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THE ROSE GARDEN BUDGET: A TAXING THORN IN REAGAN'S SIDE

Congressional conferees are struggling to reach a compromise on the complicated deficit reduction plan before Congress adjourns for the July 4 recess. If they fail before then, the plan may die. Given the way the discussions are headed, this may be best for the American people. While the tax boosting provisions of the bill are sailing through the Senate-House conference with ease, the critical problems on the spending side have not been resolved. If the House votes down Senate planned "caps" on spending, it will transform the President's deficit "down payment" initiative into little more than yet another tax increase, a grim replay of what happened with the 1982 "deficit reduction" package.

The Senate/Rose Garden version of the current plan (H.R. 4170) calls for $50 billion in tax increases, $40 billion in defense cuts, and $50 billion in non-defense cuts over the next three years. The House plan mandates nearly $100 billion in defense cuts, with a $40 billion non-defense reduction and $50 billion in tax hikes. Because it is difficult for the whole Congress to preempt the jurisdiction of its appropriations committees, specific program cuts are not made in either the House or Senate versions of the bill. Nor is there any guarantee they will materialize. The tax increases, on the other hand, are spelled out in detail, and will occur automatically once the bill is passed.

The House wants to rely on the traditional method of enforcing the spending cuts by writing the ceilings into the first concurrent resolution on the budget, in the hope that the appropriations committees will then make cuts in specific programs commensurate with these targets. History teaches, however, that such promises are generally empty political rhetoric. In fact, the FY 1985 HUD Appropriations bill currently before the House would break these very targets. To bind the appropriations committees to these targets, the Senate voted to include the specific budget ceilings, or caps, in the deficit reduction legislation. Unlike a budget resolution, this would make the caps legally binding.

The House is balking at the "cap" concept. Representative Jamie Whitten (D-MS), chairman of the House Appropriations Committee, maintains "you can't tie the Congress down or the country down for the future." Yet Whitten and others clearly feel that each Congress has the right to bind its successors to spend money on entitlement programs. If Whitten's logic is to be applied fully, future Congresses should not be required to accept the spending decisions of a past Congress, and all spending programs should have mandatory sunset provisions, so that they would not outlive any Congress.

Not only is the tax and spending package likely to be very one-sided, but there is scant evidence that it will have any significant beneficial effect on the deficit or the economy. The financial markets may already have discounted the effects of the present deficit reduction plan. Passage will not have a significantly positive effect on interest rates or stock prices. Unless Congress suddenly slashes a significant amount in FY 1985 non-defense spending from the Senate proposal, the package is unlikely to have any impact. The markets have caught onto the tax and spend game being played in Congress. Many analysts now believe that the market would react as negatively to the House sponsored "tax-only" bill as it would to no bill. Rigid and enforceable caps are a necessary signal that Congress is serious about its proposed spending cuts. The measure is toothless without them.

The House already has whittled down the Senate's $13.4 billion non-defense reductions to $9 billion. Clearly Senate conferees must insist on preserving the spending caps in the final legislation, or they must find another effective means of enforcement mechanism--such as the line item veto. If the conferees fail to do this, the momentum in Congress will carry to the President's desk a bill deserving presidential veto.

A veto, however, could destroy any prospect of significant spending reductions in the foreseeable future, and it would signal the failure of the political system to meet the task of slashing the deficit. To prevent this crisis, the Senate conferees must make enforceable spending caps a non-negotiable demand.

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For further information:

John M. Palffy, "Line-Item Veto: Trimming the Pork," Heritage Foundation Backgrounder No. 343, April 3, 1984.
John M. Palffy, "Dangers of the Deficit Reduction Plan," Heritage Foundation Backgrounder No. 341, March 26, 1984.
Michael J. Solon, "1985 Budget Resolution: Same Ole Song," House Republican Study Committee, June 8, 1984.
Letter from Albert D. Bourland, Vice President, U.S. Chamber of Commerce, to Congressional Budget Conferees, June 12, 1984.