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CHRISTMAS IN OCTOBER: WHY REAGAN SHOULD VETO THE CONTINUING RESOLUTION

INTRODUCTION

In his weekly radio address last Saturday, Ronald Reagan roundly attacked Congress's last minute spending bill, designed to keep the government operating past the beginning of the new fiscal year, starting October 1st. Denouncing the Continuing Resolution as a "Christmas tree hung with pet projects," Reagan has threatened to close down the government with a veto unless the bill is changed substantially.

Reagan is correct in using the veto threat. The $560 billion Continuing Resolution is the most expensive single piece of legislation in U.S. history. The bloated spending bill represents the grand culmination of nine months of congressional election-year budget posturing. It is a spending bill more in keeping with a $200 billion budget surplus than a $200 billion deficit.

The Continuing Resolution, which is a package of all thirteen annual appropriations wrapped together into a single bill, is objectionable on three counts. First, it is extraordinarily costly. Five of the individual appropriations bills contained in the continuing resolution exceed President Reagan's January spending requests by a total of almost $30 billion. The President must stand firm against such extravagance and veto the entire Resolution, if the Senate-House Conference agrees to any single appropriations bill that exceeds his original budget request.

Second, the Resolution is, in the words of Congressman Dick Armey (R-TX), "loaded with more pork than a Jimmy Dean farm." The budget bill includes such items as earmarked funds for keeping open obsolete military bases located in key congressional districts, thirty new multimillion dollar Corps of Engineers water projects, and a $100 million appropriation for Department of Interior road construction to benefit timber states in the Northwest. Such pork-barrel spending promises to add as much as $10 billion to the federal deficit.

Finally, the spending bill is replete with disturbing policy directives intended to deprive the President of many of his Executive Branch powers--virtually the only check on the congressional spending machine. These riders would: restrict the President's ability to contract out commercial services to private firms--although this would save money; prohibit the executive agencies from even studying possible savings from privatization; and constrain the President's deferral authority--an Executive Branch privilege since near the turn of the century. The purpose of these and other policy directives inserted in the Continuing Resolution is to place the executive powers of the most popular President in the last twenty years on automatic pilot. Unless these provisions are removed, Reagan has correctly vowed to veto the bill.

Reagan's failure to veto the Continuing Resolution, unless Congress radically alters it in the Senate-House Conference, would have adverse long-term policy consequences. Among them:

1) The bill amounts to a tax increase in 1987.

The only victory that Reagan can claim from this year's budget battle is that taxes have not been raised. But if the President signs the Continuing Resolution as it now stands, he will give credence to the claims of the big spenders in Congress that the budget has been cut to the bone and that the only deficit solution is a tax hike. Already Senate Budget Committee Chairman Pete Domenici (R-NM) and House Budget Committee Chairman William Gray (D-PA) are insisting on a tax hike in 1987. Reagan's successful opposition to new taxes in this year's budget will prove to be a hollow victory if he does not hold lawmakers' feet to the fire on spending by vetoing the Continuing Resolution. Signing the bill would play right into the hands of the pro-tax lobby in Congress.

2) The Resolution could sound the death knell of the Gramm-Rudman deficit law, and with it, any realistic hope of achieving a balanced budget.

The strategy of the Gramm-Rudman balanced budget act was to spread the pain of deficit reduction over a five-year period, so that heavy spending cuts would not be necessary in any single year. But unless the President forces Congress to make adequate budget cuts this year, the budget will have to be reduced next year by far more than the $35 billion planned under the Gramm-Rudman schedule. Congress will need to find an additional $25 to $40 billion in reductions to compensate for the fact that no cuts were made this year. That total of between $60 billion and $75 billion in cuts during a single year is likely to be far beyond the pain threshold of lawmakers. A veto would force Congress back on the Gramm-Rudman track to zero deficits.

3) The President's bargaining power in future budget negotiations will be seriously eroded.

The President's single most powerful weapon in controlling congressional spending is the veto. The mere threat of a veto can prod Congress to temper its spending behavior. But that threat is an effective means of shaping legislation only if the President actually employs the veto when Congress violates the conditions he has laid down. If, after publicly threatening over a dozen times during the past twelve months to veto any "budget busting spending bills," Reagan fails to strike down the most expensive bill in history, there is very little reason for Congress to believe Reagan's veto threats in the future.

HOW THE CONTINUING RESOLUTION BUSTS THE BUDGET

1) The individual appropriations bills do not conform to Reagan's budget priorities.

The thirteen appropriation bills contained in the Continuing Resolution alter fundamental Reagan Administration budget priorities. Put simply, defense has been severely slashed by Congress to avoid making domestic spending cuts. This has permitted legislators to increase spending significantly above the Reagan budget benchmarks for five domestic appropriations. Table 1 compares the Senate and House versions of these five individual appropriations bills with the Reagan 1987 budget. Reagan should veto the Continuing Resolution unless each bill is brought within White House targets.

2) The Resolution ends very few programs.

