political forces. What is the standard to be for guiding policy if we discard the "general welfare" concept as offering little practical aid except for oratorical purposes? Secretary Wallace has considered this problem. In his book, New Frontiers, he propounds a faith in a society where a continuing balance of interests supervised by an able bureaucracy will advance "the good life." But what does this philosophy mean when removed from the discussion plane of high principle? What are his guides for the substantive framing of fiscal policy?

Striking a "balance" means that various people are to get their just due and that some one is to determine the distribution. Order, goodwill and reason all contribute to making the transaction smooth and pleasant. But who gets what, and why? Basically, the substantive content of Wallace's theories are most baldly stated in the following excerpt from recent Senate Committee hearings.

"I think as long as government has given certain advantages to corporations, to organized farm groups, to organized labor groups, that it should use some of its powers to see that the unorganized people at the bottom of the pile are not too hopelessly discriminated against by the forces of modern society. If we are to have a true democracy these people must get into position to exercise their part. They should be in position to earn more money."  

Here at last is a clear statement of his objective: the public interest calls for more money in the pockets of the people at the bottom of the pile. In the final analysis, Secretary Wallace's views seem to result in belief that through governmental intervention our national economy can be so altered as to enable the bottom third of the population to earn more money. And particularly the bottom third of farmers. Secretary Wal-

10. Hearings before Senate Committee on Appropriations on Emergency Relief Appropriation, 75th Cong., 1st Sess. (1937) 266.
11. Secretary Wallace has amplified his position thus:

"The question is to find that particular type of taxation, that particular type of volume of taxation, and that particular type and volume of expenditure which will lead
lace has a definite base for fiscal policy formulation. His task as a politician, however, is to develop the theory and the formulae that will make his proposals harmonious with accepted values. It has long been assumed in some quarters that if the top third of the economic heap determined fiscal policy, the benefits would trickle down. Secretary Wallace would reverse the situation. He can anticipate quite a long discussion.

II.

The prevailing ideology is of vast importance in any effort to analyze political change. It is the very atmosphere that interest groups must breathe. In considering the politics of fiscal policy, therefore, the attitude of people toward their government is an ideological factor of transcendent importance.

From the political point of view the fact must also be accepted that man in the mass responds to symbols and embraces simple formulae. If he were other than what he is, the political problem would also be different. But to the student of government an essential bit of data is the emotional response of the public to the clichés surrounding economic problems and the public's inability to grasp the refinements of economic analysis.

There is, I think, a law of political distortion under which economic facts, as soon as they are used in political debate, lose their original form and are shaped and over-simplified to achieve some pre-determined end. 12 Fiscal policy, hence, is discussed rather in terms consistent with accepted ideology than with actual facts. A government which undertakes to manipulate the economic affairs of the nation employs symbols and slogans of the general welfare even though its action really deprives one group of something for the benefit of another. Much of reality is too complex to be widely understood, but in most fields the direction of activity is not dependent upon the approval of a mass of uninformed individuals.

to the greatest welfare of all the people over a long period of years; or, if I may put it on this basis, will lead to the greatest net amount of money after paying income taxes in the hands of the average man.

"I think it would be a very profitable study indeed to inquire into all the ramifications of taxation and expenditure from the standpoint of net income in the hands of the average small business men in the smaller towns of this country.

"What taxation policy, what expenditure policy, over a long period of years, taking into account the situation of this bottom third of the population, taking into account the State in which our natural resources and our soil fertility find themselves, should be followed?"

Hearings before the Sub-Committee of the House Committee on Appropriations on the Emergency Relief Appropriation Act, 75th Cong., 1st Sess. (1937) 7.

12. See the writer's article (1937) 2 J. of Soc. Phil. 95.
Business organizations work in an atmosphere encouraging initiation and frank profit-seeking; government organizations are surrounded by social attitudes imposing responsibility for action and restraining the use of discretion. Through the fiction of corporate personality private business enables directors to handle other people's money as though it belonged to this personality whose mere organs they are assumed to be. Directors are the five senses of a legally created “person.” Officials are always thought of as handling other people's money, and hence they have to be watched. Democratic government is not regarded as a great Leviathan representing the whole community in organic form. Yet when we wish to criticize governmental finance we revive the personal view of the state and point to the need for the government to balance its own budget as though it were a household.

