

When Budgeting Was Easier

Eisenhower and the 1960 Budget

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WORKING PAPER
JUNE 2014

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When Budgeting Was Easier

Profound changes in the structure of the budget, the attitude of political parties, and the relationship between the president and the Congress cause budgeting to be much more difficult than it used to be. That does not mean, however, that the past has nothing to teach us. A look back can identify key features of budgets and budgeting that led to more satisfactory outcomes. Although it is impossible to exactly copy those features, it may be possible to adopt some of their characteristics, and that may help improve the rationality of fiscal policy in the future.

In this paper, I look back at budgeting during the Eisenhower administration. The paper focuses on the budget for fiscal 1960, the budget in which Eisenhower was most successful in achieving his fiscal goals. However, the paper begins with a very brief discussion of key features of Eisenhower budgets from fiscal 1954 to 1959.

Why look back at budgeting during the Eisenhower administration at all? One reason has to do with the well-documented deterioration of budget outcomes over the past several decades. Table 1 presents data on the average deficits, in dollar terms and as a percentage of GDP, over each presidential administration since Eisenhower. The table shows that of the 11 presidents who served in the past 60 years, the two with the lowest average deficits as a percentage of the economy were Eisenhower (at 0.4 percent) and Bill Clinton (a surplus at 0.1 percent). This was a much greater accomplishment for Eisenhower than Clinton, because President Clinton was fortunate to have been president at a time of explosive revenue growth and declining defense spending because of the end of the Cold War. He also inherited the benefits of the bipartisan, deficit-reducing deal negotiated by George H. W. Bush in 1990 and negotiated two deals himself—in 1993 and 1997. In contrast, President Eisenhower faced two significant recessions during his administration and was forced to forge a consensus on defense spending that did not previously exist. Other recent presidents have presided over budgets with average deficits between 2.3 percent under Carter to 7 percent under Obama who was faced with, by some

measures, the worst recession since World War II. President Eisenhower, despite the weakness of the economy in the aftermath of the recession of 1957–58, took great pains to propose a balanced budget in fiscal year 1960. All presidents from Eisenhower through Nixon managed to have deficits less than 2 percent of GDP. All since then, with the exception of Clinton, have had deficits exceeding 2 percent of GDP.

TABLE I

Average Deficits and Surpluses by Presidency

President	Years	Average Deficit	
		\$billions	% of GDP
Eisenhower	1954–61	-1.9	-0.4
Kennedy	1962–64	-5.9	-1
Johnson	1965–69	-7.1	-0.8
Nixon	1970–75	-20.6	-1.5
Ford	1976–77	-63.7	-3.4
Carter	1978–81	-63.2	-2.3
Reagan	1982–89	-176.5	-4.1
Bush I	1990–93	-258.9	-4.1
Clinton	1994–2001	7.9	+0.1
Bush II	2002–09	-444.3	-3.3
Obama	2010–13	-1,090.3	-7

Sources: Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2015–2024* (February 2014); Office of Management and Budget, *Budget of the United States Government: Fiscal Year 2015, Historical Tables* (March 2014).

Note: Years are of presidential budget submissions.

In this context, it is useful to consider what might have been different, either in the environment for budgeting or the practice of budgeting, that made it so much easier to balance the budget at the close of the Eisenhower years than it is today. This article will consider these factors, and will attempt to draw lessons from the Eisenhower budgets (and especially the 1960 budget, which returned the budget to surplus) that might assist us in understanding today’s fiscal environment—an environment in which the congressional budget process has disintegrated and has not produced a budget resolution passed by both houses of Congress since 2009.¹

Eisenhower's Budgets

Throughout his two terms Eisenhower's budgets consistently followed certain themes. He regarded balancing the budget as a sacrosanct goal. After noting that he would like to provide a tax cut because tax burdens were far too high, his 1958 budget message said, "the reduction of tax rates must give way under present circumstances to the cost of meeting our urgent national responsibilities" (Bureau of the Budget 1957). In other words, Eisenhower believed that it was important to pay for what government provided.