During the past two years, President Reagan has recommended the termination of 26 domestic programs with savings of more than $15 billion. Other than passing legislation recently to sell Conrail, the only program that Congress has voted to eliminate has been revenue sharing. If the deficit is to be brought permanently under control, Congress must bite the bullet and end wasteful programs. When Congress simply reduces a program's budget, these cuts result in one-time savings with little lasting impact on the deficit. Moreover, the coalition of administrators and beneficiaries supporting the program remains in existence to fight another day. Not surprisingly, those programs receiving budget cuts in one fiscal year often are the most likely candidates for budget increases in subsequent years.

TABLE 1
COMPARISON OF REAGAN BUDGET WITH
SELECTED HOUSE-SENATE APPROPRIATIONS
(Budget Authority)

Bill	Reagan Request	House Bill	Senate
Interior	$6.6	$8.2	$8.0
Agriculture	$28.6	$45.2	$30.5
Transportation	$7.0	$10.3	$10.2
Labor, Health, Education	$104.8	$103.7*	$113.7
Housing	$45.5	$54.0	$53.4

*Excludes appropriations for some programs not yet authorized.
Source: Congressional Quarterly

Thus President Reagan must insist that Congress eliminate more programs before he signs the budget bill. There are several obvious candidates:

The Economic Development Administration (EDA) ($275 million appropriated for FY 1987): The EDA is a multimillion dollar public works program that has never been shown to create any net new jobs. The EDA has had delinquency rates on its loans of up to 40 percent.

The Legal Services Corporation ($300 million): The Legal Services Corporation has become increasingly involved in public advocacy issues, rather than in pursuing its original mission--providing basic legal counsel for the poor. Only 4 percent of the nation's poor have ever received legal services assistance.

Impact Aid, Part B ($130 million): These funds "reimburse" local governments for the cost of educating the children of those military personnel who live off base and pay local property taxes. The payments allow jurisdictions already benefiting from military bases to collect a further windfall payment from the federal government.

The Work Incentive Program (WIN) ($200 million): WIN job placement programs have enormous administrative costs, compared with the program's benefits. WIN should be eliminated and replaced with a "work for welfare" program, modeled after successful plans in California, Massachusetts, and other states.

U.S. Postal Service Subsidies ($650 million): The federal postal subsidy finances low-price postal rates for "preferred mailers," including nonprofit groups and magazine publishers. As the Office of Management and Budget notes, the subsidized mailings only encourage "advertising and commercial solicitation of product services at the taxpayers' expense."

Housing and Urban Development (HUD) Rental Housing Development Grants ($225 million): The cost per unit of this housing program has been estimated at $76,400 by the Office of Management and Budget. A housing voucher program would cut costs by more than half. Moreover, new construction programs make little sense, given the President's Housing Commission finding that the low-income housing problem is one of affordability, not supply.

HUD Rental Rehabilitation Grants ($250 million): This program is expensive, poorly targeted, and duplicates the Community Development Block Grant, which provides cities with over $1 billion each year for housing rehabilitation. Moreover, the $250 million appropriation is triple the 1986 spending level.

Small Business Administration (SBA) Direct Loans ($170 million): The default rate on SBA direct loans is nearly 30 percent; continued funding of a program with such a poor performance record is unjustified and does little to foster new enterprises. Congress also should reduce the SBA's $2 billion guaranteed loan program authorization, which assists less than one percent of all small businesses. In fact, the formation rates of new, small businesses bear no relationship to the level of SBA loan finance.

Amtrak Subsidies ($590 million): Studies show that over the first ten years of federal ownership, Amtrak cost federal taxpayers $12 billion. Amtrak passengers--typically middle class Americans rather than the poor--are subsidized by an average of more than $30 per ride.

Urban Mass Transit Discretionary Grants ($1,000 million): The Administration proposed ending these discretionary transit funds and replacing them with a transportation block grant, which would give cities greater flexibility in developing their transit systems. Congress ignored that proposal. The discretionary grants system has encouraged cities to begin building multimillion dollar rail systems that are underused by commuters.

3) Many domestic programs will receive significant spending increases in 1987.

The claim made by congressmen that there is no room for further spending cuts on the domestic side of the budget is just not true. Not only have legislators ignored the President's requests for program terminations, they have also hiked spending for most other domestic agencies above the level recommended by the White House. Dozens of programs will receive healthy spending increases in 1987, if the Continuing Resolution is not overhauled.

Table 2 contains a sample list of programs scheduled in either the House or the Senate version of the Continuing Resolution to receive appropriations at least $100 million above the President's budget. As the figures indicate, there is still plenty of room for domestic spending cuts. The President should require Congress to prune spending levels in each of these programs before he agrees to sign the Resolution.

