THE BUDGET SUMMIT AGREEMENT: PART IX WHAT NEXT?

Several hours ago the House of Representatives rejected the budget summit agreement – and with good reason. Yet the debate revealed a fundamental misunderstanding about the package. The proposed budget would not have cut the deficit by cutting spending and raising taxes. It would have increased both spending and taxes. And then it would have opened the door for even larger increases in the future. Further, the economic damage wrought by such a package would have reduced revenues to Treasury. The result: The budget deficit would have increased.

The vote against the budget summit agreement was not a major defeat for George Bush. The agreement itself was a defeat for Bush's central campaign promises: continued economic growth and no new taxes. The repudiation of the summit budget is a victory for Bush because it offers him an opportunity to resolve the budget problem while keeping his promises intact.

The question now is, what next?

There are a number of approaches vastly better than the summit agreement. The best is the so-called "Four Percent Solution." This plan involves no new taxes. It calls for no program cuts. It would allow spending to increase by 4 percent over the previous year, that is, at the approximate rate of inflation. This would balance the budget by 1994. For greater deficit reduction, defense spending could be frozen at the levels agreed to by the budget summiteers.

If Congress and the Administration find that a 4 percent annual growth in spending pinches too tight, then they may consider a 6.5 percent solution. This allows non-defense spending to climb 6.5 percent per year; this roughly is the level agreed upon by summiteers. This would balance the federal deficit by 1995. The only thing that would sabotage these budget-balancing schedules would be a tax increase which strangles economic growth: A 6.5 percent solution would allow non-defense spending to grow greatly in excess of the rate of inflation. It would not be a cut at all.

Attacking Waste. Congress too finally should attack the waste and unnecessary spending in the federal budget. The summit agreement made no attempt to do so. The summit package did not cut funding for programs or shut down programs that serve no national interest. The Heritage Foundation has identified a potential $130 billion in cuts that would lower the budget deficit and eliminate the need for higher taxes.

By raising taxes and pushing the country into a recession, the summit agreement would have resulted in higher outlays for such programs as unemployment and food stamps, less revenues in the Treasury, and therefore a higher budget deficit. A new budget agreement should contain real policy reforms to promote economic growth, which is the best way to generate revenue. One way to do this is to cut the capital gains tax rate. This would not be a break for the wealthy. Economic statistics long have proved that a capital gains tax cut is used mainly by middle class Americans selling their homes or their farms or their small businesses. Cutting the capital gains rate, moreover, would trigger business activity that would bring in billions of dollars of new tax revenues. Bush said at a press conference that "if Congress really wants economic growth and increased revenues, the place to start is not with tax increases but with incentives for growth, investment — and jobs."

Vital Programs Secure. If Bush and Congress allow the Gramm-Rudmann-Hollings sequester automatically to cut federal outlays, it need not be a disaster. First, most government programs that directly help people are exempt from the sequester. Social Security, Medicaid, food stamps, and the Women, Infants and Children program are not touched. Second, Congress can shuffle the mix of cuts, for example, fully funding air traffic controllers and health inspectors while cutting back further in less vital programs.

If sequester is distasteful to lawmakers, they could pass what is called a continuing resolution. This continues into next year the current year's spending levels. This would produce significant real savings while allowing the government to continue to operate. While there are, of course, some problems with a continuing resolution, it is much better for the economy than last weekend's budget summit package.

If Congress refuses to cooperate with the President, George Bush can use the 1870 "Antideficiency Act." Carter Administration Attorney General Benjamin Civiletti maintained that this act gives the President the authority to incur obligations in advance of appropriations by Congress for the safety of life and the protection of property. This would mean, for example, that the President could allow air traffic controllers and health inspectors to remain on the job while Congress considers the budget.

The budget summit agreement went down to defeat, as well it should have. The President now has the opportunity to keep his pledge of economic growth and no new taxes. Congress has the opportunity to craft a budget that — unlike the summit agreement — does not increase programs and taxes. It is possible to balance the federal budget in the next half-dozen years without raising taxes and without gutting programs.

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For further information:

Scott A. Hodge and Robert Rector, "The Budget Summit Agreement: Part III, No New Taxes Needed," Heritage Foundation *Backgrounder Update* No. 142, October 3, 1990.

Scott A. Hodge, "Rx for the Federal Deficit: The Four Percent Solution," Heritage Foundation *Backgrounder* No. 787, September 4, 1990.

Scott A. Hodge, "A $130 billion No-Tax Prescription for the Budget Deficit," Heritage Foundation *Backgrounder* No. 772, May 31, 1990.