As a general rule, Eisenhower favored a frugal government and worked to limit the rate of growth of spending. Yet he did not advocate cutting social programs, and it can be said that he gave the Republican seal of approval to Social Security, that major accomplishment of the New Deal. Foreshadowing his farewell address that warned the nation about the influence of the military-industrial complex, Eisenhower was very hard on defense throughout his presidency. At the same time, he did not hesitate to spend significant amounts on two major infrastructure investments: the St. Lawrence Seaway and the interstate highway system.

Balancing the Budget

Eisenhower succeeded in balancing the budget only half the time in his eight years as president. Soon after he took office, the nation was hit by the post-Korean War recession that began in July 1953. That recession, which lasted through most of 1954, made it extremely difficult to balance the budget for fiscal years 1954 (a deficit of 0.3 percent of GDP) and 1955 (0.8 percent of GDP).² Deficits of this magnitude, far from being a cause for concern, would be envied today. The economy bounced back from recession with a vengeance, growing 7.1 percent in calendar year 1955. The growth allowed budget surpluses in both the 1956 and 1957 budgets. Yet another recession beginning in August of 1957 put both the 1958 and 1959 budgets into deficit. The large 1959 deficit played an important role in inducing Eisenhower to strive hard for budget balance in 1960.

Defense

In his first major speech on foreign and defense policy as president, Eisenhower said, “Every gun that is made, every warship launched, every rocket fired signifies in the final sense, a theft from those who hunger and are not fed, those who are cold and are not clothed” (Smith 2012). Throughout his presidency Eisenhower believed that if too many resources were devoted to defense, economic growth would suffer, and that would be a greater threat to national security than having a lean military. In general, he favored the Air Force and Navy at the expense of the Army believing that having a large army would increase the temptation to intervene in small wars around the globe.

Defense spending naturally fell dramatically in the aftermath of the Korean War. In 1953 it had been 14.2 percent of GDP. By 1956 it was 10.0 percent. Eisenhower’s parsimony with regard to defense was vigorously opposed by his military leaders, especially by the Joint Chiefs of Staff. As a result, Eisenhower chose not to reappoint either Omar Bradley, the chairman, or the other Joint Chiefs when their terms ended in summer 1953. General Ridgway, the hero of Korea and Joint Chief of the Army, suffered a similar fate after criticizing the reduction of army personnel in 1955.

A special challenge arose when the Soviets launched Sputnik in 1957. The Joint Chiefs and many members of Congress wanted a massive increase in defense spending in response. But Eisenhower successfully resisted, knowing from secret U-2 flights that the Soviets had not yet developed the ability to launch ICBMs. He used Sputnik as an excuse to advocate a significant increase in research and higher education spending. That included spending on pure research on civilian issues as well as on weapons systems. The budget of the NIH grew 10 times during his presidency. By the time of his last full budget in 1960, defense had shrunk to 9.3 percent of the GDP.

Infrastructure Investment

The possibility of opening the Great Lakes to ocean going ships had been discussed and pursued by Canada since the early 20th century. The notion was strongly opposed in the United States by railroads and ports on the East Coast and in Canada by the province of Quebec. The opposition kept the United States from showing much interest until provoked by Canada's threat to go it alone in the early 1950s. With Eisenhower's support, Congress voted to cooperate in creating the St. Lawrence Seaway in May 1954. Canada and the United States agreed to finance the project by issuing debt that was to be serviced by levying tolls. Alas, tolls never provided as much revenue as was projected, and the Seaway authorities had to keep borrowing. The US government assumed the financial obligations of the American Seaway authority in the mid-1980s.

The Seaway took five years to complete and was officially opened by President Eisenhower and Queen Elizabeth in 1959.

President Eisenhower signed the Federal-Aid Highway Act on June 19, 1956. The first year cost was to be \$1.1 billion and the plan was to spend \$25 billion over the next 12 years. It ultimately cost more and until its official completion in 1992, its cumulative costs grew to \$114 billion (\$425 billion in 2006 dollars). At the time of enactment, however, annual costs were not large relative to total 1956 spending of over \$70 billion. Moreover, the initiative was mostly paid for initially with a federal gasoline tax of 3 cents per gallon. Although it added little to the deficit, the new program did significantly expand the federal government's role relative to the states in developing national highway policy.

