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ON THE BUDGET: BLUEPRINT FOR ?

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I am appalled at the outcome of the budget vote taken recently in the House of Representatives. By an overwhelming majority, Members of Congress supported President Reagan's budget proposal when they passed the Gramm-Latta substitute bill by a margin of 253 to 176--a margin more a reflection of political loyalty or expediency than the result of a reasoned approach to our national budget. This convergence of political sentiment may deal America an economic blow that will bring her to her knees financially and politically.

I am appalled by this action in the House of Representatives, not because the House passed a budget sponsored by a Republican Administration; on the contrary, were the proposal an economically sound one, I certainly would have lent it my full support. I am appalled because the Reagan-sponsored budget is based in large part upon untested economic theory and wishful economic projections founded on hypothetical economic assumptions

The shrillest criticism that can be made of this Reagan-sponsored budget is that it further cripples our nation s poor and disadvantaged by severely and abruptly cutting back on all social programs. The very best face one can put on this action is to say that it comes from the old "kick-'em-while-they'redown" school of thought In the past, this is a practice we have not embraced in this country.

The most provocative criticism that can be made of this budget is that the economic assumptions upon which it is based are speculative ones with no foundation in our nation's economic history. In the cheeriest of worlds, this budget will put all of us through severe economic hardship in the coming years; at its worst, the effects of this budget will destroy the economic fiber of this country. Our nation should be far too important to all of us to take a risk so great. For, if we fail, our children will suffer the consequences for years to come.

What we call our nation's "economy" is not merely a set of statistics plotting the chart of government spending versus government revenues. Our nation's economy is a multi-celled and highly sophisticated organism whose health depends upon the health of its parts and the efficiency of their relationships to each other. While President Reagan has correctly identified the symptoms of our economic disease, I believe that he has made a serious mistake in prescribing the cure. If a man suffers from a disease of the stomach, cutting off his arms and legs will not make him well. And yet, this is precisely what the Reagan sponsored plan for economic recovery does. The economic assumptions contained in the Reagan-sponsored budget are many, varied and seriously flawed.

First, this budget assumes that in 1982 the Treasury bill interest rates will plummet to an optimistic low of 8.9 percent. This is wishful economic thinking. Currently, this interest rate is nearly 16 percent, and the futures markets think it will stay at almost 14 percent this year. Furthermore, it appears clear that high interest rates have lost their restrictive powers on the economy. When interest rates are high, people do not stop spending money. Their debt burden simply becomes larger. And yet, one of the major supporting structures for the Reagan-sponsored budget is an over-confident reliance on the positive impact tight monetary policy might have on our economy.

To rely this heavily on such obviously false economic assumptions is irresponsible. Even a well-known spokesman for a large wall-street investment firm has expressed serious doubts concerning the economic viability of the Reagan-sponsored budget substitute. Dr. Henry Kaufman of Salomon Brothers has no confidence in the Reagan tax program. In fact, he has urged Congress not to endorse the Reagan tax program and is in favor of a more conservative tax cut. Kaufman--who recently correctly predicted the rise in interest rates--views the Reagan tax cut package as both expansionary and highly inflationary. According to Kaufman, the Reagan plan makes no economic sense for America.

Second, the Reagan-sponsored budget allows a whopping deficit of $31 billion in Fiscal Year 82, $14.5 billion in FY83, with a balanced budget finally emerging only in FY84. These deficits are substantially higher than those we would have incurred under the House Budget Committee's recommendations. In fact, for FY83, the deficit proposed by the Reagan-sponsored budget is 11 times as large as the House Budget Committee's proposed deficit. By contrast, under the House Budget Committee's proposed budget, the deficit for FY82 would be only $25.6 billion, dropping to $1.2 billion in FY83 on the way to a balanced budget in FY84. As part of the budget-cutting package, the Reagan-sponsored budget calls for over $23 billion in unspecified spending reductions for FY83 and $39.7 billion in FY84. If these unspecified cuts are not made, the deficit for the Reagan-sponsored budget will be about $48 billion in FY83 and about $40 billion in FY84. To rely on such unspecified cuts to balance the budget is irresponsible.

At the same time that the Reagan-sponsored budget calls for higher deficits, it also calls for across-the-board tax cuts of 30 percent over a three-year period. Economic projections other than the Administration's show that this tax cut would be financed by deficit spending of $40 billion in FY84, even if all the Administration's tax and spending goals are achieved. This three-year package is extremely expansionary, and in fact, does not fight inflation; rather, it fans it fires. If the rosy economic scenario projected by President Reagan's economists does not materialize, deficits could eventually run into the hundreds of billions of dollars. I do not believe that the American economy could stand deficits of this size.

The tax cuts proposed by the Administration are not the great panacea that the Administration's economists say they are. First, taking into account Social Security tax increases and inflation-induced bracket creep, this tax cut increases after-tax income for the middle class by a mere 2 percent. This is certainly not much to crow about these days. Of course, the rich fare slightly better under the Reagan tax cut. Their after-tax income improvement is estimated to be about 6 percent. An increase of 2 to 6 percent is certainly not worth running the risk of economic collapse.

