

SUMMITTING WITH THE ENEMY

Senator Phil Gramm Defends the Budget Deal

AN INTERVIEW BY ADAM MEYERSON

Senator Phil Gramm (R-TX), one of conservatism's most respected leaders, surprised many admirers last year when he endorsed the budget summit agreement, including its tax increases, and failed to push strongly for enforcement of the Gramm-Rudman deficit targets that he had previously helped establish. In a January 1991 interview with *Policy Review* editor Adam Meyerson, Senator Gramm defended his role in the summit negotiations and discussed political priorities for 1991.

Policy Review: It's no secret that many conservatives were puzzled by your role in last year's tax debate. Could you describe your economic and political rationale for endorsing, or at least not opposing (as Newt Gingrich did), the initial budget summit agreement, including its tax increases?

Gramm: When President Bush decided to negotiate a budget agreement with House and Senate representatives, Senate Minority Leader Bob Dole appointed me as a Senate negotiator. I accepted the appointment believing that if there were going to be an agreement, it was important that the philosophy that I represent be heard in the negotiations.

Ultimately, an agreement was reached. It is fair to say that it was not the agreement that I had sought. If I had any criticism of the overall process, it would be of the president's decision to go on television to try to sell the agreement after it was reached, rather than to use his political capital before and during the negotiations to produce a more acceptable agreement.

In any case, based on my analysis of the alternatives available, I concluded that the original budget summit probably represented the best that we were going to get in terms of reducing the deficit, reducing the size of government relative to the private sector, and minimizing both the size and the negative impact of any tax increases. I was afraid that if the summit agreement were rejected, Congress would move toward fewer spending control measures and more taxes, and that the additional taxes would be highly skewed toward income taxes.

In retrospect, my fears proved to be correct. By comparison with the initial agreement, the final budget

package raised taxes over five years by \$12.8 billion, and reduced entitlement savings by \$26 billion. The tax component in the package also changed dramatically from a tax on consumption to a tax on wealth creation. Excise taxes went down by some \$30 billion, and direct and indirect income taxes went up by a corresponding amount—reducing the incentives to work, save, and invest. I voted no on that budget.

P.R.: What were you hoping to achieve when you agreed to become a member of the summit negotiations? On what issues did you win?

Gramm: I fought hard to maximize the savings coming from spending reductions and spending control measures. I worked to strengthen the enforcement mechanism, and I fought very hard against income taxes. Once the House rejected the budget summit agreement, I was not involved in the post-summit negotiations, and, for reasons I mentioned earlier, ultimately voted against the final budget that was adopted.

For all its failings, even the final agreement has some positive features. The most important has to do with the size of government relative to the private sector of the economy. When Gramm-Rudman became law in 1985, federal spending absorbed 23.9 percent of GNP. By the end of 1989, government spending as a percentage of GNP had fallen to 22.3 percent—the first such decline since World War II. Under the budget agreement, if fully enforced, government spending will further decline to 19.7 percent of GNP. Stated in another way, government spending as a percentage of gross national product will be roughly 18 percent smaller in 1995 than it was in 1985. I think that's what perestroika is all about. [*Federal spending is over 25 percent of GNP in fiscal year 1991—ed.*]

A second and totally unnoticed facet of the summit's proposal was carried over to the final budget agreement. We will have the largest defense build-down since World War II, but not one penny of it will be spent on more domestic programs. I was concerned that the so-called peace dividend would be used to fund a new wave of domestic spending. Instead, all of the defense reductions will go to deficit reduction.



Reuters/Beumann

Gramm (third from left) with fellow summiteers. "Voting against the summit agreement was a vote for fewer spending control measures, higher taxes, and more destructive taxes in terms of wealth and job creation."

P.R.: On what issues did you lose in the negotiations?

Gramm: I think the losses are pretty clear. We ended up with far too few savings in entitlement reform, too few constraints on domestic spending, and too many increases in taxes.

When I was elected to Congress, I recognized that I had to make a fundamental decision: Did I want to be judged just by how I vote or was I going to take some responsibility for what happened? Did I want to tell my grandchildren 30 years from now that things went to hell in America on my watch, but I voted against it every step of the way? Or did I want to tell them that, in some small way, my service in Congress made a difference, made things better, made Americans freer?

I viewed voting against the summit agreement as an excellent political vote to cast. But in reality, voting against the summit agreement was indirectly a vote for fewer spending control measures, higher taxes, and more destructive taxes in terms of wealth and job creation. When the summit agreement failed, taxes went up, spending went up, and the values I support suffered. It was popular to oppose the summit agreement, but did its defeat strengthen America? No!