TABLE 2
SELECTED PROGRAMS THAT EXCEED THE REAGAN SPENDING REQUEST BY MORE THAN $100 MILLION

Program	Amount Above the Reagan Request
EPA Construction Grants	$600 million
Veterans Medical Benefits	$400 million
Internal Revenue Service	$150 million
Health Resources and Services	$330 million
National Institutes of Health	$1,220 million
Job Training and Employment	$860 million
Corporation for Public Broadcasting	$100 million
All Department of Education Programs	$3,000 million
Federal Highway Aid	$1,030 million
Airport Improvement Program	$280 million
Fossil Energy R & D	$160 million
Energy Conservation	$240 million
Federal Land Acquisition	$100 million
Agricultural Conservation Programs	$340 million
Agricultural Extension Service	$180 million
Strategic Petroleum Reserve	$140 million
Indian Health	$110 million
Urban Mass Transit Formula Grants	$810 million
Total above Reagan Request	$10,050 million

Source: Office of Management and Budget

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4) The bill includes objectionable policy directives that strip the President of his proper Executive Branch powers.

Both the House and the Senate have inserted into the Continuing Resolution dozens of little noticed policy statements and regulations, which would limit the President's power as chief administrator of the federal agencies. In many cases these are attempts by Congress to micro-manage the spending of federal funds. Not only are they objectionable on constitutional grounds, but they also could cost taxpayers billions of dollars. These policy directives should not be hidden as riders on huge appropriations bills. Each involves a fundamental and long-term change in the relationship between Congress and the Presidency and therefore needs separate debate and legislation.

Restrictions on Contracting Out: Language in the Senate agriculture bill contained within the Resolution prohibits the contracting out of debt collection for seriously delinquent loans administered by the Farmers Home Administration; language in the House and Senate Treasury Bill prohibits the General Services Administration from contracting out such activities as janitorial work. Yet contracting out commercial services, such as debt collection, typically saves taxpayers about 20 to 30 percent of the cost. At a time of fiscal restraint, Congress should be vigorously promoting contracting out--not restricting it.

"Gag Rules" on Privatization: The Continuing Resolution would bar the Office of Management and Budget from studying Power Marketing Administration privatization and repricing plans, from assessing the feasibility of selling the federal uranium enrichment plants, and from finding ways to sell the Naval Petroleum Reserves--even though Congress already has agreed to the sale in 1988. This "know nothing" strategy is like a bankrupt firm deciding to fire its accountant. Congress evidently wants to prevent itself or the American people from ever learning of the potential taxpayer benefits of privatization by preventing OMB from undertaking feasibility studies.

Prohibitions against Job Corps Center closings: The House Labor Appropriations Bill would prevent the President from closing any Job Corps Centers, even when a center is not successful. Thus it would prevent the government from utilizing private job training groups as a more cost-effective alternative.

Limitations on the President's deferral authority: The House version of the Continuing Resolution repeals the President's power to defer funds appropriated to the Department of the Interior. When the President defers spending, he withholds appropriated funds until the next fiscal year. The U.S. Chamber of Commerce has calculated that the deferral power has saved taxpayers tens of billions of dollars over the past thirty years. Any congressional efforts to restrict this basic presidential authority should be strenuously opposed. If the deficit is ever to be tamed, Congress should be increasing the President's powers over the purse--not acting to restrict the few powers he has.

SHOULD REAGAN CLOSE DOWN THE GOVERNMENT WITH A VETO?

A presidential veto of the Continuing Resolution would risk shutting down the government for lack of funds when the new fiscal year begins on October 1st. This would not affect the military and other essential services, but it is still a step that everyone wishes to avoid. It would be the sign of a breakdown in the budget process.

Yet there are several reasons why the President should not allow the possibility of a government shutdown to deter him from vetoing a fiscally irresponsible budget. First, it was Congress's choice, not the President's, to bundle the entire fiscal year 1987 budget into a single bill. It was also Congress's choice, not the President's, to delay serious budget negotiations until the week before the start of the fiscal year. If Reagan must veto that bill to eliminate a host of objectionable items, it will be the fault of Congress if the federal government is brought to a temporary standstill.

Second, a failure to veto the Continuing Resolution would only encourage Congress to resort to future massive Continuing Resolutions in order to circumvent presidential policy recommendations and budget targets. The very reason Congress turns to the Continuing Resolution is that the bill is assumed to be veto-proof. Reagan should prove Congress wrong on that count, if only to encourage more timely and responsible budgeting in the future.

Finally, a veto of the Continuing Resolution would contribute significantly to the growing recognition that the President must be given a line-item veto if sound budgeting is ever to return to Washington. This year's budget debacle has stimulated support for such a veto. As the New York Times--a long time opponent of the line-item veto--editorialized recently on the $560 billion Continuing Resolution: "No President should be forced to swallow all that at once. Such irresponsible packaging only reinforces the case for a line-item veto." The case would be made even stronger if Reagan were to veto the entire bill.

CONCLUSION

Two weeks before President Reagan released his fiscal year 1987 budget, Congress derisively insisted that that document would be "dead on arrival." And throughout the past nine months of budget proceedings, Congress has completely ignored the White House budget. It is time for the White House to return the compliment. Seldom has the President been forced to play so limited a role in determining the final composition of congressional spending bills as has Reagan this year. The President should turn the tables on Congress by declaring its budget "dead on arrival," and vetoing it. With that single action, Ronald Reagan could reassert his proper leadership role in the budget process--to the benefit of taxpayers and lawmakers alike.

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