The past has shown that across-the-board tax cuts, unless accompanied by specific tax incentives for business, do not raise the economy's growth rate as much as the Administration assumes it does. The speculation that they do has long been a flawed centerpiece of Republican economic theory. The fact is that fully up to 90 percent of extra income generated by tax cuts is used for greater consumption of goods and services. Over several years, a mere 10 percent is saved, and not all of that money goes to business investment. And yet, the Reagan-sponsored program of tax cuts relies heavily on the hypothetical generation of new sources of capital formation. To make this economic assumption is irresponsible. According to Dr. Henry Kaufman of Salomon Brothers, the often-quoted beneficial effects of earlier tax cuts are misleading; Kaufman reiterates the fact that there is simply no precedent in our economic history for taxes being lowered against a backdrop of rising defense expenditures and high inflation. To place the burden for fighting the war on inflation squarely on the shoulders of untested economic theory is to take a monumental risk with the economic health of our nation. Finally, the Reagan tax cut package makes insufficient provision for the tax incentives necessary to generate extended capital formation.

The House Budget Committee plan does not claim to generate the optimistic levels of capital formation that the Reagan-sponsored plan does. The House Budget Committee tax plan aims at meeting specific economic objectives which will promote extended capital formation under the terms of the House Budget Committee proposal.

First, the "marriage tax" is abolished. This is the tax that now places the heaviest burden on the married working couple. Second, the House Budget Committee plan calls for an increased incentive for small savers. Third, it calls for an increase in the tax-free investment ceilings the IRA and Keogh private retirement accounts offer their investors. Fourth, it calls for a reduction in the top tax rate for investment from 70 percent to 50 percent. Each of these proposals is aimed at meeting the popularly agreed upon objectives of increased savings and increased investments. Lessening the rate of taxation for overseas investment to increase the incentives for American business abroad will subsequently increase the ability of American firms to compete successfully in the world marketplace. Under the House Budget Committee's proposal, the total tax cut for one year would be $38 billion instead of the $53.9 billion Reagan favors. This is certainly a more responsible approach to cutting taxes.

If the Reagan-sponsored budget program is economically unsound, it is even more unsound from a philosophic perspective. In securing passage of this budget program, the Administration will cut not only programs which significantly reduce physical capital outlays; the Administration will also slash programs which, to date, have encouraged positive growth in human capital formation. The Gramm-Latta Reagan-sponsored budget package simply does not invest in people. It does not encourage the potential for growth that each one of us carries in our spirits. Severe cuts in education programs, job training programs and vocational education programs will not generate growth in human capital. Investment in our human resources--in our people--is one of the soundest investments we can make in this country. This is one of the major reasons why the Reagan-sponsored program simply will not work in the long run. Its priorities are wrong. The people of this country are the biggest source of future economic growth that can be found. If we don't invest in our people, our future economic growth will always be handicapped, no matter how many programs we cut.

Leaving general economic arguments aside, there are also many specific negative consequences of the recently passed Reagan-sponsored budget. The most drastic of these will be the crippling of the effectiveness of our Strategic Petroleum Reserve.

Following the emergence of a politically powerful coalition of oil-producing nations, we decided to create the Strategic Petroleum Reserve (SPR) to protect our country against economic blackmail by the oil-rich nations of the Third World. SPR is a critical part of our national defense. Without sufficient supplies of oil, the buildup of our defense systems will be virtually useless.

Under the terms of the Reagan-sponsored budget, financing of the SPR will be largely turned over to private investors. This is unequivocally irresponsible and counter-productive, for it defeats the founding principle of the Strategic Petroleum Reserve.

Now is the time when there is a glut of oil on the world markets. Now is obviously the time for us to fill our reserve while lower-priced oil is readily available. For the first time in years, the Saudis have agreed to sell us enough oil to begin the process of filling the 750 million barrel capacity of the Strategic Petroleum Reserve. The rate of fill we have adopted is about 230,000 barrels a day. Under the terms of the Carter Budget, $3.9 billion was allocated to fill the SPR in FY83. The Reagan-sponsored budget now cuts $3 billion from that program and advocates that we turn the rest of the responsibility for filling our Reserve over to private investors. This private financing scheme calls for the government to sell oil bonds to private investors in 5-10 barrel denominations. The investors would then own the oil and have title to it. The bonds would mature in 10 years, although they could be sold in private markets at any time. The government would guarantee investors that they could buy and sell at world oil prices. In times of national emergency, the government would require that private investors sell their stock of oil. This plan, contained in the recently passed budget, is a ridiculous one, both economically and strategically.