The 1960 Budget

Eisenhower's record in the first six budgets that he controlled was less favorable than he might have hoped for, but by today's standards fiscal policy was extremely responsible. Deficits were small before 1959, when they existed at all; defense spending was kept under control; and interest on the debt remained constant relative to GDP.

There was a sizable increase in nondefense spending during the administration. The increase was particularly rapid from 1953, when nondefense spending amounted to 5.8 percent of the GDP, to 1959, when it was 8.4 percent. Income security spending grew very rapidly from 1 percent of GDP in 1953 to 1.7 percent in 1959, but that was largely because of unemployment insurance soaring during the recession of 1957-58. Although Social Security was a small part of the total budget compared to today, it was growing rapidly and had reached 2 percent of GDP by 1959. Each new cohort of beneficiaries had been in the program for more years and had earned higher benefits.

Eisenhower could not have been pleased by the rapid rise in nondefense spending, and he became concerned early in calendar year 1959, when the deficit for fiscal year 1959 soared toward a peacetime record of \$13 billion. That was more than four times higher than any previous deficit during his administration. Although this deficit amounted to only 2.6 percent of GDP, it was embarrassing judged by the standards of the time.

Eisenhower was determined to restore fiscal responsibility and to balance the 1960 budget. His approach kept a tight rein on spending while recommending only minor tax increases, such as a 1.5 cent per gallon increase in the gasoline tax.

It would not be an easy sell. Democrats were coming off a major electoral victory in 1958, winning significant majorities in the House and Senate. Budget stringency would clearly require bipartisan cooperation. Selling an austere defense budget would be particularly difficult. The Cold War was raging, Khrushchev was bellicose, there was much talk of a missile gap, and it was feared that the Soviet's socialist economy would outproduce America's capitalist one—a fear that seems quite absurd in hindsight.

Although Democrats and Republicans competed vigorously, the two political parties were far more heterogeneous than they are today. The Democratic Senate included conservatives such as Richard Russell (GA) and John Stennis (MS) from the South and liberals such as William Proxmire (WI) from the Midwest. The southerners were extremely conservative fiscally but

strongly pro-defense. The Republicans spanned the ideological spectrum from Arizona's Barry Goldwater to New York's Jacob Javits, who might pass as a liberal Democrat by today's standards. Because of the ideological diversity within parties, partisanship was much less poisonous than today and debates between parties much less contentious.

That is not to deny profound policy differences between the Republican president and the Democratic Congress, but both seemed to feel that they needed to cooperate in order to get anything done. Eisenhower's amazing popularity with the American public no doubt encouraged this sense of bipartisanship. Because the president's approval rating averaged an astonishing 64 percent through the eight years of his presidency (Greenstein 1982), the opposing party took him on at their own peril.

On February 6, 1959, soon after Eisenhower released his budget, Senate majority leader Lyndon Johnson of Texas (often under fire from his own members for being too conservative and too quick to cooperate with Eisenhower) announced that he wanted to meet the president "halfway" on the budget. Three days later Johnson said that he wanted to meet the president "*more than halfway*" (emphasis added).³

Macroeconomics

Although Eisenhower's world was very different from today, some things were eerily similar. For one, different politicians held very different views on the desirability of different macroeconomic policies. Although Keynes' *General Theory* had been published more than 20 years earlier, the idea that budgets should almost always be balanced still had widespread support. On the other side, the nation was still recovering from the 1957–58 recession, and some policymakers wanted to run deficits to accelerate the recovery. The debate pitting fiscal austerity against a stimulus program was very similar to that raging today.