P.R.: You were reportedly critical of the July resolution by House Republicans opposing a tax increase. Are those reports accurate? If so, what was your reasoning?

Gramm: I was asked at a luncheon with my Republican House colleagues what I thought of a proposed resolution that opposed any form of revenue increases. I said that this was a laudable goal as a general statement of purpose, but in light of the summit negotiations, which had been going on for months and which clearly were

going to entail some revenue increases, I thought the resolution would put its proponents in a very difficult position if an agreement were reached and they were faced with the alternative of that agreement or something worse. In fact, that is exactly what happened.

P.R.: Do you think the House Republicans who opposed the initial agreement are responsible for the worse one that followed?

Gramm: I don't think the intention was to produce a poor budget, but the net result of the House's rejection of the budget summit agreement was to create the environment in which a worse bill was adopted later. I am not in any way critical of people who vote in each and every circumstance based on what they individually believe is right. However, when no weighting is given to influencing the final outcome, an excellent voting record can lead to some very bad public policy. The facts remain irrefutable that the budget summit agreement was far superior to the budget that was ultimately adopted. The economy would have been stronger, and individual opportunity and initiative would have been greater under the original summit proposal than under the final budget agreement.

It's important for conservatives to remember a line from my grandmother's favorite poem: "True worth is in being, not seeming,/ In doing each day that goes by,/ Some little good, not in dreaming/ Of great things to do, by and by."

P.R.: Did the congressional Republicans who opposed the initial agreement do enough to push for spending reductions that would have allowed the president to keep his tax pledge?

Gramm: I don't think anyone did enough to push for spending reductions. Too often conservative Republicans talk a better game of spending reduction than we vote. We want the benefits of limited government, but too often we don't want to pay for them politically by casting the tough votes to reduce resources flowing into the government so that those resources can go to the private sector to create incentives. There is a little bit of the "free-lunch" syndrome in us all.

P.R.: Was the GOP hurt more in the 1990 elections by the president's breaking of his pledge or by the conservatives who criticized the president?

Gramm: I think we were hurt by both. Raising taxes is never to Republicans' advantage politically, and certainly, having made the tax pledge in the clearest possible terms, President Bush suffered some political fallout when he was forced to give in to the Democrats and

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raise taxes. The polls also suggest that Republicans in general and the president in particular suffered more damage from the political chaos surrounding the rejection of the summit agreement than they did from the summit process or the agreement itself.

P.R.: An alternative to the budget agreement would have been enforcement, through a sequester, of your own Gramm-Rudman legislation. Would a sequester have made political sense for Republicans in 1990, including Phil Gramm?

Gramm: I think that the president looked at the alternative to a budget agreement, which was a \$105 billion sequester, and decided correctly that Republican members of Congress would never sustain it. It was clear to the president, and it was always clear to me, that the entire Congress would panic when faced with a sequester that entailed roughly a 30-percent reduction in programs such as air traffic control, the Drug Enforcement Administration, food inspection, and the FBI. We might have held out for a week against votes to waive the sequester order, but I'm doubtful. When the cost of the S&L bailout inflated the budget deficit, and the weakening of the economy caused further deficit hemorrhaging, President Bush was in an untenable situation.

If it had come down to it, I would have voted to sustain the sequester, and used that as the beginning point for

new negotiations. In fact, it would have been my preference to have started negotiations with a sequester as a beginning point. But I have no doubt that our side lacked sufficient political resolve at that time to make this a possibility.

P.R.: Was some sort of "mini-sequester" a possibility?

Gramm: No. The Democrats, who control the majority of both houses of Congress, understand their own interest in bigger government and had no incentive to agree to a mini-sequester.

P.R.: How serious are the divisions within the Republican Party as a result of the tax debate?

Gramm: We've come a long way in overcoming the divisions. The most important thing is to get beyond the debate about a battle that was lost, and to focus on the battle about to be fought. As I told some of my Republican brethren at the peak of the back-biting that resulted from the budget chaos, they reminded me of the Yankee generals at Gettysburg who, on the evening following the first day of the battle, debated whom to blame for losing the Battle of Bull Run rather than planning how to win the next day.