The government today is using its control of monetary policy, of taxation, of borrowing, and of lending, to intervene in the whole economy of the nation. The consequences of this interference are not fully reflected in the mere income and outgo of the Treasury, for we are without a balance sheet that shows us the total result of current fiscal policy. These fiscal operations transcend the housekeeping of the nation. We see a huge deficit in dollars and cents. But these figures do not give a complete picture of national finance. It is not enough to know that we have spent more money than we have taken in. Unless we know the consequences of federal spending and the incidence of various taxes, we cannot tell whether the populace are better or worse off as a result of what the government has done. When the government uses its legal controls of economic affairs in order to attain certain social ends, purely financial standards are inadequate. We use a fiscal term to cloak a social end. This cloak may appear bright red as a deficit in the budget, but the narrow bookkeeper’s view taken distorts the reality. Understressed is the fact that taxation and public expenditures may contribute positively to the wealth and well-being of the nation. Taxes may discourage anti-social behavior and bring about a distribution of economic goods that actually promotes productivity. When taxation is not used primarily for raising revenue, the importance of the tax cannot be judged in terms of the monies brought in. For example, if the power to tax is used as the power to destroy, destruction becomes our criterion. If regulation is attempted through a tax levy, our first concern must be with the extent of regulation resulting and only incidentally with the amount of money raised.

In expenditures for public works or in loans to industry the social consequence of these policies is the significant question. The activity called “governmental spending” is often treated as an abstract concept and closely associated with the words “recklessness” and “extravagance.”
Sometimes these epithets describe the operation and sometimes not. Public expenditures are made for the attainment of such diverse ends that no one set of standards can be applied in toto, least of all narrowly financial criteria. Thus, the vast sums allotted to national defense must ultimately be justified by the imponderables of national policy and international relations. Fiscal policies such as the tariff, or subsidies, preferential or regulatory taxes, stem back to considerations of social control and a political balancing of interests. Public expenditures may mean investments yielding returns for generations. Millions spent for flood control may result not only in billions saved in property values but also millions saved from flood insurance charges. Public spending has no meaning in itself; its significance lies in the standards applied. In the dispute over social aims contestants attempt to discredit spending in general. The popular distrust resulting makes the actual administration of fiscal policy unnecessarily difficult. A more forthright facing of social objectives, if substituted for emotional aversion to the abstract concepts such as "reckless expenditures" and "unbalanced budgets," would make possible the more effective management of governmental finance.

Suppose the government should broaden its "capital structure" base; we would call it increasing the national debt. But why not more debt if it increases national income? In governmental affairs budget balancing is thought of usually in terms of economy. On the other hand, a business can often choose either retrenchment or expansion. Advertising to draw business may be the best way to balance its budget. No a priori assumptions settle the issue. The tendency to think of public finance in terms of personal expenses is, perhaps, a partial explanation, since for most individuals greater economy is the only immediately available way of keeping outgo within income.13 The excess of outgo over increase is the fact that appears most clearly in the public budget—the causes are too confused for the public to grasp. The simplest explanation is to argue that selfish forces raid the Treasury and the government is unable to say them nay.

"The demand for an immediate budget balance as an essential preliminary to further business recovery" Professor Haig regards as "somewhat disingenuous." "This is really a symbol," he states—"a protest against waste and a plea for the elimination of unnecessary uncertainties."14 Professor Haig's analysis seems to come closer to the kernel of our problem. He eschews the balanced budget formula. It is the uncertainty that estops business: the fear of making plans because of

the upset that may be caused by change in the price structure or the exchange rate. But a balanced budget may or may not reflect a condition of stability.

Since public confidence is a factor of vast importance in deficit financing, it might be more important to bolster this attitude than to retrench. In fact, the withdrawal of government money has lately seemed to have a very depressing effect on business. Although effective slogans and language for supporting an expansive fiscal policy are not widely current, why not stress the importance of "constructive credit" and "public investment," "social savings," and the "budgeting of human resources" or talk of "governmental enterprise," of "protecting posterity" and of building the basis of "community prosperity" through the development of national welfare?

Much argumentation is based upon the conception of state action as being essentially restrictive, negative, regulatory, and unproductive. What would happen if a more exact and realistic analysis were made of the assets resulting from governmental spending? Our governmental accounting system treats social services of vast public benefit as heavy charges against the community. This means that a one-sided picture is obtained which fosters the unfavorable attitude toward government expenditures. As a formal bookkeeping matter it would, of course, be exceedingly difficult to assess the value of crime prevention or fire protection. Such computations have, however, been attempted. The economic value of educational and recreational facilities is still more elusive but none-the-less real. Our present trend toward collectivism is evaluated by the narrow bookkeeping of an individualistic economy. It may be that the social cost of this trend is greater than its returns. My only point is that our present system of evaluation throws little light on the matter one way or the other. Hence, the way in which public finance is treated, plus the stake that most people feel in it, makes the matter too important to be left alone and too complicated to be widely understood.