According to Stein (1988), four groups populated the Truman and Eisenhower administrations and the Congresses of the time:

1. Strict and exclusive Keynesians who believed that the first priority was to maintain full employment, which could be achieved by manipulating the federal budget.
2. Reformers and planners who were Keynesian but believed that fiscal policy had to be complemented with microeconomic government policies to increase the efficiency of the marketplace and to aid lower-income groups.
3. Conservative macroeconomists who were basically Keynesian but believed monetary policy had to be used in conjunction with fiscal policy. They totally rejected notions of government planning and otherwise wanted to keep government intervention in the economy to a minimum.
4. Conventional conservatives, who viewed the word “Keynesian” an obscenity.

Given that Keynesians could be either liberal or conservative, it is not surprising that Eisenhower’s goal of a balanced budget was attacked by members of both parties. Republican Senator George Aiken of Vermont warned Eisenhower against making a “fetish” out of balanced budgets,⁴ while Democratic Senator Gale McGee of Wyoming urged Congress to stop worrying about budget balance.⁵

One of the more unusual ideas of the time was that larger deficits would help the United States grow faster than the Soviet Union. This concept confused policies that would enhance short-run aggregate demand with policies that would encourage long-run growth. But Eisenhower rebutted the argument on different grounds. He felt that deficits weakened the United States internationally, saying, “Government must practice frugality and avert shrinkage in the value of the dollar.”⁶

Inflation was another topic on which the predominant macroeconomic theories differed. There was essentially no inflation from 1951 to 1955. It began to accelerate in 1956, however, and by 1957 it exceeded 3 percent. Inflation continued slightly below this rate in 1958. Since some politicians believed that deficits caused inflation, the slowly rising rate helped Eisenhower sell his balanced budget goal. A more common belief, which came to be known as cost-push theory, was that inflation was caused by unions pushing up wages and companies increasing their prices

administratively. Congressional debate made little mention of Milton Friedman's now-widely accepted view that inflation was "always and everywhere a monetary phenomenon" (1970, 24).

Battles over Program Spending

The battles over the fiscal 1960 budget raged throughout much of calendar year 1959.

Eisenhower won most of them.

On defense, he had to battle conservative Democrats and many in his own party. His challenge to those who wanted more defense spending to raise taxes to pay for it did not get an enthusiastic response. In the end Congress appropriated \$39.2 billion, almost exactly what Eisenhower requested. National defense outlays actually shrank by almost 2 percent in fiscal 1960 after rising 4.7 percent between 1958 and 1959.⁷

One of the most interesting battles of 1959 involved a housing bill. The Democrats first drafted a bill that would spend about twice what Eisenhower had recommended. Sensitive to being labeled "big spenders," they pared the bill back to be more in line with Eisenhower's target. Eisenhower vetoed it anyway, saying that the bill pushed spending into future years. The veto was upheld, so Democrats made some changes in Eisenhower's direction and passed the bill again. Surprisingly, Eisenhower vetoed it again, and again the veto was upheld. After more changes, Congress passed the bill a third time and Eisenhower finally signed it, even though it still contained some items that he did not like.

Eisenhower lost a few battles as well. He twice vetoed a public works bill on the grounds that it started too many projects that he knew would have to be funded in future years. Congress overrode his second veto, proving that even in 1960 a popular president could not successfully get between legislators and pork.

He did not get the entire 1.5 cent increase in the gas tax that he wanted, but he did get 1 cent. It was a substantial increase (from 3 to 4 cents) in a tax that has always been unpopular.

In the end, the 1960 budget was narrowly balanced. It was one of the largest fiscal consolidations of the post-World War II period. Eisenhower was successful in limiting the

growth of overall nondefense spending. It fell from 8.4 percent of the GDP in fiscal 1959 to 8.1 percent in fiscal 1960. Admittedly, some luck was involved, as well as a budget gimmick. The good fortune: The recovery from the 1957–58 recession turned out to be surprisingly vigorous. GDP grew a robust 7.2 percent in calendar 1959. The gimmick: A large contribution to the International Monetary Fund was artificially moved into fiscal 1959 so it would not count against the 1960 budget.⁸

Can the Past Be Emulated?

