UPDATE

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Backgrounder

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WATCH BUSH'S LIPS: ARE THEY QUIVERING ON NEW TAXES?

(Updating *Backgrounder* No. 201, "Breach of Faith: The Tax Package," August 7, 1982.)

No phrase of the 1988 presidential campaign has been better known than George Bush's "Read my lips: no new taxes." This, he pledged to the American voter, would be his response if Congress would "push me to raise taxes." In the campaign, when asked whether there were any exceptions to this position, Bush vowed: "I will not raise taxes – Period." Not surprisingly, opinion polls have found that Americans regard Bush's "no new taxes" pledge as his primary election mandate.

So far, George Bush's lips have remained sealed. Yet hints of quivering may be appearing. Under predictable pressure from a chronically spendthrift Congress unwilling to cut spending, White House officials are saying that they cannot rule out new taxes next year. Indeed, some Bush aides even are trying to rewrite campaign history, insisting that Bush meant only he would not raise taxes "in his first year." This, of course, is not what Bush meant and not what Americans understood him to mean. If he thus were to raise taxes any time during his term, he would be breaking faith with the American people. And if that were not enough, raising taxes would lift the remaining pressure from Congress to cut spending, making federal deficit reduction even harder to achieve. Bush should remember the lessons of Ronald Reagan's term of office. Reagan dominated budget policy in 1981. But in 1982 he bowed to Capitol Hill pressure, agreeing to a $100 billion tax increase. The result: Reagan lost forever the initiative on spending and in 1986 the deficit was at almost the same level that the Congressional Budget Office had projected would be the case before the tax hike was passed in 1982.

Reining in Spending. Instead of trying to fudge his "no new taxes" pledge, Bush should return to the central theme of his original budget strategy – the "flexible spending freeze." This strategy involved holding overall spending growth to about 4 percent annually over the next four years, allowing the federal budget to remain on the Gramm-Rudman-Hollings track without an increase in taxes. Under the plan, spending can rise modestly and a balanced budget can be achieved, because tax receipts are climbing by an unprecedented $85 billion per year thanks to the burgeoning economy.

Yet in April, Bush agreed to a budget package that completely abandons the flexible freeze strategy and relies instead almost exclusively on accounting gimmicks. This budget "saves" money by such sharp bookkeeping ploys as simply moving programs "off budget" and shifting payments to another fiscal year. Under this plan, domestic discretionary spending authority, the category of spending containing much of the waste in the budget, would rise by almost 6 percent next year, rather than be held to last year's level, as proposed in the Bush budget. Because the plan contains almost no true spending cuts, it is expected to leave Congress some $60 billion shy of the Gramm-Rudman-Hollings target for fiscal 1991. It is this anticipated shortfall that is generating intense pressure on Bush to accept a substantial tax increase next year.

Last Resort Option. Instead of giving up on his no-tax pledge, Bush should give up on this flawed budget agreement. When this summer's revised deficit and economic forecasts for fiscal 1990 are made, Bush should declare that this year's budget accord will not reach the Gramm-Rudman-Hollings target and demand that Congress cut spending by an additional $10 billion to $20 billion. If Congress refuses, Bush should remind lawmakers that he has the power to trim the budget unilaterally by pulling the Gramm-Rudman-Hollings sequestration trigger.[1] Sequestration automatically would cut all programs except entitlements by about 3 percent to bring the deficit down to the fiscal 1990 target of $100 billion. Although these spending cuts would reduce spending for many high priority programs, including national defense and law enforcement, and therefore should be only a last resort option, an across-the-board sequester may be the only method of truly cutting the budget if Congress refuses to cut the fat. Bush would be wise to resubmit his original budget to Congress at that time, as a take-it-or-leave-it alternative to sequestration.

In addition, Bush should counter talk of a tax increase by pressing even more vigorously for several key elements of his agenda. His proposed cut in the capital gains tax, for instance, actually would raise revenues by spurring investment, job creation, and entrepreneurship. These new revenues could slice $5 billion to $10 billion off the deficit. Similarly, Bush should turn up the political heat on lawmakers by demanding line-item veto authority, the tool that 43 state governors have used effectively to cut state budgets.

Merely by hinting that he may agree to a tax increase next year, Bush gives legislators no reason to consider serious spending cuts. To regain the initiative, Bush immediately must reaffirm his commitment to veto new taxes. Just as important, he must remember the lessons of Ronald Reagan's first term: to control the budget agenda, he must not capitulate on taxes, as Reagan did in 1982. That will do nothing to curb the deficit.

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1 See Daniel J. Mitchell, "Sequestration: Gramm-Rudman's Potent Weapon for Spending Restraint," Cato Institute *Policy Analysis* No. 119, April 24, 1989.