Government is supposed to be bound by the same principles which govern the good man. When social need carries the government into new fields of activity, a theoretical justification is not always ready at hand. Thus, in a situation where social need dictated spending, a rational theoretical justification was necessary. Mr. Keynes provided a ready-made answer for academic critics. He provided a bone of contention for the intellectual. The homely rustic symbol of "priming the pump" gave the public a picture to consider while the destitute were cared for. All governmental action must have a philosophical justification. This must also be simplified into an acceptable symbol; a rationale is necessary before action.
Though they become involved in verbal contradictions, public men must say the socially desired thing if they wish to remain in public life. The ideology through which we view public questions tends to make their words more important than their deeds. They are judged largely by their loyalty to community ideals and ritual. Statesmen occupy positions of symbolic significance. They are expected to stand for the highest principles and aspirations of the community. They are judged by their fidelity to professed social ideals. Conflicts, confusion and recriminations arise when the voters demand that their high elective officials not only stand for principle but also do something. Such action involves the give-and-take, the dodge and push, that is taken for granted in business. If a statesman behaves this way in order to accomplish something, he becomes a politician.

The increased penetration by government into fields of management means that officials come trailing clouds of symbols that have little to do with their concrete responsibility. Confusion lies in failing to distinguish between problems and our attitude toward these problems. At the present time the obstacle in the way of a balanced budget is as much the attitude toward government as more practical considerations.

The facts concerning the effect of a particular tax or the economic value of a certain expenditure are exceedingly complex. Nevertheless, since the welfare of individuals or groups may be vitally affected, great effort must be made to rally a mass of supporters. Here accepted symbols or attractive slogans are more useful than facts. The area is too broad, too confused, too technical to be grasped. Politicians are called upon to supply simplifications. Urgent need for generalizations in the field of fiscal policy tends to remove us far from concrete realities. Something called a “balanced budget” is set up as the end that must be achieved. This is attended by various bookkeeping conventions and forms. A balanced budget comes to be treated as an end in itself. This concept of a balanced budget is accepted in principle, and then under a dual bookkeeping arrangement the ordinary budget is balanced and an extraordinary emergency budget unbalanced. Politicians promise to balance the budget — but later — thus kow-towing to the principle and avoiding the fact.

All “sound” men now take it for granted that an unbalanced budget is a bad thing and should be rectified. All “humanitarian” men seem agreed that an unbalanced economy is a bad thing and should be rectified. They argue that where there is food and where men are hungry the devices that will satisfy the need should be used. The sound men do not weaken their position however by discarding the “will of the people”

15. It is a rare Congressman who would declaim in a public gathering as one did recently in the heat of debate: “I want you to see that this question of balancing the Budget is not only not vital but it is a piece of nonsense . . .” Rep. Kent Kellar, in 80 Cong. Rec. 2690 (1936)
concept. Just as the humanitarians try to keep under the balanced budget symbol by indirection, so do the sound men continue to adhere to the democratic creed. The danger, they say, lies in governmental response to the wrong people; the unproductive unemployed voters are the ones to fear.

Sokolsky writes:

"The peril to democracy is that this body of men and women may succeed in imposing their will upon those in control of government so that the government will not be able to free itself of the incubus of supporting an increasingly large body of non-productive citizens. . . . No democracy can withstand the corrosive effects of such an acid. It will eat into the vitals of government finance. It will destroy free capital by exorbitant taxation. It places a premium upon idleness and vagrancy. It makes a fool of the orderly, productive citizen."¹⁶

Such writers find a moral distinction between the idle and the productive citizens. They disregard for purposes of their analysis the unmoral economic forces which transformed productive citizens into vagrants without regard to personal merit.

Those who would protect democratic government against its own evil nature conjure up a further danger. What happens when millions of voters become dependent for their sustenance upon the federal treasury? "May there not be a temptation to those in control of government to utilize this vast force to perpetuate themselves in office?"¹⁷ Ogden Mills thought that the present administration had already succumbed. The use of federal funds to control votes and elections was only too evident to him. "By this I do not necessarily mean the actual purchase of votes," he stated. "I mean that a political party which has dedicated itself to a policy of lavish spending of public moneys, for the sake of spending, almost inevitably sets up a whole series of vested interests in its continuance in office—an interest that is totally unrelated to its general administration of the country's affairs."¹⁸

The Mills' argument is based upon the assumption that certain sound interests should be in charge of the general administration of the country's affairs. Efforts to administer the country's affairs in the name of other interests apparently is undemocratic, especially when these interests are attracted by a fiscal policy of lavish spending. On the other hand, many business men have felt that their interests were dependent upon the continuance in office of the Republican Party. A distinction is drawn, however, between the vested interest of the citizen who has an estab-

¹⁷. Id., at 339.
lished place in the economic order of society and the mass of citizens who are less fortunate.

