IN THE FEDERAL BUDGET GAME, REAGAN HOLDS THE BEST CARDS

Ronald Reagan is under mounting pressure from congressional leaders to agree to a "budget summit" to build bipartisan support for the fiscal year 1988 budget. After the now annual declaration that the President's budget is dead on arrival on Capitol Hill, Democratic lawmakers, led by the new Senate Budget Committee chairman, Lawton Chiles of Florida, want the White House to agree to a "grand compromise." In this, Congress supposedly would agree to some spending reductions while the White House would give in and accept tax increases.

Here they go again. In 1982, Reagan bought such a grand compromise. He trusted Congress when it promised three dollars of budget cuts for each dollar of tax increases. It turned out to be a fake pass. The result: the American public got the tax increase but almost no spending cuts. Ronald Reagan was tricked by Congress in 1982. He should not fall for it a second time.

Reagan has offered a federal budget that meets the Gramm-Rudman-Hollings deficit reduction targets. Congressional leaders know, meanwhile, that they will pay a high political price if they raise taxes before Reagan makes the first move. The White House thus can and should stand firm. If Congress offers a draft budget that meets its own deficit reduction targets without a tax increase, then Reagan should agree to a summit conference on that basis, where the differences in spending priorities can be hammered out. Without that document in hand, however, his answer should be "No deal."

Congress actually has few political cards to play. Last year's Gramm-Rudman-Hollings legislation commits Congress to a deficit reduction schedule. This law is still on the books. There is no enthusiasm on Capitol Hill, moreover, for taking the lead on a tax increase. Jim Wright of Texas received a chilly reception from his own party when he argued for tax increase in one of his first statements as House Speaker-Elect. More important, during the 1986 congressional election campaign, 135 House members signed a pledge vowing that they would vote against any attempt to raise personal or business taxes above the rates enacted in the 1986 tax reform law, or to eliminate any deductions without a dollar-for-dollar further reduction in rates. A resolution embodying this no-tax pledge, together with a declaration of opposition to delaying enactment of the new rates, was supported last week by 175 House members--enough to sustain a presidential veto of any tampering with the 1986 tax law. The White House thus has no reason to abandon its no-tax position.

The White House should also remember that the born-again budget balancers on Capitol Hill are the same people who declared in Reagan's first term that economic expansion would be impossible without large deficit reductions. Without less red ink, they prophesied, interest rates and inflation would skyrocket. They were selling the same snake oil then that they are today--higher taxes.

After his mistake of 1982, Reagan wisely has ignored tax hike demands and argued that controlling spending should take precedence over illusory deficit reduction achieved with higher taxes. The solid performance of the American economy has confirmed his view. A concession on taxes now might reduce the deficit temporarily, but the final result would be a rerun of 1982--initial deficit relief simply would fuel increased spending, leaving America with about the same deficit at new heights of government spending.

Rather than walk into the trap of a budget summit, Reagan should send four documents to Capitol Hill. The first should be a fresh copy of the Gramm-Rudman-Hollings legislation, with the schedule of deficit reduction circled clearly. The second should be a list of the 175 House members who have taken the no-tax pledge and thus will back his opposition to a tax increase. The third document should be a statement that the White House has produced a budget that meets the deficit targets sent to him by Congress without tax increases and an offer to meet with congressional leaders whenever they can produce a similar budget. And the fourth should be a pledge that until Congress comes up with such a draft budget, Reagan will veto every spending bill that exceeds his budget request.

The President should emphasize to the new congressional leaders that he is quite prepared to call their bluff. Rather than agreeing to pressure to compromise on terms that would betray his no-tax commitment to the American people, Reagan should explain to those leaders that he has submitted a budget that meets the deficit reduction law and conforms with the political reality regarding taxes. If Congress refuses to do likewise as a precondition for a compromise, Reagan should add, he will be happy to point out to Americans just who is stalling on deficit reduction.

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For further information:

Tom Kenworthy, "Senators Want Budget Conference With Reagan," The Washington Post, January 8, 1987.

James Gattuso and Stephen Moore, "Reagan's Trump Card: The Veto," Heritage Foundation Backgrounder No. 443, July 8, 1985.