AT THE ECONOMIC SUMMIT, THE KEY TOPIC MUST BE SPENDING

Ronald Reagan agreed yesterday to attend a domestic economic "summit" with congressional leaders to discuss proposals to reduce the federal deficit and restore investor confidence. At this summit, Reagan says that he will place everything except Social Security on the negotiating table. This means, presumably, that he is now open to tax hikes.

The President should know better. A tax hike now could turn a financial panic into an economic collapse. With a $14 billion Social Security tax increase already scheduled for next year, and with mounting concern about future returns on their stocks, the last thing investors and businesses need is new taxes. They would increase business costs, boost unemployment, make stocks even less attractive, jeopardize economic growth, and make the U.S. even less competitive than it is in world markets.

The main topic of the economic summit needs to be how to curb runaway federal spending. If taxes are to be discussed in this context at all, then it should be a cut in the capital gains tax to spur risk-taking and increase revenues.

Not Undertaxed. The first requirement for a cure to the federal deficit is to recognize why the red ink exists. It is not due to any shortfall in tax revenues. Federal tax revenues as a share of Gross National Product (GNP) are at near record highs, well above the share in the 1960s and 1970s. Indeed, of the last nine presidents, only Jimmy Carter's tenure, which ended with the economy sliding into the nation's deepest post-war recession, saw the tax share at a higher level than during the Reagan Administration. The United States is not undertaxed.

The fact is that the massive increases in tax revenues during the last six years, thanks to economic growth stimulated by reductions in tax rates, have been exceeded by an explosion in federal spending. This growth in spending is due primarily to domestic spending, not to defense outlays. Domestic spending has more than doubled in constant dollars since 1970, far outpacing the rise in defense spending. The U.S. today spends just 6.4 percent of GNP on defense, compared with an average of 8.4 percent between 1950 and 1980.

Doublecrossed by Congress. If Ronald Reagan agrees to a tax hike he would be pouring gasoline on a fire. Indeed, the international financial markets greeted Reagan's Thursday press conference statements by plunging even further. As for Congress, a tax increase merely would remove the pressure it feels to cut spending. Most likely, a tax and spending compromise between Reagan and congressional leaders would be a re-run of 1982. The deal that year, aimed at slashing the deficit, led to a tax increase of $150 billion over four years. Reagan was promised $3 in spending cuts for each $1 in new taxes. Reagan agreed to this deal and then was doublecrossed by Congress. Rather than cutting spending, the lawmakers consumed the new taxes. The result: the deficit rose from $130 billion in Fiscal 1982 to $212 billion by Fiscal 1985.

Congress has been signalling Wall Street and the international markets that it has no interest in cutting spending. Already this year it has twice overridden Reagan vetos, authorizing dozens of porkbarrel highway and water projects and adding $20 billion to the Administration's budget request. Moreover, Congress has refused to eliminate a single program in its authorization bills for this year. On the contrary, lawmakers have included nearly a dozen new programs, which would add an estimated $8 billion to the deficit in this fiscal year alone.

In its determination to keep up pressure for a tax increase to finance this extra spending, Congress has even passed legislation to hide privatization revenues. A recent amendment to the Gramm-Rudman deficit reduction law prevents billions of dollars in revenues from the sale of federal assets even from being counted as a reduction in the deficit. Lawmakers will simply pretend the revenue does not exist--but they will spend the money.

Ronald Reagan should go to the economic summit with three demands, which would significantly reduce the deficit without a crippling tax increase:

1) **He should seek a freeze on all new programs**--no new spending. This would signal the world that Congress is serious about cutting spending.

2) **He should press for agreement on a comprehensive program** of privatization: increased contracting out of services to reduce costs by increasing efficiency; and further sales of federal assets, with the revenues no longer hidden from the taxpayer or from international markets.

3) **He not only should threaten to veto any tax increase,** but should press for a reduction in capital gains tax to boost revenues. When the capital gains rate was nearly halved in 1978, revenues jumped almost 50 percent. A cut in the rate would also make investments more attractive, a critically important step to restore investor confidence.

The White House-congressional summit is an opportunity for real leadership. If Congress demonstrates willingness to end its crusade for new programs and special interest spending, the international financial crisis could soon end. If, on the other hand, lawmakers insist on business as usual and Reagan gives in on the tax hike issue, the financial crisis could turn into a world-wide economic disaster.

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