Our ideological confusions about fiscal policy arise perhaps from a basic political conflict among those on one hand who favor socialization of wealth for the underprivileged and those who want stimulation or at least stabilization for encouragement of private enterprise. These two forces are in political conflict, and basically contradictory public policies result. Yet this conflict takes place within a political order under which economic interests are expected peacefully to compete through governmental channels. The prevalent ideology casts a mist of unreality over this struggle. Government is the store-house of social aspirations. Public servants are held to higher standards than those applying to ordinary workers and doers. Yet the individuals and institutions surrounded with such high professions of principle are restricted and even suspected when the time comes for action.

III.

Our attitude toward government shapes its institutions, and these in turn interact with the demands that groups make. The skeins of attitudes, interests, and institutions cannot be disentangled except arbitrarily for our present task of analysis. The politics of fiscal policy is inextricably tied up with our institutional set-up. This system is characterized by: (1) a federal structure based on a constitution of limited powers, (2) a separation of powers between executive, legislative, and judicial branches which insures an independent area for each of greater or less extent, (3) a bi-cameral legislative system providing houses of about equal powers, (4) national political parties built up on a loose confederation of state organizations—which in turn are bound by sectional loyalties of a cultural, racial, or traditional kind that may not react directly to economic motives, (5) an administrative service which for a long time to come will be influenced in various agencies by partisan considerations, (6) a basis of representation that necessitates the supplemental activities of private organizations for the defense or promotion of special interests, (7) an electorate in general more concerned with family duties and individual concerns than with broad public problems, (8) a spirit of localism that makes a Representative or Senator dependent for his political career upon pleasing the constituents of one Congressional district or of one state.10

Various writers doubt whether we can properly develop and realize an adequate fiscal policy under our present governmental structure. "When the President, with heavy majorities in both houses of the Congress,

has been unable to secure adherence in such instances to his expenditure recommendations, there is, indeed, ground for apprehension lest the experiment of deficit financing be wrecked by lack of proper timing and control of expenditures," Professor Haig states. "Perhaps the pressure groups of special beneficiaries of government spending will decide the issue. Perhaps, before deficit financing can be made safe for democracy, democracy will have to improve its mechanism so that action will be less influenced by the shortsighted and immediate special interests."\(^\text{20}\)

If the government is to undertake functions where careful timing is of essential importance, it seems sensible to provide some form of organization that can take this into account. Nevertheless, the calendar and not political expediency or economic conditions determines the timing of election campaigns. Thus, business cycle theory might dictate the reduction of government spending just as a campaign for re-election fell due! It is hardly necessary to elaborate upon the fact that our government is not well designed for the direction of deficit financing. The question is, what to do?

One or more of our social or institutional factors may, of course, be changed, but this seems unlikely and remains unpredictable. For the present and possibly for a long time to come these conditions constitute the walls within which the politician must work. Some writers take the view that this "handicaps" the functioning of a "proper" budget system. My point is rather that they merely give the setting to the problem that we are called upon to face. To insist that these conditions must be changed if we desire an improved scheme of financial control seems to me prescribing an anatomical alteration in the patient so that his new suit of clothes will fit.\(^\text{21}\)

As Hawtrey has well stated:

"The reason why financial policy is so baffling is that expenditure is not an organic unity, but a mere arithmetical aggregate. Each separate item in the aggregate has been included on account of its merits, and if it is to be suppressed or reduced it must be shown to be less desirable than its rivals."\(^\text{22}\)

How can this be demonstrated? Through the persuasive force of superior reasoning? By an authoritative declaration? By skilled political leadership? The totalitarian concept of the state provides one approach: discipline and power are emphasized. Here is government by different symbols than those used under democracy. Our present institutions are

\(^{20}\) Haig, \textit{supra} note 14, at 693. See also Schlichter, \textit{Towards Stability}, (1934) 200 ff.

\(^{21}\) See for example the criticism of our system of financial control by Buck, \textit{Budgets in the Government of Today}, (1934) 237-244.

\(^{22}\) Hawtrey, \textit{The Exchequer and the Control of Expenditures}, (1921) 68.
surrounded by such symbols as those justifying checks and balances, separation of powers, popular responsibility, state rights. These phrases do not support the organizational changes needed, for example, in a pump priming program. Working within the framework of democratic concepts, various scholars have pointed to the advantages of the parliamentary system for the better control of fiscal policy. Here is a system sustained by the symbols and myths of democracy, yet sufficiently well integrated within itself to make the executive effective. At any rate, this seems to be the case in Great Britain. To urge the transference to the United States of such institutions is to assume that our society and economy is sufficiently similar to guarantee the same results. A parliamentary system with real cabinet responsibility depends on a strong party system and a well-organized bureaucracy. These in turn rest upon factors such as the homogeneity of the population, the nature of the national economy, social traditions, and the structure of classes.