There are two fundamental differences between federal budgeting in Eisenhower’s day and federal budgeting in 2014—the rise of entitlements and the diminished power of the president. Of the two, by far the most important change is the relative decline in discretionary spending that is mostly controlled by annual appropriations and the concomitant rise in mandatory spending, mostly comprised of entitlement spending. Entitlement spending is reviewed more sporadically than discretionary spending.

Another, less important change has been a decline in the budgeting power of the president relative to that of the Congress. Advocates of more presidential power argue that the president is the only official elected by the nation as a whole and that the executive branch, mainly through the work of the Office of Management and Budget (OMB), can put forward a more coherent, detailed budget than can 535 legislators in Congress. Since the enactment of the 1974 Budget and Impoundment Control Act, however, it is more difficult for a president to exert leadership on fiscal issues. This creates something of a leadership vacuum because Congressional leaders do not have the same bully pulpit as the president and often have to preside over fractious party caucuses. While this does not mean that presidential budgets are always totally rational and responsible, the president does have the tools to make them so.

The Relative Decline in the Importance of Discretionary Spending

In 1960, discretionary spending amounted to about two-thirds of total spending and mandatory spending was about one quarter. In 2012, mandatory was almost 60 percent of total spending and discretionary a bit more than one-third.

The growth of mandatory spending over recent decades leads many to say that the United States faces an entitlement problem. That is misleading. Long-run spending pressures stem from only two areas—Social Security and health-related entitlements. Medicare and Medicaid constitute the bulk of health spending. They, along with Social Security, are growing rapidly because of the aging of baby boomers. Health entitlements face the added problem that health costs per capita have historically grown faster than income per capita. Excess cost growth is expected to continue in the long run in CBO projections even though there has been a significant slowdown in health cost inflation recently. Entitlements such as unemployment insurance and the Supplemental Nutrition Assistance Program (SNAP—formerly food stamps) grew rapidly during the Great Recession starting in 2007, but there is little reason to believe that they will grow faster than incomes in the longer run.

In 1960, Social Security accounted for less than 13 percent of total spending and Medicare and Medicaid did not yet exist. By 1990 they made up 32 percent of the total; rapid growth in the last 20 years has increased the share of the total from these three programs in fiscal year 2012 to 45 percent.⁹ To control deficits in the long run, their rapid growth has to be countered by reforming the programs to reduce costs, by squeezing other programs or raising taxes—all very unpleasant choices for legislators.

The primacy of entitlements, and the difficulty in controlling the budget without reining them in, represents a fundamental shift from Eisenhower's presidency. It is true that Social Security and agricultural entitlements were growing very rapidly during Eisenhower's time, but their growth did not create major problems because they were such a small part of total spending.

It is often said that entitlements are “uncontrollable”. They are in the following sense. Taking Medicare as an example, the law specifies an eligible population and defines the benefits to which it is entitled. The government then pays the benefit costs for all who enroll. Costs are not controlled from year to year, and Congress can control spending only by passing laws that change the eligibility rules or the definition of benefits. Congress’s attempts to control Medicare costs with a price control system worthy of the old Soviet Union have never been very successful. Reimbursements are specified in detail for treating different medical problems, but when price controls threaten to impose real constraints the medical profession tends to get around them by prescribing more treatments.

The trillion-dollar question is whether there are techniques for exercising more control over entitlement spending. That is to say, can entitlements be made to look more like discretionary programs and consequently, can the structure of today’s budgets be made to look more like that of the 1950s?

It is not impossible. The British and Canadian health systems provide an entitlement to health care. Yet, they are subjected to a budget and must live within it. They do this through rationing. That is always unpleasant and not always transparent. Because rationing is unpleasant, British and Canadian politicians are reluctant to be very stingy with regard to health budgets and costs have grown rapidly. But a control mechanism does exist and has provided a means to control health cost growth better than in the United States.

When Britain announced its austerity program in 2010, the government bragged that it was increasing the health budget while cutting almost everything else.¹⁰ But the increase was less than would have occurred with a continuation of current policies. In the US context, that would be called a “cut”.

