

Providence College

DigitalCommons@Providence

Political Science Faculty Publications

Political Science

1986

Review of Hidden Spending: The Politics of Federal Credit Programs by Dennis Ippolito

William E. Hudson
Providence College

Follow this and additional works at: https://digitalcommons.providence.edu/political_science_fac



Part of the American Politics Commons

Hudson, William E., "Review of Hidden Spending: The Politics of Federal Credit Programs by Dennis Ippolito" (1986). *Political Science Faculty Publications*. 5.
https://digitalcommons.providence.edu/political_science_fac/5

This Article is brought to you for free and open access by the Political Science at DigitalCommons@Providence. It has been accepted for inclusion in Political Science Faculty Publications by an authorized administrator of DigitalCommons@Providence. For more information, please contact dps@providence.edu.

Hidden Spending: The Politics of Federal Credit Programs. By Dennis S. Ippolito (Chapel Hill, NC: University of North Carolina Press, 1984. 169 pages. \$19.95 cloth, \$9.95 paper.)

A few years ago Theodore Lowi described modern American government as the "state of permanent receivership." He was referring to the obligations represented in the growing use of loans and loan guarantees as instruments of public policy. Many scholars, like Lowi, have noted the recent expansion of federal credit programs, but with Ippolito's *Hidden Spending* we have the first comprehensive analysis of the scope of these programs. The book is an especially timely contribution to the budgetary literature in light of current controversies surrounding federal budget deficits. Ippolito reminds us that solutions to current budget and fiscal problems must not ignore the need to control "off-budget" spending and other such obligations of public resources.

Hidden Spending is both a scholarly analysis of federal credit programs and a polemic about the need for their control and restraint. As a scholarly analysis, the book presents a comprehensive and detailed account of the growth of credit programs, their current bewildering variety, the complex accounting procedures which have evolved to try to keep track of them, and the attempts of Congress and the last three presidents to control them. Ippolito encompasses the whole of federal credit activity from New Deal programs in housing (FHA, VA) and agriculture (FmHA) to the more recent "bail-outs" of Lockheed, New York City, and Chrysler. The clarity and completeness with which these matters are treated make the book essential reading for those interested in understanding the U. S. credit budget. As polemic, the book argues strongly that credit programs have evolved as deliberate "loopholes" which congressmen, federal bureaucrats, and their constituents utilize "to shelter programs that otherwise could not compete successfully for scarce resources" (p. xiii). Although the costs of these programs are hidden from normal budgetary and fiscal controls, they are substantial in both budgetary and economic terms. Ippolito offers a largely negative evaluation of the impact of credit programs (while acknowledging some benefits) and urges the creation of a "special commission on budgetary control" (p. 146) to restrain them.

For Ippolito, the politics of federal credit programs are fairly straightforward. Like most federal benefit programs, advocates establish small emergency programs which steadily expand as beneficiaries are added and benefits grow. However, unlike direct spending programs, credit programs are not constrained by budgetary considerations because they involve either no or relatively small initial outlays. Given little immediate impact on budget deficits or little need for additional revenue, "political incentives to oppose credit are weak" (p. 144). Credit programs are thus

the perfect instrument of interest-group liberalism; they offer a way to reward specific constituencies at little or no visible cost to anyone.

One of Ippolito's central tasks is to show the substantial costs actually associated with credit programs. Yet his review of attempts to control credit programs provides little optimism that these costs can be effectively restrained. One of the best parts of the book is its description of the creativity of credit program proponents in circumventing attempts at control. Whether it was in avoiding stricter controls on "participation certificate sales" by devising a new similar instrument called "certificate of beneficial interest" or in using the Federal Financing Bank to expand rather than restrain credit activity, bureaucrats, with the cooperation of Congress, have managed to evade effective control. According to Ippolito, the political incentives in favor of expanding credit are likely to undermine any attempt at procedural control. Reforms, such as incorporating a credit budget in the federal budget process, although he favors it, will not achieve significant restraint on credit. That can only come about through an exercise of political will to control credit expansion and federal spending generally. In his last chapter, Ippolito appeals to a new sense of fiscal responsibility as the best hope for credit control.

Although a major and useful contribution to the budgetary literature, *Hidden Spending* has two serious weaknesses. The first is Ippolito's failure to place the expansion of federal credit activity within the historical context of the American political economy. The most obvious example is his use of absolute instead of inflation-adjusted dollar amounts in his tables. In this instance, his polemical zeal exaggerates the relative expansion of credit activity, even though inflation-adjusted figures would have still shown real net growth. Along the same lines, it would be helpful to see comparisons with the growth of private sector and state and local credit activity. Some analysts would see the recent expansion of federal credit as a part of a credit binge affecting the entire economy over the past couple of decades.

A more holistic comparison to the entire political economy would also permit a more sophisticated political explanation of expanding credit. Certainly the "hidden" character of credit programs make them attractive to government officials seeking to provide benefits to constituents; but such an ahistorical explanation cannot account for the surge in credit activity in the seventies. A thorough analysis and explanation of this phenomenon needs to place it in the context of the economic challenges facing the United States beginning in the late 1960s. It may be that the growth of credit programs, most notably the famous "bail-outs," were in part early attempts to cope with the transformation taking place in America's economy. Something certainly created new demands for federal financial support during this period which should be examined if

credit expansion is to be understood. The role of Wall Street and the national financial community in encouraging credit activity receives little mention in Ippolito's book, yet as major beneficiaries of credit subsidies their role needs to be examined. The explosion of hidden spending in the federal credit budget needs to be tied to fundamental changes in the structure of American finance capital.

The book's second weakness derives from its normative bias. In portraying credit programs in a negative way, Ippolito demonstrates sharply their costs while giving short shrift to their benefits. A more balanced examination would find substantial public good resulting from federal credit programs. In fact, a case could be made that, in a society preoccupied with classical liberal notions of limited government, credit programs, like tax expenditures, are useful devices for pursuing important public purposes. Important societal goods, from higher education to housing to an efficient freight railroad system, which the free market alone would not support adequately, are encouraged. More direct public subsidy of such purposes might fail, as Ippolito suspects, in the face of the systemic ideological bias against government spending. Of course, some beneficiaries of credit programs are special rather than public interests, but in implying that they serve only special interests, Ippolito fails to offer a balanced view of federal credit activity.

William E. Hudson, *Providence College*

Organization Theory and Public Policy. Edited by Richard H. Hall and Robert E. Quinn. (Beverly Hills: Sage Publications, 1983. Pp. 304. \$25.00 cloth, \$12.50 paper.)

Students of policy processes frequently criticize the inadequate treatment of institutions and organizations in the study and practice of public policy. Government policies are formulated in organizational settings by organizational actors, are implemented by a complex system of interdependent organizations, and impact practically every existing organization. Organizational theory has evolved into a distinctive discipline, but, as the editors of this volume point out, its insights have had little effect on policy practitioners or theorists. The 1982 conference at the State University of New York at Albany from which the articles in this volume are drawn encouraged the application of organizational theory to public policy. While most of the articles do not specifically address questions in the public policy literature, many do apply several new developments in organization theory to a range of policy issues.

The most innovative theme in this volume is the emphasis on organizational systems rather than on individual organizations and their environments. Just as an organization's behavior is better understood as more than a sum of its members' activities, so also is the behavior of multiple

Copyright of Journal of Politics is the property of Cambridge University Press and its content may not be copied or emailed to multiple sites or posted to a listserv without the copyright holder's express written permission. However, users may print, download, or email articles for individual use.