Institutional factors are, of course, man-created and susceptible to revision. At the same time this does not mean that they are artificial establishments; they are now deeply rooted and intertwined. Tearing up any one would have such unpredictable consequences that we may well hesitate about altering drastically the system of government. Our government works as it does, not entirely because the machinery is cumbersome, but rather because the propelling power is sporadic and the load is heavy. For example, the difficulties ascribed to federalism would not all disappear if we eradicated state lines. Sectional interests would remain; economic development, cultural characteristics and even climatic and other geographical conditions would attend to that. The rivalries of sections are at least isolated to some extent within the boundaries of our states. Local leaders are forced to compose the major part of their own quarrels. Our federal system means that the ultimate responsibility for all decision making is not focused in one place. Although the dispersion of responsibility causes some delay and does not appeal to men of strictly logical mind, it at least tempers the intensities of feeling that arise when the onus of decision making is centered upon one governing agency or even one individual.

To the extent that the Executive is able to exercise control he gathers unto himself the onus of deciding between conflicting interests. Under a system that gives the President a fixed term, focusing responsibility upon him may create antagonisms that cannot be resolved, since the President cannot be expected to resign when he loses the support of Congress.

Our present system has the great virtue of keeping decentralized many of the conflicts within the community. There is no one point where the whole government could be endangered, and hence there is less need
for the concentration of governmental force. Such a system, of course, makes for confusion and is not highly suited to straight-forward business-like management of finance—but government has matters other than finances to manage. Our present form of government is not to be judged simply in terms of its ineptness for fiscal control. Hence, the question is not merely how efficiently do fiscal agencies function, but how do they do their jobs within the confines of our institutional framework and in view of all the other purposes that the government is supposed to realize.

Our institutional forms prevent the underlying social differences of interest from reaching as sharp a divergence as they would under a system of government that concentrated responsibility more clearly. Today no one view of sound fiscal policy can be pushed through. Men of reason are forced to compromise with men of emotion. No single political group can control the whole machinery of government. This is not the best way to realize a logically consistent policy, but it may be a fortunate thing in a country as diversified as is the United States. Changes in the institutional structure which are desirable from one point of view may be questionable from another.

What are we seeking? Our goal presumably is to develop and apply a rational fiscal policy acceptable to most of the community. But suppose popular government leads to increasing deficits and ultimate inflation? "The acceptance of the view that unbalanced budgets are dangerous, even if at times unreasonable, serves as a check against legislative excesses."23 Here is the view that if legislators would only believe that keeping out of debt was more important than representing their constituents all would be well. "Our fear of unbalanced budgets," we are told, is "a sound conclusion based upon past events . . . If we lose that fear and in its place accept a belief in the desirability or even in the safety of deficits, we are probably headed toward a ruinous lesson." Is this inference correct?24

Here is an exhortation to the effect that government spending is a bad thing presumably because this leads to a change in the nature of property relations. But whether such a change is in itself undesirable does not necessarily follow. We can predict a change but we cannot foretell what the nature of this change will be. Disaster for whom? Must economic analysis take its stand upon the desirability of preserving "capitalism?" In facing a long policy of increasing expenditures can we assume a static condition? Disaster is predicated upon the assumption that the present economic system will remain static until its "debt limits" are reached. Whereupon it will pop! This must mean either (1) that there

23. SMITH, DEFICITS AND DEPRESSIONS, (1936) 170.
24. Id., at 171.
is a rigid limit to taxation, or (2) that governmental expenditures will be poured into channels of an unproductive sort that will not make the country better able to carry the increased burden of taxes entailed. To the eventualities of chronic depression and eventual inflation could we not also add increasing collectivism as an equally possible alternative? We can discover no absolute criteria as to what should be—all we can hope to do is to provide a mechanism for channelizing pressures and providing facilities for the formulation and execution of policy that will keep our institutions responsive to our social needs.

Judgment is passed upon the activities of the government in the general field of fiscal relationships largely in terms of the “budget.” This device was not intended to meet a broad view of financing. The present administrative machinery of budgetary control we established to increase efficiency of operation. Fiscal policy clearly transcends questions of management. Yet the budget stands as the only summary statement of all federal fiscal policy. No mechanism can settle automatically questions of distributive justice. No objective standards are applicable. Such standards can be developed for management perhaps but not for policy.