The great budget debate is not over. It is the central debate in our country. Democrats are the party of government and Republicans are the party of opportunity, and it is in the budget that decisions are made as to whose policies will prevail. The Democrats cannot govern unless government grows. Republicans cannot govern unless opportunity grows. And both those things cannot happen simultaneously.

P.R.: Did House Democrats violate the budget agreement in January when they rewrote the rules on how to score spending?

Gramm: Yes, and the president responded correctly by saying that he would veto any such bill. I don't see any such bill passing the Senate, and certainly it will never become law. But I never deceive myself into believing that the Democrats want to control either the deficit or the size of government. They can be counted on to try to renege on the budget agreement, at least around the edges, whenever that agreement limits their ability to implement their policies. That's why the enforcement mechanism in the budget law is so critically important.

P.R.: How can Republicans avoid being on the defensive on the tax fairness issue?

Gramm: We have to take the issue head on, beginning with giving the American people the facts. And the facts are that under Republican leadership high-income individuals are bearing a much larger share of the overall income tax burden today than they were when Ronald Reagan became president.

In 1980, the top 1 percent of all wage earners paid 18.2 percent of all income taxes; by 1985, they paid 21.2 percent; and by 1990, they paid 25.4 percent. So, since

Ronald Reagan became president, the income tax burden borne by the top 1 percent of all income earners in America has risen by roughly 40 percent. By lowering marginal tax rates, government is getting more money from the top 1 percent. All taxpayers are also better off because it is cheaper to pay the lower marginal rates than it is to expend resources trying to avoid them, which is what occurred prior to 1980.

Just to show you how the pattern works, the top 5 percent of all income earners in 1980 paid 36 percent of all income taxes; today, they pay 44.1 percent. The top 20 percent paid 66 percent of all income taxes in 1980; they pay 71.8 percent today. And, finally, the bottom 40 percent paid 3.6 percent of all income taxes in 1980; they pay 2.4 percent today. So the argument by Democrats that the tax changes in the Reagan era have benefitted the rich relative to the poor is totally false. The changes have benefitted everybody by creating incentives to work, save, and invest. Twenty million new jobs have been created.

More than at any time since the Roosevelt era, the Democratic Party's fundamental position is based on envy and greed. The Democrats are trying to create a class-based economic and political structure to benefit themselves politically. I am not worried, however, that their effort will be successful.

When the politics of class struggle fails in the Soviet Union and Eastern Europe, how will it succeed in America? The Democrats are trying to buck the tide of history, and the tide of history is not easily bucked.

This whole debate only started in the Senate last year as the election heated up, and I was not afforded an opportunity to become heavily involved in it. I intend to become involved this year. It's a debate that we can and must win.

P.R.: How are you advising your Republican colleagues about pushing for cuts in capital gains and Social Security taxes this year?

Gramm: We should always be pushing to reduce taxes. But I also have to remind my colleagues that in government you have to earn tax cuts by controlling the growth of government. Ultimately, if we are going to give resources back to the private sector, to create the incentives that we support, we have to keep those resources out of the hands of government, or at least to assure that the resources generated by economic growth are not squandered by government. Cutting the capital gains rate will both raise revenues and stimulate the economy.

Our immediate challenge in promoting tax cuts is to devise a mechanism to free the resources from government, so that they can flow into the private sector.

P.R.: As an economist, are you worried more by tax increases and continued high growth in government spending, or by the possibility of a collapse in the world trading system?

Gramm: As concerned as I am about the budget, I think the greatest peril we face is the possibility of a further

rise in protectionism. A major wave of protectionism in America could have a far more harmful impact on our freedom and our standard of living than a major increase in taxes. I will do everything I can to preserve and strengthen the growth of international trade, which has been a primary generator of global economic growth since World War II, and which probably did more than anything else to tear down the Berlin Wall and to sound the death knell of Communism.

P.R.: Will you be pushing strongly as you have in the past for a free-trade agreement with Mexico and other countries in the Western Hemisphere?

Gramm: The expansion of trade is always in the interest of the working men and women of America, although, unfortunately, the benefits of trade are not widely understood. I am strongly pushing for the creation of a free-trade agreement that would initially include Canada, Mexico, and the United States. Such a trade agreement would create the world's largest market and improve living standards on the whole continent of North America. I view this as only an interim step. I would hope that by 1992, on the 500th anniversary of Christopher Columbus's discovery of America, we could set into place a system to negotiate a free-trade agreement that would extend from the Arctic to the Antarctic, and would guarantee that any worker in any village in the Americas could produce goods and services that could be sold without restriction anywhere in the Western Hemisphere.

