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THE NATIONAL ECONOMIC COMMISSION: A TAX-HIKE TROJAN HORSE

As part of the budget agreement struck between the White House and Capitol Hill last December, Congress created a bipartisan National Economic Commission to examine ways of reducing the federal deficit. The twelve-member Commission, co-chaired by Democrat Robert Strauss, the former chairman of his party, and Republican Drew Lewis, the former Transportation Secretary, is to report after the November election. When the Commission was established, critics warned that inevitably it would become the Trojan horse for a post-election tax-hike attack on the American people. The activities of the Commission so far indicate that this fear was well justified.

The Commission, for instance, has used a loophole in the federal "sunshine act," the law requiring commissions to hold their meetings in public, to conduct sessions behind closed doors. Only press criticism, and a Senate Resolution by William Roth, the Delaware Republican, recently forced the Commission to promise that future meetings would be open.

Stacking the Deck. It is little wonder the Commission did not want the American people to view its deliberations, since its assumptions and procedures have been laying the groundwork for only one possible recommendation — a massive tax increase. For instance, the Commission staff has stacked the deck by using a computer simulation of the United States federal budget that assumes it is virtually impossible to balance the budget without a tax hike. The reason: huge spending increases already are built into the model, and so spending cuts have little impact on the deficit. Yet the model assumes that each dollar of new taxes will reduce the deficit by one dollar, despite the findings of a recent study that during the last forty years every dollar of new taxes has been accompanied by $1.56 in extra spending. History thus teaches that new taxes increase the deficit. As taxes have been raised, Congress simply has spent every new dollar collected — and more.

The list of witnesses invited by the Commission leadership and staff, meanwhile, has been biased heavily in favor of a tax hike. This has led one member, Dean Kleckner, President of the American Farm Bureau, to complain publicly about the pro-tax bias of the Commission. Other members, including Representative William Frenzel, the Minnesota Republican, and former cabinet secretaries Caspar Weinberger and Donald Rumsfeld, have criticized higher taxes to cut the deficit. Most NEC members, however, have indicated that they would accept or welcome a post-election tax hike recommendation. Kleckner also has complained that neither co-chairman has agreed to his request for an analysis of the economic impact of the tax proposals put before the Commission. The Commission's model assumes that a tax increase would have no damaging effects on economic growth. Few economists would accept this as sound analysis.

Ignoring Spending Cuts. The Commission has shown no serious interest in any proposals to cut the deficit by controlling spending. It has ignored, for instance, the more than 70 recommendations of the bipartisan Presidential Commission on Privatization for major reductions in the deficit through such policies as increased use of private contractors for delivering federal services and sales of federal assets. Similarly, the Commission has given no consideration to proposals to cut the growth in spending by reforming the runaway congressional budget process, such as introducing a line-item veto for the President.

The only hint of an interest in spending reduction came recently in a remark by Robert Strauss that the Commission might examine Social Security. Not surprisingly, in an election year, this precipitated a storm of opposition. Of course Strauss, a veteran Washington insider, hardly could have been surprised at the reaction. But such a "trial balloon" on Social Security allows the Commission cynically to declare in its final report that it has considered both spending cuts and tax increases and has concluded that cuts are politically impossible.

Political Cover. Ronald Reagan, both presidential candidates, and then the new President should explain to the American people that the National Economic Commission is not acting as was intended by Congress. Instead, over the objections of some of its members, it has converted itself into a National Tax Increase Commission that will give political "cover" for lawmakers to vote for a major tax hike next year. Despite the NEC's bipartisan makeup it is extremely partisan in its enthusiasm for taxes and disdain for any real slowdown in spending. Congress should be reminded that, according to recent figures from the Congressional Budget Office, if Congress simply holds the rate of increase of government spending to below 4 percent, continued healthy economic growth would eliminate the deficit by 1993. By painful contrast, a tax increase would threaten the economic expansion, remove all restraint on spending by lawmakers, and thus open the spigot of federal red ink.

When the Commission's co-chairmen present the new President with their report, if it turns out as it appears it will, he should have only one response. He should thank them politely and ignore it. No new President should start his Administration by inviting in a Trojan horse.

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For further information:

Richard Vedder, Lowell Gallaway, and Christopher Frenze, *Federal Tax Increases and the Budget Deficit, 1947-1986.* Report submitted to Republican Members of the Joint Economic Committee of Congress, 1987.

Paul A. Gigot, "Sun Never Shines On Men Who May Raise Your Taxes, *The Wall Street Journal,* September 16, 1988.

Stephen Moore, "A Budget Summit to End the $100 Billion Spending Spree," Heritage Foundation *Executive Memorandum* No. 202, May 25, 1988.