First, the purpose of the Strategic Petroleum Reserve is to make sure that we have an adequate supply of oil so that, when prices rise dramatically, we will have a cushion of oil to rely on in times of oil embargoes and high prices per barrel. The whole point of SPR is to buy oil when the prices are lower and save it for future use in times of shortage.

Second, all investment analysts say that such oil bonds would be completely unmarketable. Large institutional investors such as pension funds, banks and insurance companies would not want these bonds because they are too risky. The value of oil bonds does not rise as quickly and as substantially as the value incurred by other more conventional investments. Furthermore, large institutional investors may face severe legal restrictions on such investments, for they are forbidden to invest in high-risk operations. For those investors on the speculative market, the market would not be big enough or stable enough to support itself. And, again, the risk is too high. In order to make investment in oil bonds appealing to investors, the risk would have to be reduced. To reduce the risk, federal control of the SPR would have to be drastically reduced. This would mean that, in times of embargo, investors would not be subject to federal control. They would not have to sell the federal government their oil simply because they were asked to. If the investor can decide when to sell his share of the SPR, then the whole purpose of the SPR is defeated.

If the government makes investment in SPR more attractive by discounting the bonds at half price, as has been suggested by some, then the government should just go ahead and finance the whole operation, as was originally planned. It is safer than relying on private investment; in the long-term, it is less expensive than relying on private investment.

Any financing scheme that relies on investment other than federal investment will cost the people of this country more money. Furthermore, under the recently passed Reagan budget plan, private financing of the Strategic Petroleum Reserve encourages pre-planned war profiteering, for it automatically creates a crisis constituency which wants higher oil prices and severe supply disruptions. If we are to pursue this course of action, we may as well also sell war bonds to make cruise missiles or battleships, and encourage investors to make huge profits in times of war and national crisis. Without an adequate and guaranteed back-up supply of oil, our country will once again be at the mercy of the oil-producing nations, and we will once again be exposed to any form of blackmail, both political and economic, that the oil-rich nations care to impose on us. When my colleagues on the floor of the House voted for this budget substitute, this is exactly what they voted for.

It is ironic that, while the Reagan-sponsored budget calls for a seriously weakened Strategic Petroleum Reserve, and thus a possible shortage of oil in times of crisis, it also calls for increased defense spending in the areas of defense hardware. Tanks, missiles, battleships and other military equipment all depend on oil to make them run. How ironic it would be to see a fleet of tanks lying idle on a battlefield for want of fuel. All of us want to see America securely defended; unfortunately, the budget recently adopted makes the wrong trade-offs.

At the same time that the Reagan budget passed by the House ravages our Strategic Petroleum Reserve, it also reduces the amount of money to be spent on energy research and development from the $6.3 billion in the House Budget Committee budget to only $4.5 billion in the Reagan-sponsored plan. How can it possibly be reasonable to increase our vulnerability to foreign oil imports and at the same time cripple our research effort in alternative energy production?

A great deal has been written and said about the impact of the cuts on our nation's social programs. The fact is that, since the depression, we have made it a national policy to provide basic services to the disadvantaged. Under the Reagan-sponsored budget, these services will, in many cases, be abruptly terminated or drastically reduced. Those hardest hit will be our nation's handicapped, the elderly and our children. Cuts range from areas of education, school lunches and services for our senior citizens to special accommodations for our handicapped. A time of economic adversity is not the time to cut off support for those who can least help themselves. As inflation rises, and as prices rise, I do not believe that we, as a nation, will abandon those who are crippled by these economic changes. Many of the programs which will fall before the budget axe will probably be reintroduced. This makes little economic sense.

I have been opposed to the Reagan-sponsored budget ever since I learned of its shortcomings, although I wholeheartedly support its long-range goals. The budget I would have supported--the House Budget Committee budget--sets the same overall economic goals that the Reagan-sponsored plan does. It sets precisely the same level of defense spending. And it recognizes the need, felt right across this land, to begin to pare government spending down to the bones.

The budget I would have voted for was a reasoned budget, founded on sound economic principles. It accomplishes the same goals over a longer period of time and it makes good economic sense for our nation. The budget I would have voted for is not a knee-jerk reaction to the illness in our weakened economy Instead, it substitutes intelligent economic judgment for visceral reaction.

I am saddened by the recent vote on the floor of the House, because it became largely a test of political loyalty. Not one Republican voted against the Reagan-sponsored Gramm-Latta proposal. It was not that some of my colleagues on the other side of the aisle did not doubt the economic soundness of the drastic and immediate measures found in the Reagan-sponsored bill . . . rather it was the fact that tremendous political pressure was brought to bear on them. In fact, some of them have said that the Administration secured their vote by threatening that they would get nothing from the White House in the next four years if they do not vote "yes." In this battle, the losers were not conservative Republicans. They were not liberal Democrats. The real losers of this battle were the people of this country, for all of us will ultimately foot the bill for letting sound economic policy succumb to the sophistry of attractive political rhetoric.

For the sake of our nation's people, I hope to God that I'm wrong.