The United States is contemplating taking some small steps toward imposing budget controls on health spending. Interestingly, House Budget Committee Chairman Paul Ryan (R., WI) and President Obama both want to impose controls on the rate of growth of Medicare

spending and they share the same target for the growth rate: GDP growth plus 0.5 percentage points per year.¹¹ The two would, however, achieve this goal using very different approaches. Ryan, as reflected in the “Path to Prosperity” (the fiscal year 2014 budget resolution) would transform Medicare into a premium support system. Enrollees would receive a subsidy that would vary with income, and they would then go to the marketplace to buy an insurance policy from a private provider that best suited their needs. The subsidy schedule could be varied from year to year to control costs.

President Obama’s approach relies on an Independent Payment Advisory Board (IPAB) established by the Affordable Care Act of 2010. IPAB is to make policy recommendations holding Medicare cost growth to a certain target. The target is defined by the Affordable Care Act. IPAB can impose these recommendations on the system unless Congress overturns them. The law currently prohibits IPAB from making recommendations that would ration benefits or change revenues or premiums, but President Obama would like to greatly expand the board’s powers.

Creating an explicit target for Medicare spending growth falls short of having strict budget controls, but it moves in that direction. There would still be uncertainties in that the different approaches may not exactly achieve their target. Under the Ryan approach a particular subsidy structure may not have the desired effect because of surprises in participation rates and income levels. Under the Obama approach policy changes suggested by the IPAB may not work as expected. But having announced an explicit target for cost growth would be a big step forward. Administrations and Congresses could be judged by their success in achieving their stated goal. It must be emphasized that moving toward a budget for health costs does not necessarily imply cutting health costs. Budgets can be generous or Spartan. The point is to have better control over spending, so that it is not the accidental result of the design of an entitlement.

A looser approach to gaining control over entitlement costs would be to create trigger mechanisms that go into force if cost growth exceeds expectations. Sweden, Canada, Japan, Italy

and Germany use triggers in their Social Security programs. The goal is to improve their social security programs' financial viability automatically if the economic or demographic outlook deteriorates unexpectedly. The triggers automatically curb benefit growth, raise revenues or both.

It is not easy to design an effective trigger. If a trigger is too harsh, the Congress is likely to waive it. Yet it has to be harsh enough to improve the fiscal outlook significantly. Finding the proper balance is extremely difficult.

Triggers have often been waived in the United States because they turned out to be too painful. For example, automatic reductions in physician reimbursements are supposed to occur if Medicare cost growth exceeds a "Sustainable Growth Rate." The formula calls for very large cuts—as large as 25 percent. The Congress has typically waived the cuts by passing a so-called "doc fix". Similarly, the Gramm-Rudman Hollings law of 1985 fell apart in 1990 when the automatic spending cuts that it called for proved politically implausible. On the other side, a successful American trigger has automatically adjusted Part B Medicare premiums to cover 25 percent of Part B costs. The adjustment is relatively small from year to year and has proven to be acceptable.¹²

The Budgeting Power of the President

A second, less important, change in budgeting involves the increase in the budgeting power of the Congress and the decline in the relative power of the president that came with the Budget and Impoundment Control Act of 1974.

The act gave the Congress a formal budget process that is supposed to force them to promulgate targets for total spending, revenues and the deficit—something that had not existed earlier. It also created the Congressional Budget Office (CBO). CBO gave the Congress a source of technical information on fiscal policy that reduced the dependence of the Congress on OMB. The act also severely limited a president's power not to spend monies that had been appropriated.

As a result, the president's budget proposals were no longer preeminent as a starting point for the debate over fiscal policy. Now the debate usually begins with reference to the CBO baseline, an extrapolation of the effects of current law on budget totals.

As noted above, the "Impoundment Control" part of the Budget and Impoundment Control Act reduces a president's ability to refuse to spend funds appropriated by the Congress. The Supreme Court further reduced it by declaring, unconstitutional, in *INS v. Chadha*, the act's procedures for allowing a president to defer spending.¹³ The president can still request a cancellation of budget authority, known as a rescission, but he or she must spend the money unless the rescission is approved by the Congress within 45 days. The Congress can ignore the president's request.

