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## WITH THE VETO, REAGAN CAN SALVAGE THE BUDGET

(Updating Backgrounder 443, "Reagan's Trump Card: The Veto," July 8, 1985)

The Budget Resolution that won easy Senate approval earlier this month was best described by Senator William Armstrong (R-CO). "Ronald Reagan won the election," said Armstrong, "but we are ending up with a Fritz Mondale budget." He is right. The bill collides squarely with every important element of the Reagan budget agenda: it would raise \$13 billion in new revenues for FY 1987; it would slash Reagan's defense request by \$19 billion; and it would leave domestic spending virtually unscathed. Now that the House has also passed a resolution with a similar pro-domestic spending tilt, this year's budget process is off to one of its shakiest starts in years. With the Administration's budget ignored by the President's own party, it is clear that this year's budget battle will ultimately come down to a contest of wills between Ronald Reagan and Congress.

Both the Senate and House versions of the Budget Resolution call for \$13 billion in "unspecified revenue increases." This is a polite way of saying new taxes. Both cut defense spending: the Senate proposal cuts \$19 billion and the House version a perilous \$35 billion from the President's request. Finally, both budgets would terminate only two domestic programs: general revenue sharing and Conrail. This is the third consecutive year that budget resolutions have called for zeroing out revenue sharing, and yet it still exists. And the sale of Conrail faces an uphill journey.

The objective of the Budget Resolution is to inject discipline and spending restraint into the budget process by establishing overall spending targets. This seems to have been forgotten in the shuffle. What is worse, this year's Budget Resolution is tantamount to an admission that Congress will not bother to try to make sensible cuts in domestic programs--lawmakers just want more tax dollars so that they can avoid having to disappoint interest groups in an election year.

To force the budget back on the right track, the Administration must pursue a three-point strategy:

1) The President must reaffirm convincingly his intention to veto any bill that includes a tax increase, no matter how skillfully disguised. Reagan has promised this in the past, but since the passage of Gramm-Rudman, a mounting suspicion has emerged on Capitol Hill that in the end he will accept new taxes. This dangerous misperception must be laid emphatically to rest. The most powerful feature of the veto, after all, is that by brandishing it, the President can shape policies as they are being made by Congress. House Democratic leaders already have admitted that they will not push for new taxes if Reagan continues to reject tax hikes. By threatening the veto, Reagan can derail the tax-hike movement before it gets off the ground.

2) Reagan should vow to veto any appropriations bill that exceeds the benchmark levels in his budget. So doing, Reagan can hold Congressmen accountable to his budget, not theirs. This may also revive Reagan's January domestic spending cut proposals.

3) The Office of Management and Budget should step up its support of privatization and, to a lesser extent, user fees as a means of quenching Congress's thirst for new revenue. By moving federal functions into the private sector, Congress could cut costs and raise revenue while permanently reducing government's size.

Congress may be waking up to the privatization idea. For instance, even the House Budget Resolution recommends selling over \$2 billion of the federal college education, rural housing, and Small Business loan portfolios. It also advocates user fees for about ten programs. Both initiatives deserve encouragement. The loan portfolios to be sold would be managed and collected more efficiently by commercial banks and private collection agencies, and these efficiency gains would be reflected in the price paid to the federal government. The sale of other federal assets already proposed by the Administration--such as the Naval Petroleum Reserve, Amtrak lines, weather satellites--could raise twice the revenue that Congress wants. Privatization, therefore, warrants an all-out push by President Reagan.

By adopting budget resolutions with large tax increases, the big spenders in Congress have won the first battle in this year's budget showdown. But if Ronald Reagan is prepared to use his veto power, he can still pull out a budget victory consistent with his spending priorities.

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