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Backgrounder
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AN EIGHT POINT PRESIDENTIAL AGENDA FOR THE BUDGET SUMMIT

(Updating *Backgrounder* No. 591, "New Taxes to Cut the Deficit: Another Congress Bait-and-Switch Ruse," July 6, 1987.

In hopes of calming the American and world investment communities, Ronald Reagan met today with Democratic and Republican congressional leaders to hammer out a deficit reduction compromise. This budget summit and its follow-up session offer the White House an ideal opportunity to turn the tables on Capitol Hill's big spenders. Reagan can do so by demanding from Congress major concessions on spending before he will agree to even consider any tax increase.

Reagan's Ace in the Hole. The President holds an ace in the hole: the automatic $23 billion across the board spending cut that will be triggered by the Gramm-Rudman-Hollings (G-R-H) budget law. This takes effect unless the budget summit process produces an alternative deficit reduction package. Half of the G-R-H spending cuts would come from the defense portion of the budget, and half would come from domestic programs. Congressional big spenders desperately want to avoid this sledge hammer, known technically as a "sequester," from falling on their favored programs.

Of course, the tax and spend lobby in Congress is banking on the President never allowing the G-R-H sledge hammer to fall, because of its impact on defense programs. But they may have miscalculated badly. The White House is all too aware that real defense spending over the last two years has declined by 6 percent. But the White House also recognizes that with or without a sequester, the defense budget is going to take a large hit this year. Current estimates are that under Congress's latest budget blueprint, defense will receive at most $4 billion more than it would with a sequester. This means that the President's military agenda would fare only marginally worse under G-R-H cuts.

An across-the-board spending cut, meanwhile, may prove to be far more in line with the President's other budget priorities than most plans Congress is likely to offer. The reason: at least it ensures about $11.5 billion in domestic program cuts. Most important, a sequester does not require raising a penny of new taxes.

Hence, if lawmakers refuse to bring major domestic spending cuts and vital budget procedural changes, such as a line item veto, to the bargaining table during the summit process, the President simply can choose Gramm-Rudman-Hollings spending cuts. He need not agree to a tax hike that well could send the financial markets into a further downward spiral.

At the Administration-Congress budget meetings, the White House can bargain from strength, confident that it can fare no worse than a sequester if Congress refuses to meet its budget demands. The White House negotiating team should pursue an eight-plank agenda which requires:

1) Freezing Domestic Spending.

All domestic spending programs should be frozen at fiscal 1987 spending levels. This would avoid over $20 billion in growth projected by the Congressional Budget Office in nondefense discretionary spending in fiscal year 1988. If Congress is truly concerned about the deficit, at a minimum it must hold all domestic spending at last year's level.

2) Enacting Spending Cuts Immediately.

All negotiated spending cuts must take effect in fiscal year 1988, not in future years. They also must be enforceable. The President has been burned several times by accepting a tax increase in exchange for putative future spending cuts that never materialized. To avoid this trap, the White House team must insist that all negotiated spending cuts occur in fiscal year 1988.

3) Cancelling Programs.

Spending programs are like weeds; unless they are uprooted totally they grow back to their same size next year. If the White House hopes to gain more than temporary spending restraint from this budget summit it must insist that Congress abolish, rather than merely trim, some of the more than 40 programs that the President has recommended ending.

4) Forcing the House of Representatives to Vote on the Balanced Budget Amendment.

The White house should insist that House Speaker Jim Wright promise to allow a House vote on a constitutional amendment requiring a balanced budget. Public opinion polls reveal that 80 percent of the American public support this amendment. Yet the House leadership, which repeatedly decries Reagan deficits, is blockading even a vote on the balanced budget amendment.

5) Insisting on a Line Item Veto

Any discussion of raising new revenues must be coupled with congressional approval of a line item veto. This was a compromise contemplated earlier this year. A line item veto, a device already used by 42 governors to pare wasteful spending in state capitals, would enable the President to block spending boosts in individual programs. At present, the President only can veto an entire bill, often containing hundreds of programs.

6) Preparing a Package of Non-tax Revenue Raisers.

The White House team should offer Congress a package of acceptable revenue raisers that could be substituted for a tax increase. This should include about $5 billion in user fees; about $20 billion in the sale of such federal assets as loans and the Naval Petroleum Reserves; and a reduction in the capital gains tax from 28 percent to 15 percent, which would raise approximately $4 billion in revenues. All of these alternatives would stimulate economic growth while raising revenues and thus help calm Wall Street jitters.

7) Pushing for Entitlement Spending Reforms.

The White House should welcome this budget summit process as an opportunity to break the entitlements deadlock. Federal spending on entitlements, which includes welfare programs, Social Security, and Medicare, has climbed by over $100 billion since 1982, or by 25 percent. This is the source of the federal deficit. Though Reagan has refused to discuss Social Security reform, a top priority of the summit process should be to reach a long term nonpartisan agreement to cut spending on the remaining entitlements.

8) Making No Concessions for the Sake of an Agreement.

Most important, to maintain its strategic bargaining position, the White House must be ready to walk away from the summit bargaining table and allow the Gramm-Rudman-Hollings sequester device cut $23 billion from spending if Congress refuses to make acceptable concessions. Congressional leaders are said to be confident that the White House will retreat from its long-held budget priorities to avoid an impasse, because of the unsettling signals this might send to Wall Street. The White House must convince congressional summiteers that they are wrong. Only then will Congress bargain.

Clearly, Wall Street wants to see the federal deficit cut. However, if the President were to affirm that he will vigorously enforce Gramm-Rudman cuts, something about which there is skepticism, then the financial markets will be assured of $23 billion in deficit reduction this year. This would bring the deficit down to $144 billion, or almost $80 billion less than its level just two years ago. The stock market may respond more positively to this outcome than to a combination of steep tax hikes and phony budget cuts, which is the package Congress so far seems to prefer. The stock market has always responded very positively to Gramm-Rudman-Hollings. It climbed 23.97 points the day after the law was originally enacted in 1985 and 42.92 points just after it was fixed in 1987. It dropped a then record-breaking 61.87 points the day after the law was ruled unconstitutional in 1986.

Ronald Reagan's economic agenda is not flawed. On the contrary, it has created the longest period of U.S. peacetime sustained economic growth in this century. Last year inflation reached its lowest level in two decades and remains very low this year. Similarly, unemployment has slipped below 6 percent for the first time in eight years; many regions now complain of a labor shortage. Even the deficit is being brought under control; in 1988 it will be at least 35 percent below its 1986 level.

While the President was correct in trying to pump confidence into the nervous financial community by calling together a budget summit, this does not require the White House to change radically the direction of its budget priorities. Rather, the budget summit process is an opportunity to force Congress to restrain its excessive spending behavior. If legislators refuse to yield on this point, there is no alternative but to let the Gramm-Rudman-Hollings sledge hammer conduct the dirty work for them.

Stephen Moore
Grover Hermann Fellow in
Federal Budgetary Affairs*

After completing this study, Mr. Moore began a brief leave of absence from The Heritage Foundation to serve as Research Coordinator for the President's Commission on Privatization.