A seemingly minor change in the law would give the president more influence. The Congress could be forced to vote on rescission requests. If they turned down the request, they would be saying that they approve of programs that the president deemed wasteful. Given the ability to bargain over small programs, the president might gain more influence over more important budget issues as well. The Obama administration has requested this modest addition to a president's budgeting power (Liebman 2010). Other presidents have made the same request unsuccessfully. For a short time after the Congress gave the president the ability to veto line items in bills in 1996, President Clinton enjoyed even more power, but this legislative version of the line item veto was quickly declared unconstitutional.

As the role of the president in budgeting has diminished, the quality of presidential budgets seems to have diminished as well. They are often said to be "dead on arrival" when presented to the Congress. Flaws in budget preparation have played some role in that. Initial Reagan budgets were marred by very optimistic economic assumptions—the Rosy Scenario—and magic asterisks that promised large reductions in waste, fraud and abuse that Reagan's budget Director, David Stockman (1986), later admitted had no substantive basis. George W. Bush's budgets did not estimate the costs of the Iraq and Afghan wars initially and President Obama's budget for 2014

was about two months late, not being produced until early April.¹⁴ Democratic columnist William A Galston, commenting on Obama's 2015 budget says that it "is designed to rally his party's base rather than present a program with a realistic chance of enactment."¹⁵

I do not mean to imply that presidents are totally impotent with regard to budget policy. Presidents George H.W Bush and Bill Clinton used the reconciliation procedures created by the Congressional Budget Act to help pass major deficit reduction legislation. President George W. Bush relied on these same procedures to pass major tax cuts. Those procedures limit debate and so prevent filibusters in the Senate. President Obama passed the Affordable Care Act (ACA) using the same process. That shows that if a president goes all out on behalf of a single important initiative, he still has a lot of clout and some of it comes from tools created by the Congressional budget process. But those are exceptions.

It will not be easy for future presidents to enhance their influence over budgets relative to the influence of the Congress and to have their budgets taken more seriously. It would, however, help if they talked about their budget proposals more often in more venues and if they used the veto more vigorously to defend them.

Here the contrast between Eisenhower's approach to budgeting and those of his contemporary successors could be illuminating. Eisenhower held many more formal press conferences than modern presidents and budget issues arose at almost all of them. He vigorously defended his budget proposals and liberally used the veto to try to enforce them. In his eight years, Eisenhower used regular and pocket vetoes 181 times in defense of his budgets and other proposals. George W. Bush used the veto only 12 times and so far President Obama has used it only twice.

In the years following the Bush tax cuts and the ACA, the Congressional budget process has become dysfunctional, partly because of divided government as the Republicans took over the House in 2010 while the Senate remained in Democratic hands. Divided government has been

accompanied by an intensification of poisonous partisanship that any president would find hard to handle.

The Congress as a whole last produced a normal budget resolution stating goals for fiscal aggregates for fiscal 2009. An extremely modest agreement was reached for fiscal 2014 and 2015, but it was passed long after the 2014 fiscal year began. The Congress routinely fails to pass appropriations until after the fiscal year begins, thus creating uncertainty for suppliers of goods and services to government and making it difficult for the bureaucracy to rationally plan its activities (Joyce 2012).

However, the dysfunction of the Congress has not led to a strengthening of the president's budgeting power nor to increasing the influence of the president's budget. A small tax increase, severe limits on discretionary spending, and most importantly a slow, but steady recovery from the Great Recession have dramatically lowered deficit levels temporarily, but the nation's long-run deficit problem continues to fester. The modest, bipartisan budget agreement of December 2013 and the smooth passage of a debt limit increase in early 2014 may portend a better future, but only if presidents exercise a leadership role and take their own budgets more seriously as instruments of national policy rather than devices for political posturing.