Viewed as a political problem, budgeting means interest balancing. Thus, no clear economic criteria can be applied in deciding whether millions should be spent on a battleship or on a national park and bird sanctuary. If any scientific adjustment of interests is impossible, we can at least strive for a clear view of the alternatives before us. Officials can be made to offer a program. Means can be provided for weighing the merits of different demands and shortsighted forces can be urged to seek a longer view. What administrative devices or institutional changes will encourage this approach?

Insofar as the purely political problem is concerned, all governments have the basic problem of deciding “who gets what, when and how.” They go about it differently and institutionalize different stages of the process. The outcome in terms of governmental structure shows striking contrasts. An agency that may be provided for by the constitution in one country may be left to private arrangement in another. Thus, persuasion and open bargaining characterize the formulation of fiscal policy in this country. There is a diffusion of responsibility. Differences of opinion and conflicts of interest that would be smothered in party conclave under

25. As Congressman Luce has stated: “It is not divided responsibility that makes a 'scientifically equilibrated budget' impossible; it is the nature of government. No system can secure such a budget; no system ought to secure such a budget. Modern government tries to meet a thousand social needs. They differ as the pear and the plum, the tulip and the pansy, the song and the statute. They have no common factor, no homogeneity, often not even relationship. Only in the roughest way are comparisons possible. We may say that provision for health is more important than provision for pleasure, that the development of industry should be preferred to the development of art; but scientific adjustment is hopeless.” LUCE, LEGISLATIVE PROBLEMS, (1935) 357.
a dictatorship or privately adjusted between officials and interested groups in Great Britain are bandied about in public debate in the United States. While we may not hope for an over-all control of fiscal affairs that will lead us to the Promised Land where milk and honey supplant slumps and depressions, a partial solution may lie in a more realistic attitude toward fiscal policy through clarifying some concepts and discarding others. Other aspects of fiscal policy depend upon the adjustment of group interests. Finally, appropriate institutional changes may lead to the readier compromise of differing habits of thought and conflicting group interests.

Experts in this country have stressed the great possibilities that lie in developing a central staff agency concerned with general financial planning. Fiscal policy would lie within the special province of this staff. This group of experts might study our financial problems and provide the Chief Executive with a program that might assist him in assuming leadership and in bringing Congress into line. This purpose might also be assisted by making the Budget Bureau a more effective agency. Today we have no critical scrutiny of continuing appropriations, no adequate questioning as to whether a service has outlived its usefulness. When a department seeks a marked increase in appropriations or plans to undertake some new function, the President’s consent is first sought. On these more important problems the Chief Executive needs assistance. Many officials in Washington say that the greatest need is for some single, over-all coördination and that the White House is the logical place for this. Yet here today a “catch-as-catch-can” condition prevails. The secretariat is primarily concerned with press and congressional contacts. An appropriate agency for the study and broad consideration of national fiscal policies is lacking. The Bureau of the Budget was designed to introduce methods of business management into governmental affairs. The problem now has transcended that of mere economy; it has entered the realm of high policy.

In order successfully to administer fiscal policy authority and flexibility are needed. But authority must lie at the source of power. We cannot desert the politicians in Congress for the experts in the Bureau of the Budget. If the two cannot be brought together, then Congress must get its own technicians. Fiscal policy, by its very complexity, requires the aid and advice of technically trained men. The appearance of legislative councils in various states is one recognition of the need for the more effective implementation of legislative planning. Congress has found the staff of the Joint Committee on Internal Revenue Taxation a valuable technical aid in framing legislation. It may be that a Joint Committee on Expenditures could perform a similar function for the Appropriations Committee. It must also be remembered that in the United States the separation between the executive and legislative branches
makes the direction of financial policy all the more difficult. This has been recognized in recent proposals.26

While it is arguable that for certain reasons, such as providing a broad basis of responsibility and maintaining a federal structure, bi-cameralism is desirable, the conclusion does not follow that for other purposes, such as fiscal control, the two chambers should not be brought closer together. Thus, little is gained in thinking of the separation of powers or separation of functions as a principle of government. It is nothing more than a form of organization suitable for some functions and unsuitable for others.

To recognize bi-cameralism, the separation of powers, or the duality between central and state governments as having a political justification is to further recognize chasms that must be bridged rather than eradicated. A closer cooperation between the Bureau and the Appropriations Committee would be one more way to do this. Budget officials have supplied information and, on rare occasions, even attended executive committee meetings. The significance of this participation depends largely upon the make-up of the Appropriations Committee at any one time. When the House Appropriations Committee was composed of representatives of long experience, they were able to scrutinize requests for appropriation with critical understanding. The uncertain tenure of Congressmen means that a dependable check by the legislature cannot be relied upon. At the present time the Bureau of the Budget never calls on the Chairmen of the Appropriations sub-committees who will later pass on specific budget estimates.27 Clearly there is room for a higher degree