Now, I know some people say that's an unrealistic dream, but it is a dream worthy of our great country and of what it aspires for all of mankind.

P.R.: You've suggested that opposition to racial quotas is a cutting-edge issue.

Gramm: Racial quotas are anathema to America and everything America stands for. We have to take them on, not because they represent a cutting-edge issue, but because they are wrong. And I have found that when we take a position that is right and fight for it, we benefit. I have always believed in a colorblind society, where hard work and talent count, and where merit is rewarded. This is a simple and straightforward issue, and the American people—across all income and racial lines—understand it. And we ought not be afraid to stand up and say that policies that guarantee results rather than opportunity undercut the American system.

P.R.: What are the most important foreign policy differences between Republicans and Democrats?

Gramm: Democrats want peace and Republicans want peace *and* freedom, for ourselves and all of mankind. Republicans understand that, in the long run, only when people are free to use their God-given talents to advance themselves and their families and their nations can there be world peace. So our fundamental approach to foreign policy has to be to promote freedom and opportunity around the world. 

THE COURAGE OF OUR CONVICTIONS

A Call to Arms for Senate Conservatives

SENATOR MALCOLM WALLOP

Who are they as bats and night-dogs askant in the Capitol? Are those really Congressmen?

—Walt Whitman, “To the States”

Walt Whitman’s words of over a century ago doubtless took on a new—and hardly flattering—significance during the last weeks of the 101st Congress. Few members or observers of Congress would ask for a repetition of the budget debate last autumn. For conservatives in Congress, the process was a nightmare, its result antithetical to both our campaign promises and our fundamental beliefs.

Conservatives in the 101st Congress seemed to have lost the passion and the principles that brought us to politics. We waited for the president to define the great domestic issues of the day—instead of doing ourselves what we were elected to do. Our failure of leadership permitted conservative public discourse to be dominated by politically trivial issues such as the limitation of terms—which say in effect that conservatives need not bother to go into and stay in politics, that we no longer matter.

Rather than accepting this grim assessment, we should re-learn the lessons of the great conservative victories in Congress during this century—for example, the late Senator Robert Taft’s great triumph enacting the Taft-Hartley Act, which amended federal labor law, and the late Senator Everett Dirksen’s determined and eloquent defense of Section 14(b) of that law protecting state right-to-work laws—a defensive battle for a philosophically positive *goal*. The great conservative senators of this century—Republicans Taft of Ohio and Dirksen of Illinois, Democrats Walter George and Richard Russell of Georgia—were uncommon men, admired and respected by their colleagues, and able to change the course of events.

Times have of course changed; the close scrutiny of television cameras in Congress has made the American tendency toward distant hero-worship a thing of the past. It is no longer just eloquent oratory that reaches the average American from the Congress, but the mundane day-to-day business of legislating as well. But what made these men great leaders has not changed with time or

technology; they put country and principle above party and politics. They held strong beliefs, they held them without compromise, and they were willing to move Heaven and earth—and even the United States Senate—to advance those beliefs. A leader with the courage of his convictions, willing to argue a moral case even while standing alone, will greatly influence the House of Representatives, and virtually control the Senate. Moreover, a leader willing to risk his career to stand by his belief will probably advance both, since the American people respond both to moral convictions and to those who articulate them.

And we need not go back so many years, nor look for such high-profile issues, to find “conservative success” in Congress. We need go back only to the 1970s. Democrats controlled both houses of Congress by greater majorities than today: after the 1976 elections the Democrats controlled the House 292–143, and had 62 senators to the GOP’s 38. Moderate-to-liberal Republicans and then a liberal Democrat sat in the Oval Office, liberals (then, as now) dominated the media, and the permanent federal bureaucracy in Washington had free rein.

Yet, that was the soil in which a movement grew, the beginning of a burgeoning conservative political presence. Ideas and ideals defined the conservative movement then. And these ideas and ideals affected the public conscience and molded the national debate.

A Small Victorious Band

During the mid-to-late 1970s, with as few as 38 Republican senators, the passionate energy of a small band of conservatives challenged the most important elements of the liberal agenda and stopped them dead in their tracks. They halted “Labor Law Reform,” AFL-CIO-backed amendments to federal law that would have increased the power and influence of organized labor. And they prevented the ratification of the strategic arms limitation treaty with the Soviet Union (SALT II). Congress defeated other liberal proposals by either sustaining or leaving unchallenged President Ford’s vetoes.

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