Conclusion

Although the Eisenhower era was a very different time, some lessons from 60 years ago are relevant to today's fiscal challenges. The most important is that it was much easier to control total spending and to set rational priorities when discretionary spending dominated the budget and the Congress did not have to contend with extremely popular, automatically growing, large entitlements for the elderly. It is vitally important to invent policies and procedures that would exercise more control over entitlements, so that they look more like discretionary spending. That does not mean that more rigid controls always need to be used to cut spending. It only implies that any increases should be purposeful and not accidental. It also implies that

entitlements and discretionary spending would compete on a more level playing field. Moves toward austerity would less often concentrate almost all the pain on discretionary spending as has been the case in the past few years.

A more challenging task involves strengthening a president's ability to lead on fiscal issues, an ability that was weakened by the Budget and Impoundment Control Act of 1974. While there are minor changes in the process that could help a bit, the task must largely be left to presidents.

The budget document must be taken as seriously as it was in the 1950s and presidents must vigorously defend its policies. Recent presidents have rarely mentioned their budgets after they have been released in contrast to the attention given by Eisenhower in numerous press conferences and speeches.

There are other lessons as well. One is that a president need not lose popularity just because he fights hard to impose an austere, responsible budget.¹⁶ Another is that Congress and the president can have intense ideological battles without paralyzing government.

The most important ingredient that seems lacking now is the will to govern. Although strong in the past, it now seems absent in members of both political parties. That will must be renewed; the fiscal stakes are high, and time is running out.

Notes

1. A bipartisan budget agreement was passed in December 2013. But that was two months after the fiscal year began and the agreement did almost nothing to address our long-run fiscal problems.
2. At the time, the fiscal year began on July 1 and ended June 30. The budget figures used in this article are based on modern budget accounting concepts unless otherwise noted. In Eisenhower's time, the focus was on the administrative budget, a concept that did not include trust funds. During the period under discussion, trust fund deficits or surpluses were quite small.
3. *Washington Post*, February 7 and 10, 1959.
4. *Washington Post*, February 15, 1959.
5. *Washington Post*, February 20, 1959.
6. *Washington Post*, February 11, 1959.
7. The reported growth rates are based on the modern definition of national defense outlays. The \$39.2 billion refers to budget authority and the defense function was defined differently by 1959 budget accounting procedures.
8. Recent administrations have argued that IMF contributions should not be counted as outlays in the budget since the United States obtains Special Drawing Rights in return. I believe that the proper accounting treatment should use the techniques created by the Credit Reform Act of 1990. That is, the implicit subsidy, if any, should be computed by calculating a present value of the money flows that accounts for the possibility of the United States experiencing losses on the deal. Those accounting techniques were not required at the time. Given the cash flow accounting methods used in the 1950s, the acceleration of the payment was clearly a gimmick.
9. Offsetting receipts have been removed from Medicare and Medicaid outlays and from total spending. Those receipts consist of Medicare premiums and amounts paid by states for savings on Medicaid drug costs. The gross amounts used above for Medicare and Medicaid provide a better sense of the importance of the programs.
10. George Osborne, Chancellor of the Exchequer, "Spending Review", www.hm-treasury.gov.uk/spend_sr2010_documents.htm.
11. This goal was chosen before it was clear that Medicare cost growth would slow to the GDP growth rate over the period 2009–13. The slowdown is not fully understood and CBO has assumed that excess cost growth will return in the long run.
12. See Penner and Steuerle (2008) for a more detailed discussion of triggers.
13. *INS v. Chadha*, 462 U.S. 919 (1983).
14. Late Congressional action on important tax and spending matters provided something of an excuse for the tardiness, but it is hard to believe the budget could not have been adjusted for legislative changes over a shorter time period if the budget was taken more seriously.
15. "Four Year house Terms Would End the Gridlock", *Wall Street Journal*, February 26, 2014, p. A15.
16. Eisenhower's approval rating did decline toward the end of his presidency, but it is not clear how much of this dip was related to budget battles. In any case, he retained an approval rating that most presidents would envy.

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