26. For example, in June, 1937, Senator Byrd introduced a bill (S.2530) "relating to the financial administration of the federal government." This bill proposed to set up a Committee on Financial Administration composed of the Chairmen of the Senate Finance and Appropriation Committees and the House Committees on Appropriations and on Ways and Means, the Secretary of the Treasury, the Director of the Bureau of the Budget and an auditor general. This committee would "study problems requiring cooperation among the several agencies of the government with respect to any matter of budgetary or financial administration . . . with a view to assessing proper integration of activity and authority among such agencies with respect to such problems." Agencies composed of busy officials serving ex officio seldom accomplish much. Moreover, the ultimate success of any such group would be vastly affected by the interplay of the personalities represented. Senator Byrd's bill is, nevertheless, a significant recognition of a weakness in our system.

27. "The intimate connection between the work of the Bureau of the Budget and that of the two Appropriation Committees of Congress is evident. A working arrangement has never been developed among these three agencies, however, by which the investigations of the Budget Bureau could serve the purposes of the Appropriations Committee. Provision for such cooperation is made by Section 212 of the Budget and Accounting Act which provides:

'the Bureau shall, at the request of any committee of either House of Congress having jurisdiction over revenue or appropriations, furnish the committee such aid and information as it may request.'"
of cooperation. Yet rivalries between Congress and administrative agencies are not easily set aside.  

If our analysis of the politics of fiscal policy is correct, no over-all or sweeping reforms are likely to succeed. Congress cannot be expected readily to increase the President's authority at its own expense. Hence, even so defensible a reform as the item veto has received little support in Congress. Various presidents from the time of Hayes have toyed with the idea. The item veto, however, would enable the President to strike at specific appropriations and thus reach back into Congressional districts. This might eliminate pork barrel legislation, but it would also give the Chief Executive one means of weakening Congressmen on their home grounds. Local support means the political life or death of Congressmen. They will hardly welcome a whip that may be applied to their own backs.

Under our system of government and within our climate of opinion problems of fiscal policy cannot be successfully approached through the exercise of broad over-all planning and clear responsible authority. To achieve this would necessitate not only a change in the form of government but what is more difficult, a change in our attitude toward government. Neither our institutions nor our ideology seem suited to meeting in straight-forward and fore-sighted fashion present questions of fiscal

"Opportunity has never really existed for the full utilization of this provision by the committees of Congress owing to the small staff of the Bureau and its restricted scope of operations. On an expanded basis, however, as herein proposed, the Bureau of the Budget could become an invaluable tool of both revenue and appropriation committees through its records of the rates of expenditure and accruing obligations, as well as through its studies of administrative methods and costs."


29. See N. Y. Times, January, 1938, for date of efforts to grant this power to the President. Jan. 12, 1938, p. 2: House grants to the President item veto power on appropriation measures as an economy move; Jan. 15, 1938, p. 2: Item veto elimination is demanded by House Appropriation body; Jan. 18, 1938, p. 1: Senate Committee bars Item Veto Power.

30. Even the practice of giving the Chief Executive discretionary power to allot lump-sum appropriations, while justified by emergency conditions, meets with strong criticism in Congress. The present exercise of this power has aroused protests against undue executive authority, such as the following: "If the executive department becomes stronger and stronger at the expense of the other two branches of government, doubtless discretionary appropriations will take on the nature of permanency . . . On the other hand, if the traditional American system of Jefferson and Lincoln can prevail and federal legislators can regain their freedom from political pressure to do their duty as laid down in the Constitution, then the Constitutional system will be restored." Senator Vic Donahey, of Ohio, in letter of June 9, 1937, to Editor of United States News, Washington, D. C.
This does not mean that careful economic analysis is futile or that all planning efforts should be abandoned. It does mean that the fruits of such forethought are not suited for submission to Congress as a statement of "what should be." This can only be finally determined as the result of careful compromise. The legislature may well become impatient with carefully drawn logical blue-prints while struggling to find the actual conditions under which men will agree to work together. Because of the very nature of his task the politician cannot follow a priori schemes no matter how logically conceived and technically defensible. Nor are the political difficulties in adjusting differences due solely to the stupidity or the selfishness or the irrational nature of man. Obstacles perhaps more severe arise from the technician blind to the limits of his special competence, from the moralist unmindful of the manifold interpretations of justice or social welfare, from the man of reason disdainful of the power of emotional considerations. It is just as important for the expert to see his limitations as it is for the laymen to see his. The latter is reminded of his ignorance by the mysteries of technical terms and involved theory; the former has no clear boundary stones to show when he leaves his technical skill to follow his private hunch.

As the political value of compromise as an end in itself is realized, the task of carefully adjusting divergent group interests in concrete cases can be tackled. Exhortation will then become less persuasive. Energy can be turned from the defense of abstract principles to the invention of organizations appropriate to do a job. Here is a task worthy of the expert.

We have already shown much ingenuity and inventiveness in administrative forms. For example, the Farm Credit Administration has apparently been successful in devising a system where decision making is decentralized, and local units are integrated with the community served. Here is an approach to the political and administrative aspects of fiscal policy that seems promising for the future. Under the Farm Credit Administration, "the local association and the district units are operated as business corporations. Consequently, their receipts are income from which is paid the costs of making the loans and other operating expenses." Borrowers share in the control and ownership of the lending institution and participate in any earnings. It is contemplated that former-borrowers will eventually acquire full ownership. The Farm Credit Administration is a coördinating agency that grew to meet a definite need. There were four or five agencies already extending credit to the farmers. Coördination was clearly and definitely needed since there were activities in the same field that had to be related. The Farm Credit Administration is a coördinating agency that grew to meet a definite need. There were four or five agencies already extending credit to the farmers. Coördination was clearly and definitely needed since there were activities in the same field that had to be related. The Farm Credit Administration is a coördinating agency that grew to meet a definite need. There were four or five agencies already extending credit to the farmers. Coördination was clearly and definitely needed since there were activities in the same field that had to be related. The Farm Credit

31. Hearings before the Sub-Committee of the House Committee on Appropriations, on the Agricultural Department Appropriation Bill, 74th Cong., 2nd Sess. (1936) 1336.
Administration took over this task. Coordination and cooperation thus grew from the limited to the more general, developing from the needs of those served. They in turn are gradually to assume an increasing responsibility. This is evolutionary and pragmatic administration.

Another example is the Federal Reserve System. In an economy such as ours there seems to be a need for a strong credit structure. Yet there has also been a persistent distrust of centralized financial power. The federal government was not to be trusted with the establishment of a Bank of the United States, and business was left to develop its own integration through "finance capitalism." Our banking system has been torn between the public need of Wall Street and the public fear of Wall Street. Over a long period we have attempted to develop a monetary authority expert in nature and removed from the more direct influence of those seeking limited and immediate objectives. The Federal Reserve System has a relatively independent and flexible organizational form. Here is a skillfully contrived interrelation between the private banking system and government officials. It has evolved to its present form in the face of a public unwilling to sanction in organized form the power of money joined with the power of government. Yet the social need for such a service was too strong to be denied. Cannot an agency for fiscal policy be devised as pragmatically sound as our monetary authority? The problem must be approached, however, through the organizational forms in which the community has confidence.

Long-distance planning boards composed of experts are too far removed from public responsibility to have much political significance. Coordination is a method rather than an aim. It has little meaning unless it is related directly to agencies actually in conflict. The interests of men in limited fields and in particular cases must first be clarified and understanding must develop within a group with related interests. Thus, until the farmers themselves know what they want, Congress cannot devise a lasting solution for their problems. Labor must come to terms with labor before administrative forms for managing employer-employee relations can be effective.

Political issues are not disputes between reasonable men but conflicts of interests between human beings. Fiscal policy must reckon with conflicts and irrational beliefs. The general public can hardly be expected to take a long-term view of fiscal policy; nor is it likely that selfish interests will become unselfish if enough publicists appeal to them through the light of reason to mend their ways. Their ways are well insulated from outside logistic attack by reams of theory concocted by their own apologists. There are victories in the battles between ideals, but the Goddess of Reason has proved herself an undiscriminating camp-follower.
The clash of ideologies arises largely from undue emphasis upon "principles" rather than attention to "methods." The thoughtful man should consider particular taxes rather than "taxation" in general. He has no business "believing" or disbelieving in over-all concepts such as "deficit finance" or a "balanced budget." These abstract phrases are more useful for exhortation than for analysis. In other words, emphasis should be shifted from the vindication of abstractions to the study of concrete data and to the discovery of administrative devices that will get the job done. Is our ideology still fluid and evolving new concepts to meet new needs? Are our institutions sufficiently flexible? Political analysis has a task in assisting this process of adjustment through criticism, exploration, experimentation, and the creation of new patterns of thought and of administration.

The politician must consider how he can pursue a course that will redound most nearly to the welfare of all and at the same time please those particular interests whose support he needs in order to remain in office. He has as weapons the ideas, ideals, symbols, slogans, principles, and formulae by means of which public policy is debated. The successful politician is a skilled manipulator of these symbols. His strength rests in his skill as an adjustor of human relations. In the formulation and administration of fiscal policy there is a need for both the expert and the politician, for both the technician and the man of compromise.